

MADISON'S LUMBER REPORTER

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News & Updates

AbitibiBowater Bankruptcy

Repeated extensions by creditors since the beginning of 2009 have failed. Abitibi-Bowater was not able to renegotiate terms of its massive debt, and declared bankruptcy protection in the US on Thursday and in Canada on Friday. Company statements indicate that mill operations "on a day-to-day" basis will continue.

Some observers maintain that it was the ill-fated merger of a debt-laden but asset-rich Bowater with an overburdened Abitibi-Consolidated that eventually caused this bankruptcy. However the absolute free-fall of newsprint demand and prices of late was not anticipated by even the most pessimistic analyst.

Informed expectations are that, if there are to be mill closures, they will likely happen in Canada as US pulp operations are eligible for tax credits under the new Highway Act in the US. However, of all assets, two AbitibiBowater mills are very likely to be sold, recently upgraded and quite valuable operations, both in the US.

West Fraser Suing Canfor

A curious development stemming from West Fraser's storage of 918 units of MDF at Canfor's burned down Prince George plywood mill from a 2008 fire has West Fraser suing. The claim maintains that Canfor is liable "due to Canfor's negligence in the maintenance and operation of the facility, particularly the dryers and because IWL lacked a proper system to prevent the spread of the fire."

Two questions spring immediately to mind; why are rival companies storing product for each other, and why didn't Canfor have its own insurance for that product?

Precise figures are not available, however loose estimates are that there can be anywhere from 25 to 100 MDF sheets per unit, and with 1/2" MDF sheets selling for \$32 the total value of the loss could be approximately \$1.5 million. [READ MORE](#)

US Housing Starts

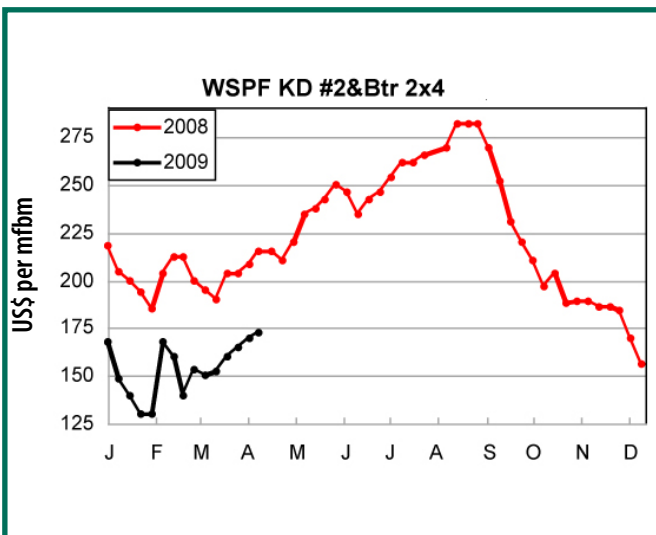
American housing starts in March were 11 per cent below the revised February estimate, and 48 per cent below the March 2008 rate. Single-family housing starts in March were unchanged from the revised February figure.

Building permits in March were 9 per cent below the revised February rate and 45 per cent below the March 2008 estimate. [READ MORE](#)

North American Wood Products and Pulp

Rigid stances by both the US and Canadian governments regarding different interpretations of the LCIA ruling of a \$68 million payment by Option B provinces to the US will cause another round of arbitration.

A bizarre application of a new green energy law in the US has pulp mills there mixing diesel with their wood chip byproduct to qualify for a hefty tax rebate. [READ MORE](#)



U.S. HOUSING STARTS					
	Mar-09	Feb-09		Mar-09	Feb-09
Starts			Permits		
Actual	41,900	39,500	Actual	44,000	38,000
SAAR*	510,000	572,000	SAAR*	513,000	564,000
1 Unit	358,000	358,000	1 Unit	361,000	390,000
2-4 Units	(s)	(s)	2-4 Units	20,000	18,000
5+ Units	116,000	202,000	5+ Units	132,000	156,000
Starts by Region			Permits by Region		
Northeast	67,000	63,000	Northeast	56,000	74,000
Midwest	102,000	88,000	Midwest	84,000	86,000
South	268,000	322,000	South	269,000	300,000
West	73,000	99,000	West	104,000	104,000

*Seasonally adjusted annual rate Source: U.S. Census Bureau

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	173	170	+3	152	+21	215	-42
WSPF KD R/L 2x6	163	165	-2	152	+11	204	-41
WSPF KD R/L 2x8	167	168	-1	146	+21	208	-41
WSPF KD R/L 2x10	190	184	+6	165	+25	280	-90
WSPF KD PET 2x4 Stud	180	175	+5	170	+10	225	-45
Douglas Fir Green R/L 2x4	170	177	-7	165	+5	225	-55
Douglas Fir Green R/L 2x10	208	205	+3	170	+38	180	+28
ESPF KD 2x4 8ft Stud	245	235	+10	225	+20	300	-55
OSB Ontario 7/16" (CDN\$)	195	195	0	202	-7	155	+40

Weekly News

US Home Building

CONTINUED The US Commerce Department said housing starts fell to the second lowest on records dating back to 1959. House starts in the West region, which has been hit hard by the housing slump, fell 26 per cent to a record low rate.

