



F&W
SINCE 1962

Forestry Report

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Fall 2017 // NO. 134

Driving Down Production Costs Is Key To Surviving Poor Timber Markets



By Marshall Thomas,
President of F&W Forestry Services, Inc.

My first desktop computer, bought in 1985, cost about \$2,000. Today I can buy a much more powerful machine for half the price. And if I adjust for inflation, the difference is even more dramatic. But computer manufacturers keep making computers, and I assume they are making money doing it.

We face somewhat the same situation with the trees we sell, especially sawtimber. We are selling sawtimber trees for roughly the same price now that we did in the mid-1980s—in other words, the mills are paying the same nominal price they did back then. Adjust that for inflation and the buying power of what we are selling is more than cut in half. You have to

wonder how tree growers are surviving.

Computer manufacturers are making it today selling at lower prices because they have driven down the cost of production. I believe our story is much the same as the one for desktop computers—we have driven production costs down.

To test this theory, we calculated the cost of production in 1982 (a year we could get data from the Forest Landowners biannual survey of costs) and in 2016. Included in the calculation are reforestation costs and land rent—the capital costs of production. We did not include taxes and operating costs because they vary so much by region and landowner. To keep it simple, we also didn't include the effect of thinnings in the calculation.

Let's start by discussing the nominal cost of production for a 1982 plantation. This is the reforestation cost and the annual land rental, compounded forward 28 years to the time of harvest, divided by the tons that would be grown from a plantation planted in 1982—100 tons per acre. Our calculations show that when a landowner harvested a stand in 2010 (that was planted in 1982), the per ton capital cost of production at the time of harvest was \$8.99. So every dollar per ton over \$8.99 was profit over capital costs.

We used the same formula for 2016, but looking forward 28 years and dividing by the tons we expect these plantations to produce when harvested in 2044—170 tons per acre. Our calculations estimate that the cost of production of this stand at time of harvest will be \$12.05 per ton, an increase of \$3 per ton in nominal terms. This makes sense, mostly because land values have increased over the period.

The results are in the table below.

PRODUCTION COSTS PER TON		
	1982	2016
NOMINAL	\$ (8.99)	\$ (12.05)
2016 \$	\$ (18.99)	\$ (12.05)

But take a look at the second row of the table—where we adjust all costs to 2016 dollars—to the buying power of a dollar in 2016. Cost of production has actually decreased from

(Continued on page 5)

Southern Timber Prices

2017 THIRD QUARTER PINE & HARDWOOD STUMPAGE PRICE RANGE* (TONS)

	PINE PULPWOOD	PINE SMALL SAWTIMBER	PINE LARGE SAWTIMBER	HARDWOOD PULPWOOD	HARDWOOD SAWTIMBER
SOUTHEAST					
LAFAYETTE, AL	\$8–14	\$14–19	\$22–30	\$6–12	\$20–35
GAINESVILLE, FL	\$15–21	\$21–27	\$28–33	\$4–10	\$15–26
MARIANNA, FL	\$8–15	\$15–22	\$23–28	\$6–9	\$16–28
ALBANY, GA	\$9–13	\$16–22	\$24–34	\$5–7	\$15–30
MACON, GA	\$8–13	\$14–21	\$22–27	\$6–8	\$19–34
STATESBORO, GA	\$17–22	\$21–24	\$27–33	\$9–14	\$25–50
FOUNTAIN INN, SC	\$8–11	\$15–19	\$22–27	\$6–9	\$18–44
CENTRAL REGION					
CLINTON, TN	\$2–6	NA	NA	\$3–8	\$27–45
PARIS, TN	\$4–7	\$7–7	\$13–13	\$1–3	\$30–57
WEST GULF					
EL DORADO, AR	\$4–8	\$9–13	\$17–30	\$6–10	\$25–55
CORINTH, MS	\$4–12	\$7–11	\$17–24	\$1–7	\$24–38
HUNTSVILLE, TX	\$5–7	\$10–12	\$23–26	\$7–8	\$28–34
TEXARKANA, TX	\$7–11	\$11–16	\$22–29	\$6–10	\$25–37
MID-ATLANTIC					
CHARLOTTESVILLE, VA	\$9–12	\$14–16	\$18–22	\$2–4	\$18–46

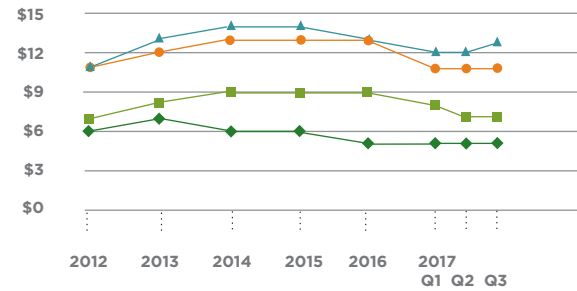
*All prices based on sales handled by or reported to F&W offices. If no sales occurred, prior quarter's sales and other data are used to compile price range. Price ranges are due to different locations, timber quality, logging conditions, type of harvest, and local market conditions.

