

**Trends and Prospects**  
**63<sup>rd</sup> Session ECE Timber Committee**  
**September 27 – 30, 2005**

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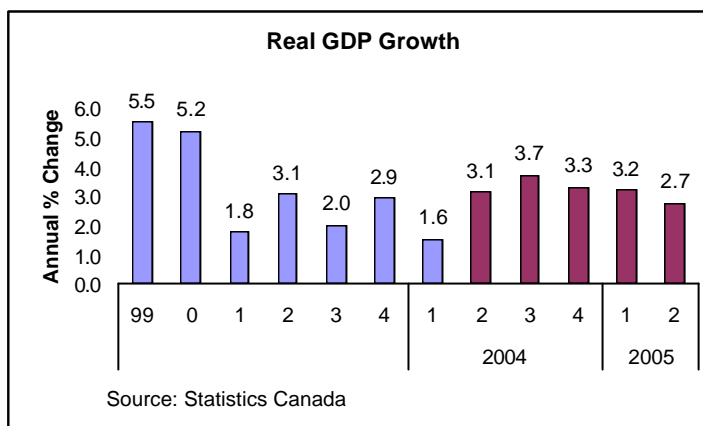
**September 2005**

**Canada** 

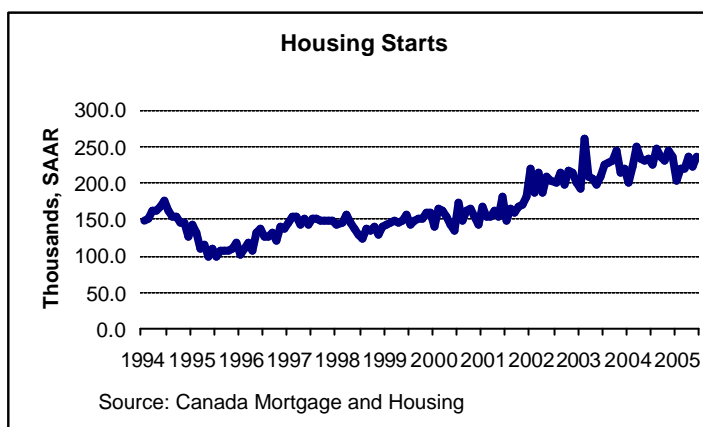
## CANADA

**An Economic Overview**General Economic Conditions<sup>1</sup>

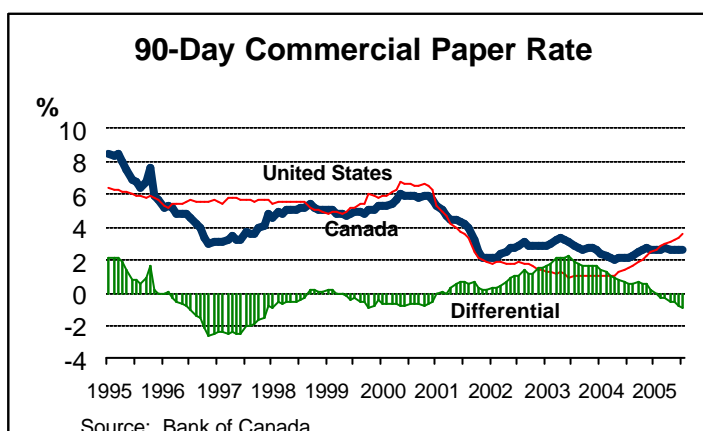
Canada's real GDP grew at a modest annual rate of 2% in 2003. The economy continued to struggle in the first quarter of 2004, with an annual growth rate of 1.6% over the previous year's first quarter. However, the economy rebounded in the remaining three quarters of 2004, reaching a high of 3.7% in the third quarter, and boasting an annual growth rate of 2.9%. A stable annual growth rate of 3.3% was realized in the first quarter of 2005, while a 2.7% growth rate was realized in the second quarter.



Housing starts continued their upward trend in 2004, with total starts estimated at approximately 232,000 units. This represented an increase of 5.8% over 2003. The increased demand was due, in part, to the favourable investment conditions in Canada. Not only was Canada's 5-year mortgage rate reduced from an average of 6.4% in 2003 to an average of 6.2% in 2004, but GDP growth was on the rise. Extrapolating from data observed in the first two quarters of 2005, annual housing starts for 2005 are estimated at 235,000 units. This represents an increase of 1.2% over the housing start estimate from the previous year.



