Market Trends and Prospects

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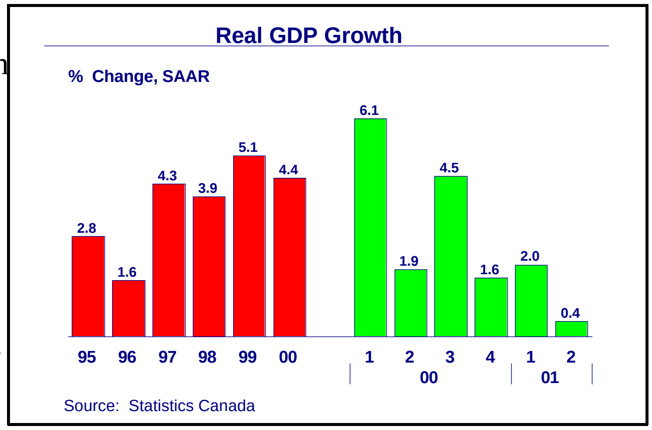
Canada

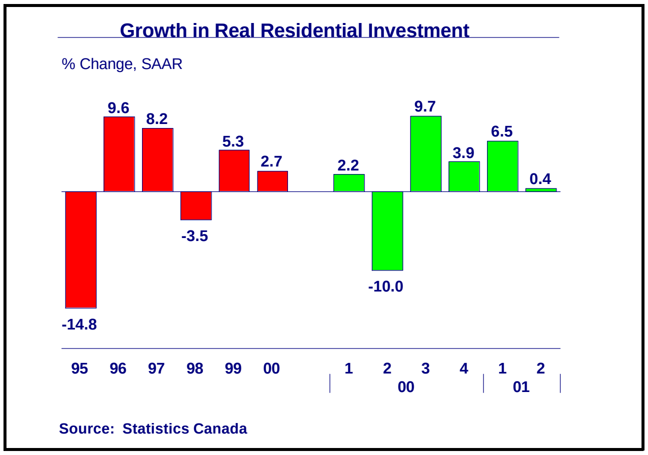
CANADA

An Economic Overview

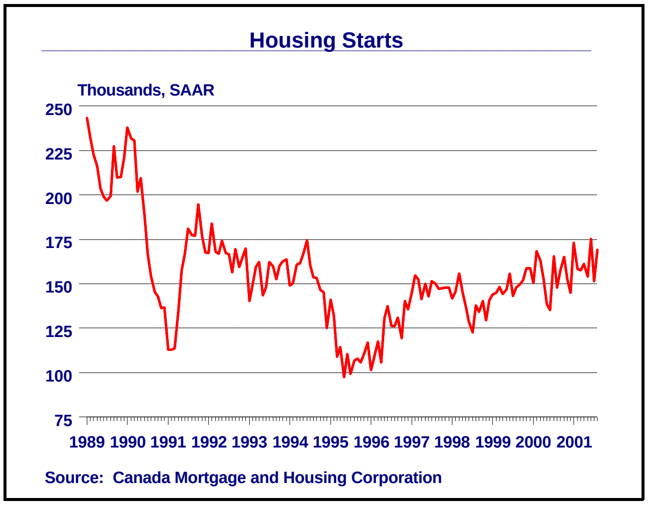
General Economic Conditions

The Canadian economy expanded by 4.4 percent in 2000, but growth has slowed down in 2001, with growth averaging 1.2 percent in the first two quarters. While residential investment has slowed-down, business investment has fallen in the first half of the year. Consumer spending is up, but exports have been falling for three consecutive quarters. Sharply lower demand for telecommunications equipment contributed to the largest back-to back decline in machinery and equipment exports in 18 years. However, exports of automotive products surged with stronger demand in the U.S. market.



