

**Trends and Prospects**  
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**Canada** 

**An Economic Overview**

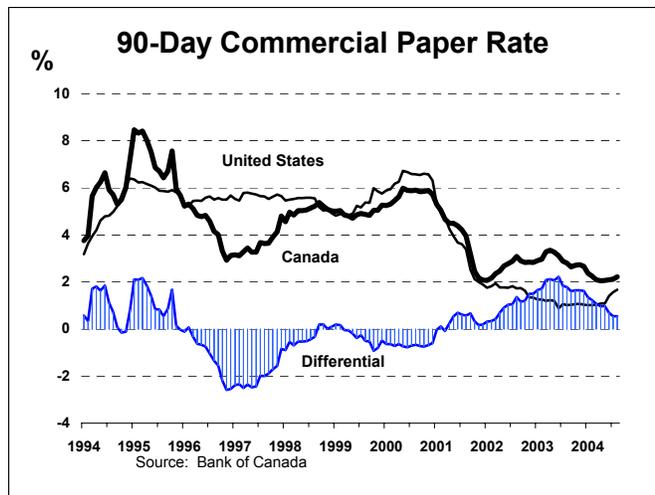
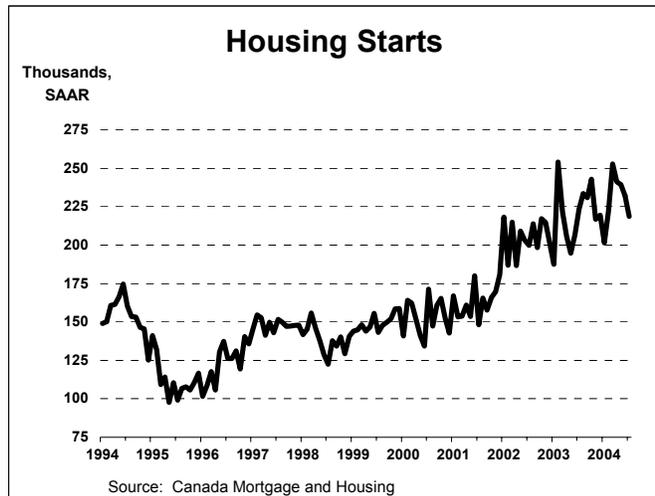
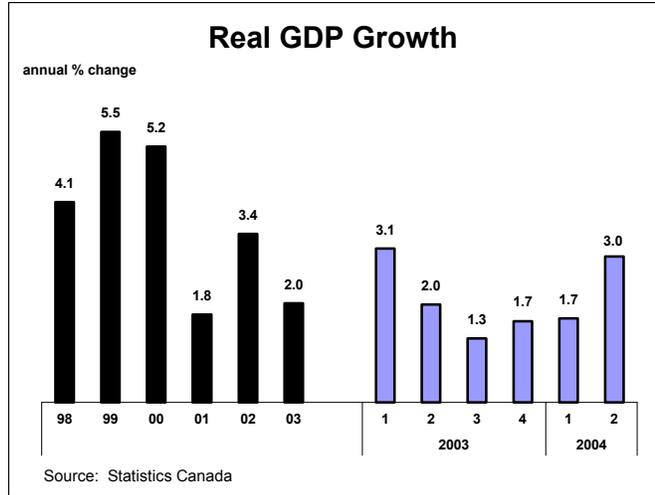
General Economic Conditions

Plagued by an outbreak of SARS and an isolated case of mad-cow disease, the *Canadian economy* lost momentum in the second and third quarter of 2003.

However, the fundamentals were strong and the economy rebounded in the fourth quarter, averaging 1.7 percent over the year-ago level. In 2004, despite a strong Canadian dollar which peaked in January, the economy averaged 1.7 percent in the first quarter. Boosted by strong gains in the construction sector, growth in the second quarter averaged 3.0 percent. Growth for 2004 is now pegged at around 3.2 percent.

With a strong income growth and favourable interest rates, the *housing sector* continues to surge. Housing starts in 2003 totalled 219,800 units, 6.9 percent above the previous year and the highest level since 1988. In 2004, January to June starts now stand at 231,500 (annualized), 9.4 percent ahead of last year's pace.

