

# MADISON'S LUMBER REPORTER

**Publisher**  
KetaDesign Productions  
**Editor**  
Kéta Kosman  
**Market Analyst**  
Zara Heartwood

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www.madisonsreport.com  
madrep@shawcable.com  
604 984-6838  
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V6B 3W7 Canada

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## News & Updates

### Madison's Timber Preview : Restructuring Completed

Of the North American forestry companies that filed for bankruptcy protection in the past several years, AbitibiBowater seems to be having the most trouble satisfying creditors with the terms of its restructuring. This week's issue of *Madison's Timber Preview* examines developments late Thursday in the courts, and looks at the current situation with other companies recently exiting bankruptcy proceeding.

Contact us any time for a subscription.

### US Housing Starts

Construction of new homes in the US fell sharply in October, fresh evidence that the housing industry remains under duress. The US Commerce Department said Wednesday construction of new homes and apartments sank 11.7 per cent last month to a seasonally adjusted annual rate of 519,000 units.

The decline marked the poorest showing since April 2009, when construction dropped to 477,000 units – the lowest level on records dating back to 1959. Construction of new homes and apartments is 77 per cent below its peak during the housing boom of 2.27 million units in January 2006.

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### Consultation Period Expires

The 40 day consultation between Canada and the US under the terms of the 2006 Softwood Lumber Agreement expired this week with no satisfying solution, according to the US Coalition for Fair Lumber Imports. Officials at the Coalition explained to *Madison's* in a phone interview that there was a "lack of response" from British Columbia to specific questions regarding the timber harvest.

The next step would be for the US to file a formal request at the LCIA for arbitration on the difficult issue of log grading in BC, which the Coalition expects to happen "fairly quickly".

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### Steelworkers Respond to Interior Forest Labour

Talks broke down Wednesday afternoon between the Interior Forest Labour Relations Association, representative for most of British Columbia's southern interior lumber producers, and the United Steelworkers Union.

"After inviting the Union to resume bargaining in late October, the southern interior company association has now—after only a few days of meaningful bargaining—turned their backs on the Union's attempt to meet and maintain the northern interior pattern agreement," according to a USW bulletin obtained by *Madison's*.

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### Canadian Wood Export to India

A minor bureaucratic stumble continues to hamper Canadian lumber exporters in shipping wood to India. The biggest problem continues to be that three species of spruce were omitted from the list of those allowed to import from Canada. Other hinderances, such as a requirement to both heat treat and fumigate, are finally being rectified by continuous communication between Canadian and Indian officials.

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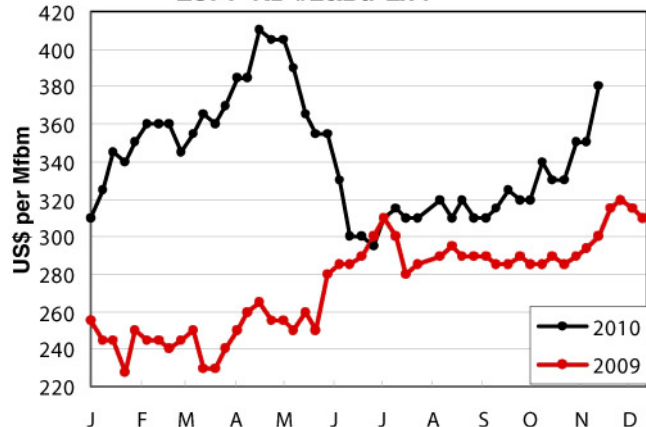
#### U. S. HOUSING STARTS

	Oct-10	Sep-10		Oct-10	Sep-10
<b>Starts</b>			<b>Permits</b>		
Actual	44,300	52,000	Actual	43,700	47,100
SAAR*	519,000	588,000	SAAR*	550,000	547,000
1 Unit	436,000	441,000	1 Unit	406,000	402,000
2-4 Units	(s)	(s)	2-4 Units	23,000	25,000
5+ Units	74,000	414,000	5+ Units	121,000	120,000
<b>Starts by Region</b>			<b>Permits by Region</b>		
Northeast	79,000	70,000	Northeast	75,000	75,000
Midwest	98,000	97,000	Midwest	104,000	91,000
South	251,000	290,000	South	258,000	267,000
West	91,000	131,000	West	113,000	114,000

\*Seasonally adjusted annual rate

Source: U.S. Census Bureau

#### ESPF KD #2&Btr 2x4



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	276	276	0	254	+22	220	+56
WSPF KD R/L 2x6	275	274	+1	255	+20	220	+55
WSPF KD R/L 2x8	280	280	0	280	0	230	+50
WSPF KD R/L 2x10	322	325	-3	320	+2	302	+20
WSPF KD PET 2x4 Stud	250	245	+5	240	+10	215	+35
Douglas Fir Green R/L 2x4	235	200	+35	195	+40	190	+45
Douglas Fir Green R/L 2x10	315	285	+30	245	+70	257	+58
ESPF KD 2x4 8ft Stud	310	300	+10	280	+30	280	+30
OSB Ontario 7/16" (CDN\$)	200	210	-10	210	-10	190	+10

## Weekly News

### Housing Starts, US

CONTINUED US Building permits, a forward-looking indicator on the health of the housing market, offered little reason for hope of an improvement anytime soon. Building permits edged up 0.5 per cent from September to an annual rate of 550,000.

