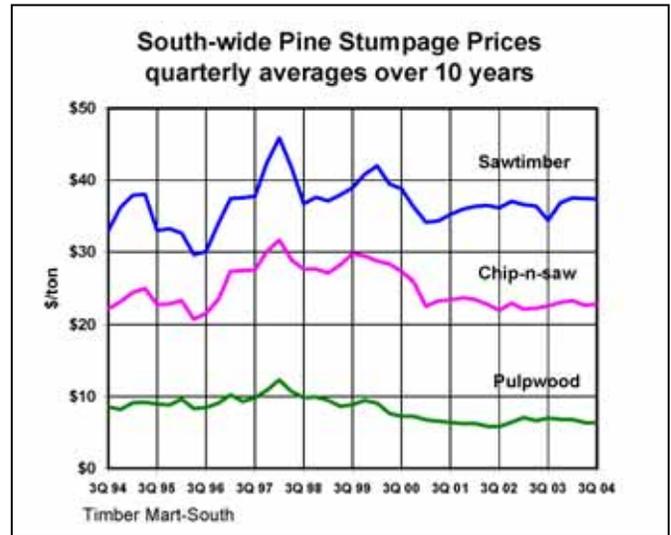


# Timber Mart-South Market Newsletter

3<sup>rd</sup> Quarter 2004 – Vol. 9 No. 3

## Market Conditions

South-wide average prices for four out of the five major stumpage products increased modestly in the 3<sup>rd</sup> Quarter. An unprecedented number of severe storms hit the eastern half of the South this quarter, but the affect on the quarterly average timber prices is difficult to assess. For more on the storms, see “Openings & Closings on page 11 and “Hurricane Season” on page 16.



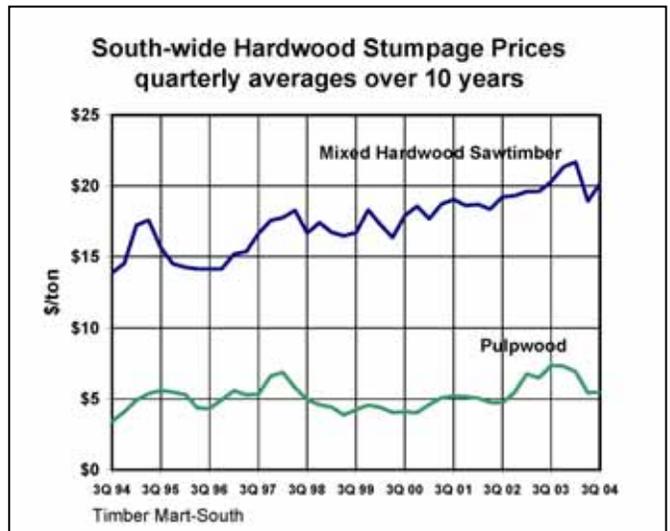
South-wide Average Stumpage Prices \$/ton					
	one quarter			year ago	
	3Q 04	2Q 04	%Δ	3Q 03	%Δ
Pine Sawtimber	\$37.83	\$37.41	+1.1%	\$34.39	+8.7%
Pine Chip-n-saw	\$22.89	\$22.69	+0.9%	\$22.60	+1.2%
Pine Pulpwood	\$6.35	\$6.35	n/c	\$6.97	-8.9%
Hardwood Sawtimber	\$20.15	\$18.91	+6.6%	\$20.29	-0.7%
Hardwood Pulpwood	\$5.47	\$5.43	+0.7%	\$7.36	-25.7%

### Hardwood Prices

The south-wide average mixed hardwood sawtimber price recovered some of last quarter’s loss, with significant price increases in the east. The hardwood pulpwood average price increased slightly, with considerably higher prices along the Atlantic coast. Hardwood prices averaged lower in the west where logging conditions improved with the advent of drier weather.

### Pine Prices

The south-wide pine sawtimber and chip-n-saw average stumpage prices increased this quarter. On average, prices were higher in the east and down in the west, reflecting the switch in wet/dry weather patterns. The average pine pulpwood price remained the same, in spite of wide swings in state averages. Contrary to larger log markets, pine pulpwood prices changed little along the Atlantic coast and were higher across the mid-South.



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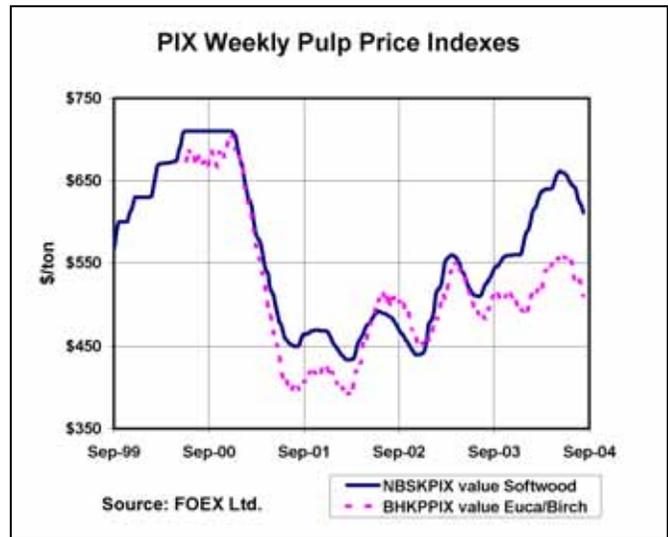
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# Market Indicators

## Pulp & Paper Indicators

**Northern Bleached Softwood Kraft (NBSK) pulp prices** ended the quarter at \$611 per ton, down from \$662 per ton at the end of the 2<sup>nd</sup> Quarter 2004 and up from \$529 at the end of September 2003. Hardwood pulp prices also decreased, losing most of the gains since a year ago and trading at a widened discount to NBSK.



The American Forest and Paper Association (AF&PA) reported that total U.S. wood pulp production as of August 2004 had increased 2.2 percent over the same period in 2003. Compared with the same period a year ago, pulp imports were down and exports up. Paper and paperboard production was up 3.7 percent.

## Lumber & Panel Indicators

The Random Lengths Framing Lumber Composite price approached five-year highs this quarter and then fell off slightly. At \$407 per thousand board feet (mbf) for the week that ended September 24<sup>th</sup>, the composite remained nearly unchanged from \$409 at the end of the previous quarter and up from \$357 one year ago. Random Lengths reported that prices for OSB and plywood continued to oscillate this quarter, increasing to