Southern Timber Prices

TIMBER STUMPAGE PRICE AVERAGES ACROSS F&W'S SOUTHERN REGION

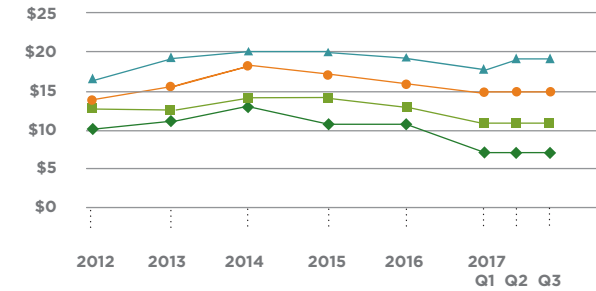
PINE PULPWOOD AVERAGE (TONS)

▲ SOUTHEAST / ◆ CENTRAL REGION / ■ WEST GULF / ● MID ATLANTIC



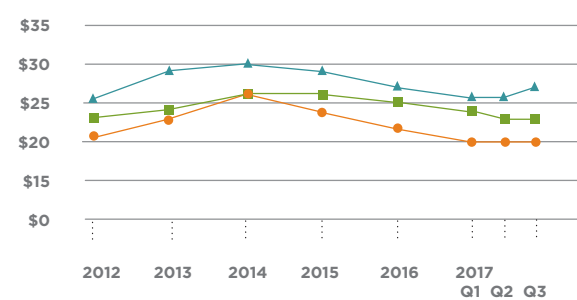
PINE SMALL SAWTIMBER AVERAGE (TONS)

▲ SOUTHEAST / ◆ CENTRAL REGION / ■ WEST GULF / ● MID ATLANTIC



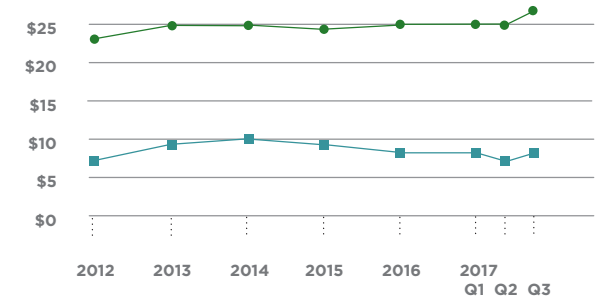
PINE LARGE SAWTIMBER AVERAGE (TONS)

▲ SOUTHEAST / ■ WEST GULF / ● MID ATLANTIC



SOUTHEAST HARDWOOD PRICES (TONS)

■ HARDWOOD PULPWOOD / ● HARDWOOD SAWTIMBER



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Northern Timber Prices

2017 THIRD QUARTER STUMPAGE PRICE RANGE*

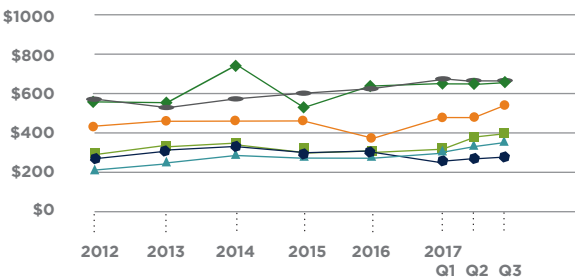
	RED OAK (MBF)	BLACK CHERRY (MBF)	HARD MAPLE (MBF)	SOFTWOOD SAWTIMBER (MBF)	HARDWOOD PULPWOOD (TONS)	SOFTWOOD PULPWOOD (TONS)
RUMFORD, ME	\$275-425	NA	\$230-425	\$40-175	\$3-10	\$2-6
MONTPELIER, VT	\$300-425	NA	\$275-425	\$45-170	\$3-8	\$1-3
GLENS FALLS, NY	\$400-700	\$350-700	\$325-575	\$45-200	\$3-8	\$3-7
HERKIMER, NY	\$450-850	\$500-825	\$375-575	\$40-175	\$2-6	\$2-3
TUPPER LAKE, NY	NA	\$300-445	\$300-425	\$90-125	\$4-6	\$3-5
CLARION, PA	\$625-825	\$750-1,200	\$530-575	NA	\$0-3	\$0-1
BLUEFIELD, WV	\$225-300	\$270-340	\$240-280	NA	\$1-2	\$0-2

