



February 22, 2007

Paper & Forest Products

Sector Weighting:
Underweight

Russia Plans To Dramatically Increase Its Export Tax On Logs

A Structural Change In Global Wood Markets

- On February 5, the Russian government announced that it will be steadily increasing its export tax on logs over the next two years. It will rise from 6.5% at present, to 20% in July 2007, 25% in April 2008, and 80% in January 2009. The objective is to stimulate the domestic processing of logs.
- This event is significant because Russia is the powerhouse of the global log market. Russia currently supplies about 40% of the world's exports of softwood logs. Russia also accounts for over 80% of the logs imported into China and Finland, and a high percentage going to Japan and S. Korea.
- In our view, this is a meaningful event that signals a fundamental structural change in the global market for logs. This shock, in conjunction with two others, may well be sufficient to shift the perception of wood from being relatively abundant to relatively scarce.
- The biggest winners from this shock are companies with large timber operations like: Plum Creek, Rayonier, and Weyerhaeuser in the U.S.; TimberWest in Canada; Gunns and Willmott Forests in Australia; and Sino-Forest in China. The biggest loser is likely Sumitomo Forestry in Japan.

All figures in Canadian dollars, unless otherwise stated.

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The Event

On February 5, the Russian government announced that it would be significantly increasing its export duty on raw logs. We were expecting this announcement, but the magnitude of the increase is greater than we had anticipated.

Russia will be increasing its export tax on logs from 6.5% to 80% over the next two years.

It is not an understatement to say that this move has created significant anxiety throughout the European and Asian paper & forest products industries. This is justified. While Russia plays a minor role in the markets for processed paper and forest products, it is the powerhouse in the global market for logs. In our view, the announcement signals a fundamental structural change in the global market for wood fiber.

As of Jan. 1, 2007, the export tax on softwood logs was at 6.5%, but not less than 6 euro/m³. The tax amount is based on the FOB price in Russian ports.

There appears to be some variation as to the magnitude of the announced tax change, depending on the specific species and size of the logs. Given that the new regulation (Regulation #75) is in Russian, it is difficult to identify all of these subtleties. However, our understanding is that it will affect essentially all of Russia's log exports going forward.

Softwood accounts for by far the majority of the global trade in logs, and Regulation #75 suggests the following schedule of new export tax rates on softwood logs:

- July 1, 2007: 20%, but not less than 10 euros/m³;
- April 1, 2008: 25%, but not less than 15 euros/m³;
- January 1, 2009: 80%, but not less than 50 euros/m³.

Assuming the Russian government implements the published tariff schedule, this is a significant event for the global wood fiber market. This assertion is supported by the fact that:

Russia is the world's largest exporter of both softwood and hardwood logs – so this is a significant event.

- Russia is the world's largest exporter of both softwood and hardwood logs. Softwood logs account for the bulk of this trade flow, and Russia accounts for roughly 40% of the world's total softwood exports.
- From an importer's perspective, Russia accounts for over 80% of the logs imported into Finland and China, and a large proportion of the logs imported into Japan and South Korea.
- Russia contains over 20% of the world's timber resource. Although much of the area is currently economically inaccessible, Russia's forest cover is greater than that of Canada and Brazil combined.
- While Russia's actual harvest in 2005 was only 132 million m³ compared to the Annual Allowable Cut of 564 million m³, the Federal Russian Forestry Agency estimates that the economically available harvest is still 250 million m³. The potential incremental increase of 120 million m³ represents roughly a 90% increase on the current harvest, or an amount equal to about 60% of Canada's national harvest.

The Russian Perspective

Over the past 10 years, Russian log exports have increased by more than 2.5 times.

In terms of context, over the past 10 years, Russian log exports have increased by more than 2.5 times. Of the roughly 53 million m³ that were exported in 2006, about 30 million m³ went to the Pacific Rim and 20 million m³ to Europe.

The February 5 announcement is more dramatic than the 25% rate we had expected. However, the general move should not have been a surprise to those pundits who have been watching Russia over the past year.

On April 6, 2006, at a meeting on forestry sector and wood industry development, President Putin noted in his opening remarks:

"We export this unprocessed wood in huge quantities. Russia's share of the world wood trade is less than three percent in terms of foreign currency earnings, but it is 22 percent for round timber. Our neighbours continue to make billions of dollars out of Russia's forests. We meanwhile, are doing little to develop our own wood processing industry. We still have not put in place new customs duty regulations that would encourage the establishment of processing facilities on Russian soil rather than exports of unprocessed wood."

And further:

"We are desperately short of processing capacity. The result is that, although we are rich in forest resources, our imports of wood and paper products are growing every year, paradoxical though this may seem, and has already reached a figure today of more than \$3 billion. This is how much we spend to import wood and paper products into Russia – the country with the biggest forestry resources in the world. By the way, our products are not easily allowed to the markets. Non-tariff constraints, administrative barriers, and ever newly invented pretexts are being used to keep our products out of the markets."

At a meeting on December 12, 2006, the Russian Minister for Economic Development and Trade (Minister Gref) gave a presentation entitled "On Advancing Market Mechanisms to Support Export of Made-in-Russia Products and Services." In his presentation, he proposed a series of changes to taxation policy in the area of foreign trade. These included the "introduction of prohibitive export duties on some raw materials including round wood."

The dramatically higher log export taxes should be seen in a broader context in which Russia is becoming more aggressive in asserting control over its natural resources.

In our view, the dramatically higher log export taxes should be seen in a broader context in which Russia is becoming more aggressive in asserting control over its natural resources.

It can be safely assumed that there are powerful people involved in the log export trade who oppose the announced tax changes. Furthermore, it is estimated that exporting timber has created 2,500–4,000 jobs in the Russian forestry and transport industry, and these jobs would be jeopardized. However, it should also be noted that in general the logging industry in Russia is very fragmented. It is estimated that the five largest companies account for less than 10% of the total fellings in the country. The bulk of the harvesting is done by some 20,000 logging and harvesting enterprises. This type of industry structure

is not conducive to mounting an effective lobbying campaign against the proposed changes.

To further understand the Russian perspective, it is useful to examine the data in Exhibit 1 from the Federal Russian Forestry Agency. Three data points are provided for each of the major districts in Russia for the year 2005: 1) the actual harvest; 2) the available harvest that is economically accessible; and 3) the percentage of the actual harvest that could be processed within that region. For example, in the case of the Russian Far East:

- 14 million m³ of logs were actually harvested;
- 33 million m³ of logs were economically available for harvesting;
- There is only enough local processing capacity to handle 2% of the actual harvest.

The two most salient points to note from Exhibit 1 are:

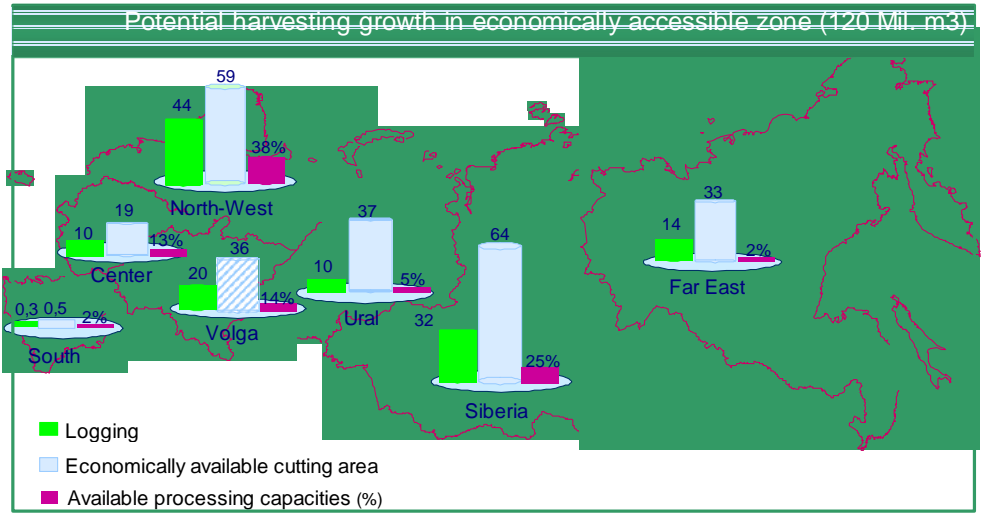
Only a small fraction of Russia's harvest is processed domestically.

