

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Holiday Break

Farewell to 2009; Onward to 2010
This has been a year for the record books. Never have so many been so disappointed by numbers so low. Through constriction of output, the principles of a supply side market were learned and optimized. Each day of the first half of this year was like trudging through treacle. Those that didn't succumb to the sucking underfoot, that made it to July and beyond, should pat themselves on the back. Thanks to our loyal subscribers and expert sources, *Madison's* has turned another corner in both its reporting and supporting the industry. With your help, *Madison's* tree of informational products now includes this weekly newsletter that started us on this 60-year journey, our searchable Online Lumber Listings, *Madison's* bi-weekly Timber Preview, and *Madison's* monthly Mill Watch.

We thank you and wish you each a peaceful holiday season and prosperous 2010.

US Housing and Real Estate

November US housing starts reported at 574,000 units, up 8.9 per cent from October 2009, and down 12.4 per cent compared to November 2008. Single family starts were up 2 per cent, while the volatile multi family sector rebounded sharply, gaining 67 per cent compared to October 2009.

Building permits rose 6 per cent to 584,000 units compared to October, while single family authorizations rose 5.3 per cent to 473,000. Total permits were down 7.3 per cent compared to November 2008.

Housing completions in November rose 8.7 per cent over the previous month to a seasonally adjusted annual rate of 810,000. That was a 25.3 per cent decline from November 2008.

Chetwynd Sawmill and Pulp Mill Restarts

In a coincidence that can only be termed remarkable, both Canfor and Tembec have made side deals with two separate unions to restart a sawmill and a pulp mill, respectively, in Chetwynd, BC.

Tembec announced Monday that negotiations for a new collective agreement with CEP local 448 have been successfully concluded.

Canfor employees voted 73 per cent in favour of the new cost structure the company negotiated with the United Steelworkers. Canfor declined to specify exactly what the wage decrease amounts to, though Chetwynd's Peace FM is reporting it to be around \$5.40 per hour.

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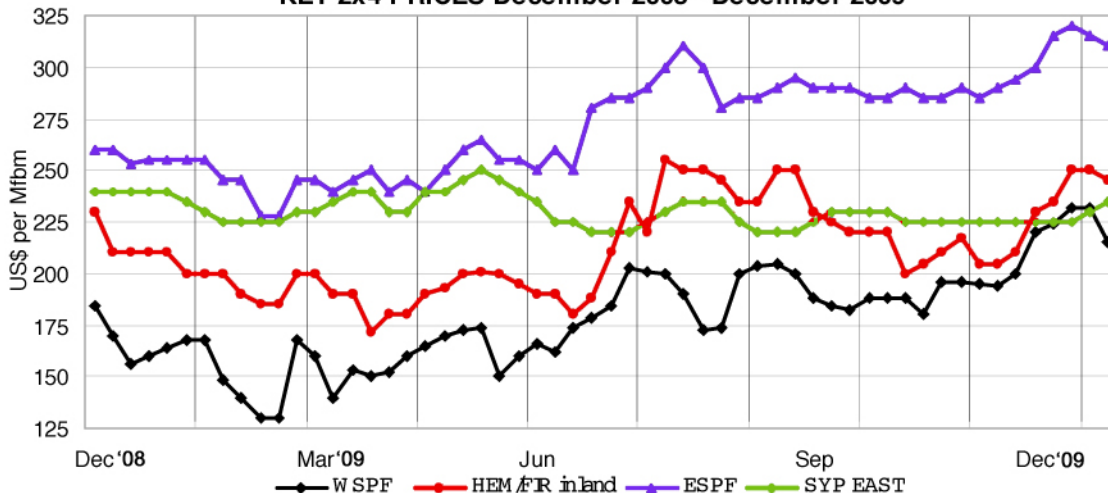
Politics and the Forest Industry

Recent announcements of forestry stimulus packages and land management legislation out of Montana and Oregon have the support of both conservation group and the Pacific Northwest forest industry.

The US Congress has voted to extend the Highway Bill, with its extremely controversial "Black Liquor" clause. Whether that loophole used by US pulp and paper companies to receive substantial tax credits in 2009 will be closed is currently unknown.