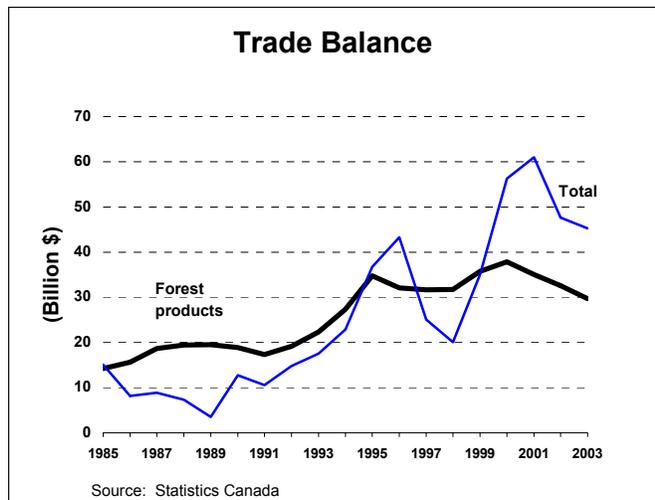
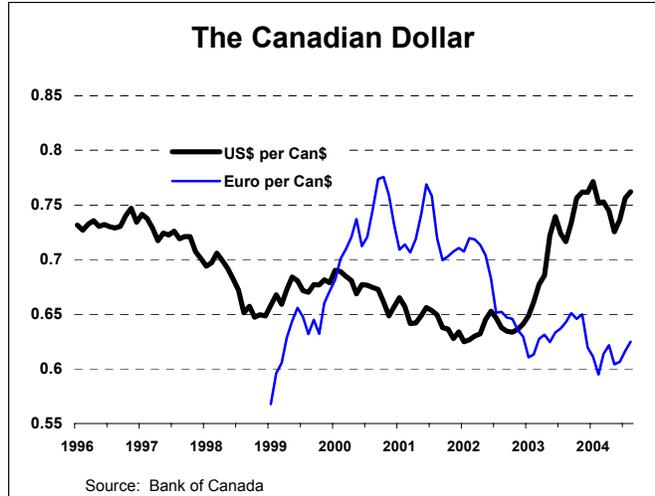
The *Bank of Canada* (BOC) trimmed its key overnight target bank rate with three 25-basis-point cuts between January and April 2004. The key rate stood at 2 percent until early September, a 43-year low. As inflation appears to have bottomed out and oil prices are again on the rise, it prompted BOC to bump up the interest rates on September 8, by 25-basis-point. In the U.S., the Federal funds rate which had been at 1.0 percent since July 2003, edged up by 25 basis points in both late June and August 2004. Expectations are that the rate will be increased again, to 1.75 percent by the



end of September. Consequently, in 2004, the 90-day Commercial Paper rate has increased in Canada while trending upward in the U.S. The narrowing of the rates are expected to continue for the remainder of 2004 as hikes in the Canadian rates will likely lag and with smaller increments than those in the U.S.

Over the last three months (June-August) the *Canadian dollar* has appreciated against both the US dollar and the Euro. The Canadian dollar, which had been appreciating against the U.S. dollar since mid-2002, peaked in January 2004 at 78 U.S. cents. After four months of decline it resumed its path and now stands at about 77 U.S. cents. With an expanding U.S. current account deficit, some economists are now predicting a Canadian dollar at 84 U.S. cents over the next 12 months. Relative to the Euro, the Canadian dollar averaged 0.62 Euro in August 2004 compared to 0.64 Euro a year earlier.

Though Canada's net exports of forest products has declined somewhat from its peak of 2000, it remains the largest component of Canada's positive trade balance. In 2003, forest products contributed \$29.7 billion to Canada's \$45.3 billion in trade balance surplus. Sawn softwood, pulp and newsprint were the largest contributors to this positive trade balance, generating net exports of \$8.3 billion, \$6.6 billion and \$5.6 billion respectively. The largest trade surplus in forest products was with the United States at \$23.2 billion, followed by Japan with \$2.1 billion and Europe with \$1.7 billion.



## **Policy Measures in Canada**

### ***1. Forest Law Enforcement***

In Canada, the laws which apply to forests are part of the overall body of laws enacted by the Federal, Provincial and Territorial Governments. There are, in addition to the laws relating to property rights in general, an extensive network of regulations, agreements, and policies that apply specifically to forests. The result is that the standard of law enforcement relating to Canada's forests is high. All Governments seek continually to improve their procedures and provisions for enforcement of laws and governance relating to forests in order to contribute to the achievement of the objectives of sustainable forest management.