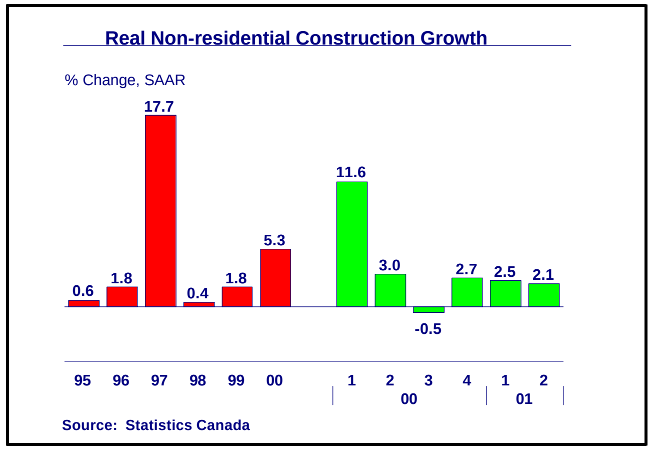


Activity in the housing sector has continued to grow in the first half of 2001 after posting gains in 1999 and 2000. Investment in residential construction rose 6.5 percent (annual rate) in the first quarter of 2001, and posted an increase of only 0.4 percent in the second quarter. A rebound in housing starts late in the second quarter should boost construction in the next quarter. Housing affordability is being assisted by favourable mortgage rates, job gains in the last two years, tax cuts and income growth.

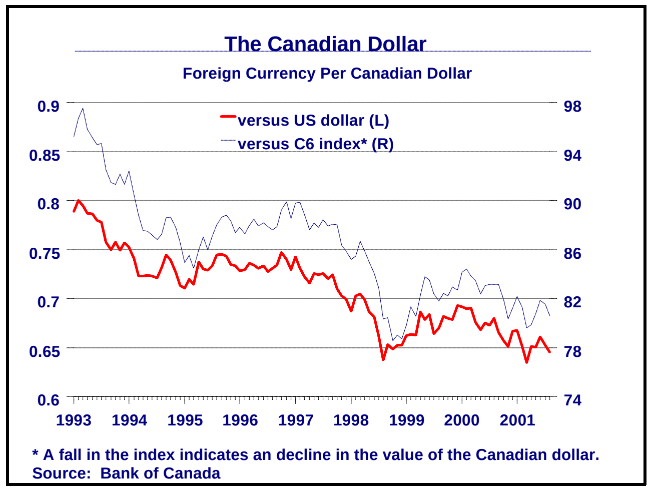


The total value of building permits in the first seven months of 2001, increased by 13.0 percent to $23.5 billion, compared to the same period of 2000. Advances in both the residential and non-residential sectors contributed to this growth, the strongest since 1989. Residential permits increased 9.3 percent with gains in both the multi-family dwellings (+20.3 percent) and single-family dwellings (+5.4 percent). In the meantime, non-residential permits increased 17.7 percent. On a provincial basis, the largest increases were recorded in

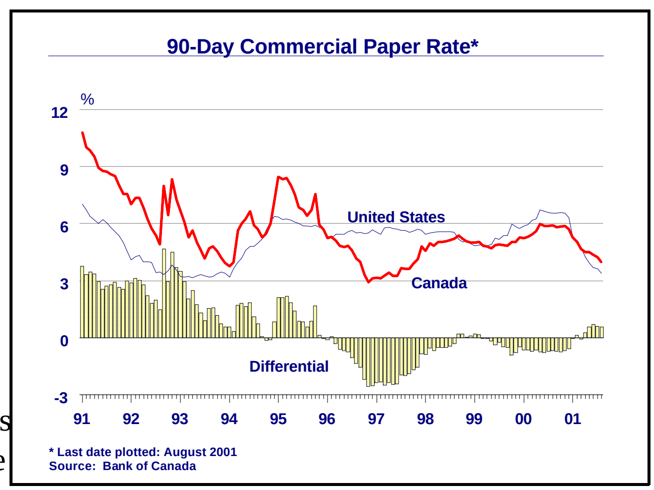
Prince Edward Island, Quebec and British Columbia. Only Nova Scotia and Manitoba posted declines.



Investment in non-residential construction by the end of the second quarter of 2001 had increased for three consecutive quarters, although the pace of growth has been slowing down slightly. The slowdown was concentrated in the engineering component, which had been posting solid increases in recent quarters. Over the first seven months of 2001, non-residential building permits were up 17.7 percent compared to the same period in 2000, powered by rises in all three components - commercial, industrial and institutional.



The Canadian dollar has lost some momentum in recent months. After climbing to U.S.¢66 early in July, the Canadian dollar gave back most of its gains, closing at U.S. ¢63.84 on September 7, nearing the lows reached three years ago during the Asian financial crisis.



The Bank of Canada cut its target rate for interbank overnight lending by 25 basis points to 4.0 percent on August 28 and a further 50 points on September 17, for a total reduction of 225 points since January. Concerns over slowing demand at home and financial market instability due to current events triggered the Bank's action and extended the decline in short rates aimed at supporting domestic demand. Canadian short-term rates closed at 3.96 percent in August, nearly 60 points above U.S. rates.