1. Only a small fraction of Russia's harvest is processed domestically. As a result, the bulk of the value-added is perceived to be captured by producers outside of Russia.
2. At least according to the government, there is significant room to economically expand the current timber harvest levels in Russia. As indicated above, at the national level, the harvest could be economically increased by roughly 90%. Under the status quo, the Russian government envisions an even greater exploitation of its timber resource by foreigners over time. (This is understandable since China's timber supply deficit for logs and primary wood products is expected to double by 2020.)

Even in an optimistic scenario, we are likely looking at least at a five- to seven-year period before a potential increase in the export of processed products from Russia could fill the vacuum created by the reduction in log exports.

The intent of the new tax regime is clearly to stimulate the domestic processing of timber. Whether or not this is successful depends on a number of factors that are discussed below. However, even in an optimistic scenario, we believe we are likely looking at least at a five- to seven-year period before a potential increase in the export of processed products from Russia could fill the vacuum created by the reduction in log exports.

Exhibit 1. Disproportion Of Harvesting Volumes And Timber Processing Capacities In Russia



Source: Federal Russian Forestry Agency

Finland’s Minister of Foreign Trade asserts that Russia’s move violates the World Trade Organization (WTO) treaty it signed three years ago. However, our discussions with trade experts suggest that Russia is likely acting within its rights.

Note that essentially every other government in the world places some restrictions on the export of raw logs from publicly owned lands (and essentially all of the timberland in Russia is still in the public domain). In fact, log exports are legislatively forbidden in countries like Finland, China, and Malaysia, and highly regulated on public lands in countries like Canada and the United States.

The bottom line is that observers should not be totally surprised by the announced increases in Russia’s export tax. While the Russian government may modify the proposed changes in response to international pressure, we do not expect a return to anywhere near the status quo. In our view, we are seeing a fundamental structural change in the global market for wood fiber.

Note that from a Russian perspective, another positive impact of the export tax is that it will arguably result in a lower level of illegal logging within Russia (and a higher level in other countries). This issue is examined in more detail in Appendix A.

The Economic Impact

We expect the shock to increase the global price of raw logs, and decrease the price of logs within Russia.

Given the sheer magnitude of the export tax increase and Russia's large share of the global log market, we expect the shock to increase the global price of raw logs. It will also place upward pressure on the global price of those commodities for which logs make up the bulk of the variable costs. This is particularly the case for plywood, lumber, and, to a lesser extent, pulp. However, due to the number of moving variables, it is difficult to quantify the impact on prices at this point.

We also expect the high export taxes to decrease the domestic Russian price of logs due to the reduction in export demand. The lower price will assist Russian wood processors. However, it will also have the unintended consequence of decreasing the economic supply of timber suggested in Exhibit 1 above.

In terms of national impact, the main winners are the other large log-exporting nations, while the main losers are the large log importers – especially those that are currently dependent on Russia.

- The United States is the world's second-largest exporter of logs, but it is still less than ¼ of the volume coming out of Russia. The remaining top five national exporters are Germany, New Zealand, and Canada.
- Russia accounts for over 80% of the logs imported into Finland and China, and a large proportion of the logs imported into Japan and South Korea. Russia provides roughly 20% of the logs currently consumed in Finland.
- The importance of the international log trade has increased dramatically in recent years. For example, we have seen roughly a doubling of log imports into Finland since 1997 and into China just since 2001.

As indicated above, the Russian move will have the biggest impact on the prices of logs, as well as those products for which logs make up the largest proportion of variable costs (e.g., plywood, lumber, and to a lesser extent, pulp). In general:

- The biggest winners are expected to be timberland owners in other countries who are well positioned to fill the vacuum created by the withdrawal of Russian logs. As is normally the case, increased prices of logs and processed wood products tend to get capitalized into the value of the input in most inelastic supply, which is the value of the standing timber.

At least in Japan, the initial reaction to the "Russian shock" appears to be a rising preference for domestic species, and reconsideration of North American species in light of the decreasing confidence in future supplies from Europe. We expect to see the same reaction in China. We also expect further demand for logs from New Zealand/Australia, but their supply response is likely limited in the short/medium term.

- Note that the upward pressure on European wood prices resulting from the decrease in Russian supply is being reinforced by the increasing demand for wood fiber for the production of bio-energy. At a minimum, the combination of these factors will seriously squeeze profit margins in the northern European industry and likely trigger further mill closures.

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Among the processed products, our sense is that plywood, lumber, and pulp prices should likely benefit the most from this shock.

- Among the processed products, our sense is that plywood prices should likely benefit the most from this shock. The main reasons are:
 - Logs typically make up as much as 65% of the variable cost of producing plywood;
 - China is the largest producer of plywood in the world (as well as being a major exporter), and it depends heavily on Russia for its peeler logs;
 - Japanese, South Korean, and Scandinavian plywood producers have also become increasingly dependent on Russian peeler logs in recent years.

The shock to the Chinese industry may well breathe new life (at least temporarily) into the plywood industry in North America, South America, and Australia/New Zealand. (At a minimum, it should provide a safety valve for those producers who have been negatively affected by the weak U.S. housing market.) However, given the underlying economics, it will also likely serve as an incentive for OSB production to expand beyond its primarily North American base and "go global." We would expect a number of new entrants to participate in this expansion, in addition to the established players like Louisiana-Pacific (LPX-SP), Weyerhaeuser (WY-SP), and Norbord (NBD-SP).

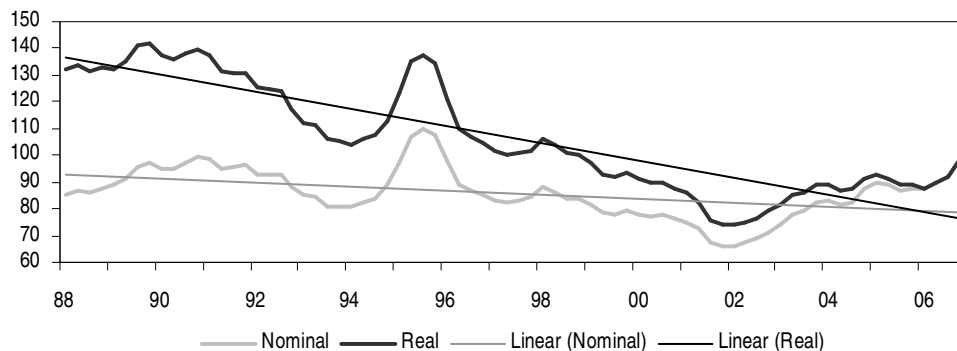
- Lumber is likely the commodity to be the second-biggest beneficiary of this shock.
 - Logs typically make up as much 65%-75% of the variable cost of producing lumber.
 - Lumber producers who focus on the higher-value end of the market will likely find the greatest opportunities in Japan and South Korea.
 - Producers who focus on the lower-value end of the market should likely focus on China.
 - In general, given the complex distribution channels in these countries, it will generally be the players with an established presence in these particular markets that benefit the most.
- Market pulp is likely the commodity to be the third-biggest beneficiary of this shock.
 - Wood fiber typically makes up roughly 45%-55% of the variable cost of producing market pulp.
 - Europe contributes roughly 30% of the world's total market pulp capacity, and about 50% of the total Northern Bleached Softwood Kraft pulp capacity.
 - Given that they tend to use the lower-quality trees, the pulp mills are also more vulnerable to the increasing competition for fiber from the growing bio-energy sector.

