

Canada's Forest Products Industry



Table of Contents

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- Why Invest in Canada's Forest Products Industry?
- Industry Overview
 - Forest Resource and Sustainable Development
 - R&D Climate
 - Investment
 - Market Outlook
- Summary

Why Invest in Canada's Forest Industry?

- Rich endowment of renewable forests
- World's largest exporter of forest products
- Proximity to large U.S. market and preferential access under NAFTA
- Excellent forest products research institutes and R&D environment
- Highly skilled labour force
- Fully developed infrastructure

Industry Overview

Industry Profile: 1996

Value of Shipments	\$53 billion
Exports	\$38 billion
Trade Balance	\$33 billion
Direct Employment	222,000*

*Additional 66,000 jobs in forest harvesting and management

Source: Industry Canada, FIBP. Statistics Canada, CANSIM, 1997



Industry Canada Industrie Canada

Canada 

Industry Profile: 1996 (Cont'd)

Industry Sub-sectors	Shipments \$ Billions	Exports \$ Billions	Employees No.	Establishments No.
Pulp & Paper	22.9	18.2	61,800	150
Value Added Paper	7.2	3.5	36,500	500
Wood Products	18.4	15.0	78,600	1,000
Value Added Wood	4.7	1.6	45,300	1,900
Total	53.2	38.3	222,200	3,550

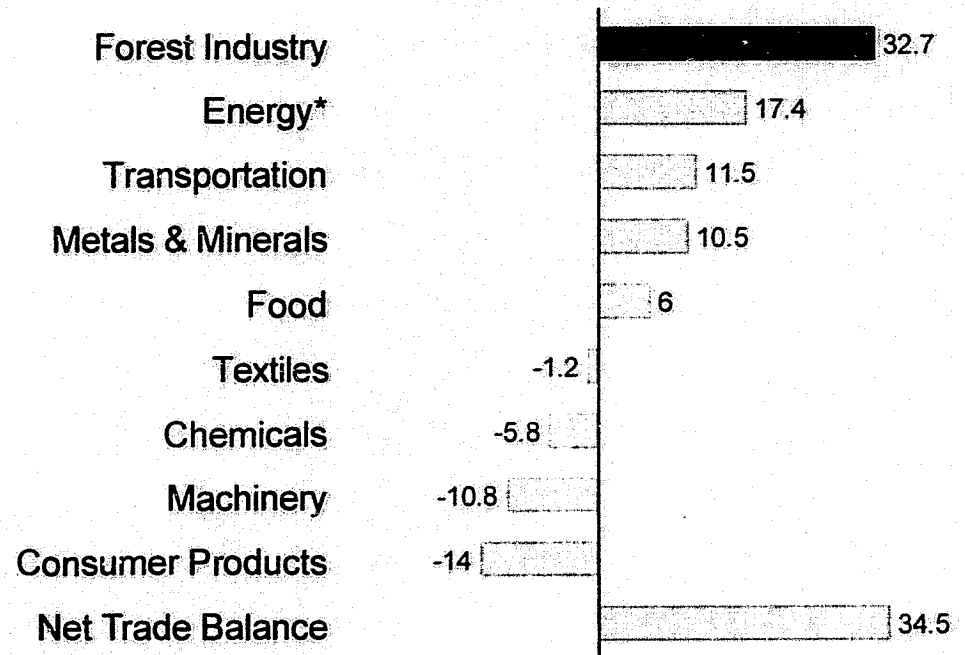
Source: Industry Canada, FIBP. Statistics Canada, CANSIM, 1997

Cornerstone of Canada's Economy

- The forest industry has traditionally been the largest contributor to Canada's merchandise trade balance

