



CIBC
World Markets

Don Roberts,
Managing Director
613-564-0827,
Don.roberts@cibc.ca

Sector: Paper & Forest
Products

Sector Weighting: Market
Weight

Changes in the Global Forest Products Industry: Defining the Environment for British Columbia

Symposium on the Future of the B.C. Forest Sector
B.C. Forum on Forest Economics and Policy
Vancouver, January 27, 2005

See "Price Target Calculation" and
"Key Risks to Price Target" sections
at the end of this presentation,
where applicable.

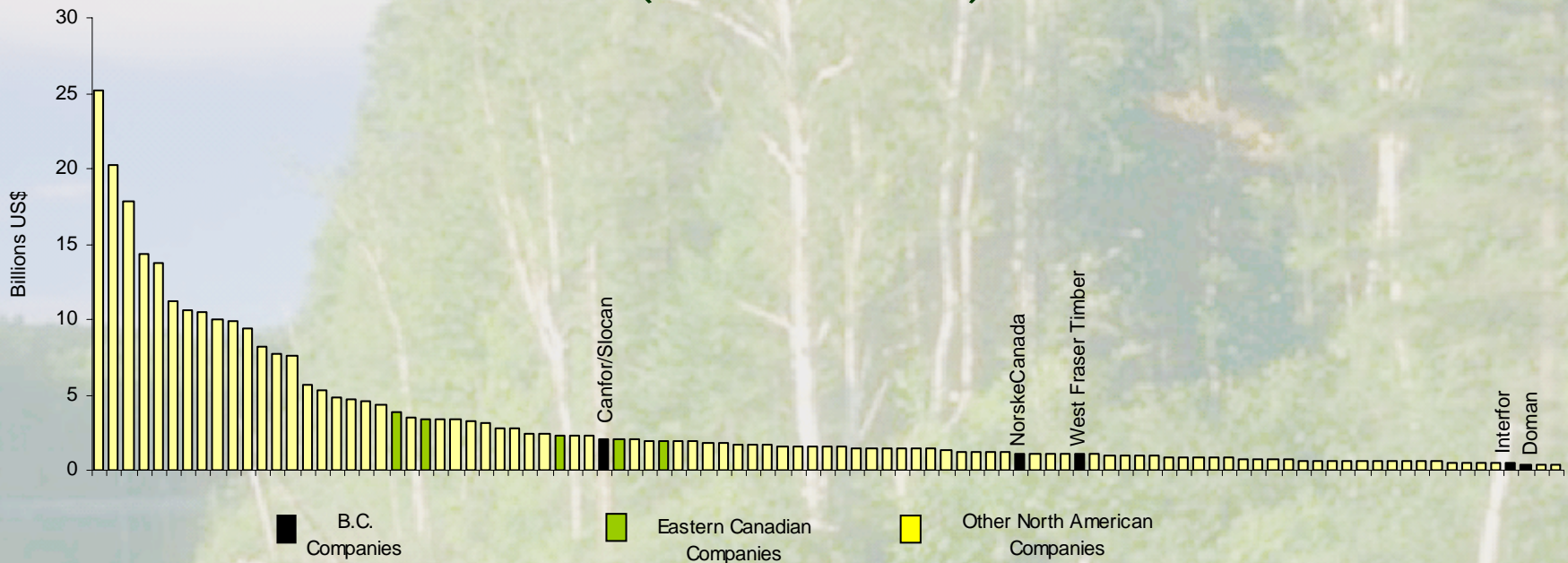
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Game Plan

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Who Are The Players?

B.C. Companies Among the Top 100 Public Companies In the Global Forest Products Industry (2003 Net Sales)

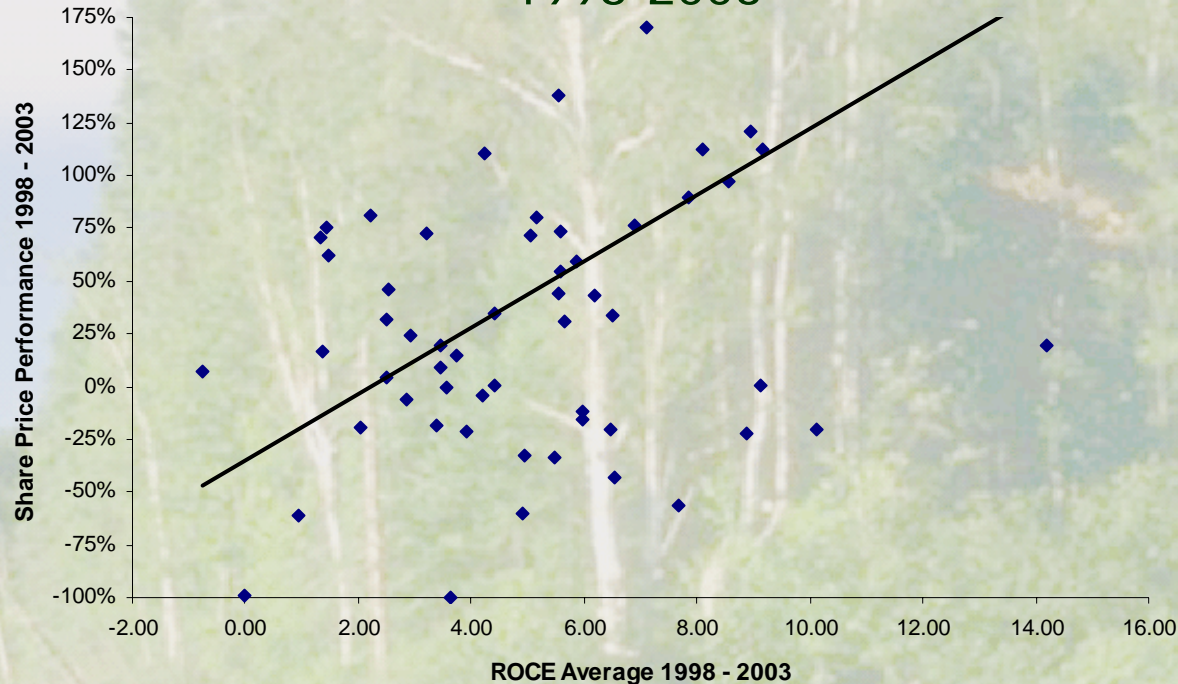


Source: PriceWaterHouseCoopers, CIBC World Markets.

- American and European companies continue to dominate in terms of size.
- Canfor/Slocan is B.C.'s largest, but it ranks only 35th in the world (less than 10% of IP).

Financial Performance

Share Price Performance Vs. Return On Capital Employed (ROCE): 1998-2003



Source: PricewaterhouseCoopers, Bloomberg, CIBC World Markets.

- To grow and become a “player,” you need to attract capital - investors want good share price performance.
- We focus on ROCE as a key financial metric.
- Companies with a high average ROCE generally provide the highest share price returns.

Financial Performance

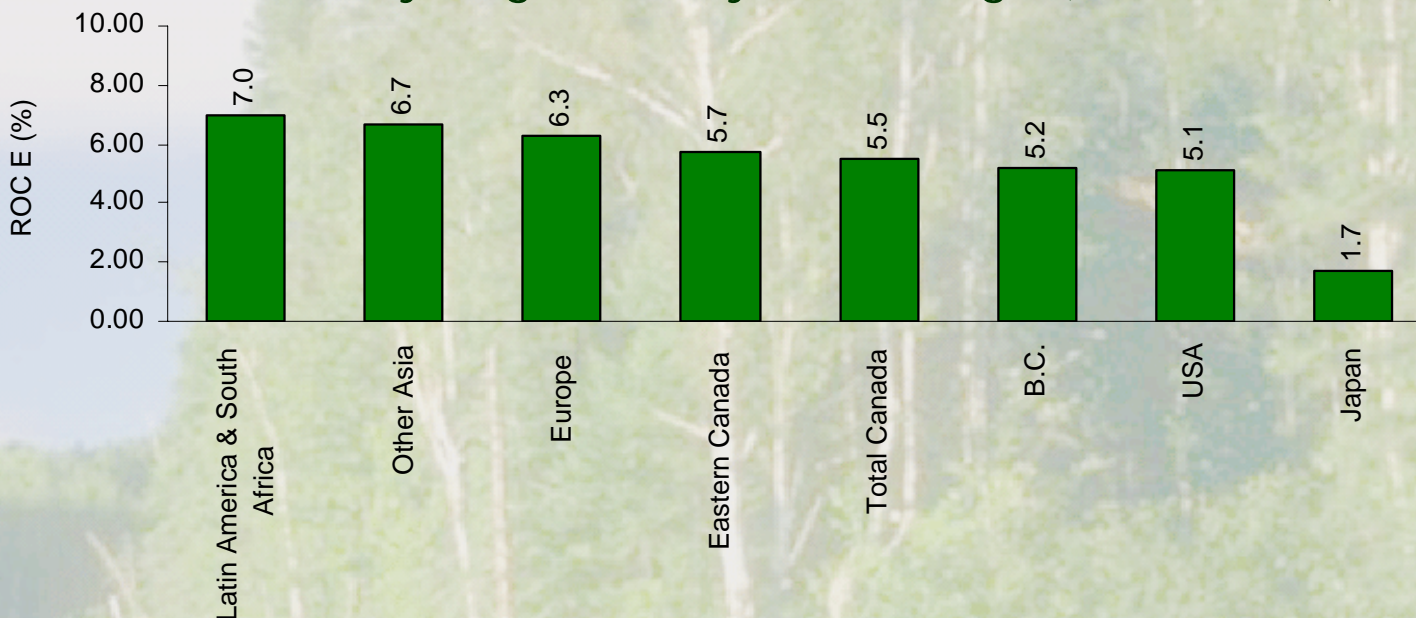
'Industry Week' magazine survey of manufacturers. Where do you rank your company within your industry?

- 98% of respondents placed themselves in the top 50%.
- Most companies don't know their position in their industry.

What are the facts about the B.C. forest industry?

