

MADISON'S LUMBER REPORTER

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Editor
Kéta Kosman

Market Analyst
Zara Heartwood

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www.madisonsreport.com
madrep@shawcable.com
604 984-6838

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News & Updates

Madison's Lumber RETROspective

Madison's is celebrating 60 years of publishing for the North American lumber industry! Over the next 60 issues we will be taking you on a walk down forestry's Memory Lane.

Featuring actual scans from *Madison's* archives, we offer chips and chunks of the history of North America's solid wood markets, going back to 1951. We hope you find the short pieces interesting and insightful.

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* looks at sudden interest in US home building, home finishing products, and home financing company shares.

Builders FirstSource, Lumber Liquidators and Toll Brothers are examined. Contact us any time for a subscription.

Western Forest Products Land Sale

The future of the eastern Vancouver Island waterfront and Jordan River townsite are among problems to be settled in the sprawling electoral area, where efforts are underway to find compromises for the future of 132,000 hectares that make up the rural resource lands.

Since January 2007, when the province released 12,000 hectares of Western Forest Product's private forest land from tree farm licences on the southwest corner of Vancouver Island, a battle has raged over the future of the area. The Capital Regional District implemented a 120-hectare minimum lot size in an effort to block development not envisioned in the regional growth strategy.

WFP, which had put up 2,500 hectares for sale, contested that move. The BC Supreme Court and Court of Appeal both ruled that the CRD's voting procedures were invalid. [READ MORE](#)

Mills Restart

AbitibiBowater will re-start one mill and its associated planer mill in Mackenzie, BC, to saw logs in its inventory and plane 14 million board feet of lumber that have been sitting at the mill since the January 2008 shutdown.

Interfor has struck a deal with USW Local 1-423 for a 70 day restart at its mill in Grand Forks, BC. Maintenance starts on October 13th, and the sawmill starts October 19th. [READ MORE](#)

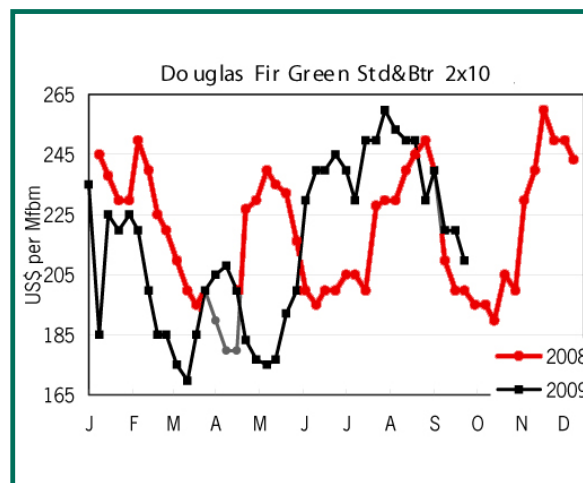
Global Forest Industry

Building on his February 20, 2009 piece in *Madison's Lumber Reporter*, former Doman Industries/Western Forest Products President and CEO Rick Doman gives a further update on new developments in forestry on the international stage.

Busy as President and CEO of Eacom Timber, Doman expounds on the forestry situation on the BC Coast and Interior, problems in eastern Canada, and emerging global lumber producers like New Zealand and Russia. [READ MORE](#)

JAPANESE HOUSING STARTS				
Month	TOTAL	Non-Wood	Wood	%Wood
Aug-09	59,749	24,992	34,757	58
Jul-09	65,974	28,243	37,731	57
Jun-09	68,268	28,195	40,073	59
May-09	62,805	29,523	33,282	53
Apr-09	66,198	32,826	33,372	50
Mar-09	66,628	35,324	31,304	47
Feb-09	62,303	35,687	26,616	43
Jan-09	70,688	37,494	33,194	47
Dec-08	82,197	39,855	42,342	52
Nov-08	84,277	42,176	42,101	50
Oct-08	92,123	48,578	43,545	47
Sep-08	97,184	51,715	45,469	47

Source: Japan Wood-Products Information and Research Center



Prices are in U.S. dollars per 1,000 fbm.

