

# Forestry and Agrifoods

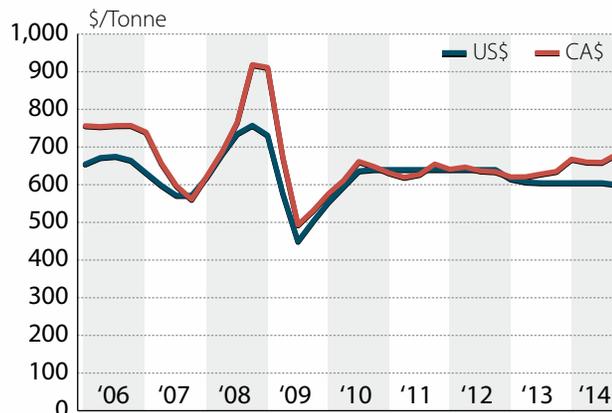
## Newsprint

### North American Industry

North American newsprint producers continued to struggle with poor market conditions in 2014. Overall newsprint shipments by North American mills declined 8.3% compared to 2013. Mills shipped less to customers in North America (down 8.9%) and overseas (down 6.8%). Shipments to the United States, the major market for North American newsprint, declined 9.8%.

North American newsprint demand has exhibited a downward trend for more than a decade, reflecting the growing popularity of digital media. Demand for newsprint dropped by two-thirds between 2000 and 2013. The industry has tried to limit the supply of newsprint in an effort to support higher prices; however, there has been some slippage in prices in recent years (see chart). This weakness was particularly evident in the last quarter of 2014, when prices dropped by US\$10/tonne from US\$605/tonne in October to US\$595/tonne in December. On an annual basis, newsprint prices averaged US\$604/tonne, down slightly from US\$607/tonne in 2013. For Canadian producers, there was some relief from the weak prices because of the depreciation in the Canadian dollar with respect to the U.S. currency. The price of newsprint in Canadian dollars was 6.7% higher, on average, in 2014 compared to the previous year.

### North American Newsprint Prices



Source: TD Financial Group; Pulp and Paper Weekly; Bank of Canada; Department of Finance

## Newfoundland and Labrador Industry

The provincial newsprint industry has faced challenges similar to those of the North American industry. Corner Brook Pulp and Paper Limited (CBPPL), a subsidiary of Kruger Industrial, operates the only remaining newsprint facility in the province. The company employs close to 550 full-time and casual workers among the paper mill, forest operations and power plant.

CBPPL has engaged in a long-term sustainability plan, facilitated by a loan from the Provincial Government. The loan agreement was announced early last year. Under the terms of the agreement, CBPPL has access to a fully repayable loan up to \$110 million to be secured by a mortgage on the company's power assets and water rights, including the Deer Lake Power Plant and Watson's Brook Power Plant. The loan is being used by the company for debt restructuring and capital improvements at the Corner Brook operation, including Deer Lake Power, and has enhanced the sustainability of the mill. Rebalancing the operation of the mill is important to the Corner Brook region, and also has implications for the sawmill industry which exchanges raw material with the paper mill for mutual benefit.

Newsprint shipments were about 241,400 tonnes in 2014, down 0.3% from the previous year. The estimated value of shipments benefitted from the depreciation of the Canadian dollar, increasing over 6% in 2014 compared with the previous year.

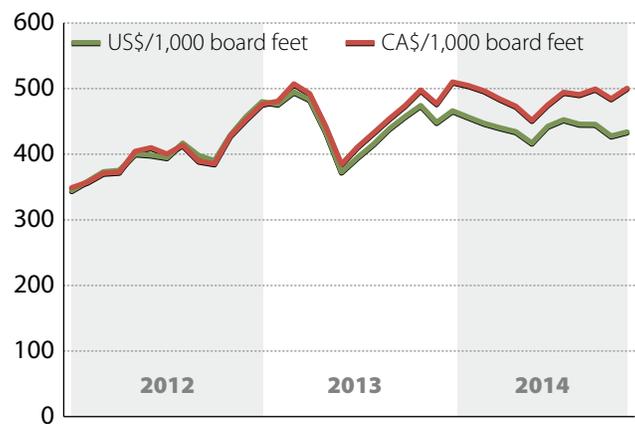
## Lumber Production

The North American lumber industry continues to make gains due to a gradual improvement in the U.S. housing market. Lumber prices remained strong in 2014 (see chart). For the year, prices averaged US\$442/thousand board feet, down from US\$448/thousand board feet in 2013, but high by historical standards. Canadian producers posted solid gains after exchange rate adjustments — the average price for lumber in Canadian dollars increased by approximately 6% in 2014 over the previous year.

Canadian lumber production totalled 25.3 billion board feet during 2014, up 1.1% from 2013. British Columbia accounted for about one half of this production. Solid growth in exports to the U.S. offset lower domestic shipments. Canada exported 17.0 billion board feet of lumber last year, up 4.6% over 2013. Major global markets were the U.S. (71%) and China (19%).