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KEY 2x4 PRICES December 2008 - December 2009



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	215	232	-17	220	+5	160	+55
WSPF KD R/L 2x6	210	228	-18	220	-10	148	+62
WSPF KD R/L 2x8	220	235	-15	230	-10	164	+56
WSPF KD R/L 2x10	305	312	-7	302	+3	164	+141
WSPF KD PET 2x4 Stud	215	230	-15	215	0	160	+55
Douglas Fir Green R/L 2x4	190	195	-5	190	0	150	+40
Douglas Fir Green R/L 2x10	247	260	-13	257	-10	240	+7
ESPF KD 2x4 8ft Stud	295	295	0	280	+15	230	+65
OSB Ontario 7/16" (CDN\$)	200	200	0	192	+8	220	-20

Madison's Lumber RETROspective
60 years of lumber history over 60 issues! Check out additional pages in your Reporter

Weekly News

Chetwynd, BC

CONTINUED Tembec's Chetwynd mill, which produces high yield pulp and has an annual capacity of 240,000 tonnes, has been shutdown since February of this year due to market conditions. It employs roughly 160 people, of whom 115 are covered by the new collective agreement. The mill also provides employment for 35 First Nation workers through their company, Three Nation Ventures.

Canfor said pending the board's decision, the sawmill will be re-opened in late May of 2010. The plan calls for the mill to be restarted in the spring with one shift to start, employing about 65 people. The re-start would pump nearly \$15 million back into the mill for retooling.

The mill closure in early 2008 affected 188 employees, who were laid off.

Wood Products 2010

The very week following *Madison's*

4Q 2009 lumber industry forecast brings a new report out of the Conference Board of Canada echoing that recovery is on the way.

Canada's wood products industry will return to profitability in 2010 after losing a quarter of a billion dollars this year, the Conference Board of Canada predicted Thursday.

US new home starts in January reached their lowest level since data collection began 50 years ago, and since then have shown signs of steady recovery, increasing demand for Canadian exports.

After more than three years of declining production, output in the Canadian industry grew in the last three months of 2009. The board expects US housing starts to grow by 28.8 per cent in 2010 compared to this year.

The Canadian housing market has also picked up. The board expects starts to grow by double digits, in percentage terms, in both 2010 and 2011.

Weyerhaeuser Converts

Weyerhaeuser said on Tuesday it would convert into a Real Estate Investment Trust, likely in 2010, and pay a special dividend, bowing to pressure from shareholders who have been seeking the new financial structure for years.

The conversion to a REIT will slash Weyerhaeuser's tax burden, though the company would be required to pay 90 per cent of profit to shareholders.

This will make its ability to deleverage reliant on additional equity issuance rather than earnings power.

The move by the company, which recently sold its packaging business, comes amid slack demand for wood products and paper in the face of the real estate slowdown and worldwide recession.

Ainsworth's Non-Core Sale

Ainsworth Lumber Co. Ltd. announced Monday that it has completed the divestiture of the company's portfolio of non-core assets. Collectively, the asset sales support the company's strategic focus on optimizing its portfolio and allocating resources to its best performing OSB assets.

On December 11, 2009, the company completed the sale of its specialty plywood business unit. This includes the Savona specialty plywood mill and the Lillooet veneer mill, both of which are located in southwestern British Columbia.

Ainsworth President and CEO Rick Huff said, "With this announcement, I am pleased to report that this process of divesting non-core assets and dedicating our resources is substantially complete."

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North American Forestry Legislation, Debates, Arguments

A little known bill was about to squeak through the US Congress quietly when conservation groups, wildlife enthusiasts and the Pacific Northwest forest industry alike suddenly caught on to it. Montana Senator Jon Tester's "Forest Jobs and Recreation Act" would designate about 600,000 acres of new wilderness in Montana, and mandate logging in the Beaverhead-Deerlodge National Forest. In an analysis of potential wilderness areas in the Beaverhead-Deerlodge National Forest, a working group of conservationists and loggers determined the area to be a prime candidate for designation.

"Developed through extensive collaborative efforts, the bill would protect wild places, restore miles of currently impaired fish habitat and improve thousands of acres of habitat to support a rich diversity of wildlife species," said Tim Aldrich, president of the Montana Wildlife Federation. "This is all good for hunters, anglers and wildlife enthusiasts, and it also provides a lifeline for struggling forest products businesses that are important in Montana."

The first reading of this bill is scheduled for Thursday. In an unfortunate coincidence of timing, Stone Container's announcement Monday of a permanent closure of its Frenchtown Mill will cut 417 good paying jobs, and create a hole in what's left of the logging industry in western Montana.

Meanwhile, Oregon Senator Ron Wyden unveiled legislation Wednesday to revamp management of 8.3 million acres in six national forests in eastern Oregon with the backing of both timber and conservation groups. That bill would affect forests east of the Cascades, ban cutting of trees more than 21 inches in diameter, and protect delicate watershed areas. The Forest Service would have two years to perform an assessment of forests and watersheds in eastern Oregon, resulting in a 10-year plan to restore their health, and another year to begin restoration projects. The bill would direct the Forest Service to focus on landscape-scale projects of at least 25,000 acres in each national forest.

