

# MADISON'S LUMBER REPORTER

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KetaDesign Productions

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Annual Subscription Prices  
E-mail/Fax: C\$339  
Discounts available for multiple  
subscriptions  
Published 50 times a year

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604 984-6838  
PO Box 2486 Vancouver, BC  
V6B 3W7 Canada

In Canada, add 5% GST  
ISSN 0715-5468

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## News & Updates

### AbitibiBowater Production Cuts

AbitibiBowater Inc. embarked on the first stage of a plan to remove one million tonnes of newsprint capacity from its North American operations by cutting production at its Grand Falls-Windsor, NL plant. In an effort to avoid closing the paper industry's highest-cost facility on this continent, the company will cut up to 150 of the 450 workers.

Other measures being taken to make the plant profitable again include a reorganization of its woodlands division, contracting out silviculture operations, and closing the chip room and the manual cut and bunch classification division. Wood will be chipped off-site. The world's largest newsprint producer, with 15 per cent of global capacity, and eighth-largest publicly traded pulp and paper company, AbitibiBowater reported a 2Q loss of US\$25 million at the beginning of August. After the curtailment announcement, AbitibiBowater shares gained 23 cents to \$6.91, an increase of 3.44 per cent in afternoon trading on the Toronto Stock Exchange.

The goal behind reducing newsprint supply was to push through a US\$20 per tonne price increase per month for the rest of the year, a move that would take newsprint prices to \$820 per tonne. Currently US newsprint prices are at \$720 per tonne, a 12-year high.

### US Home Sales

Sales of new one-family houses in July 2008 were at a seasonally adjusted annual rate of 515,000, 2.4 per cent above the revised June rate of 503,000, but 35 per cent below the July 2007 estimate of 796,000. The pace of existing home sales fell in June to a 4.86 million-unit annual rate, according to the National Association of Realtors.

The seasonally adjusted estimate of new houses for sale at the end of July was 416,000. This represents a supply of 10 months at the current sales rate. The new-home sales report is considered volatile by economists, and the government said it had no evidence that the actual change in last month's sales was "different from zero." [READ MORE](#)

### Wood Chip Demand

Tightening softwood chip supply in Asia and increased Japanese demand caused chip prices in Australia, the world's largest exporter, to rise dramatically in 2008.

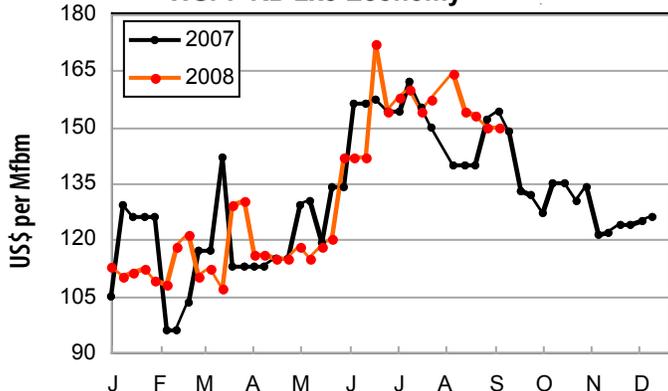
For the first half of 2008, Australian export prices for wood chips were at US\$150 per oven-dry metric ton (odmt), 45 per cent higher than in late 2006, and almost a doubling since 2003 according to Wood Resource Quarterly (WRQ). The average global conifer wood price reached a new all-time-high of US\$112/odmt for the same time period, which was up 11 per cent from 2007 and 26 per cent from two years ago. [READ MORE](#)

### Russian Timber Exports

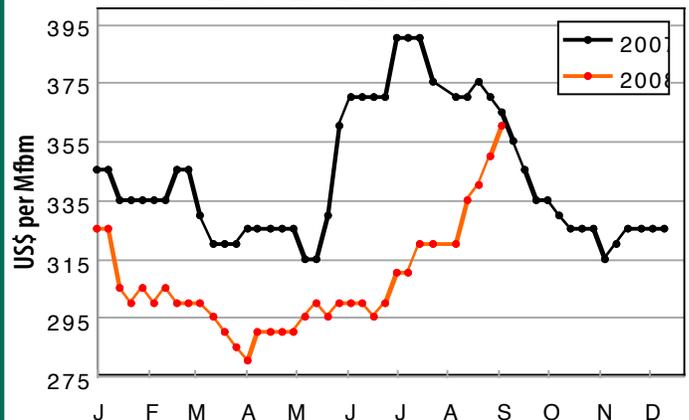
News of the proposed Russian 80 per cent export tax on raw log exports earlier this year sent British Columbia lumber companies running to fill the supply gap. Given the ongoing depressed North American lumber market such measures may seem like a good idea, but can only be so in the short term.

