

MADISON'S LUMBER REPORTER


Publisher
KetaDesign Productions
Editor
Kéta Kosman
Market Analyst
Zara Heartwood


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


www.madisonsreport.com
madrep@shawcable.com
604 984-6838
PO Box 2486 Vancouver, BC
V6B 3W7 Canada


In Canada, add 5% GST
ISSN 0715-5468

Printed in Canada © 2008

All material contained within is the property
of KetaDesign Productions Inc. Reproduction
or retransmission is expressly forbidden.



News & Updates

Worthington Properties Head Office Fire

On Tuesday afternoon last week, fire crews were called to the 80-year-old Kelly-Ramsey building in Edmonton, AB, which houses the offices of Worthington Properties, owners of an idled pulp mill in Mackenzie, BC. Damages to the building, which Worthington Properties also reportedly owns, are estimated at about \$3.5 million. On Thursday, Edmonton police said an arson investigation is underway.

BC Minister of Forests and Range, Pat Bell, told the Prince George Citizen Friday that he is less worried about the fallout from the fire than he was earlier in the week.

"We really have done a lot of work on Worthington and we have a pretty reasonable understanding of the ownership structures and the assets that associated with Worthington," said Bell, the MLA for Prince George North. Arson is a suspected cause of the blaze and Bell was concerned key documents were lost.

Worthington bought the bankrupt Pope & Talbot pulp mill in Mackenzie in the fall of 2008 but in January the province stepped in to ensure workers remained on the job to prevent the rupture of tanks that could release a cloud of deadly chlorine gas just kilometres from the townsite of 4,500.

According to a CBC report, Worthington president Dan White was in St. Petersburg, Russia at the time and was notified about the fire by staff in an e-mail.

Mill Closures and Curtailments

Montreal-based Tembec Inc. will be shutting its Kapuskasing, ON, operations beginning April 9 for a minimum of four weeks due to the challenging market conditions for both newsprint and lumber, taking 20,000 tonnes of newsprint and 8 million board feet of construction lumber off the market.

The shut will affect about 510 employees from all levels of the Kapuskasing sawmill, newsprint and forestry operations. The Kapuskasing shut adds to cuts Tembec announced last month, which include cutting jobs, idling operations, and freezing salaries.

Cascades Inc. is shutting down its Norampac carboard products plant in Quebec City, QC, affecting 145 workers. [READ MORE](#)

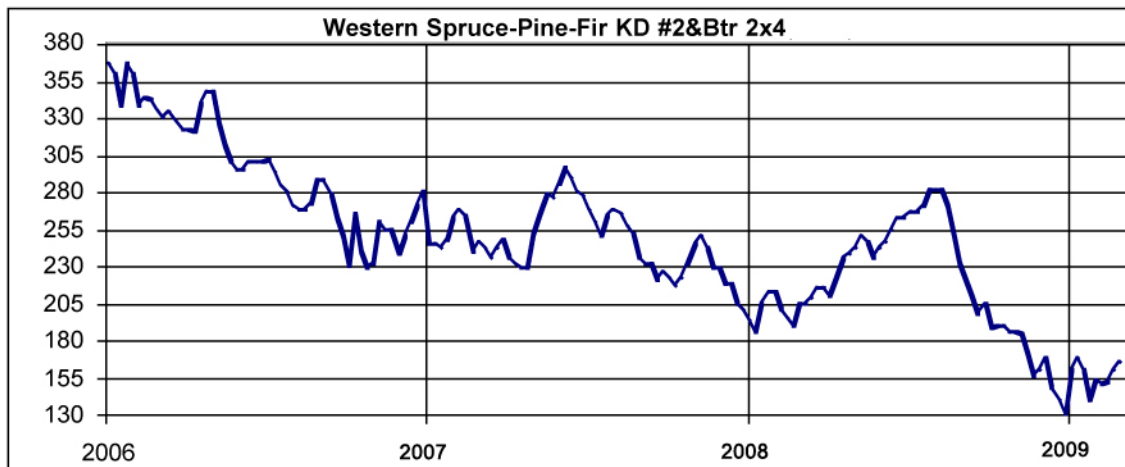
Canadian Wood Chip Prices

Canadian pulpmills and sawmills reduced production in 1Q 2009 as demand for pulp, paper and lumber continued to slump both domestically and in the US. [READ MORE](#)

Canada's \$68 Softwood Lumber Million Duty Payment

An announcement Tuesday out of Canada's department of International Trade that a lump-sum payment of \$46.7 million to the US is in full compliance with the ruling on arbitration by an international tribunal caused the US Coalition for Lumber Imports to announce it is "deeply disappointed" with Canada's non-compliance.