The fall in groundbreaking activity follows recent data that had shown some signs that the 16 month old recession was moderating somewhat. Housing is at the centre of the downturn, which is on track next month to become the longest since the Great Depression.

Collapsing house prices, coupled with rising unemployment, are forcing consumers to scale back on discretionary spending.

The setback in housing starts came after several more upbeat reports showing tentative rebounds in sales and builder sentiment. The National Association of Home Builders reported Wednesday that its gauge of builder sentiment posted its biggest one-month jump in five years in April.

While still near historically low levels, the trade association said the index rose five points to 14, its highest reading since October. The trade group includes industry heavyweights such as Centex Corp. and Lennar Corp., as well as hundreds of smaller builders nationwide.

The Federal Reserve, in a regular survey of business conditions, said on Wednesday the labor market remained soft with lay-offs and hiring freezes widespread. But five of its 12 regional banks saw the pace of decline in the economy slowing.

The Fed also said there were signs the housing market was stabilizing, with an increase in the number of prospective buyers improving confidence.

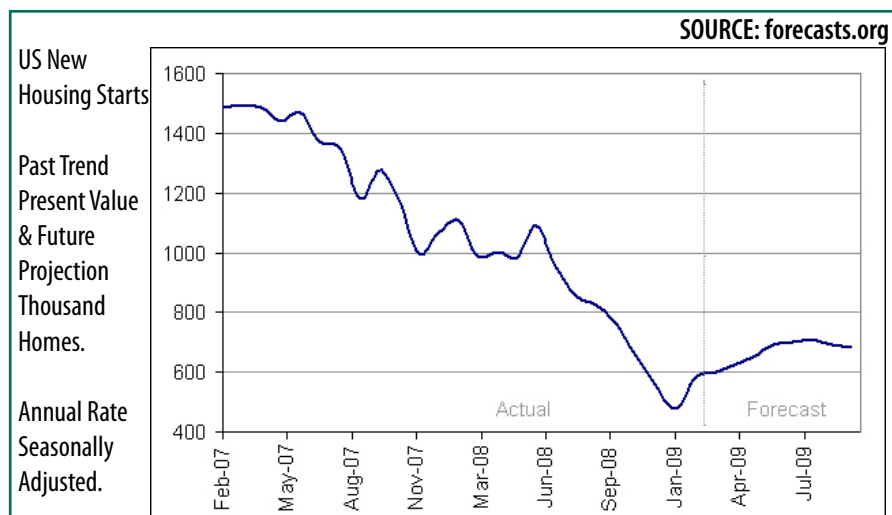
House hunters are being lured by very low mortgage rates following hefty efforts by the Fed to drive down home loan costs. It has cut key interest rates to almost zero and pumped over \$1 trillion into credit markets, including massive buying of mortgage-backed securities, to encourage spending and investment.

However, a report earlier on Thursday from RealtyTrac showed US foreclosure activity was up 46 per cent in March from a year earlier, hitting a record high as programs stunting the torrid pace of failing mortgages expired.

1Q US Wood Fibre Costs

Wood fibre costs have diminished in all regions of the US this year as the decline in fibre demand by the pulp industry has been greater than the reduction of residual chips supply from the sawmilling sector. In the past six months, pulpwood costs have fallen about 10 per cent in the US South and 20 per cent in the US Northwest, according to the North American Wood Fiber Review.

Market pulp production in North America was 29 per cent lower in December 2008 than in the same month in 2007. The operating rate was a record-low 69 per cent in December, which can be compared to 87 per cent in Europe and 85 per cent worldwide.



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>

North American Lumber & Pulp

Recent Developments

As described in the April 03, 2009 issue of Madison's Reporter, the United States has gone ahead and imposed an additional

by Kéta Kosman

10 per cent penalty, or surcharge, on lumber imports by Canada's Option B provinces (Ontario, Quebec, Manitoba and Saskatchewan). Not satisfied with Canada's announcement on April 02 that a lump-sum payment of \$47 million "cures the breach" of lumber over-shipments for the first half of 2007, the US has issued revised customs documents for Canadian softwood lumber imports. With the Canadian government expressing "disappointment" that the US acted so quickly to impose an import tax, the matter will almost surely go to arbitration.