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TIMBER STUMPAGE PRICE AVERAGES ACROSS F&W'S NORTHEAST REGION

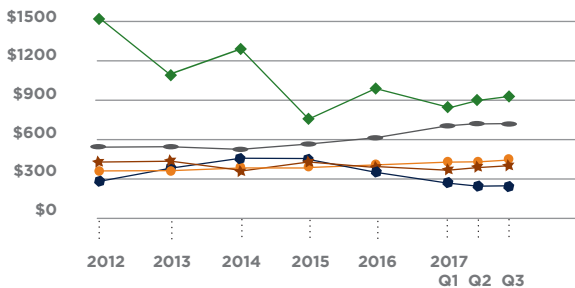
RED OAK AVERAGE (MBF)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
■ MONTPELIER, VT / ● BLUEFIELD, WV



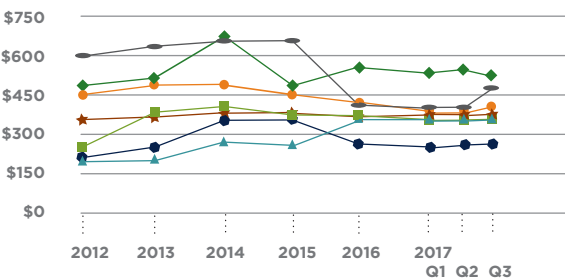
BLACK CHERRY AVERAGE (MBF)

● GLENS FALLS, NY / ● HERKIMER, NY / ★ TUPPER LAKE, NY / ◆ CLARION, PA
● BLUEFIELD, WV



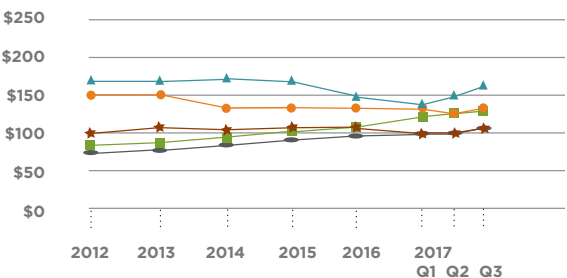
HARD MAPLE AVERAGE (MBF)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
■ MONTPELIER, VT / ● BLUEFIELD, WV / ★ TUPPER LAKE, NY



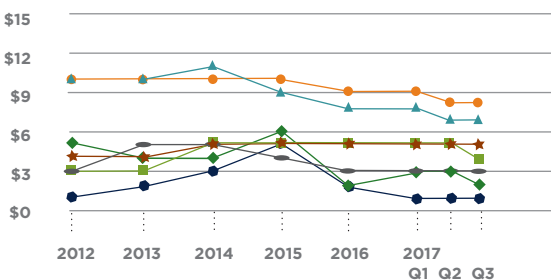
SOFTWOOD SAWTIMBER AVERAGE (MBF)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY
■ MONTPELIER, VT / ★ TUPPER LAKE, NY



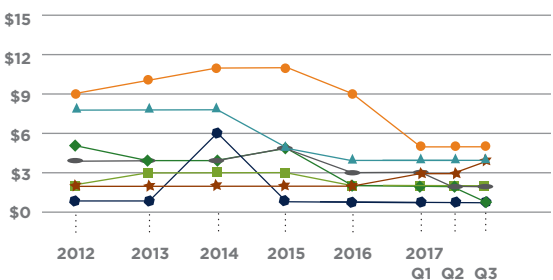
HARDWOOD PULPWOOD AVERAGE (TONS)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
■ MONTPELIER, VT / ● BLUEFIELD, WV / ★ TUPPER LAKE, NY



SOFTWOOD PULPWOOD AVERAGE (TONS)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
■ MONTPELIER, VT / ● BLUEFIELD, WV / ★ TUPPER LAKE, NY



Lumber Negotiations Drag On As Focus Turns To NAFTA; U.S. Industry Insists On Firm Quota On Canadian Imports

Talks aimed at settling the latest chapter in the decades-long trade dispute between the U.S. and Canada over Canadian softwood lumber imports are progressing but there is still no resolution in sight.

While the lumber fight lingers between the two countries, senior officials from both nations and Mexico began meeting in August to renegotiate the North American Free Trade Agreement (NAFTA), the first time since it was enacted in 1994, further obscuring the likelihood that a lumber agreement will be reached soon. Softwood lumber is not directly part of NAFTA, but tension around the issue could complicate negotiations.

