Market Access Through Codes

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Products must meet Standards

- a product may be of the highest quality, but it must meet the product and safety standards of the place where it is to be sold.
- Ignorance of the standards requirements, or inability to prove that it meets requirements can result in material sitting on the dock indefinately.

Standards must be managed

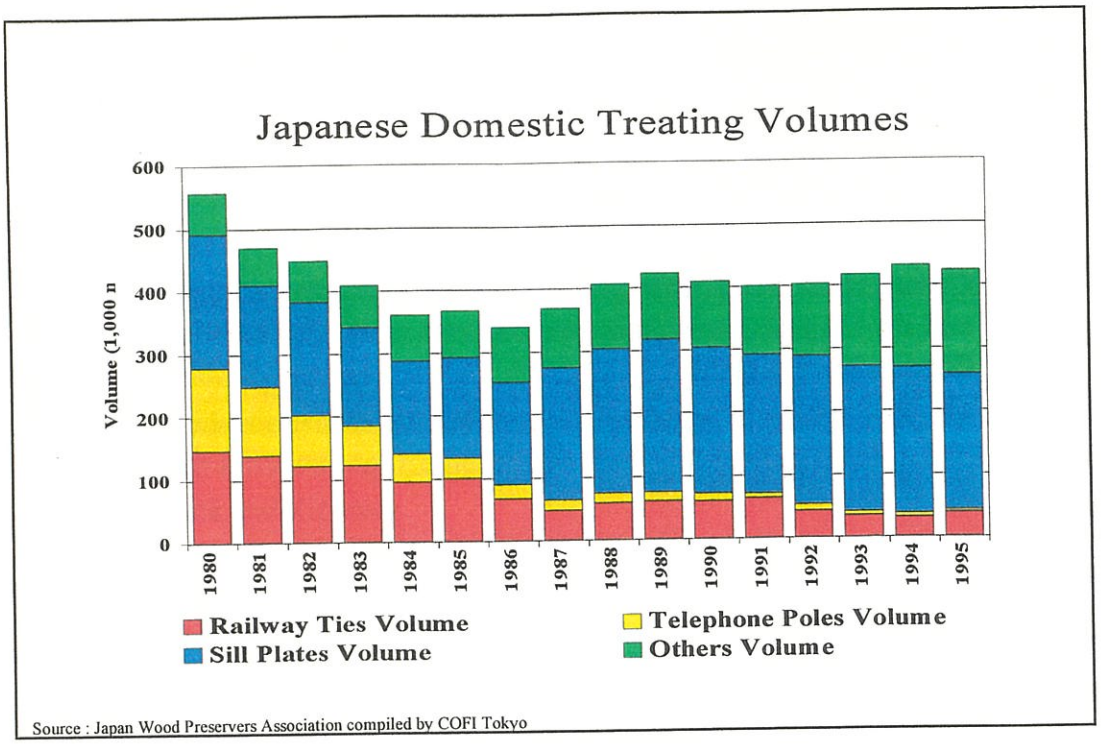
- Companies must ensure continuous improvement standards to maintain competitive advantage.
- Sophisticated standards management can ensure a warm welcome for your products in any desired markets.
- Marketing is necessary to support strategic standards updates.

Standards require 'harmonization'