Net Trade Balance: 1996

\$ Billions



*Energy includes electricity, petroleum, coal & natural gas

Source: Statistics Canada, 1997

Strong Trade Performance

Japan

Wood - \$3.0
Pulp & Paper - \$1.2

Other Asia

Wood - \$0.3
Pulp & Paper - \$2.0

United States

Wood - \$12.2
Pulp & Paper - \$15.0

\$ Cdn Billions

W. Europe

Wood - \$0.7
Pulp & Paper - \$2.7

Other Countries

Wood - \$0.4
Pulp & Paper - \$0.8

Total Exports - \$38.3

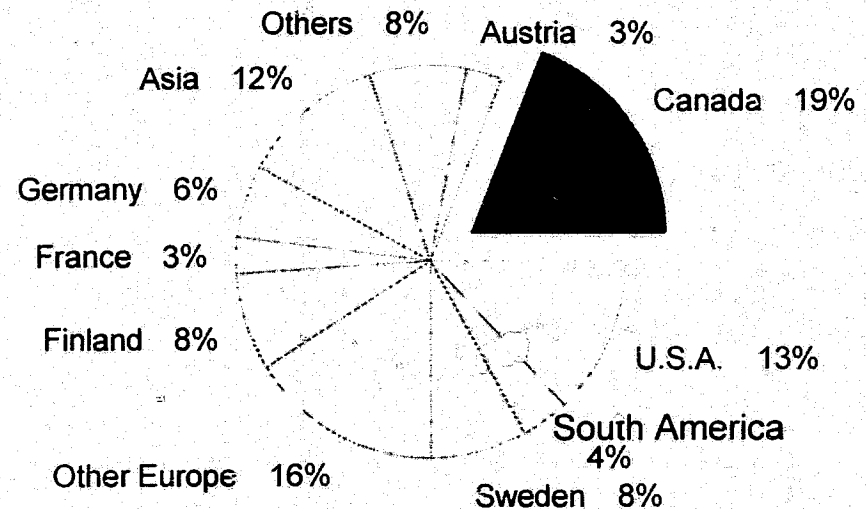


Source: Statistics Canada. CANSIM 1997

Canada: A Major Forest Products Exporter

- Canada is the world's largest forest products exporter
- In 1994, Canada accounted for 19% of the total value of world exports

Major Global Exporters*



*percentages are shown by value

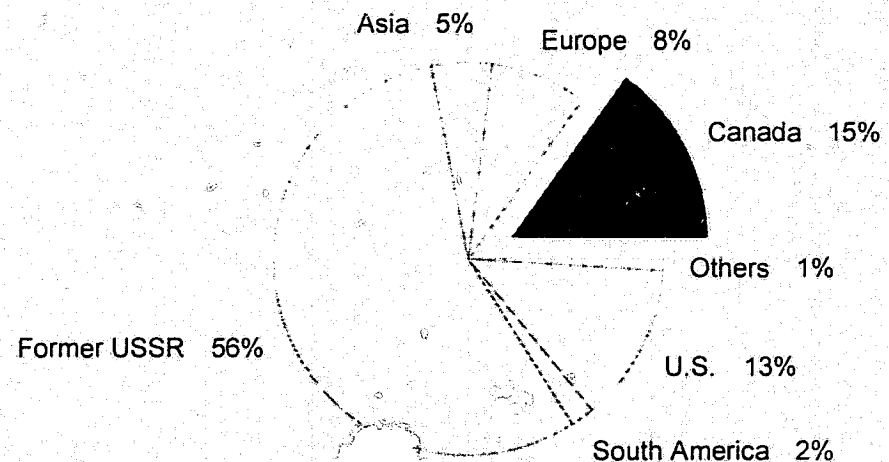
Source: Food and Agricultural Organization. FAO Yearbook: Forest Products, 1996

Forest Resource & Sustainable Development

Global Forest Resource

- Canada has the second largest commercial softwood resource after the former USSR
- New forest management codes in Canada establish standard for sustainable development

