

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

A continuation of last issue's look at 1Q 2009 results for major North American forest products companies. This week TimberWest, Louisiana Pacific, Weyerhaeuser and Western Forest Products are examined.

Contact us any time for a subscription.

Canada's International Response to US Pulp Mill Tax Credit

Canada's Ambassador to the US, Michael Wilson - along with his counterparts from the European Union, Brazil and Chile - have sent a letter to leading Democratic members of Congress, including Senator Max Baucus, chair of the Senate finance committee and long-time supporter of US forest industry interests.

In the letter the ambassadors said the US forestry companies are reaping a windfall from a loophole in the law intended to encourage the production of cleaner-burning biofuels. American companies are reaping up to \$8 billion a year by mixing in a pulp byproduct called black liquor with diesel fuel, qualifying for the credit, in contravention of World Trade Organization rules. [READ MORE](#)

US Housing Starts

Housing starts in the US fell 13 per cent in April, the lowest since records began in January 1959. The drop reflected a 46 per cent plunge in breaking ground for multifamily units and indicated homebuilding remains a drag on the economy. However, starts for single-family homes rose 2.8 per cent, a second straight gain that showed the worst-hit part of the market was stabilizing.

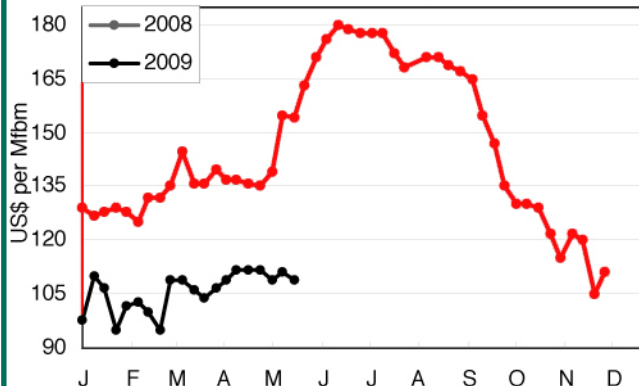
The month's building permits fell by a smaller amount compared to March, but hit the lowest level since January 1960. [READ MORE](#)

New US Softwood Lumber Customs Instructions Contradict the 2006 Softwood Lumber Agreement

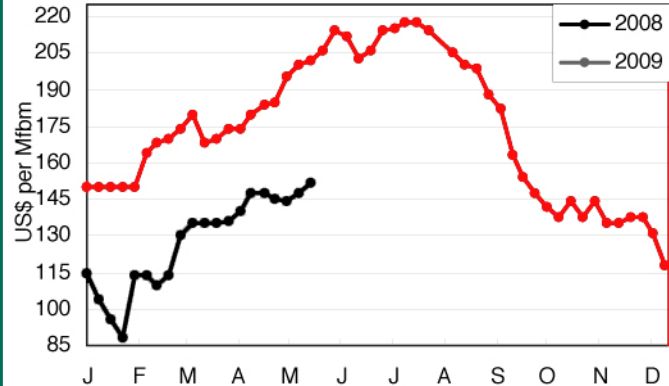
The recent LCIA ruling requiring Canada's Option B provinces to pay a \$68 million penalty on lumber overshipped into the US in the first half of 2007 has had radically different interpretations on both sides of the border. Canada has requested the LCIA panel to reconvene in order to settle the different understandings between the US and Canada.

While Canada waits, the US has gone ahead and issued new customs instructions, effective mid-April, which require Canadian lumber exporters to pay an additional 10 per cent duty surcharge on softwood lumber imports. Not only are the new customs instructions counter to the 2006 SLA, but the Canadian Department of Foreign Affairs and International Trade does not even seem to be aware that they have been in place for over a month. [READ MORE](#)

WSPF KD 2x4 Economy



WSPF KD 2x4 #3 Utility



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	162	166	-4	174	-12	242	-80
WSPF KD R/L 2x6	145	156	-11	166	-21	228	-83
WSPF KD R/L 2x8	166	164	+2	175	-9	222	-56
WSPF KD R/L 2x10	180	180	0	192	-12	262	-82
WSPF KD PET 2x4 Stud	170	175	-5	180	-10	253	-83
Douglas Fir Green R/L 2x4	141	140	+1	150	-9	275	-134
Douglas Fir Green R/L 2x10	175	177	-2	200	-25	232	-57
ESPF KD 2x4 8ft Stud	250	240	+10	250	0	315	-65
OSB Ontario 7/16" (CDN\$)	195	195	0	195	0	205	-10

Weekly News

US Pulp Tax Credit

CONTINUED Some companies claim credits that amount to approximately 30 per cent of the selling price of pulp, the diplomats assert.

The issue has been a sore point in the Canadian forestry sector, which believes it is a constant target for what the US perceives as unfair subsidies, but which have repeatedly been discarded by trade dispute panels.

