



Industry News

■ **Sappi Paper announces cutbacks at Westbrook mill** (July 9th)

Sappi paper has announced that it is permanently shutting down a paper machine at its mill in Westbrook, as well as major components of the Westbrook mill's energy complex. The company says this will result in the layoff of 75 employees, and the work will be shifted to mills in Skowhegan and Minnesota.

— *Maine Public*

■ **Jay Pulp and Paper Mill lays off almost 60 workers, more layoffs expected** (July 9th)

A Jay pulp and paper mill that was rocked by an explosion in April is laying off almost 60 workers, with more layoffs on the way. In their statement, company officials noted that reduced pulp-making hurts the area's loggers and truckers. But they say it will be at least October before the company makes decisions about any future wood-buying plans.

— *Maine Public*

■ **Maine loggers welcome fed relief bill as industry struggles** (July 23rd)

Maine loggers worried about the industry's ability to weather pandemic-related market and revenue losses have welcomed a federal relief bill introduced this week. The bipartisan bill would set up a new program at the U.S. Department of Agriculture to provide direct payments to timber companies that can show they experienced significant hardships this year.

— *Maine Biz*

Industry Overview

Forestland Operations

Despite significant volatility in the forest products markets, our work in the woods largely continues as we settle into the new normal of the post-Covid world. The pandemic continues to have only a background effect in our daily routines but has had a very tangible effect on our markets and our ability to keep continuity in what is normally a very predictable process.

Throughout the past quarter, our logging crews have remained busy in the woods. One thing that has made the new routines possible has been the exceptionally dry weather. Broad areas throughout the northeast have been experiencing moderate to severe drought conditions since late June, owing to the lack of rainfall. The dry weather, while a stress on traditional agricultural activities, permits loggers to access areas normally off limits except when the ground is frozen. This not only helps keep production up, but it also opens the doors to accomplish forestry objectives that are normally crammed into an ever-shortening winter.



Lack of rainfall in the region has brought the Aroostook River in Northern Maine down to extremely low levels.

While we have been able to keep crews productive over the quarter, there have been times where we had to be patient due to markets. Thankfully, most perishable products have not been restricted and although timber isn't moving as quickly as we'd like, we have been able to find ways to ensure it does not spoil. The key is managing the forests so that we don't build unnecessary inventories of the products we cannot sell. Our foresters spend a significant portion of their time these days making sure that our loggers are in the right stands where they can continue to practice good forestry based on current market conditions.

NUMBER 2 DIESEL FUEL PRICES - NEW ENGLAND

3 YEAR HISTORICAL MONTHLY AVERAGES



When things are as dry as they are now, forest fire can be a concern, and this has been a peak year for wildfires. While this may evoke images of the catastrophic fires making headlines out in the western U.S., the fuel load in the northeast is much lower and the forest is naturally more resilient to large-scale wildfires. The bulk of wildfires in the timber-growing forests of the northeast are caused by lightning strikes, are limited in size, and can generally be contained quickly.

In recent weeks, the price of diesel fuel (a major consumable for forest products suppliers) has fallen to its lowest point in three years, due to the abundance and cost of crude oil. Having this cost low eliminates, for the time being, one of the many headaches that loggers face on a daily basis.

Forest Products Markets

It's becoming apparent that the new COVID economy will create whole sets of winners and losers in the forest products market, and all are struggling to adapt. A full six months after the virus began to run rampant in the U.S., the production and profitability picture of the different major manufacturers all look vastly different than before the outbreak. That's not to say that they are stable or expected to stay that way - one thing we have all learned in this new economy is we will have to deal with uncertainty.

For now, however, the general picture is one where the composition of a large portion of our traditional timber consumption has swiftly changed. Just a year ago, hardwood pulpwood demand in the region was very strong, and now

it is tepid. Demand spruce & fir stud wood was slowly recovering from a major crash, and now demand for these logs is at a fever pitch. The rapid shift from one regional staple to another has been representative of the whiplash volatility experienced throughout the region. This has left mills and landowners alike anxious about making mid term commitments.

