

# MADISON'S LUMBER REPORTER

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## News & Updates

### Canadian Softwood Lumber "Surcharge"

Not satisfied with the Canadian government's offer last week to send one lump-sum payment of \$47 million in compliance of a London Court of Arbitration tribunal ruling, the US Department of Trade has slapped an additional 10 per cent "surcharge" on softwood lumber imports from Option B (quota + duty) provinces, effective April 15, 2009.

Quebec, Ontario, Saskatchewan and Manitoba lumber exporters may become subject to drastic and costly changes to entry requirements for shipments subject to the 2006 Softwood Lumber Agreement. Together with the additional 10 per cent "surcharge" the economic hardship to relevant companies during this time of an extended downturn in lumber demand could very well cause more bankruptcies and permanent closures.

On Wednesday Canada's Prime Minister Stephen Harper indicated that more communication is needed with the US Trade Department to settle this issue of different interpretations of the London tribunal's ruling by Canada and the US.

### Canadian Housing Starts

The seasonally adjusted annual rate of housing starts increased to 154,700 units in March from 136,100 units in February. Urban multiple starts increased 28 per cent, while urban single starts moved up by 1.3 per cent in March.

New home construction is now at a more sustainable level after having been exceptionally strong over the past seven years, exceeding 200,000 units per year.

"Higher multiple starts in Ontario and Quebec were the main contributors to the rise in new construction activity in March," said Bob Dugan, Chief Economist at CMHC's Market Analysis Centre. [READ MORE](#)

### Pulp, Paper and Newsprint

US production capacity for paper, paperboard and pulp slowed to a 0.8 per cent decline in 2008 at 96.3 million tons, the American Forest & Paper Association reported in its 49th Annual Survey of Paper, Paperboard, and Pulp Capacity.

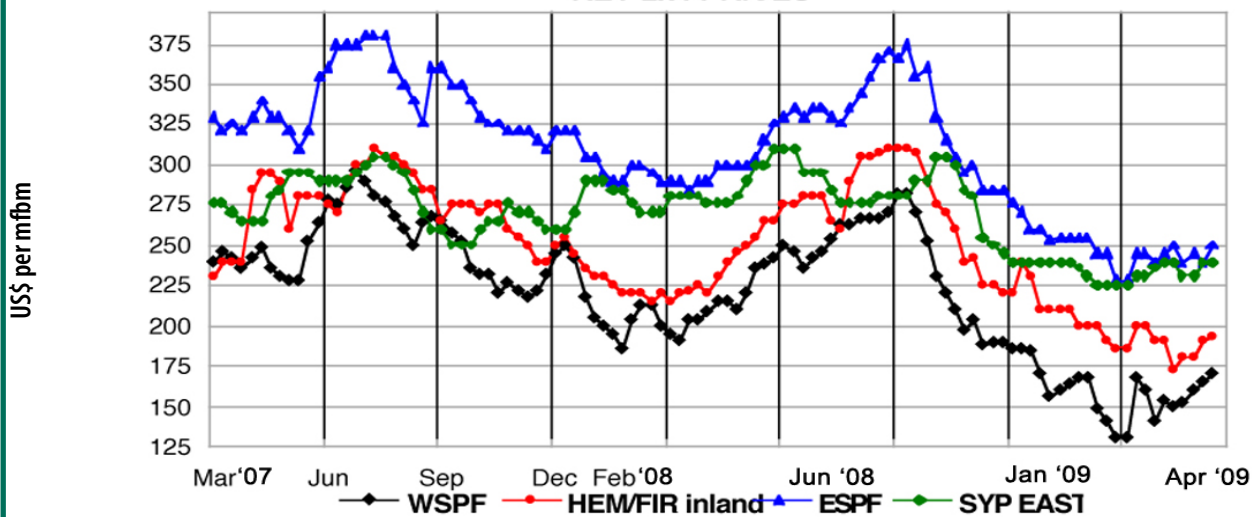
Inventories at all US users of newsprint declined 3.3 per cent in February from a month earlier to 744,000 metric tons from 769,000 tons in January, according to the Pulp and Paper Products Council [READ MORE](#)

### Mountain Pine Beetle Mortality in Alberta

While the pine beetle infestation in British Columbia can only be left to run its natural course of killing off Lodgepole Pine forests, Alberta continues to fight hard to prevent a spread across Canada's boreal forest.