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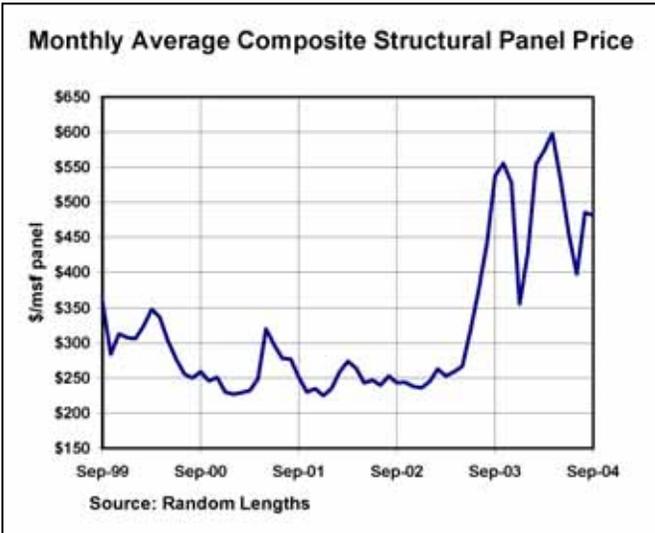
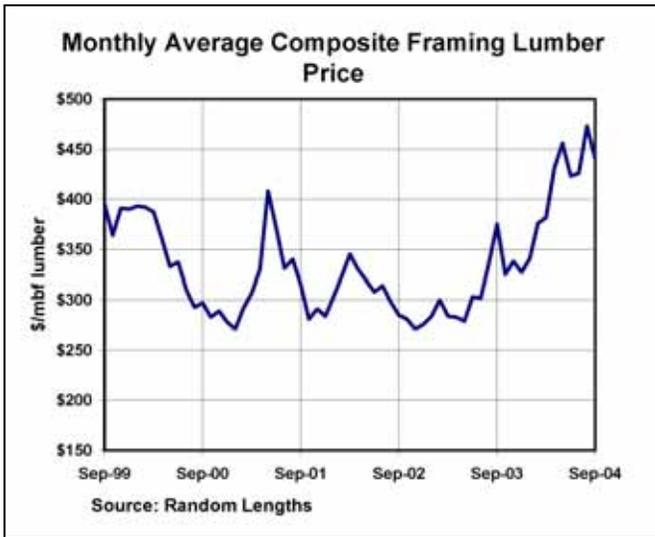
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mid-September peaks and then easing at the end of the month. See "Hurricane Season" on page 16 for weather-related pressure on wood product markets.

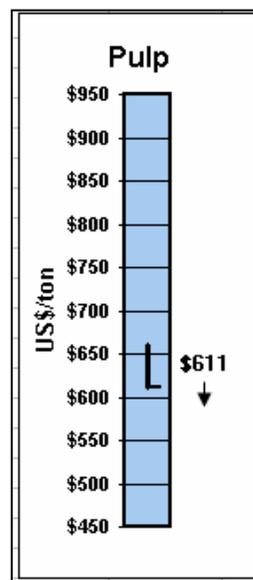


The **Southern Forest Products Association** (SFPA) estimated that year-to-date production through September 15<sup>th</sup> continues to be about 12 percent higher than the same period last year. While slightly below the 1<sup>st</sup> Half 2004 rate, production continues a record-level pace.

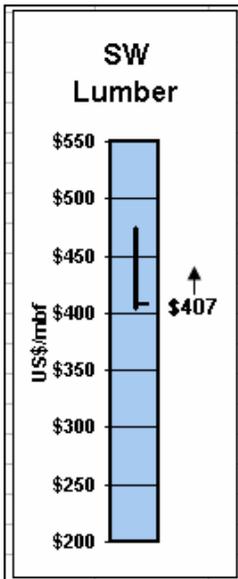
The **APA-Engineered Wood Association** (APA) reported that U.S. panel production remained high through August. Plywood production slowed slightly in July and August, but remained over 5 percent higher year-to-date than the same period in 2003. OSB production maintained its pace set in the 1<sup>st</sup> Half of 2004, up about 10 percent year-to-

date. Panel demand in preparation for hurricanes in the South was complicated by distribution interruptions and post-storm price regulation.

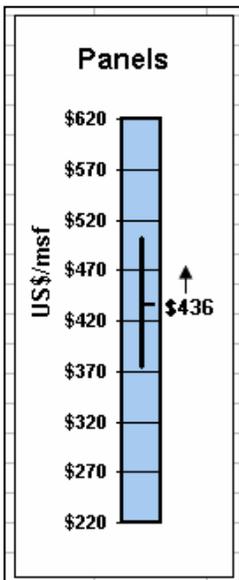
The **Hardwood Publishing Company** reported southern hardwood lumber prices remained stable, with its U.S. Kiln Dried Hardwood Lumber Index ending the quarter at \$1,439 per mbf in September up compared to \$1,418 at the end of June and from \$1,371 at the end of September 2003. Green hardwood lumber prices changed little over the past two quarters but were up from a year ago. Pallet lumber prices increased this quarter and railroad tie prices decreased slightly.



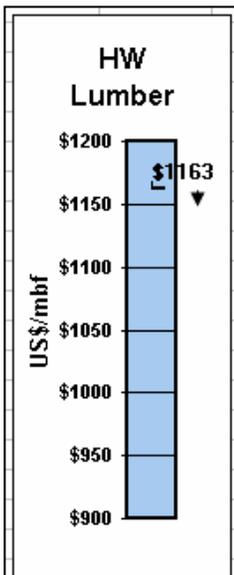
Quarterly movement in the international pulp prices shows weakened pulp markets. Here is another way to look at the **FOEX NBSK pulp price index**. The vertical bar represents the quarterly range with the end-of-quarter price and direction from the beginning of the quarter. The graph also shows the 10-year range of prices.



Quarterly movement in the U.S. softwood framing lumber prices shows markets that are both strong and volatile. Prices increased, peaked and fell again during the quarter. Here is another way to look at the **Random Lengths Framing Lumber Composite Price**. The vertical bar represents the quarterly range with the end-of-quarter price and direction from the beginning of the quarter. The graph also shows the 10-year range of prices.



Quarterly movement in the U.S. structural panel prices shows markets that are both volatile and off their peak levels. Prices increased, but eased back to mid-level. Here is another way to look at the **Random Lengths Structural Panel Composite Price**. The vertical bar represents the quarterly range with the end-of-quarter price and direction from the beginning of the quarter. The graph also shows the 10-year range of prices.



Quarterly movement in the green hardwood lumber prices shows markets that are strong but relatively unchanged. Here is another way to look at the **Hardwood Review Green Lumber Index**. The vertical bar represents the quarterly range with the end-of-quarter price and direction from the beginning of the quarter. The graph also shows the 10-year range of prices.

## U.S. Building Construction

The **U.S. Census Bureau** reported that U.S. total privately-owned housing starts weakened slightly but continued at a strong pace through August. Year-to-date starts were estimated at about 10 percent above the same period in 2003.

## Other Market Factors

The **Federal Reserve Open Market Committee (FOMC)** raised its target for the federal funds rate twice this quarter, 25 basis points each time. From 1.25 percent set on June 30<sup>th</sup> 2004, rate changes on August 10<sup>th</sup> and September 21<sup>st</sup> increased the rate to 1.75 percent. High oil prices and restrained economic growth have analysts divided on the likelihood of future rate increases. **U.S. Bureau of Labor Statistics** Consumer and Producer Price Indices both reported 12-month increases had moderated in August to about 3 percent.

According to the **Federal Home Loan Mortgage Corporation (Freddie Mac)** 30-year mortgage rates eased gradually, ending the 3<sup>rd</sup> Quarter at 5.72 percent, down from 6.25 percent at the end of last quarter and 5.98 percent a year ago. The **Mortgage Bankers Association (MBA)** reported that mortgage loan applications were up from last quarter on a seasonally adjusted basis. Refinancing levels at the end of September remain less than half the total applications, down from two-thirds in March.