U.S. Commerce Secretary Wilbur Ross, who had hoped to have a new agreement before NAFTA discussions began, postponed the final determinations on the antidumping duty (AD) and countervailing duty (CVD) investigations of Canadian softwood lumber imports until no later than Nov. 14, citing the complexity of the investigations and ongoing discussions.

"I remain hopeful that we can reach a negotiated solution that satisfies the concerns of all parties," Secretary Ross said. "This extension could provide the time needed to address the complex issues at hand and to reach an equitable and durable suspension agreement."

The Commerce Department imposed a preliminary countervailing duty of up to 20 percent on Canadian softwood lumber imports in April. Two months later, it announced a preliminary antidumping duty of up to 7 percent on the imports. When combined, the two duty rates on Canadian lumber imports range from 17.41 percent to 30.88 percent.

The U.S. maintains that the Canadian lumber industry is effectively government subsidized by less-than-market stumpage fees charged for logs harvested on government-owned "Crown" lands.

The U.S. Lumber Coalition, an alliance of large and small lumber producers from around the country, wants a "clean quota agreement to hold Canada to its commitments and maintain a stable, enforceable system."

Details concerning the negotiations have been tightly guarded but a news report on Aug. 1 in *The Canadian Press* said the two governments have agreed in principal to split the U.S. lumber market by percentage, with Americans supplying around 70 percent of the country's lumber demands and Canadians capped at providing approximately 30 percent, which is near the historical average.

"There's a lot more detail than that," Canadian Ambassador David MacNaughton told the newspaper. "But

roughly speaking, it's a 70-30 split."

The sticking point appears to be who gets to fill the void for lumber in the U.S. in the event that demand soars and American supplies fall short.

Canada wants the new agreement to allow for additional Canadian lumber exports to the U.S. above the cap when markets are hot. Canada said it should be given the first opportunity to fill this gap rather than other countries such as Germany, Sweden, Chile, Brazil, and Russia, all of whom currently provide a small but growing share of the U.S. lumber imports market.

"The issue that is outstanding at the present moment is when there is a hot market. ... It's got nothing to do with putting people out of work in the U.S.," MacNaughton was quoted as saying. "It's got to do with making sure we're not having mills idled in Canada in order to create jobs in Russia and Brazil."

Meanwhile, the U.S. International Trade Commission (ITC) held a hearing in September to determine the extent of injury inflicted upon the U.S. lumber industry by Canadian imports. The hearing allowed both sides to make their cases before the panel as it works towards a final decision. The ITC will make its final determination about who is adversely affected after the Commerce Department announces its decision on AD and CVD tariffs in November. 🌲

Veteran Forester Tooke Named Chief

U.S. Agriculture Secretary Sonny Perdue tapped veteran Forest Service official Tony Tooke to take the helm of the agency responsible for the health, diversity, and productivity of the nation's forests following the retirement of Chief Tom Tidwell in September.

Tooke, who grew up on a small farm outside Detroit, Ala., has been with the Forest Service since the age

of 18, where he worked while earning a degree in forestry from Mississippi State University.

Tooke most recently served as regional forester for the Forest Service's Southern Region, based in Atlanta. In this position, he was responsible for 3,100 employees, 14 national forests and two managed areas, which encompass more than 13.3 million acres in 13 states and

Puerto Rico, and an annual budget of more than \$400 million. His previous positions with the Forest Service include associate deputy chief for the National Forest System, director of ecosystem management coordination, deputy director of economic recovery, and assistant director of forest management.

Tooke takes over from Tidwell, who served as chief since June 2009. 🌲

GOP Releases Tax Reform Blueprint; Impact On Forest Owners Uncertain

After negotiating behind the scenes for months, work has officially begun in Washington on an overhaul of the federal tax code.

With great fanfare, President Trump and Congressional Republicans unveiled an ambitious “unified framework” for tax reform that covers a range of changes from lower individual tax brackets, elimination of the estate tax, lower taxes on businesses, and incentives for big investments. Republicans said their goals are to simplify the tax code, boost economic growth, create jobs, and promote investment.

Not surprisingly, the proposal received a cool reception from Democrats, saying it benefits the wealthy.

The framework, which is light on critical details, is expected to serve as the template for the tax-writing House Ways and Means and Senate Finance committees to develop legislation.

The proposal contains several provisions that stand to benefit private forest landowners, including:

- Repealing of the death tax and the generation-skipping transfer tax;
- Allowing businesses to immediately expense the cost of new investments in depreciable assets other than structures for five years; and
- Limiting the maximum tax rate applied

to the business income of small and family-owned businesses conducted as sole proprietorships, partnerships, and S corporations to 25 percent.

