

# 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

### Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines 2009 4Q and year end financial results from several North American solid wood companies, and also takes a look at the latest supply and demand figures for pulp and paper products.

Contact us any time for a subscription.

### Canadian Housing Starts and Trade Figures

Canadian housing starts for January 2010 were at the second-highest level in the past four months, with 186,300 units seasonally-adjusted and annualized, according to Canada Mortgage and Housing Corp. One has to go back to October 2008 (209,000 units) to find a more elevated level of starts.

The latest 186,000 figure is a remarkably strong recovery from some of the low monthly numbers that were recorded last year. For example, in April 2009, annualized national housing starts were only 112,000 units.

The official estimate for 2009 as a whole was 149,081 units. That was 29.4 per cent lower than 2008's level of 211,056 units. For the seven years 2002 to 2008 inclusive, the annual average was 222,000 units.

[READ MORE](#)

### Japan Housing Starts and 2009 Lumber Statistics

Total housing starts in Japan for 2009 were down 27.9 per cent over 2008, at 787,410 units, according to the *Japan Lumber Report*. These figures are a historical low since 1964, with 751,429 units. Housing starts in Japan have been over one million units annually starting in 1968 and continuing straight through 2008, says the *Report*.

Wood based starts were 430,121 units, 16.8 per cent less than in 2008, while the percentage of wood based units was 54.6 per cent, up 7.3 points over 2008, according to the *Report*.

[READ MORE](#)

### Lumber Futures Short-Covering

As if to echo *Madison's* own Market Analyst, Zara Heartwood, Reuters today published a piece stating that futures ended higher on Thursday as the cash market rebounded from sharp losses on Wednesday amid short-covering prompted by an oversold condition. Futures were trading at a steep discount to cash and that prompted sellers to cover some of their short positions. Mills are seen holding the cash spruce price unchanged as they have order files out into late February, says Reuters.

See Zara's market comments throughout this week's *Reporter* for more details.

### Genetically Engineered Eucalyptus

Efforts by International Paper and MeadWestvaco to push through approval for large eucalyptus plantations in the southern US are, even as *Madison's* goes to press on Friday, receiving a loud outcry from various scientific groups.

[READ MORE](#)

#### JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Dec-09	69,298	28,643	40,655	59
Nov-09	68,198	27,416	40,782	60
Oct-09	67,120	28,175	38,945	58
Sep-09	61,181	24,771	36,410	60
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

Source: Japan Wood-Products Information and Research Center

### Madison's Rate Increase

*Madison's Lumber Reporter* has been providing vital and timely information on the North American lumber and panel markets to subscribers weekly since 1952.

Traditionally, nominal subscription rate increases have been put in place yearly or every two years. However, due to a change in ownership and recent financial difficulties faced by the industry, *Madison's* subscription rates have not changed since 2004.

Beginning in May 2010, the subscription charge for *Madison's Lumber Reporter* will be C\$364 per year.

We trust our subscribers understand this need to keep up with rising costs and the strong Canadian dollar.

	Douglas Fir	Coast Hemlock	Douglas Fir (Reload)	D. Fir (Delivered)*		Hemlock Baby Squares
2x4 Std&Btr	360-375	310-315	360-370	370	3 7/16 square	750-767
2x6 #2&Btr	370-385	310-315	370-380	375	4 1/8 square	750-767
2x8	375-385	300-315	375-380	395		
2x10	390-400	320-330	390-395	410		
2x12	390-410	325-335	390-405	405		

R/L, 8-20 ft, S4S, 75/25. Cargo prices are to dealers, f.o.b. truck. Reload prices are to dealers, trucking extra.  
\* Deliver prices are by truck to customers in the US northeast

10-20 ft. 20% Util&Btr.  
Prices include C&F to Japan.

by Zara Heartwood

**CARGO & RELOAD**

Last week's Northeastern Retail Lumber Association (NRLA) conference in Boston was a distinct improvement over the previous year's meeting. Moods were more optimistic and attendance was better. Having returned from the conference, traders were sorry to have missed a hot market in the previous week. Pounded by snow, northeastern stocking wholesalers lost two to three days of business between this week and last. With the US President's day holiday Monday approaching, another swath will be cut from the potential market. As it was, take-away from reloads was rated as "horrendously poor" this week. Achievable selling prices are \$10 to \$20 under replacement cost. Narrows, selling wildly at the mills, dragged wide up and now both are stuck above where they should be, according to traders. Mills were labelled "babies. They kick and scream at any take back on price."