The **Dow Jones Industrial Average** finished the quarter down 3.4 percent from the end of the previous quarter and **S&P 500** down 2.3 percent. The yield on 30-year Treasury Bonds retreated to near March lows before rising at the end of the quarter to 4.89 percent on the Chicago Board Options Exchange. High oil prices received blame for slower economic growth and on October 1<sup>st</sup> crude oil futures settled above \$50 a barrel for the first time on the New York Mercantile Exchange.

The **U.S. Bureau of Economic Analysis (BEA)** announced that Gross Domestic Product (GDP) grew at a slower 3.3 percent rate in the 2<sup>nd</sup> Quarter and revised the 1<sup>st</sup> Quarter rate upwards to 4.5 percent.

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# Restructuring

## Boise Cascade Transforms

**Boise Cascade Corporation** (BC) announced in late July its agreement to sell the company's paper, forest products and timberland assets for approximately \$3.7 billion to **Madison Dearborn Partners LLC** (MDP), a private equity investment firm located in Chicago IL. According to BC chief operating officer (COO), George J. Harad, this sale will complete BC's transition from "a predominantly manufacturing-based company to a world-scale distribution company". BC will now focus on its office products distribution business and operate under the name OfficeMax, Inc.

BC acquired Office Max last year and analysts have anticipated the current divestiture for about two years. The transaction, expected to close in November, will create a new privately held company, **Boise Cascade, LLC** with headquarters in Boise ID and W. Thomas Stephens as CEO. Stephens was previously president and CEO of MacMillan Bloedel Ltd. and former chairman,

CEO and president of Manville Corporation.

MDP, with about \$8 billion in funds under management, has participated in several forest and paper products industry acquisitions over the past ten years. Companies include Buckeye Technologies, Graphic Packaging International, Riverwood International, Packaging Corporation of America, and Jefferson Smurfit Group.

The new company will own Boise Building Solutions with its 22 wood product manufacturing facilities in the U.S., Canada and Brazil. Four of these are in the South with three in Louisiana: softwood plywood/veneer manufacturing facilities at Florien and Oakdale LA, and one engineered wood facility in Alexandria LA. BC also has one softwood sawmill at its Jackson AL site. The new company will also receive Boise Paper Solutions which has 5 pulp and paper mills as well as 13 other related facilities in the U.S. BC has two pulp mills in the South: one in Jackson AL with capacity of 800 tons per day (tpd) of hardwood and softwood kraft pulp, and the other in DeRidder LA with capacity of 1300 tpd of softwood kraft pulp. Combined estimated pulpwood consumption is about 3.6 million tons per year. In the timberland portion of the assets, Boise owns or controls approximately 2.3 million acres of timberland in the U.S., with 720,000 acres in Louisiana and Alabama.

**Forest Systems Inc.** of North Easton MA participated in the due diligence for the transaction and may also continue to work with MDP in the timberland portion of the acquisition. One press report offered speculation that MDP could decide to retain ownership of the Boise timberland and create a private or public real estate investment trust (REIT) with Forest Systems. The company refused to comment.

## Georgia-Pacific Sells More Assets

In early September, **Georgia-Pacific** (G-P) announced the sale of three hardwood mills to **Allegheny Wood Products Inc.** (AWP) of Petersburg WV. Of the lumber mills sold, one is in the South at Enfield NC. The other two are Green Valley WV and Marble PA. These mills produce



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red oak, ash, maple, poplar and other varieties of dimensional lumber used in furniture, flooring and cabinet manufacturing with an aggregate production of about 68 million board feet (mmbf) per year. The Enfield mill employs 80 people and has capacity to produce 20 mmbf of Southern hardwood lumber annually. The mill was constructed in 1978.

Founded in 1973, AWP is a family owned company with exclusive cutting rights to 244,000 acres and 60,000 acres of its own timberland. (See TMS Market News, 2<sup>nd</sup> Quarter 2003.) AWP has four existing sawmills, all in West Virginia. Existing production capacity is about 103 mmbf per year. G-P considers the sale as another step towards concentrating its business on wood/gypsum panels, softwood lumber and chemical products.

In an unrelated move, G-P laid off 12 workers at its Port Hudson LA pulp and paper mill in September and plans to eliminate another 40 positions. A press report said the company attributed the measure to a cost-cutting program needed to offset high energy prices. Production will remain unchanged.

### New Boss at Louisiana-Pacific

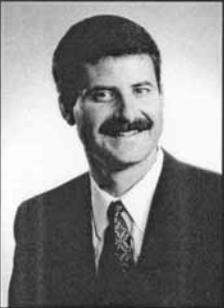
Louisiana-Pacific Corp. announced in August

that Chairman and CEO Mark A. Suwyn will retire from the company effective October 31, 2004. Richard W. Frost, L-P's executive vice president of Commodity Products, Procurement and Engineering was named to succeed Suwyn. Frost, who joined the company in 1996, will also become a member of L-P's board of directors. The company gives Frost credit for consolidating L-P's purchasing and logistics operations and creating new successful Chilean operations. Most recently, Frost has managed the Oriented Strand Board (OSB) and Engineered Wood Products businesses, as well as overseeing Corporate Engineering and all procurement activities.

### Canadian and U.S. Assets

Several Canadian companies purchased forest products industry assets either in the U.S. or from U.S. companies this quarter.

**Ainsworth Lumber Co. Ltd.**, a Canadian forest products company based in Vancouver BC, purchased **Potlatch Corporation's** three OSB manufacturing and related facilities in Grand Rapids, Bemidji, and Cook MN. Ainsworth also acquired a related cogeneration facility and certain intellectual property. The transaction which closed in late September did not include Potlatch's



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320,000 acres of timberland in Minnesota. L. Pendleton Siegel, Potlatch chairman and CEO, said the company continues to study strategic opportunities including the possibility of converting to a real estate investment trust (REIT).

The U.S. Bankruptcy Court in Phoenix AZ approved the acquisition of the sawmill assets of **Crown Pacific Limited Partners** and its affiliates in the U.S. Pacific Northwest by **International Forest Products Limited** (Interfor) a forest products company based in Vancouver BC. The transaction closed on September 1<sup>st</sup>. In addition, Interfor announced on October 4<sup>th</sup> its agreement to acquire **Riverside Forest Products Ltd.** in a cash/stock transaction plus a Contingent Value Right to receive any U.S. softwood duty refunds received by Riverside. The total value of Riverside's equity is approximately \$368 million. Riverside, Canada's largest manufacturer of plywood and veneer, had rejected an unsolicited offer from privately held Tolko Industries Ltd. during the quarter. Interfor said the combined company will become the 7<sup>th</sup> largest lumber company in the world, with 2.3 billion board feet (bbf) in lumber capacity and 530 million square feet (mmsf) of panel production.