A series of climate sensors providing data for a beetle mortality computer model have proven very successful in the past two years in helping determine the allocation of resources once the spring thaw comes. Using data from Natural Resources Canada, the province of Alberta is able to send staff to areas where the pine beetle winter survival rate is higher, in order to continue its population control efforts. [READ MORE](#)

KEY 2x4 PRICES



## Key Prices

|                            | This Week | Last Week | Change | Month Ago | Change | Year Ago | Change |
|----------------------------|-----------|-----------|--------|-----------|--------|----------|--------|
| WSPF KD R/L 2x4            | 170       | 165       | +5     | 150       | +20    | 215      | -45    |
| WSPF KD R/L 2x6            | 165       | 161       | +4     | 150       | +15    | 210      | -45    |
| WSPF KD R/L 2x8            | 168       | 160       | +8     | 146       | +22    | 212      | -44    |
| WSPF KD R/L 2x10           | 184       | 178       | +6     | 165       | +19    | 270      | -86    |
| WSPF KD PET 2x4 Stud       | 175       | 175       | 0      | 170       | +5     | 235      | -60    |
| Douglas Fir Green R/L 2x4  | 177       | 180       | -3     | 143       | +34    | 225      | -48    |
| Douglas Fir Green R/L 2x10 | 205       | 200       | +5     | 175       | +30    | 180      | +25    |
| ESPF KD 2x4 8ft Stud       | 235       | 225       | +10    | 225       | +10    | 305      | -70    |
| OSB Ontario 7/16" (CDN\$)  | 195       | 195       | 0      | 205       | -10    | 165      | +30    |

## Weekly News

### Canadian Home Building

CONTINUED The CMHC said housing starts last month were 297 units and the lowest level of overall activity for the month since 1995. They were 3,068 units in March 2008.

Through the first quarter of this year, total housing starts have reached 746 units, about 4,000 units lower than year-to-date production in 2008 – or a decline of 84 per cent.

“Last year was a record (for March),” said Lai Sing Louie, senior market analyst in Calgary for the CMHC. “So when we compare any month to last year, March will be a low number.”

Building permits decreased 16 per cent to \$3.7 billion in February across the country, compared with the month before. StatCan said the largest decreases were in the non-residential sector in Ontario; the value of all building permits in Toronto fell 41 per cent during that period.

“While no doubt a pleasant surprise, we wouldn’t read too much into today’s

rebound in starts,” notes Douglas Porter, BMO Capital Markets Economics. “The housing sector is still trying to find a bottom, and with prices in retreat in most major cities, we wouldn’t look for a lasting rebound in homebuilding until at least 2010.”

### Pulp and Paper Globally

CONTINUED According to the 49th Annual Survey taken at the end of 2008, total US paper and paperboard capacity is projected to decline 2 per cent in 2009 and then expand by 0.3 per cent in both 2010 and 2011. That corresponds with last year’s survey finding that there would be gains of 0.2 per cent in 2009 and 0.3 per cent in 2010.

The decline was slightly less than the 1 per cent annual rate of contraction recorded from 2001 through 2007 but close to the 0.7 per cent drop the previous survey had suggested. Cumulatively, paper and paperboard capacity has contracted 7.3 per cent since its 2000 peak level.

The AF&PA survey also reported that 18 US mills were permanently closed

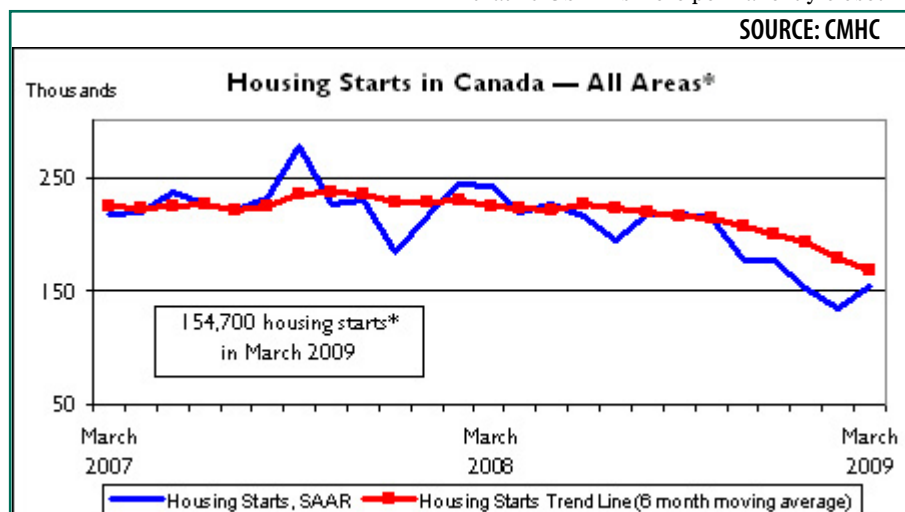
in 2008, shutting down 27 paper and paperboard machines, and an additional 14 machines were permanently shut down at other mills – a total of 41 in all. Another two machines (one entire mill) are scheduled to be shut in 2009. In 2007, 17 mills and 38 machines were permanently closed as capacity dropped 0.6 per cent to 97.1 million tons.

Meanwhile, newsprint production was down 25 per cent from a year earlier to 625,000 tons from 829,000 tons, the PPPC said.