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	180	188	-8	182	-2	197	-17
WSPF KD R/L 2x6	190	202	-12	182	+8	200	-10
WSPF KD R/L 2x8	215	232	-17	220	-5	230	-15
WSPF KD R/L 2x10	315	320	-5	310	+5	215	+100
WSPF KD PET 2x4 Stud	190	200	-10	195	-5	182	+8
Douglas Fir Green R/L 2x4	155	160	-5	150	+5	185	-30
Douglas Fir Green R/L 2x10	210	220	-10	230	-20	195	+15
ESPF KD 2x4 8ft Stud	275	275	0	285	-10	255	+20
OSB Ontario 7/16" (CDN\$)	185	188	-3	200	-15	195	-10

Weekly News

Tree Farm License Sale

CONTINUED A potential sale of 2,500 hectares of the highest-profile land, much of it around Jordan River, led to a succession of court challenges and appeals – and in the latest step, the CRD is finalizing bylaws and an official community plan for the area.

On October 20, the bylaw will go to a CRD land-use committee – made up of directors from Juan de Fuca and the neighbouring municipalities of Sooke, Langford, Colwood and Metchosin. In November, it will be brought to the whole board for discussion, but only committee members will be able to vote.

Community groups and representatives have urged the province to buy the waterfront between Sandcut Beach and Jordan River to protect public use for future generations.

In late September, Community Development Minister Bill Bennett said the province can't afford it.

New Western Forest Products president and CEO Steve Frasher said in a statement to the Times Colonist Thursday, "We have believed from the start of this process that the best use of these lands is a well-planned development that protects special areas, including public waterfront access and unique ecological sites, and respects the broad community interest."

"Intensively logging these lands, which we would be allowed to do, would surely concern the community. But keeping land on our books does nothing to reinvigorate our business and secure our future.

Yes, we intend to sell these lands. We need the capital to make our mills more productive and efficient and to allow us to build a sustainable business that con-

tinues to employ hundreds of Island residents from Duncan to Port Hardy."

Frasher went on to say that, under his leadership, WFP will engage in consultation with interested parties "to consider the best interests of the Capital Regional District and area residents."

BC Mill Restarts

CONTINUED Brian O'Rourke, business agent for Local 1-424 of the USW, said AbitibiBowater's Mackenzie sawmill is expected to run 70 days and the planer for 104 days. That translates into about five months of work for 60 people, he said.

The agreement with Abitibi-Bowater is to saw logs in its inventory and plane 14 million board feet of lumber.

"This is to give some potential buyers an opportunity to see how the facility would run, which would make perfectly good sense," said O'Rourke in a statement to the Vancouver Sun.

In Grand Forks, Interfor has purchased/acquired several thousand cubic

meters of logs to feed the mill, which has been curtailed since December 2008.

USW Local 1-423 agreed to some concessions, including a shifting arrangement change, and workers deferring 50 per cent of their vacation pay for a period of time. It also included giving up some union jobs – (log scalers) – and allowing the company to contract them out.

Pulp Mills to Receive Funds

An announcement is to be made at Nanaimo's employee-owned Harmac Pacific pulp mill Friday regarding Ottawa's \$1-billion green energy fund, introduced last June to counter US pulp mill subsidies.

Twenty-four pulp and paper mills have qualified for Canada's version of the United States' Highway Act.

The Pulp and Paper Green Transformation Program allows Canadian pulp and paper companies that produced black liquor – a liquid by-product of the chemical pulping process that is used to generate renewable energy – in 2009 to access this \$1-billion fund.

Global Lumber Industry

A Unique Perspective

Following from the February 20, 2009 issue of your Madison's Reporter, once again we have a guest piece written by Rick Doman. The final paragraph of that issue stated, "The days of massive production levels are behind us, the world has changed very quickly and we need to adapt and change our business methods equally quickly. The Canadian industry also has to further develop global markets despite growing global competition. While the US will always be a major customer of Canadian wood products, such a heavy reliance on that market has caused a lot of the problems Canadian industry faces today." Rick Doman expands on this statement in today's piece, talks about recent changes in the global forest industry and explains where he sees things going in the future.

