

MADISON'S LUMBER REPORTER

Publisher
KetaDesign Productions

Editor
Kéta Kosman

Market Analyst
Zara Heartwood

Annual Subscription Prices
E-mail/Fax: C\$339
Discounts available for multiple
subscriptions
Published 50 times a year

www.madisonsreport.com
madrep@shawcable.com
604 984-6838
PO Box 2486 Vancouver, BC
V6B 3W7 Canada

In Canada, add 5% GST
ISSN 0715-5468
Printed in Canada © 2008

All material contained within is the property
of KetaDesign Productions Inc. Reproduction
or retransmission is expressly forbidden.



News & Updates

US Biomass Collection Funding

The Biomass Crop Assistance Program (BCAP), a new federal program in the US that is intended to increase the usage of renewable energy by covering some of the costs related to the collection of woody biomass and agricultural residues, has been in effect for a few months and has created much interest, as well as confusion, within the forest industry, reports the North American Wood Fiber Review.

US\$517 million has been allocated for the period January 1 through March 31, 2010. Other questions include: whether or not the program will be extended after two years, which biomass categories will be eligible, and how wood fibre costs for pulp mills and composite board mills may be impacted.

There have been loud protests from both North American and European forest industry organizations who are concerned that the BCAP program will unfairly favor US energy companies and that sawdust and wood chip costs will go up as the result of the program.

Canadian Housing Starts

The pace of home construction for 2009 peaked in December, closing out the first year in what is expected to be a markedly different era for the sector than the period that preceded it.

Canada Mortgage and Housing Corp. said this week housing starts were up 5.9 per cent in December from the month before, to an annual rate of 174,500 units, the most since October 2008.

[READ MORE](#)

New Forestry Licensing and Pricing Models in BC

BC Forests Minister Pat Bell rolled out two new policy initiatives Wednesday to help the bioenergy industry get more secure access to waste fibre needed to fuel growth of their fledgling sector.

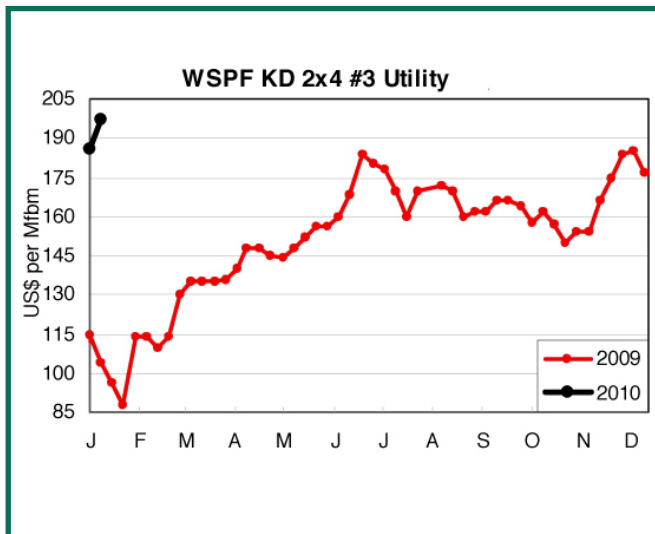
[READ MORE](#)

British Columbia's Current Forest Management Practices

There are a number of contentious opinions in the British Columbia forest industry regarding how to manage timber harvesting, salvage, silviculture, and the forest in general. Rumours on this topic have been circulating among the province's politicians for a number of years, but few expert sources were willing to go on record until now.

In particular, silviculture professionals are raising an alarm about forest regeneration in BC in the wake of the mountain pine beetle infestation. This issue touches closely on timber harvesting, salvage, and stumpage because it has traditionally been the obligation of wood processing companies to replant areas logged. Beetle affected stands, having a volume of trees that were attacked by the beetle, must be harvested before the wood degrades to a point beyond traditional lumber processing. Given the scope of beetle kill, the sheer amount of land mass involved, the BC Ministry of Forests has made adjustments to forest management requirements in an attempt to give companies access to killed timber while it can still be milled into lumber.