At issue is not the fact of overshipments, or that some reparations are in order, but rather the method of payment. It is the position of the US that a lump-sum payment by the Canadian government, to be repaid by the relevant companies later, is not a sufficient penalty for breaking the terms of the 2006 Softwood Lumber Agreement. The US policy is for the purposes of limiting Canadian lumber imports; any action by Canadian producers counter to that aim will result in even more drastic curtailment of exports into the US. In short, it's not about the money, per se.

On this particular issue Canadian producers have only themselves to blame. They were warned in early 2007 that shipment levels were consistently above the quota. Only in June of 2007 did Canada reduce lumber exports from Option B provinces to correct levels. It does not take a huge leap of logic to come to the conclusion that, in this instance, Canadian producers were trying to get away with something. Not so much cheating, but likely testing the Agreement and the resolve of the US side to stick to the terms.

The fact is that the Agreement is binding, whether the Canadian lumber industry is in agreement or not. There is no legal loophole to play games or get cute. Lumber producers in British Columbia learned that years ago, when they were drilling holes in 2x4s and calling them a remanufactured product. It took the Coalition about two weeks to figure out what was going on and make efforts to put a stop to it.

It is not clear whether Canada's claim that the additional 10 per cent surcharge will put "undue hardship" on producers in the affected provinces will hold any sway in future arbitration. Viewed objectively, it

is a hardship the companies created themselves by not adhering to the Agreement in the first place.

At this moment, brokers working the Canada/US border are scurrying to decipher the directives of the new customs documents. So hastily were they edited that the US Department of Congress seems to have overlooked two major points: 1) the price of softwood lumber imported used to calculate the duty is supposed to be the First Mill price, not the Entered Value (which often includes secondary remanufacturing and freight costs) that can be up to three times higher than the fob mill price on the initial wood, and 2) all references to the US\$500 per mfbm cap on softwood products have been dropped. In one example, the actual "First Mill" value of lumber was \$19,200 (\$1200 per mfbm on 16,000 fbm), that was then remanned and "sold" into the US at \$1500 per mfbm. According to the new customs documents, the "Entered Value" would be \$24,000 and the Surcharge would be \$2400 - literally three times allowed by the cap.

If this error is not corrected, it will appear that - this time - it is the US that is trying to get away with something: namely getting the \$68 million paid off more quickly.

Given the force and speed with which the US acted in keeping Canada to the terms of the Agreement after the breaches by the Option B provinces, and also given the Coalition's continued claim that the \$0.25 stumpage on beetle kill in British Columbia is effectively a subsidy, one can only wonder what kind of action will be coming against British Columbia's softwood exporters.

It is difficult to consider this issue of Canadian government intervention on behalf of the forest industry without bringing up the new US energy tax rebate. A seemingly irrelevant piece of legislation called

the Highway Act is being employed by American pulp producers to access some very lucrative tax credits. Intended as an encouragement for the use of green energy, the irony of this development is that US pulp producers are adding a small amount of diesel into the byproduct from pulping wood chips they were already using, in order to become eligible. This application of the Highway Act goes beyond its actual wording (some industry insiders believe the loophole was intentional), and is proving to be a huge source of revenue.

International Paper has already received over US\$71 million for one month's claim, while Verso got almost US\$30 million at just one mill in 4Q 2008. A delightful twist to this irony, for Canadian producers at least, is that Domtar and AbitibiBowater are also eligible to claim. Domtar alone could stand to earn up to US\$225 per year by its combined US operations.

The question is whether other pulp producing regions globally will take exception to this tax rebate, which could be seen as a subsidy by some, and launch a dispute at the WTO. As the most likely candidate, Europe is not likely to do well in the international courts due to some hefty energy credits of its own to domestic pulp mills.

Some observers warn that a tax rebate of this kind will only stimulate US pulp mills to ramp up production, releasing yet more volume of kraft pulp globally. The currently weak pulp market would likely soften further, causing closures of both pulp mills and sawmills in Canada. Without the essential byproduct credit for their chips from pulp mills, some sawmills will have to curtail for fear of further their damaging bottom lines.

In terms of gains, customers stand to be the biggest winners. Currently that would be China, which is buying up greater quantities of pulp with each passing quarter.



Softwood Lumber

SOURCE: CBC.ca