Furthermore, Canada recognizes the importance of forest law enforcement and governance as a global environmental, social and economic issue. Canada's participation in international processes on forest law enforcement and governance in Asia, Africa, and more recently in Russia demonstrates its commitment to work in partnership, aiming to improve forest law enforcement around the world. Canada and the EU discussed this issue at their Partnership Agenda meeting in 2004. Canada brings its experience into bilateral discussions and will continue to liaise with international partners in order to work together in this priority area.

### ***2. Forest certification***

As environmental issues continue to hold public attention, the demand for certified forest products is a growing marketplace reality. This is especially true in Europe and the United States, two of Canada's key markets for forest products. Recognizing the growing global interest in forest products that are certified as originating from sustainably managed forests, the Canadian forest products industry has made significant efforts to improve and promote Canada's forest management practices. As a commitment to forest certification in Canada, the Forest Products Association of Canada (FPAC) announced January 28, 2002, that they require all member companies to implement one of the three forest-specific certification programs available in Canada (Canadian Standards Association (CSA), the Sustainable Forestry Initiative (SFI), or the Forest Stewardship Council (FSC)) on their forest operations by the end of 2006 as a condition of membership. FPAC members represent approximately 75 percent of Canada's annual timber harvest.

Official statistics on the production, consumption or trade in certified wood products in Canada are not differentiated from standard product categories. As a consequence, the output and trade in these products cannot be traced by national statistics. However, it is clear that certification is quickly moving forward in Canada: as of June 6, 2004, approximately 58 million hectares in Canada had been certified under one of the three available forest-specific certification systems (CSA 32.9 million ha, SFI 21.4 million ha, and FSC 4.2 million ha). This figure has nearly tripled over the past two years.

### ***3. Promoting the sound use of wood***

The different levels of governments and the various forestry and wood products associations have in place various programs and policies that promote the efficient use of wood, whether at the harvesting, manufacturing and consumption level, both domestically and internationally.

For example, many provincial governments have policies and guidelines requiring the pulp and paper sector to use existing wood fibre available through the primary manufacturing plants such as sawmills and other wood processing mills before being granted a tenure licence. Such a procedures ensure that existing fibre is used efficiently before opening up new harvesting areas.

At the consumption level, the Wood Promotion Network is another such example of where the attributes of wood are promoted. The Network, a coalition of more than 320 forest and allied companies represents two-thirds of wood production in North America. It actively promotes the environmental benefits of using wood as a construction material in order to grow the market for wood over the long-term.

### ***4. Research and development related policies***

The Canadian Forest Innovation Council (CFIC) was established in the fall of 2003 and consists of senior executives from the Government of Canada, provincial and territorial governments, and the forest products industry. The Council was established to address members' concerns on their ability to set policy direction for forest sector R&D organizations. The mandate of the CFIC is to ensure the innovative capacity of the Canadian forest sector is maximized in a way that promotes industry profitability, environmental quality and community sustainability.

To fulfill this mandate, CFIC will work towards influencing the R&D policy of its member organisations through:

- Developing a consensus around a national innovation vision;
- Developing and advocating a means to deliver the vision by mobilizing and aligning capacities and resources;
- Championing innovation to key decision makers with an aim of increasing levels of innovation investment.

In the past year the Council has made progress in these areas by developing sector-wide innovation goals, outlining elements of an improved innovation system for the sector, and examining how R&D programs are aligned with strategic business objectives. All of the Council's activities are in the context of increasing the competitiveness of Canada's forest sector, which will continue to provide Canadians with the economic, environmental and social benefits.

### ***5. Industry competitiveness and investment policy***

The past year has witnessed a renewed interest in mergers and acquisitions in the Canadian forest sector. One particularly significant transaction was Canadian Forest Products Ltd. (Canfor) acquisition of Slocan Forest Products, a \$630 million deal which was finalized in March 2004. Canfor is now the second largest lumber producer in North America behind Weyerhaeuser Company.

