

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

This week the stock value of Boise Inc., a large paper maker in the US, is examined. Sudden interest from two investment advisors sent company stock up 936 per cent in two months.

Contact us any time for a subscription.

Alberta Fires

With the two-week old forest fire at Tyaughton Lake, west of Lillooet, BC, mostly contained, attention of fire fighters and government officials has turned to Alberta.

On Thursday, 76 personnel, including 13 FireRanger crews from the East Fire Region, departed Ontario for Alberta. Crews are bracing for the possibility of new fires in the coming days.

Rob Harris of Alberta Sustainable Resource Development says the number of out of control fires has been reduced from seventeen to twelve. But Harris says more than 100,000 lightning strikes have been recorded in the tinder dry forest since the weekend that may have created underground fires that could spark into new wildfires at any time.

Experts say the forest fire threat is above normal in Alberta, BC and Saskatchewan and below normal in the rest of Canada. Nearly 800 firefighters will be on wildfire duty in Alberta, with another 500 stationed in high hazard areas, ready to pounce on new starts.

US Housing Starts

Starts of houses and apartments rose 17.2 per cent in May to a seasonally adjusted annual rate of 532,000 units, which was ahead of the 500,000 units that economists had been expecting. In April, starts hit a record low of 454,000 units.

While starts increased, applications for building permits also came in higher in May. A sign of future activity, building permits were up by four per cent last month to an annual rate of 518,000 units. [READ MORE](#)

New Quebec Forestry Act

The Quebec government is proposing to revamp the way it manages the forest, setting up a marketing board for the sale of almost a third of the province's timber to the highest bidder and breaking the forest industry's monopoly over land use. The Forest Occupancy Act tabled yesterday will abolish most of the province's 250 to 300 forest management contracts signed with companies and offer instead a guaranteed supply of timber over a fixed term. [READ MORE](#)

Softwood Lumber Agreement Tribunal

Thursday and Friday last week saw the conflict resolution mechanism of the 2006 Softwood Lumber Agreement tested for the first time. At Canada's request, the LCIA panel which ruled in March that Canada's eastern provinces must pay a \$68 million penalty for lumber overshipments for the first half of 2007 reconvened in Washington, DC. [READ MORE](#)

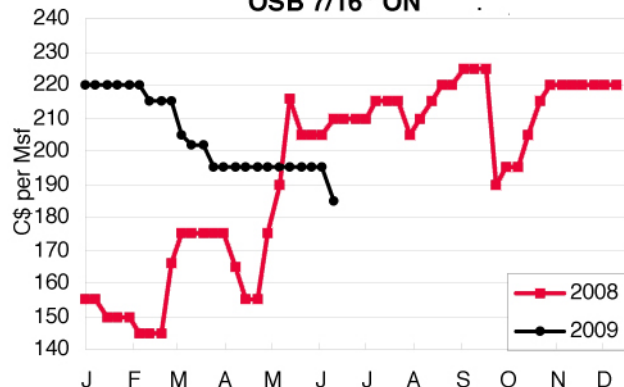
U. S. HOUSING STARTS

	May-09	Apr-09		May-09	Apr-09
Starts			Permits		
Actual	51,200	40,800	Actual	48,100	46,500
SAAR*	532,000	454,000	SAAR*	518,000	498,000
1 Unit	401,000	373,000	1 Unit	408,000	378,000
2-4 Units	(s)	(s)	2-4 Units	18,000	18,000
5+ Units	124,000	70,000	5+ Units	92,000	102,000
Starts by Region			Permits by Region		
Northeast	51,000	50,000	Northeast	56,000	53,000
Midwest	80,000	72,000	Midwest	86,000	79,000
South	257,000	220,000	South	266,000	260,000
West	114,000	112,000	West	110,000	106,000

*Seasonally adjusted annual rate

Source: U.S. Census Bureau

OSB 7/16" ON



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	203	184	+19	162	+41	242	-39
WSPF KD R/L 2x6	206	178	+28	145	+61	232	-26
WSPF KD R/L 2x8	206	190	+16	166	+40	240	-34
WSPF KD R/L 2x10	246	212	+34	180	+66	260	-14
WSPF KD PET 2x4 Stud	195	187	+8	170	+25	245	-50
Douglas Fir Green R/L 2x4	175	155	+20	141	+34	230	-55
Douglas Fir Green R/L 2x10	230	200	+30	175	+55	200	+30
ESPF KD 2x4 8ft Stud	270	270	0	250	+20	315	-45
OSB Ontario 7/16" (CDN\$)	185	195	-10	195	-10	210	-25

Weekly News

US Home Building

CONTINUED Housing starts were down 45.2 per cent in May compared with a year earlier, and the monthly number has fallen 77 per cent since peaking in early 2006.

With the housing slump now in its fourth year, economists are waiting for evidence that construction is resuming. But analysts were not overly optimistic about today's data.

Lower prices and tax incentives are attracting buyers, potentially laying the groundwork for housing to rebound and reduce its drag on the economy. Still, rising unemployment is causing many Americans to hold off on big purchases and foreclosures continue to mount, so a sustained homebuilding recovery may take longer to emerge, analysts say.

