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Sawmills in Quebec and Ontario generating oversupply of wood chips

May 1, 2017 - Sawmills in Eastern Canada have been running at record high levels in 2016, with production reaching levels almost 10 per cent higher than in 2015 and almost 40 per cent higher than five years ago. This has been very good news to the forest industry, with sawmills running at 97 per cent operating rates in late 2016, according to the WWPA. However, there are also worrisome developments regarding the large volumes of residual chips that are being generated and where the chips can be sold.

The pulp sector has been the key consumer of residuals in the past, but with a shrinking pulp industry in both Ontario and Quebec, there are concerns that sawmills in the region might be forced to limit production levels because it may be difficult to sell off the large volumes of chips that are being produced.

Despite the oversupply of residues in Quebec, wood chip prices have not changed much over the past few years in Canadian dollar terms. Most contract prices for residues are set on an annual basis and after four years of practically unchanged prices, they fell almost five percent in the 1Q/17. It is likely that prices will decline in the future but this will not necessarily solve the problem with access to chips in the province. Either new production capacity needs to be added (e.g. wood pulp, pellets, composite panels or bio-based products), or sawmills will have to find other outlets for their chips outside the province. Alternatively, sawmills might have to reduce production levels in the future.

Although the latter alternative would be less desirable for both the domestic forest industry and for lumber consumers in the U.S. to which much of the lumber is exported, it could still be a reality later this year. If the new US softwood lumber import tariff is implemented at such a high rate that it reduces the profitability of the lumber companies in the two provinces, it is likely to result in reduced production levels and thus declining supply of residual chips to find a home for.

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