The forest sector continues to face challenges, despite an increase in US housing starts. Both new and existing home sales have increased significantly over the past several months and home inventories continue to decline. Eastern Canadian producers are operating at about 25 per cent of capacity due to higher delivered log costs, and to the recent softwood lumber ruling which put additional duties on lumber shipped into the US. Lumber quotas were exceeded due to a misunderstanding regarding what quota volumes were in the first half of 2007.

In the west log prices, in particular in BC, seem to be very low, which allows for that region to continue to produce while others, including the US, must take significant curtailments. Since BC produces about 50 per cent of all lumber shipped into the US, these lower log costs may be a concern in the future for the US market.

The US government may extend its US\$8,000 tax incentive for new home buyers. If this occurs, the housing recovery will get continued help. In addition, the US may create a second stimulus program, probably different from the first one. This would stimulate that economy even further.

In Coastal BC log exports appear to be increasing as more sawmills shut down. There are fewer companies able to block log exports due to mill closures and the rationalization of Coastal timber. Log policies in the BC Interior and Coastal BC should be reviewed by an independent panel made up of scientists, environmentalists, the Opposition Party and

others. The function of this panel would be to determine if stumpage issues, pine beetle issues and environmentally sustainable practices have been properly administered over the past nine years. 94 per cent of BC's forests are an asset of the Crown. It is the government's duty to ensure stumpage is administered fairly and equitably. These environmental and sustainability issues are especially important going forward.

It is difficult to believe that the BC A.A.C. can be sustained at current levels, due to the overharvesting that has taken place, on average, over the past decade. The BC forest industry in general has not done well, which is why a fully independent process should occur to correct that problem. For example, in 2003 the BC government said, "The Coast is broken, we are going to fix it." In 2009 the Coastal sector, along with the BC Interior, continue to do poorly. Tens of thousands of jobs have been lost, many of which could have been preserved if forest policies, starting in 2001, had been based on a long-term perspective.

WAC Bennett helped build BC by looking decades ahead to ensure the province would benefit over the long term. It is imperative for the future of the province, for the generations to come, to ensure a healthy forest sector which can be built upon.

On a recent trip to New Zealand I was impressed by the opportunity for timber harvests there to sustainably double over the next ten years. This is due in part to

the New Zealand government establishing a level playing field for the forest industry. Log harvest could increase from 15 or 20 million cubic meters per year to 35 or 40 million cubic meters per year. New Zealand is looking to attract more sawmills to help manufacture that expected increase in A.A.C. As New Zealand mostly produces Radiata Pine, a lot of that lumber goes into windows, doors and mouldings. This competition may make it difficult for Coastal BC lumber producers selling Hemlock into Japan and the US.

Russia is competitively shipping into Europe and China. Within five years, Russia could become a major threat to BC producers selling into those regions. Russia also has a competitive currency in the global marketplace.

Swedish producers have also become more competitive recently. Sweden is well located to ship into Europe, and has a competitive currency on a global basis.

In the US, due to extensive silviculture over the past 20 years and fast-growing timber, significant increases in southern timber harvests are expected over the next decade. Consequently, it is expected that lumber production will increase in the US over that time period. The US is highly motivated in this regard, not in the least because that country is trying to create more jobs. The weak US dollar also helps it compete on a global basis.

The Canadian dollar was very weak for decades, up to 2005. Currencies go in cycles and the Canadian dollar is in an uptrend, along with some other global currencies.

The 2006 Softwood Lumber Agreement will continue to play havoc in the Canadian forest industry, in particular for regions where log costs are higher. Delivered log costs are one of the largest drivers under which sawmills operate, and which cause sawmills to curtail or shut. In particular when lumber demand and prices are lower than normal.

Global delivered log costs, currency rates and freight rates, will determine which regions and countries do best in the international forest industry. While many forest companies have significantly reduced production costs, a fair comparison can only be made based on delivered log costs. If these issues are examined historically, it becomes clear why certain regions outperformed while others underperformed.

Rick Doman President/CEO Eacom Timber Corporation former President/CEO Doman Industries Ltd. and Western Forest Products.

SAWLOG PRICE COMPARISON	
2Q 2009	
All prices US\$ per cubic meter	
Canada West	
SPF Interior BC	\$38
Canada East	
ESPF	\$65
Sweden	
Pine/Fir average	\$76
SOURCE: Wood Resources Quarterly	