[READ MORE](#)



CANADIAN HOUSING STARTS
Actual and Seasonally Adjusted Annual Rates

	December 2009		November 2009	
	Actual	SAAR	Actual	SAAR
Canada, all areas	13,438	174,500	15,075	164,800
urban ctrs with >10,000	12,262	157,100	13,507	147,400
singles, urban centres	6,222	79,400	6,671	74,600
multiples, urban centres	6,040	77,700	6,836	72,800
rural areas	1,176	17,400	1,568	17,400
Atlantic urban centres	672	92,000	641	8,000
Quebec urban centres	3,696	44,400	3,693	37,700
Ontario urban centres	4,132	54,100	4,724	52,600
Prairie urban centres	2,268	30,600	2,966	31,800
B.C. urban centres	1,494	18,000	1,483	17,300

Source: Canada Mortgage and Housing Corporation

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	235	212	+23	232	+3	148	+87
WSPF KD R/L 2x6	232	214	+18	226	+6	136	+96
WSPF KD R/L 2x8	240	222	+18	238	+2	142	+98
WSPF KD R/L 2x10	320	305	+15	315	+5	148	+172
WSPF KD PET 2x4 Stud	238	225	+13	235	+3	170	+68
Douglas Fir Green R/L 2x4	220	195	+25	197	+3	148	+72
Douglas Fir Green R/L 2x10	245	235	+10	265	-20	185	+60
ESPF KD 2x4 8ft Stud	310	285	+25	290	+20	230	+80
OSB Ontario 7/16" (CDN\$)	200	200	0	200	0	220	-20

Celebrating our 60th year, a Diamond Anniversary
Madison's Lumber RETROspective
 see additional pages in your weekly Madison's Reporter!

Weekly News

Canadian Economy

CONTINUED Both single-family homes and multi-family homes pushed higher, with singles up 6.4 per cent to 79,400 and multiples up 6.7 per cent to 77,700.

A rebound in urban starts, up 6.6 per cent to 157,100 in December, was the main driver behind the overall rise, CMHC said.

December's seasonally adjusted annual rate of urban starts increased by 17.8 per cent in Quebec, by 15 per cent in Atlantic Canada, by 8.7 per cent in British Columbia, and by 2.9 per cent in Ontario. The rate of urban starts decreased by 3.8 per cent in the Prairies.

Rural starts were unchanged at 17,400 units.

Meanwhile, Export Development Canada's semi-annual trade confidence index moved to 77.4 in the autumn of 2009, a jump from 68.5 since spring. The surge represents the largest rebound in confidence since the September 11, 2001 attacks, and generally reflects the consensus that a global recovery is underway.

Statistics Canada reported Tuesday that Canada's trade balance slipped back into deficit in November, at \$300-million, after recording an upwardly revised \$503-million surplus in the previous month.

Changes to BC Forest Sector

CONTINUED The first is the creation of new type of timber or timber-waste right, called a receiving license. It will give bioenergy companies a right to a certain amount of low-value timber or wood waste that companies with regular timber rights would not normally bring out of the woods.

The second initiative is to move the stand-as-a-whole pricing system – which has been piloted in the BC Timbers Sales open bid program – to timber already held by companies in longer-term harvesting rights.

John Rustad, MLA for Nechako Lakes and Parliamentary Secretary for Silviculture explained to *Madison's* Thursday that under the current system, "When a primary licensee harvests timber there is waste left behind on the block. This new system allows for biomass companies to remove additional volume, which accumulates against this new license."

In other words, removal of biomass does not reduce the volume of timber harvest for the primary licensee.

Rustad went to say, "This will encourage maximize utilization of the fibre and has the added bonus of reducing scaling costs in total [lumber company and gov-

ernment together] by \$1 or \$2 per meter of log."

Forests Minister Pat Bell told *Madison's* also on Thursday that the new pricing system will consist of "an area based auction. The model is to sell timber by area rather than on a cubic meter basis."