But the plan proposes to simplify the tax code by eliminating most itemized deductions, retaining only tax incentives for home mortgage interest and charitable contributions. This would seemingly eliminate the write-offs for state and local income, property, and sales taxes, which are currently deductible on federal tax returns.

This change could potentially have a huge impact on the taxes paid by forest landowners, especially in high-tax states.

With the elimination of itemized deductions estimated to free up more than \$100 billion annually, GOP lawmakers are counting on these savings to pay for the lower tax rates. However, this issue has quickly become the first test of the Republican tax reform effort, with congressmen in both parties from high-tax states expressing strong opposition. If they stick together, this could force tax writers to modify the provision to satisfy those lawmakers.

The framework does not address the federal timber tax provisions currently part of the tax code, including long-term capital gains treatment of timber sales

and the deductibility of reforestation and operating and management costs for silvicultural practices.

The tax-writing committees in Congress are where all the critical details will be worked out and multiple battles are expected to ensue as lawmakers tug and pull to come up with a bill that achieves the savings targets that must be hit in order to pay for lower tax rates while still securing the necessary votes for passage.

But before they settle down to writing the tax bill, Republican lawmakers will attempt to pass a budget resolution for the federal fiscal year that ends September 2018 that will specify the maximum size of the tax cut over the next decade. This unlocks a fast-track procedure known as reconciliation that would allow the subsequent tax bill to pass the Senate on a simple-majority vote and not require votes from Democrats.

Republicans are eager for a legislative win but with just three months remaining in the current session, it remains to be seen if Congress will be able to enact ambitious tax reform before the clock runs out. 🌲

Marshall Thomas: Surviving Poor Timber Markets *(continued)*

\$18.99 for the 1982 plantation to \$12.05 for the 2016 plantation. One important factor in this decrease is the enhanced productivity from 100 tons per acre in 1982 to 170 tons per acre today.

Now consider this—in 1982, reforestation costs were about \$150 per acre and we grew 100 tons. Today they are \$180 per acre and we expect to grow 170 tons or more. We held nominal costs constant and nearly doubled production.

We are surviving just like the computer manufacturers—by reducing the cost of production.

Given that we can’t control timber

prices, perhaps we need to recognize where our success has been and focus on that in the future.

The reduction in cost per unit achieved over the last 35 years has been from three factors: 1) the conversion from high impact mechanical site preparation to low impact herbicide site preparation, 2) price cuts for herbicides when the original patents expired, and 3) increases in production based on better genetics and silvicultural practices. The cost reductions associated with herbicide site prep and patent changes are almost certainly one-time events, so it is likely

that future gains will be based on enhanced silviculture and genetics.

Unfortunately, additional silvicultural practices and better genetics cost money. So we may need to recognize that success in the face of low prices could be based on continuing to spend money in the right places, and by increasing expenditures in some cases—as long as the additional expenditures increase yields enough to drive down overall cost per unit.

There is not enough space here to go into the details of the calculations but please contact us if you have questions. 🌲

Agricultural Land Values Hit New High In 2017

Rural real estate values in the United States made modest gains in 2017 after last year's slight decline, the U.S. Department of Agriculture (USDA) reports.

The annual survey of agricultural land values—the sum of all land and buildings located on American farms—hit a high of \$3,080 per acre in 2017, \$70 (2.3 percent) above the prior year.

In the 25 states served by F&W throughout the eastern U.S. from the Texas Plains across the Southern Pine Belt to the Northeast, the average agricultural land value rose from \$3,482 to \$3,568 per acre in 2017—which is \$488 per acre above the overall national average. Compared to 2016, farm real estate values in these states either increased or remained unchanged, with no state reporting a decrease in value.

The nine states comprising the Southeast, Delta, and Southern Plains regions saw an overall increase in farm land value of 4.1 percent to \$2,943 per acre. The states

experiencing the greatest increase in value include Texas (6.6 percent), Florida and Oklahoma (5.6 percent), Georgia (4.4 percent) and Arkansas (4.3 percent). The only state in the South to register no change in farm real estate value in 2017 was South Carolina.

In the Appalachian region, farm real estate values averaged \$3,800 per acre, 1.1 percent higher than the prior year. Kentucky had the highest value increase of 2.1 percent while no change was reported for North Carolina and West Virginia.

