



Forest2Market COVID-19 Forest Industry Roundtable Discussion Notes

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FOREST2MARKET

Global Wood & Fiber Supply Chain Experts



Forest Industry Field Reports: April 2020

As we battle the COVID-19 pandemic and health crisis, we are truly in uncharted waters as a nation and an industry. While the forest supply chain is currently less affected than many other sectors, we believe it is imperative that we continue to support the industry and help each other to succeed amid these trying times.

As the old adage says, "It's better to have it and not need it than to need it and not have it." We are firm believers in the power of information, data and sound planning to help make the most informed decisions possible – especially in times of extreme uncertainty.

To that end, we want to continue to find ways of adding value as a trusted business partner, and we will be sharing updated reports from across the global supply chain in the coming weeks. These are the early signs of what we're seeing develop in the field and in daily conversations with our customers. We will also be sharing blog posts and related information about Forest2Market products that are invaluable during uncertain times like these.

Our hope is that this information will spark meaningful conversations, relationships, questions, answers and business solutions that will help forest industry participants better navigate through these challenging times.



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1 US SOUTH

Joe Clark & Mike Powell

1.1 Solid Wood

- Manufacturers are closely watching construction status in several states amid looming uncertainty of future markets.
- Some producers are worried about losing relationships with paper mills for residual chip supplies due to the cuts in production.
- There is concern that some suppliers won't be able to stay afloat with current quotas in place, leading to a shortage of logging capacity in the future.
- Prices are holding for the most part; several locations are cutting prices in efforts to lower inventory.
- Lumber demand has remained strong for the time being, with exception of imports/exports.
- Mills that have existing relationships with big box stores and treaters (who sell mainly to big box stores) are staying busier right now. With so many people stuck at home, DIY projects are driving lumber demand through these vendors.
- Nearly all large companies have announced production cuts across the region as they see the market softening in the short term, but most have a positive long-term view.

1.2 Pulp & Paper

- Mills producing consumer products (tissue/towels) and medical grades (masks/PPE) are experiencing temporary spikes in demand.
- If solid wood production declines, residual chip supply will be affected, which will increase reliance on primary chips or roundwood.
- Mills that have idle chipmill assets could restart these facilities. This would incur a higher fiber cost for near-term production.

1.3 Landowners/Managers

- Some delivery reductions/quotas are starting to be seen across the South. Sawmill production cuts have led to quotas making it difficult to move product.
- Uncertainty and quotas have led to a reduction in timber sales. Buyers are uncomfortable assuming past records of deliveries will be indicative of future, and many landowners are reducing prices to account for slack demand.
- Pulpwood tracts seem to be in high demand and many crews are moving pulpwood relatively easily.
- Industrial landowners that sell on a delivered basis are bracing for a rough rest of the year from a revenue perspective. PST sales are their biggest cash flow producer and they won't be able to make up the lost revenue from fewer PST sales with more PPW sales.
- Both large and small private landowners that primarily sell stumpage are beginning to feel the impact.



2 WESTERN NORTH AMERICA

Joel Swanton

2.1 Solid Wood

- Mills on the US side of the PNW border are beginning to adjust to reduced market demand by announcing reduced shifts, downtime or temporary closures. This activity largely varies by location and by markets served.; those who feed the CA market seemed to have been most affected for now.
- Mills that supply Washington construction markets are affected by Washington's designation of construction as "non-essential." There is some concern this designation will soon spread to other states.
- There have been significant production curtailments announced in British Columbia that may temporarily benefit US producers.
- Lumber and panel prices are holding for now, but log prices are starting to decline. Some mills have put suppliers on delivery quotas.
- Residual chip exports have almost completely halted.
- Regional mills are going into this challenging period with full spring log inventories.

2.2 Pulp & Paper

- Mills that are producing consumer products (tissues/towels) and medical grades (masks/PPE) experiencing temporary increase in demand, are running strong and postponing planned spring maintenance outages.
- Market pulp producers have varying challenges:
 - Domestic markets for consumer and packaging end use are still stable.
 - The Chinese export market collapsed in January; there are some signs of slow recovery beginning to take shape.
 - Other Pacific export markets are stable but are affected by transportation disruptions.
- If solid wood production declines, residual chip supply will be affected, increasing reliance on more expensive primary chips. This is currently not an issue in the southern part of the region, as chip supply is ample due to the decline in chip exports, but markets are changing rapidly.

2.3 Landowners/Managers

- Landowners and managers are actively monitoring domestic markets. Some delivery reductions/quotas are beginning to take shape across the region.
- Domestic prices are holding for now, although decreases are expected in the near term.
- Small-diameter logs (chip-n-saw) will begin going to chip mills when they have room to take them, which will increase the cost for primary chips.
- The Japanese export market is steady for now, which is partially due to lower production in BC.