**International Paper** announced in July its agreement to sell the capital stock of its **Weldwood of Canada, Ltd.** subsidiary to **West Fraser Timber Co., Ltd.** West Fraser, with headquarters in Vancouver BC, has manufacturing operations in BC and the southern U.S. The Weldwood acquisition includes the following assets:

- Four sawmills that are wholly-owned by Weldwood;
- Full ownership of one sawmill in which the company is currently a 50 percent joint venture partner with Weldwood;
- Controlling interests in two other sawmills in which West Fraser and Weldwood are joint-venture partners;
- Two plywood plants;

- One laminated veneer lumber (LVL) facility;
- One NBSK pulp mill in Hinton, Alberta, and 50 percent ownership in a second NBSK mill in Quesnel, British Columbia; and
- 5.0 million cubic meters of Allowable Annual Cut (AAC).

The approximately US\$950 million all-cash transaction is still subject to certain adjustments at closing. The acquisition will make West Fraser the third largest lumber producer in North America.

I-P chairman and CEO John Faraci explained the choice: "Our significant U.S. land base is highly integrated with our wood products operations because they use more than 75 percent of the saw logs we harvest from our own forestland, while Weldwood's wood fiber comes from harvesting rights on government-owned land. Likewise, Weldwood's two pulp mills in Canada are stand-alone facilities, while our U.S. based pulp business is supplied by mills that also produce other products. Weldwood's stand-alone pulp mills are a good fit with West Fraser's pulp business in Canada."

**Parsons & Whittemore** subsidiary in Canada, St. Anne Nackawic Pulp Co. Ltd. closed its Nackawic pulp mill, filed for bankruptcy protection on September 15<sup>th</sup> and turned both mill and its equipment over to the New Brunswick government. The mill employed more than 400, a key to the local economy. The mill produced about 730 metric tons (mt) per day of hardwood kraft pulp, most of which was sold as Market Pulp.

On September 29<sup>th</sup> **UPM-Kymmene**, of Helsinki, Finland, announced a restructuring program that includes the permanent closure of its Miramichi kraft mill, also in New Brunswick, effective January 31<sup>st</sup>, 2005. The company cited the age of the mill as well as its small size for the closure. The mill produces about 650 mt per day of softwood kraft pulp, less than half of which is sold as Market Pulp. The plan includes some restructuring in the paper mill as well as in the Woodlands Division which manages and operates Crown forest licenses. The restructuring at the Miramichi complex will result in the loss of 400 jobs.

## Other Changes

In late July, Jim Gustin of Pensacola FL, one of three investors in a new operation, **Augusta Tissue Inc.** (ATI), announced plans to spend about \$12 million to dismantle drying equipment, renovate the premises, and install a 100 tons/day tissue machine at the former **Ponderosa Georgia/Ponderosa Fibres of America** market recycled pulp mill in Augusta GA. The re-built facility will make tissue but not pulp. The mill, started in 1970 and idle for several years, closed due to financial difficulties in 2002. ATI is purchasing it out of bankruptcy, helped by abatement of delinquent personal property taxes by the Augusta Commission Finance Committee. The mill will create 55 to 60 new jobs.

**Temple-Inland Inc.** announced in early August its plans to reposition the mortgage origination activities conducted by its wholly-owned subsidiary, **Guaranty Residential Lending Inc** (GRL). In September, the company said that GRL would also sell its third party mortgage servicing portfolio. These actions will affect about 1,500 employees. Both actions are intended to reduce costs and exposure to changing market conditions. The repositioning of origination activities will

probably include the sale or closure of retail origination outlets that are not located in Guaranty Bank branches and is expected to be completed by the end of 2004.

**Wausau Mosinee Paper Corporation** announced that the company name would change to **Wausau Paper** and the ticker symbol on the NYSE changed to WPP on September 10<sup>th</sup>. The move seeks to create a unified brand across the company's business segments. Wausau Paper produces fine printing and writing papers, technical specialty papers, and "away-from-home" towel and tissue products.

## Southern Hemisphere

**Carter Holt Harvey Ltd.**, (CHH) announced on July 23<sup>rd</sup> that it has sold its Rotorua NZ sawmill to **Rotorua Sawmill Ltd**, a consortium of private investors, for an undisclosed price. The company said that the sale of the appearance grade timber mill was part of a decision to focus on world-scale production for the Australasian structural timber markets.

**Tenon Ltd** (ticker NYSE:FFS) formerly known as Fletcher Challenge Forests Ltd, reported on August 10<sup>th</sup> that it would end its American



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Depository Receipt Program (ADR) in the U.S. and de-list from the New York Stock Exchange. The cost of maintaining ADR listing had become disproportionate to the number of shares held by U.S. investors through the program. ADRs had fallen to less than 3.5% of Tenon's share register. The process will take about seven months.

## Timberland Transactions

Timber Mart-South confirmed sales of about 430,000 acres of timberland in the South this quarter and about one million acres year-to-date. At least some of these tracts were sold twice this quarter. The average price per acre was \$1,200 for the quarter and \$1,055 year-to-date.

Both Foley Timber & Land (see TMS Market News, 1<sup>st</sup> Quarter 2004) and CalPERS/Hancock have large sales pending, mostly in Florida, Alabama and the Carolinas. If those two transactions, totaling about 875,000 acres, close in 2004, the South will approach last year's peak of more than two million acres sold. Sales could exceed 2.5 million acres if Boise completes the MDP deal with its 720,000 southeastern acres. (See "Boise Cascade Transforms" on page 5.)

### Weyerhaeuser's Timberland

**Weyerhaeuser Co.** announced closing of its Georgia timberland sales on September 2<sup>nd</sup>, confirming sales of 270,000 acres of the 305,000 acres in the company's previous announcements. The sales totaled about \$400 million (average of about \$1,480 per acre.) However, the sale did not include 34,000 acres in long term leases which Weyerhaeuser will continue to manage.

**Virginia Forest Investments (VFI)**, owned by Benji Griffeth and Holland Ware, purchased the largest portion, about 197,000 acres, along with **Resource Management Systems (RMS)** of Birmingham AL, on behalf of an investor. RMS will manage the property located in 26 counties across the center of the state. The VFI portion

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included the Ocmulgee wildlife management area but the purchasing partners have not discussed whether they would continue Georgia Department of Natural Resources (DNR) management.

The remaining 73,000 acres were divided between three entities. **Georgia Fall Line Properties** of Greensboro GA purchased about 40,800 acres. **Oaky Woods Properties** (Charles Ayer, Southern Timber Consultants) of Perry GA purchased the Oaky Woods wildlife management area (about 19,500 acres.) The new owner has said he will retain the current DNR lease and probably renew in June 2005. **Copper Station Holdings** of Beaufort SC purchased about 12,700 acres.

After this sale, Weyerhaeuser owns or manages approximately 6.5 million acres of timberland in the U.S.

**American Natural Resources, LLC** of Macon GA announced that it had purchased five tracts of Weyerhaeuser's Georgia timberland this quarter totaling 1,324 acres. The acreage is located in the Cedar Creek Wildlife Management Area. Four of the tracts are in Jones County and one tract is in Putnam County. The total purchase price was approximately \$3 million (about \$2,265 per acre.)

On September 3<sup>rd</sup> **AmSouth Bank** announced that, together with RMS, it would manage 24,000 acres of formerly Weyerhaeuser timberland for undisclosed AmSouth clients. The clients paid about \$31 million for the property (about \$1,290 per acre.)

