

Global Lumber Benchmarking Wide Timber/Mill Cost Variances & Varying Margins

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In today's global lumber markets, the competitive ranking of a mill's costs against its competitor next door or around the world is becoming a key requirement for determining marketing strategies and targeting capital improvements. One of the biggest challenges in assessing competitiveness is in obtaining accurate and relevant global cost information on an "apples-to-apples" comparative basis.



PricewaterhouseCoopers LLP's Global Forest and Paper Practice (PwC) and International WOOD Markets Research Inc. (WOOD Markets) jointly undertook a benchmarking assessment of 2002 sawmill costs to provide a meaningful cost benchmarking analysis of the major lumber/sawnwood producing countries/regions of the world. The cost information is based on extensive benchmarking data collected by PwC in North America, from global benchmarking data collected by WOOD Markets from field investigations, and from survey participants in a number of offshore countries who provided detailed cost information.

The benchmarking summaries of average log and sawmilling costs for the twenty countries and regions represent mainly structural (or commodity) lumber production. The exceptions are Brazil, Chile and South Africa, in which a combination of structural, industrial and cut stock is the chief product from unpruned logs.

The following summary is based on amalgamated geographic regions, with highlights targeted to individual regions or specific cost categories.

Global Delivered Log Costs

A key result evident from the survey was the variability in the average delivered log cost by country. The lowest log costs were about US\$20/m³ (log basis) for South Africa and Siberia, and the highest exceeded US\$60/m³ (U.S. West and Western European). Relative to the average delivered "global" log costs, there are obviously a number of variances between countries and between regions — all tied to local economic and supply/demand factors.

Global Sawmill Operational Costs

Another finding from the benchmarking results was the relatively limited variation in the average sawmill's operational costs (excluding logs) between countries. While there are differences between the level of technology and labor content across the regions, thirteen of the twenty countries/regions profiled had sawmill costs within a narrow range of US\$5/m³ range (net lumber basis) in 2002. This indicates that the sawmilling industries in most countries must adhere to some critical cost thresholds in order to remain competitive. The global average sawmilling cost was around US\$50/m³ (net lumber

basis).

Global Revenue

In terms of lumber revenue, twelve of the twenty countries or regions were tightly grouped within a range of US\$20/m³ (net lumber basis). The countries with the lowest sawmilling costs or the highest stumpage returns were not those with the highest lumber revenues; there is not necessarily any logic as to which region performs best in any one category. The U.S. West had the highest lumber revenues, a combination of strong U.S. market prices plus a unique species mix of higher-valued logs. The U.S. South was about US\$20/m³ (net) lower while Australia claimed the next-highest prices.

Lumber revenue is highest in the net importing countries or regions — mainly Australia, Western Europe (Germany) and the U.S. South.

Since this report has been conducted in U.S. dollars, the strength of the dollar in 2002 created one set of winners and losers. The rapid weakening of the U.S. dollar in 2003, coupled with market changes, has yielded a number of changes in the ranking of countries' costs and revenues for 2003. Clearly, currency appreciations and devaluations can dramatically change the health of a country's lumber industry, especially for those that are major players in international export markets.

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