Speaking of US legislation, the construction industry south of the border has been lobbying long and loudly for an extension to a surface infrastructure bill meant to create new jobs, which was set to expire

December 18, 2009. The Surface Transportation Extension Act of 2009, more commonly known as the "Highway Bill", passed a vote in Congress Thursday. The program would be funded with \$53.5 billion until September 2010, allowing the government time to craft new long-term legislation.

This is the same bill, incidentally, which was commonly referred to as the "Black Liquor" tax credit by Canadian mainstream press when it came to light that US pulp mills were turning one clause on its head. That tactic resulted in multi-million dollar tax credits to US pulp and paper companies in 2009, giving them a significant financial advantage over their Canadian competition. Canada responded with its own Green Energy tax credit in late 2009. Whether those unintended consequences of the Highway Bill will remain in place for US pulp and paper companies through 2010 is currently unknown, however there are a few - admittedly weak - US lobby groups trying to get the "Black Liquor" hole in that legislation patched.

Probably the most significant development this week in forestry's political landscape in North America is an itemized campaign by the Coalition for Fair Lumber Imports. In the face of the above list of stimulus packages, some may consider it hypocritical of the powerful US lumber lobby to accuse Canada of subsidies. The catch is that the US is not directly contravening any international trade agreements with these government-sponsored business activities. Such legislation is strictly a domestic issue. However, due to the wording of the 2006 Softwood Lumber Agreement, Canada could conceivably be called to task for such federal and provincial government efforts as: reduced stumpage costs to encourage harvesting of beetle kill in BC; hundreds of millions of dollars in grants to lumber producers offered by the governments of Ontario and Quebec; Quebec's \$100 million financing guarantee to Abitibi-Bowater; New Brunswick's \$3 million loan guarantee to Newcastle Lumber Company; plus more. The entire list, with explanations, can be found here <http://www.uslumbercoalition.org/general.cfm?page=37>.

Meanwhile, Canada's Department of Foreign Affairs and International Trade has posted 2010 Export Allocation Methodologies for Canadian softwood lumber going into the US. *Madison's* enlisted the help of customs broker Michael Jones, at Jones & Jones Customs Brokers and Trade Consultants, to decipher the document.

Jones wrote in an email, "The Notice is pretty much administrative, and the only thing I feel that is significant about it is that the Provinces (Manitoba, Saskatch-

ewan, Ontario and Quebec) who had originally chosen Option B (5 per cent Export Tax and Quota), had their first opportunity this year, and didn't elect Option A this time around. [...] No one can possibly know what the US production is going to be from year to year. The quota allowance is derived from the allowed percentage of the US's previous year's production. [...] At the end of the year the US goes back and sees if the imports from the captured Canadian provinces exceeded the allowed percentage of that figure. [...] This, as you know, is what caused the 2007 Surcharge to Manitoba and the more recent 10 per cent Surcharge assessed against all four Option B Provinces."

As a follow-up to Jones' excellent points, *Madison's* got in touch with the Quebec Forest Industry Council. Jacques Robitaille, former Deputy Minister of Forests in Quebec and currently working with the QFIC, explained to *Madison's* that his province's lumber manufacturers, "chose in 2006 Option B because they could not afford to pay the high tax like BC because delivered log costs are higher, and the value of the product is lower." Robitaille went on to say, "When the additional 10 per cent surcharge was imposed, shipments from Quebec went down by more than 30 per cent. This reduction was a combination of the export surcharge and market conditions. [...] If prices and demand remain the same as in 2009, it could be 30 months before the penalty is paid off. For six months of 2009, all four affected provinces together have managed to pay of fC\$12 million."

Robitaille confirmed *Madison's* assertion, that this additional surcharge is being collected by the US. He stated that, "Canada is still negotiating with the US to collect the money in Canada." (*as it is meant to be, according to the 2006 SLA -ed.*) With his decades of experience in the Quebec lumber industry, Robitaille said candidly that, "Canada is dragging its feet in allowing the bureaucracy to change its practices in collecting the surcharge in Canada. I don't think Canada will ever get that money back because it is in the US treasury and would require a vote in Congress to be transferred back to Canada."

Madison's is once again appalled at this frankly irresponsible lapse on the part of the Canadian government. The Coalition's list of grievances mentioned above charges that, "Canada refused to implement the prescribed remedy" in February 2009. This is not entirely accurate, as at that time Canada was waiting for the LCIA panel to reconvene in order to launch an appeal. However, that appeal was rejected in September, and Canada has still made no move to collect the surcharge.

Canadian lumber producers lost out on a full US\$1 billion upon the signing of the 2006 SLA, when the US\$5 billion in duties collected during the previous softwood lumber dispute were returned, and that the 2006 SLA was expressly intended to keep any and all duties in Canada. Given that background, this total inaction by Canada's federal government is puzzling at best.