

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines the activities of Brookfield Asset Management subsidiary Tricap Partners LLC, into Ainsworth Lumber Co. Contact us any time for a subscription.

Pulp and Paper Industry

Two big conferences specific to the Pulp and Paper industry will be in Vancouver, BC in May. International Pulp Week, organized by the Pulp and Paper Products Council of Quebec, runs from May 3 to 6. Speakers include Jimmy Lee, CEO of Mercer; Paul Quinn, paper & forest products analyst, RBC; and Ari Borg, VCP Overseas. Special presentations by Poyry, FOEX, Chicago Mercantile Exchange, and BC Hydro. PPPC organises this event as a service to the industry, allowing for a multitude of business meetings and networking opportunities that would otherwise require travel to several continents. Go to www.internationalpulpweek.com/p002.html for more information.

Two weeks later, PricewaterhouseCoopers is hosting their Global Forest & Paper Industry Conference, entitled "*ReEnergising the forest & paper industry*". Learn how leading CEOs, senior executives, analysts, customers and suppliers in the forest products sector are adjusting to today's economic situation, addressing climate change and other challenges, and finding new business opportunities. More details available at www.pwc.com/forest-conf09

Canadian Housing Starts

Housing starts in Canada declined to 134,600 units in February from 153,500 units in January, according to Canada Mortgage and Housing Corporation, to the lowest level in more than eight years, because of fewer starts on multiple-family dwellings. [READ MORE](#)

Wood Home Building in Japan

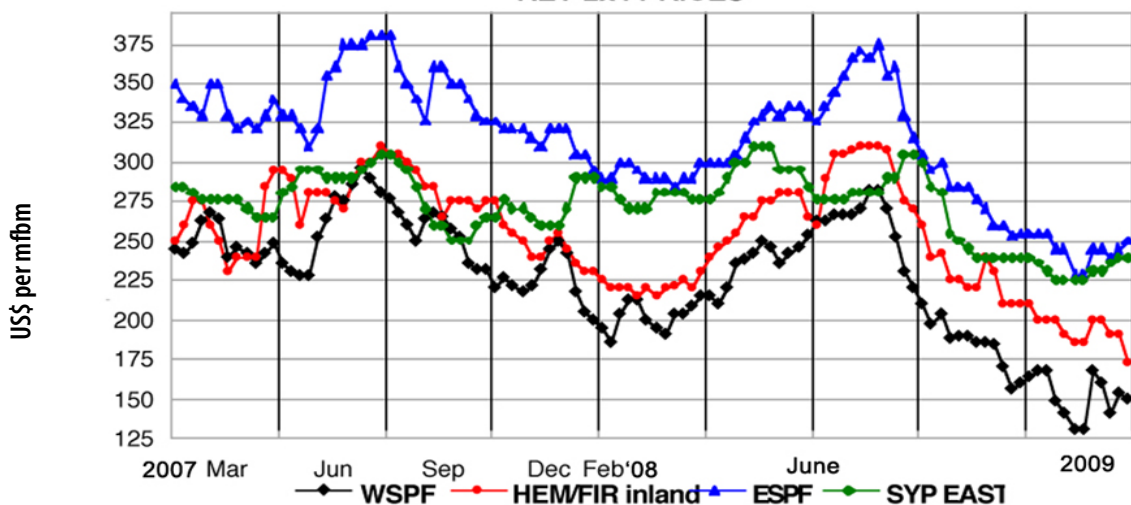
A report by the Japan Lumber Journal has determined that from 1998 to 2007, North America's share of the Japanese lumber market has declined dramatically, while Europe's share grew. Domestic Japanese lumber sales dropped from 16 per cent to 8 per cent in the same time frame, finally recovering to 12 per cent. [READ MORE](#)

BC Forestry Roundtable

The long awaited report by the BC Forestry Roundtable was released this week. *Madison's* examines the recommendations closely.