**Weyerhaeuser Co.** announced on September 14<sup>th</sup> its renegotiation of its timber tenure in British Columbia, Canada. The Province will reduce Weyerhaeuser's cutting rights by 1.2 million cubic meters of allowable annual cut and 8,000 hectares (about 19,800 acres) of timber licenses. Weyerhaeuser will receive C\$32.1 million (about US\$25.3 million or \$1,280 per acre) in compensation for the loss of these rights. Weyerhaeuser will retain an annual Crown land harvest of about 4.8 million cubic meters in BC and will continue to operate on reallocated areas until they are transitioned to the Crown.

### Other Transactions

**American Natural Resources, LLC** of Macon, GA also announced its purchase at the end of July of 1,146 acres in Harris County GA from **MeadWestvaco**. The final purchase price of the property was just over \$2.1 million (approx. \$1,830 per acre.)

**Fountain Investments** re-sold about 117,000 acres of the 169,000 acres it purchased from

**Weyerhaeuser** in Tennessee in 2003. (See TMS Market News, 4<sup>th</sup> Quarter 2003.) A press report estimated the land for sold for an average of \$635 per acre.

**GMO Renewable Resources Ltd.** has purchased 44,200 acres in NE Tennessee from privately held **Brimstone Company** for \$23.6 million (\$534 per acre.

**MeadWestvaco** has its 6,654 acre Watson Hill tract in South Carolina near Charleston under contract to **Copper Station LLC** of Beaufort SC. The sale is under protest by several environmental groups. A local news report said that the protestors want to protect the green "corridor" to Charleston from development. Before its merger with Mead, Westvaco was a member of the Ashley River Conservation Coalition, a public and private effort that studied ways to protect the location's historic nature. Westvaco once owned 1.4 million acres in South Carolina, including over 500,000 acres in Berkeley, Charleston, Dorchester and Colleton counties. Since 1993, the company has sold about 30,000 of those acres.

**St. Johns River Water Management District** board in Flagler County FL voted to approve funding to buy development rights on about 18,600 acres of timberland near Palatka FL owned by **Plum Creek Timber Co.** Plum Creek retains timber harvest and hunting rights. SJRWMD would contribute \$4 million and Florida a matching \$4 million for a total of \$8 million (about \$440 per acre.)

**Rayonier** reported on August 12<sup>th</sup> that it closed its acquisition of 83,000 acres of timberland in southern Alabama from CalPERS. (See TMS Market News, 2<sup>nd</sup> Quarter 2004.) The final purchase price was approximately \$89 million (about \$1,072 per acre.) The company expects the purchase to increase Rayonier's annual southeast harvest by 10 percent. The new properties are located near Rayonier's existing ownership of 282,000 acres in Alabama.

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## Outside the South

**P.H. Glatfelter Co.** announced on September 21<sup>st</sup> its agreement to sell 1,981 acres of its timberland in Delaware to **The Conservation Fund** for approximately \$18.3 million (about \$9,240 per acre.) On September 16<sup>th</sup> Glatfelter also completed the sale of 138 acres of timberlands located in Sussex County DE for \$2.4 million to two private individuals. The price was more than \$17,000 per acre.

**The Forestland Group LLC** purchased nearly 17,000 acres in Herkimer County NY for approximately \$3.74 million (\$220 per acre) from **Great Eastern Timber Company**, managed by **Hancock Natural Resource Group**. Most of the land cannot be developed because of state conservation easements.

**Plum Creek Timber Co.** sold the final installment of a three-part, 42,927-acre land deal in the Blackfoot Valley MT: the purchase by **The Nature Conservancy** of 4,600 acres of Plum Creek Timber lands for \$3.3 million (about \$715 per acre.) The entire \$32 million deal is part of a plan developed by the Blackfoot Challenge.

**Roseburg Forest Products** announced agreement in principle to sell up to 133,000 acres of timberlands in northern California over the next five years to **Sierra Pacific Industries**. A bid/auction process ended August 10<sup>th</sup> and an initial 45,000 acre transaction was announced August 13<sup>th</sup>. The price of the sale has not been disclosed. The package is structured in a series of sale agreements to allow Roseburg Forest Products to complete like-kind exchanges over the same period. Roseburg Forest currently owns 800,000 acres of timberlands in southern Oregon and northern California. Sierra Pacific owns or manages approximately 1.5 million acres across northern California.

## Openings & Closings

Storm news overwhelmed reports of market conditions this quarter and maintenance downtime became just a minor punctuation to concerns for production, supply chain and employee safety. Three of the hurricanes that hit, initially came ashore in south Florida where there are few commercial forests or wood product mills. The surprisingly violent affects of this season's storms affected timberland and facilities far from the point of land-fall. For a list of storms and timberland-related news, see "Hurricane Season" on page 16.

One account listed 46 pulp mills in the storm-affected area of seven southeastern states. In addition, there are over 300 pine sawmills and more than 70 panel production facilities in this region. Many mills curtailed production on the approach of the storms. While few sustained actual damage, some remained closed for one or more days due to lack of power and phone lines. Anecdotal accounts had logging crews in demand to help clear the devastated areas, putting pressure on normal logging operations.

### Pulp & Paper

**Blue Ridge Paper** in Canton NC experienced heavy flooding and closure of its pulp and paper mill twice this quarter. Both Frances (on September 8<sup>th</sup>) and Ivan (on September 17<sup>th</sup>) brought rising water that exceeded FEMA 100 year flood plain levels. On September 27<sup>th</sup> Blue Ridge announced repairs were complete and production resumed. Rich Lozyniak, CEO of Blue Ridge Paper said, "Given the damage that we received from the two floods, the recovery has been truly outstanding. Our thanks go to our employees who have made significant personal sacrifices throughout this recovery." Customer shipments from the Canton Mill resumed within 24 hours after the flooding occurred. The flooding did not damage Blue Ridge's extrusion or converting facilities. The Canton mill, purchased from Champion International in 1999, has capacity of 1400 tpd of bleached kraft pulp.



INTERNATIONAL  PAPER

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**Bowater** plans to build a chip facility in Childersburg AL near its Coosa Pines mill. The winning bidder will purchase land from the city in the section of an industrial park adjoining the paper mill's present operation. Bowater would then build the plant, with conveyors transporting the chips directly to where they are processed at the Bowater plant.

**International Paper** mill in Cantonment FL remained shut down longer than originally expected due to wind damage to a chip conveyor unit. The mill had been closed temporarily in preparation for Hurricane Ivan.

**MeadWestvaco** broke ground in July on a \$7 million Gold Hill Wood Processing Center in Buckingham County VA. With plans to process 300,000 tons of wood chips a year for the company's kraft pulp mill in Covington VA, the plant will replace MeadWestvaco's Buckingham County Wood Processing Center. Expected completion is April 2005. The facility will be operated by a third-party contractor, **Fulghum Fibres Inc.**, with MeadWestvaco handling timber purchases. The Buckingham Branch of a short line

railroad was chosen to handle 80 percent of the outbound shipments of wood chips, 8 to 10 loads per day according to a press report.