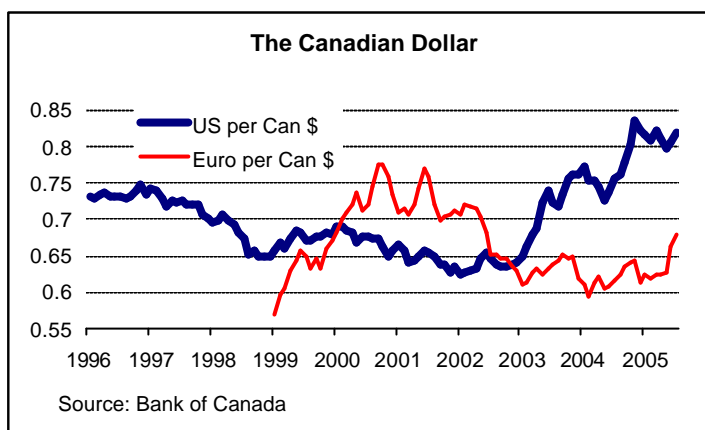
Following a reduction of 75 basis points in the target overnight rate in the first quarter of 2004, the Bank of Canada increased its target rate by 25 basis points in each of August and September 2004. The bank's key policy rate was increased from 2% to 2.5%, and has been held at



<sup>1</sup> Note: At the time of completion of this analysis, the impacts of the recent increases in oil prices and the devastation of hurricane Katrina had not yet been determined.

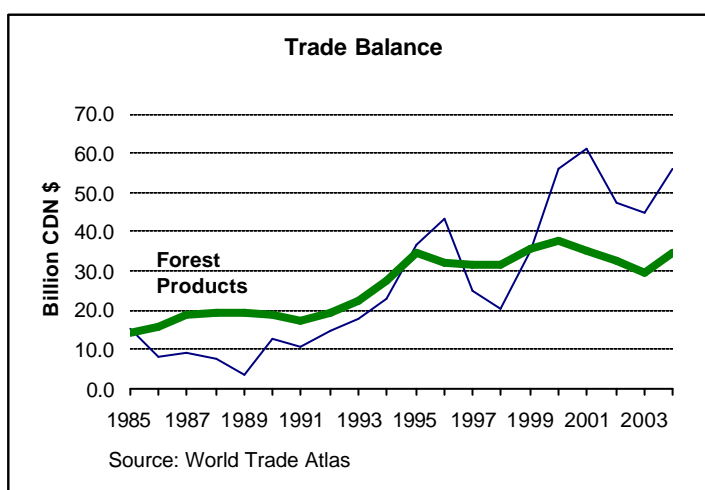
this rate since October 2004. However, the target is expected to increase in the near term as the bank reduces its monetary stimulus. The target for the U.S. Federal Funds rate remained at 1% in the first half of 2004. However, the target rate has increased since the second quarter of 2004, and it is currently set at 3.5%. As a result, the Canadian 90-day Prime Corporate rate has remained relatively steady at 2.6% in 2005, while the equivalent U.S. Commercial Paper rate has increased from 2.6% to 3.6% from January to July. Although there is currently a 1% differential between the Canadian and U.S. rates, the differential is expected to diminish as the Canadian target rate increases and the incremental increases in the U.S. target rate are reduced.

The Canadian dollar has been steadily appreciating in value relative to the U.S. dollar since 2002. Following a temporary depreciation in the first two quarters of 2004, the Canadian dollar continued to its upward trend for the remaining two quarters, reaching a high of 84 U.S. cents in November. During the first half of 2005, the Canadian dollar depreciated again, but has since recovered and is currently valued at 85 U.S. cents. Oil price movements have a significant influence over the value of the Canadian



dollar, since Canada's oil-production and export is important to the economy. The Canada-U.S. exchange rate is particularly sensitive to these price fluctuations because the U.S. represents Canada's principal oil export market. Relative to the Euro, the Canadian dollar has not experienced the same appreciation. However, after having depreciated in value by approximately 21% over the 2½ year period from the second half of 2001 to 2004, it has recovered, reaching 0.68 Euro in July 2005.