SAWN SOFTWOOD

Situation 2000

Canadian sawn softwood production increased only slightly to 68.6 million cubic metres in 2000, but still remains at a very high level. However, while production remained high, sawn softwood stocks also rose to record levels in 2000 to reach 8.8 million cubic metres.

Although there was some improvement in Canadian residential construction activity in 2000, other non-residential sawn softwood end use markets declined, resulting in an overall reduction in domestic consumption. Demand in the Canadian market for sawn softwood decreased by 1.6 percent to 19.9 million cubic metres. Total Canadian housing starts for 2000 were 155,000 an increase of 3 percent compared to 1999.

Total Canadian exports of sawn softwood in 2000 remained virtually unchanged at 48.9 million cubic metres. In the United States, demand for Canadian lumber also remained at about the 2000 level at 42.8 million cubic metres. Total housing starts in the United States for the year 2000 were 1.57 million, 5 percent lower than in 1999.

Japan is Canada's second largest market for sawn softwood. Canadian exports continued to rebound in 2000 to 4.7 million cubic metres, but this level is still well below the peak level of 6.5 million cubic metres in 1996.

European demand for Canadian sawn softwood increased moderately in 2000. Canadian exports to Europe were 553 thousand cubic metres in 2000 an increase of 5.5 percent compared to 1999.

Prospects 2001-2002

Canadian production of sawn softwood in the first half of 2001 remained strong at 34.2 million cubic metres. Continued strong demand in both the domestic and export markets was the driving force behind this production level. However, sawn softwood inventories are at very high levels and with the tariff imposed by the United States on softwood imports from Canada in August 2001, it is expected that the pace will slow considerably in the second half of the year. Overall production for the year as a whole is projected to decline significantly from 2000. In 2002, Canadian production of sawn softwood is forecast to remain flat.

While economic growth (GDP) in Canada for 2001 is forecast to be almost half of the rate it was in 2000, Canadian housing starts, which represents the single largest share of sawn softwood demand, have remained strong. Housing starts are projected to increase slightly for the year 2001 to 160 thousand units. As a result, domestic sawn consumption for the year 2001 as a whole is expected to remain close to the 2000 level. The outlook for Canadian housing and sawn softwood domestic consumption in 2002 is for no change.

Recent forecasts suggest that although the rate of economic growth in the United States for 2001 will decrease significantly from the 2000 rate, housing starts are projected to increase moderately in 2001 to over 1.6 million units. However, Canadian sawn softwood exports to the United States are expected to

show a very significant decrease in volumes for 2001 as a result of the tariff imposed in August 2001 on Canadian sawn softwood imports to the United States. The outlook for 2002 is for little change.

Despite a slowdown in the Japanese economy in 2001, Japanese housing activity has remained relatively strong. However, imports of sawn softwood from Canada in 2001 are expected to decline to 4 million cubic metres based on the first six months export statistics. The outlook for 2002 is for some improvement in Canadian sawn softwood exports to Japan.

The latest data indicates the economies in Europe are following the world wide slowdown in 2001. Canadian sawn softwood exports to Europe are projected to show a reduction in 2001 before improving slightly in 2002.

Softwood Lumber Countervailing and Anti-dumping Investigations

Trade in softwood lumber between Canada and the US has been a source of ongoing irritation between the two countries for a number of years. The Canada/US Softwood Lumber Agreement, which provided a five year period of relative stability, expired on March 31, 2001. On April 2, 2001 the U.S. Coalition for Fair Lumber Imports Executive Committee filed countervailing and anti-dumping duty petitions with the United States Government against imports of softwood lumber from Canada.

On April 23, 2001 the U.S. Department of Commerce announced its decision to initiate the investigations.

On August 10, 2001 the U.S. Department of Commerce issued its preliminary determination of subsidy in its countervailing duty investigation of softwood lumber from Canada. The Department of Commerce found that Canadian softwood lumber exports to the U.S. were subsidized by 19.31 percent. The U.S Department of Commerce also found that Canadian softwood lumber was exported to the U.S. above the allowable 15 percent threshold resulting in a finding of "critical circumstances." This means that Canadian softwood exporters will be required to post bonds retroactively to mid-May 2001.

