

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

Madison's Timber Preview this week looks at the list of capital investments announced in the past few weeks for the building of biofuel and cogeneration facilities at various solid wood, pulp, and paper mills around the world. In total \$1.4 billion in investment has been announced in the past few weeks alone.

Contact us any time for a subscription.

US Softwood Lumber Duty

Lumber traders and exporters across Canada were poised on the edge of their seats this week in anticipation of a reduction in the softwood lumber duty. Expectations are that, based on current and short term projected lumber prices, the duty will fall to 10 per cent for May. Some also expressed hope at the possibility that the supply/demand balance for solid wood products in North America would move further into constricted inventories, which could potentially cause the duty to go to zero by mid-summer.

Canada Building Permits

Canadian building permits fell unexpectedly in February, a result of the decline in multiple-dwelling residential construction plans, Statistics Canada reported Wednesday.

Permits dropped 0.5 per cent to \$5.7 billion, despite an increase for commercial buildings and single-family dwellings, said the federal agency. Economists had expected permits to increase by two per cent.

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Japan Housing Starts

Seasonally adjusted February housing starts in Japan declined for the 15th straight month, falling by 9.3 per cent compared to February 2009, and 8 per cent compared to January 2010, to 794,000 seasonally adjusted units, according to the *Japan Lumber Reports*.

However actual housing starts increased by 26 per cent over January.

Applications for large building permits started to increase, which is a good sign for recovery. Meanwhile Japan experienced a sharp drop in new condominium building. On the increase are detached units and units built for sale, says the *Reports*.

Wood based unit building increased for two straight months, to a share of 57 per cent of all building, a 3.5 point increase from January 2010.

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BC's New Timber Pricing Policy

British Columbia's Minister of Forests and Range, and Integrated Land Management, Pat Bell, has indicated recently that there would be some changes to timber pricing policy in the BC interior in order to take into account the volume of beetle kill wood.

A new "stand as a whole" policy is being rolled out, with a first announcement coming on April 1, to be implemented June 1. *Madison's* examines this first announcement, and breaks down what the changes will mean for BC lumber producers.

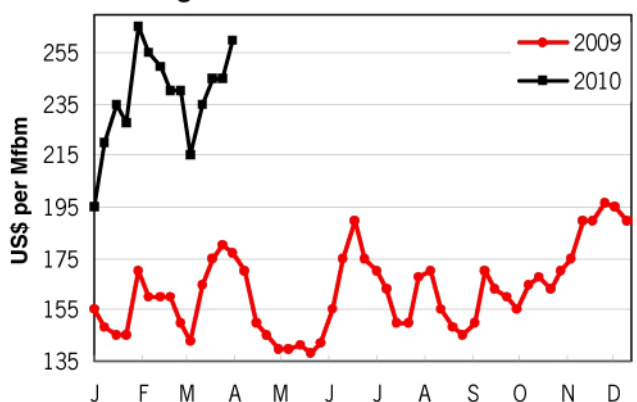
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JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Feb-10	56,527	24,412	32,115	57
Jan-10	64,951	30,322	34,629	53
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

Source: Japan Wood-Products Information and Research Center

Douglas Fir Green Std&Btr 2x4



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	301	290	+11	280	+21	170	+131
WSPF KD R/L 2x6	293	282	+11	275	+18	165	+128
WSPF KD R/L 2x8	285	275	+10	270	+15	168	+117
WSPF KD R/L 2x10	340	345	-5	345	-5	184	+156
WSPF KD PET 2x4 Stud	320	310	+10	295	+25	175	+145
Douglas Fir Green R/L 2x4	260	245	+15	215	+45	177	+83
Douglas Fir Green R/L 2x10	245	242	+3	230	+15	205	+40
ESPF KD 2x4 8ft Stud	375	370	+5	350	+25	235	+140
OSB Ontario 7/16" (CDN\$)	30	263	+37	244	+56	195	+105

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Weekly News

Canada Building, Economy

CONTINUED When compared with last year, however, the permit value is 56.7 per cent higher than it was at its lowest level during the economic slowdown.

Municipalities issued permits worth \$2 billion, a 16 per cent gain following three consecutive months of declines. Permits for commercial buildings posted the largest gain in February.

The value of commercial building permits totalled \$1.3 billion, up 27 per cent from January. The increase was mainly due to hotels and office building construction permits in Ontario and Quebec. Alberta recorded an increase in permits for recreational buildings and retail stores.

Analysts were not perturbed by the 7.5 percent decline in the value of residential permits, saying that supply in the housing market remains strong despite an expected surge in demand in the spring ahead of widely forecast interest rate increases later in the year.

Also on Wednesday, the Ivey Purchasing Managers Index rose to 57.8 in March from 51.9 in February.

A reading of above 50.0 indicates an increase in activity.

The Ivey employment index jumped to 51.6 in March from 41.3 in February, while the inventory subcomponent rose to 55.2 from 47.9.

The Ivey index is based on figures from 175 members of the association. It is roughly equivalent to the US Institute of Supply Management indexes, but is not seasonally adjusted.

Housing Starts, Japan

CONTINUED Japan housing starts have been recovering since the bottom of 688,000 units in August 2009, but for February the large drop in condominium starts brought the total down. Units built for rent are also slow to recover.

In February, units built for owners increased for four consecutive months, particularly in the Tokyo metropolitan region where independent units built for sale increased for two straight months, says the *Japan Lumber Reports*.

In Memorium

It is with sadness that *Madison's* announces Chester Johnson, founder of Whonnock Industries, died this week at 84 years old.

Johnson also headed up West Fraser Timber, BC Hydro, Western Pulp, the Vancouver Airport Authority, and Whistler Land Co.