Prices of Russian logs in Asia have already been moving up over the past year due to a combination of: (1) solid growth in demand in China, Japan, and South Korea; and (2) anticipation of such a move by Russia. For example, Russian spruce (ezo) logs CIF Japan are currently going for US\$155/m³-\$160/m³, which is about 50% higher than a year ago. As a result, Japanese sawmillers of

Russian wood have increased their price for ezo-spruce lumber by over 35% since this time last year.

It is also useful to examine wood prices over a longer time horizon. During the period 1985–1995, the conventional view was of increasing scarcity of wood in the global fiber market. Since the mid-1990s, the view has shifted to one of an abundance of wood. Exhibit 2 documents the nominal and real changes in the average global U.S.-dollar price of softwood fiber since 1988. As illustrated, both the nominal and real price trends have been negative over this period.

Exhibit 2. Global Average Price Of Softwood Fibre: Real And Nominal US\$



Source: Wood Resource Quarterly, and CIBC World Markets Inc.

If we just focus on the period since 2002, prices have been on an upswing. We have generally attributed most of the upward pressure to:

- The strong cyclical recovery in the North American housing market over much of this period, and
- The weakening of the U.S. currency, which served to raise the U.S. dollar price of logs produced in other countries.

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This shift in perceptions will likely be reinforced later this year by two other meaningful shocks.

However, we are coming to the view that we may be at the beginning of a new upward trend in log prices. It is in 2007 that we will likely see a shift in perceptions back to one of wood scarcity. In hindsight, the Russian announcement may well be seen as the catalyst for this change in perception.

We think this shift in perceptions will also be reinforced later this year by two other meaningful shocks:

1. **The impact of increased demand for wood fiber for the production of bio-energy.** This has already become a significant issue in Europe, and will likely become a bigger factor elsewhere. Interestingly, aside from the desire to reduce the emissions of Green House Gases, one of the key reasons for Europe increasing its demand for wood-based bio-energy is its concern about the security of oil and gas imports from Russia. Note that we are also already seeing changes in land-use patterns in places like Indonesia as acreage is shifted from the production of timber to palm oil for bio-energy.

2. **The full extent of the fall down in British Columbia's harvest in the aftermath of the Mountain Pine Beetle epidemic is realized by the market.** The conventional wisdom is that we will see a 25%–35% decline in the Annual Allowable Cut (AAC) in the B.C. Interior in eight to 10 years. We think the focus will change from AAC to economic harvest, and there is increasing evidence that the economic supply of wood will fall by roughly 50% around three to five years from now.

Lumber extracted from a log is generally only about half of the total volume of the log. This is the reason the vast majority of logs in the world are processed relatively close to where they are harvested.

When Does It Make Sense To Export Logs?

Relative to the cost of shipping lumber, plywood, or pulp, it is expensive to transport logs. For example, the lumber extracted from the log is generally only about half of the total volume of the log. The lumber is also that much lighter if it is kiln dried. This is the reason that the vast majority of logs are processed relatively close to where they are harvested.

The above fact begs the question – when does it make sense to export logs? The answer is important, since it provides insight into whether increased exports of processed wood from Russia will eventually fill the vacuum created by the elimination of log exports.

There are a number of reasons why foreigners may in fact be willing and able to pay more for Russian logs than are Russian processors. However, the three most likely are:

1. Foreign barriers to forest products exports from Russia;
2. Foreign subsidies for log processing; and
3. Uncompetitive manufacturing costs in Russia.

Each of these reasons is addressed in turn.

- First, as noted by President Putin in the second quote given above, the Russian government has already cited foreign barriers to Russian exports of processed products as one of the justifications for its announcement. For example, China does place both tariff and non-tariff barriers on a range of forest products.
- Second, subsidies for log processing are generally in the form of subsidies on capital. Our understanding is that such subsidies are not widespread in Japan and Finland. However, there is a general perception that capital subsidies are prevalent in China. We would argue that this is much more relevant for the import of pulp logs than higher-quality peelers or sawlogs since the pulp & paper mills are much more capital intensive. The overwhelming majority of Chinese solidwood mills are very small operations, and, thus, do not enjoy a meaningful benefit from an artificially low cost of capital.

- Third, in general, there is little argument that the bulk of the Russian wood processing sector is uncompetitive. At the aggregate level, there has been little new investment in the Russian industry. According to Expert RA, a Russian debt rating agency, *"A clear lack of investment is holding the (forest) industry back. In the last three years, fixed capital investments remained level while the average equipment was around 25 years old and the majority depreciated by 80%."*

China is able to pay more for the imported sawlogs and peelers primarily because it enjoys such a compelling advantage in labor costs. Countries like Finland and Japan have highly automated mills that are very efficient, and thus can pay more for logs.

The first two reasons provide at least an intellectual justification for some form of export tax, which would conceptually "level the playing field." However, the export tax outlined is a very blunt instrument that does not distinguish between countries or sectors.

In the context of competitive markets, log exports are primarily a symptom rather than a cause of the economic problems facing a local industry.

In the context of competitive markets, log exports are primarily a symptom rather than a cause of the economic problems facing a local industry. Most frequently, this problem is a domestic processing sector that has uncompetitive costs.

The dramatically higher log export taxes will help subsidize the domestic Russian processing industries through a reduction in the cost of fiber. The biggest beneficiary within Russia will likely be the plywood industry, which has already experienced meaningful growth in recent years. Unlike the lumber and pulp & paper sectors whose production has remained essentially flat, since 2000 Russian plywood production and exports have risen roughly 70% and 50%, respectively.

The ability to attract new investment into the Russian processing sector will still be impeded by a number of other factors.

However, in our view, the ability to attract new investment will still be impeded by a number of other factors including:

1. The general hosting conditions;
2. Need for a complete forest sector complex;
3. Future labor supply; and
4. Developments of the ruble exchange rate.

Hosting Conditions

Investors want a stable, predictable, rule-based business and investment climate. This should be augmented by an internationally competitive taxation regime.

Russia must overcome perceived deficiencies in its business climate.

Russia must overcome real and/or perceived deficiencies in its business climate. This includes the view that:

- Underdeveloped infrastructure increases the difficulty of constructing new facilities and transporting the inputs and end products. (While a substantially bigger investment is needed, it is reported that the Federal government plans to provide around \$200 million in infrastructure support for timber projects, most of which will involve the construction of roads.)
- There is an inadequate system of governance. The "rule of law" in Russia is sometimes locally interpreted as meaning "those who rule, are the law".

- There is little transparency in the ownership of the forest industry. At a minimum, active endorsement by senior officials at both the state and local government level is likely required to maintain the continuing success of operations.

In order to improve efficiency and sustainability of the sector, the government is attempting to implement a new Forest Code in 2007. This is meant to create a legislative base for the industry and provide the stability needed to attract investment. The most dramatic change is a shift in the ownership of Forest Management Units from federal authorities to the regions. However, some pundits have expressed concern that given current governance/political/institutional conditions in Russia, this will give the local "tzars" free hands to cash the forests as quickly as possible.

