

# MADISON'S LUMBER REPORTER

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## News & Updates

### Softwood Lumber Export Tax Reduction

Canadian exporters of softwood lumber products into the United States are facing a significant change in export taxes, effective May 1. Option A provinces, British Columbia and Alberta, will see a 5 per cent reduction in tax (to 10 per cent), while Option B provinces, Quebec, Ontario, Manitoba and Saskatchewan, will see a 2 per cent decrease (to 3 per cent).

There is a lot of confusion about the application of this tax reduction, and changes to paperwork at the border. *Madison's* heard from lumber producers that customers tried to demand a 5 per cent price discount the week the upcoming tax reduction was announced, and that some lumber exporters began immediately submitting customs documents reflecting the upcoming tax reduction.

A sharp-eyed customs broker working the Canada-US border, Michael Jones at Jones & Jones Customs Brokers and Trade Consultants, noticed a lack of clarity in the wording of the 2006 Softwood Lumber Agreement, which seems to indicate that lumber loaded on rail lines prior to an export rate change date will be charged at the old tax rate.

Requests for clarification by both Jones and *Madison's* of DFAIT and the Canada Revenue Agency came up with no meaningful results. Jones is advising clients to be on the safe side and not load lumber onto rail cars until May 1 in order to take advantage of the tax reduction.

*Madison's* is, once again, appalled at the lack of proper information out of Canada's federal government. A major international agreement between two huge trading nations is undergoing a change, for the first time ever, and no useful information is provided in terms of compliance. Specific requests to the CRA were responded to with vague replies repeating information already available.

*Madison's* hopes that this continued lack of attention to the needs of Canadian lumber producers and exporters by our federal government does not result in problems at the border with improperly filled out customs forms and months of headaches to sort out paperwork.

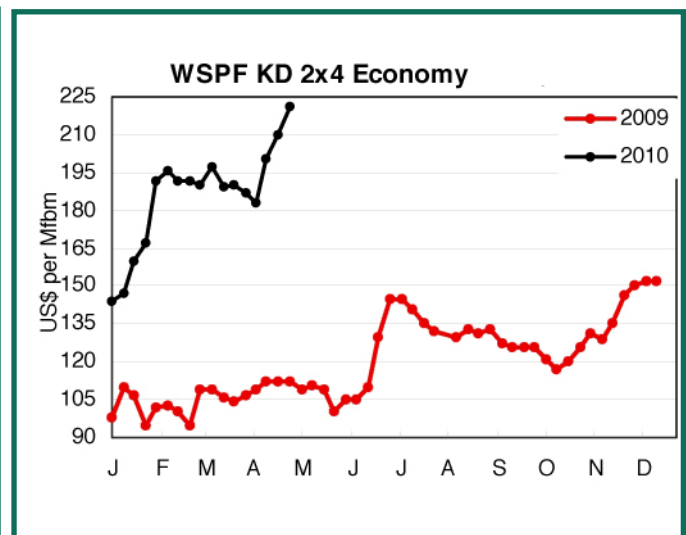
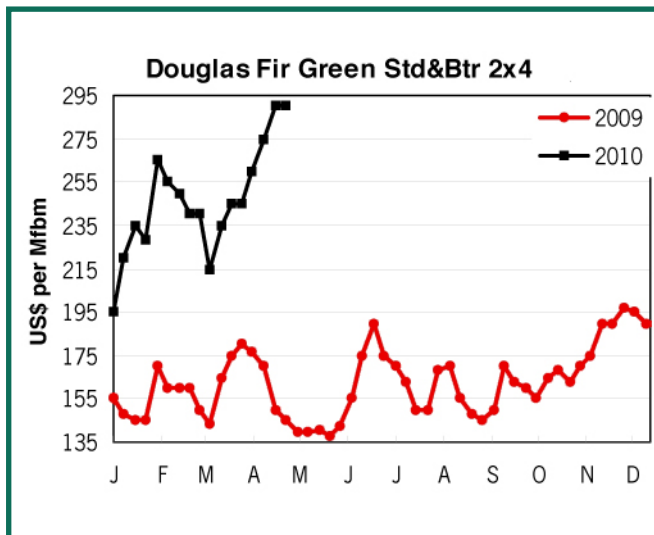
### Quarterly Results

Canfor Corporation has reported total net income of \$32.5 million for the first quarter of 2010, compared to a net loss of \$9.1 million for the fourth quarter of 2009 and a net loss of \$69.9 million for the first quarter of 2009.