Following a steady decline in Canada's forest products trade balance from 2000 to 2003, Canada's net forest product exports increased in 2004, from approximately \$30 billion to \$34 billion. From 1995 to 2000, forest product exports represented the largest component of Canada's positive trade balance. However, from 2001 to the present, forest product exports have consistently been the second largest component, after oil/fuel exports. The largest contributors to the positive 2004 forest products trade balance were softwood lumber, pulp, and newsprint, with net exports of \$10.9 billion, \$6.7 billion, and \$5.3 billion. The largest forest products trade surplus in 2004 was with the United States at \$27.46 billion, followed by Japan at \$2.3 billion and the U.K at \$0.5 billion.



## **Policy Measures in Canada**

### ***1. Forest Law Enforcement and Governance***

The responsibility for managing Canada's forests rests with the provinces and territories. The ten provincial and three territorial jurisdictions directly govern the forests. The federal government has the responsibility for international trade and relations, building national consensus, Aboriginal affairs, management of federal lands, and national reporting. Responsibilities shared by the two levels of government include environmental regulations and science and technology. In terms of forest matters, the relationship between the federal government and the provinces and territories is one of coordination, cooperation and partnership, which results in a high level of enforcement and governance relating to forests, and contributes to the attainment of sustainably managed forests in Canada.

Canada continues to recognize the importance of forest law enforcement and governance as a global issue. Canada is currently a member of the international steering committee for the Europe and North Asia (ENA) Forest Law Enforcement and Governance (FLEG) process. ENA FLEG is an initiative aiming to respond to the global socio-economic concern and environmental preoccupation regarding illegal logging, corruption and trade activities causing the deforestation of the boreal and temperate forests of this region, aggravating environmental conditions such as climate change and the loss of biodiversity, and the resulting distortions in the global timber market. As a champion in the sustainable management of its boreal forest, and a country with strong forest governance, Canada is seen as providing an important contribution to the process in terms of knowledge sharing and capacity-building.

### ***2. Initiatives to Encourage the Use of Sustainably Produced Timber Products***

The different levels of governments, and the various forestry and wood products associations, have various programs and policies in place that promote the efficient use of wood both domestically and internationally, whether at the harvesting, manufacturing or consumption level. For example, many provincial governments have policies and guidelines requiring that the pulp and paper sector use existing wood fibre, available through primary manufacturing plants such as sawmills and other wood processing mills, before being granted a tenure licence. Such a procedure ensures that existing fibre is used efficiently before new harvesting areas are opened up.

Environmental issues are, more than ever, a growing concern in the marketplace, and demand for certified forest products continues to increase. Recognizing the growing global interest in forest products that are certified as originating from sustainably managed forests, the Canadian forest products industry has improved Canada's forest management practices and increased the total area of certified forest within Canada. Canada now has the largest certified area of sustainably managed forests in the world. As of April 2005, approximately 104.6 million hectares have been certified under one of the three forest-specific certification systems available in Canada, representing an annual allowable cut of over 91 million cubic metres. The distribution under the three systems is as follows — Canadian Standards Association (CSA) 63.7 million ha, Sustainable Forestry Initiative (SFI) 36.8 million ha, and Forest Stewardship Council (FSC) 4.9 million ha. This figure is 80% higher than the one reported last year, and almost five times what it was three years ago.

### Certification Status in Canada (million hectares)

	<i>April 11, 2005</i>	<i>June 06, 2004</i>	<i>June 1, 2002</i>
<b>CSA</b>	63.7	32.9	8.8
<b>FSC</b>	4.9	4.2	1.0
<b>SFI</b>	36.8	21.4	8.4
<b>Total</b>	104.6	57.7	18.2

The Wood Promotion Network represents an example of how the environmental attributes of wood are promoted at the consumption level. The Network, which represents a coalition of more than 320 Canadian and American forest and allied companies accounting for two-thirds of the total wood production in North America, actively promotes the environmental benefits of using wood as a construction material in order to grow the market for wood over the long-term.

### 3. Research & Development Policies

Governments, industry, universities, and other research institutions are working to enhance Canada's forest sector innovation system at both the national and regional levels.

Activities under the Canadian Forest Innovation Council (CFIC) focus on the national S&T agenda and strategy. The CFIC is an executive-level body with members from industry, the Government of Canada, and the provinces and territories. Since 2003, CFIC members have:

- Set national innovation priorities and goals, within the context of sustainable development
- Identified areas for improvement in the current innovation system
- Mapped their portfolios to help align research with common goals
- Strengthened relationships among members
- Promoted discussion on new delivery mechanisms for forest innovation

Currently, initiatives focus on integrating the research infrastructure that already exists. For example, the Canadian Forest Service (CFS) at Natural Resources Canada and the three national institutes are assessing the value of collaborating on commercial aspects of forest research.