U.S. Countervailing Duty / Anti-dumping Investigation Timelines

Action	**Countervailing Duty**	**Anti-dumping Duty**
DOC Preliminary Determination on Subsidy / Dumping	Aug. 9, 2001	Oct. 15, 2001
DOC Final Determination on Subsidy / Dumping	Oct. 23, 2001	Dec. 10, 2001
ITC Final Determination on Injury (duties go into effect)	early Jan. 2002	early Jan. 2002

DOC = U.S. Department of Commerce / ITC = U.S. International Trade Commission

Canada believes there is no basis in fact or law for the US actions and has appealed all decisions with the WTO. Furthermore, the Canadian government intends to contest the U.S. trade action in every available legal venue if the US persists in its actions. In the meantime, the two countries have established a US and Canadian trade officials working group to discuss alternatives to litigation.

The Canadian government, led by the Department of Foreign Affairs and International Trade, continues to examine all avenues to resolve the current softwood lumber dispute in a manner that will not undermine the common approach agreed to by both the federal and provincial governments. All future action will be taken with the aim of ensuring free trade in softwood lumber between Canada and the U.S.

Coniferous Logs

In 2000, exports of coniferous logs increased to 2.5 million cubic metres. At the same time, Canadian imports of coniferous logs also increased significantly to 2.6 million cubic metres.

For 2001, exports of coniferous logs are expected to show little change from 2000. Imports of coniferous logs for the first six months of 2001 also indicates that there will be little change from the 2000 level.

Sawn Hardwoods

Canadian production of sawn hardwood increased slightly in 2000 to 1.1 million cubic metres. Exports continued to be very strong in 2000, rising to over 1.5 million cubic metres. However, it would appear that since exports exceed production, a significant volume of the imported sawn hardwood is making its way back to the export market after further processing.

Production of sawn hardwood for 2001 as a whole is estimated to remain at the 1.1 million cubic metre level. The outlook for 2002 is for a similar level of production as in 2001 and some decline in exports.

Hardwood Logs

Exports of hardwood logs in 2000 totalled 300 thousand cubic metres, an increase of 8 percent over 1999. Imports of hardwood logs increased significantly in 2000 to 2.0 million cubic metres due to the strong exports of hardwood lumber. For 2001 and 2002 exports and imports will likely remain at about the 2000 levels.

WOOD BASED PANELS

Coniferous Plywood

In 2000, the production of Canadian coniferous plywood totalled 1.94 million cubic metres up about 1 percent from the volume produced in 1999, and higher than any year in the past decade. The level of output was supported by strong demand in North American markets. Domestic consumption in 2000 increased by nearly 60,000 cubic metres from the previous year to almost 1.4 million cubic metres as both the industrial and residential housing markets remained strong. Imports, which represented relatively small volumes of low grade sheathing products and certain specialty products not manufactured by the industry, declined by 15% in 2000. Exports in 2000, in spite of major growth to the USA, decreased overall by about 10 percent. Most of the decrease resulted from reductions in shipments to Japan with exports to Europe down about 10% from 1999 to 72 thousand cubic metres.

Production in 2001 is expected to approach 1.95 million cubic metres, essentially unchanged from the level of output achieved in 2000. During the first 6 months of 2001, most mills operated at near capacity levels. Total capacity was reduced by about 2% when a small eastern Canadian softwood plywood mill was destroyed by fire in mid-July. It is not yet known if that capacity will be replaced.
In 2001, overall exports are not expected to change dramatically from the previous year's totals of approximately 580 thousand cubic metres. Based on the first six month statistics, exports to Europe are expected to decline to about 60 thousand cubic metres while exports to Japan are expected to reach about 180 thousand cubic metres, a small increase from the previous year. Steady growth in shipments to the USA appears to be continuing.

Despite the reduced volume of exports to Europe, Canadian softwood plywood producers continue to view Europe as an important market and remain committed to serving it with their traditional high quality and value-added products, as demonstrated by the Canadian Plywood Association’s (CanPly) recently completed mission and seminar program.

Particleboard

The Canadian particleboard industry operated at near capacity in 2000 and achieved an output of more than 2.5 million cubic metres, an increase of 3 percent compared to the volume produced in 1999. Domestic consumption of about 1.4 million cubic metres reflected the strength of the Canadian furniture and residential building sectors. Due to some irregularities in the reporting of particleboard import and export statistics, we have estimated these value for 2000 based on information from the Canadian industry. Exports in 2000 were predominately to the US and increased over the previous year in response to strong demand in the US marketplace. Imports, including specialty and overlaid products, some of which are not generally available from domestic producers, also increased due to the strong domestic market.

