

# MADISON'S LUMBER REPORTER

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## News & Updates

### Nova Scotia Wildfires

Brush fires burning around Halifax are now under control and some residents are being allowed back into their homes. Officials say the 800-hectare fire has destroyed seven homes and caused damage to at least a dozen others. An estimated 1,000 people were out of their homes Friday morning. No major injuries have been reported.

The fire started Thursday afternoon in the Spryfield area of Halifax. "We're describing the fire as being held," said provincial spokesman Paul Schurr. "We don't have control lines over it to get it contained." The province is using five helicopters to fight the fire. Waterbombers were sent from New Brunswick Thursday but have since gone back due to safety concerns with people still in the area. More than 100 firefighters were battling the blaze.

Cooler weather and higher humidity helped slow down the progress of the fire, officials said. The remnants of downed trees and brush from hurricane Juan in 2003 helped ignite the fire, said Lloyd Currie, a spokesman for the Halifax fire service. "The leftovers from hurricane Juan have been an issue," Currie said. "They have been an issue from the start."

### US Commercial Real Estate Mortgages

Delinquencies on loans backing CMBS (commercial mortgage-backed securities) accelerated in April, jumping to levels nearly five times those of a year ago, according to Trepp, LLC. Loans on office, retail and multifamily buildings that are at least 30 days past due rose 0.48 percentage point to 2.45 per cent last month, Trepp said in a report on Friday. [READ MORE](#)

### Paper and Newsprint

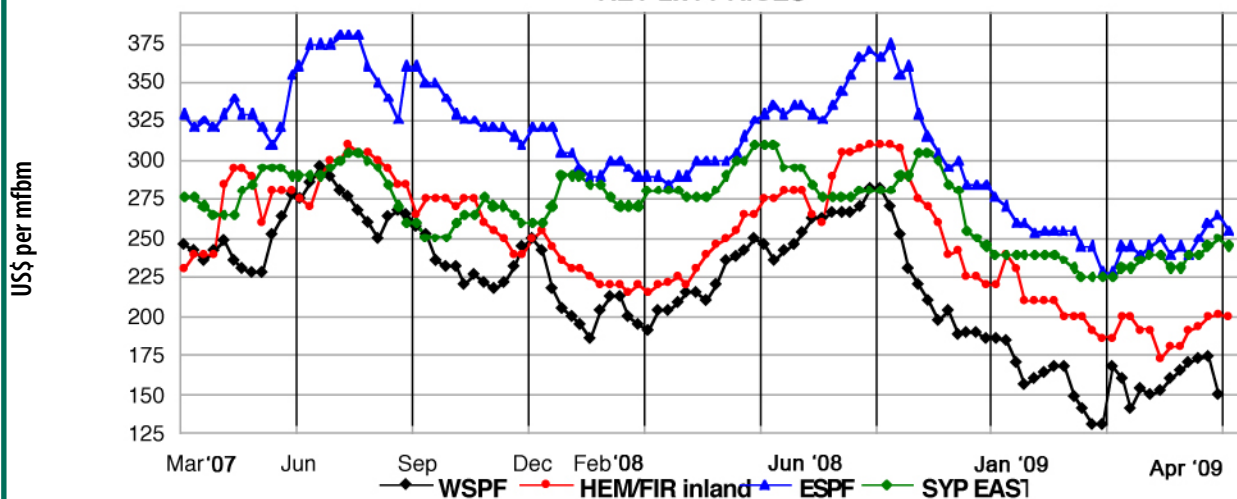
Inventories at all US users of newsprint declined 4.5 per cent in March from a month earlier to 679,000 metric tons from 711,000 tons in February and was off 15 per cent from the 799,000 a year ago. This might be supportive if it weren't for the fact that total US consumption fell 28.5 per cent from a year ago, according to the Pulp and Paper Products Council and industry analysts. [READ MORE](#)

### British Columbia Provincial Election

BC goes to the polls on May 12, 2009. *Madison's* will feature interviews with current Minister of Forests and Range Pat Bell (Lib - Prince George North) and current Forests Critic Bob Simpson (NDP - Cariboo North).