The housing market is struggling to recover from the collapse of a price bubble in 2006. The high number of homes on sale at relatively bargain prices, weighed down by a flood of foreclosures, is hampering demand for new construction.

"This report was not as bad as the headline number suggests," said Patrick Newport, US economist at IHS Global Insight.

Newport noted that permits were more important than starts because they are better measured, are less affected by seasonality, and are forward looking.

"Single-family permits – the most important number in this report – rose 1 per cent, the first increase in seven months," he said.

"Going forward, the permits numbers point to flat housing starts numbers over the next two to three months."

The National Association of Home Builders reported Tuesday that its monthly index of builders' sentiment remained in the doldrums with a reading of 16 in November, up only slightly from an October reading of 15.

Index levels below 50 are seen as reflecting a negative outlook for housing on the part of the builders.

### Softwood Lumber Arbitration

CONTINUED "This is a fact-intensive issue," explained Zoltan van Heyningen, spokesperson for the US Coalition

for Fair Lumber Imports to *Madison's* in a phone interview. "The US Trade Representative is operating normally. The facts requested from BC were not received, as far as we can see Canada seems determined to simply push the ball further down the road."

Since the Coalition is not satisfied with the documentation provided by BC to explain timber harvest practices, once arbitration is launched the international tribunal at the LCIA could possibly request that data.

"I believe strongly that we have continued to meet our obligations in providing the requested information to the US Coalition," said BC's Minister of Forests, Mines, and Lands, Pat Bell, to *Madison's* in a phone interview. "There should not be arbitration."

"Should legal action be launched, BC will defend its position vigorously. Unless the LCIA requests new information, BC would provide the same data to the international tribunal as it did to the US Coalition."

"BC has complied to the rules we signed on to in 2006, the US has to demonstrate any wrongdoing," concluded Bell.

### Labour Trouble

CONTINUED "Surprisingly, this third-rate employer position is endorsed by the same IFLRA members Tolko Industries and West Fraser Mills who consider the pattern fair for their northern interior employees but sadly, too good for their southern interior counterparts," continues the USW bulletin.

"The USW across the province of BC has tried hard to enter a new and better labour relationship model, and I hope that applies here as well," said Pat Bell, BC's Minister of Forests, Mines, and Lands to *Madison's* in a phone interview.

"It is in the best interests of everyone to have labour stability," continued Bell. "This may be a flurry of rhetoric for now, I hope calmer heads will prevail in the future."

The USW bulletin concludes with the statement, "Local Unions in the southern interior will be seeking a mandate from their members."

"The employer's group took a turn for the worse Wednesday," explained Bob Matters, Chair of the Steelworkers Wood Council, to *Madison's* in an phone interview. "It was a regressive proposal."

"We are going to take time to communicate with union members to make sure they have all the information, no matter how long that takes."

"We can't ensure production and delivery will continue uninterrupted before a collective agreement is signed," concluded Matters.

Due to schedule constraints, *Madison's* was unfortunately unable to reach an IFLRA spokesperson by press time Friday.

### AFPA 3rd Quarter

Total shipments of lumber, panelboard, pulp and paper manufactured by Alberta Forest Products Association-member companies in 3Q 2010 rose modestly over 2Q and increased significantly compared to 3Q 2009, according to an AFPA statement released Friday.

The improvement in shipments and revenue was due largely to strong prices in the pulp and paper market and increased production of lumber.

AFPA-member companies shipped 732.5 million board feet (mmfbm) between July and September 2010 with a value of \$169.6 million. Part of this production came from the secondary manufacturing sector. Total shipments were up 7.23 per cent from Q3-2009 and 0.74 per cent from Q2-2010.

# Canadian Wood Export

## To India

India's rapidly growing economy and vast army of low-cost labour indicates great potential for the wood products sector, declared **by Kéta Kosman** Bob Flynn, Director of International Timber for RISI in an October 28, 2010 press release. In addition, forecasts of a rapid influx of rural workers into urban areas will likely mean, as it did in China, greatly increased demand for wood for housing construction and furnishings. Like China, India has a long-term shortage of wood supply, and although imports of wood and wood products into India are currently far behind China, all signs point to India as being the next big market for log and (perhaps) lumber imports. India's population currently stands at 1.14 billion, and is projected to be 1.53 billion by 2030. Total softwood log imports have grown by an estimated 38 per cent per year from 2004 through 2010. Demand is forecast at 1.2 million cubic metres of softwood log imports in 2010.

If India's demand grows at even half the rate of China's over the past decade, then competition in the global log markets is going to become very intense in the future, according to *The Economist*, a US magazine.