P&C DEMAND INDICATORS

Representing our opinion of market demand for timber products in the Northeastern U.S.

| | CURRENT | OUTLOOK |
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| Sawlogs | | |
| Spruce & Fir | <div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> | DOWN |
| Pine Logs | <div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> | STEADY |
| Hardwood Logs | <div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> | UP |
| Pulpwood | | |
| Hardwood | <div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> | STEADY |
| Spruce & Fir | <div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> | STEADY |
| Pine & Hemlock | <div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> | UP |

We have found that flexibility is the key - instead of mining the forest for the things we can sell to the market, we have instead opted to change locations so that the mix of timber that comes out of a harvest matches the market. Those landowners who found themselves unable to be flexible have been left with inventory on the ground that they cannot deliver.

Pulpwood Products

The COVID outbreak has changed the makeup of the nation's pulp consumption drastically. As the work-from-home trend



LANDOWNER
update

3rd Quarter 2020

- The paper mill was everything to the people of Jay, Maine. Then it exploded.**

(August 12th)

After an explosion at the mill in April, the damaged plant limps along. And as layoffs come, a community is left to wonder: Is this how our mill town dies? The accident destroyed a massive digester at the heart of the plant. A replacement could cost \$200 million to \$300 million, a price mill owner Pixelle Specialty Solutions, may not be willing to pay.

— *Globe Magazine*

- WTO decision on softwood lumber cheered by Canadian producers, denounced in U.S.**

(August 24th)

The WTO dispute-resolution panel declared that the U.S. Department of Commerce and the U.S. International Trade Commission were wrong in 2017 when they imposed countervailing duties on Canadian softwood lumber exports, having concluded that Canada's regulated forestry industry amounts to an unfair subsidy for Canadian producers.

—CBC

- Pandemic DIY projects drive up lumber prices; building supplies run short**

(August 23rd)

Builders and suppliers — particularly of lumber — say demand for services has gone up more than expected this summer, so much so that prices for some goods have more than doubled and supplies are scarce. The price increase will add thousands of dollars to the cost of a typical new home. Demand for treated wood has especially increased, and suppliers haven't been able to keep pace.

— *VT Digger*

took hold, many end-use products such as graphic printing & writing papers used in offices fell quickly out of favor. Additionally, single-use food packaging such as that seen in sports complexes, entertainment venues, conventions, restaurants, and street vendors all but dried up. While store shelves were quickly emptied of tissue paper products immediately following the outbreak, the core issue seemed to be about the supply chain keeping up with demand rather than production keeping pace. On the flip side, as the world isolated at home and began to rely on shipments for everyday items, consumption of paper-based product packaging and containerboard products used in shipping accelerated.

Locally, inventories of pulpwood are extremely high at all our regional pulp facilities. Supply is relatively abundant, and mills are aggressive about keeping pulpwood prices down to reduce their sourcing costs. Several pulp mills have demonstrated the ability to include both hardwood and softwood in their production process, sometimes substituting one for the other, and the trend in recent years has been that softwood pulpwood consumption is on the rise.

Changes in species preferences can complicate matters in the woods. As pulp mills respond to a volatile paper market and fine tune their species composition to match it, there are frequent demand shifts between hardwood and softwood. This makes it difficult for landowners & suppliers to provide consistent wood flow of the proper species –being in the right stand of wood at the right time requires

a lot of planning. There have been a few times this summer where we have had to change location because mills changed their preferred feedstock and the demand we had planned on never took shape. This is frustrating for wood buyers and landowners alike.

The demand for hemlock & pine pulpwood has become very thin, with only limited consumption and a significant supply available already in mill wood yards. Much of the supply issue has been exacerbated by the delay in the startup of the ND Paper mill in Old Town, Maine, which has had some progress but still facing some technical challenges that have held back full scale production. Once this mill begins reliably consuming wood, the substantial oversupply problem will begin to abate fairly quickly.