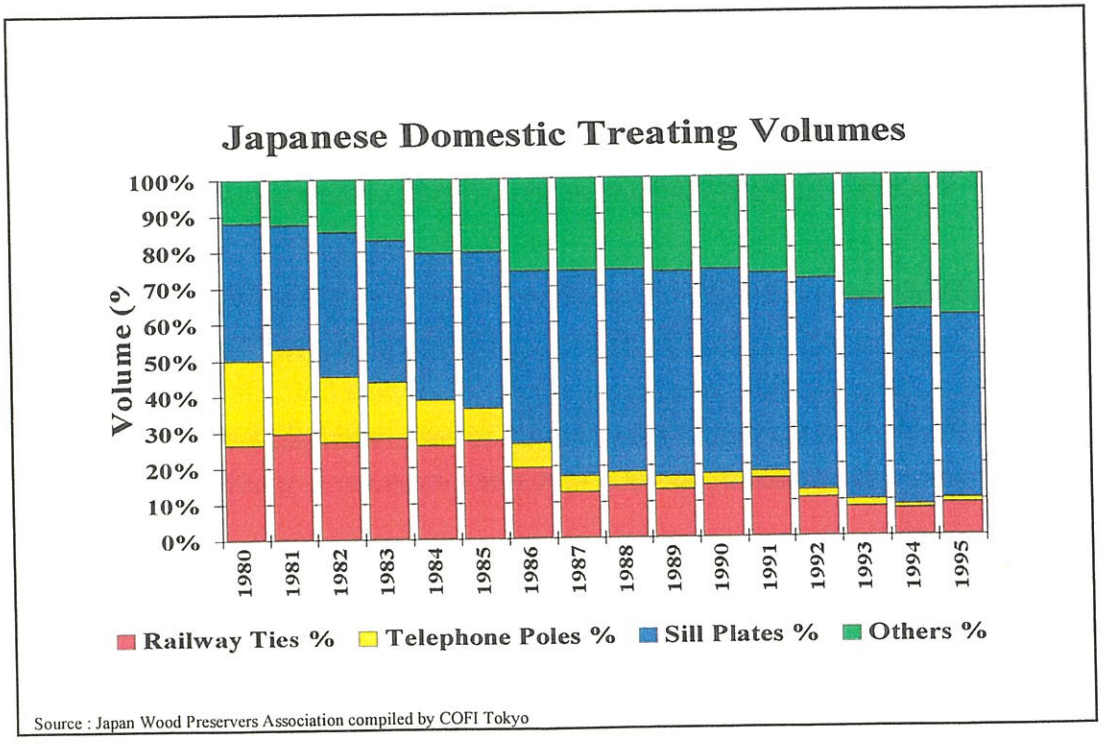
- Great strides have been made in changing standards in Japan and the United States, however treated wood standards in Canada have lagged.
- Limited chemical registrations are limiting Canada's ability to export treated wood.

World Trade needs Worldwide Standards

- Businesses are built on satisfying customer demands
- Any activity or product that does not add value represents wasted efforts
- Products must be reliable, live up to exspected performance, delivered on time, and at a low cost



Source : Japan Wood Preservers Association compiled by COFI Tokyo



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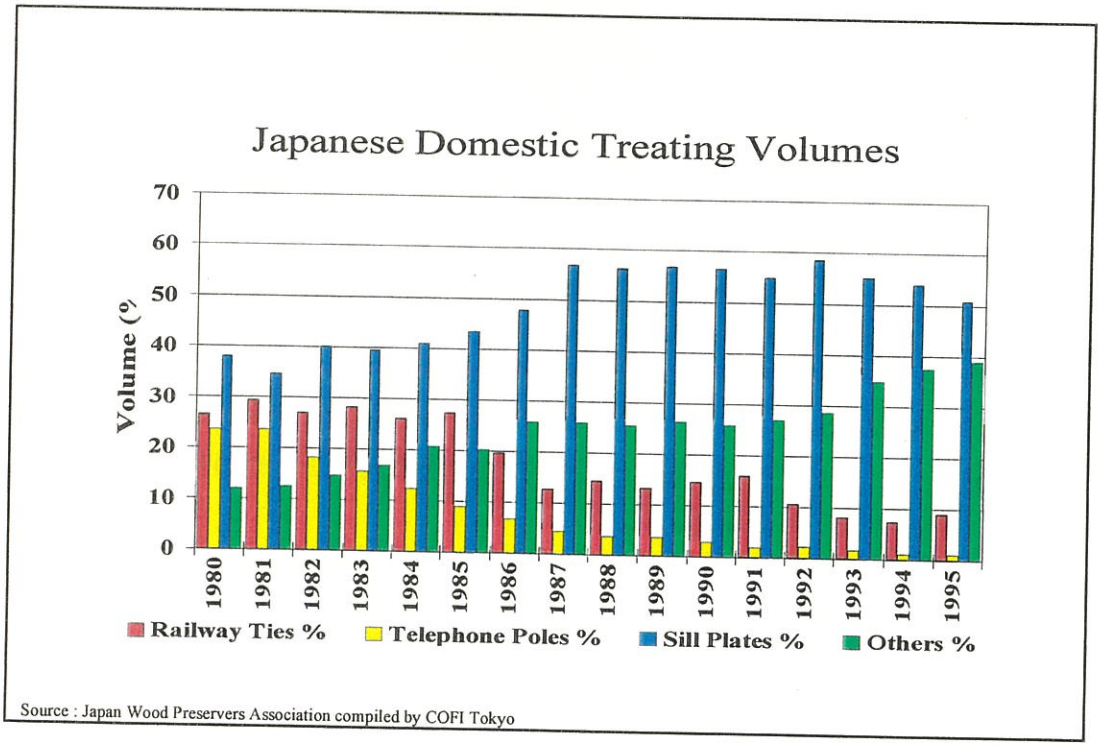