This week Bob Simpson discusses the flaws of the current stumpage and tenure systems in British Columbia, as well as his plans for revitalizing the forest products industry. [READ MORE](#)

KEY 2x4 PRICES



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	150	174	-24	165	-15	220	-70
WSPF KD R/L 2x6	140	166	-26	161	-21	208	-68
WSPF KD R/L 2x8	165	175	-10	160	+5	206	-41
WSPF KD R/L 2x10	185	192	-7	178	+7	270	-85
WSPF KD PET 2x4 Stud	180	180	0	175	+5	230	-50
Douglas Fir Green R/L 2x4	145	150	-5	180	-35	255	-110
Douglas Fir Green R/L 2x10	200	200	0	200	0	230	-30
ESPF KD 2x4 8ft Stud	240	250	-10	225	+15	305	-65
OSB Ontario 7/16" (CDN\$)	195	195	0	195	0	175	+20

## Weekly News

### US Mortgage Issues

CONTINUED Commercial real estate is following the slump in residential property as the US recession reduces land values and the revenue needed to pay debt. Delinquencies could rise to 4 per cent this year and 8 per cent in 2010 amid lower cash flows and a lack of funding, according to Citigroup Inc.

In other news, US house prices fell in April, but it was the first time in 16 months that the decline didn't set a new record.

Behind the scenes, the market is still deteriorating. As JP Morgan's finance boss Michael Cavanagh admitted this month, "until home prices stabilise and unemployment peaks, we'll continue to be under pressure for losses on our balance sheet."

"Virtually every investment manager I speak to says that until these [mortgage] securities can be properly valued, a floor cannot be put on the banks' losses", says the Guardian's Patrick Collinson. "And they can't be properly valued until US property prices stop falling".

The problem is a growing supply of ever-cheaper properties. Mr Obama came up with a mortgage relief plan to help some distressed borrowers earlier this year. But now that the banks have worked out who's going to get help and who's not, they've kick-started foreclosures again.

In other words, repossessions are soaring once more. More than 800,000 properties received a "default of auction" notice, or were seized, in the first quarter of 2009, the highest since records began four years ago, according to Bloomberg.

### Paper and Cardboard

CONTINUED As a result, newsprint price declines accelerated in April with list prices falling by as much as US\$40 a metric ton, said Mark Wilde, market analyst for Deutsche Bank in an article in Pulp and Paper NetLetter.

Recently bankrupt Abitibi-Bowater controls about 40 per cent of North American newsprint production, but the highly leveraged firm was having trouble shrinking itself to prosperity with consumption dropping off so sharply.

The shipment-to-inventory ratio, at 50 per cent, is nearly 30 points below the norm, meaning suppliers have a far larger share of the total system inventories than normal, said David Allan, president of Allan Consulting. "And overall inventories are still rising in spite of heroic downtime totals."

Meanwhile, US corrugated shipments dropped 8 per cent year-to-year in March to 29.05 billion sq. ft., making the first quarter decline in demand at 11.5 per cent, according to data released by the Fibre Box Assn.

Adjusted for two more shipping days this year, average week box shipments of 6.6 weeks were down 16.3 per cent from last March. For the first quarter, average week shipments fell 10 per cent.

Containerboard mills operated at just 77 per cent in the month, according to the American Forest & Paper Assn., and box plant consumption of containerboard rose from February by 250,000 tons, resulting in a combined drop in inventories at mills and box plants by 114,600 tons. Containerboard inventories have dropped by an average 65,000 tons this decade.

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## 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>

# BC Provincial Election

## NDP Forests Critic

### Bob Simpson

First elected as MLA for Cariboo North in 2005, Bob Simpson has been deeply involved in British Columbia's forest products industry since.

by Kéta Kosman

Based in Quesnel, Simpson is well

aware of the recent upheavals and difficulties faced by those involved, either directly or on the periphery, from loggers to truckers to mill workers, silviculture workers and beyond. In a lengthy interview Simpson stuck close to what he considers to be the central issues; stumpage and tenure policy, silviculture practices, and biomass fuel.

The recently completed Forestry Roundtable heard one consistent comment in its travels through the province, according to Simpson, that there is "a desperate need to reform tenure and to reform stumpage." As these comments were heard by loggers, forestry communities, First Nations, silviculture workers and independent sawmills, Simpson sees this as an opportune time to "restructure the forest industry. The current tenure system is broken and can't be tinkered with," said Simpson.