In the 1980s, Whistler was on the verge of going bankrupt when then-BC premier Bill Bennett appointed Johnson to take over the fledgling Whistler Land Co.

Johnson turned the troubled Whistler Resort Centre into a conference centre, putting the municipality on the road to becoming a world-class destination.

Born in Vancouver on November 1, 1925, Johnson graduated from Lord Byng High School and the University of BC.

He was invested as a Member of the Order of Canada in 1992.

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MILL WATCH

Timber Pricing System

Changes for BC

First thing Wednesday morning, April 7, *Madison's* got a call from the US Coalition for Fair Lumber Imports asking for insight on a memo by British Columbia's Deputy Minister of Forests and Range that had been posted April 1 on the Revenue Branch website. *Madison's* had been unaware of the announcement, despite having checked with the Ministry of Forests information service a few days earlier. Upon investigation *Madison's* discovered that many forestry professionals in this province also did not know about this memo.

Pat Bell, BC's Minister of Forests and Range, and Integrated Land Management, has frequently indicated that a new, "stand as a whole" timber pricing model was coming to the BC Interior. With this announcement the foreshadowed change is now being rolled out, to be implemented June 1, 2010. Vivian Thomas, Communications Manager at the BC Ministry of Forests and Range, broke down the new system, explaining the differences from the previous system, and what that means for BC lumber producers.

The auction system currently in place through BC Timber Sales is referred to as MPS-B, and uses auction data to calculate the average timber price—with individual rates determined using a separate appraisal system. The new system, MPS-A, uses auction data to directly estimate the market value of individual timber stands (through the use of cutting permits). The latter method has been in place on the BC coast for about three years.

According to the Revenue Branch April 1 memo, "A single stumpage rate will be determined for all of the merchantable timber on the cutting authority area. The cruise of the timber will be used to determine the volumes for billing purposes [. . .] rather than the current system of scaling and post harvest waste assessment". Essentially, market prices are to be determined for entire stands of timber. At present there are separate prices for the sawlog timber and low-grade timber components of stands. This change eliminates the need to scale timber for grade.

So, no scaling and no log grading for regions of the BC Interior "where 35 per cent or more of the Mountain Pine Beetle damaged timber is Red and Grey attacked lodge pole pine".

In an email, Thomas explained to *Madison's* that cruise based billing means the charge for the stand is based on the volume of timber in the stand as measured in a cruise multiplied by the average value of the timber in that stand. (Editor's note: *Timber cruising is a method for measuring the volume and grade of timber prior to harvest while the timber is still standing. Scaling measures volume after harvest when timber is in the form of logs*). Cruise-based billing is calculated on the total merchantable volume, and results in licensees paying stumpage for the entire volume. Cruise-based billing eliminates the need for scaling and waste assessments and therefore should make more stands economical to harvest.

The cruise will assess stumpage on all merchantable volume within the cutting permit, whether the licensee harvests the volume or not, thereby encouraging "greater utilization", according to the Ministry.

A question immediately leaps to mind: if there's no scaling or grading, how do you know you're getting fair value for the timber? Thomas explained that BC Timber Sales auctions are used in the pricing. Industry already does cruising to a high standard and the ministry does check-cruising and inspections to ensure only timber that was cruised and appraised is removed.

What does this mean to BC lumber producers and exporters in practical terms?

As the changes don't take effect until June 1, there is no clear answer to that question right now. However there is concern that an accurate account of harvest volumes will not be calculated, or will be more difficult to calculate. More cynical observers think that, despite the incentive to utilize the entire stand, companies are going cut everything but only take the quality timber, leaving the rest on the ground.

Another question that pops up is: why implement such a change at this time, when the majority of the pine beetle infestation has run its course?

Rob Kitamura, of the Southern Interior Timber Cruisers Association, provided some explanation of how this new system could work. Despite being short on details, and pointing out that the Association will be holding a Timber Cruising Seminar in the southern

interior on May 20 by which time more details will come to light, Kitamura explained that the cruise, "takes into account volumes and quality and damage." As a cost-cutting measure, eliminating scaling and grading should not be an issue as cruisers are bound by the ethical requirements of their profession.

Madison's caught up with Pat Bell for further explanation.

"The 'stand as a whole' system more closely parallels the US system," said Bell in a phone interview. "Focussed on areas heavily attacked by the pine beetle, the value of a stand will be determined by a previously assessed value of a comparable block in a regionally sensitive manner." Bell maintains that, in reality, most of the "blocks will be virtually 100 per cent dead" timber. "This method encourages the highest utilization" of the forest.

There will be no longer a need for scaling, because the stand will be paid for in its entirety in advance. This is where the incentive to use everything will come in.

"The issue of Grade 4 logs goes away. Whether it is a sawlog or Grade 4 doesn't matter anymore," said Bell. "The Ministry of Forests knows where the stands are, that qualify for MPS-A, and uses an independent cruise to periodically check the harvest information."

This new model has been "run on little pilots, within BC Timber Sales under the Innovative Timber Sales License, and will eventually extend to tenure volume," explained Bell. "It took time to acquire sufficient data to shift to MPS-A, in a further move to a full market-based pricing system according to the terms of the 2006 Softwood Lumber Agreement. This new system makes a clear, simple calculation of the true market value."

The data upon which the MPS-A is based was provided by BC Timber Sales, of log prices over the past five years.

The Revenue Branch web page announcing the policy change can be found here

<http://www.for.gov.bc.ca/hva/interior-pricing-changes.htm>

while the memo itself can be found here

<https://www.for.gov.bc.ca/ftp/hva/external!/publish/web/InfoPaper/Interior-Timber-Pricing-Changes.pdf>