Softwood Volume

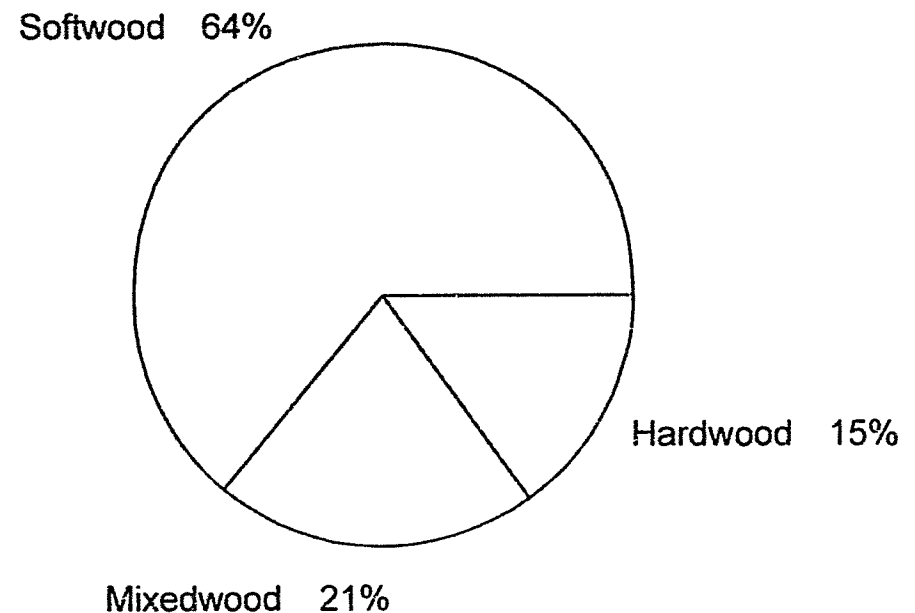


Source: Natural Resources Canada. Selected Forestry Statistics Canada, 1995

Canada's Forest Resources

- Canada has 10% of the world's forest area
- It is composed of 235 million hectares of productive forest land distributed as follows:
 - 150 million hectares softwood
 - 49 million hectares mixedwood
 - 35 million hectares hardwood

Distribution of Canada's Forest Resource By Species Mix



Source: Natural Resources Canada. The State of Canada's Forests 1995-1996

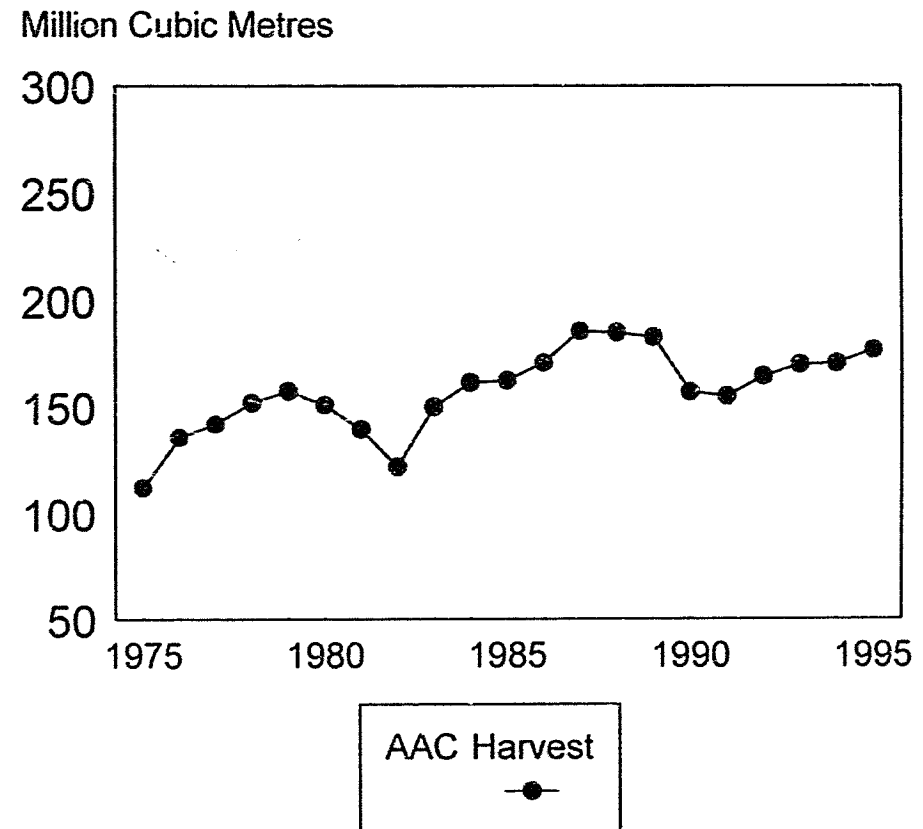
Canada: Leader in Sustainable Development