Financial Performance

ROCE By Region: Six-year Average (1998-2003)

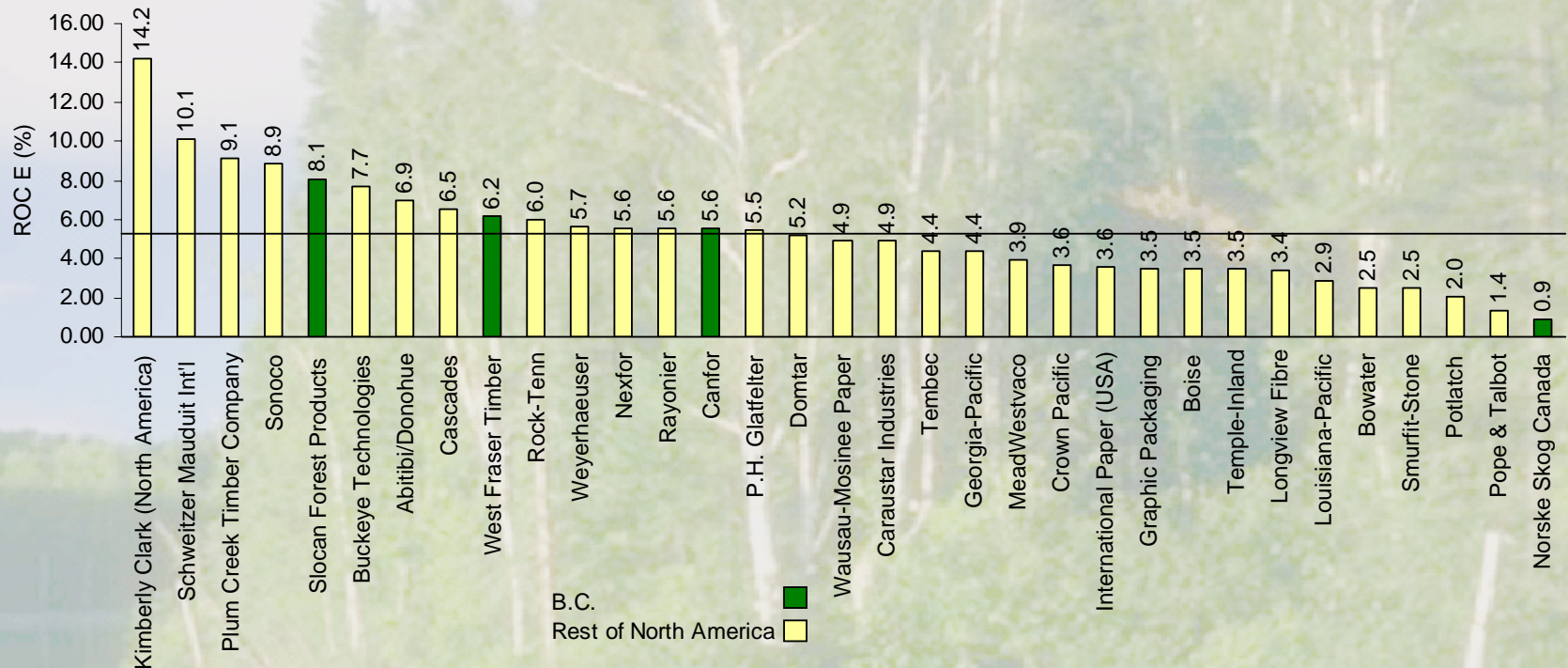


Source: PricewaterhouseCoopers, CIBC World Markets.

- The cost of capital is roughly 10%-13%, but even the most profitable region has only generated an average ROCE of 7%, with the very best companies at 12%-15%.
- The “average” ROCE in B.C. is roughly 5% - with a wide range.

Financial Performance

ROCE – North America 1998-2003

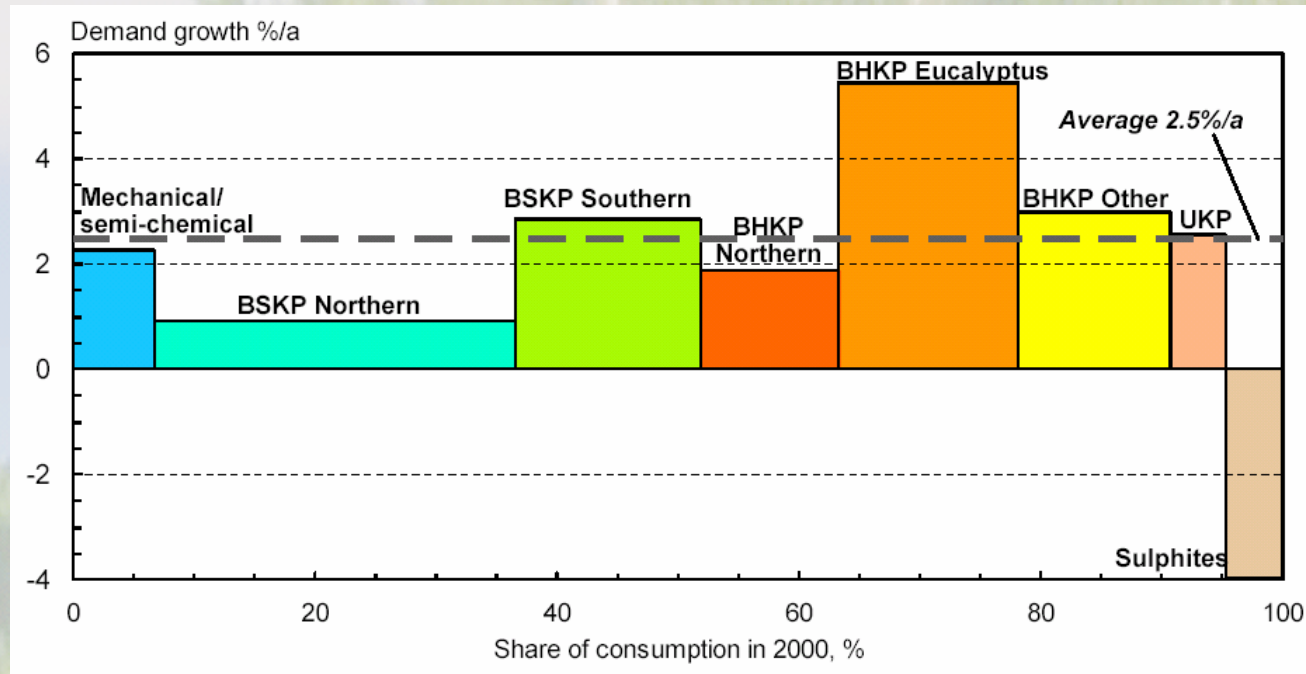


Source: PricewaterhouseCoopers, CIBC World Markets.

- Within B.C., the solid wood-focused companies have generally generated a much better ROCE - 6.6%.
- Companies with a high ROCE tend to get acquired (e.g., Slocan, Donohue, Willamette).
- Companies with a focus on pulp tend to generate low ROCE (e.g., Pope & Talbot, Tembec, Aracruz, APP) – they are very capital intensive, and facing falling real prices.

Financial Performance: Pulp

Demand for World Market Wood Pulp: 2000-2015

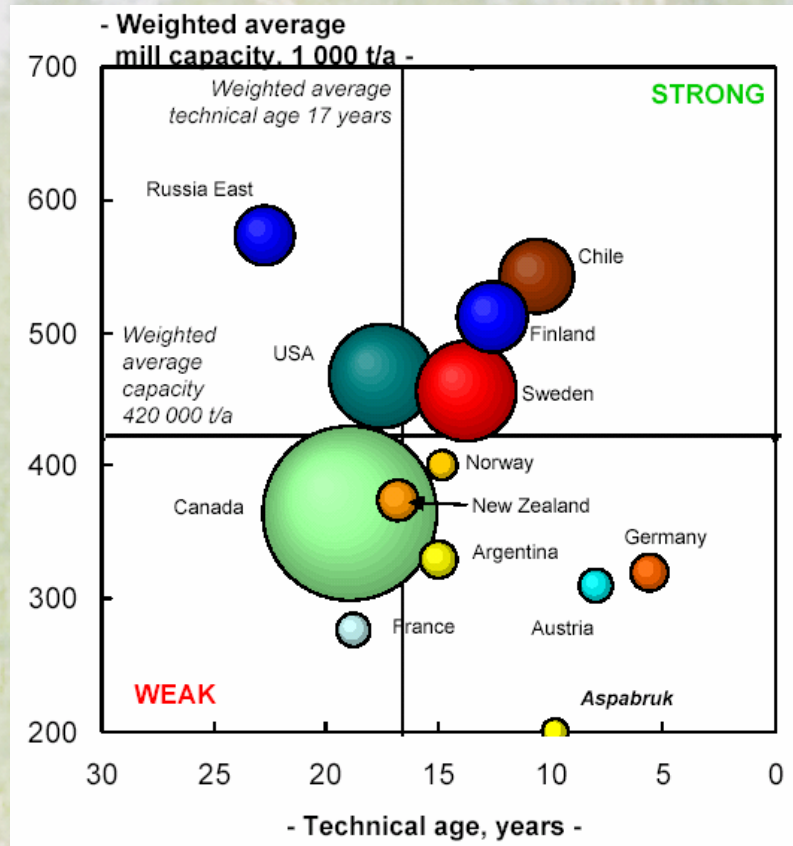


Source: Jaakko Poyry

- BSKP Northern is still the dominant grade of pulp, but it is also one of the slowest growing.
- We are seeing a shift in the pulp industry from the northern to the southern industry; and over time, the same shift is expected in the paper industry.
- Pulp profitability is also important to sawmills – it drives chip revenue.