Domtar Corporation has posted their preliminary first quarter results showing net earnings of \$58 million compared to net earnings of \$124 million for the fourth quarter of 2009 and a net loss of \$45 million for the first quarter of 2009. [READ MORE](#)

### North American Transportation Update

Financial results for CP Rail, CN Rail, and Union Pacific as well as the latest surface transportation figures for North America are examined. [READ MORE](#)



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	318	320	-2	290	+28	150	+168
WSPF KD R/L 2x6	320	320	0	282	+38	140	+180
WSPF KD R/L 2x8	308	300	+8	275	+33	165	+143
WSPF KD R/L 2x10	365	365	0	345	+20	185	+180
WSPF KD PET 2x4 Stud	335	335	0	310	+25	180	+155
Douglas Fir Green R/L 2x4	290	290	0	245	+45	145	+145
Douglas Fir Green R/L 2x10	282	285	-3	242	+40	200	+82
ESPF KD 2x4 8ft Stud	410	420	-10	370	+40	240	+170
OSB Ontario 7/16" (CDN\$)	405	400	+5	263	+142	195	+210

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

## Weekly News

### Financial Results

CONTINUED Lumber and pulp prices increased significantly in the first quarter of 2010, and were the major reason for the Canfor's improved results for the quarter. US housing activity showed only a modest improvement from the historically low levels of the previous quarter.

Commenting on the results, Canfor's President and CEO, Jim Shepard, said, "While we are very pleased to see the rise in North American lumber prices, we recognize the increase is largely due to supply factors rather than to any significant increase in US house construction activity."

Highlights of Domtar's first quarter include; refundable excise tax credit for the production and use of alternative bio fuel mixtures of \$25 million (\$18 million after tax), charge of \$22 million (\$16 million after tax) related to the impairment and write-down of property, plant and equipment, closure and restructuring costs of \$20 million (\$14 million after tax), and gain on sale of property, plant and equipment of \$1 million (\$1 million after tax).

"Despite a still modest economic recovery we recorded strong financial results due to price increases and higher pulp, paper and wood shipments," said John D. Williams, President and CEO

Also reporting this week, Weyerhaeuser Co.'s first-quarter loss narrowed significantly, beating analysts' estimates, as most of the company's segments saw improved performance.

"We're encouraged by the improvement in our performance," said President and CEO Dan Fulton. "Financial results increased significantly compared with the prior quarter and on a year-over-year basis due to better market conditions and the work we've done to improve our long-term competitiveness."

Weyerhaeuser is in the process of converting to a real-estate investment trust, having received shareholder approval for the move earlier this month.

The company reported a loss of US\$20 million narrowed from a loss of US\$264 million a year earlier.

### Interfor Reopens Castlegar

International Forest Products Ltd. says it will reopen one sawmill as dramatic increases in pricing and demand continue to take root in the lumber market, but remains wary of lingering uncertainty in the recession-battered industry.

"Clearly business conditions are much better than they were at this time last year or the immediately preceding quarter," CEO Duncan Davies told analysts Friday on a conference call to discuss Interfor's improved financial results for the first quarter of 2010.

Davies said there is cause for some celebration as Interfor plans to restart one of its BC mills, at Castlegar, but there is also uncertainty in the market, especially in the US, where activity in the housing market remains close to historic lows.

Lumber shipments totalled 264 million

board feet for the quarter, more than double a year ago, helped by production from Adams Lake, BC, and the recent restart of operations at Grand Forks, BC, as well as higher operating rates at the company's US mills.

Davies said the company was surprised by a dramatic increase in lumber prices from the previous quarter. But higher log costs in the BC Interior and the Pacific Northwest, weak cedar markets, and the higher Canadian dollar offset some of the revenue gains.

Even so, Davies said Interfor will continue with its current business model, balancing operating levels against sales activities and maintain strict control over inventories.

### Calendar

May 2010

#### 23rd Annual PricewaterhouseCoopers Global Forest and Paper Industry Conference

May 11 – Vancouver, BC  
[http://www.pwc.com/en\\_GX/gx/forest-paper-packaging/events/23rd-fpp-conference/transformation-through-innovation.jhtml](http://www.pwc.com/en_GX/gx/forest-paper-packaging/events/23rd-fpp-conference/transformation-through-innovation.jhtml)

June 2010

#### Maritime Lumber Bureau 71st AGM

June 10 – Halifax, NS  
<http://www.mlb.ca>

# NA Transportation

## Update

by Kéta Kosman

With CN Rail and CP Rail showing strong quarterly results this week, and ground transportation figures up from recent trends, its time to look, once again, at North American transportation.

Trade using surface transportation between the United States and its NAFTA partners, Canada and Mexico, was 24.1 per cent higher in February 2010 than in February 2009, reaching \$59.5 billion, according to the US Bureau of Transportation Statistics. The increase is the largest year-over-year rise on record but freight value still remained 14.3 per cent less than the value in February 2008, according to the government report released Thursday.

The latest Canadian General Freight Index data, released April 29, continues to suggest that ground transportation rates have stabilized. February's results show a 1.6 per cent increase in ground transportation rates for Canadian shippers, offsetting a similar decline in January, according to Nulogx, the company that created and maintains the index. Base rates, excluding fuel surcharges, increased 2.1 per cent in February, the index indicates.