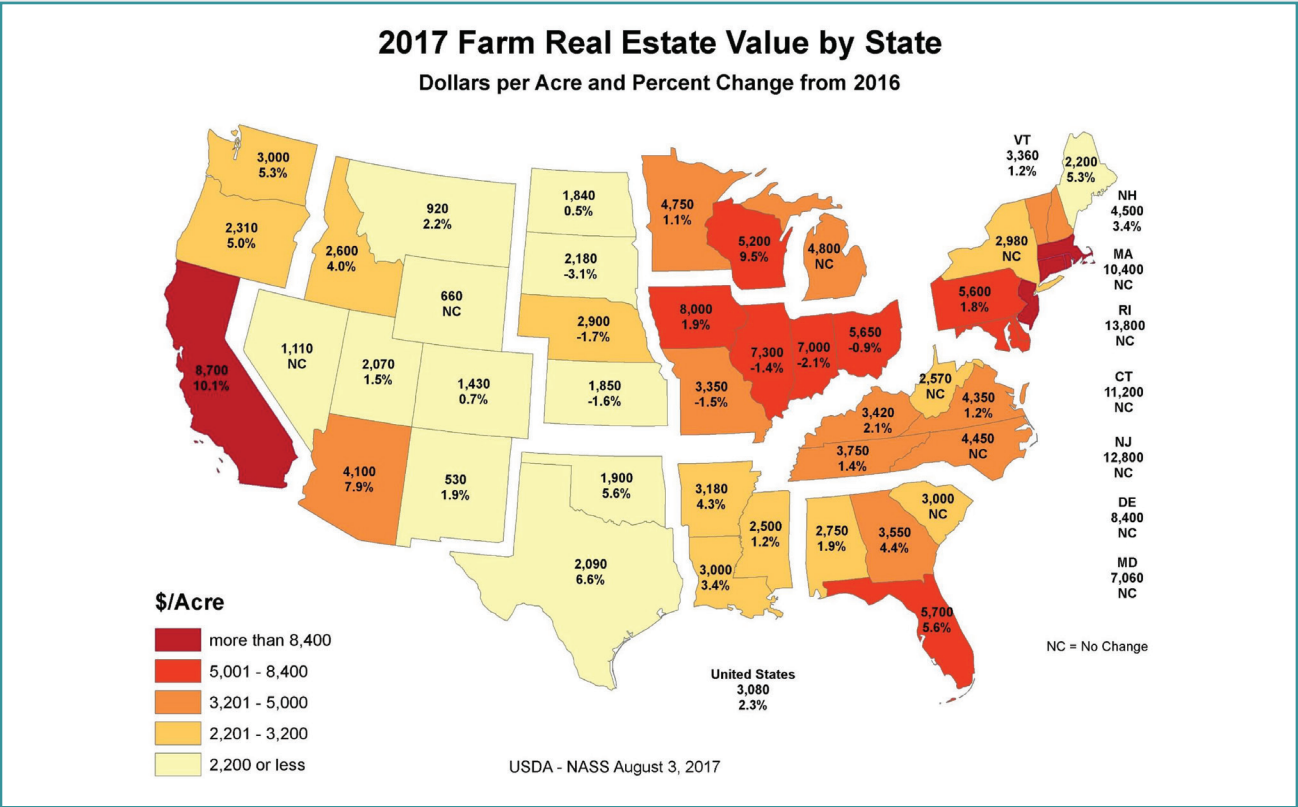
Agricultural land values in the Northeast averaged an increase of 0.8 percent to \$5,050 per acre. Of the 11 states comprising this region, only four states reported an increase in the value of farm real estate: Maine (5.3 percent), New Hampshire (3.4 percent), Pennsylvania (1.8 percent), and Vermont (1.2 percent). There was no change in value reported for the remaining seven states.

Although the USDA survey does not include forestland values, it does

break out crop and pasture land values, both of which show some similarity to the bare land value of forestland. In these categories, there was no change in the overall value of crop land in 2017, which averaged \$4,090 per acre, and pasture land rose almost 1.5 percent to a per acre average of \$1,350.

However, in Southern states, the overall value of crop land increased 2.5 percent to an average of \$2,877 per acre, while pasture land rose 1.5 percent to \$2,670 per acre. In the Appalachian region, crop land values were up 1.3 percent to \$3,890 per acre and pasture land was up 0.6 percent to \$3,340 per acre. In the Northeast, the average value for crop land was down almost 1 percent to \$5,350 per acre while pasture land was up by almost 1 percent to \$3,420 per acre. 🌾

TO VIEW THE USDA REPORT ON 2017 AGRICULTURAL LAND VALUES, GO TO: [HTTP://USDA.MANNLIB.CORNELL.EDU/MANNUSDA/VIEWDOCUMENTINFO.DO?DOCUMENTID=1446](http://usda.mannlib.cornell.edu/mannusda/viewdocumentinfo.do?documentid=1446)



Southern Lumber Industry Continues Strong; New Facilities Announced

The South has been the most active region of the U.S. when it comes to the expansion of the forest products sector—primarily due to its abundant, high quality, and fast-growing wood—and that continues to be the case with the recent announcement of two new lumber mills planned for Alabama.