**OSB & Plywood**

Except as noted, all prices below are in Canadian dollars per 1,000 sq. ft.

**Canadian Oriented Strand Board**

	BC	Ontario
3/8	235	—
7/16	235	244
15/32	250	262
1/2	262	—
19/32	320	355
23/32 (T&G)	405	395

**Fir Plywood • G1S**

	Vancouver	Toronto
1/4	491	520
3/8	545	580
5/8	799	870

Prices are truckload per 1,000 sq. ft.; net delivered by distributor to dealer. For OSB T&G, add \$5. GST excluded.

**Fir Plywood • Sheathing**

	Vancouver
5/16	297
3/8	299
1/2	385
5/8	470
3/4	580
1" Select	803

Prices are truckload/carload per 1,000 sq. ft.; net delivered by distributor to dealer. For T&G, add \$18. GST excluded.

**Canadian Softwood Plywood • Sheathing**

	Vancouver
5/16	289
3/8	290
1/2	390
5/8	475
3/4	596
1" Select	817

Prices are truckload/carload per 1,000 sq. ft.; net delivered by distributor to dealer. For T&G, add \$18. GST excluded.

**OSB & Plywood**

Eastern OSB went "completely nuts" this week according to traders. Numbers flew up and order files grew into the second or third week of March. Plywood on the east side was unchanged while in the west plywood supplies were smaller and prices added about three-per cent. OSB order files in the west went out to the week of March 15, adding about five-per cent to prices.

**JAPAN 2009 LOG & LUMBER DEMAND, HOUSING STARTS**

SOURCE: Japan Lumber Report

**Log and lumber demand in 2009**

	2009	'09/'08
Logs received	15,356	86.6
Domestic total	10,599	91.5
Import total	4,757	77.4
North America	3,666	83.0
Russia	431	55.9
New Zealand	492	72.4
Others	85	51.5
Logs consumed	15,526	86.4
Lumber production	9,403	84.7
Lumber shipment	9,393	83.8

Volume: 1,000cbm Comparison : %

**2009 housing starts**

Comparison : %

	Jan.-Dec. '09	'09/'08
Total	788,4	-27.9
Owner's unit	284,631	-10.6
Rental unit	321,469	-30.8
Unit built for sale (condominium)	168,837 (76,678)	-43.7 -58.0
Wood based units	430,121	-16.8
Prefabricated	125,263	-18.8
2x4	91,394	-15.1

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	<b>296</b>	292	+4	235	+61	168	+128
WSPF KD R/L 2x6	<b>298</b>	294	+4	232	+66	172	+126
WSPF KD R/L 2x8	<b>280</b>	280	0	240	+40	155	+125
WSPF KD R/L 2x10	<b>364</b>	360	+4	320	+44	168	+196
WSPF KD PET 2x4 Stud	<b>310</b>	310	0	238	+72	160	+150
Douglas Fir Green R/L 2x4	<b>255</b>	265	-10	220	+35	195	+60
Douglas Fir Green R/L 2x10	<b>265</b>	285	-20	245	+20	225	+40
ESPF KD 2x4 8ft Stud	<b>355</b>	340	+15	310	+45	230	+125
OSB Ontario 7/16" (CDN\$)	<b>244</b>	225	+19	200	+44	220	+24

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

## Weekly News

### Canadian Trade

**CONTINUED** Canada posted a \$4.8-billion trade deficit for 2009, compared with a surplus of \$46.9 billion in 2008, Statistics Canada said Wednesday. In December, the country's deficit hit \$246-million from a revised \$201-million a month earlier, Statscan said. Imports rose 1.8 per cent while exports advanced 1.7 per cent. November's deficit was originally pegged at \$344-million.

The trade deficit, which is unadjusted for inflation and therefore takes in the benefits Canada is reaping from the rebound in oil and other commodity prices, could well be back in surplus this year, said economist Marc Pinsonneault at the National Bank. The trend had already begun to improve last year, despite a minor case of backsliding in December.