In the first six months of 2001, Canadian particleboard industry output increased by about 18 percent to about 1.5 million cubic metres. However the North American market for particleboard has weakened in recent months and several mills have recently taken extended shutdowns. In addition to new production capacity which added nearly a million cubic metres of capacity over the past several years, the industry has also added additional overlaying and panel finishing capacity. Straw-based particleboard mills in western Canada have faced financial and technical difficulties and as a result, one has closed permanently and another has recently been re-opened under new ownership following a temporary closure.

Despite the statistics in the first six months, discussions with the particleboard industry suggest that particleboard exports for the entire 2001 year will likely remain stable at about 1.2 million cubic metres as the North American economy continues to slow. Imports statistics for the first half of 2001 indicated a strong first half, but for the year as a whole, total imports are expected to finish the year at about 0.3 million cubic metres up slightly from the previous year. No new wood based particleboard capacity has been announced but another small scale straw-based particleboard mill is under construction in western Canada.

Oriented Strandboard (OSB)

For the first time in many years, the output of OSB in 2000 did not demonstrate a double digit increase in production growth. Following more than a doubling of capacity over the past five years, the increase in output in 2000 was less 2 percent higher than the previous year's production. The increase in production is a result of mills optimizing the production process as they move to design capacity and improvements in adhesive technology.

Consistent with the strong residential building activity experienced in Canada during 2000, domestic consumption remained stable at about 1.0 million cubic metres. Exports in 2000, which remained dependent on the US housing market and a favourable currency exchange rate, increased by 3 percent over the previous year's levels. Imports of OSB represent small volumes and are largely supplied by mills in the US which are close to markets in Canada or by distribution companies which source product from both US and Canadian manufacturers.

In 2001, based on output for the first six months, OSB production is expected to achieve approximately the same level of output as in the previous year. Several companies have announced or undertaken short term closures of several weeks to reduce inventories in light of weak market conditions caused in part by excess supply. Statistics for the first half of 2001 indicate that exports for the year as a whole will remain essentially unchanged from 2000 at about 7 million cubic metres.

Hardboard - Medium Density Fibreboard (MDF)

The output of hardboard/MDF in 2000 totalled 1.0 million cubic metres, down 3 percent from the previous year. MDF, which was first produced in Canada more than 15 years ago, is the dominant panel in this category of wood-based panels and represents about 85 percent of the total capacity. Domestic consumption is estimated to have reached about 100 thousand cubic metres in 2000. Exports in 2000, which are largely MDF, increased 2 percent from the levels achieved in the previous year. Imports in 2000, which included some raw hardboard and certain MDF and hardboard products not generally manufactured in Canada, showed a 24 percent increase in volume terms from 1999.

Based on statistics available for the first 6 months of 2001, production of hardboard/MDF is expected to increase by about 4 percent from the previous year to slightly more than 1.0 million cubic metres. Exports for the entire 2001, based on the statistics from the first half, are also expected to remain unchanged from the previous year. No new plants or major capacity expansions have been announced.

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 2000 decreased marginally to 425 thousand cubic metres. Domestic consumption in 2000 is estimated to have declined to about 346 thousand cubic metres as it continues to compete for market share with wood-based panels in residential and commercial construction applications. Exports, supported by a favourable currency exchange rate increased by 8 percent to 141 thousand cubic metres. Imports in 2000, reflecting the strong domestic housing market, totalled 62 thousand cubic metres, the same level as in the previous year.

For 2001 as a whole, production, domestic consumption and imports are expected to remain stable at last year's levels. Exports in 2001 are projected to decline to the levels seen prior to 2000. No changes to capacity, either in the form of new capacity or closures, have been announced.

MARKETS FOR CERTIFIED WOOD PRODUCTS

Even though Canadian companies operate in an already highly regulated environment, they have made huge efforts to respond to their customers desire in having further information on Canada's forestry practices. As a result, certification has made significant progress in Canada in recent years. As of August 2001, there was approximately 68 million hectares (ha) certified under one or more of the 4 systems available in Canada (Canadian Standards Association: 5.4 million ha, Forest Stewardship Council: 123 000 ha, International Organization for Standardization: 67.7 million ha and Sustainable Forestry Initiative: 3.9 million ha), representing nearly 60% of Canada's managed forest land. This represents a 300% increase in certified managed forest land area as compared to last year. The land area certified by the four systems does not equal the sum of the certified forest areas since some land is certified under more than one system.