The bright spot in the pulpwood business has been the structural panel/OSB market driven by a boom in construction. While this is a vastly different end-use than pulp & paper, it consumes nearly identical timber products, so to a landowner these are essentially substitutable destinations. Production of these engineered timber products has ramped up in recent months, and that has helped keep a very tight market for landowners afloat.

Sawn Products

Softwood Sawstock

The giant surprise in the forest products segment has been the sudden and atmospheric rise in the price of dimension lumber. Right



■ **Staggering lumber rally has new homes going for \$16,148 more** (September 14th)

In the wake of coronavirus and wildfires, futures have climbed 57% this year, and even after falling from a record high last month, prices are still on pace for the largest gain since 1993. Boosted by higher material costs, the average new single-family home sells for \$16,148 more in August than it did in mid-April. The average price of a new multifamily home has increased by \$6,107 over the same period.

—Bloomberg

■ **Feds allow Canadian loggers to threaten Maine jobs, Senate president says in complaint** (September 18th)

Canada's struggling forestry companies and its hard-hit sawmilling sector need federal support to get them through to the end of this year. The crash of lumber prices, the pandemic-related halt to the North American economy, combined with the pain felt by softwood lumber tariffs over the last two years has many industry players facing a "brutal" next couple of financial quarters.

—Bangor Daily News

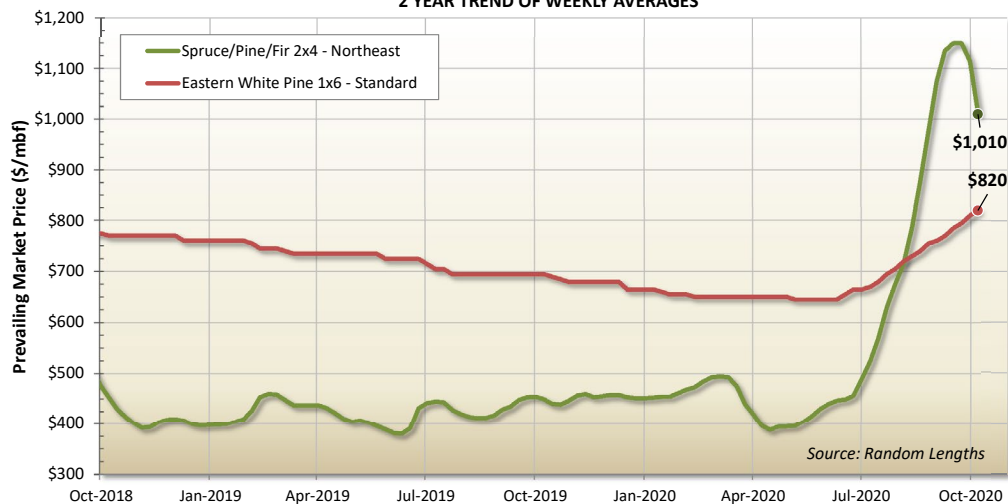
■ **As concerns over climate change rise, more developers turn to wood.** (September 22nd)

Developers are turning to wood for its versatility and sustainability. And prominent companies like Google, Microsoft and Walmart have expressed support for a renewable resource some experts believe could challenge steel and cement as favored materials for construction. Steel and cement generate significant shares of greenhouse gases during every phase of their production. By contrast, wood stores carbon, offsetting the emission of greenhouse gases.

—New York Times

PRICE TRENDS IN SOFTWOOD LUMBER

2 YEAR TREND OF WEEKLY AVERAGES



after the coronavirus crisis started in the U.S., the price of lumber dipped - and a month later took a dramatic leap. In the ensuing four months, the price of 2x4 lumber increased three-fold, shattering records.

With nationwide lumber supplies already stressed, sawmills simply couldn't keep up with demand from construction as homeowners took time to expand or renovate - an unexpected side effect of people spending more time at home. Additionally the disastrous forest fires in the pacific northwest reduced western sawmill output and amplified the supply strain. At this time, the peak appears to have been hit and futures indicate a further slide, but our regional mills are indicating that they are still seeing strong orders. Sawmills in general have a high raw material inventory, but a low finished good inventory - which is the economic sweetspot for a sawmill in a favorable pricing environment. Sawlog prices for spruce & fir hygrade are up over the quarter, a sign that mills are quite hungry to take advantage of the pricing situation.