Financial Performance: Pulp

Market BKSP – Global Producers By Country



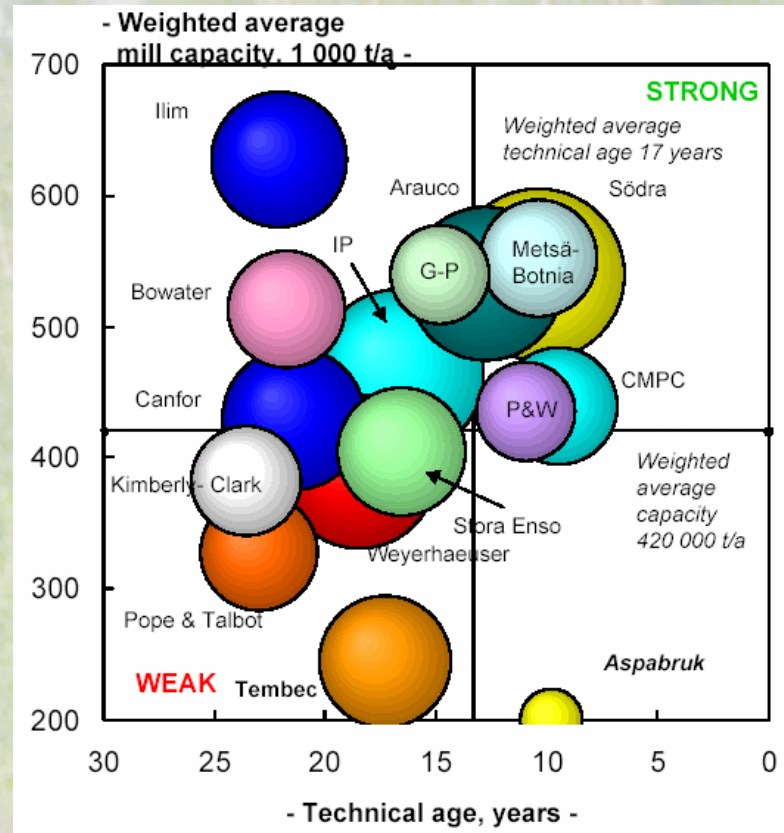
Source: Jaakko Poyry

Bubble size reflects the market BKSP capacity (including export captive pulp)

- While the Canadian pulp industry is large, it is also relatively old and the typical pulp mills are relatively small (and therefore higher cost).

Financial Performance: Pulp

Market BKSP – Global Producers

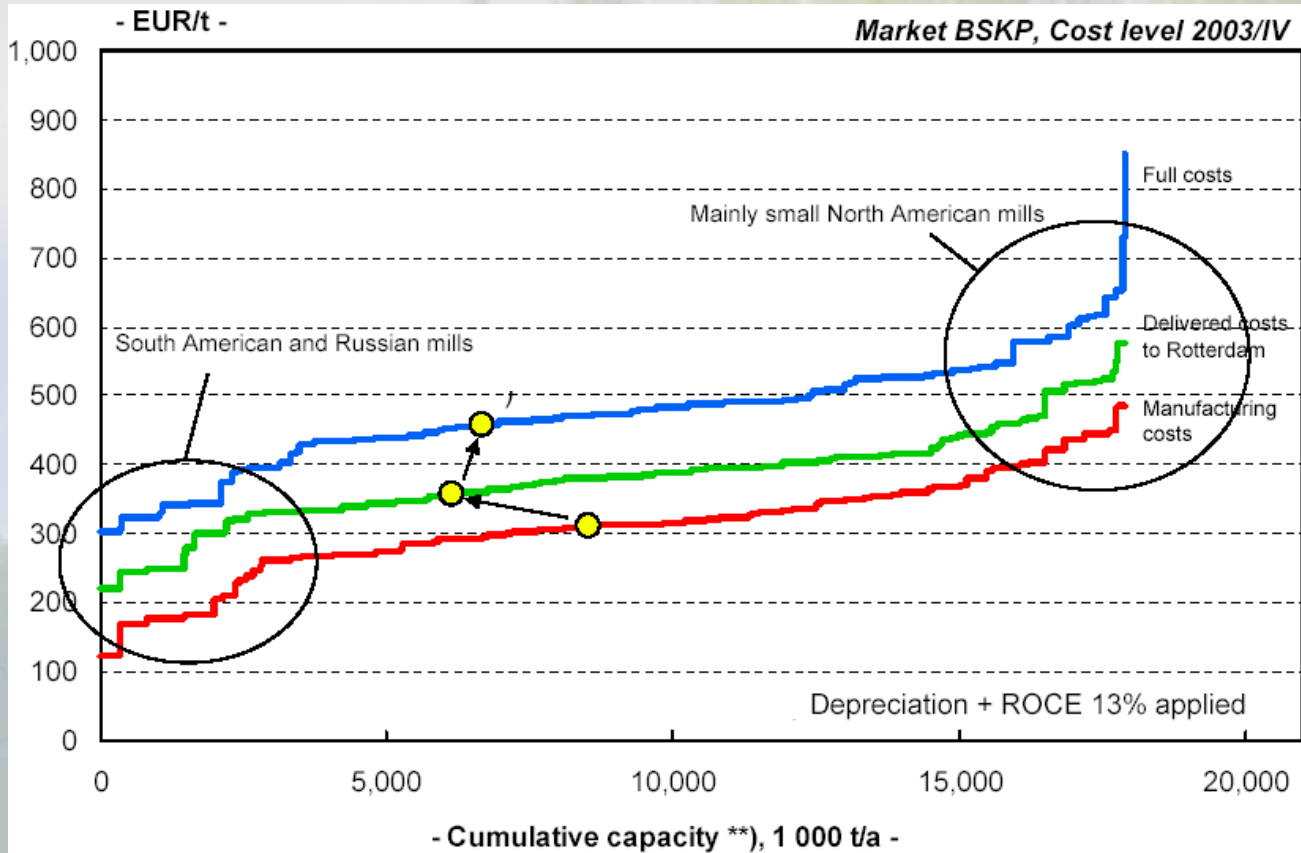


Source: Jaakko Poyry

Bubble size reflects the market BKSP capacity (including export captive pulp)

- At the company level, the assets of the major Canadian pulp producers are not very competitive – they are smaller and older.

Financial Performance: Pulp



Source: Jaakko Poyry

- The Canadian BSKP mills are among the highest cost in the world, and it has gotten worse since 2003 due to the stronger C\$. B.C. mills helped by the low fiber prices.

Changes in the Environment

We focus on 5 changes in the global environment:

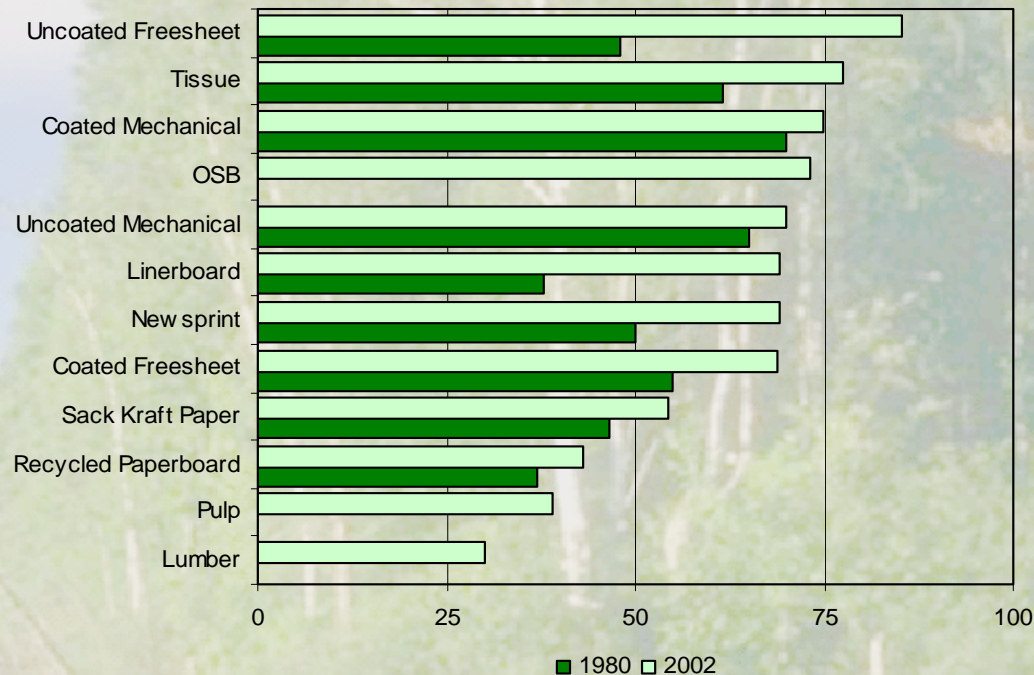
1. Increasing industry consolidation.
2. Secular decline in commodity prices.
3. Increasing global wood supply.
4. Decreasing supply of low-cost energy.
5. Emergence of China – customer or competitor?

No discussion of lumber dispute with the U.S.

Industry Consolidation

Consolidation is ongoing

Market Share Of Top Five Producers In North America



Source: Paperloop, Pulp & Paper Factbook, CIBC World Markets.

- The greatest changes are in UFS, linerboard and newsprint; pulp and lumber are the least consolidated.
- It's no panacea, but in most segments the top five producers have more than 70% of the capacity.

Industry Consolidation

Economics (not egos) is driving consolidation:

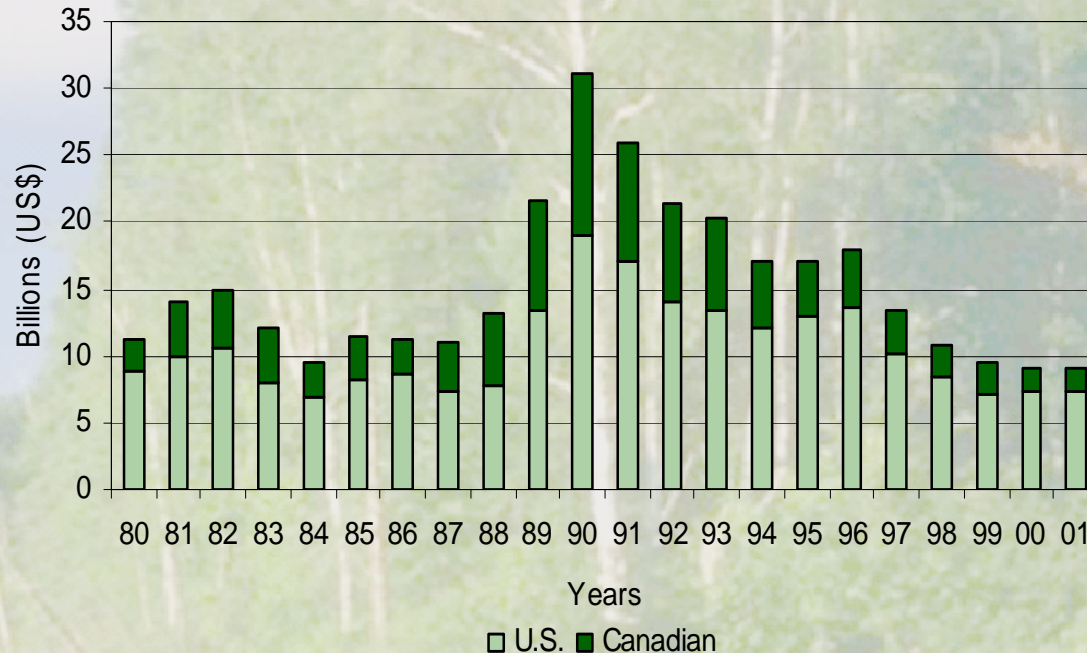
- Lower cost of capital.
- Capital avoidance – cheaper to buy than build.
- Lowers operating costs – synergies, best practices over larger asset base (roughly 9% savings in target's CGS).
- Facilitates rationalization – easier to remove redundant assets.
- Economies of scale in marketing (?), and counter-weight to large customers.