The global forest industry is reeling from the economic downturn, and the head of the Forest Products Association of Canada has urged Ottawa to match the U.S. subsidies to create a level playing field for domestic mills.

US President Barack Obama has indicated he wants Congress to terminate the U.S. tax rebate as soon as Oct. 1. But the credit has strong supporters. Senators see it as a legitimate way to keep pulp workers employed in their constituencies.

American Home Building

CONTINUED "U.S. housing remains very weak, but the stability in sin-

gle-family units is encouraging," Benjamin Reitzes, an economist at BMO Capital Markets, said in a research note.

Multifamily construction plunged 46.1 per cent to an annual rate of 90,000 units after a 23 per cent fall in March. Permits for multifamily construction dropped 19.9 per cent to 121,000 units.

The number of unsold homes on the market at the end of March fell 1.6 per cent from a month earlier to 3.7 million, not including new homes, according to the National Association of Realtors. But since sales remain sluggish, it would take almost 10 months to rid the market of those properties, compared with about 6.5 months in 2006.

The median price of a new home sold in March was \$201,400, down 23 per cent from a peak of \$262,600 two years earlier.

"The first step to healing the housing sector is to eat into inventory. There is so much inventory on the market that the sooner we stop building and start eating into existing inventory the better off we'll be," said Brian Dolan, chief currency strategist at Forex.com.

Forest Products Companies 1Q 2009 Results

Canada's 14 largest forest products companies lost a total of \$480 million in the first quarter, with BC firms hardest hit, a report by PricewaterhouseCoopers shows. The losses were \$91 million more than the same quarter last year, when the overall losses were \$381 million, as sales and prices continued to drop as a result of the recession.

Western Canadian companies lost a total of \$314 million in the January-March period, which was compared to losses of \$312 million the same time last year.

Losses in Eastern Canada widened to \$166 million in the quarter compared losses of \$77 million the year before.

By comparison, 10 of the largest public US based forest and paper companies posted cumulative losses of US\$63 million in the first quarter of 2009.

That was a drop of US\$429 million from earnings of US\$366 million in the same period of 2008, the report said.

U.S. HOUSING STARTS

	Apr-09	Mar-09		Apr-09	Mar-09
Starts			Permits		
Actual	41,300	43,600	Actual	46,000	44,000
SAAR*	458,000	525,000	SAAR*	494,000	511,000
1 Unit	238,000	358,000	1 Unit	373,000	360,000
2-4 Units	(s)	(s)	2-4 Units	18,000	20,000
5+ Units	78,000	135,000	5+ Units	103,000	131,000
Starts by Region			Permits by Region		
Northeast	50,000	72,000	Northeast	52,000	56,000
Midwest	77,000	98,000	Midwest	79,000	83,000
South	217,000	275,000	South	257,000	266,000
West	114,000	80,000	West	106,000	106,000

*Seasonally adjusted annual rate

Source: U.S. Census Bureau

Calendar

June 2009

3rd Int. BioEnergy Conference & Exhibition

June 3 to 5 – Prince George, BC
<http://www.bioenergyconference.org>

Maritime Lumber Bureau 63rd AGM

June 3 to 6 – Halifax, NS
<http://www.mlb.ca>

2006 Softwood Lumber Agreement

A Series of Canadian Blunders

Canada's list of blunders, ineffective responses and sheer volume of missed opportunities in relation to the ongoing softwood lumber dispute with the United States has just gotten longer. In light of the latest developments, it is easier to understand how the deeply flawed, heavily weighted towards American lumber producers, 2006 Softwood Lumber Agreement Canada has been forced to suffer with came to be. As explained in the April 03, 2009 issue of your *Madison's Reporter*, Canada's eastern provinces, which chose the Option B settlement mechanism - a combination of lumber export quota and export taxes - were deemed in breach of the 2006 SLA by an international tribunal, for shipment volumes above the quota in the first half of 2007. Quebec, Ontario, Manitoba and Saskatchewan lumber producers were ordered to pay \$68 million in additional export taxes.

At the time of the judgement the Canadian government wanted to send a lump-sum payment of just under \$47 million to the United States, but the US Coalition for Fair Lumber Imports maintained that such a move did not impose sufficient hardship to "cure the breach of the overshipments." The Coalition wanted the lumber companies within the relevant provinces to pay an additional 10 per cent export tax on lumber products coming into the US until the full amount was paid off (estimated to be five years under current export figures). Canada has requested a reconvening of the international tribunal to settle this point. On April 1 the US Trade Representatives Office announced new instructions applicable to entries of softwood lumber from the four named provinces effective April 15.

