

MADISON'S LUMBER REPORTER



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News & Updates

Canadian Building Permits - April

Building permits across Canada rose sharply in April as construction intentions for both residential and non-residential were strong in all provinces. Contractors took out \$6.4 billion worth of permits up 14.5 per cent from March and the highest level since October 2007. *READ MORE*

Prince George Plywood Mill Fire

The Interior British Columbia town of Prince George has been grappling with the after-effects of the devastating fire at Canfor's North Central Plywood Mill last week.

Poor showings on financial statements of late makes it difficult for the company to find funds for rebuilding. Although the plant had been 'breaking even', current plywood prices are relatively soft and not expected to recover in the short term. *READ MORE*

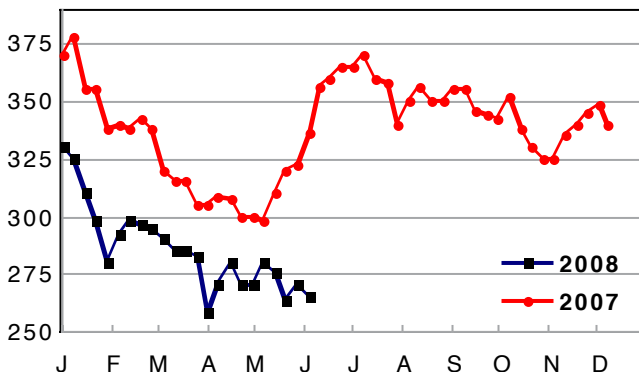
Canadian Forestry Issues

The House of Commons Standing Committee on Natural Resources released a report this week titled "*Canada's Forest Industry: Recognizing the Challenges and Opportunities*". Members of the Committee put significant effort not only into precisely defining recent difficulties facing the industry, but also on sourcing out future potential, and opportunities for new business.

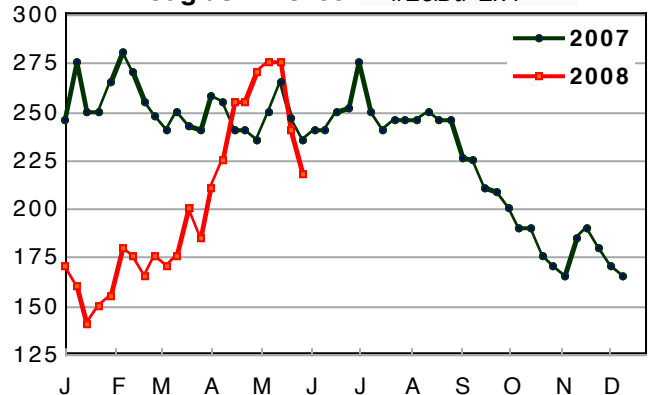
The Committee invited individuals, agencies and organizations to inform on a variety of issues facing the forest products industry from the Pine Beetle to the Softwood Dispute, the strong Canadian dollar to transportation issues and more. The Committee's report details some exciting prospects for the future, including the use of biomass for fuel and energy.

Recommendations include increased funding and tax incentives for research and development, increased emphasis on exploring export markets, a close look at the Competition Bureau, and an examination of Canadian rail rates (particularly in remote areas). *READ MORE*

WSPF KD #2&Btr 2x4



Douglas Fir Green #2&Btr 2x4



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	246	250	-4	220	+26	278	-32
WSPF KD R/L 2x6	232	235	-3	208	+24	266	-34
WSPF KD R/L 2x8	236	237	-1	206	+30	276	-40
WSPF KD R/L 2x10	265	270	-5	270	-5	322	-57
WSPF KD PET 2x4 Stud	245	254	-9	230	+15	300	-55
Douglas Fir Green R/L 2x4	218	240	-22	255	-37	235	-17
Douglas Fir Green R/L 2x10	200	216	-16	230	-30	290	-90
ESPF KD 2x4 8ft Stud	315	315	0	305	+10	350	-35
OSB Ontario 7/16" (CDN\$)	210	205	+5	175	+35	180	+30

Weekly News

Canadian Permits Up

CONTINUED The residential sector saw the highest value in six months with the value of building permits increased 13.4 per cent to \$4.0 billion. Multi-family permits were largely responsible for the strong gain, boosting intentions in the residential sector in April.

