

Press release – For Immediate Release

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Wood chip prices fell in Canada in the 1Q/09 as pulpmills reduced their operating rates substantially, reports WRI.

Many Canadian pulpmills run at operating rates of less than 70 percent in the 1Q/09. As a result, wood chip prices fell in most provinces with the biggest declines occurring in British Columbia and Alberta. The western provinces had the lowest wood chip prices in North America in the 1Q, according to the North American Wood Fiber Review.

Canadian pulpmills and sawmills reduced production in the 1Q as demand for pulp, paper and lumber continued to slump both domestically and in the U.S., a key market for Canada. No province was spared; even pulp-producing companies in the low-cost province of Alberta reduced operating rates this quarter, a clear sign that prices for market softwood and hardwood pulp have reached unprecedented low levels.

The biggest drop in lumber production occurred in British Columbia, where the January figure showed a decline of 28 percent compared to a year ago. The production as a share of practical capacity was down to a mere 42% in BC late last year, while the rest of Canada ran at 46% of capacity, according to WWPA.

News about reduced lumber output and permanent sawmill closures have continued to pour in during the 1Q, and this trend can be expected to continue during the 2Q as well. The forest industry in BC was hardest hit as of late last year, but additional sawmills are likely to cut production in the eastern provinces of Quebec and Ontario in the coming months.

Despite the reduced operating rates at the sawmills, which have resulted in less available residual chip supply, pulpmills have not had any major problems sourcing wood fiber in the 1Q. A sign that supply has exceeded demand is that chip inventories have gone up for many pulpmills. In Quebec, residual inventories have increased almost every month since July last year and were in February almost double that of a year ago.

Wood fiber costs have become much more competitive in British Columbia and Alberta the past six months. Softwood residual chip prices in the 1Q/09 were the lowest in all of North America, according to the North American Wood Fiber Review. In addition, pulpmills in Western Canada generally have a higher share of relatively inexpensive residual chips while other regions rely on fairly large volumes of costly chips from roundwood.

Pulpwood and wood chip 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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