Complete Forest Sector Complex

As argued above, we see the greatest opportunities in the Russian forest sector in the solid wood segment. However, it is important to recognize that the forest sector consists of inter-related segments. Furthermore, all of these segments need to be relatively competitive in order to have a sustainable sector.

A competitive pulp & paper and/or bio-energy segment is a necessary component of a competitive forest sector.

A competitive pulp & paper and/or bio-energy segment is a necessary component of a competitive forest sector. It is vital for a competitive solidwood segment since it provides an outlet for the residual chips produced in the sawmills and plywood mills. It is also vital for a competitive harvesting segment since it provides an outlet for the lowest-quality logs.

However, the heightened challenge of creating competitive pulp & paper or bio-energy segment is that they tend to be much more capital intensive than the solidwood segment. As a result, the hosting conditions become even more important in attracting the required capital.

Labour Supply

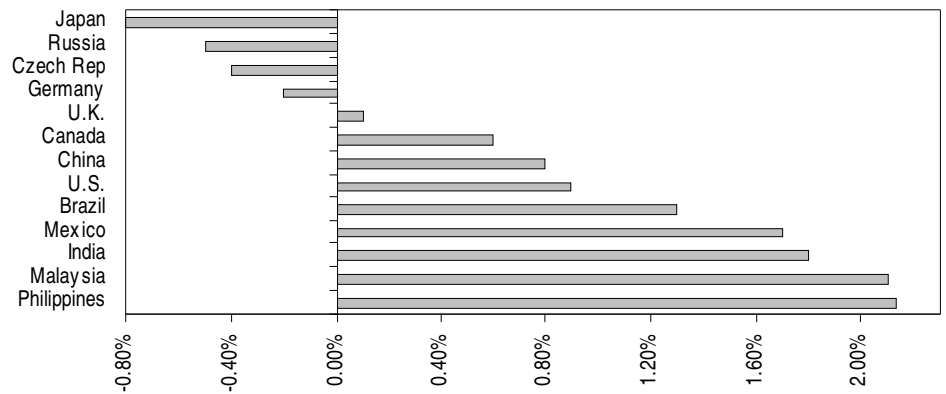
With the exception of Japan, it is estimated that no other major country faces the same kind of decline in its working age population, as does Russia.

With the exception of Japan, it is estimated that no other major country faces the same kind of decline in its working age population, as does Russia. (See Exhibit 3.) This problem is arguably even more acute for the forest products industry since roughly three-fourths of the timber resource is located in Siberia and the Russian Far East, where the population is contracting even faster than at the national level.

The biggest challenge will be attracting the necessary managerial talent and trades people required to run modern processing complexes in the forest products industry.

Note that while Russia will be eager to accept Chinese capital in developing the Russian forest sector, we think they will be much more cautious about allowing China to solve their labor problems.

Exhibit 3. Projected Annual Growth (%) Of Working Age Population Between 2003–2015

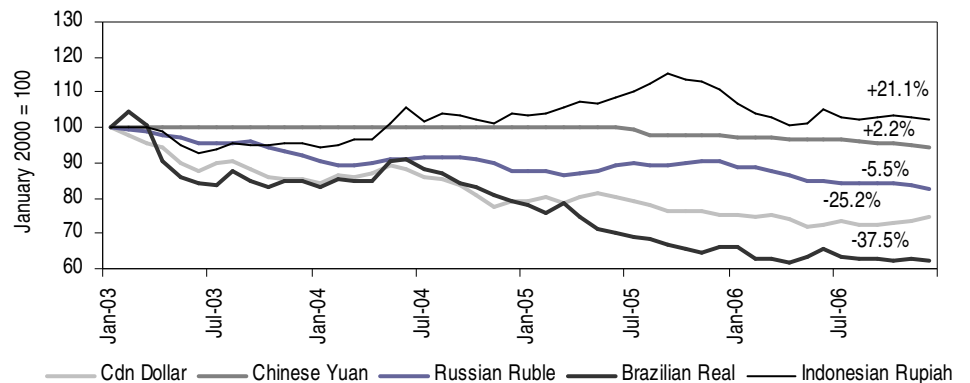


Source: McKinsey & Co, Emerging Global Labor Market, 2005, CIBC World Markets Inc.

Exchange Rates

As indicated in Exhibit 4, the Russian ruble has appreciated against the U.S. dollar over the past several years. This has resulted in deterioration in its competitiveness relative to the United States (as well as China and Indonesia). However, other major forest producers like Canada and Brazil have experienced even a greater reduction in competitiveness due to movements in exchange rates.

Exhibit 4. Exchange Rates To The U.S. Dollar



Source: Bloomberg, CIBC World Markets Inc.

Going forward, potential investors must consider the future strength of the ruble when assessing their investment decisions. Although it is very difficult to forecast long-run exchange rates, one approach is to use the Purchasing Power Parity (PPP) concept.

Provided a country maintains a stable monetary policy, developing economies generally experience an appreciating currency over time. This change often reflects a rise in their relative productivity. Given its abundant energy reserves, we expect this upward pressure will be reinforced in Russia. This expectation is supported by the data in Exhibit 5, which compare the estimated percentage

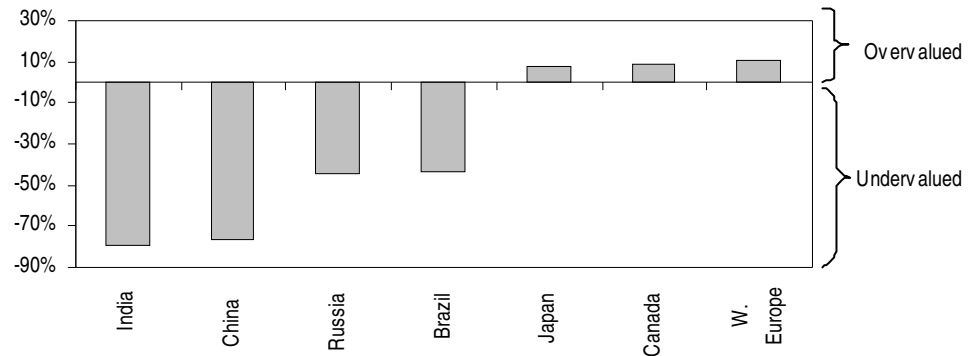
change from the current to the PPP implied exchange rate for a range of countries. (Note that greater emphasis should be placed on the relative degrees of "over" and "under" valuation than the expected absolute depreciation or appreciation over time.)

The key points to note regarding Exhibit 5 are:

The future exchange rate will likely decrease the relative cost competitiveness of the forest product assets in Russia relative to those in Scandinavia, Japan, Canada, and the United States.

- All of the BRICs (i.e., Brazil, Russia, India, and China) are expected to experience stronger currencies against the North American, European, and Japanese currencies over time. This suggests that the future exchange rate will likely decrease the relative cost competitiveness of the forest product assets in Russia relative to those in Scandinavia, Japan, Canada, and the United States. However, the U.S. dollar value of ruble investments made today is likely to be worth more in the future.
- Among the BRICs, the Russian ruble is expected to weaken relative to the Chinese Yuan and Indian rupee, and thus improve the relative costs in Russia. However, we do not foresee exchange rates having a major impact on the relative competitiveness of the Russian and Brazilian forest industries. Note that Brazil is the emerging powerhouse of the global pulp industry.

Exhibit 5. Percentage Change From The Current To The PPP Implied Exchange Rate (2006)



Source: International Monetary Fund, CIBC World Markets Inc.

The bottom line is that there are a number of obstacles to overcome before the desired capital investments are made in the Russia.

Given its growing fiber deficit, it can be expected that capital from China will be among the first to enter the country.

