Logging & Sawmilling Journal

# West Fraser now on top

There were some significant changes to lumber production rankings in 2008, with West Fraser topping Canfor as the top lumber producer in Canada, and Tolko taking the number three position, nudging out AbitibiBowater.

*By Russell E. Taylor*

The WOOD MARKETS' annual survey of the top Canadian lumber producers clearly shows the severe impact of drastically reduced softwood lumber demand on 2008 annual company production volumes. As we suggested in our 2007 survey, North American softwood lumber market demand was forecast to continue decreasing throughout 2008, and this was an understatement.

With that decrease have come changes in the rankings of the top lumber producing companies in Canada, with West Fraser now on top, replacing Canfor.

Total Canadian softwood lumber production dropped from 29.95 billion board feet in 2007 to 23.8 billion board feet in 2008 (down 20.5 per cent) and has decreased by over 32 per cent from the peak Canadian lumber production of 35.1 billion board feet in 2004.

By comparison, the U.S. has not fared as badly as Canada, as softwood lumber production there dropped from 34.2 billion board feet in 2007 to 29.1 billion board feet in 2008 (down 15 percent) and is off from the peak U.S. production level of 40.6 billion board feet in 2005 by 28.3 per cent. Obviously, lumber production decreases of this magnitude have caused companies in Canada to make many gut-wrenching decisions about which mills to operate and for how long.

Unprecedented poor softwood lumber market conditions have driven prices to lows not seen since 1991-92 and even 1985 for some products--this suggests that more production curtailments will be needed in 2009 to reduce supply and raise the current, distressed "floor prices." The various amounts of downtime incurred by companies at their sawmills has made the calculation of average production per sawmill meaningless as some companies have closed mills for the whole year, while others rotated downtime between a number of sawmills.

While total Canadian lumber production dropped by 20.5 per cent in 2008 from 2007, the top 10 companies' output (see table) dropped by 16.4 per cent (from 17.5 billion board feet to 14.6 billion board feet).

Despite all the production curtailments in Canada by large and small companies, the top 10 companies managed to increase their share of Canadian softwood lumber production slightly. The increasing production share by the large companies suggests that they are more competitive in very tough market conditions than smaller companies (e.g. with lower log costs, lower production costs, vertically integrated with pulp and paper mills) or have deeper pockets to withstand longer periods of distressed lumber prices.

The production numbers for individual Canadian companies indicate that the production decrease was not shared equally by the top 10 companies. Nine companies recorded production declines with Eastern Canadian companies having the larg-

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est average production decrease (approximately 32 per cent) in 2008 compared to 2007.

Due to considerably less scheduled downtime and lower operating costs in 2008, West Fraser was Canada’s largest softwood lumber producer in Canada at 3.4 billion board feet (3.5 billion board feet in 2007) compared to Canfor at 3.3 billion board feet (4.1 billion board feet in 2007). This is the first time since 1999 that Canfor has not been #1 in Canada. These two companies produced 40.3 per cent of the total volume of the top 20 companies and 28.1 per cent of all softwood lumber produced in Canada in 2008 compared to 25.5 per cent in 2007.

Tolko jumped to the #3 position as curtailments caused output at AbitibiBowater to drop by 36 per cent in 2008. Tembec (#5) and Weyerhaeuser Canada (#6) held on to the same rankings again in 2008. In 2008, the top six softwood lumber producers in Canada produced more than one-half (50.6 per cent) of all softwood lumber in Canada.

As softwood lumber markets weakened during 2008 and the outlook for 2009 became increasingly grim, Canadian companies have been forced by poor financial performance to increasingly focus on cash flow and survival strategies. The negative cash flows for most lumber companies in 2008 mean that they are starting 2009 with a significantly more impaired cash position, which is forecast to become even more negative in 2009. Clearly, “free cash flow” has become the number one financial focus for all sawmill companies in Canada and the U.S.

In 2008, Pope & Talbot (#10 company in 2007 with four sawmills) went into receivership and three of their four sawmills were purchased by Interfor. Weyerhaeuser Canada also permanently closed two sawmills in Western Canada in 2008. In early January 2009, Western Forest Products announced the long-term shutdown of two of their nine sawmills and one of their three remanufacturing plants.

Eastern Canada faced more bleak operating conditions and announced a steady stream of permanent and indefinite curtailments. With the continued weakening of company balance sheets, it is very likely there will be further bankruptcies and/or permanent sawmill closures in Canada in 2009.

The magnitude of the softwood lumber production decrease in Canada (down 20.5 per cent) and the U.S. (down 17.3 per cent) in 2008 compared to 2007 reflects the unprecedented severity of the current housing downturn. Given the fact that softwood lumber prices have been below financial break-even for average Canadian and U.S. sawmills since the summer of 2008, the implications of lower housing and lumber demand forecasts for 2009 almost guarantees that there will be significant changes in production operating strategies in 2009 (including increased downtime and more permanent mill closures).

As in the 1982/83 housing recession, it appears that the severity of the current housing downturn will create a new sawmill industry paradigm based on the success or lack of success of company survival strategies and the new operating practices that are developed to endure this recession.

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