.....but there can also be

- Diseconomies of scale – “X inefficiency.”
- Less diversification in strategies – more risk for public?

Industry Consolidation

North American Pulp, Paper And Paperboard Capital Spending (US\$ blns.)

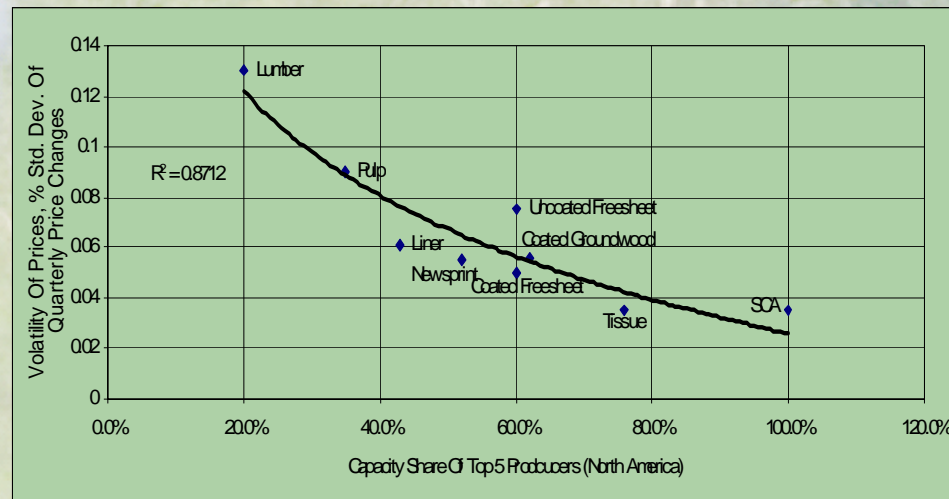


Source: Paperloop, CIBC World Markets.

- Capital expenditures almost 70% lower than in the early 1990s – North American firms growing through acquisitions instead of greenfield capacity expansion.
- Industry-wide capex < 80% of depreciation & amortization, which has improved free cash flow (at least in the short term).
- Is mill infrastructure (and long-term viability) threatened?

Industry Consolidation

Industry Concentration In North America Versus Commodity Price Volatility, By Product



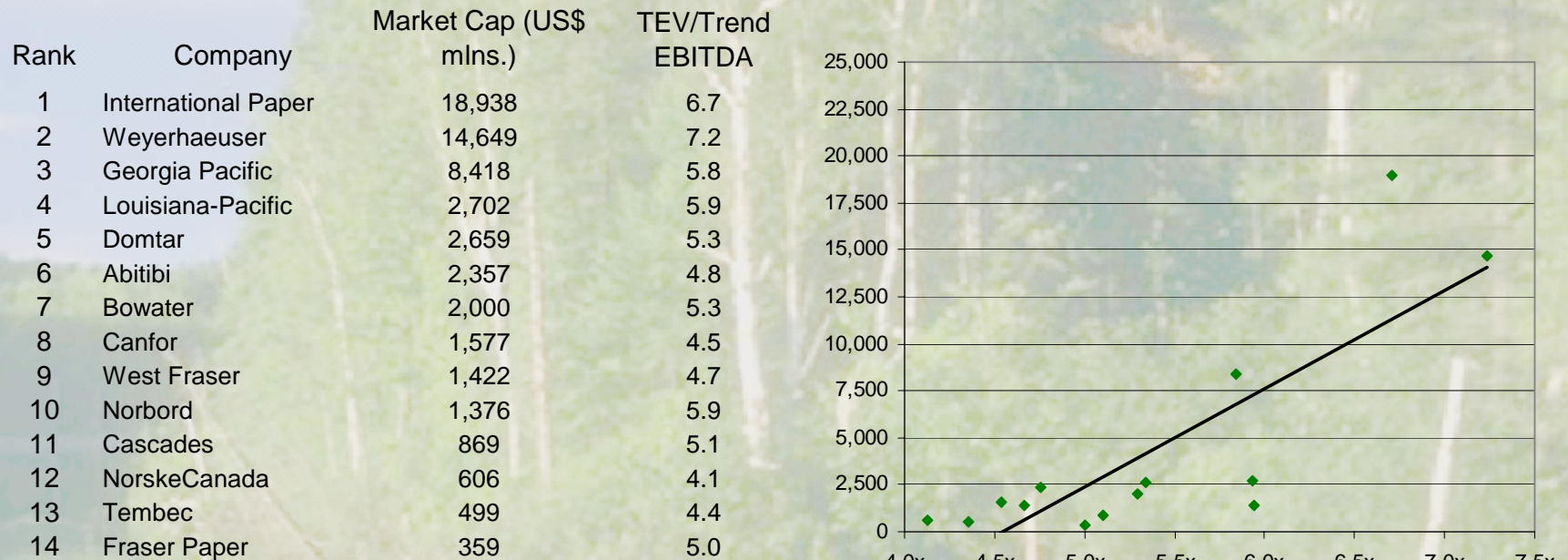
Source: Paperloop, CIBC World Markets.

- The data suggest greater consolidation results in greater price stability.
- Higher average prices unlikely due to “flatter cost curves” and productivity improvements.

Industry Consolidation

Market Capitalization & Trading Multiple

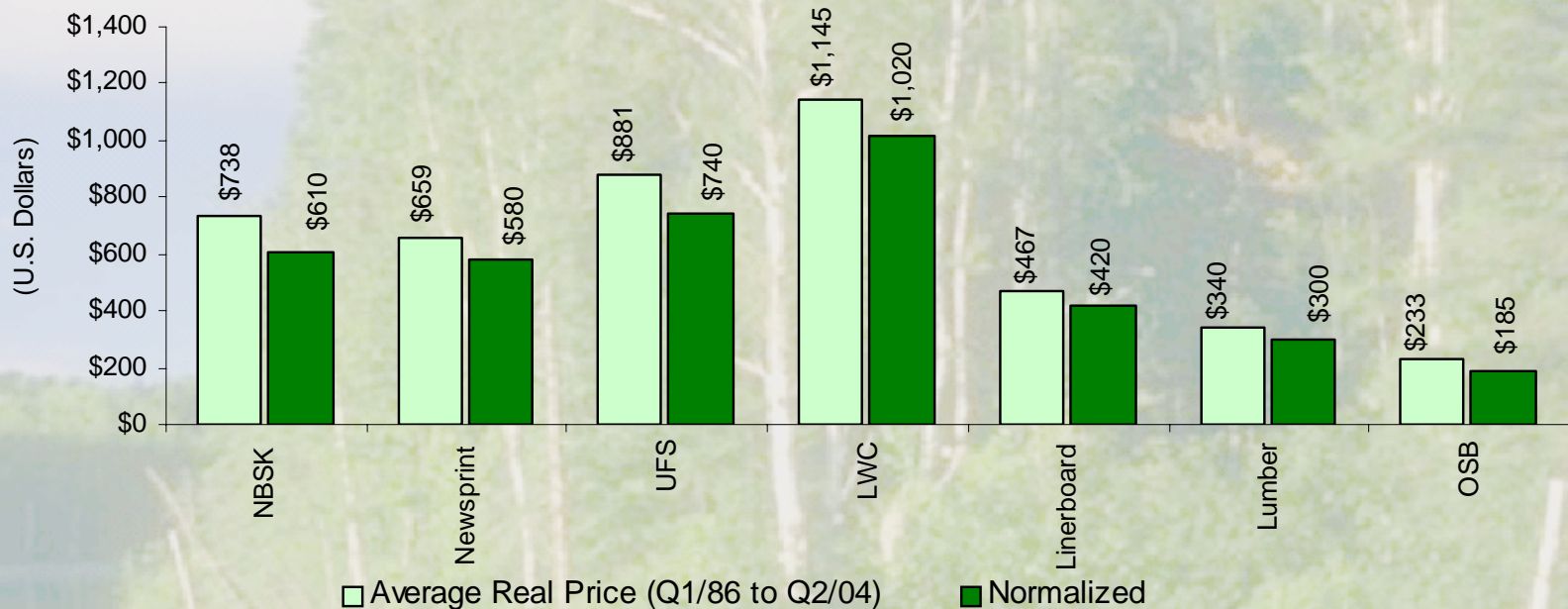
- The best is to be big, and in the U.S. – it results in a lower cost of equity



Source: Bloomberg, CIBC World Markets.

Commodity Price Trends

Average Price Expectations Going Forward? Normalized And Historical Prices (Real 2004 Dollars)



Source: Pulp & Paper Week, Bloomberg, CIBC World Markets.

- Normalized prices are expected to be lower in the future than in the past.