A follow-up email from *Madison's* to the Softwood Lumber Division of Canada's Department of Foreign Affairs and International Trade (DFAIT) on April 16 about some of the more complex aspects of this latest dispute was answered promptly, except one question. In hindsight it does seem to be a bit of a side-step. *Madison's* question was; "a customs broker dealing with Canadian softwood lumber going into the States has repeatedly taken US Customs to task over calculating a duty on the remanufactured selling price of wood products rather than the First Mill price as it is meant to be. In addition they seem to keep forgetting about the US\$500 per mfbm cap. Importers are being charged a duty surcharge on Entered Value, which can be many higher than the US\$500 mfbm cap

(First Mill price). Is there a mechanism in place between Canadian and US officials to quickly deal with such improper implementation of international law?"

The answer to that question from DFAIT's media department was, "The US has yet to formally announce the basis upon which they will impose the 10% customs duty. However, Canada will be seeking clarification on this issue." The question clearly states that the new US Customs directive has already been issued. The duty surcharge has been collected in the US since April 15. It is most puzzling that customs documents continue to be in compliance with the 2006 SLA in regards to the initial 5 per cent export tax, but the new customs instructions differ radically in terms of the additional 10 per cent surcharge.

Madison's continued to receive emails from Michael Jones at Jones & Jones Customs Brokers and Trade Consultants, a Blaine, WA, firm facilitating at all Canadian/US points of entry, to the Chief of International Coordination Trade Policy & Programs in which Jones was desperately trying to secure the correct interpretation of instructions which were blatantly counter to the 2006 SLA. On Friday, May 15, after a month of emails, Michael Jones was suddenly directed to a completely different US department on this matter.

Jones' petitions for clarification point out that "Ad Valorem" was simply Latin for "Against the Value", as opposed to per thousand board feet or cubic measure. The 2006 SLA specifically provides that the value assessed is the "First Mill" price.

At that point *Madison's* got in touch with DFAIT to inquire why this solitary, small customs broker is left to resolve this issue independently. Why wasn't the relevant Canadian agency responding? After being greeted by a series of answering machine messages from various DFAIT departments, *Madison's* finally got through to a real live person at the office of Josee De Menez, Deputy Director of Consultational Policy Issues. After a detailed explanation of the question, *Madison's* was put on hold for a length of time only to be told that this was not, in fact, the correct department. The Softwood Lumber Division is responsible for queries of this nature. Armed with a direct line and email, *Madison's* did as advised and sent the questions, including the emails between Michael Jones and the US trade department.

On Wednesday morning *Madison's* called the direct line, catching the DFAIT trade lawyer off guard. After explanations of the issue the staff member assured *Madison's* there would be a reply forthcoming before the production deadline of Thursday afternoon Vancouver time. During the conversation, *Madison's* was struck by

a long pause, after which the staff member stated that he was not aware of this issue. He went on to say that, "we never know about problems like this unless someone informs us." That statement, if it is indeed factual, is troubling in the extreme.

Mid-Thursday morning *Madison's* left a message on the direct line as a reminder of the promised reply.

By Friday morning there was still no response from DFAIT. *Madison's* finds it truly baffling that such an important issue can go completely undetected by Canada for over a month, and that - once notified - the federal government department responsible is disinterested at best. At the very least Canada must be apprised of this collection of additional money, otherwise how will the DFAIT know when the penalty has been collected in full? It is also important to remember that under the terms of the 2006 SLA, all revenues were meant to be collected on the Canadian side, not by the US, and to remain in Canada.

The fundamental issue here is not so much this latest blunder, but the fact that this is the way things always seem to go on the Canadian side in regard to softwood lumber. When it became public that the US Highway Act was being abused by American pulp mills, who were adding fossil fuels into their 'black liquor' in order to be eligible for substantial tax credits, an "ad hoc group of Canadian pulp industry professionals" travelled to Ottawa to make their case against this tax credit (as reported in the mainstream press).

Why is it always an ad hoc group? The US lumber industry speaks in one loud, cohesive voice. It has a very powerful lobby group permanently set up in Washington, one of the most powerful lobby groups in the country, the Coalition for Fair Lumber Imports. Whenever something happens that the US lumber industry does not like, they have one place to go to lodge their complaint. Action by the Coalition is swift and often extremely effective.

Meanwhile, Canada has innumerable lumber industry groups, organizations and agencies, all dealing with their specific regions, product types, or issues. Often these groups do not even agree with each other. On a political level each province insists on having its own voice, and often they do not agree. The federal government wafts between dealing deftly with issues as they arise, and ignoring problems completely. No wonder the US industry has soundly defeated Canadian lumber exporters on many fronts, and no wonder this latest Softwood Lumber Agreement is so poorly crafted in terms of Canadian lumber producers' interests.

There is a decided lack of awareness, of cohesion, and of cooperation going on in the Canadian lumber industry which, if it continues, will only make recovery from this current downturn more difficult.