**Parson & Whittemore's** Alabama Pine Pulp Co. (APP) mill at Perdue Hill AL took a two-week maintenance shut beginning about September 8<sup>th</sup>. The company suspended the annual maintenance outage on that mill and curtailed operations at nearby Alabama River Pulp on September 15<sup>th</sup> in preparation for Hurricane Ivan. Only a skeleton crew remained at the plant as operations were halted for safety concerns. There were no injuries although the mills suffered damage from downed trees and power outages. The company estimates that each mill will lose about one week's production as a result of the storm.

**Smurfit Stone Container Corp.** announced September 21<sup>st</sup> that, as a result of Hurricane Frances, the company curtailed production at its Fernandina Beach and Jacksonville FL mills over the Labor Day weekend. The Panama City FL and Brewton AL mills were temporarily closed due to Hurricane Ivan for a period ranging from two to six days. A press report said that the pulp mill in

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Panama City remained down longer than the linerboard mill to make sure there was a good wood supply for sustained operations. In addition, Smurfit Stone shut several corrugated container plants for a number of days in September because of hurricane disruption.

**Valliant Chips**, a subsidiary of The Price Companies of Monticello AR, began commercial production of wood chips for **Weyerhaeuser's** Valliant OK containerboard mill on September 27<sup>th</sup>. The operators expect the new facility, adjacent to the mill, will lower energy costs, reduce transportation costs, put out higher-quality chips, and produce better and more consistent fuel for Valliant's boiler.

### **Solid Wood: Lumber**

Western Wood Products Association's director of economic services Kevin Binam, speaking at CINTRAFOR's International Forest Products Markets Conference in Seattle in late September, predicted that worldwide lumber demand will lag supply in 2005. High prices and demand in the U.S. markets will continue to attract imports worldwide. High lumber and panel prices in early August led the *Wall Street Journal* to note "sticker shock" in home improvement retail stores. Home Depot reported significantly increased sales of both lumber and panels in the hardest-hit Florida towns after the hurricanes in September. Price freezes in the disaster areas mean the increased demand may initially increase production without driving up prices. Panel producers and retailers reported efforts to meet consumers' needs ahead of the storms including providing re-sale or recycling services.

Robert Jordan of **Jordan Lumber & Supply Inc.** spoke to the Georgia Forestry Association Landowner meeting in Forsyth GA on August 31<sup>st</sup> regarding plans for the company's newly acquired Barnesville GA sawmill. He said the company, which is headquartered in Mt Gilead NC, intends to double the mill's production, from 140 mmbf to 280 mmbf per year, by adding a second shift. He cited good customer relations for the company's successful expansion over the past few years. (See

TMS Market News, 1<sup>st</sup> and 2<sup>nd</sup> Quarter 2004.)

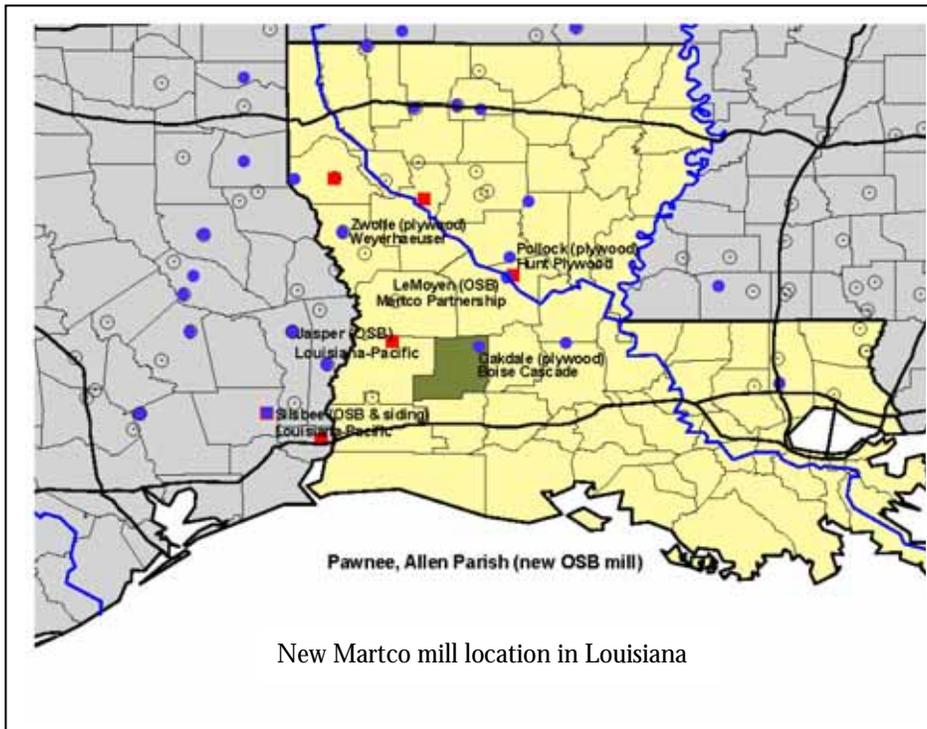
**Rex Lumber LLC** of Graceville FL is installing a new dry kiln to allow the mill to increase annual production from 80 to about 100 mmbf per year of southern pine lumber. Rebuilt on the site of an old U.S. Forest Industries mill that closed in 2000, the Graceville mill has been in operation since May 2003.

**Tolleson Lumber Co.** of Perry GA announced in August that it would expand its Webster County sawmill and add a shift. By going from one to two shifts the mill can double production. The expansion, which includes added drying facilities, will cost \$6-8 million and add about 86 new positions. The mill currently produces 105 million board feet of untreated lumber. The company estimates that it will buy about \$24 million in additional timber per year.

**Weyerhaeuser Co.** announced on June 9<sup>th</sup> that the company would cease pole production at its utility-pole plant in De Queen AR. The company placed the treating plant on the market in November 2003, stating that utility poles were not a core business, but has not been able to find a suitable buyer. De Queen will continue to be home to the company's headquarters for its Arkansas/Oklahoma Timberlands and the De Queen & Eastern Railroad, a wholly owned subsidiary common carrier.

### **Solid Wood: Panels**

**Roy O. Martin Lumber, L.L.C.** (ROM) approved the expansion of its Martco Limited Partnership manufacturing division in July. This expansion will modernize its existing southern pine plywood plant at Chopin LA, so that it can use smaller diameter timber and increase production to 400 mmsf per year from about 310 mmsf per year. In September Martco announced its location for a proposed new oriented strand board (OSB) mill near Oakdale LA. (See TMS Market News, 2<sup>nd</sup> Quarter 2004.) ROM owns about 600,000 acres of timberland in the South.



The location is near Boise Cascade's plywood mill in Oakdale and pulp mill in DeRidder. The nearest OSB mills are Martco's own mill in LeMoyen and Louisiana Pacific's dual-product siding/OSB mill in Silsbee TX. Georgia Pacific's plywood mills in the area are closed. On adjacent map showing mill locations, filled circles represent panel mills, squares pulp mills, and empty circles pine sawmills. The site is within a 2,500 acre block of land owned by ROM and is served by the Union Pacific Railroad. The new mill will employ about 170 people, have a capacity of 700 mmsf per year (3/8) and consume over 1.7 million tons per year of pine pulpwood. The company expects completion in 4<sup>th</sup> Quarter 2006.