3 EASTERN NORTH AMERICA – LAKE STATES/NORTHEAST

Pete Coutu

3.1 Solid Wood

- Softwood lumber markets will continue to be depressed due to the lack of demand amid the stay-at-home order and restricted building during this time.
- Hardwood lumber markets were hit hard by the trade war and tariffs over the last 12 - 18 months. While there was early hope as they found some temporary relief early in 2020 with phase 1 of China trade deal, we are still in very uncertain times.
- With much of America still at home or under quarantine, this could translate into strong demand in the remodeling sector (cabinets, flooring, etc.) assuming people are optimistic about returning to work soon.
- Residual chip production will continue to be affected negatively by slack demand for lumber, which creates a problem for pulp mill consumption.
- OSB demand is slack and manufacturers are making curtailment announcements.

3.2 Pulp & Paper

- As in other regions, Pulp & Paper demand is very dependent on the type of end product produced.
 - Tissue manufacturers will continue to see demand.
 - Packaging demand should remain strong.
 - Printing and writing papers and newspaper demand will continue to decline and probably accelerate during this period.
 - Specialty papers demand is dependent on what type of product they are producing
- Some planned spring maintenance schedules are being moved to fall; for some manufacturers this is in response to strong demand while others are trying to conserve capital.

3.3 Landowners/Managers

- There has been little effect on fiber and log production since we are in spring “break up” period and consumers are working through inventories built during this past winter.
- We are quickly approaching the time, however, that harvesters and truckers will be looking to restart operations but are feeling uncertain about what demand will look like in the coming months.
- Landowners will likely see some reduction in demand for timber sales in the near term, particularly for softwood logs. This could lead to declining stumpage prices and potentially some logs being sold into the pulpwood and lower grade markets due to the reduction in residual chip production.



4 BRAZIL

Marcelo Schmid

Over the past two weeks, Forest2Market do Brasil has maintained frequent contact with many of its customers and representatives of the main players in the Brazilian forest-based industry. Naturally, the conversation has been directed to the global challenges associated with the COVID-19 pandemic.

- Brazil is the primary global producer of cellulose and this segment is undoubtedly the most important for the Brazilian forest supply chain. The pulp segment experienced a sharp drop in 2019, and this drop led to an increase in pulp inventories for Brazil's primary producers. The situation remains unchanged in the current global health crisis.
- Based on discussions with clients, the coronavirus pandemic has caused the global consumption of toilet paper to surge worldwide, which has helped to reduce some pulp stocks and normalize production. Although this increase in consumption is temporary, "normal" consumption levels will potentially increase in the future as health and hygiene habits have changed in many parts of the world.
- The situation for solid wood producers is mixed and depends primarily on the final wood market. Some companies are reporting a reduction in shifts and layoffs due to reduced demand, but others haven't yet seen any significant impacts. It is also clear that the impacts to forest-based industries have not been driven by market forces of supply and demand, but rather by government mandates. Many clients predict that April activity will return to normal.
- In general, products manufactured for export markets such as frames and related building components are less affected than products aimed at the domestic market and the consumer retail sector.

Speaking of the domestic market, the Brazilian packaging sector is reeling from the current situation, and it is not very difficult to understand why. The packaging segment is closely linked to the consumption of different consumer goods such as food, footwear, home appliances, among others. Since the consumption of various goods has been severely affected in recent weeks due to reduced ability to shop, the demand for packaging that accompanies such products has also been drastically reduced.

The civil construction segment, another major consumer of forest-based products, does not appear to have been affected yet. However, with the probable reduction in the manufacture of construction inputs, combined with restrictive measures regarding crowd sizes and gatherings of people in work environments, this segment will likely see reductions in April. This problem is expected to affect specific supply chains in the forest sector, for example, plywood.



5 EUROPE

Agris Melnis

5.1 Baltic States

- Stora Enso's production in the Baltic States has decreased. Demand in the domestic market is declining but the company is shifting focus to new demand in Asian markets.
- BSW Latvia and Kurekss have maintained capacity and are selling some volume to Japan.
- The largest wood products companies in the region (more than 100,000 m³ of log consumption) have increased capacity up to 10%.
- Smaller wood products companies have trimmed capacity by roughly 25%.
- Small sawmills are hardly making any profit in the current environment; some are even operating at a loss just to maintain operations.
- Approximately 40% of pallet production (non-contract) has stopped altogether.
- Timberland owners are harvesting more timber than they were before the COVID-19 crisis began because weather conditions are now ideal. Forest product prices have varied; birch pulpwood, for example, has maintained price but large sawlog prices have decreased.
- Almost all sawmills have full log yards, but they are actively working through inventories to take advantage of price decreases.