However a silly bureaucratic error is preventing western Canadian lumber producers from shipping their products into India. *Madison's* was first alerted to the problem at the beginning of this year and is disappointed to find out that Canadian officials have as yet made little progress in getting India's wood import requirements corrected (please refer to the February 5, 2010 issue of your *Madison's Lumber Reporter* for details).

"In June 2008, it was identified that India's plant health regulations did not list Canadian spruce or cedar species as approved. [...] until such time that these species are added to India's approved import list, they are in essence barred from shipment to India," Cheekwan Ho, media spokesperson for the BC Ministry of Forests, Mines, and Lands informed *Madison's* in February. "India recently published a draft notification proposing the addition of the outstanding spruce component to India's plant health regulations." Meanwhile no such barrier exists for US producers shipping the exact same species from south of the border.

On October 22 in downtown Vancou-

ver Forest Innovation Investment, the Canada Wood Group, and BC's Ministry of Small Business, Technology and Economic Development hosted a Roundtable Discussion on India. VP's, managers, and heads of export for almost all lumber companies with operations in BC were there, as well as representatives from COFI, the Canadian Consul to India, plus others were present. *Madison's* was delighted to be included as the only media present, especially considering that the

day turned out to be very informative.

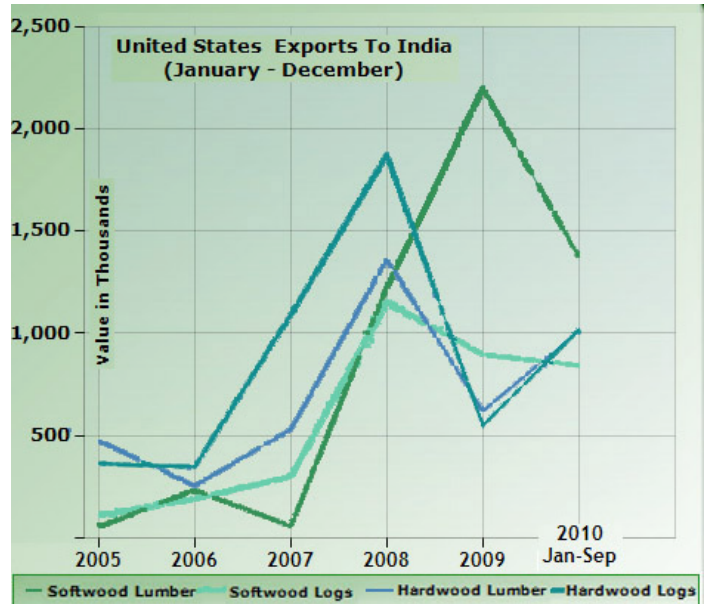
To counter this simple bureaucratic omission, Brian Zak at the CWG has been working tirelessly with officials from the Canadian and Indian sides since May 2009. Suffice to say the list of correspondence exchanged on the subject is over voluminous.

Apart from the glaring error of missing species, another lumber import hurdle involves getting India to accept heat treatment alone instead of fumigation plus heat treatment for the Canadian species that are allowed as is currently required. Zak was expecting an answer in the next Gazette Notification to be issued by India the following week.

The other main hurdle is the length of time it takes to get a Pest Risk Assessment from India's Plant Protection Advisor, usually at least a year. Canadian officials have been assured by Indian representatives that red and yellow cedar would be given a priority.

*Madison's* learned last week that the latest Gazette Notification from India, issued in mid November, still did not include the missing three Canadian spruces. However there has been progress in completing the pest risk assessments for western cedar.

During the roundtable discussion in October it became clear that there are other difficulties involved in shipping lumber from Canada apart from India's customs officials not being able to find significant species on their approved list and a stringent requirement for both heat treatment and fumigation of the other Canadian species. While demand for wood in India is rising, there is not currently much desire for framing lum-



SOURCE: US Department of Agriculture, Foreign Agricultural Service

ber. It seems there is a basic lack of understanding of the properties of wood for building in that country. At the moment demand is mainly for finishing products.

Further, freight to India is about double of that to China added to which there is rarely anything to put into a container on its way back to North America so the charge may be even higher. Roundtable participants agreed wholeheartedly that in this situation only higher grades, specifically shop lumber, will be profitable to send into India.

"We have a customer for all the low grade and utility lumber we can produce," said one trader. "We don't need another China." Enthusiastic agreement all around.

Another hurdle to selling wood into India is the lack of infrastructure. The channels of distribution are not efficient, at each junction there is a markup.

"The eventual customer could end up paying four times more for the product than the importer did," explained a Canadian lumber exporter to India who made a special trip from Ontario just for this discussion.

Heads turned sharply and at least one trader mumbled, "That's a tremendous opportunity."

*Madison's* saw the majority of participants jot down the dates of the next major wood products conferences and trade shows in India, no less than four are taking place between December 1, 2010, and February 17, 2011. Each of which will have a major presence by various Canadian federal and provincial agencies including Forest Innovation Investment, Canada Wood Group, BC Wood, and/or the Forest Products Association of Canada.