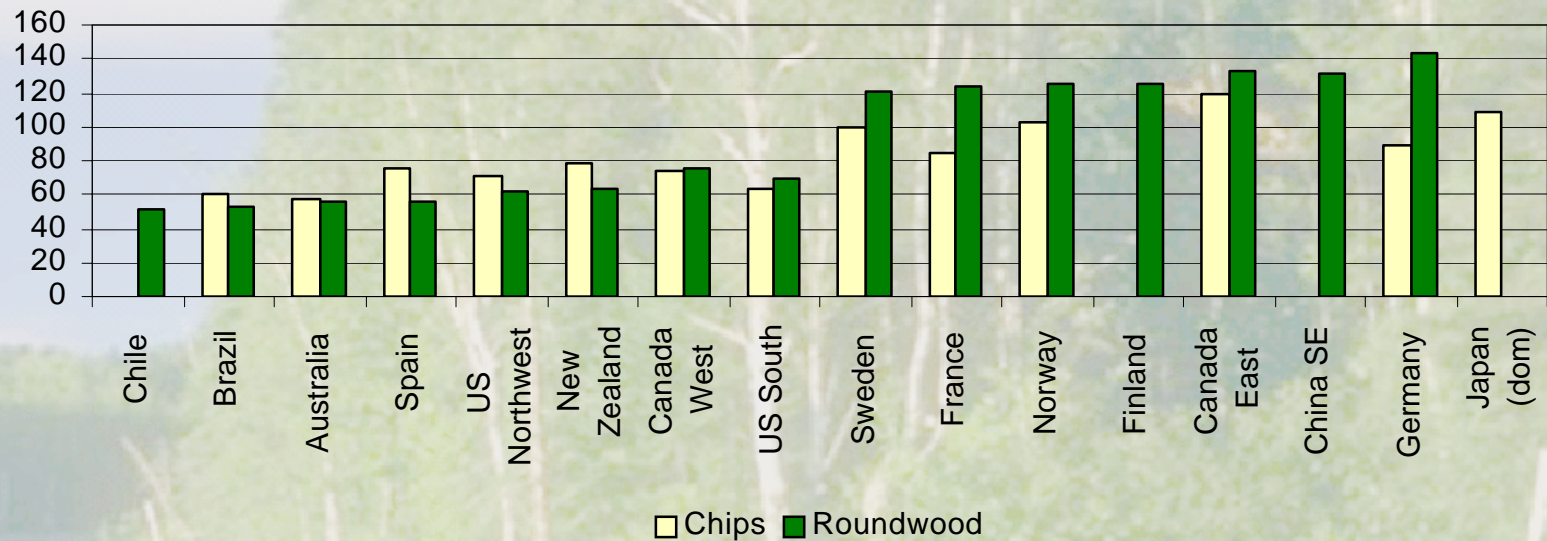
Commodity Price Trends

Secular decline in real prices due to:

- Lower production costs resulting from technological improvements.
- Lower marginal cost for the industry due to the closure of the highest-cost plants – flatter cost curves.
- Increasing supply from emerging, lower-cost producing regions.
- Falling “use factors” due to greater availability and acceptability of substitute grades and products.
- Few barriers to entry, but meaningful barriers to exit.

Wood Fibre

Average Delivered Softwood Fibre Prices For Q3/04 (US\$/ODMT)

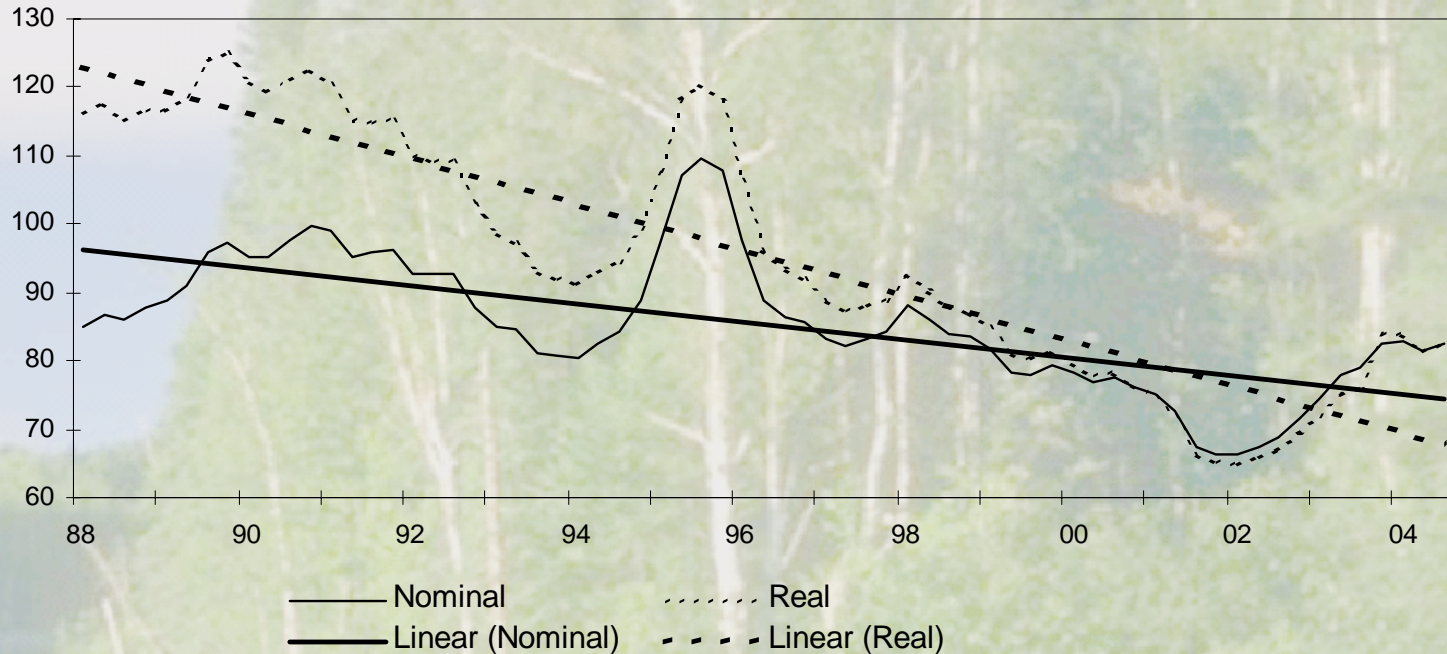


Source: Wood Resources International.

- Wood fibre prices are currently much lower in the southern than northern hemisphere.
- B.C much better off than Eastern Canada (and triggering unusual chip flows).

Wood Fiber

Global Average Conifer Chips (Softwood)

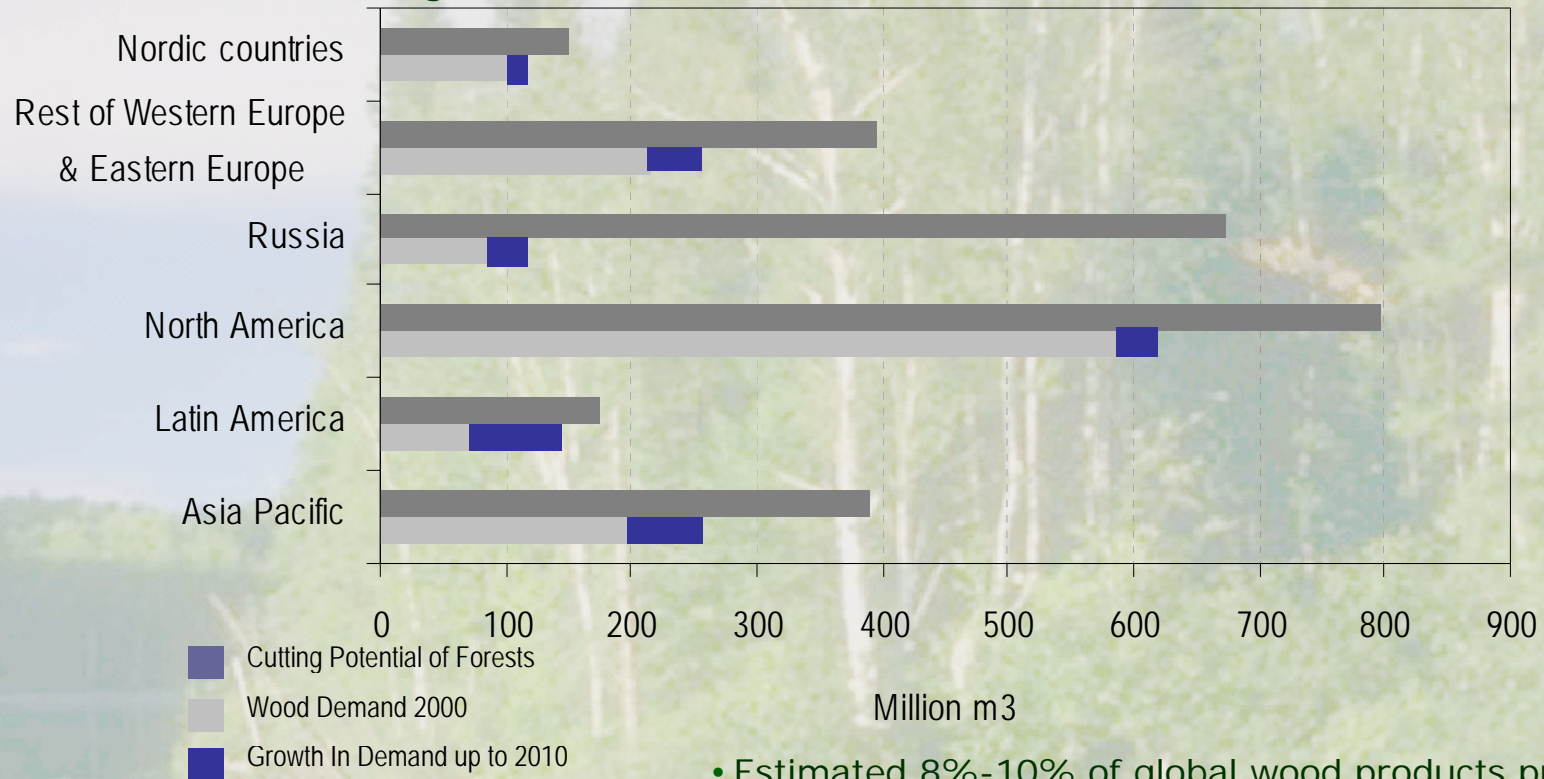


Source: Wood Resources, CIBC World Markets.

- Real wood prices are on a secular decline. This suggests that virgin wood fiber has become less economically scarce over time. Will it continue?
- Chip revenue accounts for roughly 1/3 of normalized revenue for B.C. sawmills.

Wood Fiber

Regional Growth In Fibre Vs. Annual Demand



Note: Tropical Natural Forest excluded.