Permits for multi-family housing were up 39.9 per cent from March and the highest level since December 2005, with a value of \$1.9 billion being issued by Municipalities. While single-family permits fell by 2.4 per cent, the number of multi-family units approved increased 19.1 per cent.

In the non-residential sector, the value of permits advanced 16.5 per cent to \$2.4 billion, due to strong commercial intentions.

Despite this strong increase in April, there has been a downward trend in

building permits since last summer.

The value of commercial permits rose 20.2 per cent to \$1.5 billion. Again, this was the highest value since October 2007. The gain was due largely to higher construction intentions for hotels and retail outlets.

The value of industrial permits rose 6.7 per cent to \$335 million following a 22.9 per cent drop in March. The strongest increases were in permits for manufacturing and primary industries buildings, mainly in Alberta.

Plywood Mill Workers

CONTINUED Given that the forests surrounding Prince George have succumbed to the Mountain Pine Beetle infestation, a rebuilt facility would likely not easily source the high-grade peeler logs needed for plywood production.

Record setting mill closures in the past year, some concentrated in the Prince

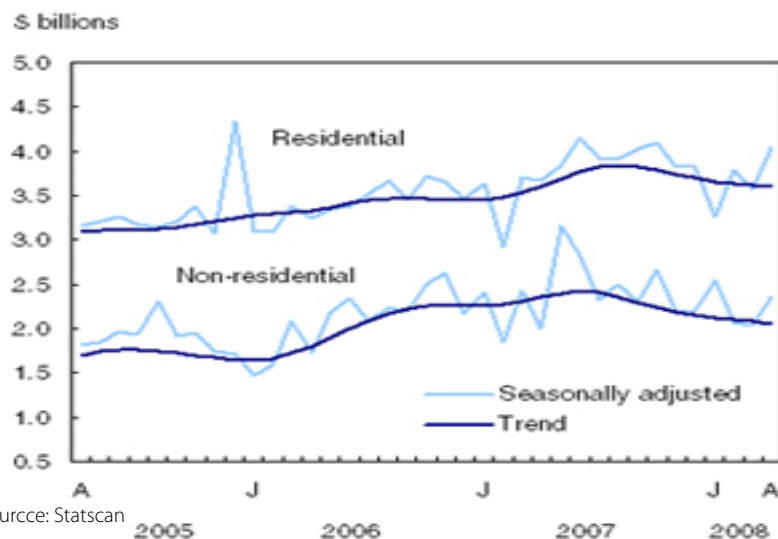
George area, already had the town reeling from the prospect of high unemployment. The sudden loss of this mill has decreased timber demand by 350,000 cubic meters, directly impacting at least 40 logging contract and trucking positions. This in addition to the 285 plant staff now out of work.

In the past year and a half a total of 600 forestry workers have lost their jobs (in a town of 73,000), causing related industries and services to also reduce staff.

The good news is that, apart from the lumber industry, the British Columbia economy is doing well. Latest unemployment figures for Prince George (April 2008) are at 7.7 per cent, up from 5.6 per cent in February. However the provincial average for April is 4.4 per cent, while nationally the average unemployment rate is 6.3 per cent.

Pulp, Paper and Woodworkers of Canada local 25 is working hard, together with Canfor, to place workers at other facilities. Many mill staff reported they had already found positions of some kind, although generally the work was part time or temporary.

Residential and Non-Residential Permits Advance



Calendar

June 2008

25th Annual Wood Transportation and Marketing Conference

June 18-21 - Whistler, BC
604 669-7996 x 101

College of Alberta Professional Foresters' AGM

June 26 - Edmonton, AB
www.capf.ca

Parliamentary Committee

Canada's Forest Industry

The primary purpose of "*Canada's Forest Industry: Recognizing the Challenges and Opportunities*" is to "describe the elements likely

by Kéta Kosman

to contribute to the industry's renewal, prosperity and sustainability". Most useful in the short term perhaps, are the sections on bioenergy, biomass and bioproducts. As recently reported here at Madison's, the use of formerly termed 'wood waste' as a potentially lucrative source of biofuel is coming under increased interest both within the forest industry and from the periphery. Through its eight meetings including 25 organizations and individuals connected to the industry, the House of Commons Standing Committee on Natural Resources declares that, "Besides the traditional wood and pulp and paper markets, there now exist entirely new markets for wood fibre."