In Newfoundland and Labrador, lumber production is estimated to have declined approximately 18%, from 79.4 million board feet in 2013 to 65.0 million board feet in 2014. This decline is believed to reflect a general reduction in the number of saw log suppliers in the industry, and, in particular, fewer suppliers on the island of Newfoundland.

## Lumber Prices



Note: Price is for Kiln Dried Eastern Spruce-Pine-Fir # 1&2 2x4 R/L - Delivered Great Lakes

Source: Random Lengths Weekly Pricing; Department of Natural Resources; Bank of Canada; Department of Finance

Several large, integrated sawmills account for most of the local lumber production. Producers have been investing to capitalize on lumber demand. For example, Burton's Cove Logging and Lumber Limited in Hampden recently completed a major expansion to improve productivity and increase production. Expansion activities included the establishment of a new single line for lumber production, a mechanized system for sorting logs, and installation of a dry kiln. Some of the increased production is supporting lumber requirements at the newly established wood preservative treating facilities in the province.

## Future Development

The Provincial Government continues to work towards an agreement on the utilization of forest resources in central Newfoundland, which were formerly held by AbitibiBowater. The Department of Natural Resources issued a Call for Expressions of Interest (EOI) in 2013 to develop some of the timber resources formerly held by AbitibiBowater before the closure of the Grand Falls-Windsor mill in 2009. The unallocated wood supply available for development is 280,000m<sup>3</sup>/year. Subsequently, the Province narrowed the proposals to one company, Rentech Inc., and negotiations are currently ongoing.

## Agrifoods

### Farm Cash Receipts

Provincial farms reported receipts of \$95.5 million during the first three quarters of 2014, down 11.4% from the same period in 2013. The drop reflected lower livestock receipts. Livestock and livestock products, which accounted for about 87% of total receipts during this period, were down by 13.1% to \$83.5 million. The main cause of this decline was lower prices at auction for fur. Fur receipts were valued at \$10.2 million during the first nine months of 2014, down from \$21.6 million in 2013. Farm cash receipts from chicken farming are not available due to confidentiality restrictions, but data from the Chicken Farmers of Canada indicates that the volume of chicken produced in the province in 2014 totalled 14.3 million kilograms, up 2.5% from 2013. Total crop production receipts increased 2.0% to \$11.7 million during the period. This growth was due to higher receipts in the field vegetables, small fruits, and floriculture categories.

### Experimental Feed Grain Production

Newfoundland and Labrador's livestock industry is more reliant on external sources for its feed grain than any other province. The province currently imports virtually all of its livestock grain requirements (about 67,000 tonnes annually), which includes corn, wheat, barley and soybean. However, this situation may well change in the foreseeable future. Recent wheat crop trials conducted by the Provincial Government indicates that feed grains can be viably grown in the province. The experimental grain production program is funded by the Provincial Agrifoods Research and Development Program and will enter its fourth year in 2015/16. To date, the trials have been focused on feed for the dairy industry, but the feed could be used for other livestock, such as chicken, sheep and swine. Farmer interest in the program is quite high.

The objectives of the experimental grain program are to reduce input costs for the industry, encourage vertical integration, and provide a more consistent supply of feed. Since grain feed is imported, this supply can be interrupted by bad weather and ice conditions.

Dairy feed includes a mixed ration of forage, grain and other supplements. Dairy farmers have progressed toward self-sufficiency in forage crop, so grain production is the next logical step. The dairy sector imports mostly corn and soybean meal. However, the protein content of local wheat proved to be high enough to replace protein additives, such as soybean, in the feed for cows.

Currently, at least 155 acres are planted with winter wheat, and an additional 77 acres will be planted with spring wheat. All of this planting is on dairy farms throughout the province and the end product is used by the participating farm owner. By April 2015, approximately \$750,000 will have been spent on equipment, supplies and labour in support of the program. Given that grain quality reports have been promising to date, this project is expected to expand and continue well into the future. Soybean trials will also be conducted in 2015. While this local production is currently only for livestock feeding, upcoming projects include milling wheat for baked goods and malting barley for local microbreweries.

# Outlook 2015

## Forestry and Agrifoods

- Excess newsprint supply is anticipated in the North American industry and this is expected to continue to put downward pressure on prices.
  - Newsprint prices are expected to average US\$570/tonne, down from an average of US\$604/tonne in 2014. Canadian producers are expected to receive some relief from the lower exchange rate.
- Newsprint shipments from Newfoundland and Labrador are expected to be around 245,000 tonnes, up 1.5% from 2014.
- North American lumber prices are expected to decline but remain relatively high.
- Lumber production is anticipated to increase to approximately 73 million board feet, reflecting mill improvements and increased capacity.
- Farm cash receipts are expected to post modest gains.