Interviews with both Minister of Forests and Range Pat Bell and NDP Forestry Critic Bob Simpson provide interesting insights into the 29 recommendations listed in the report. [READ MORE](#)

KEY 2x4 PRICES



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	150	153	-3	168	-18	190	-40
WSPF KD R/L 2x6	150	153	-3	172	-22	187	-37
WSPF KD R/L 2x8	146	147	-1	155	-9	208	-62
WSPF KD R/L 2x10	165	160	+5	168	-3	285	-120
WSPF KD PET 2x4 Stud	170	175	-5	195	-25	210	-40
Douglas Fir Green R/L 2x4	143	150	-7	160	-17	175	-32
Douglas Fir Green R/L 2x10	175	185	-10	220	-45	200	-25
ESPF KD 2x4 8ft Stud	225	235	-10	230	-5	275	-50
OSB Ontario 7/16" (CDN\$)	205	215	-10	220	-15	175	+30

Weekly News

Canadian Home Building

CONTINUED New home construction is slowing to more sustainable levels and starts are forecast to come in at 160,250 units, within a range of 141,000 to 180,000 units in 2009. These trends are reflected in the year-to-date actual starts. These decreases, however, should be viewed in the context that housing starts have been exceptionally strong over the past 7 years, exceeding 200,000 units per year. Construction started on just five new homes last month, a 91 per cent drop from February of 2008.

The seasonally adjusted annual rate of urban starts decreased 15 per cent to 107,800 units in February. Urban multiple starts decreased 16 per cent to 63,300 units, while urban single starts fell 11 per cent to 44,500 units in February.

"Increased listings and reduced sales in the existing home market

continue to impact the new home market," said Bob Dugan, Chief Economist at CMHC's Market Analysis Centre. "The decrease in February housing starts is partly attributable to the volatile multiple starts segment."

In November new home starts plunged by 46 per cent, in December the drop was steeper at 78 per cent and now the first two months of 2009 show a 91 per cent decline.

The CMHC expects the resale market to start turning around in 2010 and, perhaps early in 2011, to see that change start to be reflected in the number of new home starts.

Things have gotten much cheaper for those who can afford to renovate, said Rob MacCallum, president of the Canadian Home Builders Association Central Vancouver Island branch, as interest rates have fallen and contractors are looking for work.

"It's a great time to be building, to be blunt," he said.

Wood Framed Building in Japan

CONTINUED The Japan Lumber Journal report found that North American lumber producers were supplying timber products based on a production-side logic, while European producers were supplying products more in demand with Japanese users.

The usage of green lumber in Japan declined to 22 per cent in 2001. For example, in 1995 green lumber was used for all beams, but in 2001 the percentage of green lumber for beams fell to 25 per cent, while KD lumber accounted for 34 per cent and laminated/LVL accounted for 41 per cent. By 2007 the percentage of laminated lumber/LVL for beams was 83 per cent.

In 1998, green lumber accounted for 98 per cent of all ground sills. By 2007 the breakdown was 48 per cent laminated lumber/LVL, 12 per cent KD lumber and 40 per cent green lumber for ground sills.

The trend towards more dried lumber in Japanese home building has led to a predominance of European timber on the market. "In general, European producers have sophisticated drying technology, and their products are superior to North American products in terms of drying quality," states the report. "Also, laminated lumber is strongly supported by field carpenters."

Currently, the percentage of dried wood among domestic lumber products is considered to be around 20 per cent.

The total amount of timber used for a traditional wooden house is 21 cubic meters.

CANADIAN HOUSING STARTS				
Actual and Seasonally Adjusted Annual Rates				
	February 2009		January 2009	
	Actual	SAAR	Actual	SAAR
Canada, all areas	6,598	134,600	8,287	153,500
urban ctrs with >10,000	5,594	107,800	7,244	126,700
singles, urban centres	2,019	44,500	2,512	50,000
multiples, urban centres	3,575	63,300	4,732	76,700
rural areas	1,004	26,800	1,043	26,800
Atlantic urban centres	262	8,200	348	7,400
Quebec urban centres	1,438	29,100	2,021	36,200
Ontario urban centres	2,206	44,100	2,873	51,500
Prairie urban centres	831	14,100	1,077	17,500
B.C. urban centres	857	12,300	925	14,100

Source: Canada Mortgage and Housing Corporation

BC Forestry

Future Direction

Early in 2008 the BC Forestry Roundtable was created by the provincial government to address rapidly increasing problems for wood products companies in British Columbia. The 15 month, 19 member project made 29 recommendations in its report published this week. *Madison's* studied the Roundtable report, finding that the loose wording and informal design format of the paper leaves a lot open to interpretation.

by Kéta Kosman

The most significant proposals include:

- the establishment of commercial forest land reserves,
- the creation of long-term, area-based forest tenures,
- the extension of First Nation's tenure to 25 years,
- and the establishment of short rotation fibre plantations.