Given that 'bio waste' has historically been the scourge of wood products companies, and that such material scatters forest floors and timberlands across the continent, such a declaration can only be seen as good news. Of course primary products such as panel, dimension lumber and pulp will continue to be a driving force, but lumber companies will benefit from expanding their market base while these opportunities are just beginning. With this in mind, the Committee has recommended immediate tax credits, and provincial and federal government investments for research and development of new technologies, and for an increased role, scope and funding of both the Canada Wood Export and the International Forests Partnership Programs.

A great deal of insight was provided to the Committee, particularly by the Forest Products Association of Canada, regarding the stifling requirements of the Competition Bureau. The most striking example of a Bureau decision bringing about poor results was the sawmill currently owned by Pope & Talbot in Fort St. James, BC. In 2005 Canfor was forced to sell the then-profitable mill in order to complete their merger with Slocan Forest Products. It changed hands for \$39 million; currently receiver PricewaterhouseCoopers is hoping to get slightly more than \$6 million for the now-idled mill.

The striking fact was revealed that, given Canada's vast forest resources and proximity to the world's largest market for wood products, there is no Canadian presence on the list of 20 largest lumber companies. Witnesses before the Committee on this subject were of the unanimous opinion that the industry must be allowed to consolidate and



Lumber Ready for Shipment

restructure. The obvious point was made, again by the FPAC, that - as lumber is a *global* product, with commodity prices set in the international marketplace - Canadian consumers cannot be significantly harmed by the merging of Canadian forest products companies.

Pulp and paper producers now generate 60% of their energy needs from readily available biomass. This figure is projected to be 100% in the next decade. Based on presented material, the Committee has recommended that the scope of the ecoENERGY program be expanded to include incentives for the production of thermal energy from biomass (in addition to the currently funded gasification process). While desire for expansion of bioenergy from harvesting waste was widely proclaimed by all witnesses, some pointed out the danger of overuse. The risk of the forest floor becoming impoverished due to lack of organic material being left behind to decompose can not be ignored.

The Committee went on to learn that "Canadian lumber shipments (by volume) to China have increased by 350%, to South

Korea by 290%, and to the U.K. by 320%" in recent years. While clearly the United States will continue to be the world's single largest consumer of lumber and wood products, Canada's reliance on a steady level of exports to that country has become less beneficial of late, given the challenges facing US home building and construction in general.

In one of the most immediately applicable topics, the Committee learned about transportation woes, particularly on the rail lines. As the forest sector accounts for a full 25 per cent of Canadian railway's total revenue, industry leaders were baffled at the comparatively high rates and poor service offered by rail companies. Understanding that the monopoly situation in Canada could be skewing rail charges, the Committee recommends a review of rail rates, in comparison to the global marketplace.

The full text of the House of Commons of Commons Standing Committee on Natural Resources report titled *Canada's Forest Industry: Recognizing the Challenges and Opportunities* can be found at <http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?SourceId=242322>.

Summary of Committee Recommendations

- Prime Minister Stephen Harper to convene a National Summit, with all stakeholders, on the future of the Canadian forest industry;
- the federal government establish a national forest industry innovation fund;
- additional funds into the ecoENERGY for Renewable Power program;
- more intensive use of biomass, and increased funding should be based upon energy conversion factors, greenhouse gas emissions, and impacts on regional forest economies;
- actively pursue policies that encourage value-added manufacturing;
- Canada's Competition Bureau examine its methods for analyzing mergers and acquisitions in the forest products industry;
- investments in innovative research and development programs that stimulate cooperation;
- improve the scientific research and experimental development (SR&ED) tax incentive program;
- expand the life, the scope and the funding of the Canada Wood Export Program and the International Forestry Partnerships Program;
- the federal government to undertake a study on the issue of railway rates and consider developing an intermodal transportation strategy.