



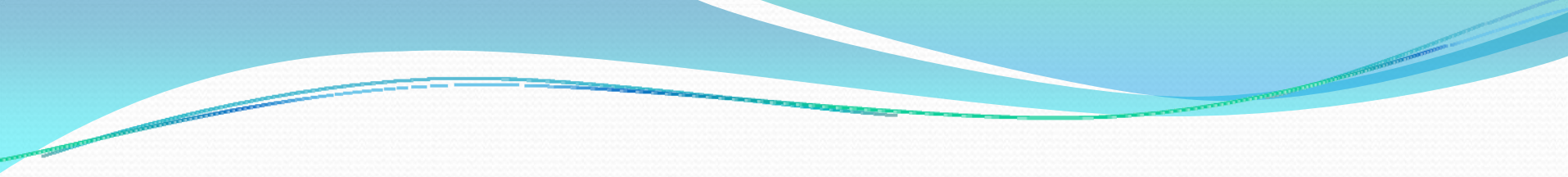
**ABCFP – CHINA**  
**MARKET PANEL**  
**DISCUSSION**

## Intro:

- Our company Downie Timber is primarily in the western red cedar business
- Focus on high end finished (ready for application) goods
  - Paneling
  - Siding
  - Clear facia & trim
  - Finger joint boards / siding
- We may have a different perspective on government / industry marketing initiatives vs. dimension producers
- We may have a different view of China market
- In fact we sometimes view China as a competitor as much as market opportunities

## Looking Down from High Level:

- US represents 60-70% of market for BC lumber
- Too much exposure to one market
- Decades of protection driven trade action exacerbates this:
  - Quota 96' – 01'
  - CVD 02' – 06'
  - Export Tax 06' – current
- Disproportionate (to other jurisdictions) collapse in US Housing and related lumber markets.
  - US 09' starts 560K vs. 1.500K average of 60% +
  - Japan off 30%
  - Canada off 35%
  - China ??
- US starts going forward
- No consensus
- Unlikely to exceed 1000K in next 2-3 years
- Provides case study of downside to too much dependence on one market



Clearly makes sense to expand BC Market share in other jurisdictions

Government lead partnership with industry is best model to do this


# Is China the best Market?

## •Positives:

- Strong economic growth
- Pent up housing demand
- Pacific rim location
- Emerging middle class
- Opportunities to promote platform based wood construction in earthquake zone
- Large user of low grade lumber

## •Challenges:

- China has a significant milling sector
- China prefers to buy logs
- China geographic / historical connection to Russia (similar to Canada & USA)
- China is price sensitive
- China does not have a strong wood culture
- China is a significant exporter of finished wood products



On balance logical place to grow market share with focus on domestic consumption

Government lead marketing initiative in partnership with industry focused on China makes sense

## A High value Cedar Producers Perspective:

- US is market
  - 78% of cedar goes to US
  - US is only market for furnished goods:
    - Paneling
    - Siding
    - Facia / Trim
    - Finger joint boards & Siding
- Offshore Exports – Europe, UK, Australia, Japan 18%
  - High grade (i.e. clears & shop)
  - Rough green
  - Manufactured into finished products at destination
  - Consumed within domestic markets
- China
  - China an emerging market for Cedar – 4% of cedar exports
  - Middle & Low grade reman stock
  - 2000 = 1000mfbm → 2008 = 22500mfbm
  - 20 fold increase in the decade
  - Manufactured into finished goods
  - Exported back to US
  - Competes directly with finished goods from BC
  - Conflicts with government objective of increasing value added in province


## Roll of Cedar in BC Industry:

- 5.8% of volume
- 21.3% of value
- Significant contributor to reman sector
- 4-5 x jobs / m<sup>3</sup> of log compared to dimension mills
- Many products that are not commodity
- Provides a model of government objective of increasing value added



**Government is significant contributor to value added market promotion:**

- BC Wood
- WRCLA
- Programs would not exist without government involvement
- These programs are key to growing value added sector



Focus on China ok but not at expense of promotional programs related to Cedar and other value added



## **Summary:**

- BC is overly dependent on US market
- China is logical market for ambitious program to grow BC market share
- Program should be focused / targeted to domestic consumption
- China marketing initiative should align with objective of promoting more value added in BC
- US will continue to be the major market for finished high value goods
- China marketing initiative should not be at the expense of current programs promoting high value finished goods (i.e. BC Wood & WRCLA)