**Norbord** announced at the end of August that it plans to take 31 days of maintenance downtime at five of its OSB mills during September and October. The downtime will reduce total production by about 35 million square feet (3/8-inch basis). Three of the mills taking downtime are in the South: Cordele GA, Nacogdoches TX, and Jefferson TX.

### Solid Wood: Hardwood

This quarter three furniture-related hardwood product manufacturing facilities announced they

would close and a flooring facility announced expansion.

**Hooker Furniture** announced it would close its Maiden NC wood furniture manufacturing facility because the company has been unable to generate enough orders to run all four of its domestic wood furniture manufacturing facilities at full capacity.

**Henry County Plywood Corp.** of Ridgeway VA ceased production July 31<sup>st</sup> and is seeking a buyer for its facilities. The company specialized in hardwood plywood products for the furniture industry.

**Hawthorn, Inc.**, a privately-owned, office furniture manufacturer based in Holland MI, announced on July 13<sup>th</sup> it would consolidate its business. The company plans to relocate manufacturing and logistics from its Jonesboro AR and Henderson TX plants to Holland and Big Rapids MI. The company will close facilities in Texas and Arkansas by the end of the year.

In August **Columbia Flooring** announced it would double its Danville VA facility. Construction is scheduled to commence August 2004, with the new line slated to start up production in the first quarter of 2005.

## Other News

### NAFTA and Softwood Lumber

On September 10<sup>th</sup>, the US International Trade Commission (ITC) ruled that Canadian imports of the softwood lumber do not threaten the U.S. lumber industry. The ITC ruling followed an order by the NAFTA panel which decided in August that the U.S. industry was not threatened. The Canadian government and industry officials

claimed victory, but the ITC can now appeal and challenge the process, charging that the NAFTA panel exceeded its authority. Duties have been cut for many of the Canadian firms over the past year and the allocation of the already-collected duties may be one of the most contentious issues remaining in the dispute.

## USDA Forest Inventory News

Delaware soon will begin annual monitoring of state forests, leading a new national forest health program. In September, the USDA Forest Service announced a pilot forest inventory program. Using high-tech satellite data and ground crews, the program will be run in cooperation between the state and the USDA's 13-state regional research station in Newtown Square PA. The USDA plans to enlarge the annual program to all states and use its data to help plan natural resource efforts on local, state and national levels. The state Forest Service will post information from annual field work on its web site. The fourth and last survey of Delaware's forests was completed in 1999.

An inventory of Kentucky's forests through 2003 was presented in August. Kentucky's last full forestry inventory was published in 1988. The state's Division of Forestry worked with the USDA Forest Service to complete the study. Highlights of results are available online.

[http://srsfia2.fs.fed.us/publicweb/individual\\_states/ky/highlights\\_ky\\_03\\_fia.pdf](http://srsfia2.fs.fed.us/publicweb/individual_states/ky/highlights_ky_03_fia.pdf)

A new analysis "Wisconsin's forest resources in 2002" was presented this quarter and is available online at [http://ncrs.fs.fed.us/pubs/rb/rb\\_nc237.pdf](http://ncrs.fs.fed.us/pubs/rb/rb_nc237.pdf)

## NZ Forest to Farm

State-owned, Landcorp Farming Ltd. of Wellington NZ signed an agreement with the owners of the former Fletcher Challenge Forest tree estate, Wairakei Pastoral, in early September to convert 26,000 ha (about 64,000 acres) of the freehold land into farms, many for dairying. Landcorp, New Zealand's largest corporate farmer has agreed to convert the land as the trees are harvested over the coming 15-18 years.

## Plastic Wood in the News

Trex Company announced on September 24<sup>th</sup> that it had agreed to settle the class action suit reported last quarter. (See TMS Market News, 2<sup>nd</sup> Quarter 2004.) The company sought to avoid expensive and time-consuming litigation. In the lawsuit, the plaintiffs alleged that Trex products rot, splinter and degrade as a result of inherent defects in the manufacturing process. The company's decision to settle the case is not an admission of these allegations. Terms of the settlement were not disclosed.

U.S. Plastic Lumber Co. (USPL) filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Florida on July 23<sup>rd</sup>. USPL supplies decking, lumber and component parts manufactured with recycled plastics.

## Global Agriculture Information Network (GAIN) Reports from USDA

The USDA released a *Solid Wood Annual Report* for China (PR), Egypt, Finland, Indonesia, Japan,

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Korea, Malaysia, New Zealand, Sweden and Thailand in the 3<sup>rd</sup> Quarter. In addition, there were special reports for Christmas tree regulations in Mexico and Russia's trade outlook. For the complete reports, access USDA, Foreign Agricultural Service, [www.fas.usda.gov](http://www.fas.usda.gov), click on *Attaché Reports* and select *Solid Wood Products* from *Commodities*.

## Seedling Nursery Directory

In the September/October 2004 issue of the *Forest Landowner* magazine, Forest Landowners Association, Inc. of Atlanta GA published their annual guide to seedling nurseries organized by state. For a copy of the magazine, see contact information at [www.forestlandowners.com](http://www.forestlandowners.com) or phone (800) 325-2954.

# Hurricane Season

Seven named storms hit the South this quarter, all east of the Mississippi River, and Ivan's dual track was yet another unusual event. All seven storms passed through North Carolina some time during their journey. Estimates of forest damage were incomplete at press time and storm effects varied from state to state.

Storm	Strike Zone	Date
Alex	NC	3-Aug
Bonnie	NW FL/GA/SC	12-Aug
Charley	S FL	13-Aug
Frances	S FL/NW FL	5-Sep
Gaston	SC/NC/VA	29-Aug
Ivan	AL/ NW FL	15-Sep
Ivan	TX	23-Sep
Jeanne	S FL	25-Sep

**General weather:** Fierce storms, with rainfall and tornadoes, had crossed the South in August even before a record number of hurricanes. Georgia had the wettest September on record, and precipitation for all states east of Alabama/Tennessee measured above normal for the quarter. This pattern reversed the wet/dry situation of the first half of the year. The adjacent map shows (in lighter tones) that much of the eastern South remains dry

or normal year-to-date in spite of the hurricanes. In contrast to wet weather in the eastern states, portions of Arkansas and the Mississippi Delta in Louisiana had drought conditions by the end of September.