Given its growing fiber deficit, it can be expected that capital from China will be among the first to enter the country. There have already been numerous press reports about prospective Sino-Russian cooperation in developing the timber resource east of the Urals.

Our expectation is that in five to seven years, we will see meaningful volumes of Russian plywood and lumber showing up in international markets.

The Stock Market Impact

Building on the above discussion on the economic impact of the announced tax, this section identifies some of the specific public companies in the global industry, which have the greatest exposure to this shock. Provided they can sell into the global market at the higher prices, this primarily includes the owners of timberland outside of Russia since the increased value of the logs will tend to be capitalized into the value of the timberland. Companies that fall into this category include:

- Plum Creek (PCL-NYSE), Rayonier (RYN-NYSE), Potlatch (PCH-NYSE), Temple-Inland (TIN-NYSE), and Weyerhaeuser in the United States;
- TimberWest (TWF.UN-SP) and, to a lesser extent, Acadian Timber (AND.UN-TSX) in Canada;
- Gunns (GNS-AUS), Willmott Forests (WFL-AUS), Auspine (ANE-AUS), and Great Southern Plantations (GTP -AUS) in Australia;
- Carter Holt Harvey (CAH-NZ) in New Zealand.

SCA (SCABQ-L) and **Holmen** (HOLMBQ-L) are the two largest private timberland owners in Europe, after the Catholic Church. While we expect both of them to experience an increase in the capital value of these assets, the higher log prices will also serve to squeeze their operating margins. On balance, we would not expect the shares of SCA and Holmen to be meaningful beneficiaries of this shock unless the companies decide to crystallize the capital gain by selling their timberlands.

There are some companies that are primarily focused on managing plantations and harvesting logs, but do not actually own the underlying timberland. This includes companies like **Sino Forest** (TRE-TSX) and **Cathay Forest** (CFZ-V) in China. In our view, the extent to which they ultimately benefit from this shock depends on the contracts they have with the timberland owners. In the absence of concrete pricing formulae, we can expect opportunistic behavior on the part of the timberland owner who will want to capture the bulk of the economic rent. In the case of Sino Forest, we take some comfort from the 14-year fixed price contracts associated with their recent major expansions in Hunan Province.

Other companies that stand to capture some of the rent created from this shock are those which: 1) produce grades of lumber and plywood that are already well established in the Asian market; 2) produce market pulp; and 3) have these products contributing a meaningful share of the companies' overall business. These include companies such as:

- Interfor (IFP.A-SO) and Western Forest Products (WEF-TSX) and, to a lesser extent, Canfor (CFP-SU) and West Fraser (WFT-SP) in Canada;
- Canfor Pulp (CFX.UN-SO), SFK Pulp (SFK.UN-SP) in Canada;
- Tenon (TEN-NZ) in New Zealand; and
- Boral (BLD-AUS) in Australia.

We think that most Asian and European paper & forest products companies not fully integrated down to the timberland could be potentially negatively impacted by this shock, as it could put upward pressure on fibre prices in these regions. In our view, the biggest losers are M-Real (MRLAV-HE), Stora Enso (SEO-NYSE),

and Sumitomo (1911-T), as these companies are presently large buyers of Russian logs. With respect to the companies we cover, Mercer (MERC-SO) could be negatively impacted as two-thirds of its pulp capacity is in Europe. However, Mercer's Canadian mill would benefit from the resulting upward pressure on pulp prices.

While we are familiar with many of the companies highlighted below, and have formal coverage on eight (i.e., Canfor, Canfor Pulp, Interfor, Mercer, SFK Pulp, TimberWest, West Fraser, and Weyerhaeuser), there are others with which we only have cursory knowledge. However, we think it is important to still provide "an initial filter" that guides investors for their further research.

The following is factual information on some of the companies that we have identified as being logically affected by the increase in Russian log export taxes. We have classified them as "winners" or "losers," and presented them in alphabetical order.

Winners:

Acadian Timber Fund

Ticker: AND.UN-TSX (Toronto Stock Exchange)

- Acadian is the second-largest timberland operator in New Brunswick and Maine.
- The company owns and manages approximately 1.1 million acres of freehold timberlands in New Brunswick and Maine, and provides management services relating to approximately 1.3 million acres of Crown-licensed timberlands in New Brunswick. Acadian also owns and operates a forest nursery in Second Falls, New Brunswick. Acadian's products include softwood and hardwood sawlogs, pulpwood, and biomass by-products.

Source: <http://www.acadiantimber.com/>

Auspine

Ticker: ANE-AUS (Australian Stock Exchange)

- Auspine Limited is a vertically integrated forestry company involved in the growing and harvesting, manufacturing and sales of quality timber products in both domestic and export markets. The company has a market capitalization in excess of AUS\$150 million. Total sales currently exceed AUS\$210 million per annum.

Source: <http://www.auspine.com.au/>

Boral

Ticker: BLD-AUS (Australian Stock Exchange)

- Australia's largest building and construction materials supplier and has significant operations in the U.S. and in Asia. Total sales are roughly AUS\$4.8 billion.

- Boral's softwood manufacturing facility is based at Oberon in NSW. The facility is operated through Highland Pines Limited, a joint venture with Carter Holt Harvey. This world-class mill can process more than 725,000 m³ of plantation softwood annually. Softwood structural products are sold primarily in East Coast markets through a combination of direct and indirect channels.
- Boral is Australia's leading plywood producer, operating a large plywood operation at Ipswich in Queensland. Products are sold in all major Australian markets.
- Boral also produces and distributes a broad range of construction materials, including quarry products, cement, fly ash, pre-mix concrete and asphalt; and building products, including clay bricks and pavers, clay and concrete roof tiles, concrete masonry products, plasterboard, windows, and timber. Boral primarily serves customers in the building and construction industries with operations concentrated in three key geographical markets – Australia, the U.S., and Asia.

Source: <http://www.boral.com.au>

Canfor

Ticker: CFP-TSX (Toronto Stock Exchange)

- Canfor Corporation is a leading Canadian integrated forest products company based in Vancouver, British Columbia, with interests in over 33 facilities in British Columbia, Alberta, Quebec, Washington State, and North and South Carolina.
- Canfor is the largest producer of softwood lumber in Canada, and is the largest supplier of J-grade lumber to the Japanese market. The company also produces oriented strand board (OSB), plywood, remanufactured lumber products, and specialized wood products.
- Canfor sells its lumber throughout North America and overseas through its Canfor Wood Products Marketing operations in Japan, China, Europe, Canada, and the U.S.
- Canfor continues to own 50.2% of Canfor Pulp.
- Sales mix: 72% lumber, 20% pulp & paper, 8% panels.
- Geographic sales mix: 70% U.S., 13% Canada, 11% Far East & other, 5% Europe.
- We provide research coverage on the company, and currently have a Sector Underperformer rating on the stock.

Source: <http://www.canfor.com/>

Canfor Pulp

Ticker: CFX.UN-TSX (Toronto Stock Exchange)

- Canfor Pulp Limited Partnership (CPLP) is a leading global supplier of pulp and paper products with operations in the central interior of British Columbia.
- CPLP owns and operates three mills in Prince George, BC, which are among the lowest-cost NBSK pulp facilities in the industry.
- CPLP is the second-largest North American and fourth-largest global producer of market NBSK Pulp.
- Geographic sales mix: 40% North America, 29% Europe, and 31% Asia.
- We provide research coverage on the company, and currently have a Sector Outperformer rating on the units.