Denuding the landscape of valuable timber simply to help feed the bottom line temporarily is not likely to be of much help to lumber company financials in the long term. In fact quite the opposite, especially considering current bargain-basement prices. History has proven that allowing the timber to stand, only growing bigger and more valuable, until markets turn around makes more fiscal good sense. [READ MORE](#)

WSPF KD 2x8 Economy



ESPF KD #2&Btr 2x8



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	282	282	0	246	+36	257	+25
WSPF KD R/L 2x6	304	304	0	236	+68	278	+26
WSPF KD R/L 2x8	298	298	0	240	+58	275	+23
WSPF KD R/L 2x10	305	300	+5	255	+50	350	-45
WSPF KD PET 2x4 Stud	220	228	-8	245	-25	265	-45
Douglas Fir Green R/L 2x4	187	195	-8	218	-31	245	-58
Douglas Fir Green R/L 2x10	250	245	+5	200	+50	305	-55
ESPF KD 2x4 8ft Stud	295	295	0	325	-30	335	-40
OSB Ontario 7/16" (CDN\$)	220	220	0	210	+10	200	+20

## Weekly News

### US Housing Market

CONTINUED Sales of existing homes rose 3 per cent in July as buyers snapped up deeply discounted properties in parts of the country hit hardest by the housing bust. 35 per cent of the sales were of properties where the owners were forced to sell at a loss (up from 10 per cent one year ago). Sales were up in all regions of the country except the South, which posted a 0.5 per cent decline. Sales rose by 6 per cent in the Northeast, 1 per cent in the Midwest and 10 per cent in the West. However, the number of unsold properties hit an all-time high. Despite the third monthly sales jump this year, the number of unsold single-family homes and condominiums rose to 4.67 million, the highest number since 1968, according to the National Association of Realtors.

The inventory level is being driven higher by a massive wave of mortgage foreclosures. One key unknown is the ability of mortgage finance companies Fannie Mae and Freddie Mac to supply money for loans. Even with government help, nearly 2.8 million U.S. households

will either face foreclosure, turn over their homes to their lender or sell the properties for less than their mortgage's value by the end of next year, predicts Moody's Economy.com. The US Census Bureau said that the share of US homes owned but sitting empty inched down to 2.8 per cent during the second quarter from 2.9 per cent in the first quarter.

The huge inventory of unsold homes caused American home values to drop 16 per cent in the 12 months through June, the biggest annual decline on record. Analysts predict a very long, slow climb back to a healthy housing market in the US.

### Chips and Sawdust

CONTINUED Wood fibre prices, the major cost component when producing wood pulp, increased in practically all major pulp-producing regions around the world in the 2Q 2008 as a result of a continued weakening of the US dollar against most major currencies and due to higher transport costs for both pulpwood and wood chips, according to Wood Resource Quarterly (WRQ). As Australian softwood chips are perceived to be of lower quality

than North American species by some pulp companies in Japan, the rising cost of Australian wood chips resulted in US suppliers increasing their market share from 25 per cent to 32 per cent of the total Japanese imports through 2007.

With the slump in the lumber markets in North America and Europe, the supply of residual chips from sawmills continued to decline, bringing increased competition and higher reliance on the more expensive wood fibre from roundwood. In addition, competition from Europe, Brazil, Russia and Australia caused softwood pulplog prices to fall between 1-6 per cent from the previous quarter, depending on the region.

A Wood Resource Quarterly (WRQ) report states that the higher cost of producing pulp the past few years has to a large extent been passed on to wood pulp consumers. Market pulp prices have almost doubled since 2003 and are currently at the highest level in 13 years.



Conveyor belt piles up the wood chips



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# Asian Timber Imports

## Russian-Chinese Feud

As a result of the implemented and planned log export taxes in Russia, shipments of softwood logs from Russia have declined both to Europe and Asia in 2007 and 2008. In the first quarter of 2008, Russia shipped 44 per cent less to Europe and 15 per cent less to Asia than for the same period in 2007 according to Wood Resources International. Meanwhile hardwood log exports were up by over 50 per cent. During the 1Q 2008, Russia exported less to all of its major trading partners except China, which increased purchases by 14 per cent. Softwood log exports are, so far in 2008, at the lowest level in four years. The unusually high domestic sawlog supply due to declining log exports to Europe has resulted in a great price reduction. In the 1Q 2008,

A feud brewing between China and Russia over continued illegal logging in Russia, and a new threat to Russia's entry into the World Trade Organization due to the conflict in Georgia are drastically changing that country's wood products sector. Since the end of the 1990s, the Sino-Russian border regions have witnessed a dramatic increase in cross-border timber trade that has made Russia the largest log supplier for China's expanding wood industry sector. Driving factors include: severe constraints in China's domestic wood supplies, the availability of rich forest resources in the Russian Far East and Siberia, liberalised trade policies and demand from both domestic and European, Japanese and US markets for low cost Chinese wood products. The current challenges faced by a largely inefficient Russian forestry sector and decentralised Russian forest administration in the context of illegal logging and unsustainable forestry practices are widely viewed as having reached serious dimensions.