- Industry and Canadian Standards Association (CSA) established an auditable national standard for sustainable forest management systems
- Canada leading the International Organization for Standards (ISO) process for the development of an international standard for sustainable forest management
- Provincial policies encouraging:
 - integrated approach to forest management in conjunction with all socio-economic values, biodiversity, multiple use, etc.
 - optimization of fibre utilization
 - application of best forest management practices

Annual Allowable Cut (AAC) and Harvest

AAC vs Harvest

- In 1995, over \$2.9 billion was spent on forest management and more than 436,000 hectares were planted
- Careful management has avoided over-harvesting in softwoods and led to a surplus in hardwoods
- Discontinuities in the AAC and harvest between the pre- and post-1990 periods are due to differences in data sources



Source: Natural Resources, Canada. Compendium of Canadian Forestry Statistics, 1996

R&D Climate

World Class Forest Industry R&D Institutes

PAPRICAN

1996 Budget
\$30 million

Pulp and Paper Research Institute of Canada

- Non-profit research and educational organization
- Addresses pulp and paper technology needs and environmental technology development

FERIC

1996 Budget
\$7.6 million

Forest Engineering and Research Institute of Canada

- Forest management equipment development
- Forest harvesting equipment research

FORINTEK

1996 Budget
\$15.8 million

Forintek Canada Corporation

- Canada's wood products research institute
- Innovative products for changing markets

Investment

Canada's Business Climate

- Canada's economic fundamentals are excellent - government policies are geared toward competitiveness.
 - The OECD predicts that Canada's GDP will grow by 3.5 percent in 1997 and 3.3 percent in 1998 - the best two-year performance among the G-7
 - Over the past four years Canadian inflation averaged 1.5%--one of the lowest rates in the world
 - Next fiscal year, federal borrowing requirements (equivalent to OECD deficit measures) will be in surplus.

Sectoral Climate

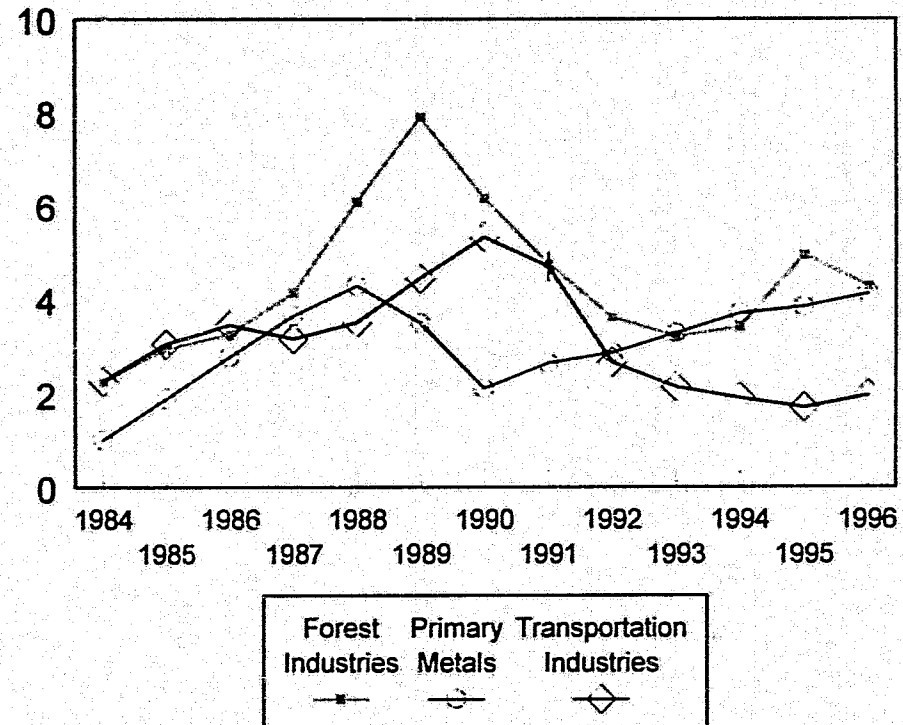
- Capacity growth modest for most commodities
- Pulp and Paper prices expected to rise in 1998
- Recent Investment Trends:
 - Reducing Debt
 - Reinvestment in modernization and value/margin-added products
 - Major Mergers and Acquisitions