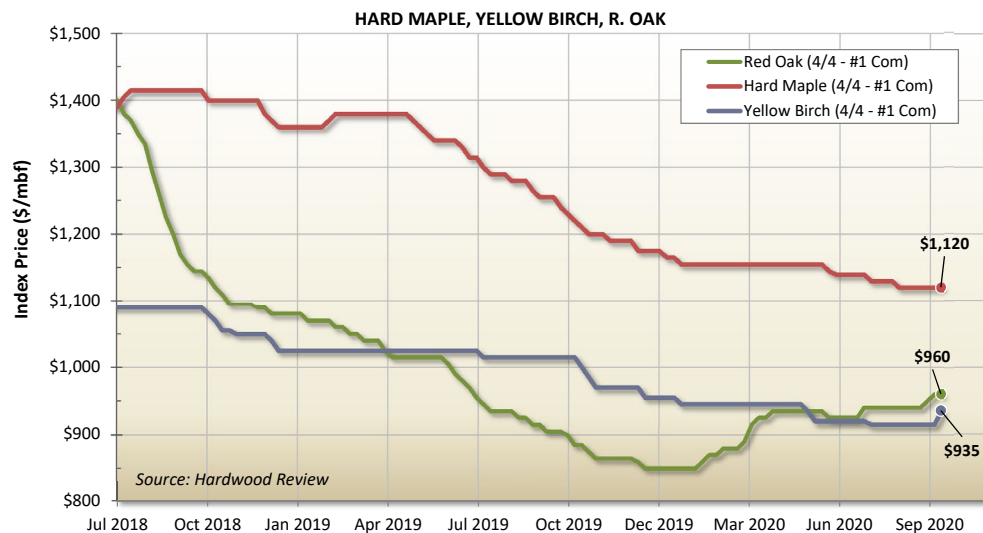
The fact that more softwood chips are being consumed by regional pulp facilities is good news for our spruce & fir sawmills. Chip offtake

For the most part, demand for other species of softwood logs is up as well. White pine lumber, used in many home details and finishes, is experiencing rising prices along with the COVID renovation surge. Pine sawmills are running at full capacity and are hungry for logs. Demand for hemlock logs in the region remains elevated, but this is a factor mostly driven by the lack of local production - loggers currently have little to no market for the pulp, and hemlock trees usually contain a large proportion of pulpwood, so forest stands with a significant hemlock are being avoided. The result is that fewer logs are being made available to hemlock sawmills. Hemlock can also be used as a framing lumber product, and with spruce & fir lumber prices at historic levels, we expect there might be some substitution to cheaper alternatives.

Hardwood Logs

This has been a tough several years for hardwood lumber manufacturers. Lumber prices in almost all species began a downward slide kicked off by the US-China trade war, and the resulting decline in foreign exports. More recently, a hopeful turn has taken place and there has been marginal recovery. We expect the recovery will be protracted.

RECENT PRICES IN HARDWOOD LUMBER - NORTHEAST



is an important revenue source for sawmills, and while they are getting better at getting the most from their logs and minimizing waste, pulp mills rely on this as a relatively cheap fiber source. This healthy and symbiotic relationship is very prominent right now.

Regionally the second quarter is usually a tough one for hardwood logs due to the hot weather and humidity, which can permanently stain the wood if it is left too long before sawing & drying. This creates an urgency in the supply chain once a hardwood log is cut



Jay paper mill to lay off another 51 workers after April explosion (September 24th)

The Androscoggin Mill in Jay started a second round of reductions affecting 51 employees. The news comes five months after a digester exploded and stopped pulp manufacturing, and two months after 59 employees were laid off in July. Affected employees will get compensation, benefits and job-placement assistance and the company will determine details of additional reductions after the mill completes its evaluation of its operation options and its long-term strategy.