Madison's examines the terms of the ruling, and gets input from those involved as well as experts in cross-border lumber trade. [READ MORE](#)



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	165	160	+5	153	+12	208	-43
WSPF KD R/L 2x6	161	158	+3	153	+8	190	-29
WSPF KD R/L 2x8	160	155	+5	147	+13	206	-46
WSPF KD R/L 2x10	178	177	+1	160	+18	258	-80
WSPF KD PET 2x4 Stud	175	175	0	175	0	230	-55
Douglas Fir Green R/L 2x4	180	175	+5	150	+30	210	-30
Douglas Fir Green R/L 2x10	200	185	+15	185	+15	190	-10
ESPF KD 2x4 8ft Stud	225	225	0	230	-5	295	-70
OSB Ontario 7/16" (CDN\$)	195	202	-7	235	-40	175	+20

Weekly News

Mill Closures

CONTINUED Cascades said Thursday the shutdown will occur by the end of the year and reflects a big reduction in business for the plant and the weak economy.

Sales and distribution services at the Quebec plant will remain, but production will be shifted to other Norampac Quebec plants in Vaudreuil, Le Gardeur, Victoriaville, Drummondville and Montreal.

Cascades produces, converts and sells packaging and tissue mainly from recycled fibres. The company employs 13,000 people at plants and mills in North America and Europe.

Norampac, a wholly owned subsidiary, is Canada's largest cardboard maker and employs 5,000 people.

Canadian Wood Chip Prices

CONTINUED Many Canadian pulp mills run at operating rates of less than 70 per cent in the 1Q 2009, resulting in falling wood chip prices in most provinces, according to the North American Wood Fi-

ber Review. British Columbia and Alberta had the lowest wood chip prices in North America in the 1Q.

The biggest drop in lumber production occurred in British Columbia, where the January figure showed a decline of 28 per cent compared to a year ago. The production as a share of practical capacity was down to a mere 42 per cent in BC late last year, while the rest of Canada ran at 46 per cent of capacity, according to WWPA.

Wood fibre costs have become much more competitive in British Columbia and Alberta in the past six months. Softwood residual chip prices in the 1Q 2009 were the lowest in all of North America. In addition, pulp mills in Western Canada generally have a higher share of relatively inexpensive residual chips while other regions rely on fairly large volumes of costly chips from roundwood.

View the entire report at <http://www.woodprices.com>

Japan 2008 Lumber Stats

The Japanese Ministry to Agricul-

ture, Forestry and Fisheries has issued a report of lumber statistics for 2008, according to the Japan Lumber Journal.

Log consumption by sawmills fell by 12 per cent from 2007, and lumber consumption also declined, by almost 11 per cent for the same time period, due to sluggish demand.

Confusion over the proposed, then delayed, 80 per cent Russian tax on log exports caused a significant amount of mill closures. Other mills chose to switch to milling domestic logs only.

Domestic logs accounted for 65 per cent of the total, at 11,336 thousand cubic meters. That figure is 2.5 times more than the top North American log import, at 4,410 thousand cubic meters, said the report.

Total log imports were 6,147 thousand cubic meters, 16 per cent less than in 2007.

Russian log imports were down 40 per cent, to 771 thousand cubic meters.

Japan Lumber Statistics 2008

SOURCE: Japan Lumber Journal

	2008	'08/'07 Comparison %	
Log Arrivals	17,728	88.1	
Domestic			
Softwood	11,336	89.8	
Hardwood	245	108.9	
Total Domestic	11,581	90.1	
Imported			
South Sea	112	87.5	
North America	4,419	89.1	
Russia	771	59.4	
New Zealand	680	93.9	
Others	165	98.2	
Total Imports	6,147	84.4	
Log Consumption	17,963	89.1	
Lumber Consumption	11,102	9.5	<i>per 1,000 cubic meters</i>
Lumber Shipment	11,213	91.4	

Calendar

May 2009

Pulp Week

May 3 to 6 - Vancouver, BC
<http://www.internationalpulpweek.com>

Global Forest and Paper Industry Conference

May 14 - Vancouver, BC
<http://www.pwc.com/forestconf09>

BC Bioenergy Conference 2009

May 14 to 15 - Vancouver, BC
<http://www.bcbioenergy.ca>

Softwood Lumber Agreement

London Tribunal Ruling

Whether it is \$46.7 million or \$68.26 million, the sum of money involved in the recent London Court of International Arbitration ruling regarding the Canada/US Softwood Lumber Agreement is substantial. Especially considering it is imposed on an industry that has been suffering from a great drop in demand and profits over the past couple of years.

by Kéta Kosman

Arbitration ruling regarding the Canada/US Softwood Lumber Agreement is substantial.