Also, inventories at US daily newspapers rose 6.4 per cent to 712,000 tons from 669,000 in January, to a record of 59 days’ of product on hand.

Mills in February operated at an estimated 75 per cent of capacity, down from 96 per cent in February of 2008.

The PPPC report showed US consumption plummeted 29 per cent from a year ago in February. Consumption by the daily newspapers fell 26 per cent as the recession bit into advertising revenues for the newspapers.



### 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>

# Mountain Pine Beetle

## Funding and Research Progress

Almost exactly one year ago, just after a change of ownership with the *Reporter*, *Madison's* wrote a piece on the Mountain

by Kéta Kosman

Pine Beetle, following an announcement out of the British Columbia Ministry of Forests and Range that the pine beetle population in BC was dropping. Similar announcements last week by Natural Resources Canada prompted several news reports by the mainstream press, one of which stated that "About 90 per cent of the pests have died in northern Alberta, and 95 per cent were killed in southern Alberta, according to a computer model developed by the Canadian Forest Service," in the National Post.

"While those sound good, they're not good enough," said Duncan MacDonnell, spokesman for Alberta Sustainable Resource Development on Friday. "We need 97.5 per cent to stop the spread of infestations," continued the article.

Greatly buoyed by these numbers, *Madison's* contacted the research scientist who runs the computer model. Barry Cook has been working on pine beetle data for NRC long enough to be able to say that, "The last three winters in southern Alberta have been very mild. 2009 was like 1950's-era cold

weather for the Banff region." As Cook explained, there is a lot of misinformation out there about what kind of cold temperatures, for how long, and at what time of year are required to kill the beetle. *Madison's* most recent piece on the pine beetle (refer to your October 23, 2008 issue) quotes Brian Aukema, also with NRC at the University of Northern British Columbia, that "cold weather can only affect the beetle if it comes when the pest least expects it".

Scientists have taken to referring to it as the "shoulder seasons", early autumn and late spring when the beetles' natural defense against the cold is not active. Even a relatively mild temperature for a brief time can decimate the beetle population during the shoulder seasons. In addition, Cook explains that, "unlike other temperate insects, the pine beetle has no obligatory diapause therefore is always ready to wake up. It can break out due to warm weather" even in the depth of winter. (ed - diapause is a sort of hibernation period for insects)

The Banff area experienced a sudden drop in temperature in mid-December 2008, from about 5 C to -45 C, over the course of just a few days. As evidenced by the graph on this page, that single temperature drop served to reduce the beetle population by about 80 per cent. Other temperature fluctuations that followed over the following few weeks are not expected to have had much effect as the vast majority of beetles in southern Alberta have likely perished. Northern Alberta did not experience quite the same sudden drop in temperature, therefore it is probable that

approximately 15 per cent of the beetle population there has survived the winter.

Barry Cook laboured on this point in order to be sure he was quite clear; this is a computer model which gives real time predictions of the effect of climate on the beetle population. NRC has stations throughout Alberta and also in BC, enabling them to use this data to better allocate their beetle control programs once the thaw comes. Rather than spreading staff equally around a province in May, the agency is able to concentrate their efforts on areas where more beetles are expected to have survived. In terms of pest control, the data coming out of this model has been validated over the past two field seasons.

All of this pine beetle talk reminded *Madison's* about the \$200 million announced by the federal government in January 2007, "to support a comprehensive response to the infestation and its consequences." It is difficult to track where such a vast sum of money actually goes, which begs the question: how much of the \$200 million has actually been used to help communities affected by the pine beetle? It was to have been a four year plan, which currently brings us to the half-way point. From what *Madison's* could determine, Western Economic Diversification Canada is meant to disperse the money to actual communities. A large portion of the funds have already been given to various research agencies, including our friends at NRC, in addition Forest Innovation Investment and Forintek have been major recipients. A call to the Forintek got *Madison's* through to the librarian, Barbara Holden, who very quickly sent along a list of all the pine beetle research Forintek has done since 2006. The list is far too long to detail here, but includes such uses for beetle-kill as wood-cement composites, plastic composites, blue-stained landscape products, pheromones, thick laminated wood plates, glulam, as well as a brand-new paper on the uses of beetle-kill for biofuels.

As far as *Madison's* could determine, the amount of money to reach affected communities directly totals about \$16 million. The largest by far was the expansion of the Prince George Airport runway announced towards the end of February 2009, \$11 million of federal funds will be matched by \$11 of BC provincial money to "create new and exciting opportunities for Canadian goods and services to reach new markets abroad," according to the government press release. One of the smaller programs, announced on April 6, 2009, will use \$220,000 of the Pine Beetle Initiative money to "support the Cariboo-Central Interior Poultry Producers Association to create a mobile poultry-processing unit that will help diversify the local economy and encourage growth in the poultry industry."

Western Economic Diversification Canada was not able to provide the total figures of money allocation to date by press time. *Madison's* will print the latest figures when they arrive.