"February's results are essentially at the same level as the last quarter of 2009 with less than a 0.5 per cent overall variance," commented Dr. Alan Saipe, president of Supply Chain Surveys.

The volume of cargo carried by Canadian railways increased in February, as both commodity loadings in Canada and traffic received from the US rose, according to a report from Statistics Canada also on Thursday. Total freight traffic originating in Canada and received from the US increased to 21.9 million metric tonnes in February, up 6.2 per cent from February 2009. Compared with February 2009, freight loaded in Canada rose 5 per cent to 19.8 million metric tonnes in February. The Canadian railway industry's core transportation systems, non-intermodal and intermodal, both contributed to the rise in cargo loaded, according to StatsCan.

Canadian Pacific Railway Ltd. Wednesday reported a 74 per cent increase in first quarter profit. For the quarter ended March 31, CP Rail earned \$100 million, compared

with \$57 million in the first quarter of 2009. Revenues were up 5 per cent to \$1.2 billion compared with \$1.1 billion in the same period last year.

Canadian Pacific Ltd's first-quarter profit jumped 74 per cent, beating analysts' expectations, on lower costs and higher revenue from a sharp recovery in demand for commodities and automobiles. The stock is up more than 5 per cent compared to the previous quarter. Canada's second-largest railway said Wednesday that profit almost doubled to \$100 million from \$57 million a year earlier. Revenue rose 5 per cent to \$1.2 billion.

Union Pacific Corp.'s first quarter profit grew 43 per cent as the US railroad company posted quarterly volume growth for the first time in two years. The company's strong results were the latest sign of strength in the freight-transport sector, which has seen its outlook improve recently along with the economy. On Thursday Union Pacific posted a profit of US\$516 million, up from US\$362 million a year earlier. Operating revenue grew 16 per cent to about US\$4 billion.

Analysts and investment advisors had a lot to say about financial prospects for the transportation industry through 2010.

The Globe and Mail explained Tuesday that as the economy picks up, more goods are shipped, travelling increases and consumers are more inclined to purchase new vehicles. A good play on this cyclical sector is the iShares Dow Jones Transportation Average, which gives exposure to package carriers like United Parcel Service, freight carriers like Union Pacific and airlines like Continental Airlines. The Dow Jones Transportation Average closed at \$85.79 on Monday.

In a conversation with Seeking Alpha, Brad McFadden, of the Daily Trading Report, explained investment interest in transportation, "In essence we search the globe for deep-out-of-favour sectors and invest at the 'point of maximum pessimism'. When we first started buying into the shipping sector, the median price-to-book value of the largest 100 shipping stocks in the world was a mere 0.62, the cheapest ever in our records [which go back to 1970]. Our primary reason was the valuations of shipping stocks. In September when we started to invest, the total market cap of all publicly traded shipping stocks in the world came in at less than

\$20 billion. We thought that it was only a matter of time before conditions improved and valuations returned to more 'rational' levels."

In terms of future growth, CN Rail's new chief executive says growing demand for North American commodities from emerging countries will help the company grow its business during the gradual economic recovery. While the US and Canadian economies are slowly gaining traction, increased demand by China, India and other growing economies will push shipments, Claude Mongeau said at the railway's annual meeting. Evidence of the positive impact that emerging countries were having on results was seen in the first quarter, when about half of the growth in the key lumber business was due to Asian demand. Mongeau said the demand is driven in China and other markets by the increasing use of wood products in Asian building codes. Chinese demand is also driving imports of Canadian pulp, even though paper demand remains challenged.

In other CN news, the railway was served a slap on the wrist Wednesday by US Federal regulators. Surface Transportation Board members said at a hearing that they were deeply disappointed in CN for reporting that in November and December there were only 14 occasions where trains blocked crossings for at least 10 minutes between Mundelein and Matteson, IL. An independent audit showed that traffic delays occurred 1,457 times in the same period. CN expressed "regret" at the undercount, essentially blaming it on a miscommunication with federal regulators. The rail company had reported only crossings blocked by stopped trains, but the board had mandated that delays caused by slow-moving trains also had to be included.

Vocal opponents of CN's recent acquisition of the Elgin, Joliet & Eastern line out of Illinois are likely responsible for this severe level of scrutiny. Suburbs along the EJ&E tried to stop the deal, complaining that it would triple or quadruple the freight train traffic on the line, blocking crossings for long periods, tying up traffic and slowing emergency responders trying to cross the tracks.

CN special adviser Gordon Trafton said the railroad was "not looking to hide information" and had "diligently worked" to meet what it thought were the board's expectations.

Value of Monthly US Surface Transportation Trade with Canada and Mexico				SOURCE: US Bureau of Transportation Statistics	
Month	2008	2009	2010	Percent Change 2008-2009	
January	65,160	47,459	56,697	-27.2	
February	69,406	47,938	59,492	-30.9	
Year-to-date	134,566	95,398	116,189	-29.1	