Source: <http://www.canforpulp.com/>

Carter Holt Harvey

Ticker: CAH-NZ (New Zealand Stock Exchange)

- Carter Holt Harvey is Australasia's leading forest products company, with significant interests in wood products, pulp, paper, and packaging.
- The company's New Zealand operations manufacture and market timber (structural, outdoor, appearance, and industrial) and round wood for use in domestic building, home improvement, rural, and industrial markets of New Zealand. The company exports products to Australia and to the Pacific Rim countries as well.
- CHH's Wood Products Australian operations manufacture and supply panel and timber products for the Australia and export markets. Domestic products are used in structural, appearance, commercial and domestic fit-out, and flooring and outdoor applications, while MDF for furniture and appearance markets are exported.

Source: <http://www.chh.com/>

Cathay Forest

Ticker: CFZ-V (Toronto Venture Stock Exchange)

- Cathay Forest is a China-based forest products company with two primary activities: 1) sustainable managed plantations, and 2) acquisition of mature standing timber.
- It manages 13,600 hectares of timberland.
- The company develops fast-growth plantations in Central-eastern China. In October 2005, Cathay expanded its strategy by acquiring its first mature standing timber property in Jiangxi. The company is continuing to expand its portfolio of standing timber assets, including vast tracts of forests being made available in Northern China through a privatization program.

Source: <http://www.cathayforest.com/>

Great Southern Plantations

Ticker: GTP-AUS (Australian Stock Exchange)

- Great Southern Plantations is an investment manager, specializing in the agribusiness sector. The group manages funds well in excess of \$1 billion on behalf of more than 35,000 investors.
- Since its formation in 1987, the Great Southern group has focused primarily on the establishment of hardwood plantations. The group manages plantations that extend across more than 150,000 hectares throughout Australia. Harvesting commenced during the 2004/2005 financial years, with woodchips being exported to Japan for use in paper production.

Source: <http://www.great-southern.com.au/>

Gunns Ltd.

Ticker: GNS-AUS (Australian Stock Exchange)

- Gunns Limited is Australia's largest fully integrated hardwood forest products company. It owns 185,000 hectares of freehold land and manages in excess of 110,000 hectares of plantations. It has sales of approximately AUS\$700 million.
- The company is now Australia's largest hardwood producer, operating five modern sawmills throughout Tasmania. These sawmills produce framing timbers, sawn hardwood, and value-added hardwood products such as laminated beams, tongue and groove flooring, mosaic and block parquetry, moldings, and furniture components. Gunns also produces jarrah sawn timber from its Western Australian sawmilling operations.
- Gunns also operates two veneer factories and a veneer factory in Christchurch, N.Z. The veneer operations make the company the largest producer of sliced veneer in Australia and New Zealand.
- Gunns operates four woodchip export ports in Tasmania, exporting eucalyptus woodchips produced from sawmilling residues and residual pulpwood from integrated harvesting operations.
- The company is in the process of trying to build a Greenfield market pulp mill in Tasmania.
- Sales mix: 65% forest products, 20% managed investment schemes, and 15% other.

Source: <http://www.gunns.com.au/>

Interfor

Ticker: IFP.A-TSX (Toronto Stock Exchange)

- Interfor, with sales of more than \$800 million is one of the Pacific Northwest's largest producers of quality wood products for sale to markets around the world.
- The company has operations in British Columbia, Washington, and Oregon, including three operating sawmills in the coastal region of B.C., one in the B.C. Interior, one sawmill in Washington, and two in Oregon. These operations have a combined manufacturing capacity of 1.4 billion board feet.
- Interfor routinely ships over 20% of its lumber production to the Japanese market where it has a well established presence. Approximately 66% is shipped to the U.S. and the remainder is sold to the Canadian market.
- Geographic sales mix of all products: 55% USA, 28% Canada, 9% Japan, 8% other markets.
- We provide research coverage on the company, and currently have a Sector Outperformer rating on the stock.

Source: <http://www.interfor.com/>

Leweko Resources Berhad

Ticker: 8745-KUL (Malaysian Stock Exchange)

- Leweko Resources is an investment holding company, and a provider of management and corporate services. Through its subsidiaries, the company operates in three divisions: Timber, Plantation, and Others.
- The Timber division includes manufacturing and trading, which is involved in the manufacture and sale of sawn timber, molded timber and timber products, trading of logs and provision of transportation services, and timber harvesting, which provides contracting services for log extraction and logging infrastructure.
- The Plantation division is involved in the operation of oil palm plantations.
- The Others division is involved in investment holding, and provision of management and corporate services. Subsidiaries are Maju Weko Timber Industries Sdn. Bhd., Maju Leweko Timber Sdn. Bhd., Syarikat Amiziz (M) Sdn. Bhd., Kota Pinang Sdn. Bhd., Sesenduk Air Sdn. Bhd., and Petralman Sdn. Bhd.
- Sales mix: 7% timber harvesting, 81% timber manufacturing and trading, 6% plantations and 6% other.

Source: <http://www.klse.com.my/>

Plum Creek

Ticker: PCL-NYSE (New York Stock Exchange)

- Plum Creek is the largest and most geographically diverse private landowner in the U.S., with more than 8 million acres in major timber-producing regions of the United States. The company also produces lumber, plywood, and medium-density fiberboard (MDF) in 10 wood-products manufacturing facilities in the Northwest.

Source: <http://www.plumcreek.com/>

Potlatch

Ticker: PCH-NYSE (New York Stock Exchange)

- Potlatch Corporation is a REIT that owns and manages 1.5 million acres of timberlands located in Arkansas, Idaho, and Minnesota, and a 17,000-acre hybrid poplar plantation in Oregon.
- Through a taxable REIT subsidiary, it also operates 15 manufacturing facilities that are engaged in the production of commodity wood products and bleached pulp products.
- Sales mix: 18% timberland resources, 28% wood products, 33% pulp & paperboard, 20% tissue.
- Geographic sales mix: 91% U.S., 4% Japan, 1% Canada, 1% China, 3% other.

Source: <http://www.potlatchcorp.com/>

Rayonier

Ticker: RYN-NYSE (New York Stock Exchange)

- Rayonier is a global supplier of timber, performance fibers, and wood products. It operates in three core businesses: Timber, Real Estate, and Performance Fibers.
- Rayonier owns or manages 2.7 million acres of prime timberland and real estate in the U.S. and New Zealand, and is the seventh-largest private timberland owner in the U.S.
- Rayonier's Southeast U.S. forestlands are approximately 68 percent softwoods; the rest are hardwoods. Roughly half of its Southeastern timber harvest is high-value timber, which is sold primarily to plywood and lumber mills. The remainder is pulpwood destined for pulp and paper mills.
- The company's Northwest U.S. forestlands consist almost entirely of second- and third-growth trees. These forestlands include primarily softwood stands.
- In New Zealand, Rayonier holds an interest in a joint venture and also manages the timberlands. Also, in Australia, Rayonier has a management and marketing arrangement on a 114,000-acre forest owned jointly by the government of Tasmania and a U. S. financial institution.

- Sales mix: 18% timber, 7% real estate, 53% performance fibers, 12% wood products, 10% other.
- Geographic sales mix: 63% U.S., 14% Europe, 6% Japan, 5% China, 12% other.

Source: <http://www.rayonier.com/>

Sino-Forest

Ticker: TRE-TSX (Toronto Stock Exchange)

- Sino-Forest is the largest foreign-owned, commercial forestry operator in China, operating in six key provinces in China and managing approximately 324,000 hectares of plantation trees.
- In order to serve China's various wood-based industries, Sino-Forest provides value-added forestry products and services along the wood-product supply chain.
- The company consists of two main divisions:
 - Wood Fibre Operations, where revenue and fibre are generated from the following segments: standing timber, wood chips and logs, and imported wood products.
 - Manufacturing & Other Operations, composed of: particleboard production, engineering wood flooring, oriented strand board, nursery, and greenery services.
- Sales mix: 80% plantations, 20% wood-based products.