There are a number of regulatory issues, on both a provincial and federal level, which impact merger and acquisition activity. The Competition Act is a federal law aimed at promoting competition in the marketplace by stopping anti-competitive practices. The Act contains, among other things, provisions related to mergers involving Canadian business entities. Mergers and acquisitions are subject to federal government approval following an assessment of potential impacts on relevant markets for inputs and final goods; in some cases, approval may be conditional upon the divestiture of assets which are deemed to create the potential for substantial lessening of competition. Provincial policies related to competition within fibre markets have also gained importance recently. These regulatory issues will continue to impact upon merger and acquisition activity in the industry.

## ***6. Climate Change Policy***

Canada ratified the Kyoto Protocol of the United Nations Framework Convention on Climate Change in December 2002 and is implementing a Climate Change Plan to meet this commitment. Under the Plan, large final emitters (LFEs) will be subject to a system of backstop legislation and negotiated covenants. The Plan also proposes a number of tools that will allow LFEs to meet their emissions intensity targets in a way that is the most cost-effective and practical for their particular enterprise. As an alternative to reducing their own emissions, LFEs will be able to purchase emissions permits from other LFEs, buy international Kyoto units, or purchase domestic offset credits from sectors not covered by the LFE system.

Pulp and paper firms are LFEs and will therefore be required to reduce their GHG emissions, and will be able to participate in emissions trading. The forest sector will be able to participate in the offset system through eligible project activities that enhance removals or reduce emissions of greenhouse gases. While currently under development, information on the LFE system and the offset system is available at <http://www.nrcan-rncan.gc.ca/lfeg-ggef> and [www.climatechange.gc.ca](http://www.climatechange.gc.ca), respectively.

## ***7. Wood Energy Promotion***

Bioenergy is derived from conversion of biomass from the forestry sector for energy purposes. Wood biomass, or residues, often comes as a byproduct of Canada's forest industry and from forestry and logging activities. Many types of bioenergy resources can be processed and utilised as gaseous, liquid or solid fuels in a variety of technologies such as combined heat and power, anaerobic digestion and other biogas processes.

Natural Resources Canada promotes the development of a sustainable renewable energy industry in Canada, which includes wood energy, through the following activities.

- CANMET Energy Technology Centre (CETC) performs and sponsors energy research, technology development and demonstration within NRCan. CETC works in a variety of partnership arrangements on the research, development, demonstration, export and outreach of innovative energy-efficient and climate-change mitigating technologies associated with alternative and renewable energy such as wood energy.

- NRCan also delivers the Renewable Energy Deployment Initiative (REDI) to encourage renewable energy. This initiative has recently been extended for three years. However, an upper limit to the size of eligible biomass systems has been set and the initiative will begin to phase out the biomass incentive over the next three years. REDI will continue to support policy analysis and market development activities in partnership with the biomass industry.
- As part of Canada's greenhouse gas (GHG) emission reduction efforts, governments are examining ways to increase the use of renewable energy such as wood energy. Through the proposed system of targets for Canada's Large Final Emitters (electricity, oil and gas, mining and manufacturing) to achieve CO<sub>2</sub> emission reductions may promote the development of new wood energy projects, particularly for the pulp and paper industry.

#### ***8. Trade policy and tariff and non-tariff barriers***

Canada is engaged in the Doha Round Non-agricultural Market Access negotiations and ongoing WTO accession talks with an aim to establish freer trade in forest products. Canada addresses most non-tariff barriers bi-laterally, using multilateral fora where effective. One example of Canada's policy measures which have had a bearing on non-tariff trade barriers is the technical advice and information that Canada has provided to countries interested in updating building codes and standards with respect to wood-frame construction.

#### ***9. Phytosanitary measures***

Canada has been instrumental in the development of ISPM No. 15 - Guidelines for Regulating Wood Packaging in International Trade and has commenced the implementation of its related import standard. In regards to the certification of its wood packaging material for export, Canada has demonstrated leadership in the area of phytosanitary measures through the development of a national heat treatment certification program for solid wood products to signify that its wood packaging material satisfies the requirements of ISPM No. 15.

## **Developments in Forest Products Markets Sectors**

### ***Sawn Softwood***

The strong underlying fundamentals present in the North American economies in 2002 persisted in 2003. Vibrant economies and historically low interest rates have once again propelled housing starts to recent highs, favourably impacting sawn softwood consumption. Canada's housing starts reached a 15-year high of 219,800 units, 7 percent above the previous year. Sawn softwood production was at 77.6 million cubic metres, only 1.5 percent below the record level of 2002.