The Minister acknowledged that there must be agreement from the US Coalition for Fair Lumber Imports before the new program can be initiated, however Bell told *Madison's* that he expects implementation to be "as early as this autumn."

Zoltan van Heyningen, Executive Director of the Coalition said to *Madison's* in an email, "The underlying cruising system being contemplated in our view runs afoul with the SLA. Minister Bell obviously seems to recognize this fact."

Calendar

January 2010

Truck Loggers 2010 Convention and Trade Show

January 20 to 21 – Victoria, BC
<http://www.tla.ca/>

March 2010

Wood Tech Show 2010

March 9 to 10 – Portland, OR
<http://www.woodwideweb.com/>

April 2010

Association of BC Forest Professionals: ExpoFor 2010

April 8 to 9 – Kelowna, BC
<http://www.expofor.ca/>



Forest Management

British Columbia

CONTINUED Some say there are lumber companies taking advantage of the beetle kill situation by paying reduced stumpage on beetle infested trees but taking out of the stand green timber, while leaving the recently dead trees behind. The US Coalition for Fair Lumber Imports is seriously examining this stumpage issue, having posted on its website at the beginning of 2009 “grave concerns” about this alleged ‘subsidy’ for BC lumber producers.

by Kéta Kosman and

Rob Scagel

An anonymous spokesperson for a prominent, established BC forestry consulting firm this week laid out the situation in plain language for *Madison's*. “The harvest is pushing into green wood at \$0.25 stumpage. Innovative Timber Sale Licenses are being tendered without silviculture obligations. Timber harvesting in BC is shifting to these ITSL, which the Ministry of Forests does not interpret as a subsidy. The concept is not bad; timber licenses that don't sell are put up without silviculture obligations, bringing down costs for lumber producers. However, in principle, the stand has lower value. And the flip side is that there is a huge amount of biomass left behind which the Crown is ignoring. For 35 per cent of the dead area, there is no forest regeneration.”

This source directed *Madison's* to the Ministry of Forests Forest and Range Practices Advisory Council minutes where this tenure reform is spelled out. Readers will find it at the top of page 2 here <http://www.for.gov.bc.ca/code/pac/minutes/20090312.pdf>

This week *Madison's* spoke at length with John Betts, Executive Director of the Western Silvicultural Contractors' Association. In reference to a recent paper published by Ben Parfitt at the Canadian Centre for Policy Alternatives, Betts said, “In regards to the \$0.25 stumpage, there are a lot of factors that kick in for the discount to take effect. There is not a massive harvest of dead wood, there are serious utilization issues. Companies are chasing the edge of the beetle kill.”

Betts estimates that this ‘billable waste’ contains enough thermal energy to serve domestic thermal requirements for every resident in BC for two years. From Betts' point of view, “stumpage is being manipulated. Based on an appraisal system, the volume and size of seedlings is not taken into account. Companies are allowing the forest to regenerate naturally, which is not a reliable strategy. Companies are not replanting what they cut because there is a lot of latitude with the definition of ‘free growing’. Resident trees, and seeds in ground, are being counted as regrowth, which will not provide full timber value in the future.”

Betts explained that, “If replanting occurs right away, in seven years there is a viable

plantation. If ‘free growth’ is allowed, there is a lot of scrubby stuff in 30 years.” The problem, says Betts, is that “companies are just doing what the regulations say.”

Amanda Brittain, Media Contact for the Association of BC Forest Professionals explained to *Madison's* that in terms of professional practice, the ABCFP has received “no complaints, there is nothing reported” of practices going counter to the Foresters Act. The issue here, say anonymous sources close to the situation, is that according to the strict wording of the Act there is nothing illegal going on. However the common mood in the woods is that there is intentional circumvention of the spirit of these guidelines.

How to distinguish the facts from the rumours? It seems that each agency, government office, harvester, lumber company, etc. has a particular point of view, a particular concern and a particular interest in not having some of these issues discussed openly. In a situation like this, *Madison's* position is to look at the hard data.