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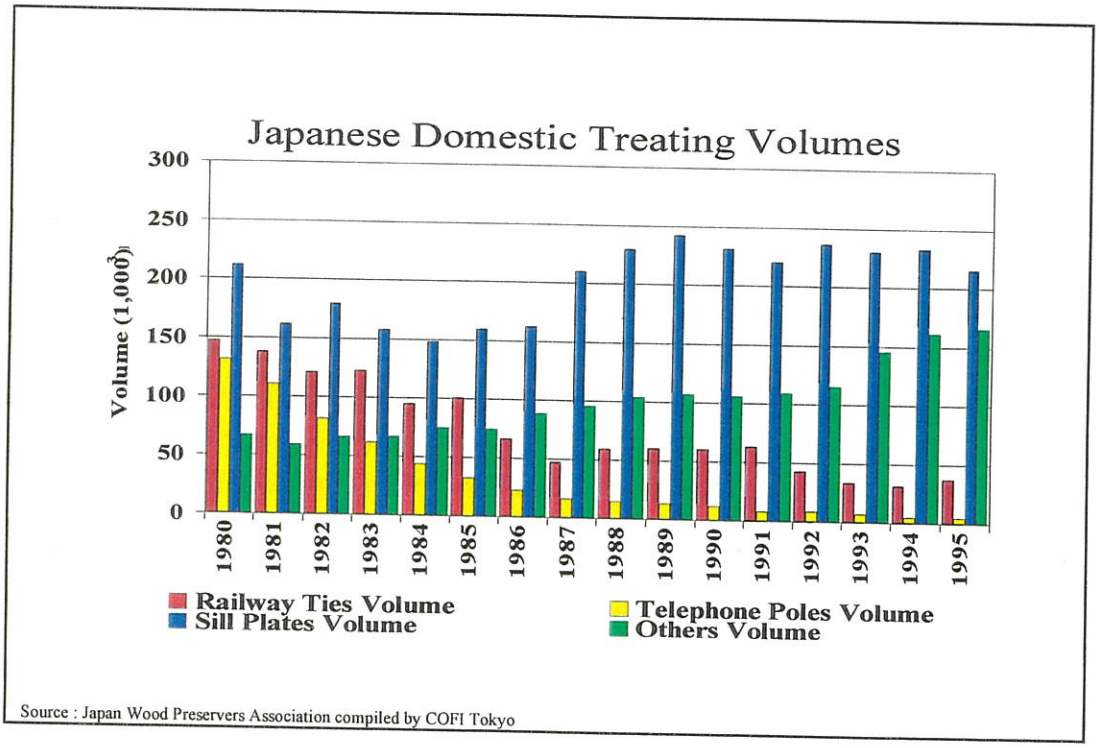

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Why are Railway Tie volumes down? Concrete?