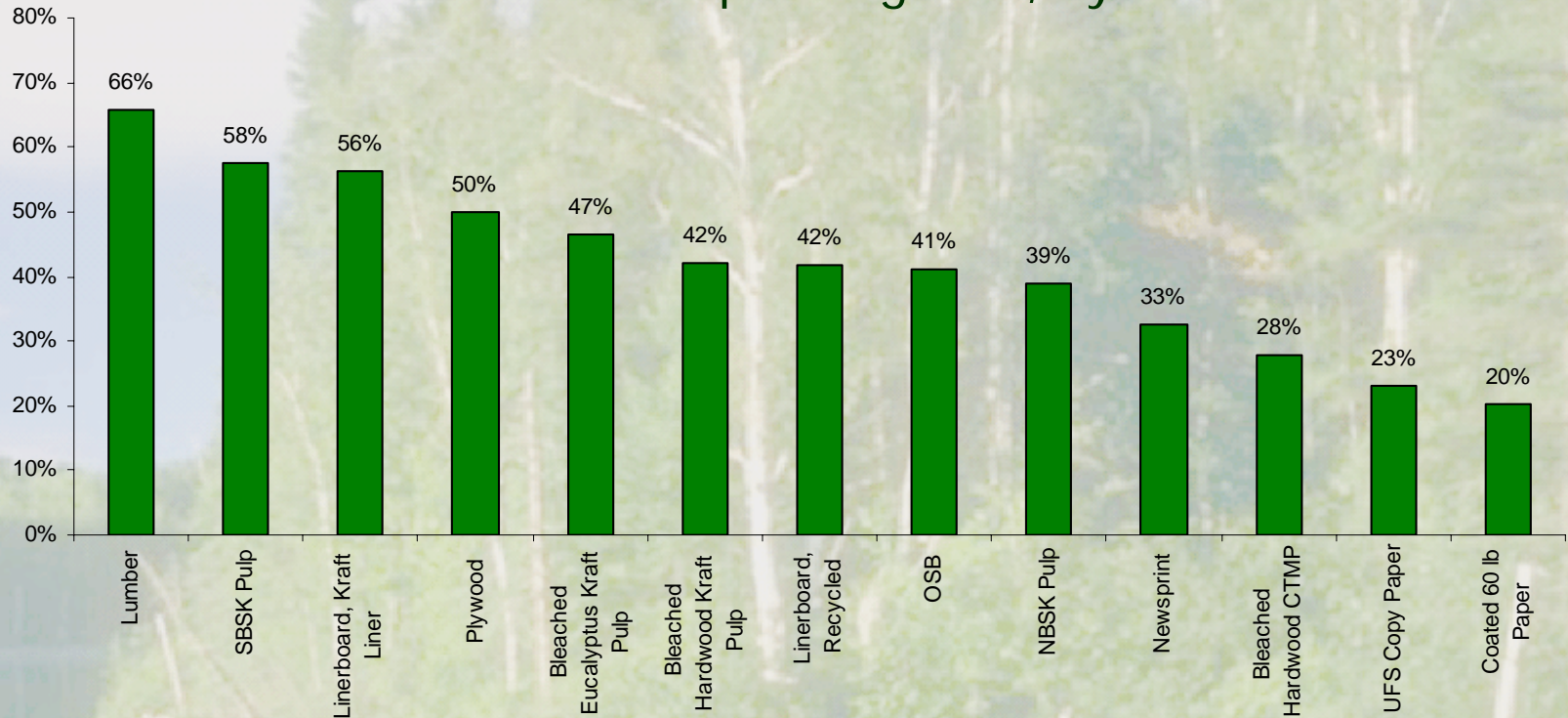
Source: Jaakko Poyry Consulting.

- Estimated 8%-10% of global wood products production involves illegal wood. 15%-20% in Russia.
- Radiata harvests to increase from 75 million m³ to 120 million m³ from 1996 to 2008 – need \$10+ billion for processing capital.

- China and Eastern Canada are short of wood, but every other major region is growing more than it is using – wood prices are expected to continue to decline.

Wood Fibre

Fibre As % Of Mill Gate Operating Cost, By Product

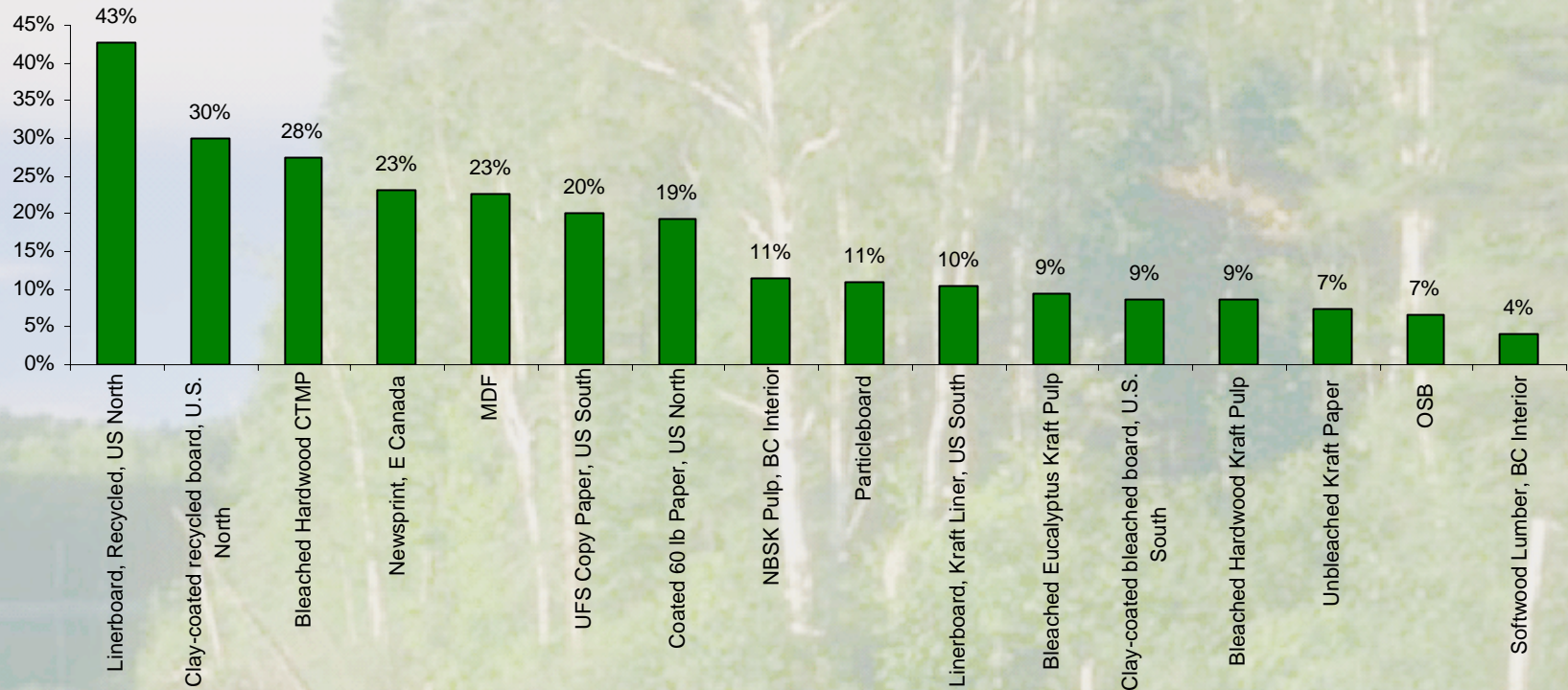


Source: RISI, CIBC World Markets.

- To the extent real fiber prices do fall:
 - Costs will fall the most for producers of lumber, plywood & linerboard.
 - Costs will fall the least for producers of freesheet paper & newsprint.
 - The impact on the costs of pulp producers will vary depending on the region and type of pulping process.

Energy

Energy As % Of Mill Gate Operating Cost, By Product (2004)

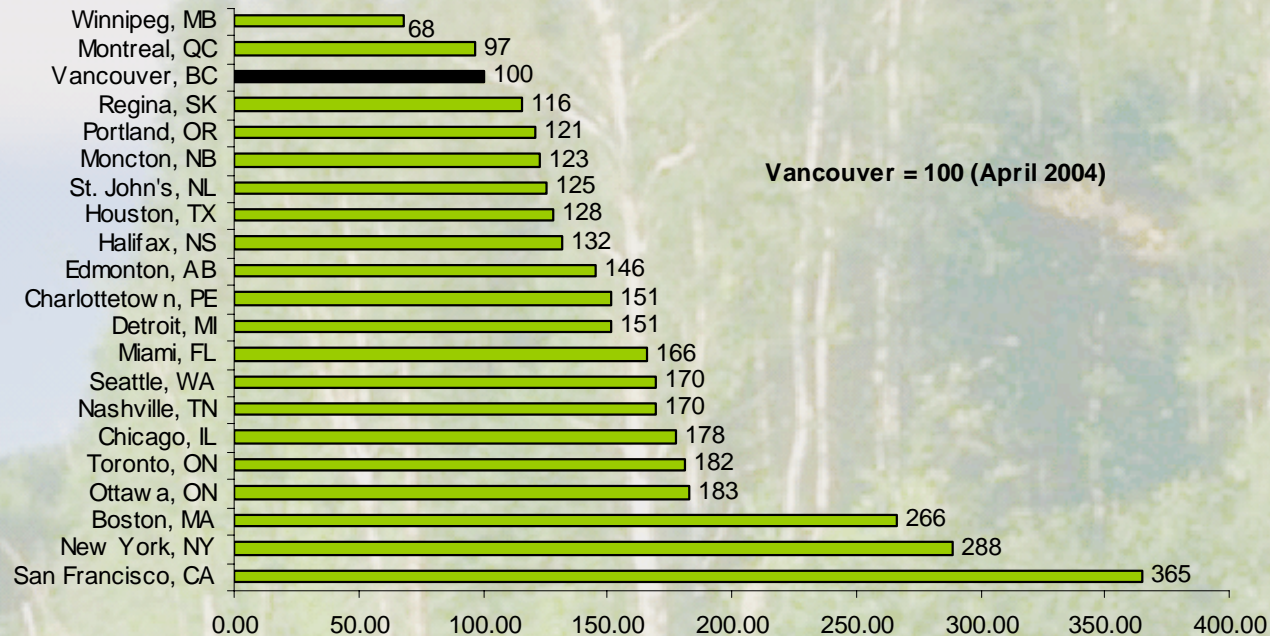


Source: RISI, CIBC World Markets.