Source: <http://www.sinoforest.com/>

Temple Inland

Ticker: TIN-NYSE (New York Stock Exchange)

- Temple Inland has four core operations – corrugated packaging, forest products, real estate, and financial services. The company is the largest private landowner in Texas and the fifth-largest corporate forestland owner in the U.S. South.
- The Forest Products operation manufactures a diverse line of products for new home construction and for repair and remodeling markets. This group manages the company's 2 million acres of forestland.
- Sales mix: 58% corrugated packaging, 21% forest products, 21% financial services.
- Geographic sales mix: 96% U.S., 3% Mexico, 1% Canada.

Source: <http://www.templeinland.com/>

Tenon

Ticker: TEN-NZ (New Zealand Stock Exchange)

- Tenon utilizes radiata pine plantations in New Zealand to produce, market, and distribute a wide range of solid appearance grade wood products to core markets in the U.S., New Zealand, and Asia. Products include:
 - Solid, clearwood moldings and boards, and appearance grade lumber;
 - Treated and primed products for outdoor use;
 - High-value ornate moldings and decorative products;
 - Stair parts and exterior doorframes.
- Geographic sales mix: 78% North America, 22% New Zealand.

Source: <http://www.tenon.co.nz/>

Timbercorp

Ticker: TIM-AUS (Australian Stock Exchange)

- Australia's leading agribusiness investment manager. The company sources, funds, and manages high-quality large-scale agribusiness projects for investors looking for attractive tax advantaged returns.
- Timbercorp developed and now manages 12% of Australia's eucalyptus plantations, which produce woodchip exported to Japan, the world's largest olive grove on a single site, and the largest almond orchard estate in the Southern Hemisphere.
- Timbercorp further diversified into established citrus, table grape, mango, and avocado operations (in each case being the largest producer in Australia) through alliances with Australia's leading producers, processors, and marketers.
- Sales mix: 63% horticulture, 26% forestry, 6% finance, and 5% asset development.
- Geographic sales mix of hardwood fiber: 12% Australia, 88% Asia (Japan, Taiwan, Korea, Indonesia, and China).

Source: <http://www.timbercorp.com.au/>

Timberwest

Ticker: TWF.UN-TSX (Toronto Stock Exchange)

- Timberwest is the largest owner of private forest lands in Western Canada. The company's 334,000 hectares, providing a sustainable annual harvest of 2.5 million m³ of logs, are located on Vancouver Island.
- The Japanese market represents roughly one-third of the company's sales.

- TimberWest also operates a sawmill at Elk Falls near Campbell River on Vancouver Island.
- We provide research coverage on the stock, and currently have a Sector Performer rating on the units.

Source: <http://www.timberwest.com/>

Western Forest Products

Ticker: WEF-TSX (Toronto Stock Exchange)

- Western is the largest coastal British Columbia woodland operator and lumber producer with an Annual Allowable Cut of approximately 7.7 million m³ of timber.
- The company has the capacity to produce in excess of 1.5 billion board feet of lumber from nine sawmills and five remanufacturing plants.
- All of Western's operations are located in the coastal region of British Columbia while its products are sold worldwide.
- Roughly 30% of the company's sales are into the Asian lumber market.

Source: <http://www.westernforest.com/>

West Fraser

Ticker: WFT-TSX (Toronto Stock Exchange)

- West Fraser is an integrated forest products company producing lumber, wood chips, fiberboard, plywood, pulp, linerboard, kraft paper, and newsprint.
- West Fraser manufactures a variety of forest products from Western Canada and the Southern U.S.
- Sales mix: 57% lumber, 14% panels, 29% pulp & paper.
- Geographic sales mix: 56% U.S., 23% Canada, 4% Europe, 12% Far East, 5% other.
- We have research coverage on the company, and currently have a Sector Performer rating on the stock.

Source: <http://www.westfraser.com>

Weyerhaeuser

Ticker: WY-NYSE (New York Stock Exchange)

- Weyerhaeuser is a diversified forest products producer involved in growing and harvesting trees, and the production of pulp, newsprint, packaging, building products and homes.
- Weyerhaeuser is one of the world's largest timberlands managers. Worldwide, this business and joint ventures own, license, or lease 34.4 million acres (more than 13.9 million hectares) of forests in North America, Australia, New Zealand, and Uruguay.
- In 2003, 67% of the logs harvested from company-owned lands were used for saw timber, which is manufactured into high-value appearance and structural products. Because Weyerhaeuser is an integrated company, half of Timberlands' raw materials sales (logs, chips, and timber) are used internally.
- Sales mix: 5% timberlands, 41% wood products, 19% cellulose fiber/white papers, 21% containerboard/packaging/recycling, 13% real estate, 3% other.
- Geographic sales mix: 84% U.S., 6% Canada, 3% Japan, 3% Europe, 4% other.
- We have research coverage on Weyerhaeuser, and currently have a Sector Performer rating on the stock.

Source: <http://www.weyerhaeuser.com/>

Willmott Forests

Ticker: WFL-AUS (Australian Stock Exchange)

- Willmott Forests is a fully integrated forestry company that manages in excess of 30,000 hectares of softwood plantations, ranging from new plantings to mature trees. The company also produces a wide range of landscape and structural timber products from its softwood processing operations. Willmott Forests has been operating since 1980 and has total assets in excess of \$290 million.
- In recent years, Willmott Forests has been responsible for approximately 64% of all newly established softwood plantations in New South Wales and 26% Australia wide.

Source: <http://www.willmottforests.com.au/>

Losers:

Mercer International

Ticker: MERC-Q (Nasdaq Stock Exchange)

- Mercer International Inc. is a global pulp manufacturing company.
- The company operates three modern NBSK pulp mills in Germany and Canada with a consolidated annual production capacity of approximately 1.4 million tonnes.
- With 67% of its market pulp capacity in Germany, where fiber prices are expected to be under upward pressure, we think that Mercer is a net loser. However, its Canadian mill will benefit from the upward pressure on pulp prices.
- We provide research coverage on the company, and currently have a Sector Outperformer rating on the stock.

Source: <http://www.mercerint.com/s/home.asp>

M-Real

Ticker: MRLAV-HE (Helsinki Stock Exchange)

- M-Real is one of the leading producers of fine paper and paperboard in Europe.
- The company focuses on four core businesses: Consumer Packaging, Publishing, Commercial Printing, and Office Papers.
- M-Real is one of the European forest companies most dependent on imported wood fiber from Russia. This is particularly true for the Finnish plants in Joutseno and Kaskinen, which rely on Russian aspen.

Source: <http://www.m-real.com>

Stora Enso

Ticker: SEO-NYSE (New York Stock Exchange)

- Stora Enso is an integrated paper, packaging, and forest products company, producing publication and fine paper, packaging board and wood products – all areas in which the company is a global market leader.
- Stora purchases a significant volume of imported logs for its Finnish operations, including large amounts of Russian birch for its pulp mills.
- Note that Stora has been one of the largest sellers of timberland in Europe, although it has maintained minority stakes in the corporate vehicles that were set up to acquire them.