Industry Capital Expenditures

- Traditionally, this has been Canada's most capital intensive industry
- This industry has always been a significant investor in advanced manufacturing and environmental technologies
- The current level of profitability is opening up new investment opportunities

Capital Expenditures Trend

\$1995 Cdn billions



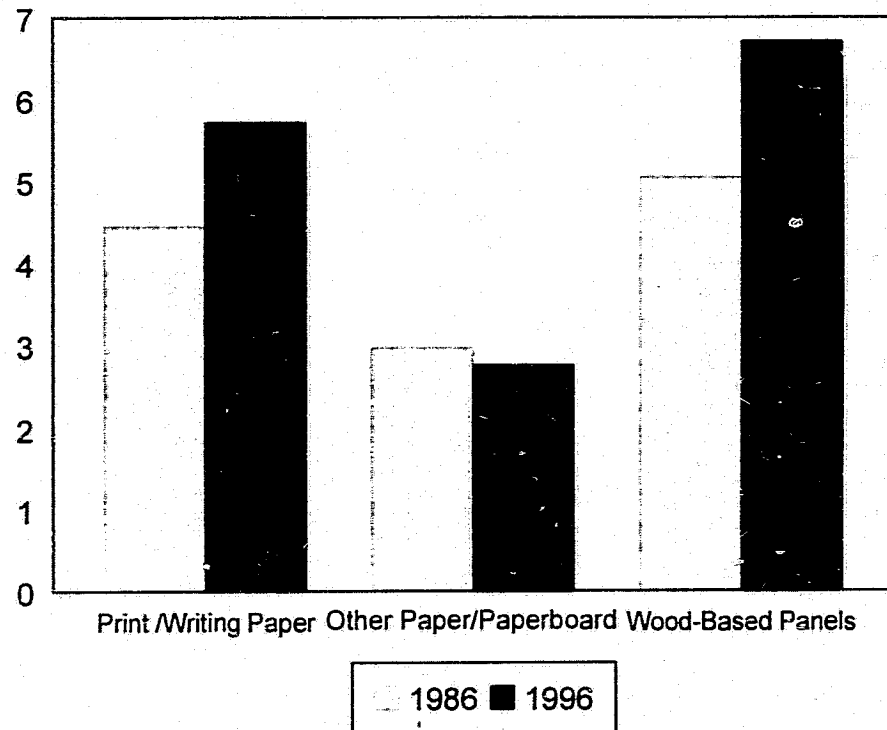
Source: Statistics Canada. CANSIM, 1997

Canada's Global Position

Canada's Share of Global Production

- Traditionally, Canada's production and exports comprised a high proportion of near-commodities such as newsprint, market pulp and softwood lumber
- However, the production of higher value-added products (i.e. printing and writing paper and engineered wood products) is now increasing