The market-based timber pricing system set up by the Liberal government in BC in response to complaints by the US Coalition for Fair Lumber Imports put BC Timber Sales in an awkward position, explained Simpson. "There is a conflicting mandate from the Province, of both setting a benchmark for a market-based pricing system and generating maximum revenue for the Crown." The result has been that those harvesting timber have not "been disclosing the whole profile of the cut to include lower and higher grades, thereby skewing towards the higher value to maximize return."

In addition, said Simpson, "higher value stands are not moderated when no one bids. Zero bids are not entered into the system. There is no correction." The feedback Simpson has been getting from those involved in harvesting is that the "market priced system is a mess."

In terms of tenure change Simpson explained he wants to embark on "consultation with land owners [BC residents], as the true shareholders, who are getting less return" on forest resources than it is worth. When pressed for what solution he has in mind, Bob Simpson outlined a plan in which "50 to 60 per cent of timber needs to be free from direct manufacturing control. The province needs to move toward area-based harvesting" which would have

companies "vested in using all the resources." When current five-year licenses expire, Simpson would "not renew them right away" but also "not redistribute them right away." His plan is to "bring the Ministry of Forests back into land-based management, into a stewardship role rather than as gatekeepers." Under the current system, said Simpson, "BC residents are getting short-changed" on forest revenue.

For Bob Simpson, problems with the tenure system are coupled very closely with stumpage policy. He cited that "over the past two years the BC government allowed companies to abuse the \$0.25 stumpage" that had been intended to encourage harvest of beetle-kill. According to Simpson, there is indeed "green wood being harvested [in the Interior] because of how scaling works and how scaling is audited, allowing kiln drying of logs to force a lower grade for stumpage."

Bob Simpson pointed out that the Coalition for Fair Lumber Imports is coming after BC next. This claim has been already confirmed to *Madison's* by the Coalition in the April 03, 2009 issue of the *Reporter*, in response to perceived breaches to the 2006 Softwood Lumber Agreement. The Coalition's list of grievances are clearly itemized here [http://www.fairlumbercoalition.org/doc/violations\\_summary.pdf](http://www.fairlumbercoalition.org/doc/violations_summary.pdf). Simpson estimated that punitive damages in the amount of \$500 million could be claimed by the Coalition against BC lumber companies.

According to Simpson, on the coast, the dominance of high-grade cedar logging and heli-logging are causing "two-bit" stumpage. Companies are engaging in "green profile harvesting", yet there has been "no change, the same amount of Spruce and Fir is being cut" as in earlier years. Simpson maintains that the average is skewed. In the same regard, said Simpson, for the 2007-2008 season in Quesnel "a 20 per cent increase in harvest brought a 60 per cent decrease in creating wood residue."

The way Bob Simpson sees things, "now is an end-game for an industry poorly positioned for the collapse of the US housing market due to government policy." The so-

lution, the way to move to a profitable future for everyone, is to "engage in a whole new industry to include bio-mass in creating a fossil fuel substitute." Simpson proposes to "work with the existing industry, which would still have access to saw logs, but no guarantee to the land base." Simpson explained, "If we revitalize existing industry and start new industry" by continuing to supply saw logs on the open market but "restrain and restrict log exports through incremental taxation" there will be no market for US industry looking to buy cheap BC logs. In short, by fostering partnerships with emerging industry, which doesn't want saw logs but rather the wood residue, the traditional forest industry will also be helped."

Use of a capital tax, various incentives, and an environmental review process will "shift the taxpayer to fostering new industries, instead of spending \$100 million on selling better 2x4's," Simpson explained. Recent reports by a couple of independent agencies have estimated that in the past five years there has been 17.5 million cubic meters of usable wood left behind by forest operations. Simpson thinks the figure is accurate as he "gets calls all the time from locals of very low utilization." Simpson points out further that creating products from biomass residue "can never be economical if companies must go back. It must be a one pass system in order to be profitable." Thus the current system should be adjusted with an eye towards new industry because "it is unfair to make companies absorb the cost of bringing it all in when all they want is pure sawlogs."

Bob Simpson feels that the current BC government missed an opportunity for BC to take advantage of the rising home renovation market in the US while the home building downturn continues. "Because of forest policy and deliberate choices made in 2003, high volume-low cost mills killed the value-added industry," said Simpson. He cited examples of BC lumber companies who "have customers, have the technology, have the ability" to sell value-added and remanufactured products into the US right now but "can't get wood."



Logging Truck in British Columbia