



THE COAST PULP LOG MARKET - WHERE IS IT HEADED?

If you've been in this industry 20 years, you're old enough to remember pulp logs selling at both \$100 per metre and \$30 per metre at different times. Today we have an established pulp log market price on the south coast of about \$48 per metre.

First some nomenclature that will help

The factors affecting supply and demand for coast pulp logs create dynamics favouring sellers.

us make sure we are comparing apples to apples. A pulp log on the south coast is defined by government scaling practices as grade X or Y and the key physical attributes that scale logs to these grades is the (low) amount of firm wood usable for lumber.

In the past, however, there were times when sawmills would saw pulp logs despite low lumber recovery. Today this is seldom the case and most, if not all, pulp logs end up in a chip plant or pulp mill wood room and become a part of the furnish for NBSK (northern bleached softwood kraft) pulp or paper. On the other side of the coin are pulp/paper mills that routinely chip logs scaled as lower end sawlogs as well as pulp logs. As a result, logs used for pulp may not technically be a pulp log.

At \$48 per metre, the coastal pulp log price is trending up after starting 2014 in the \$40 to \$42 per metre range. There are only a handful of buyers: Neucel Port Alice, Howe Sound Pulp & Paper, Harmac, Catalyst and a plethora of recent pulp log buyers in China. Pulp log sellers are many: WFP, Interfor, large private land holders, BCTS loggers and a myriad of medium and small tenure and private land holders. Given the limited number of buyers, is the current pulp log market a 'true' market reacting to the forces of supply and demand? From my perspective, most defi-

nitely. If supply changes, demand changes or prices move, the coast pulp log market reacts. 2014 has shown evidence of that with steady domestic demand from the pulp mills and new demand from overseas against a reasonably steady supply. As a result, prices rose and, over the year, more

pulp was delivered from the woods at the higher prices.

So how do things look going forward? Let's look at the elements setting the pulp log market stage.

NBSK pulp prices are steady and forecast to stay at or above the \$1,000 US per ADMT (air dried metric tonne) level through 2015 and most grades of paper, while weak, are not expected to change in price significantly in the year ahead. At the same time, lumber pricing forecasts represented by the Random Lengths composite forecast shows strength through 2015 and 2016.

The other significant factor is currency exchange. All key forest product commodities transact in US dollars and while the current \$0.88 exchange rate may be on the low side of the trend ahead, all sectors of the BC coast forest industry are benefiting from the current exchange by a factor of 10+ per cent.

There is one other undeniable factor that will have a major effect on coast pulp log demand in 2015 and beyond and that is the continued shutdown of mills in the Interior as AAC's drop in the face of the beetle. In our most recent forecasts, we predict an additional five or six sawmills may shut down in the BC Interior in the next three to four years. Mills that close

in the Cariboo and Kamloops/Okanagan regions in many cases sell their chips to coastal consumers or they are exported. In addition, some mills in the Interior that ship to the coast are predicted to have their chips repatriated by Interior pulp mills as the domestic supply falls and that volume of residual chips will also be lost to the coast. In total over the next few years, we forecast up to 500,000 m³ of Interior chips will stop coming to coastal consumers.

When we add it all up, the factors affecting supply and demand for coast pulp logs, the dynamics clearly favour sellers:

- Reasonably steady supply of coast residual chips from coast sawmills,
- Near capacity operating rates for coast kraft pulp mills and paper mills,
- Continued and potentially growing demand for pulp logs from overseas buyers,
- The continued trend to more second-growth coastal logging leading to a lower yield of pulp logs, and
- Reduced volumes of SPF (spruce-pine-fir) chips available to coast pulp and paper mills who will replace the lost supply with pulp logs.

As a result, market forces suggest pressure for pulp log prices to rise in 2015. How much? It's hard not to predict another \$8 per metre increase which we saw in 2014; maybe more. \$60 per metre pulp log price by the end of 2015—a distinct possibility.▲

Murray Hall is an independent fibre supply consultant with over 35 years experience in western North America fibre supply. His clients come from all sectors of the forest products and investment industries and he covers the regions of the BC Interior, BC Coast, Alberta and the US Pacific NorthWest.

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