Percent (by volume)

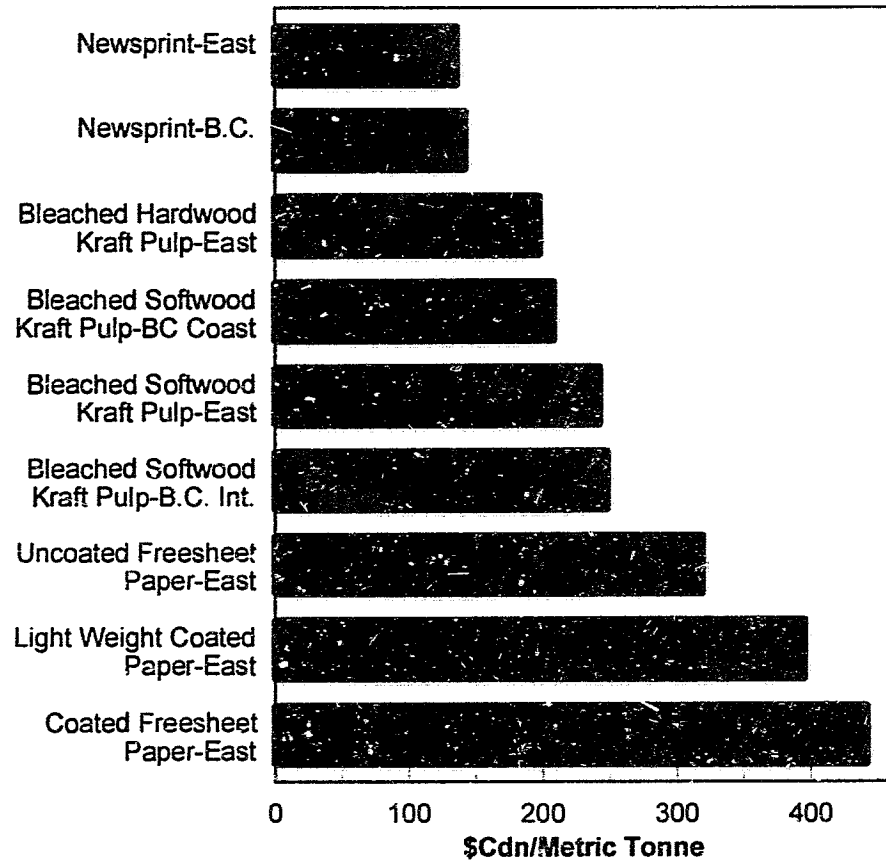


* Percentages are shown on a volume basis
Source: Food and Agricultural Organization, FAO
Yearbook: Forest Products, 1996

Value-added Opportunities

- Studies indicate that Canada is a competitive location for the production of higher value-added paper products (this is also true for wood products)
- Canada's high fibre quality and cost competitiveness make it an attractive location for new investment