- We expect a secular increase in real energy prices.
- Solidwood producers among the least exposed to higher energy prices.
- Most kraft pulp mills can technically be net suppliers of energy.
- Paper mills (especially recycled-based) are most exposed to energy.

Energy

Comparative Index Of Electricity Prices For Large Power Customers



Source: Hydro Quebec, CIBC World Markets.

- Electricity prices are expected to increase in B.C., but they are still relatively low.
- Cheap electricity is especially beneficial for newsprint/groundwood paper.
- Compared to eastern Canada, it is also easier to pursue industrial-imbedded co-generation projects in B.C.

Emergence Of China

What distinguishes the Chinese paper & forest products sector?

- Large by international standards:
 - 2nd largest in global production and consumption.
 - Harvests 224 million m³/year – 3x B.C. (but industrial harvest only about 40 million m³/year).
 - Produces 43 million tpy of paper & p.board - > 2x Canada.
- Really two industries – old and new:
 - New industry - among the best in the world.
 - Old industry – among the worst (high-cost/low-quality/polluting), and very fragmented.

Emergence Of China

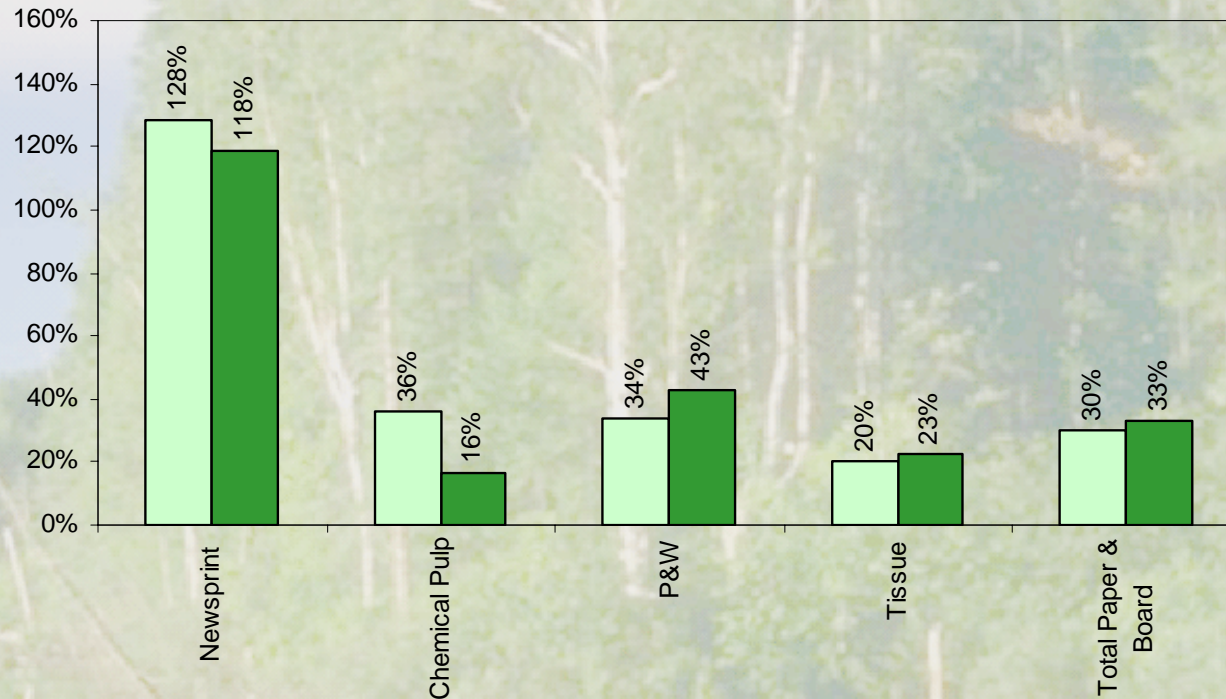
What distinguishes the Chinese paper & forest products sector?

Short of wood fibre (but changing?):

- Only 40% self-sufficient in industrial roundwood.
 - Report over 50 million ha of forestry plantations, but < 2% for larger industrial users (850,000 ha).
 - Targeting 13 million ha increase between 2001-2015, with 45% for pulpwood. Mainly in N.E. and Inner Mongolia.
 - Be skeptical of target.
-
- Paper/packaging industry is a heavy user of:
 - Recovered paper - 45% of furnish.
 - Non-wood fibre - 35% of furnish.
 - Growing very rapidly – driving the changes in global paper, packaging and panels capacity.

Emergence of China

Chinese As A % Of Growth In Global Consumption & Production, By Grade (1998-2002)



Source: Paperloop, CIBC World Markets Corp. □ Consumption ■ Production

- China has been a driving force in the global pulp & paper industry since the mid-1990s.

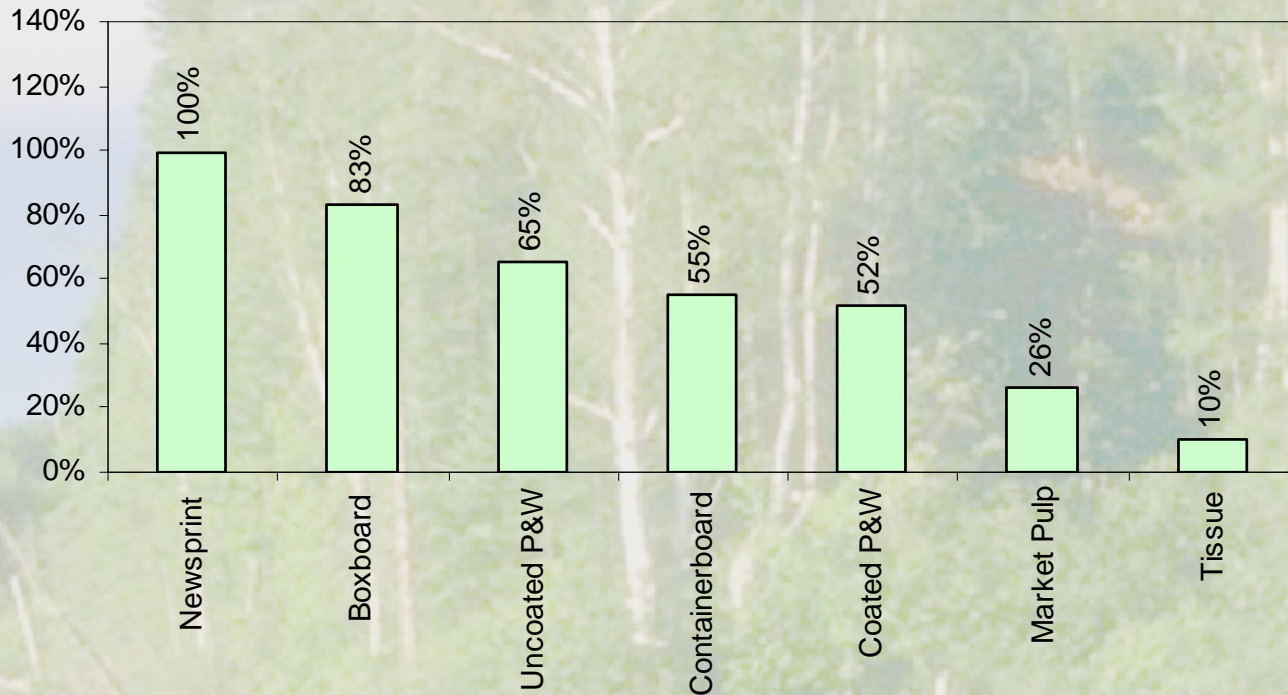
Emergence of China

- Is China a customer or a competitor for Canada?
- It depends:
 - Paper – neither
 - Market pulp – a customer
 - Solidwood – a competitor

Why do we say this?

Emergence Of China

Chinese As A % Of Global Confirmed Capacity Changes, By Grade (2004-2007)



Source: NLK, CIBC World Markets Corp.

- Going forward, China will become even more dominant in driving changes in global capacity – we expect China to supply its own needs of paper & paperboard.
- Produced roughly 40 million tpy of paper & paperboard in 2003 – target of 50 million tpy-60 million tpy by 2010 (i.e., 20%-50% increase).

Emergence of China

Pulp

- Imports of wood pulp up from ½ million tpy in 1995 to 6 million in 2003. Rise from 26% to 72% of consumption.
- Russia is biggest single supplier – 20% of imports.
- China wants to double virgin wood pulp capacity to 4.3 million tpy by 2010, but even then, annual imports exported to grow 5%-6% .
- Almost 9 million tpy of market pulp capacity could be added globally between 2004-2008.
- No global shortages, unless big declines in non-wood pulp capacity.

Emergence of China

Non-Wood Pulp

- China produces 14 million tpy of pulp, but 84% is non-wood based (mostly wheat straw).
- Mostly integrated to printing/writing & paperboard mills.
- Poor quality and polluting – very water intensive.
- Rule of thumb: build 2 tons of new paper capacity, close 1 ton of old non-wood capacity.
- If rule true, global demand for market pulp up 1.6 million tonnes between 2004-2008 – add 1.1% to growth in annual global demand.
- Potential for significantly greater closures of non-wood pulp/paper capacity due to water constraints.

Emergence of China

Solidwood Products:

- Currently excess capacity of plywood, flooring & wooden furniture.
- Plywood output up 85% in 2003, and exports up 14%.
- Largest MDF producer in the world – production rose from 5 million m³ to 15 million m³ over 1996-2003.
- Wood furniture exports to U.S. up from \$175 million in 1992 to \$4.3 billion in 2004 – share of U.S. imports up from 5% to 40% (20% of total consumption).