On a regional level, activities centre on the creation of research clusters. These are mechanisms for universities, provincial and territorial governments, and industry to focus research on innovation issues that are of regional importance; increase synergies among collaborators; and bring technologies to interested markets. Two clusters were officially launched this year, "Forest Research Opportunity B.C." in British Columbia and "Science Enterprise Algoma", a biotechnology cluster in Ontario.

### 4. 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. The current Plan, *Project Green: Moving Forward on Climate Change*, was released in April 2005 and builds on previous efforts. It emphasizes the need for long-term transformative change and using market mechanisms to integrate climate change considerations into business decisions. The Plan provides for Government of Canada investments in the order of \$10 billion between now and

2012 to reduce annual emissions by about 270 megatonnes of CO<sub>2</sub>. Details and latest updates on Canada's climate change initiatives can be found at [www.climatechange.gc.ca](http://www.climatechange.gc.ca).

Large final emitters (LFEs) of greenhouse gases, which include pulp and paper firms, will be regulated under federal legislation but will be allowed to meet their emissions 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. The Offset Credit System is a market mechanism that creates tradable credits from project activities that result in reductions or removals of greenhouse gas emissions. The forest sector will be able to participate in the offset system through project activities that enhance removals or reduce emissions of greenhouse gases. Eligible forest sector projects could include establishing new forests, reducing deforestation, and changing forest management practices. Details of the proposed Offset System design, released in August 2005, are available at <http://www.climatechange.gc.ca/english/offsets/>. The LFE regulations and the establishment of the Offset System are expected to be completed in 2006.

### ***5. Wood Energy Policy***

Converting biomass to heat, steam or electricity through simple combustion or other processes produces forest biomass energy. Mill residues are the main sources of biomass supply in Canada. Due to increasing demand for bioenergy, other sources of forest biomass are now being considered, such as forest-floor and roadside slash, and energy crops. Since the early 1990s, the forest industry has been the single largest producer and user of bioenergy in Canada.

Over the past eighteen months, the Government of Canada has initiated some programs/policies to support the development of a sustainable renewable energy industry to complement other existing programs.

The Renewable Energy Deployment Initiative (REDI) was launched to encourage renewable energy in 1998. This initiative was recently extended for three years. However, an upper limit to the size of eligible biomass systems has been set and the biomass incentive will be phased out in 2007. REDI will continue to support policy analysis and market development activities in partnership with the biomass industry.

As part of Canada's greenhouse gas emission reduction efforts, governments are examining ways to increase the use of renewable energy, including energy derived from wood sources. 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 by the pulp and paper industry.

More recently, the Government of Canada has announced a new incentive program. The Renewable Power Production Incentive (RPPI) program will provide incentives to renewable power developers to accelerate the installation of up to 1,500 megawatts of renewable energy technologies from sources other than wind. Wood energy is one of the energy sources included under the RPPI program. This program, initiated by Natural Resources Canada in response to Canada's intention to increase the production and use of renewable energy, is part of a strategy to reduce greenhouse gas emissions and to strengthen Canada's commitment to a sustainable environment.

In addition, the 2005 Federal budget provides for faster tax write-offs for new facilities whose sole purpose is renewable energy production. The changes to the Capital Cost Allowance (CCA) mechanism are intended to stimulate the use of clean generation technologies. The CCA depreciation rate was increased from 30% to 50% on an expanded list of assets.

#### ***6. Trade Policy (Including Tariff & Non-tariff Barriers)***

Canada is engaged in the Doha Round Non-agricultural Market Access negotiations and ongoing WTO accession talks with an aim of establishing freer trade in forest products. Canada has recently submitted a WTO paper entitled “Tariff Liberalization in the Forest Products Sector” for consideration. 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.

#### ***7. Phytosanitary Measures***

Canada has been instrumental in the development and implementation of the Guidelines for Regulating Wood Packaging in International Trade (ISPM-15), and is contributing to the research associated with the treatment methods. Canada, in coordination with Mexico and the United States, implemented ISPM-15 in September 2005. Canada has demonstrated leadership in the area of phytosanitary measures through the development of a national heat treatment certification program for solid wood products, which signifies that its wood packaging material for export satisfies the requirement of ISPM-15.