Canadian exports of sawn softwood reached a record level of 51.1 million cubic metres in 2003. Exports to the United States also reached a new high of 45.7 million cubic metres, 1.6 percent ahead of the previous year's level, despite the 27.22 percent tariff (Countervailing and Anti-Dumping Duties) imposed on Canadian sawn softwood entering that market. Offshore markets accounted for the remaining 5.2 million cubic metres of exports. Shipments to Japan, Canada's number one offshore market, amounted to 3.7 million cubic metres, a 3.4 percent decrease from 2002. Exports to Europe are now improving, totalling 443 thousand cubic metres, 11.9 percent increase over 2002.

With higher than expected housing activity, especially in the second half of 2003, operating rates in the industry peaked at 99 percent in the third quarter of 2003. Sawn softwood prices which had remained depressed in the first half of the year picked up momentum in the second half. By September, the North American framing lumber composite price peaked at US\$375 per thousand board feet compared to US\$284 set in January. For the second half of 2003, lumber price averaged US\$334 per thousand board feet, a 16 percent increase over the first half of the year.

The favourable economic conditions of the last two years, continued in the first six months of 2004. Combined with historically low mortgage rates, residential construction activity was strong throughout all of North America. At mid-year, United States housing starts averaged 1.93 million units (seasonally-adjusted at annual rate (SAAR)) while that of Canada averaged 231,500 units (SAAR), 11.2 and 9.4 percent respectively ahead of last year's pace. Under such a vibrant demand, prices edged up, the North American framing lumber composite price averaged US\$437 per thousand board feet in the second quarter, 52 percent above year-ago prices. As expected, Canadian sawn softwood production also increased. Output for the first five months of 2004 reached a record high, 1.4 percent above year-ago levels. Exports to the United States and offshore markets were also on the rise in the first six months of 2004 relative to 2003, increasing 7.2 and 16.9% respectively.

Strong exports to the United States and Asian countries as well as gains in the domestic construction sector have all contributed to the healthy performance of the Canadian economy in 2004. Despite indications that interest rates may rise somewhat in the fourth quarter, housing starts in 2004 are still expected to exceed 2003 levels. Overall, GDP growth in 2004 is now expected to be in the 3.0 to 3.3 percent range. In 2005, anticipated interest rate increases will likely dampen demand for housing, but overall growth is expected to remain in line with 2004.

In the United States, the fiscal stimuli initiated in 2003 have now filtered through the economy and the record low interest rates are now edging up as core inflation is on the rise. Nevertheless the underlying fundamentals (i.e. productivity growth, low real interest rates, improving net exports, inventory restocking, etc) remain quite strong and 2004 GDP growth is now pegged at around 4.2 percent. With rising interest rates, housing starts will likely lose momentum in the third and fourth quarter, but 2004 starts will exceed the level achieved in 2003. Combined with the other vibrant end-use markets, sawn softwood consumption is expected to reach a new high in 2004. As the Federal Reserve will likely continue tightening its monetary policy in 2005, overall growth, housing starts and sawn softwood consumption are expected to lose momentum.

Japan's economy has performed surprising well in the late 2003 and early 2004, averaging 7.3 and 6.1 percent respectively. Its economy is now forecast to expand by 4.4 percent in 2004 followed by about 2.1 percent growth in 2005. Housing starts are also expected to edge higher in the coming quarters. Canadian exports of sawn softwood to Japan, our number one offshore market, are believed to have bottomed out in 2003. Exports for the first six months of 2004 are 26 percent above the levels of the previous year and the outlook is for continued improvement on this market.

The European economy has also performed better than expected in the first half of 2004. The outlook for the year is for a 2.2 to 2.4 percent real growth. Expectations are that GDP growth for 2005 could also exceed that of 2004. Canadian sawn softwood exports to the EU are expected to increase marginally in 2004, and to continue to improve in 2005.

In summary, demand for Canadian sawn softwood is expected to be strong for the remainder of 2004 and annual exports may actually surpass all previous export levels. Initial assessments for 2005 are not as promising as U.S. demand is expected to retreat but offshore exports are expected to continue to stabilize.

Finally 2004 may also mark the return to a more sustainable financial performance on the part of the Canadian industry. The duties imposed on Canadian sawn softwood entering the United States over the last two years have prompted a series of cost cutting measures and rationalization on the part of the industry in an attempt to be more cost efficient. Combined with prices that are on the rebound, the financial performance of the industry is improving as indicated by the second quarter financial statistics. The wood and paper industry averaged a return of 6.9 percent on capital employed and a profit margin of 8.2 percent, despite the 27.22 percent export duties in the first half of 2004.