Emergence of China

Potential market in long term for Canadian solidwood products, but limited for at least 10 years:

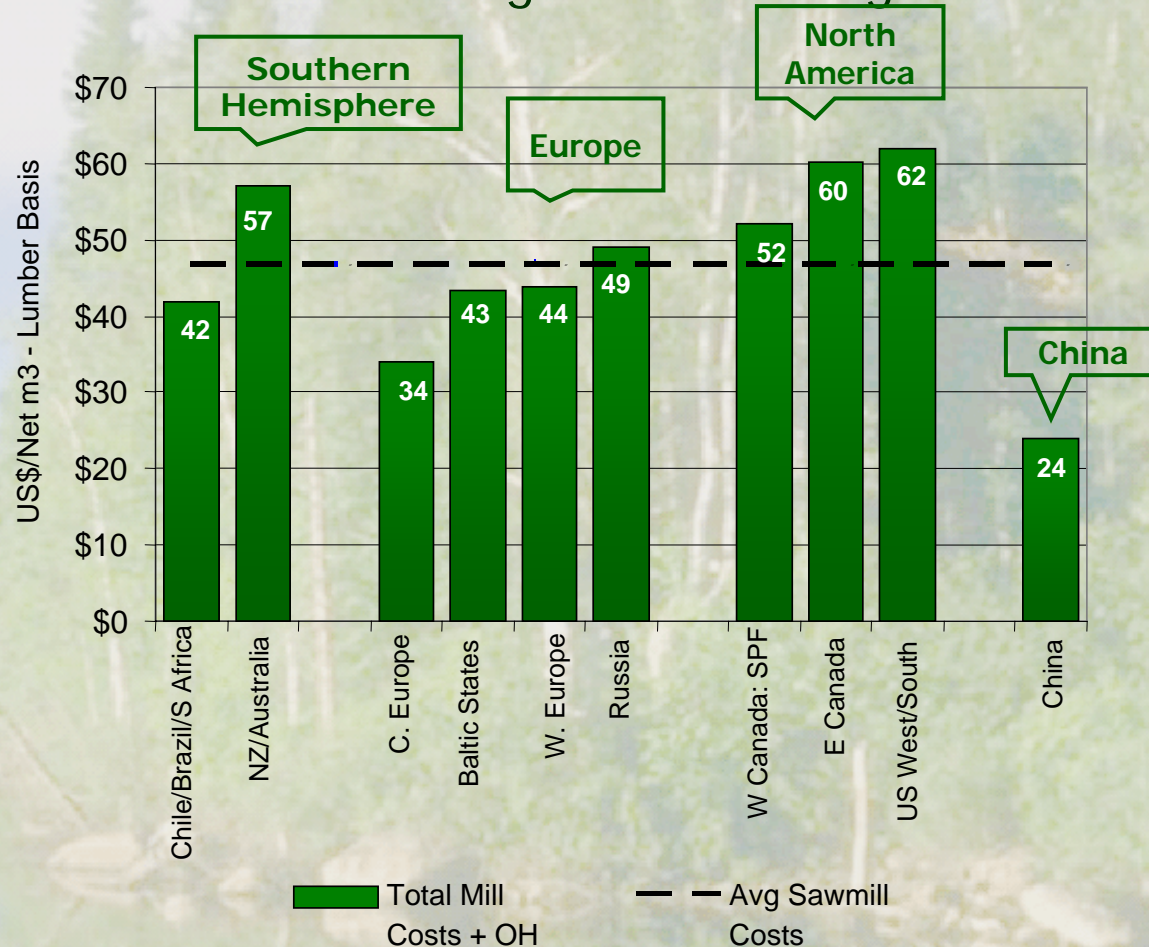
- Significant cultural barriers – used to brick, concrete and steel.
- Consumers & developers have concerns about wood: price, durability, fire, seismic strength, etc.
- Government is pushing lightweight concrete blocks and steel as substitute for bricks - excess capacity in both.
- Very limited infrastructure to introduce potential homebuyers to wood frame construction.

Emergence of China

- Russia and S.E. Asia will play the biggest role in filling the Chinese “wood gap” (while the U.S. will fill the “recovered paper gap”).
- Imports of Russian logs up from 1 million m³ in mid-1990s to 14 million m³ in 2003. Estimated 40% from illegal harvests.
- New Russian Forest Code expected to become law in Q1/2005 – catalyst for investment.

Emergence Of China

Global Sawmilling Costs - Average 2002



Source: RE Taylor & Associates Ltd. PwC.

- Chinese sawmills fed with Russian logs are a formidable competitor – expect especially fierce competition in China (and Japan).

10 Conclusions

1. B.C. is a large producer of forest products, but its companies are small by global standards.
2. The B.C. (and global) industry has not earned its 10%-13% cost of capital. Difficult to attract capital when the average ROCE has been around 5%.
3. Pulp has generally generated the lowest ROCE, and its long-term viability in B.C. also threatens the sawmilling sector.
4. Partly in response to the low returns, we expect the global industry to continue to consolidate – more stable prices?
5. We expect the secular downward trend in real commodity prices to continue.

10 Conclusions

6. Although there are some regional shortages, we do not see any global shortage of wood fiber – expect lots of competition, both in the commodity and capital markets.
7. We expect increases in the relative prices of energy, and B.C. enjoys a competitive advantage. This is most beneficial to the newsprint/groundwood paper sector.
8. The biggest “shocks” to the global forest products industry are emanating from China and Russia– the change is explosive. Will China be a customer or a competitor?
 - Customer for pulp
 - Competitor for solidwood; and
 - Neither for paper.

10 Conclusions

9. More Canadian and U.S. solidwood production will need to stay in North America, and an increased emphasis on producing “housing components” is logical given the lumber dispute.
10. If there is one “external change” that would have the biggest positive impact on the B.C. forest products industry, it would arguably be the closure of the Chinese non-wood pulp & paper sector.

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Abitibi-Consolidated Inc. (2f, 2g, 6a) (A-TSX, C\$6.86, Sector Outperformer)
Bowater Inc. (2a, 2d, 4a, 4b, 9) (BOW-NYSE, US\$37.52, Sector Performer)
Canfor Corporation (2g) (CFP-TSX, C\$15.35, Sector Performer)
Cascades Inc. (2g, 7) (CAS-TSX, C\$12.90, Sector Performer)
Domtar Inc. (2g, 7) (DTC-TSX, C\$12.44, Sector Performer)
Fraser Papers (2g) (FPS-TSX, C\$14.61, Sector Performer)
Georgia-Pacific Corp. (4a, 4b) (GP-NYSE, US\$33.21, Sector Performer)
International Forest Products Limited (12, 2g) (IFP.SV.A-TSX, C\$7.06, Sector Underperformer)
International Paper Co. (3a, 3b) (IP-NYSE, US\$39.15, Sector Performer)
Louisiana-Pacific Corp. (2a, 2d) (LPX-NYSE, US\$24.98, Sector Performer)
Norbord Inc (2a, 2c, 2e, 2g) (NBD-TSX, C\$11.78, Sector Underperformer)
NorskeCanada Limited (2g) (NS-TSX, C\$3.44, Sector Outperformer)
Tembec Inc. (2a, 2d, 2f, 2g) (TBC-TSX, C\$6.73, Sector Outperformer)
West Fraser Timber Co. Ltd. (2a, 2c, 2e, 2g) (WFT-TSX, C\$47.53, Sector Outperformer)
Weyerhaeuser Co. (2a, 2c, 2e, 2g) (WY-NYSE, US\$62.66, Sector Underperformer)

Companies Mentioned

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Aracruz Celulose (ARA-NYSE, US\$33.54, Not Rated)
Asia Pulp & Paper (APUUY-OTC, US\$0.07, Not Rated)
Buckeye Technologies (BKI-NYSE, US\$11.90, Not Rated)
Caraustar Industries (CSAR-NASDAQ, US\$13.34, Not Rated)
Crown Pacific Partners (CRPP-OTC, US\$0.02, Not Rated)
Empresas CMPC SA (CMPC-CE, [CLP]12350.00, Not Rated)
Glatfelter (GLT-NYSE, US\$13.08, Not Rated)
Graphic Packaging International Corp (GPK-NYSE, US\$6.80, Not Rated)
Kimberly-Clark (KMB-NYSE, US\$64.65, Not Rated)
Longview Fibre Co. (LFB-NYSE, US\$15.31, Not Rated)
MeadWestvaco Corp. (MWV-NYSE, US\$29.22, Not Rated)
Plum Creek Timber Co. Ltd. (PCL-NYSE, US\$36.21, Not Rated)
Pope & Talbot Inc. (POP-NYSE, US\$14.93, Not Rated)
Potlatch Corp. (PCH-NYSE, US\$45.51, Not Rated)
Rayonier Inc. (RYN-NYSE, US\$45.50, Not Rated)
Rock-Tenn Co. (RKT-NYSE, US\$14.26, Not Rated)
Schweitzer Mauduit Int'l (SWM-NYSE, US\$31.47, Not Rated)
Smurfit Stone Container Corp. (SSCC-NASDAQ, US\$16.10, Not Rated)
Sonoco Products Co. (SON-NYSE, US\$26.61, Not Rated)
Stora Enso Oyj (SEO-NYSE, US\$14.58, Not Rated)
Temple Inland Inc. (TIN-NYSE, US\$65.06, Not Rated)
Wausau-Mosinee Paper (WPP-NYSE, US\$15.37, Not Rated)

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CIBCWM Price Chart

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Abbreviation	Rating	Description
Company Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBCWM is restricted*** from rating the stock.
Company Ratings Prior To August 26th 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
R	Restricted	Restricted
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and S&P/TSX Composite in Canada.

"-S" indicates Speculative. An investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

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Ratings Distribution

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 24 Jan 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	290	33.2%	Sector Outperformer (Buy)	187	64.5%
Sector Performer (Hold/Neutral)	406	46.5%	Sector Performer (Hold/Neutral)	233	57.4%
Sector Underperformer (Sell)	177	20.3%	Sector Underperformer (Sell)	87	49.2%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Paper & Forest Products Coverage Universe

(as of 24 Jan 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	26.7%	Sector Outperformer (Buy)	4	100.0%
Sector Performer (Hold/Neutral)	8	53.3%	Sector Performer (Hold/Neutral)	6	75.0%
Sector Underperformer (Sell)	3	20.0%	Sector Underperformer (Sell)	3	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Paper & Forest Products Sector includes the following tickers: A, BOW, CAS, CFP, DTC, FPS, GP, IFP.SV.A, IP, LPX, NBD, NS, TBC, WFT, WY.

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