#### ***8. China as an Emerging Player in the Wood Products Manufacturing Arena***

In recent years, China has become a key player in the wood products industry. Despite the government’s commitment to reducing its allowable timber harvest, China is emerging as a wood products exporting nation. Obtaining raw materials domestically, as well as from Russia and other countries, China has developed a significant wood manufacturing industry. The low labour costs, along with the low capital investment in manufacturing plants, have made it possible for China to be competitive in most markets.

China is exporting value-added and secondary wood products to the Asia, North America, and Europe. Canadian wooden furniture and value-added exports to the U.S. have steadily decreased in value since 2002, while Chinese wooden furniture exports to the U.S. have increased. There is also evidence that Canada is exporting raw materials to China, only to have the finished products shipped back and sold competitively in the North American market.

China is becoming an increasingly significant player in the plywood industry. China’s plywood production has increased exponentially over the last decade, reaching 25 million cubic metres in 2004. The result of a fast-growing base of poplar trees, China has become the largest plywood producer in the world. Chinese plywood exports are also increasing dramatically. In 2004, China’s world plywood exports were valued at approximately \$1.6 billion, up from \$0.7 billion the previous year. Approximately 30% of the \$1.6 billion in exports in 2004 were destined for the U.S. market, with a small amount exported to Canada.

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

### ***Wood Raw Materials***

Canadian Annual Allowable Cut (AAC) regulations are governed by provincial legislation, and although there is a high degree of consistency in policies, the details vary considerably from province to province. The AAC levels, which are applied to provincial (Crown) lands, are set using forest inventory projections, and are generally based on a policy of non-declining future wood supply.

Following a recommendation from the *Commission to Review Public Forest Management in Quebec*, a 20% reduction in the annual allowable cut for softwoods has recently been imposed in the province. The reduction, which is to be implemented over the next three years, will last through to the 2008 ACC reassessment. Alternatively, in response to a Mountain Pine Beetle epidemic in British Columbia, the AAC has been increased to allow salvage operations in the most severely affected areas.

### ***Certified Forest Products***

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.

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, as indicated earlier, Canada has made significant progress in the area of forest certification.

### ***Value-added Wood Products***

In the Canadian context, the value-added wood products group includes for example wood windows and doors, factory-built homes, millwork and joinery products, shingles and shakes, containers and pallets, engineered wood products (EWP) such as I-beams, roof trusses, and other structural products. This product group has gained tremendous momentum in Canada over the last decade. Latest statistics indicate that in 2003, Canadian shipments of value added wood products amounted to \$10.3 billion representing an annual compounded growth of 10.1% between 1992 and 2003.

Market acceptance of EWPs, the shift from larger dimension lumber to EWPs and the shift from stick build homes to factory-built homes, are all elements that contributed to the phenomenal growth of this segment. In 2004, 70% of this production was consumed domestically while the remainder, more than \$3.5 billion, was exported, almost exclusively to the U.S market.

Though Canada has developed some special niche markets within this product group, there is increased competition from Asian competitors, particularly China. China is quickly becoming a world leader in the manufacture and export of many value-added wood products, including for example, moldings, hardwood and engineered wood flooring, laminated lumber, and doors.

### *Sawn Softwood*

Canada's production of sawn softwood lumber accounts for approximately 19% of the world's production. Canadian sawn softwood production increased from 76.5 million cubic metres in 2003 to 81.7 million cubic metres in 2004. With housing starts continuing to rise, softwood lumber consumption also increased, reaching 27.7 million cubic metres in 2004. The increased housing starts can be attributed to Canada's strong economic conditions. The reduction in Canadian mortgage rates, and the increased GDP growth, contributed to the favourable investment conditions. Softwood lumber imports also increased in 2004, reaching 677 thousand cubic metres.

The Canadian softwood lumber industry is heavily reliant on the U.S. market. Over the past several years, U.S. softwood duties on Canadian lumber and the appreciation of the Canadian dollar have made Canadian exports more expensive in the U.S., and made it possible for offshore competitors to further penetrate the U.S. market. However, these factors compelled some Canadian producers to reduce costs by expanding production and improving the efficiency of their manufacturing processes. From 2000 to 2004, merger activity in Western Canada resulted in the region's top four softwood lumber producers increasing their share of the region's output from 50% to 63%. Despite the duties imposed on Canadian softwood lumber exports to the U.S., Canada's sawn softwood exports reached a new high of 55.1 million cubic metres in 2004. This represents a 9% increase over the previous years' record level of 50.8 million cubic metres.