Average Operating Margins for Canadian Pulp & Paper Products
1985-1995

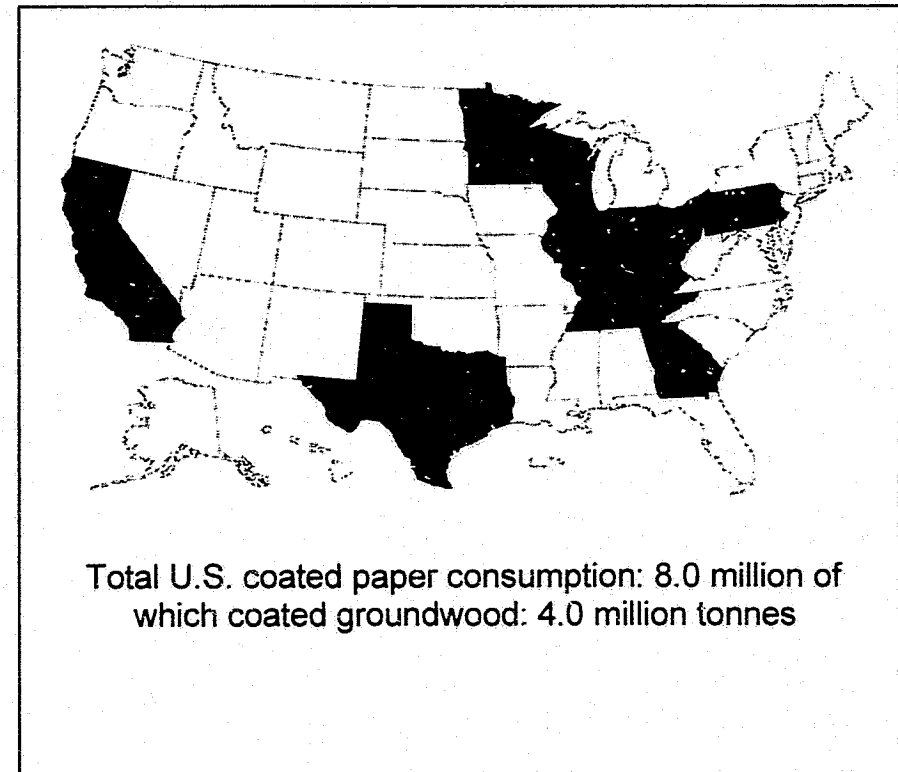


Source: Resource Information Systems, 1995

The U.S. Coated Paper Market

Coated Paper Consumption

- Major U.S. markets for value-added products such as coater papers can be readily accessed by Canadian producers
- The highlighted U.S. States account for over 70% of total U.S. coated paper demand



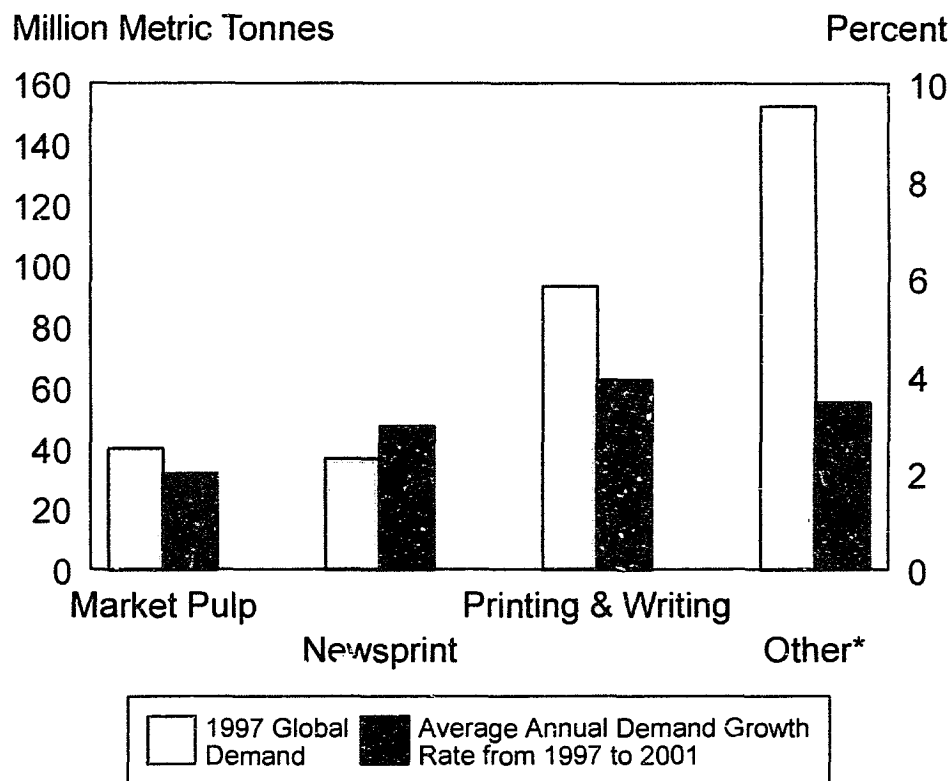
Source: Resource Information Systems Inc., 1996