Each certification system is making efforts to meet the marketplace demand for certified forest products. Since July 2001, the CSA has developed an option for chain-of-custody and labelling. SFI is also working on a labeling option. FSC is increasing its efforts to develop regional standards in Canada to allow broader access to the Canadian industry to that system. More generally, interested parties in Canada are increasingly involved in ensuring that Canadian companies have access to certification systems that work in the marketplace and are workable in the Canadian context.

Statistics on the production, consumption or trade in certified wood products in Canada are not differentiated from the standard product categories. As a consequence, the output and trade in these products cannot be traced by national statistics. However, the demand for certified products has been driven largely in the export markets, particularly in parts of Europe and in the US where there is increasing interest by retailers for certified products. For example, it is estimated that approximately 20 percent of the demand for wood products in the US and the United Kingdom comes from customers which are committed to purchasing certified forest products. The US and EU markets accounted for around 85% of Canada's forest products exports in 2000.

Because of the growing demand for certification, an increasing number of systems are at various stages of development in the global market place. The concepts of equivalency and mutual recognition among different systems are increasingly being proposed as part of the solution to ensure efficiency in the marketplace both from a producer and a customer perspective. The Canadian industry is actively involved in promoting such concepts.

Appendix

Statistics and Prospects

Figures for 2001 and 2002 are estimates

Sawn Softwood (000 Cubic Metres)

	1999	2000	2001	2002
Production	68,235	68,556	*66,000*	*66,000*
Stocks	8,015	8,802	*9,000*	*8,500*
Consumption	20,255	19,925	*19,902*	*19,700*
Imports	742	769	*650*	*700*
Exports to Europe	524	553	*400*	*500*
Export Total	48,376	48,928	*46,550*	*47,500*

Coniferous Logs (000 Cubic Metres)

	1999	2000	2001	2002
Imports	1,740	2,565	*2,600*	*2,600*
Exports	1,874	2,540	*2,400*	*2,500*

Sawn Hardwood (000 Cubic Metres)

	1999	2000	2001	2002
Production	1,051	1,083	*1,100*	*1,100*
Stocks	143	129	*130*	*130*
Consumption	748	787	*864*	*855*
Imports	1,054	1,184	*1,200*	*1,250*
Exports to Europe	179	195	*185*	*195*
Export Total	1,339	1,522	*1,350*	*1,395*

Hardwood Logs (000 Cubic Metres)

	1999	2000	2001	2002
Imports	1,738	1,986	*2,000*	*2,000*
Exports	287	310	*250*	*275*

Coniferous Plywood (000 Cubic Metres)

	1999	2000	2001	2002
Production	1,928	1,944	*1,950*	*1,950*
Stocks	68	77	*90*	*70*
Consumption	1,426	1,485	*1,442*	*1,420*
Imports	132	132	*85*	*100*
Exports to Europe	80	72	*60*	*60*
Export Total	639	582	*580*	*610*

Oriented Strandboard (OSB) (000 Cubic Metres)

	1999	2000	2001	2002
Production	7,694	7,847	*8,000*	*8,600*
Imports	84	112	*90*	*80*
Exports	6,727	6,932	*6,950*	*7,200*

Particleboard (000 Cubic Metres)

	1999	2000	2001	2002
Production	2,436	2517	*2,750*	*2,900*
Imports	258	526	*400*	*400*
Exports	1,055	1,598	*1,200*	*1,300*

Fibreboard

Hardboard and Medium Density Fibreboard (000 Cubic Metres)

	1999	2000	2001	2002
Production	1,029	1,000	*1,040*	*1,100*
Consumption	143	130	*110*	*135*
Imports	132	1164	*135*	*135*
Export Total	1,018	1,034	*1,065*	*1,100*

Non-Compressed Fibreboard (000 Cubic Metres)

	1999	2000	2001	2002
Production	460	425	*425*	*425*
Consumption	392	346	*350*	*355*
Imports	61	62	*60*	*60*
Exports	129	141	*135*	*130*

Pulpwood Exports (000 Cubic Metres)

	1999	2000	2001	2002
Total Exports	43	65	*50*	*50*

Pulp Chip Exports (000 Cubic Metres)

	1999	2000	2001	2002
US	735	761	*450*	*500*
Japan	522	1,200	*1,400*	*1,400*
Total Exports	1,259	1,971	*1,850*	*1,900*

Source: Natural Resources Canada and Industry Canada based on Statistics Canada data, 2001