The price of softwood lumber (defined as the North American framing lumber composite price), which remained low from the second half of 2001 to the second half of 2003, peaked in August 2004, at US \$473 per thousand board feet (MBF). Since September 2004, prices have declined, resulting in a 52-week average of US \$390 per thousand board feet. However, prices are expected to strengthen in the near-term, as the devastation caused by hurricane Katrina stimulates increased housing demand. In the first week following the hurricane, prices edged upward more than 5%, to US \$375 per thousand board feet, but still below the aforementioned 52-week average. However, U.S. construction is expected to slow down over the next 18 months, as the Federal Reserve increases its target overnight lending rates. This would cause the price of sawn softwood to fall, and reduce profits.

At mid-year, U.S. housing starts remain strong, and Canada's production and shipments to the U.S. are expected to increase somewhat by the end of 2005. Production is estimated to reach 83.3 million cubic metres, while exports to the U.S. are expected to increase to 50.7 million cubic metres. In 2006, exports to the U.S. are expected to decrease slightly, as starts are expected to soften as a result of the rising interest rates. However, offshore exports and Canadian domestic consumption are expected to remain robust, leaving production virtually unchanged.

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

Trade in softwood lumber between Canada and the U.S. continues to be a major irritant between the two NAFTA and WTO member countries. For more than twenty years, U.S. softwood lumber producers have sought action by the U.S. government to restrict trade in Canadian lumber, alleging

that the forest management practices of certain provinces constitute countervailable subsidies and that imports of such “subsidized” lumber from Canada cause material injury to the U.S. industry. In between cycles of litigation (we are currently in the fourth), Canada and the U.S. have entered into two agreements related to the softwood lumber trade.

In May 2002, the U.S. imposed duties on imports of softwood lumber from Canada following subsidy and dumping investigations by the U.S. Department of Commerce and a “threat of injury” determination by the U.S. International Trade Commission. Except for companies with specific rates and those in Atlantic Canada, between May 2002 and December 2004, Canadian exports of softwood lumber to the U.S. were subject to countervailing and anti-dumping duties averaging 27.22%. Since December 2004, when the results of the first annual administrative review took effect, such exports have been subject to the slightly lower combined average rate of 20.15%. To date, it is estimated that Canadian softwood lumber exporters have paid approximately US \$4.15 billion in duties.

Canada’s strategy for resolving the softwood lumber dispute involves litigation, including NAFTA, WTO and U.S. Court of International Trade challenges of the U.S. duties (including possible retaliation), and negotiations towards a durable resolution of the dispute. Canada has been very successful in its NAFTA and WTO challenges of the U.S. duties, with NAFTA and WTO panels repeatedly ruling that the duties are inconsistent with U.S. law and U.S. international trade obligations. Canada will continue its efforts to ensure that the United States respects its NAFTA and WTO obligations and brings its trade actions into conformity with U.S. law.

### ***Coniferous Logs***

Following an increase from 2002 to 2003, the volume of softwood log imports decreased to 3.1 million cubic metres in 2004. Softwood log exports also decreased from 2003 to 2004. The volume exported decreased by 15%, reaching 3.5 million cubic metres in 2004. Based on data from the first two quarters of 2005, coniferous log imports are forecast to increase in 2005 to an estimated 3.8 million cubic metres. Log exports are also expected to increase, to an estimated 4 million cubic metres.

### ***Sawn Hardwood***

Sawn hardwood production steadily increased from 2000 to 2002, reaching 1.85 million cubic metres in 2002. Following a slight decrease in sawn hardwood production in 2003, production recovered in 2004, increasing from 1.76 to 1.79 million cubic metres. Exports, which had also decreased slightly from 2002 to 2003, increased by 8.2% in 2004, and reached 1.49 million cubic metres. Sawn hardwood imports increased from 1.13 million cubic metres in 2003 to 2.59 million cubic metres in 2004, an increase of approximately 130%, reflecting an increase in domestic consumption.

For 2005, production is expected to remain relatively steady, reaching 1.8 million cubic metres. Exports are expected to decrease slightly to 1.4 million cubic metres in 2005, as a result of a reduced demand in Asia. Hardwood lumber imports, on the other hand, are expected to decrease significantly in the next year, as a result of a significant decline in domestic consumption. Imports are forecast to fall to 1.6 million cubic metres in 2005.

