

# Press Release – For Immediate Release

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## **Pulpmills in western Canada had the lowest wood costs in North America in the 4Q 2008, reports WRI.**

The forest industry continues to struggle in Canada with many forest companies making the difficult decisions to close plants permanently, thus laying off thousands of people in pulpmills, OSB mills and sawmills throughout the country, reports the North American Wood Fiber Review. In addition to permanent closures, there is also reduced production for a majority of the pulpmills and sawmills as a result of the weak market both domestically and internationally. The benchmark NBSK market pulp price has fallen from US\$906/ton in May 2008 to US\$615/ton in January 2009, an astonishing 32% fall in eight months, and there are currently no indications that the pulp market will turn around anytime soon.

Many sawmills have cut back production to one shift and typically run the plants five days rather than seven days per week. Although the supply of residual chips has declined this fall, it has not really been a problem with fiber receipts for the pulp sector because wood fiber consumption has fallen as well. This situation may very well be accelerated in 2009 when it is expected that wood fiber consumption will fall faster than the availability of chips from the sawmilling sector. This will create higher wood fiber inventories and the opportunity for many pulpmills to reduce their usage of expensive roundwood and also negotiate lower prices for wood chips.

In Canadian dollars, wood costs have been slow to move downward, but it can be expected that they will be lower in the 1Q as pulp markets and fiber demand weaken. In US dollar terms, prices have fallen substantially with the weakening Canadian currency. Softwood chip prices were over 20% lower in British Columbia in the 4Q compared to the previous quarter.

Pulpmills in the western provinces of BC and Alberta currently have among the lowest wood fiber costs in North America according to the market pricing report, the North American Wood Fiber Review. As wood chip costs often are indexed to market pulp prices for many pulpmills in western Canada, it is likely that wood costs will be lower than even the historically lowest-cost region of the US South next year. Currently, pulpmills in Eastern Canada, pay over 50% more for softwood chips than pulpmills in Western Canada, and this discrepancy in wood costs is expected to continue this year.

The high wood costs in Eastern Canada have already forced forest companies to close production capacity permanently, because wood fiber costs account for about 45% of the production costs when manufacturing pulp, it is most likely that forest companies in this region will reduce pulp production more than any other region of North America in 2009.

*Wood fiber market updates are included in the 24-page publication North American Wood Fiber Review. The report, established in 1982 and with readers in most of the large forest companies in North America, tracks wood chip and pulpwood prices in 15 key markets of the US and Canada.*

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