Georgia-Pacific (G-P) announced it will invest \$100 million to construct a new, technologically advanced lumber production facility at Talladega with an anticipated startup in late 2018.

Once in operation, G-P said the new facility is expected to receive about 150 log trucks a day and produce approximately 230 million board feet of lumber annually, with plans to expand to 300 million board feet in the future.

"The availability of talent and natural resources makes Talladega an ideal site for this new lumber production facility," said Fritz Mason, vice president and general manager, Georgia-Pacific Lumber.

The site of the new lumber facility will be G-P's former plywood plant that was shuttered in 2008 after more than 30 years in operation.

G-P currently employs more than 2,300 people at its seven facilities across Alabama. Over the last five years, the company said it has invested approximately \$1.1 billion in additional capital and acquisitions at its facilities in that state alone.

Separately, Dothan has been selected for the first site in the eastern U.S. to manufacture the hottest commercial and residential building product in the U.S. wood sector today—cross laminated timber (CLT).

Sarasota, Fl.-based International Beams (IB), a producer of engineered wood products, announced it will invest \$20 million to build a state-of-the-art facility to

manufacture glue laminated timber and beams using Southern pine.

Widely used in Europe in multi-level structures, engineered wood typically consists of multiple layers of dimension lumber that are glued to form structural panels or beams and columns that have exceptional strength, stability, and rigidity. The company said the products are "steel-like" in strength but also are lighter, easier to assemble, sustainable, cost effective, and fire resistant. These engineered wood products are fast becoming a preferred alternative to steel, concrete or masonry. While typically used in commercial construction, these products are also gaining popularity rapidly among residential builders and consumers.

"Dothan, a city known for its manufacturing and agribusiness industries, is the perfect place to build the expert staff that will grow the engineered wood products market," IB CEO Bruno Lebel said. "We're excited about this new venture."

The company said there are currently only two CLT manufacturers in the U.S., located in Montana and Oregon on the West Coast. The Dothan operation will be the first of its kind in the eastern U.S. and the first to utilize Southern pine lumber as its primary raw material.

The facility will be constructed in an existing building with production expected to begin in the spring of 2018. The project is expected to create 60 full-time jobs on a two-shift operation, with plans to expand to three shifts within five years.

In business since 1995, IB has two manufacturing facilities in Canada at Quebec and Ontario that produce high quality I-joists, glulam, LVL, and rimboard. 🌲

West Fraser Acquires Gilman

Canadian lumber giant West Fraser Timber Co. Ltd. has purchased the operations of Georgia-based Gilman Companies for \$430 million, further solidifying its position as a major player in the U.S. industry and the top lumber producer in the South.

The deal includes six sawmills located in Georgia (Blackshear, Dudley, and Fitzgerald) and Florida (Lake Butler, Maxville, and Perry), a finger-joint mill at Blackshear, and an administrative office at St. Marys, Ga.

The Gilman operations have a combined annual production capacity of 700 million board feet of lumber. The acquisition brings West Fraser's total production capacity in the South to approximately 3.1 billion board feet annually, putting it ahead of Weyerhaeuser and Georgia-Pacific in Southern lumber production.

In a news release announcing the purchase, West Fraser said the acquisition is an important step in continuing the company's expansion of its U.S. operations.

"This is a long-term strategic move that strengthens our core lumber business and gives us increased scale and geographic diversification. Growing our lumber business has been one of our key strategic goals," said West Fraser's President and CEO, Ted Seraphim. "This is a rare opportunity to acquire a U.S. lumber producer of a meaningful scale with high quality facilities and a culture similar to our own."

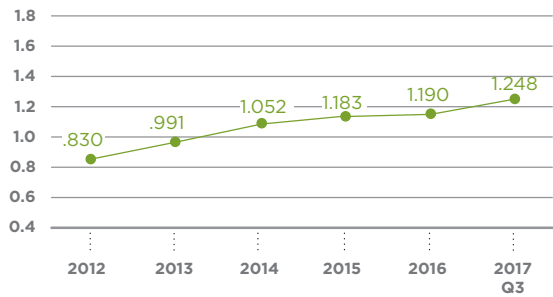
The company said with this acquisition, West Fraser will have combined Canadian and U.S. lumber production capacity of 7.2 billion board feet annually. Canadian capacity of spruce/pine/fir lumber represents 57 percent of capacity while U.S. capacity of Southern yellow pine lumber represents 43 percent.