### ***Hardwood Logs***

Following a reduction in hardwood log imports from 2002 to 2003, the volume of log imports increased to 2.26 million cubic metres in 2004, an increase of approximately 29%. Hardwood log exports also increased in 2004. Following a significant reduction in log exports from 2002 to 2003, the volume of log exports increased by a modest 5% in 2004. Hardwood log exports totaled 223 thousand cubic metres in 2004, and based on data from the first half of 2005, hardwood log exports are expected to jump to 250 thousand cubic metres by the end of the year. Similarly, log imports are expected to increase to 2.5 million cubic metres by year-end, an increase of approximately 11%.

### ***Coniferous Plywood***

Domestic softwood plywood consumption increased in volume from 2003 to 2004. Consumption rose from 1.45 to 1.71 million cubic metres, an increase of approximately 18%. Although plywood production also increased from 2003 to 2004, and exports decreased, the 2004 production levels were not sufficient to meet the domestic plywood demand. In 2004, plywood production totaled 2.04 million cubic metres, while the volume of Canadian plywood exports was estimated at 521 thousand cubic metres. The excess demand of 187 thousand cubic metres was met by a combination of increased coniferous plywood imports and reduced plywood inventories. Total softwood plywood imports were estimated at 173 thousand cubic metres in 2004, a 60% increase in the volume imported over the previous year.

Although the demand for housing in the U.S. is expected to continue to increase in the long run, it is forecast to drop off in the next year or two, as U.S. housing begins to slow. With the softening of construction activities in the U.S., combined with the trend of substituting plywood for OSB, demand for Canadian softwood plywood is expected to decrease. Plywood exports are expected to fall from 521 thousand cubic metres to 440 thousand cubic metres in 2005. However, in the very short run, hurricane Katrina is expected to stimulate increased demand for housing, and thus for plywood.

The international demand for Canadian softwood plywood is also expected to decrease. The reduced demand, in all markets, is expected to lead to a modest reduction in Canadian plywood production in 2005. Similarly, imports are expected to decrease somewhat, from 173 thousand cubic metres in 2004 to 150 thousand cubic metres in 2005. In addition, Canadian softwood plywood exports will likely face increased competition in the future, as low-cost Chinese plywood mills become certified according to North American standards, and enter the structural plywood market for residential applications.

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

Canadian OSB production increased from 8.9 million cubic metres in 2003 to 9.8 million cubic metres in 2004. Similarly, over the same period, exports increased by approximately 8%, reaching 8.56 million cubic metres. Both production and exports of OSB are expected to reach new record levels in 2005 with OSB production reaching 9.9 million cubic metres and exports increasing to an estimated 8.6 million cubic metres. Most of the OSB exports are destined for the US market.

Following a reduction in OSB imports from 2002 to 2003, import volumes increased considerably in 2004. OSB imports increased from 114 thousand cubic metres in 2003 to 208 thousand cubic metres in 2004, an 83% increase. However, based on information from the first 6 months of 2005, imports are expected to decline to 150 thousand cubic metres in 2005.

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

Canadian hardboard/MDF production totaled 1.7 million cubic metres in 2004, a 15% increase over the previous year's output level. Following a slight reduction from 2002 to 2003, the domestic consumption level increased in 2004 by almost 17%, reaching 863 thousand cubic metres. Hardboard/MDF exports also increased, from 1.2 million cubic metres in 2003 to 1.4 million cubic metres in 2004. Following a 5-year trend, imports continued to increase in 2004, reaching 566 thousand cubic metres.

Based on statistics available from the first two quarters of 2005, output is expected to remain relatively steady in 2005, while exports are expected to increase slightly to 1.5 million cubic metres. Domestic hardboard/MDF consumption is expected to remain essentially unchanged in 2005. Imports, based on statistics from the first six months on 2005, are forecast to remain stable.

### ***Particleboard***

Canadian particleboard production increased from approximately 3 million cubic metres in 2003 to 3.1 million cubic metres in 2004, a 5% increase. Output levels are expected to increase marginally in 2005, reaching almost 3.2 million cubic metres. Following a 3% increase in the volume of particleboard exported from 2002 to 2003, particleboard exports decreased to 1.2 million cubic metres in 2004. The volume exported in 2005 is expected to remain steady at about 1.2 million cubic metres.

Following a significant drop in particleboard imports from 2002 to 2003, particleboard imports continued to decline in 2004, reaching 227 thousand cubic metres. The volume of particleboard imports is expected to fall further to 220 thousand cubic metres in 2005.