Chinese companies have entered the Russian forestry sector, introduced greater efficiency and proved competitive. This involvement has also opened doors for Chinese businesses to inadvertently or intentionally participate in illegal activities throughout the supply chain. In addition to timber harvesting, Chinese companies are involved as intermediaries in the commercial log depots and control the wholesale timber market in some parts of Russia. Chinese businesses have also increasingly invested

in wood processing in Russia, partly in response to the adjustment of the Russian export tax on logs.

Most recently, there has been a trend towards vertical integration for Chinese companies, with intermediaries and wood importers attempting to extend their business to every node of the trading network. On the Chinese side of the border, preferential tax policies and infrastructure investment have spurred a rapid development of the timber processing industry with private sector processing mills replacing state-owned timber processing factories.

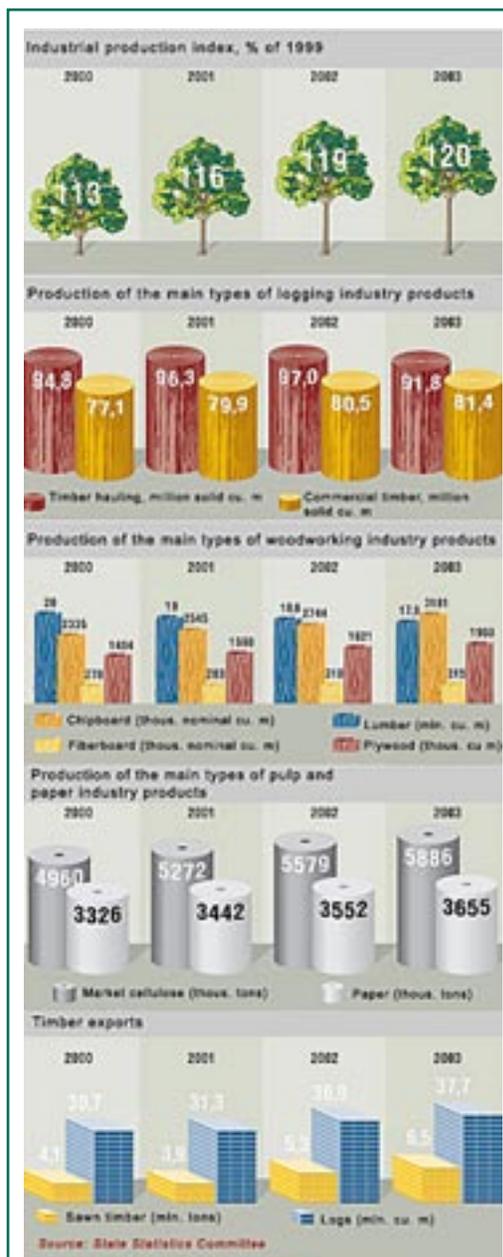
Domestic wood products companies in Russia and European environmental groups alike are urging changes in policy to promote responsible timber trade within this context of commodity chain transformation by recommending the following measures:

- Establish inspection sites near the commercial depots;
- Enhance the effectiveness of administrative inspection through setting-up of an integrated monitoring system;
- Localise international forest certification schemes;
- Chinese and Russian government agencies to provide joint guidance on documentation that could be used by traders to establish a chain of custody for forest products;
- Establish a China-Russian multi-stakeholder working group to monitor the timber trade and exchange customs data in a timely manner; and,
- Chinese government to revise its procurement policy to favour legal and sustainable wood.

In response to critics the Russian government announced in March of 2008 that the Federal Customs Service reduced the number of customs checkpoints that will process unfinished timber exports from 668 to 128 with proper technology for assessing timber cargo in order to reduce illegal logging. Kindling, sawdust, milling byproducts, pulp and other rough forms of wood were subject to the new procedure as well. Finished wood products will be handled as before. The Russian Ministry of Natural Resources reported that 7 million cu. m of wood was cut illegally in the Russian Far East last year and annual illegal logging throughout the country tops 21 million cu. m. annually.

An added complication to Russia's burgeoning efforts to gain a foothold as a major global wood products supplier is the recent outbreak of conflict in Georgia. Under WTO rules a candidate country must reach agreement with all 153 members, represented by a working par-

ty which any existing member can join, as well as agreeing separate bilateral deals with any member that seeks them. Russian accession to the WTO depends on its settling outstanding issues such as export duties on timber, farm subsidies and the role of state-controlled enterprises such as gas producer Gazprom. Georgia objects to Russia's support for rebel regions South Ossetia and Abkhazia, saying among other things that it cannot control customs on Russia's borders with the regions. As a result it is blocking formal talks on Russia's accession while allowing informal negotiations to continue.



**Main Indicators of Russian Wood Products Industry, 2000 - 2003**