"It's fair to say that we have found a bottom in housing, though the concern is that the bottom is at a very low level," said Zach Pandl, an economist at Nomura Securities International Inc. in New York.

"We have a long way to go to reach more normal levels of activity."

Losses from the housing meltdown totaled \$3.6 trillion at the end of 2008, and will likely approach \$5 trillion by the time the crisis ends, predicts Lawrence Yun, chief economist with the National Association of Realtors.

Factory utilization and producer prices dropped at rates not seen since the late 1940s, the Federal Reserve reported Tuesday. The country's industrial output in May was down 1.1 per cent from the previous month and 13.4 per cent from a year earlier, the biggest annual decline since 1946.

In addition, the producer price index for May posted its biggest annual decline since August 1949, dropping 5 per cent from a year earlier, the US Labor Department reported.

Quebec Timber Access

CONTINUED The largest firms would still be offered at least 70 per cent of their current guaranteed volume of public

timber under the law, which would come into effect, if approved, in September.

The other 30 per cent will be sold on the open market by a newly created marketing board that will set a minimum price.

The new legislation comes as the New Brunswick government said Sunday it had offered Fraser Papers a permanent supply of 20 per cent of the province's Crown wood, up from the company's current nine-per-cent allocation.

Gilles Lavoie, director of legislative affairs for Quebec's Ministry of Natural Resources and Wildlife, said the proposed law is meant to foster development of a market in which more firms could participate. "There is a tendency for market concentration," he said.

The cost of Crown wood for firms with guaranteed supplies in Quebec would be pegged to the price the marketing board could fetch for its 30-per-cent share.

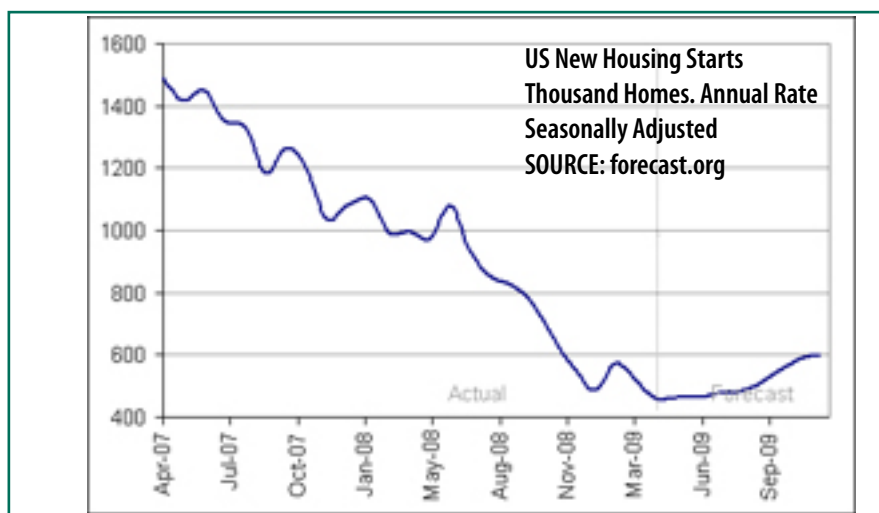
Fraser Papers Restructures

Fraser Papers Inc. began a court-supervised restructuring Thursday after seeking protection in Canada and the United States from creditors.

The company - which has operations in New Brunswick, Quebec, Maine and New Hampshire - has been unable to address a \$194-million pension deficit, its largest single shortfall, while markets for pulp and lumber remain battered.

The fate remains uncertain for a sawmill in Millinocket, Maine - on temporary shutdown - and a now-closed pulp mill in Thurso, Que., where the company hopes the provincial government will step in with enough cash to restart.

The Madawaska paper mill is integrated with the company's Edmundston complex, where a biomass cogeneration facility that supplies NB Power with electricity restarted last Friday and a groundwood pulp mill will be up and running on June 22 - both after maintenance closures.



Softwood Lumber Agreement

Recent Arbitration, Settlement and Claims

One aspect of the 2006 Softwood Lumber Agreement, which is a great improvement over previous North American lumber trade systems, is the dispute-resolving mechanism.

by Kéta Kosman

The methodology of either side launching a complaint against the other, and the eventual resolution process, is laid out clearly. That dispute-settling mechanism was put to the test in early 2009.

In August 2007 the US launched a complaint against Canada's Option B provinces (Quebec, Ontario, Manitoba and Saskatchewan), which had chosen a combination of lumber export quota and duty for softwood lumber shipments in excess of the quota restrictions. In February of 2009 the arbitrator, LCIA (formerly known as the London Court of International Arbitration), ruled that Canada had indeed over-shipped, and imposed a penalty. Over the ensuing weeks it became clear that Canada and the US had different interpretations of how that penalty should be collected, with Canada's announcement of a lump-sum payment being soundly rejected by the US. It was Canada's turn to request an arbitration hearing, indeed to request a re-convening of the original LCIA panel, to settle the questions about the penalty. That hearing was held at the end of last week, June 11 and 12, 2009.