Source: www.storaenso.com

Sumitomo Forestry

Ticker: 1911-T (Tokyo Stock Exchange)

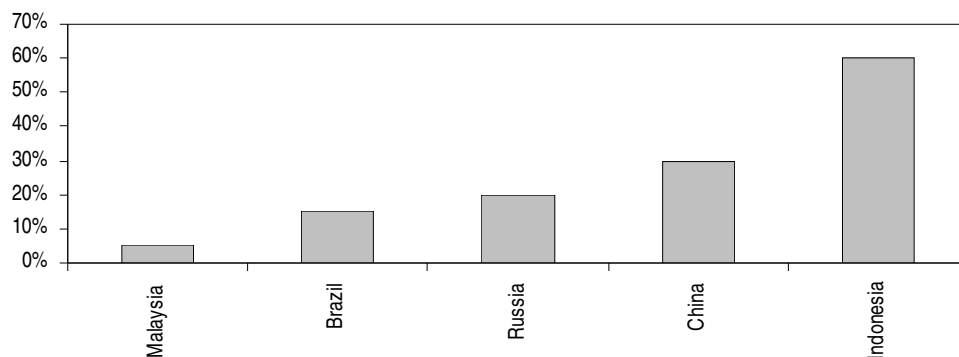
- Sumitomo Forestry is involved in various wood related businesses, with timberland operations serving as the foundation. The company's operations encompass: forest management as well as timber and building-materials-related operations, including the procurement, manufacture and sale of timber and building materials. Sumitomo is also involved with the construction, sale, after-sales maintenance and landscaping of custom-built and other homes, and sale and brokerage of real estate.
- Its forestry business manages company-owned forests of over 40,000 hectares.
- Sumitomo is one of the largest importers of logs in Japan. Of the 1.7 million m³ it imported last year, roughly 35% was from Russia.

Source: <http://sfc.jp/english/>

Appendix A: Illegal Timber Harvesting In Russia

Official government sources estimate that 19 million m³ of wood were illegally harvested in Russia in 2005. This is in the range of 10%–15% of the official total actual harvest. However, as indicated in Exhibit A, some experts like Seneca Creek Associates estimate the number to be around 20%. The International Institute for Applied Systems Analysis, which has had an extensive research program on the Russian forest sector, estimates the volume of illegal felling to be even higher, in the range of 30%–50%.

Exhibit A. Estimated Percent Of Log Production Illegally Harvested



Source: Seneca Creek Associated, Wood Resources International.

Note that illegal logging in Russia takes place in a number of forms:

- The logger is harvesting without a permit and without paying stumpage.
- The logger does not follow the proper forest practice code.
- The regional forest service is logging an area on the pretense that it is "bug-kill" logging to prevent expanding insect infestation.

Some observers indicate that the last case is very systematic, and an especially serious issue with respect to Russian red cedar and various hardwood species.

Since the high export taxes should depress the domestic price of logs (due to the expected decline in off-shore demand for Russian logs), there should be less incentive to illegally harvest logs for sale in the domestic market.

However, the high export taxes are expected to raise the global price of logs and, thus, increase the incentive to ship illegal logs onto the export market. On balance, since it is arguably easier to monitor export volumes at the border than harvests in the field, we think the new tax regime will likely result in a decrease in illegal harvesting in Russia.

On the other hand, due to the increase in the global price of logs, we expect an increase in the level of illegal harvesting elsewhere. We believe this is especially true in countries like China, Indonesia, Thailand, Myanmar, Laos, Cambodia, Papua New Guinea, and Vietnam, which have relatively weak governance and related institutions.

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Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 02/22/2007:

Canfor Corporation (CFP-TSX, C\$11.94, Sector Underperformer)
Canfor Pulp Income Fund (2g) (CFX.UN-TSX, C\$15.10, Sector Outperformer)
International Forest Products Limited (2g, 12) (IFP.A-TSX, C\$8.06, Sector Outperformer)
Louisiana-Pacific Corp. (LPX-NYSE, US\$21.12, Sector Performer)
Mercer International Inc. (1) (MERC-NASDAQ, US\$13.52, Sector Outperformer)
Norbord Inc (2g) (NBD-TSX, C\$9.01, Sector Performer)
SFK Pulp Fund (2a, 2c, 2g) (SFK.UN-TSX, C\$5.52, Sector Performer)
TimberWest Forest Corp. (2g, 6a) (TWF.UN-TSX, C\$17.39, Sector Performer)
West Fraser Timber Co. Ltd. (2g) (WFT-TSX, C\$44.19, Sector Performer)
Weyerhaeuser Co. (2a, 2e, 2g, C45) (WY-NYSE, US\$83.07, Sector Performer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Stock Prices as of 02/22/2007:

Acadian Timber Income Fund (ADN.UN-TSX, C\$10.10, Not Rated)
Auspine Ltd. (ANE-AUS, A\$4.00, Not Rated)
Boral Ltd. (BLD-AUS, A\$8.90, Not Rated)
Carter Holt Harvey (CAH.-NZ, [NZD]2.56, Not Rated)
Cathay Forest Products Corp. (CFZ-V, C\$0.78, Not Rated)
Great Southern Planations LTD. (GTP-AUS, A\$2.12, Not Rated)
Gunns Ltd (GNS-AUS, A\$3.12, Not Rated)
Holmen AB (HOLMBQ-L, p1869.00, Not Rated)
Leweko Resources Berhad (8745-KL, [MYR]1.80, Not Rated)
M-Real (MRLAV-HE, €5.50, Not Rated)
Plum Creek Timber Co. Ltd. (PCL-NYSE, US\$41.00, Not Rated)
Potlatch Corp. (PCH-NYSE, US\$46.67, Not Rated)
Rayonier Inc. (RYN-NYSE, US\$45.94, Not Rated)
Sino-ForestCorp (TRE-TSX, C\$10.03, Not Rated)
Stora Enso Oyj (SEO-NYSE, US\$16.75, Not Rated)
Sumitomo Forestry (1911-T, ¥1289.00, Not Rated)
Svenska Cellulosa AB (SCABQ-L, p2067.00, Not Rated)
Temple Inland Inc. (TIN-NYSE, US\$54.98, Not Rated)
Tenon (TEN-NZ, [NZD]1.33, Not Rated)
Timbercorp (TIM-AUS, A\$2.21, Not Rated)
Western Forest Products Inc. (WEF-TSX, C\$2.32, Not Rated)
Willmott Forests Ltd. (WFL-AUS, A\$1.51, Not Rated)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
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- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
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- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
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- 8 A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.
- C45 CIBC World Markets Inc is acting as financial advisor to Weyerhaeuser with respect to the intended sale of Weyerhaeuser's Canadian building materials distribution centers.

CIBC World Markets Price Chart

For price and performance information charts required under NYSE and NASD rules, please visit CIBC on the web at <http://www.cibcwm.com/research/sec2711> or write to CIBC World Markets Corp., 300 Madison Avenue, 7th Floor, New York, NY 10017-6204, Attn: Research Disclosure Chart Request.

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 21 Feb 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	337	39.0%	Sector Outperformer (Buy)	177	52.5%
Sector Performer (Hold/Neutral)	427	49.5%	Sector Performer (Hold/Neutral)	212	49.6%
Sector Underperformer (Sell)	70	8.1%	Sector Underperformer (Sell)	31	44.3%
Restricted	17	2.0%	Restricted	16	94.1%

Ratings Distribution: Paper & Forest Products Coverage Universe

(as of 21 Feb 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	25.0%	Sector Outperformer (Buy)	3	75.0%
Sector Performer (Hold/Neutral)	7	43.8%	Sector Performer (Hold/Neutral)	6	85.7%
Sector Underperformer (Sell)	3	18.8%	Sector Underperformer (Sell)	2	66.7%
Restricted	2	12.5%	Restricted	2	100.0%

Paper & Forest Products Sector includes the following tickers: A, BOW, CAS, CFP, CFX.UN, CTL, DTC, FPS, IFP.A, IP, LPX, MERC, NBD, TBC, WFT, WY.

*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

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