### ***Softwood Lumber Countervailing and Anti-dumping Investigations***

Trade in softwood lumber between Canada and the United States has been a source of ongoing irritation between the two countries for 20 years. The Canada/US Softwood Lumber Agreement, which provided a five-year period of relative stability, expired on March 31, 2001. On April 23, 2001 the United States initiated countervailing and anti-dumping investigations of softwood lumber imports from Canada.

On May 22, 2002 the United States Department of Commerce (DOC) imposed countervailing and anti-dumping duties of 18.79 and 8.43 percent respectively, on imports of softwood lumber

from Canada. With the exception of companies with specific rates and companies in Atlantic Canada, Canadian softwood exporters have been paying duties totalling 27.22 percent and the amount of duties paid as of end of July 2004 was US \$2.7 billion, or Cdn \$3.4 billion.

In June 2004, preliminary determinations in the first annual administrative reviews of the duties, the U.S. DOC lowered the combined duty rate to 13.22 percent. This new rate will not be applied until the determinations in the administrative review are finalized in December 2004.

Canada remains committed to a two-track strategy for resolving the softwood lumber dispute. In its first track, Canada continues to enjoy success in its NAFTA and WTO challenges of the US determinations of subsidy, dumping and threat of injury, with NAFTA and WTO dispute panels having repeatedly ruled that the US duties are inconsistent with US law and international trade rules. Track two has involved negotiations towards a durable resolution of the dispute. The government is committed to finding such a resolution, based on policy reforms in Canada. However, until there is a successful resolution of the dispute, the government will continue to pursue Canada's NAFTA and WTO litigation against the US trade actions.

### ***Coniferous Logs***

In 2003, imports of coniferous logs increased 10.6 percent to just over 3.3 million cubic metres and exports during the same period increased by only 1.0 percent to about 4.12 million cubic metres. Based on the first six months of 2004, imports are expected to remain essentially unchanged from 2003 while exports are expected to decline to about 2.9 million cubic metres. These volumes represent a very small percentage of Canadian softwood consumption.

### ***Sawn Hardwood***

Canadian production of sawn hardwood which picked up momentum over the last four years, decreased somewhat in 2003, totalling 1.65 million cubic metres, down 4.4 percent from the previous year. Exports were also slightly down from the previous year while imports increased by 9.5%; reflecting a marginal increase in domestic consumption. For 2004 as a whole, production is expected to remain in-line with the 2003 levels while exports will increase marginally to about 1.4 million cubic metres.

### ***Hardwood Logs***

In 2003, exports of hardwood logs totalled 212 thousand cubic metres, a decrease of 33 percent over 2002. Imports of hardwood logs, nearly all of which originated in the United States, were also down; a decrease of more than 16 percent from the previous year. For 2004, based on the first six months statistics, the import of hardwood logs is expected to decline while exports are expected to remain stable at the level achieved in 2003.

### ***Coniferous Plywood***

Canadian coniferous plywood output on 2003 totalled 2.2 million cubic metres, almost exactly the same volume produced in 2002. The level of output was supported by strong demand in both North American housing and industrial markets. Domestic consumption in 2003 decreased

by 2 percent from the previous year to about 1.6 million cubic metres. Imports, which represented small volumes of specialty products (sanded grades, overlaid and certain sizes) not manufactured by the industry, decreased by 23 percent in 2003 to 142 thousand cubic metres as compared to the previous year. While total exports were down about 2 percent in 2003 as compared to the previous year, exports to the US actually increased by about 7 percent to about 452 thousand cubic metres.

Production in 2004 is expected to increase marginally to about 2.3 million cubic metres. During the first six months of 2004, most mills operated at near capacity levels. Industry estimates that approximately 20 to 25 percent of output is in value-added speciality products, up from 15 percent a few years ago. Based on the trade statistics for the first six months of this year, overall exports are expected to decline to about 650 thousand cubic metres in part reflecting the strong domestic demand in residential construction. Imports, at about 150 thousand cubic metres, are expected to remain essentially unchanged from 2003. The sector continues to remain stable with some consolidation of capacity expected in the coming year.