<http://www.hprcc.unl.edu/products/current.html>

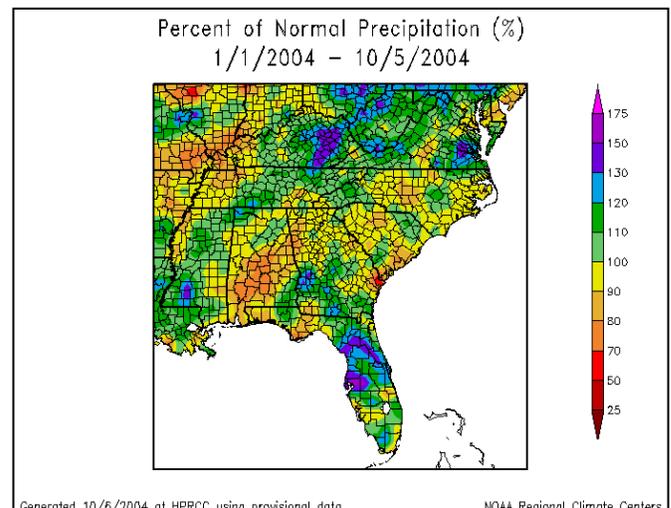
**Forecasts.** In September NOAA declared that El Niño has returned, only weaker than its last visit in 1998. The forecast predicts wetter than normal conditions in Florida, the South Atlantic Coast and East Texas with drier conditions in the Appalachians and average rainfall in the Piedmont.

<http://www.cpc.ncep.noaa.gov/>

**Recovery:** The Florida Division of Forestry estimates that over 24 million acres of Florida forestland were affected by Hurricanes Charley, Frances, Ivan and Jeanne. The Florida Forestry Association (FFA) said the situation has created the largest timber salvage operation in the state's history. Jeff Doran, FFA executive vice president, suggested that a 20 percent recovery of downed timber was an optimistic salvage goal, based on experience of Hurricane Hugo, which struck South Carolina in 1989. Doran encouraged forest landowners in need of harvesters to use the FFA list of Master Loggers through their website.

[www.floridaforest.org](http://www.floridaforest.org)

Flooding was widely reported in the Carolinas and Virginia as a result of the multiple storms. At press time there was no good summary of effects on timberland. Gaston flooded downtown Richmond



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VA after news coverage of the storm had been terminated.

In Alabama, Hurricane Ivan severely damaged timberland in Baldwin, Escambia, and Monroe counties. The Alabama Forestry Association quickly put together a web site with information about past storms, tax hints and other useful information.

<http://www.alaforestry.org/Ivan/>

The Georgia Forestry Commission (GFC) reported that damage was in scattered areas of small groups of trees due to high winds. There was no significant statewide or area-wide damage but some stands that were recently thinned to low basal areas suffered badly. The GFC reported to USFS about 2,500 acres that would likely be liquidated and replanted.

The **Forest Landowner Association** of Atlanta GA reminded timberland owners that federal disaster relief programs do not include forestry or timberland. Some relief may be available through casualty loss claims on income tax returns. The Association recommends landowners work closely with their CPA and reference the *Forest Landowner's Guide to Federal Income Tax*, a USDA Forest Service publication. A downloadable copy is available online:

[http://www.srs.fs.usda.gov/pubs/misc/ah\\_718.pdf](http://www.srs.fs.usda.gov/pubs/misc/ah_718.pdf)

## Timberland Investment in Uruguay

By Brooks C Mendell, PhD

Increased interest in timberland investments has encouraged U.S. based timberland investment professionals to investigate alternative opportunities for further diversifying and enhancing the returns of their timberland investment portfolios. These strategies include the addition of South American timberland properties in countries such as Brazil, Argentina, Chile and, the focus of this article, Uruguay.

The first questions that investors ask with regards to potential Uruguayan timberland investments have to do with Uruguay itself. Where is it? How big is it? How stable are its political, financial, and economic systems? Uruguay, a Spanish-speaking country nestled between Brazil and Argentina on southern South America's eastern seaboard, features a population of 3.3 million in a country the size of Washington State. Modern health care and state-sponsored university education support an average life expectancy and a literacy rate greater than that of the U.S. Economically, Uruguay has a GDP exceeding \$30 billion, approximately one-tenth that of the state of Georgia. Two-thirds of the economic activity derives from the service sector, one quarter from industrial activities, and the balance from an export-oriented agricultural sector. Primary exports include meat, leather, wool, rice, wheat, and dairy products. One third of these exports go to the neighboring countries of Brazil and Argentina, while 8 percent come to the United States.

With respect to its forest industry activities, Uruguay is small and inexperienced relative to its South American neighbors. Significant interest and investment over the past fifteen years has helped Uruguay's forest industry grow rapidly. According to the National Agriculture Research Institute (INIA: Instituto Nacional de Investigacion Agropecuaria), between 1988 and 1998, the establishment rate of new forest plantations increased from 5,000 acres (2,000 hectares) per year to 125,000 acres (50,000 hectares) per year. This surge followed the implementation of a National Forestry Plan in 1987 that provided subsidies for tree planting. The first projects used *Eucalyptus grandis* for producing raw material for pulp production. Later plantations included *Eucalyptus globulus* and pine species, including Loblolly and Slash. Overall, eucalyptus acres outnumber pine acres 2 to 1. Today, Uruguay has over 2.9 million acres (1.2 million hectares) of forests, half of which are industrial plantations. In comparison, Georgia has nearly 24 million acres of commercial forestland, 6.6 million of which are plantation in origin.

Virginia with about 15 million acres of commercial forest has about the same acreage in industrial plantations as Uruguay.

Several multinational forest industry firms and timber investment management organizations (TIMOs), such as Renewable Resources (the forest investment arm of Grantham, Mayo and Van Otterloo), joined or followed this timberland investment growth in Uruguay in the 1990s. Finland's Botnia, Spain's ENCE, and Weyerhaeuser of the U.S. have established industrial operations in the central, northern, and eastern regions. Botnia has plans to build what would be the world's largest pulp facility near Fray Bentos, a port facility in the east. ENCE has and is building major chip facilities. Weyerhaeuser, operating through Colonvade S.A. in a partnership with Global Forest Partners, manages over 245,000 acres of pine and eucalyptus plantations. Colonvade plans to begin construction on a major plywood facility in Tacuarembó in the center of the country. These industrial level operations joined a domestic industry of small and mid-sized entities such as Arazati and Caja Bancaria, who have operated sawmills for over thirty years in Uruguay.

Independent, ordinary investors still see opportunities for timberland investments in Uruguay. Smaller Uruguayan investors and plantation owners have started forming

associations to share resources and develop investment strategies. These associations are actively partnering and negotiating with South American, Canadian, and U.S. investors to gain access to capital and export markets for lumber, treated products, firewood, and visual grade moldings. International investors continue to visit Uruguay seeking investment grade timberland properties. Recent timber and timberland investors – with purchases and contracts in the past two years – include individuals from France and Argentina, as well as small firms from Vietnam.

From a forestry perspective, Uruguay is attractive because, with fast growing species, it is possible to grow substantial forestry resources in a limited time frame. For Loblolly pine, depending on the specific region, trees grow 2 to 4 times faster than in the Southern U.S. Interestingly, from a market perspective, Uruguay features the lowest per capita consumption of forest products in South America, placing significant emphasis on the development and maintenance of export markets.

TIMOs and multinationals find Uruguay attractive because it features stable political and financial systems, especially relative to its South American neighbors, an educated workforce that includes trained foresters, dollar-denominated forestry assets with reduced currency risk, and direct access to South American export markets through membership in MERCOSUR, the regional trade pact. For Uruguay's forest products industry, the next decade appears to include the further development of its wood supply markets, as multinationals break ground for new pulp mills and plywood plants, and domestic investors grow existing sawmills and treatment facilities.

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