The Gilman mills, which employ more than 900 people, have served as a major market for wood fiber from forestland owners in southeast Georgia and northeast Florida for decades. Gilman Companies were privately owned by the Howard Gilman Foundation and other shareholders.

West Fraser operates 40 mills across western Canada and the U.S., including 21 mills in the U.S. South. 🌲

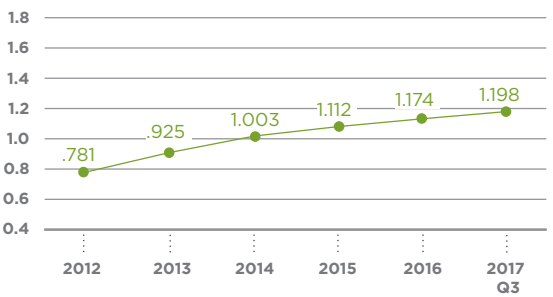
TIMBER MARKET INDICATORS

HOUSING PERMITS



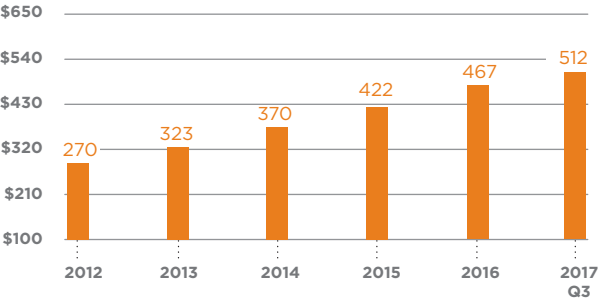
IN MILLIONS OF UNITS (ANNUALIZED) THROUGH AUGUST
Source: US Department of Commerce

HOUSING STARTS



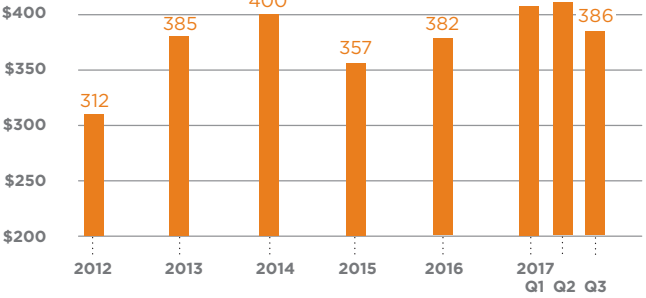
IN MILLIONS OF UNITS (ANNUALIZED) THROUGH AUGUST
Source: US Department of Commerce

RESIDENTIAL CONSTRUCTION



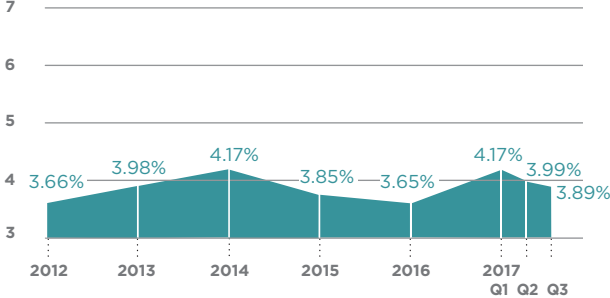
IN BILLIONS OF DOLLARS (ANNUALIZED) THROUGH AUGUST
Source: US Department of Commerce r=revised

LUMBER PRICES



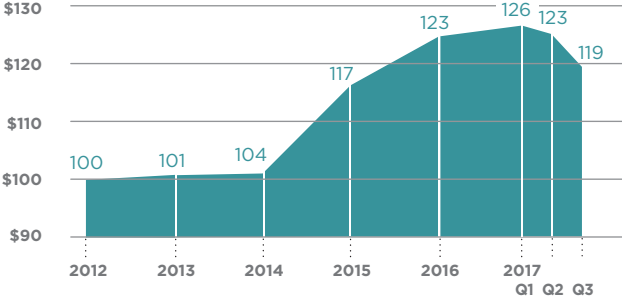
SOUTHERN PINE-\$/MBF
Source: Random Lengths Southern Pine Composite Index

MORTGAGE RATES



30-YEAR FIXED RATE
Source: Freddie Mac

US DOLLAR



US DOLLAR VALUE AGAINST 26 MAJOR TRADING PARTNERS
Source: Federal Reserve

PRESORTED STD
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PERMIT #2295

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