Exports rose to \$32.2-billion, the fourth month in a row of gains as volumes rose 2.1 per cent. Auto products accounted for almost two-thirds of the growth, followed by growth in cars and parts.

Imports increased to \$32.4-billion on higher volumes and prices. Auto products led the gain, followed by auto parts, cars, trucks and iron ores.

Canada's trade surplus with the US, its largest trading partner by far, grew to \$3.7-billion from \$3.4-billion in November as exports to the country rose 2.9 per cent, outstripping a 2-per-cent gain in imports.

Canada's trade deficit with countries other than the U.S. widened to \$3.9-billion from \$3.6-billion in November as exports fell and imports rose.

### Japan Lumber Demand

**CONTINUED** 2009 demand of logs for lumber in Japan was 15,356 million cubic meters, down 13.6 per cent from 2008, according to preliminary figures from Japan's Ministry of Agriculture, Forestry and Fisheries.

The largest drop was in imported logs, meaning the share of domestic wood jumped 69 per cent. 3Q 2009 log receipt was the lowest for the year, down by 83 per cent compared to 2Q, but then recovering in 4Q by 87 per cent.

North America was the largest source of logs due to the sharp drop in Russian log import, but demand still declined over 2008 at 2.5 million cubic meters.

Many domestic mills have closed or shifted from Douglas Fir to domestic species, which resulted in a decrease in demand for coastal North American species.

### Coalition for Fair Lumber Imports Release

The US Coalition for Fair Lumber Imports said Friday that the latest announcement of New Brunswick government support programs provided explicitly to re-open the Miramichi Lumber Products mill are in direct contravention of the 2006 Softwood Lumber Trade Agreement.

The New Brunswick government indicated this week it will provide a \$1.5 million loan and another \$1.5-million loan guarantee, as well as an increase in Crown Timber Allocation to 150,000

cubic meters (up from 83,000 cubic meters) to ensure the now-closed mill can resume production of lumber.

The SLA specifically forbids these types of Canadian provincial government subsidies because they circumvent the SLA's disciplines designed to promote fair trade in lumber. By using subsidies to open production facilities that otherwise could not obtain financing on the market, New Brunswick's actions will prolong the severe depression in the North American lumber market, at the expense of American lumber producers who operate in an open-market and fair timber pricing system.

An arbitration decision is expected later this year on US claims that similar support programs by the Ontario and Quebec governments violate the SLA.

### Calendar

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/>

**Dubai International Wood & Wood Products Show**  
 April 13 to 15 – Dubai, UAE  
<http://www.dubaiwoodshow.com/>

# Genetically Engineered Eucalyptus

## IP and MeadWestvaco

Two industry giants, International Paper and MeadWestvaco, are planning to transform plantation forests of

the southeastern United States by replacing native

pine with genetically engineered eucalyptus, a rapidly growing Australian tree, that in its conventional strains, already dominates the tropical timber industry. The two companies are banking on a controversial gene splice that restricts trees' ability to reproduce, meant to allay fears of bioengineered eucalyptus turning invasive and overtaking native forests. If such a fertility control technology, which has come under fire in farming for fear seed firms will exploit it, is proven effective, it could open the door to many varieties of wild plants, including weedy grasses, to be genetically engineered for use in energy applications like biomass and next-generation biofuels without fear of invasiveness.

Yet many questions remain about the effectiveness of the fertility modification concept, which, according to leading scientists, has not yet been rigorously studied in multi-year trials to prove that it can effectively control plants' spread. More research must be conducted before such systems may be relied upon to restrict pollen and seed spread over the long term, they say.

In the best-case scenario, growers using the presumably expensive seeds would see huge gains in productivity and become the preferred tree stock for a new generation of bioenergy refineries. The US South would become the new Appalachia; timber would serve as its coal. Inklings of such progress have already arisen, including recent word that the German utility RWE AG would build the world's largest wood-pellet plant in the state of Georgia to supplement its coal habits.