— *Bangor Daily News*

Poland Spring seeks new packaging materials derived from Maine's woods (September 29th)

The Poland-based bottler is collaborating with the University of Maine to find alternative packaging that would lessen its use of petroleum-based products. The goal is to reduce the environmental impact of packaging, part of the Poland-based company's effort to reduce its environmental footprint, an initiative that already has it using recycled plastics for many of its bottles.

— *Sun Journal*

and prepared for delivery, and given the lack of predictability inherent in our industry right now, few people are taking chances - if we cannot move the logs right away, we are avoiding it altogether.

Despite the poor hardwood lumber commodity pricing, local prices for hardwood logs are generally up and we are sensing some recovery in demand. Once again, this seems to be a factor of the regional availability of logs - much like the situation with hemlock, the extremely limited market for hardwood pulpwood is causing landowners to think twice about entering hardwood areas. Moreover, much of the current logging capacity has relocated into stands that produce spruce & fir sawlogs. Because of those two factors, we are expecting regional hardwood log prices to rise slightly to reflect the lack of availability.

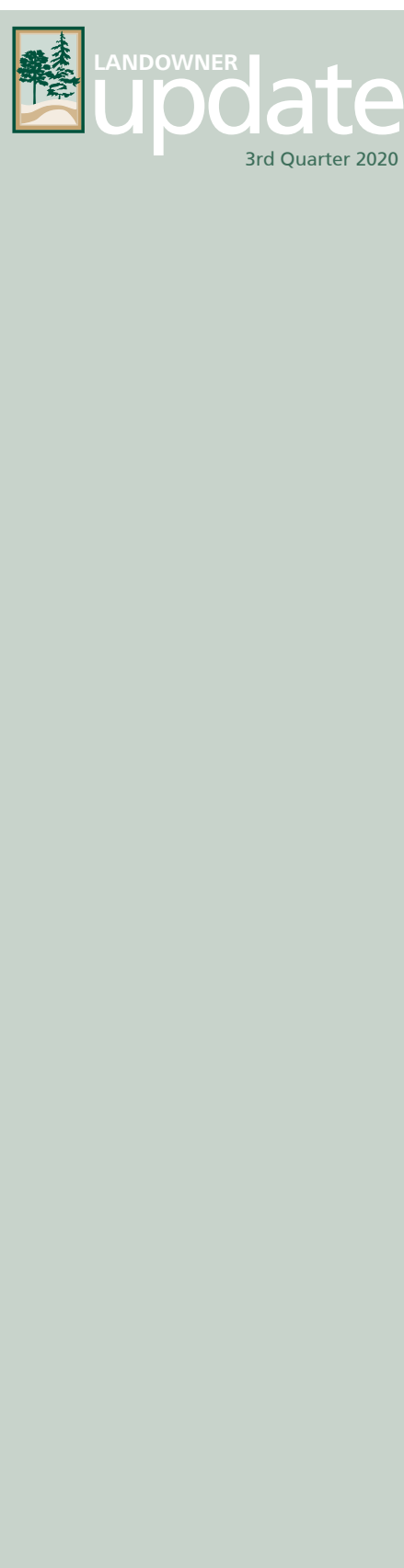
The market for hardwood timber mat logs is as strong as ever, boosted by the need for timber mats used as temporary support structures in construction and infrastructure projects. Several new entrants in the northeast have increased regional output and opened doors for landowners

having difficulty selling grade logs. In fact, with demand for timber mat logs high and hardwood grade logs low, the line is blurred between the two, and the markets occasionally compete with each other. Some mat producers have turned to hemlock as a cheaper alternative when they cannot source the hardwood they need.

In short, we are currently operating in a complicated marketplace with many nuances and a significant amount of volatility. As we look ahead to the 3rd quarter, there's no doubt that the global forces influencing the forest products industry will require us to regularly fine tune our daily activities. 🌲

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PRESIDENT



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