

Forest Products Market Update

- a news brief from Wood Resources International LLC

The wood chip cost discrepancy between pulp mills in Western and Eastern Canada was the lowest it has been in 10 years in the 4Q/10, reports the North American Wood Fiber Review

Over the past 20 years, pulp mills in Eastern Canada have consistently had higher wood fiber costs than the mills in the Western provinces with the exception of a short period in 1995, according to the North American Wood Fiber Review. In the 4Q/10, softwood chip prices had fallen in Quebec and Ontario and increased in British Columbia and Alberta resulting in the smallest cost gap between the two regions in 10 years.

Seattle, USA. For most of the past 20 years, pulpmills in Western Canada have had lower wood fiber costs than pulpmills in the Eastern provinces. One year ago, pulp manufacturers in British Columbia paid almost C\$60/odmt less for softwood chips than did pulp mills in Ontario and Quebec, and five years ago the difference was almost C\$100/odmt, according to the North American Wood Fiber Review.

Because wood costs account for almost 50 percent of the production costs for Canadian pulp mills, companies in Eastern Canada have been at a competitive disadvantage to many other mills, not only in other regions of Canada, but throughout North America.

Pulp mills in Ontario and Quebec have consistently had some of the highest wood fiber costs in North America. However, prices have fallen lately; softwood chip prices have declined ten percent over the past 12 months and they were 25 percent lower in the 4Q/10 than five years ago. Prices are currently the lowest they have been in this region in over ten years. In US dollar terms, wood costs in Eastern Canada are now lower than most countries in Europe, as reported in the Wood Resource Quarterly.

In the 3Q, wood chip prices in Western Canada increased again due to their formulaic tie to market pulp prices. However, they did not go up as dramatically on a quarter-by-quarter basis as they did from 1Q to 2Q earlier this year. The latest uptick resulted in prices at levels not seen since 2001. Pulp mills in the region currently have some of the highest chip prices in North America. With NBSK pulp prices now beginning their descent; softwood chip prices will follow downward in the coming quarters.

Despite a price decline in Eastern Canada and an increase of almost 40 percent in one year in the West, pulp mills in British Columbia continue to have lower wood fiber costs than mills in the eastern provinces of the country.

Biomass and wood chip market updates are included in the 32-page publication North American Wood Fiber Review. The report, established in 1982 and with readers in a large number of forest and energy companies in North America and Europe, tracks wood fiber prices in 15 key markets of the US and Canada.

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