### ***Oriented Strandboard (OSB)***

The output of Canadian OSB mills in 2003 increased by more than 4.7 percent to almost 8.8 million cubic metres. Domestic consumption totalled more than 900 thousand cubic metres reflecting the strong residential construction activity. Exports in 2003, which were mainly to the U.S., increased by 6 percent over the previous year's levels to almost 8 million cubic metres. Imports in 2003 totalled only 114 thousand cubic metres, a decreased of 20 percent from the year earlier.

OSB production, based on output for the first six months of 2004, is expected to increase to about 8.9 million cubic metres, up marginally from 2003. Statistics for the first six months of 2004 indicate that exports for the year as a whole will increase substantially from 2003 to more than 8.5 million cubic metres. Imports in 2004, based on the first six months of the year and based on the strong building activity in the residential sector, are up substantially from 2003. The sector will continue to develop as consolidation of existing capacity occurs and additional capacity is announced.

### ***Particleboard***

The output of the Canadian particleboard industry increased by about 3.5 percent in 2003 to almost 3.0 million cubic metres. Domestic consumption increased to an estimated 900 thousand million cubic metres, reflecting the strength of the Canadian furniture and residential building sectors. Exports in 2003 were predominately to the US and totalled almost 1.3 million cubic metres in response to strong demand in the US marketplace. Imports of particleboard which represent speciality products and sizes not available in the domestic market decreased by more than 50 percent to 263 thousand cubic metres.

The 2004 total output of Canadian particleboard is expected to remain flat at about 3.0 million cubic metres. Exports, based in part on the first six months of 2004, are forecast to total about 1.0 million cubic metres, a 30 percent decline over 2003 as U.S. imports of furniture from Asia

are displacing Canadian exports on this market. Imports are expected to total about 300 thousand cubic metres.

### ***Hardboard - Medium Density Fibreboard (MDF)***

In 2003, the Canadian production of hardboard/MDF totalled about 1.4 million cubic metres, a 7 percent decline from the previous year. MDF is the dominant panel in this category, representing about 85 to 90 percent of the total industry capacity. Domestic consumption in 2003 totalled about 705 thousand cubic metres but expected to recover to about 750 thousand cubic metres in 2004. Exports in 2003, which are mostly MDF, increase about 4.0 percent from the levels achieved last year. Imports in 2003, which included some raw hardboard and certain MDF and hardboard products not generally manufactured in Canada, showed a 12 percent increase in volume terms from 2002.

Based on statistics available for the first 6 months of 2004, production of hardboard/MDF is expected to increase from the previous year to about 1.6 million cubic metres. Exports and imports for the entire 2004, based on the statistics from the first half, are expected to both increase by about 16 percent from the previous year. While no new plants or major capacity expansions have been announced, most plants are operating at near capacity.

### ***Non-Compressed Fibreboard***

Statistics on the production of non-compressed fibreboard, or rigid insulation board as it is known in Canada, are no longer maintained by the federal government. However, based on consultations with the industry, it is estimated that production in 2003 remained unchanged at about 430 thousand cubic metres. Domestic consumption in 2003 is estimated to have increased by about 16 percent to about 313 thousand cubic metres. Exports decreased by almost 18 percent to 172 thousand cubic metres while imports moved up by about 10 percent to about 55 thousand cubic metres. For 2004 as a whole, production, is expected to remain virtually unchanged from the previous year's level of output.

## **PULP AND PAPER**

In 2003, Canadian pulp, paper and paperboard shipments showed an annual increase of 0.4%, following a year-over-year climb of 2.2% in 2002. Exports account for the major share of these shipments, at 84% of the total in 2003; the US is by far the primary destination for these exports. Canadian exports to the US dropped by 1.0% in 2003, but a 2.0% increase in exports to other destinations - driven largely by increased pulp exports to China - was enough to support a very modest increase in overall exports<sup>1</sup>.

Paper and paperboard demand has picked up in 2004, due in part to a recovering US economy. This has led to increased prices for most grades when compared with 2002 and 2003. In addition, mill operating rates have improved, and are expected to average 93% in 2004, up slightly from

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<sup>1</sup> Source: Paperloop Global Fact & Price Book 2003, Pulp and Paper Products Council

2003<sup>2</sup>. However, this improvement in prices and operating rates has been tempered somewhat by the strong Canadian dollar.