A shift in silviculture practices to provide more quality fibre from a smaller land base is suggested, such as planting short-rotation, hybrid forests with 15 year maturation (likely Poplar) on BC Hydro power lines. Apart from filling the gap until a sizable portion of beetle kill forest can be replanted, this recommendation would provide the province with afforestation credits and it will release BC Hydro from the costs of maintaining the power lines. A pilot project will be launched soon, said Minister of Forests and Range Pat Bell in an interview with *Madison's*.

Extending First Nation's tenure rights, as well as giving forest-based rural communities more control over surrounding forests, would provide immediate benefit from the surrounding area to local residents. Such communities, which traditionally rely on the forests for their livelihood,

and the First Nations, with a proven stake in natural resources, would benefit by participating in the forest economy with the opportunity to manage and harvest timber to reap the resulting revenue. The report states that, "Some Roundtable members felt that government should provide communities with a percentage of the stumpage that is collected through harvesting around their communities."

The most discussed recommendations by far, however, are contained in number seven, the establishment of commercial forest land reserves where wood production will be a primary focus; and number 18, area-based tenure. Aimed at creating a globally competitive, market based operating climate, recommendation seven points out that for the past 20 years, BC lumber and pulp mills have earned very low returns on investment. In order to remain globally competitive, and to attract investment, efforts should be made to reduce costs of operating by streamlining interactions between government agencies and industry.

Recommendation 18 calls for the availability of "smaller area-based tenures to volume-based tenure holders making those areas more secure, provided they are willing to surrender a portion of their current volume." It is this final suggestion which bothers Bob Simpson, NDP Forestry Critic. In his mind, the Roundtable would effectively "give a small group of large companies access to most of the timber."

Simpson claims that this kind of corporate concentration will only encourage more overproduction of dimension lumber. In their own forest strategy proposal released at the beginning of 2008, the NDP opposition party would rather see a "complete reform of the tenure system. Take 50 per cent of the tenure back from the large licensees, create a log market,

with complete control over all land use", explained Simpson.

Pat Bell, Minister of Forests and Range, favours continuing with the current system, which has already seen a "20 per cent buy back of tenure". "There needs to be willing sellers and willing buyers," explains Bell. "There is no magical pool of money to compensate licensees. There needs to be a well-defined, compensation system if there is to be a taking of tenure."

Bell's understanding is that the report balances three main issues: 1) long-term tenure holders, companies investing \$100 million in facilities and needing a stable timber supply, and medium-size manufacturers, needing more wood competitively available, will have use of 60 per cent of the available commercial forest, 2) rural forest-based communities and First Nations needing more control over surrounding resource management, will have use of 20 per cent of commercial forests; and 3) BC Timber Sales will have control over the remaining 20 per cent.

Bell fully concedes, and the report states that, "The demand for forest tenure greatly exceeds the supply available." Bell maintains that the only solution is a "balanced system which represents the values of all three issues and provides security for long term investment."

Bob Simpson maintains, however, that the province is "over licensed for logging for the timber available," and claims the only solution is to "lock down the rights of major licensees." Simpson goes further in pointing to the Association of BC Forest Professionals, which claims the government's timber inventory data is seriously flawed.

Both men declare that silviculture volumes and practices need serious assessment, and that fuel from biomass will play a huge part in the future revenues of wood products companies, indeed of forest-based communities, the First Nations and the taxpayers of BC as well. The Roundtable report devotes several pages to biofuels, suggesting the growing sector could be used to provide much-needed jobs immediately.

Madison's reported last week on BC Hydro's announcement of Phase II of its bio-energy plan, and will continue to follow any developments in the vital industry closely.

Further movement toward an even more market-based timber pricing system, including internet based sales, and a reduction in municipal taxes to forest products companies to better reflect the current financial environment, round out the report. In terms of the Coast, the report glosses over the subject, making only a few vague references to the coastal industry throughout.



Log Pile in Campbell River