- Possibly, but more likely due to a change in Japan Rail's corporate strategy
- These volumes are from the Japan Wood Preservers Association
- Japan Rail is now aggressively using ties produced by their subsidiary company
- This subsidiary is not a member of the JWPA

That's a lot of Sill Plates. What's the Reason for That?

- Housing companies are becoming increasingly concerned about durability and warranties
- Longer housing warranties are becoming increasingly popular (10 years, 15 years or longer)
- Home builders are reluctant to offer these warranties without using pressure treated sill plates

Any thing else on that?

- After Kobe, it was discovered that part of the problems associated with the mass destruction of wood houses was due to the structural integrity of the building being undermined by termites
- This was not just a problem at the sill plate level

Houses Financed by the GHLC (or other public organizations)

- GHLC - Japanese Government Housing and Loan Corporation
  - Similar to our CMHC
- In 1995 almost 50% (~773, 000 units) were funded by the GHLC or other public organizations such as the Prefectural Housing Supply Corporations
- Most institutions have requirements that must be met if public financing is going to be provided

GHLC Treating Requirements

- The 1996 GHLC manual states that all sill plates have to be either Cypress or Yellow Cedar
- Other species must be either JAS (excluding K1 classification) or JIS treated
- This applies to all material (including plywood) within 1 metre of the finished grade, and framing (including sheathing and flooring) in bathrooms, kitchens and other wet areas

Treating Standards in Japan

- JAS 143
- JAS 600
- JIS (Japanese Industrial Standard)
  - JIS A 9108 - Pressure method decay-inhibition treated lumber for sills
  - JIS K 1554 - Wood Preservatives of Chrome-Copper-Arsenic Type

JAS Standards

Have 5 different "Performance Classes"

- K1 - K5
- K1 - Boron Compounds
- K2 & K3 - CCA, AAC, ACQ, NCu & NZn
  - K2 treating is the minimum prescribed in the GHLC manual
- K4 - Includes K2/K3 plus Creosote
- K5 - Creosote & CCA

CCA and the JAS rules

- Under the JAS treating rules, CCA not only has a minimum retention level, but a maximum retention level
- K3 is the minimum level required throughout most of Japan
  - K2 is accepted in the Hokkaido region and Aomori prefecture (colder regions of Japan)

Is CCA really on the way out in Japan?

- CCA has not (as of yet) been banned in Japan
- Legislation has placed heavy restrictions on the arsenic (groundwater) contamination permitted
  - As of 01 February 1997 this level was reduced from 0.3 ppm to 0.1 ppm
- Most of the major pressure treaters in Japan are/have moved away from the use of CCA toward chemicals that are perceived as more environmentally friendly

What chemicals are being used?

- Koshii and Company Limited are expected to be the only major pressure treater that will continue to use CCA
- Others are moving towards AAC, ACQ, NZN and Tanalith-CuAz
- With the exception of Tanalith-CuAz (manufactured by Koppers-Hickson Timber Protection) all these chemicals are listed in the JAS 143 standard

How does that affect things?

- The amount of CCA used in Japan is expected to drop to about half of what it was before these restrictions were set in place
- The cost of these new chemicals will be approximately ¥4,000 (CDN$ 41.00)/m^3 more than CCA
  - Each new house only uses about 1m^3 of treated lumber, so the impact is not great

Does that mean CCA is dead in Japan?

- Not quite. This is likely to produce a short term market opportunity for the export of CCA treated material.
- Lumber that is CCA treated outside of Japan can still be imported
- In the long run, however, there is an expectation that CCA will ultimately be banned.

Why would they ban CCA?