5.2 Finland & Sweden

- Sawmills are struggling to find markets for lumber and are actively reducing prices as a reaction.
 - Finnish sawmills have returned to full production after recent labor strikes that shuttered operations for roughly two weeks. As of now, these mills are back in business, buying logs and producing at normal rates.
 - Swedish sawmills have generally maintained a normal pace of production, although some sawmills have reduced volumes by up to 10%. If the COVID-19 situation continues for much longer, they will decrease volumes accordingly in response.
- The French market is virtually closed and doesn't need any new lumber supplies.
- The Pulp & Paper industry is working more or less at the same level it was before the crisis escalated; tissue and towel producers are running at 100% of capacity.
- Many Scandinavian mills are vertically integrated and they are continuing to harvest even though some prices are suppressed.

5.3 Russia

- It continues to be a challenge to get accurate information out of Russia. However, it appears that many Russian sawmills have stopped production due to government mandates related to the COVID-19 outbreak. (This is the primary reason why sawmills in the Baltic states and Scandinavia have maintained production volumes.)
- Veneer production has almost stopped completely.
- Pulp and paper production has remained at full capacity, as nearly all of the companies in this segment also provide district heating.



- The government continues to order manufacturers to cease production, however, details about shuttered facilities are scant.

Throughout the entire region, woodchip demand for heating and energy production has been very low due to a much warmer winter. No spot market developed since contracted volumes put in place prior to the season were sufficient.

6 AUSTRALIA/NEW ZEALAND

Tim Woods

6.1 Solid Wood

- March was a strong month for residential builders and the wholesale supplier market in Australia; April is expected to be relatively strong if the industry is not curtailed by an absolute lockdown. As a result of this uncertainty, there are serious concerns about May orders.
- Some sawmills are reporting a 15-20% reduction in demand for May that will flow back up the supply chain.
- Thus far, there is no evident slowdown in sawn lumber imports, which means there may be a glut of supply before we reach the mid-year mark. Imported lumber prices have not backed off.

6.2 Pulp & Paper

- Regional pulp & paper companies are not currently constrained. However, demand-side softness will impact them as industrial activity slows.
- Export markets for packaging grades, as well as in-country goods, have slowed significantly; some improvements are starting to be seen in the Chinese market. The massive backlog of shipping containers in China has begun to be cleared, with expectations it will take around two weeks – about the end of April – to clear entirely. Some Australian exporters are suffering because of difficulties getting access to containers.
- Local tissue producers are working at full capacity and with added personnel in some instances.
- Catalogue, newsprint and printing paper markets are struggling under great pressure, in both Australia and New Zealand.

6.3 Landowners/Managers

- Currently, there is no reported significant impact among growers, most of whom are still reeling from the wildfire season.
- The export chip market was already softening when the COVID-19 crisis hit; vessels have slowed to a trickle, but resumption of activity in China may drive an increase in chip demand, especially from tissue and medical product manufacturers.
- Log exports have been impacted similarly to chip exports.
- New Zealand's log exports are locked down currently, providing increased demand from China, for softwood logs from Australia.



7 BIOENERGY

Stan Parton

7.1 Solid Biofuels for Power

- EU grid power consumption is down by approximately 18%.
- Co-firing at existing operating EU and Asian power plants has not been impacted.
- Development and/or construction of new biopower plants is impacted or construction has halted.
- Wood supply to and pellet production at pellet plants has not been impacted.

7.2 Liquid Biofuels for Transportation

- Drop in transportation fuel consumption, primarily gasoline rather than diesel, means the existing output from ethanol biofuel producers more than satisfies the current mandated blending obligations.
- Some starch (corn) ethanol production capacity has been halted.
- Biodiesel demand is holding up but weaker.
- Biodiesel produced from waste cooking oil is being impacted by restaurants being shut down and the reduced availability of waste oil.
- Cellulosic ethanol and cellulosic diesel development continue driven by long-term but still weak policy support.
- RIN value are recovering supported by rulings rejecting SRE waivers.

8 OUTLOOK FOR REMAINDER OF 2020

- Extreme global market uncertainty will remain the norm for most 2020 and maybe longer.
- As a result of this uncertainty, demand for softwood logs and lumber will be off, as will demand for other building materials like OSB. Mill curtailments and some shutdowns will continue to occur consequently.
- Pulp & Paper demand will be mixed; tissue, towel and some packaging grades will experience steady to strong demand. Since it serves these markets, demand for market pulp will also be steady.
- Industrial wood pellet demand will be steady to fulfill existing supply and offtake agreements in Europe.
- Landowners will see reduced demand for stumpage sales due to the effects of reduced housing/lumber demand. Surging unemployment and poor economic conditions could lead to an overall reduction in demand for forest products.