### ***Pulp and Paper***

In 2004, Canadian pulp, paper and board shipments showed an annual increase of 1.7%, following a year-over-year climb of 0.4% in 2003. Exports account for the major share of these shipments. The U.S. is by far the primary destination for these exports, accounting for 52.4% of all pulp, paper and board exports. Canadian exports to the U.S. increased by 2.5% in 2004 while exports to other countries increased by 0.6%. Increased exports to China and Latin America offset decreases in exports to Western Europe.

As a result of a decline in offshore exports (Japan and Western Europe), and weaker sales to North American markets, Canadian newsprint shipments declined by 3.3% in 2004. In the longer term, Canadian newsprint production is expected to decline by 1% annually over the next three years as newsprint producers continue to respond to the secular decline in North American consumption, high energy costs, and the high value of the Canadian dollar by reducing newsprint capacity (primarily geared towards retiring machines from higher cost mills).

Canadian production of printing and writing paper is projected to increase from 7.5 million tonnes in 2004 to 7.8 million tonnes in 2007, representing an annual growth rate of 1.2% over the next three years. Much of this expansion will be attributable to growth in production of uncoated and coated groundwood papers, which are expected to increase at annual rates of 1.8% and 1.9% respectively over this period. This growth has in part been driven by conversion of existing newsprint capacity to higher value -added groundwood papers by producers seeking to improve their profit margins.

Exports of Canadian market pulp rose 1.6% in 2004, strengthened largely by an increase in exports to the U.S. (3%) and China (19%). This was offset by declines in shipments to Western Europe, resulting from new bleached softwood capacity in the region and increased competition faced from producers in the U.S. South (for softwood pulps) and Latin America (hardwood pulps). Over the next few years, China's share of Canadian pulp exports will likely increase, as the country's paper and board capacity continues to expand.

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 2004-2019, RISI forecasts North American demand for paper and board to grow at an annual rate of 1.2% compared with 5.0% 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 U.S. market.

## Appendix

### *Statistics and Prospects*

Figures for 2005 and 2006 are estimates

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

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>Production</i>	76,540	81,720	83,300	83,300
<i>Stocks</i>	8,431	7,968	8,382	8,486
<i>Consumption</i>	26,376	27,711	27,697	28,946
<i>Imports</i>	571	677	733	550
<i>Exports to Europe</i>	443	448	395	450
<i>Exports (Total)</i>	50,825	55,149	55,922	54,800

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

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>Imports</i>	3,346	3,108	3,800	3,800
<i>Exports</i>	4,097	3,497	4,000	4,000

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

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>Production</i>	1,760	1,792	1800	1800
<i>Stocks</i>	124	95	100	100
<i>Consumption</i>	1,496	2,920	1,955	1,960
<i>Imports</i>	1,126	2,586	1600	1600
<i>Exports to Europe</i>	153	120	120	120
<i>Exports (Total)</i>	1,374	1,487	1440	1440

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

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>Imports</i>	1,746	2,258	2,500	2,400
<i>Exports</i>	212	223	250	225

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

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>Production</i>	1,906	2,044	2,000	1,900
<i>Stocks</i>	89	75	75	75
<i>Consumption</i>	1,447	1,710	1,710	1,640
<i>Imports</i>	108	173	150	140
<i>Exports to Europe</i>	11	13	15	15
<i>Exports (Total)</i>	543	521	440	400

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

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>Production</i>	8,884	9,825	9,900	10,100
<i>Imports</i>	114	208	150	150
<i>Exports</i>	7,926	8,557	8,600	8,700

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

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>Production</i>	1,472	1,699	1,740	1,690
<i>Consumption</i>	740	863	860	920
<i>Imports</i>	478	566	580	580
<i>Exports</i>	1,210	1,402	1,460	1,350

**Particleboard (000 Cubic Metres)**

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>Production</i>	2,991	3,134	3,150	3,250
<i>Imports</i>	263	227	220	220
<i>Exports</i>	1,312	1,207	1,150	1,250

**Pulpwood Exports (000 Cubic Metres)**

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>Exports (U.S.)</i>	120	142	200	200
<i>Exports (Total)</i>	123	180	240	240

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

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>Exports (U.S.)</i>	684	268	516	516
<i>Exports (Japan)</i>	528	444	387	387
<i>Exports (Total)</i>	1,667	1,043	903	839