The US and Canada have a fundamentally different interpretation of the ruling about Canadian lumber overshipments in the first half of 2007. The US Coalition for Fair Lumber Imports maintains that the reason for the initial US claim, and the basis for the tribunal decision, is that there needed to be a remedy for Canadian lumber overshipments from January to June of 2007. Lumber producing provinces in central Canada choose Option B of the 2006 Softwood Lumber Agreement, which couples an export quota with a 5 per cent duty. The export quota is calculated on lumber production and demand in the US. When demand and production of lumber fell towards the end of 2006, the level of exports from the Canadian provinces that had chosen Option B should have fallen correspondingly.

Zoltan van Heyningen, of the Coalition, explained to *Madison's* that his office had notified Ontario, Quebec and other eastern provinces that there needed to be a reduction in Canadian lumber imports into the US as a reflection of the shrinking market. It was told by the Canadian department of International Trade that "no adjustments to what meets the quota level needed to be made until June of 2007," according to van Heyningen. He maintains that, as the ruling was meant to be a remedy to overshipments, the only cure was a corresponding limit to shipments from the relevant Canadian provinces. Therefore, he explained, Canada has two choices: to either implement the remedy (of the additional 10 per cent tax), or to impose an alternate penalty with similar economic affect on the companies that breached the 2006 SLA. For the federal government of Canada to simply make a lump-sum payment to the US, then recover the money later from the relevant companies, would not be in compliance with the terms of the ruling.

Conversely, the Canadian government interprets the Tribunal ruling to mean that a lump-sum payment of \$46.7 million,



Canadian Softwood Lumber Awaiting Shipment to US

which is equal to the amount of revenue the US industry claimed it lost due to the Canadian overshipments, would fully compensate the US.

Melisa Leclerc, Director of Communications at Canada's Office of the Minister of International Trade sent *Madison's* the terms of the ruling, pointing directly to the paragraphs Canada is using to back up its interpretation. Paragraphs 2 and 3 on page 148 of the ruling respectively state that, "the Tribunal identifies 30 days from the date of this Award as a reasonable period of time for Respondent to cure the breach" and, "Canada shall be required to collect an additional 10 percent ad valorem export charge upon softwood lumber shipments from Option B regions until an entire remedy amount of CDN \$ 63.9 million, plus CDN \$ 4.36 million in interest (a total of CDN \$68.26 million) has been collected." (*ed- definition of ad valorem - A tax, duty, or fee which varies based on the value of the products, services, or property on which it is levied.*)

There is, as always interpretation of the Softwood Lumber Agreement, the claim by the US Coalition that any money from Canadian governments, federal or provincial, in aid of the Canadian lumber industry is a subsidy, therefore counter to the 2006 Softwood Lumber Agreement.

In terms of the vast sums of money being bandied about, *Madison's* enlisted the expert advice of Michael Jones, president of Jones & Jones Customs Brokers and Trade Consultants. He determined that the London Tribunal ruling had in fact gone beyond the remedy initially requested by the US.

British Columbia chose Option A of the 2006 SLA, which has no quota limit on lumber exports, and a duty of 15 per cent. The US admitted they lost \$46.7 million in duties on the lumber overshipped from Option B provinces. The Tribunal ruled that Canadian producers must pay the \$46.7 million, as well as an additional 10 per cent duty, bringing the total figure owed to \$68.26 million.

Madison's suggests that there is a basic difference in what each of the two countries understands to be the spirit of the ruling. The US Coalition believes that the ruling is meant to reduce Canadian lumber shipments by the subject provinces into the US until the level of former overshipments is rectified. The additional 10 per cent duty on future shipments is deemed by the Coalition to be a sufficient hardship to reduce Canadian lumber exports. Canada, however, seems to see the Tribunal ruling as simply a requirement to pay whatever money was not paid to the US during the time of underreporting.

An interesting aspect to this latest development is that the Tribunal ruling is final, with no ability to appeal. Once a panel of the London Court of International Arbitration makes a ruling the members are sent on their separate ways to other business. That panel never meets again. So the only way this issue can be addressed in the future is for Canada to propose some form of settlement and for the US to decide whether that settlement meets legal requirements. Should there be disagreement, there is the option to start a new round of arbitration.

As a final note, *Madison's* can't help but notice continued mentions in various Coalition press releases that "the British Columbia government is expanding the use of low-priced stumpage fees . . . for timber that continues to be milled into lumber." Feeling the need to know what is coming next, *Madison's* got confirmation from Zoltan van Heyningen that the next most damaging SLA violation is indeed BC's stumpage fees and that the Coalition is "committed to addressing the issue by working proactively with the new US administration".

One thing we can all agree on is that in the next two or three weeks there are likely to be some major new developments regarding the 2006 Softwood Lumber Agreement.