Rob Scagel, Principal Consultant for Pacific Phytometric Consultants provided *Madison's* with a large volume of information that is also available to the public from the Ministry of Forests website, from BC Timber Sales, and from the Harvest Billing System.

“When the timber harvest is broken down by species, and by grade, there are all kinds of peculiarities,” Scagel interpreted. In response to the US Coalition concerns, Scagel explained, “there has been an inordinate decrease in stumpage, which is not mirrored in a change in grade profile.”

The problem with determining exactly what is going on with the harvest arises because, “BC does not track the harvest on an area basis. You can't take tenure and say it is a certain amount of hectares, which makes it enormously difficult to make an assessment.”

Apparently one needs each individual TFL, ITSL or invoice record to match up with a map of BC in order to find the region. Multiply this process by over 300,000 records for 2009 alone to find a comprehensive picture. According to the Ministry of Forests' data on the Harvest Billing System, since 2004, mill and forest use designated as “avoidable waste” has doubled from less than 2 million m³ to almost 4 m³. The complexity of analyzing this data will now change, with the announcement of new procedures coming out of the Ministry of Forests and Range just this week.

Rob Scagel explained the figures to *Madison's* in an email, “Recovery of harvesting waste in 2009 was about 2.5-million m³. Adding mill waste in 2009 brings an additional 9-million m³. Based on the 2007 Community Energy and Emissions Inventory (CEEI) commissioned by the Ministry of the Environment, the thermal

requirements for every residence in BC is about 82-million GJ/ yr. This would require a biomass supply of about 8-million m³. (I am driving the mill bycatch with 19 per cent factor and the forest bycatch with 30 per cent).”

These figures bring us back to the forest utilization issues that Betts brought up. An independent observer may wonder how the average BC resident is being served by lumber companies getting a discount on stumpage in order to harvest recently dead beetle kill, which they may or may not be conducting with proper stewardship, coupled with the obligation to replant being avoided or factored out of the system.

Mike Larock, responsible for Professional Practice at the ABCFP explained to *Madison's*, “if forest products companies in BC were to harvest only pine beetle wood, they still would not be able to harvest as much as is dying. This is a national disaster. [. . .] One way or another companies pay for the stand, whether they use the grey (long dead) or red (recently dead) trees. In terms of silviculture obligations, the company can pay a levy, sometimes of up to 10 years, up front. In that case the responsibility for replanting would land with the Ministry.”

To back up their claims that there is little oversight and less proactive adjustment by the province in the face of the mountain pine beetle infestation, some industry insiders point to the recent 46 per cent drop in BC government revenues from forests. Specifically, forest revenues were down to \$609 million in 2009/10 fiscal year from \$1,293 million in 2006/07 according to the BC Revenue Branch. For 2009, the average timber revenue received by the public in BC was only \$5.17 per cubic meter according to the total Invoices for Stumpage for that time period. Considering that premium douglas fir, cedar, and grade 1 & 2 spruce-pine logs were contained in that stumpage, *Madison's* wonders at the low average figure.

Taking a look at the Harvest Billing System's 2009 figures, Scagel pointed out to *Madison's* that the provincial cut for 2009 was 50.3-million m³ which is 22 per cent lower than 2008, representing at least a 15-year low. 9.5-million m³ of the harvest in 2009 has been through BCTS, which accounts for 20 per cent of the total cut. Normally the BCTS cut accounts for barely 13 per cent of the total. Historically, the cumulative cut to the end of October accounts for about 83 per cent of the annual harvest level. The harvested log volume to the end of 2009 was only 47.8-million m³ for a significant AAC under-subscription of 46 per cent.

The regionalized harvested area in calendar year 2009 is 122,457 hectares requiring a silviculture investment of at least 130-million seedlings.

Madison's was in the process of speaking to these and other experts and collating all this data when BC's Minister of Forests, Range and Integrated Land Management Pat Bell announced at the 2010 BC Natural Resources Forum in Prince George new licensing and pricing models for forest harvesting. Read more about this brand new development on page 6 of this week's *Madison's Lumber Reporter*.