The US had unilaterally imposed an additional 10 per cent export tax on the Option B provinces, which took effect April 17, 2009. *Madison's* spoke this week to Zoltan van Heyningen, media representative for the US Coalition for Fair Lumber Imports about the recent tribunal hearing. As the LCIA panel will likely take two months to issue a decision on the appeal, the US will carry on collecting the additional 10 per cent duty on Option B provinces. Van Heyningen expects the panel to rule in favour of the US, and that either Canada will collect the extra 10 per cent or the US will continue to do so.

Laura Dalby, spokesperson for Canada's International Trade Media Relations Division of Foreign Affairs and International Trade (DFAIT) explained to *Madison's* by email that Canada had "requested the re-establishment of the Tribunal to confirm that Canada's \$46.7 million payment cures the breach in a manner consistent with the SLA" at the recent tribunal hearing.

Van Heyningen told *Madison's* straight out that a Canadian victory in this arbitra-

tion process "would have been very harmful to the longevity of the SLA [. . .] the US would have had a real problem with the SLA had Canada won," at the June hearing. From the point of view of the Coalition, there is no possibility of this latest tribunal ruling coming out in Canada's favour. *Madison's* will follow the eventual LCIA ruling and reactions from both countries very closely.

In terms of the additional 10 per cent export duty, *Madison's* asked van Heyningen about an perceived breach of the SLA. Duties are currently being collected on the Entered Value of softwood lumber products rather than the First Mill price (the lumber first cut from harvested logs) while the \$500 per thousand board feet cap stated in the SLA is being ignored (refer to your April 3, 2009 issue of *Madison's Reporter* for details). Van Heyningen maintains that, according to Article 14 Paragraph 27 of the SLA, if the "US is not satisfied with the result of an arbitration, the US can impose customs duties as long as it doesn't exceed the amount of the ruling." According to van Heyningen, as long as the new export duties are not more than 10 per cent, it doesn't matter how the figure is calculated.

Madison's enlisted the help of Michael Jones, president of Jones & Jones LLC, lumber customs brokers working the Canada/US border. Jones pointed out that the Coalition's position seems to be a somewhat skewed interpretation of the SLA. Jones lamented that the initial LCIA ruling was "missing four words." If the ruling had stated '10 per cent of the export price' or even better if it had gone on to say 'as derived from the SLA' then the US would have been unable to ignore the method of calculating duties as laid out in the SLA. However, as Jones maintains, even without those four words, compliance with the SLA is implied in the LCIA ruling.

DFAIT's Laura Dalby informed *Madison's* that "Canada is concerned that the US is imposing customs duties that exceed the equivalent adjustment to the export charge" and that "Canadian officials have raised the issue of the basis for the export charges and the non-application of the cap with their US counterparts." *Madison's* will watch this issue closely for developments.

While all this may seem of little consequence in the grand scheme of Canada/US softwood trade, it is in fact a critical issue that speaks to legal interpretation and indeed Canada's national sovereignty. *Madison's* feels the need to be heard on these latest developments not only for those reasons but, more importantly, because no one else seems to be talking about it. The basic fact that this series of misunder-

standings does not involve the large companies, the primary mills of British Columbia, explains why this issue is so dormant.

Not to be cynical, it seems like nobody cares about a handful of remanufacturers in Saskatchewan. These small and medium sized mills in regions not generally dominated by the lumber industry are being forced to pay significantly more for their exports into the US, and that at a time when they can barely afford to pay the initial 5 per cent duty. Nobody is speaking for them; there is no agency or group that covers all Canadian lumber interests equally. The only way these small companies could ever be heard on an issue like this is if they all got together and knocked on Ottawa's door. Of course they can't do that; they are busy just trying to keep their businesses afloat.

However, it is very short sighted for the rest of the industry to allow such action by the US to happen simply because it doesn't affect the large producers in BC this time. If the industry does not stand together now, when will it? And what will be at stake next?

It is clear what is at stake next; it is clearly posted on the Coalition's web site. In May 2009, when the issue of over shipments in eastern Canada was resolved, the next items on the list of priorities moved up. Stumpage policy in BC is the Coalition's next priority, and is in fact of much more gravity than the over shipments because it is ongoing. Lumber shipments of Option B provinces in excess of the quota lasted from January to June of 2007. *Madison's* asked van Heyningen at what stage the Coalition is in terms of launching an arbitration on the BC stumpage issue. He said that, if he had his way, it would already have been launched, but the new US Administration and the new US Department of Trade Representatives need time to get up to speed on the issue. While frustrated, van Heyningen is resigned to the fact that the longer everything takes, the higher the penalty will be in the end.

Asked to explain precisely what the Coalition's concern is over BC stumpage, van Heyningen explained that the Coalition's information is that 60 per cent of timber in north-central BC is grade 4. However, "yields have not changed much. The timber must be misgraded, otherwise how is it possible to keep producing #2&Btr lumber out of it?"

Madison's was at a loss for an explanation. One can only hope that the large lumber producers in BC, and the government officials who are supposed to be stewards of our Crown timberlands for future generations and to ensure that the province is in compliance with major international trade agreements, do not find themselves at a similar loss when the time comes for explanations.