A species' struggle to adapt and survive can make attempts to control the fertility of plants difficult. The process relies on what has been the most popular system for restricting plant pollen, conventionally using a bacterial gene to produce a toxic enzyme called barnase that slices apart genetic material in a cell, causing death. Through genetic trickery, the enzyme is only produced in the pollen-spreading parts of the tree, destroy-

ing its ability to reproduce – at least most of the time. Given the number of trees that could be produced, there would likely be enough genetic instability to allow a very small number of the freeze-tolerant eucalyptuses to reproduce, according to Steve Strauss, a tree geneticist at Oregon State University who has consulted with the companies. Rather than an absolute containment system, barnase should be thought of as a mitigation strategy, he added in an interview with Scientific American.

“There haven't been really too much studies of what would be impact of transgene escape from perennials,” said Hong Luo, a molecular biologist at Clemson University who has developed a gene containment system for another wild plant, turfgrass. “We will be cautious in this respect.”

Unlike the pine trees used in Southern plantations – which have quietly helped displace tobacco in the region's economy – eucalyptus can deploy a full canopy of leaves within a few years, which will steal light from native ground-cover plants. It is greedy for carbon, and within 27 months can grow to 55 feet in height. The ultimate benefit of eucalyptus plantations would be the ability to grow more wood on less land, according to IP and MeadWestvaco.

It's not yet clear how the public will feel about genetically modified forests. But scientists note that some trees that have been genetically tweaked to prevent disease have already gained widespread acceptance. Two examples are papaya trees in Hawaii that have been modified to be less susceptible to the ringspot virus, and American chestnuts that resist a deadly fungus.

According to London-based The Institute of Science in Society, the US forest companies had considerable success in getting permission from USDA to undertake open field trials of the companies' genetically modified eucalyptus. The first field test of modified eucalyptus was undertaken in Alabama and reached a Finding of No Significant Impact (FONSI).

The marker gene engineered into the trees is accepted as being safe. In a number of instances, plants transformed with this gene have been deregulated (e.g. corn, rapeseed, cotton, and papaya in past petitions). The Institute pointed out in a release February 8, 2010 that the food and feed crops deregulated were not labelled and there has been no effort to study the impact of the antibiotic resistance gene on the human population or farm animals. Therefore, the gene is essentially untested, and US agencies have no grounds for assuming that the use of

that gene has no significant impact.

The Institute's report goes on to say that in greenhouse tests using tobacco and an early flowering model eucalyptus, the companies' research found that the barnase gene demonstrated 100 per cent efficacy in preventing pollen formation. In developing flower buds from field grown transgenic eucalyptus lines containing this cassette, 90 per cent of lines showed complete pollen ablation. Recent observations from the replicated field study being conducted in Alabama confirm that cold tolerant trees grown at the site and allowed to flower did not produce any viable pollen, therefore US government regulators concluded that barnase will have no significant impact on the environment.

However The Institute is concerned because the product of the barnase gene is barnase ribonuclease, a powerful cell toxin poisoning humans, small mammals and birds. The same toxin has been engineered to kill cancer cells.

In countries that are already suffering the impacts of large-scale eucalyptus plantations, people have organized massive campaigns against them. Anne Petermann, Executive Director of Global Justice Ecology Project and North American representative of the Global Forest Coalition explained, “This is because eucalyptus plantations have devastated forests and communities. In Brazil, the Mata Atlantica forest has been all but wiped out by eucalyptus plantations. In Chile, communities living near eucalyptus plantations have lost their access to fresh water.”

Other new information in the assessment reveals that some of the supposedly infertile engineered eucalyptus trees in existing field trials produced fertile seeds. This new eucalyptus has been engineered to tolerate colder temperatures giving it the potential for invading forest ecosystems throughout the South.

On February 11, 2010 the US Department of Agriculture re-released their draft environmental assessment regarding a request by timber giants International Paper and MeadWestvaco, to plant over a quarter of a million genetically engineered eucalyptus trees in so-called “test plots” across seven southern US states. The environmental assessment was re-released after concerned groups pointed out that the assessment was missing key hydrological studies and that the US Forest Service studies found that eucalyptus trees have heavy water requirements and can seriously impact ground and surface water reserves. Deadline for submissions and comments on the draft environmental assessment is February 18th, 2010.