Following a brief recovery in 2004 during which demand is expected to grow by 3.1%, demand growth for graphic papers in North America is expected to slow in 2005 (1.9%), and decline slightly in 2006 (-1.0%)<sup>3</sup>. This is due to a slowing of economic growth and the increasing impact of the Internet on paper consumption, among other factors.

Markets for Canadian pulp will likely soften over the next couple of years, as global capacity growth is forecast to exceed demand growth. Prices for NBSK pulp will likely remain flat or fall somewhat in the next year, and are forecast to decline significantly in 2006. As mentioned earlier, China has emerged as a key export destination for Canadian pulp – China's share of Canadian pulp exports has grown from 7.1% in the first quarter of 2000 to 15.3% in the first quarter of 2004. This trend will likely continue into the future as China's paper and board capacity increases.

In the longer term, North American demand for pulp and paper products is expected to grow at a far slower rate than demand in the developing world. This change is being driven by factors such as growth in per capita use of paper products, overall economic growth, and demographics. Between 2003-2013, RISI forecasts North American demand for paper and board to grow by 17%, compared with 68% for the Far East excluding Japan. This shift in world demand will have significant implications for Canadian producers, who have traditionally relied heavily on the US market.

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<sup>2</sup> Source: RISI

<sup>3</sup> Source: RISI

## Appendix

### *Statistics and Prospects*

Figures for 2004 and 2005 are estimates

#### *Sawn Softwood (000 Cubic Metres)*

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<i>Production</i>	78036	77594	80000	77000
<i>Stocks</i>	8521	8431	6031	7581
<i>Consumption</i>	27996	27223	30000	26000
<i>Imports</i>	535	634	600	550
<i>Exports to Europe</i>	396	443	450	500
<i>Export Total</i>	50242	51095	53000	50000

#### *Coniferous Logs (000 Cubic Metres)*

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<i>Imports</i>	3027	3348	3300	3500
<i>Exports</i>	4085	4124	2900	3000

#### *Sawn Hardwood (000 Cubic Metres)*

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<i>Production</i>	1731	1654	1650	1625
<i>Stocks</i>	108	107	87	72
<i>Consumption</i>	1464	1483	1470	1425
<i>Imports</i>	1099	1203	1200	1160
<i>Exports to Europe</i>	170	150	120	170
<i>Export Total</i>	1392	1375	1400	1375

#### *Hardwood Logs (000 Cubic Metres)*

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<i>Imports</i>	2082	1746	1400	1400
<i>Exports</i>	316	212	210	200

#### *Coniferous Plywood (000 Cubic Metres)*

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<i>Production</i>	2175	2183	2300	2225
<i>Stocks</i>	65	89	64	69
<i>Consumption</i>	1671	1632	1825	1700
<i>Imports</i>	184	142	150	130
<i>Exports to Europe</i>	17	11	10	10
<i>Export Total</i>	686	669	650	650

**Oriented Strandboard (OSB) (000 Cubic Metres)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Production</b>	8360	8756	8900	9000
<b>Imports</b>	144	114	160	150
<b>Exports</b>	7477	7926	8500	8000

**Particleboard (000 Cubic Metres)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Production</b>	2889	2991	3000	3100
<b>Imports</b>	528	263	300	300
<b>Exports</b>	1273	1312	1000	1200

**Fibreboard**

**Hardboard and Medium Density Fibreboard (000 Cubic Metres)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Production</b>	1552	1437	1600	1550
<b>Consumption</b>	817	705	750	700
<b>Imports</b>	428	478	550	500
<b>Export Total</b>	1163	1210	1400	1350

**Non-Compressed Fibreboard (000 Cubic Metres)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Production</b>	425(e)	430(e)	430	400
<b>Consumption</b>	266(e)	313(e)	280	270
<b>Imports</b>	50(e)	55(e)	50	50
<b>Exports</b>	209(e)	172(e)	200	180

**Pulpwood Exports (000 Cubic Metres)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Total Exports</b>	71	147	160	150

**Pulp Chip Exports (000 Cubic Metres)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>US</b>	315	684	335	310
<b>Japan</b>	1482	528	516	645
<b>Total Exports</b>	1801	1667	1161	1584

Source: Natural Resources Canada based on Statistics Canada data, and the Composite Panel Association (for hardboard and MDF data only)

(e): estimates

