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Softwood Timber

• Softwood timber comes from coniferous trees, such as pines and firs, and is an important raw material for much of the world’s construction and housing industry.

• Softwood is also used for cabinetry and furniture, because its fibre structures readily absorb adhesives and finishes.

• Radiata pine, the primary plantation softwood species grown in Australia and New Zealand, is one of the most predominant softwood plantation species in the southern hemisphere. It is highly versatile and used for structural and appearance applications, engineered wood products, plywood, reconstituted panels, pallets and packaging, furniture, posts, poles, and pulp.

• Around 3 million hectares of radiata pine are grown across Australia and New Zealand.
Global Softwood Markets Are Tightening

The US housing market has traditionally led softwood timber demand, but demand is shifting and supply sources are re-aligning.

- Supply sources have traditionally been Scandinavia, Russia, and North America selling into US, European, Japanese, and Chinese markets.
- Northern hemisphere softwood timber has come from both managed natural forests and timber plantations. These sources are now either stable or in decline, and it is not considered commercially attractive to expand planted areas.
- Market is restructuring as Russian and Canadian supply declines, US housing starts recover, and the Australia-New Zealand region increases exports to respond to growing demand from Asia.
- The impressive economic growth and urbanisation occurring in China (and to a lesser extent India) has made these two countries the driver of rapidly growing new demand for softwood.
Russian supply is in decline.

- Russian log supply continues to decline following log export tariffs introduced in 2008.
- Log sources are also getting farther from export points so delivered prices are creeping up.
- Withdrawal of road building subsidies by the Russian Government, lack of new infrastructure investment, a crackdown on illegal export practices, and the inability of the Russian forest sector to secure access to credit since the global financial crisis are also contributing to a dwindling supply.
- Even if these factors moderate in the coming years, Russian log and lumber exports to China are unlikely to recover to 2007 levels.

Source: FAOStat. August 2014
Canadian supply is also declining.

- Canadian government policy changes and forest loss from Mountain Pine Beetle infestation are leading to a decrease in supply, in particular from British Columbia.
- 70% of the lodgepole pine forest in British Columbia is expected to be killed because of the beetle infestation.
- Canadian harvest rates peaked in the 1990s at around 200 million m$^3$ per annum; over the next 40 years timber supply may fall by a further 20% from current levels of 150 million m$^3$ per annum. This will create a growing supply gap as Asian demand grows.
Chinese government policy is to move 250 million people from rural to urban areas by 2025, with the aim of equalising the standard of living for all Chinese people.

- Ongoing urbanisation and residential construction will drive softwood demand, with more than 50% of the population now urban.

New Zealand Market Dynamics

China is now the major market for NZ timber.

- Asian demand for New Zealand timber products is expected to increase further due to continued urbanisation and increased per-capita consumption of wood products.
- New Zealand has gained significant market share over traditional supply regions, accounting for 32% of Chinese softwood log imports in 2013. *
  - In 2013, Russian softwood logs fell by 15% compared with the same period in 2012, while imports from New Zealand increased by 46%.
  - US log exports to China have shrunk as the recovering US housing market consumes more timber supply domestically.

New Zealand’s Export Markets

New Zealand’s rapid increase in softwood log exports has been driven by Chinese demand with India likely to gain greater prominence as an importer in the future.

NZ’s largest export market is China, which imported more than 11 million JAS (Japanese Agricultural Standard) of logs in 2013 from NZ.

NZ Lumber Exports to Key Markets

New Zealand’s Export Markets

Exports to India are trending upward and likely to continue given economic growth is expected to grow to 6.2% in 2014/15. In India over the next 15-20 years:

- 590 million people will live in cities, nearly twice the population of the US today
- 68 cities will have populations of 1 million plus, up from 42 cities in 2013
- 70% of net new employment will be generated in cities

Australian Market Dynamics

Australian softwood sawn timber is predominantly sold into a stable domestic market.

Australia runs a softwood sawn timber deficit, with consumption outstripping production and imported softwood timber required to service the domestic construction and housing industry.

Source: ABARES, September 2014.
Australian Market Dynamics

A stable residential housing sector will continue to support domestic softwood sawn timber demand supported by forecast immigration and population growth in Australia.

Annual Australian Private Dwelling Starts

Regional Advantage

Example of Productivity Gains – Softwood in Australia

- New Zealand and Australia both have long histories of softwood plantation forestry – experience in silviculture and well-established market infrastructure.
- Although both are mature markets, forest managers can achieve productivity gains and add value through improved genetics, silvicultural management, and nutrition – see forecast improved growth in one of New Forests’ Tasmanian softwood assets (left).
- Australia and New Zealand forestry investments should be part of a globally diversified timberland portfolio, giving an investor exposure to a variety of markets.
- The regional Asia-Pacific economy is poised for long-term growth, and Australia and New Zealand timber investments diversify investors away from over-exposure to the US and European economic cycles.
Market Opportunity Strong & Persistent

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<tr>
<th>Country Risk</th>
<th>Australia</th>
<th>New Zealand</th>
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<tbody>
<tr>
<td>Long track record; mature forestry industry</td>
<td>Long track record; mature forestry industry</td>
<td></td>
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<td>Attractive and safe operating environment</td>
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<td>Open to foreign investment</td>
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<td>Domestic market: 75% of wood products used in Australia are softwood, so linked to domestic housing demand and forecast population growth</td>
<td>Export market</td>
<td>Linked to China and India’s booming housing and construction markets</td>
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<td>Indirect timber market exposure through economic ties</td>
<td>Export industry is supported by good infrastructure, multiple ports, and a skilled workforce</td>
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<td>Exposed to Asian growth story</td>
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<td>Net importer of wood products</td>
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<td>Market is structurally supportive of prices due to strong domestic demand and geographic isolation.</td>
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<th>Currency Risk</th>
<th>Australia</th>
<th>New Zealand</th>
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<td>Asian commodity demand and mining investment in-flows have helped drive a strong AUD over the past several years</td>
<td>Linked to the US dollar</td>
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<td>As AUD weakens, softwood imports will become more expensive for Australian building industry, favoring domestic softwood timber resources</td>
<td>A high NZD/USD affects competitiveness of exports. However, while the New Zealand currency has remained high until recently, Chinese timber demand and prices paid have more than compensated for the currency effects</td>
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Want to Learn More?
To learn more about New Forests’ investment programs related to softwood timber in Australia and New Zealand contact Radha Kuppalli at rkuppalli@newforests.com.au.