Western Canada Export Industry Brief

WOOD PRODUCTS

OVERVIEW

2015 was a challenging year for the Montana and U.S. wood products industry in Canada due to expiration of the Softwood Lumber Agreement and shift in global demand. Nonetheless, Montana wood products still accounted for $20.95M in merchandise imports into the three western Canadian provinces, ranking as the fifth most imported product classification. Looking ahead, the economics of exporting Montana wood products to Canada will continue to be a challenge considering the current strength of the U.S. dollar, a glut of Canadian-produced wood products due to a decline in demand from overseas markets like China, and issues of distance to market for price sensitive commodities.

OPPORTUNITIY

While near-term opportunities for Montana wood products remain challenging, some longer-term opportunities may exist. Second-tier items such as Montana's beetle-kill timber products have experienced recent growth as more buyers become aware of its qualities. For example, one Montana-based lumber company receives orders from Canadian buyers seeking pine beetle-kill products. Due in part to the aesthetics of beetle-kill ponderosa found in Montana, compared to the lodge-pole used in Canada, Canadian buyers have been willing to overlook distance and some related expenses for the sake of quality. In addition to beetle-kill products, another possible long-term opportunity includes independent trucks hauling inbound Canadian lumber that often return empty. This could be leveraged to the benefit of Montana producers seeking backhaul opportunities.

Top 5 Wood Product Imports Into Alberta, British Columbia, and Saskatchewan from Montana in 2015

Data provided by WISER, at http://www.wisertrade.org, from Statistics Canada, International Trade Division

			2013	2014	2015
RANK	HS CODE	PRODUCT	Imports ($US)	Imports ($US)	Imports ($US)
1	441114	Medium density fiber-board > 9 mm	$6.95M	$7.57M	$8.47M
2	440121	Wood in chips	$4.29M	$3.57M	$3.86M
3	441011	Particle board	$700K	$1.87M	$1.82M
4	441239	Plywood <= 6mm	$3.03M	$3.26M	$1.64M
5	442190	Wood articles	$341K	$652K	$856K

RECENT INDUSTRY TRENDS

- Medium density fiberboard, including both thicknesses of greater than 5 mm and 9 mm, accounted for $9.20M in imports into western Canada in 2015 and has been the most imported wood product since at least 2011.
- Of the trade that currently moves into Canada, some is being shipped as a "pass-through" en route to off-shore markets and not for end-use in Canada.

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RELEVANT ISSUES

Canadian Softwood Lumber Agreement

Negotiating a new agreement is a critical step toward preserving and improving Montana lumber prices. Without a continued agreement, it's likely that Canadian lumber will continue to flood the U.S. market with lower prices. Coupled with a strong dollar, the U.S. becomes an even more attractive market for Canadian exporters.

Trans-Pacific Partnership Trade Agreement

An actualized Trans-Pacific Partnership agreement will remove tariffs within participating markets for North American producers, which could open new markets for U.S. and Canadian producers alike. In addition to the overarching agreement, a Japan-Canada bilateral TPP committee on forest products is addressing fees currently charged by the Canadian government on raw log exports, which could further increase wood product exports from Canada.

SUMMARIZING THE IMPACT ON MONTANA

As a result of crashes in the Chinese stock market and over-construction in its residential sector, Chinese demand for wood products has lessened substantially. In the long term, China is expected to continue its position as a major wood products importer, but short-term effects have steered some previously Chinese-destined Canadian exports to U.S. markets. Less demand in China coupled with uncertainty surrounding the Softwood Lumber Agreement and current CAD:USD exchange rate mean Montana wood products producers will continue to face significant near-term impediments when pursuing Canadian markets.

Future imports into western Canada from Montana will also be comprised of a greater percentage of second-tier and specialty wood products, as traditional commodities are highly cost-driven, and continue to face uncertain trade policy developments. Window and door frames, molding, trusses, finger-jointed materials, and post and poles are all examples of Montana produced value-added wood products.

Another second-tier wood product of note that has recently emerged in the United States but is already being used in other countries is cross laminated timber (CLT). In Canada, CLTs and tall wood building are far more commonplace than in the U.S., underscoring a large and growing market. One Montana CLT producer is located closer to some Canadian customers than its Canadian CLT competitors, allowing it to offer its value-added wood product at competitive prices.