Market Outlook

Pulp and Paper Market Demand Outlook 1997-2001

- Latin America & Pacific Rim Countries are expected to show greatest paper demand growth
- Canada's market development activities are now focusing on these high growth regions
- Canadian producers enjoy preferential access to the large U.S. and growing Mexican markets under NAFTA
- NAFTA expansion (Chile) under negotiation

Global Pulp & Paper Products
Annual Demand Growth



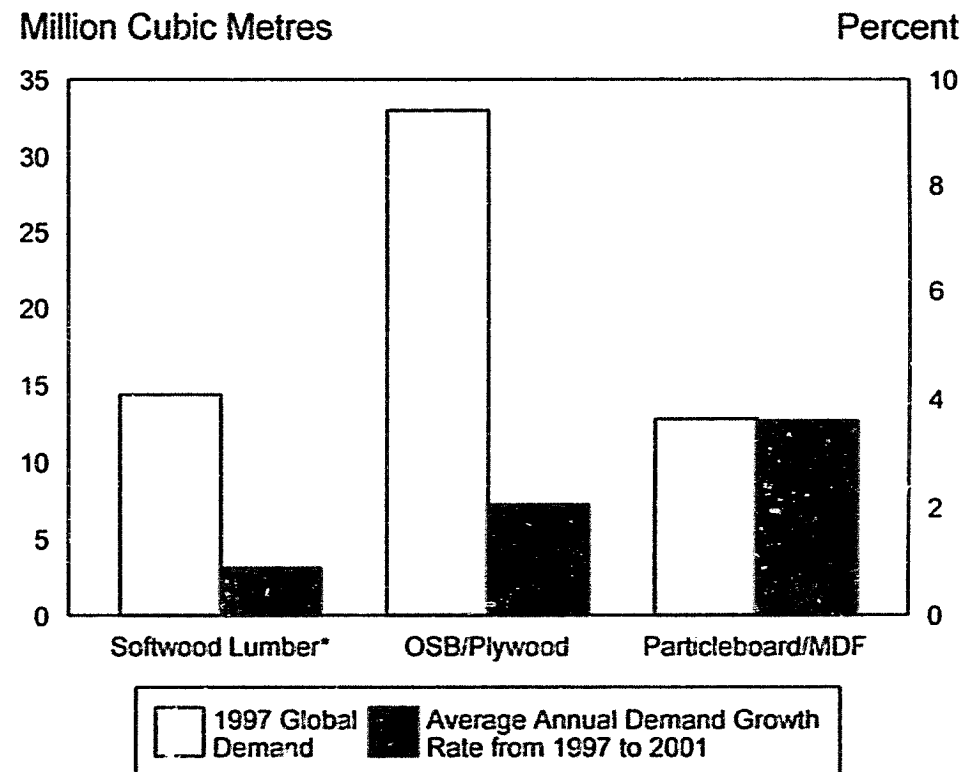
*Other Paper & Paperboard

Source: Resource Information Systems Inc., World Pulp Review, December 1996

Wood Products Market Demand Outlook 1997-2001

- Oriented Strand Board (OSB) and Medium Density Fibreboard (MDF) are displacing traditional products such as plywood and particleboard
- Demand growth for engineered wood products expected to be strong

North American Wood Products
Annual Demand Growth



*Demand for softwood lumber is 10 times greater than shown

Source: Resource Information Systems Inc., The Wood Products Review, January 1997

Summary

- Canada offers vast renewable high quality fibre resource with important growth potential
- It has World class forest products research institutes
- The forest industry is a Cornerstone of Canada's economy
- Canada has the advantage of established export markets with preferential access under NAFTA
- Investment opportunities exist for higher value added products due to ongoing restructuring in this sector