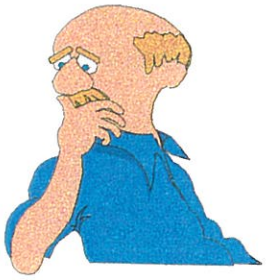
- There are different perceptions about CCA. In North America, it seems people see the problem as one of fixation
  - The Japanese, in part, do not see that problem as being solved
- The bigger concern in Japan, however, is one of disposal
  - Land / ocean fills

But we can not use many of the chemicals accepted in Japan.

- CCA is likely going to go away. Maybe in 5 years, maybe in 50, but sometime
- Start anticipating the changes
- Work with the agencies in Japan responsible for the codes to obtain acceptance of chemicals used here
- Work with officials and agencies here to obtain acceptance for use of chemicals approved in Japan

Market Access...How does one deal with that?

- To start with, learn the rules of the market you wish to deal in
- Then, open a forum to discuss changes that might be mutually beneficial



Could you please explain that.

- For example, the B.C. solid wood industry was interested in providing lumber to Japan
- The only real way to have this product accepted in Japan was for it to be JAS certified
  - JAS - Japanese Agricultural Standard
- Cost of getting products JAS certified in Japan was expensive

So, what was done about that?

- The Council of Forest Industries in 1987, in order to help its members compete in this market, became the first organization (FTO) outside of Japan to be allowed to certify plants for production of JAS products
  - FTO - Foreign Testing Organization
- Since then there have been 6 other FTOs approved (3 in 1996 alone)

COFI is certified to approve plants under the following standards:

- JAS 111 / 112 - Glued laminated timber
- JAS 143 - Structural Softwood Lumber (traditional) - including treated lumber
- JAS 600 - Structural Lumber for Wood Frame Construction (2 x 4) - including treated lumber
- JAS 701 - Fingerjointed Lumber for Wood Frame Construction
- JAS 702 - MSR Structural Lumber for Wood Frame Construction
- Plus several composite material standards such as plywood and LVL

Have many producers taken advantage of this?

- Since becoming an FTO, COFI and Canadian Mill Services have certified 48 plants, including 5 for treating plus about 19 certifications related to plywood through CanPly

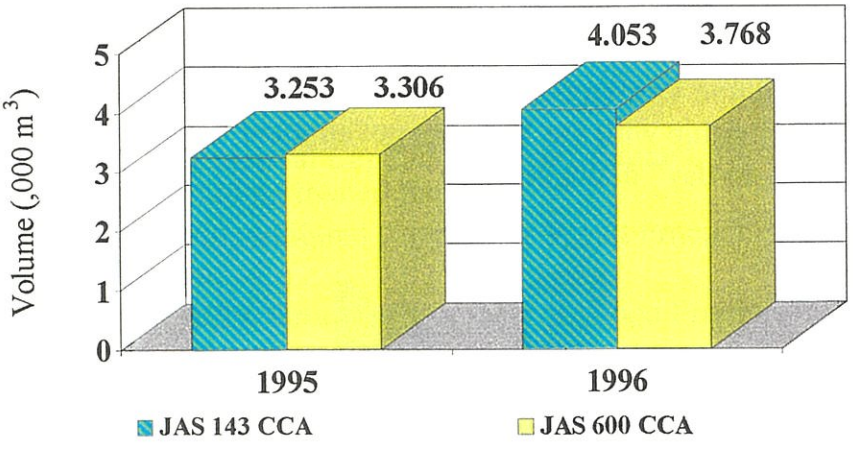
So, what is the next step?

- Offers of expertise, if presented in the correct manner, are frequently accepted
- COFI and its members enjoy a very good working relationship with the Japanese government, fostered through "day-to-day" dialogues

And the advantage to this is?

- Acceptance and recognition of National Lumber Grades Association (NLGA) grading rules for dimensional lumber
- Acceptance of NLGA MSR grading and production rules (SPS 2)
- Tentative acceptance of NLGA fingerjoint grading and production rules (SPS 1 & SPS 3)

COFI-FTO JAS Graded Export Volumes



Source : COFI Tokyo