

MADISON'S LUMBER REPORTER

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News & Updates

2006 Softwood Lumber Agreement Extended

As expected, the United States and Canada have agreed to extend the 2006 Softwood Lumber Agreement for a period of two years. The SLA will now remain in effect through October 2015.

Sawmill Fires

Massive fires destroyed two Canadian sawmills this week. Portland, OR's, Hampton Affiliates' Babine Forest Products sawmill in Burns Lake, BC, was completely destroyed in a violent explosion that killed two workers and injured 19 others.

Eacom Timber's McChesney lumber mill in Timmins, ON, was burned after a stubborn fire on the roof could not be effectively put out by fire fighters due to the close proximity of a lake on the side of the mill that was burning. There were no reports of injuries and no fatalities at this mill.

Eacom has already pledged to rebuild the Timmins mill, while Hampton is considering its options in view of the diminishing timber supply in the wake of the mountain pine beetle infestation surrounding Burns Lake.

These latest events serve to only further illustrate the importance of safety and a need for the highest vigilance on issues with sawmill environments that might cause damage or injury.

Japan Housing Starts

November housing starts in Japan were at 72,635 new units, a 0.3 per cent drop from one year ago, according to the *Japan Lumber Reports*.

Seasonally adjusted starts were 845,000 units, a 9.2 per cent increase over October, and the first time in three months the figure has passed 800,000. [READ MORE](#)

US Home Sales, Mortgage Applications

The Commerce Department said Thursday that sales of new homes in the US unexpectedly fell in December, putting the brakes on three months of increases. New home sales fell 2.2 per cent from the prior month to a rate of 307,000 annualized. The total in 2010 was 323,000, the lowest amount since record keeping began in 1963.

Meanwhile, The National Association of Realtors' index of pending home sales, which tracks sales of previously owned homes based on contract signings, fell a seasonally adjusted 3.5 per cent in December from the previous month. The decline partly reflects a strong November, when sales hit a 19-month high.

December existing sales rose 5.6 per cent from a year ago. [READ MORE](#)

Softwood Lumber Arbitration Update

In a surprise reversal, the US Trade Representative's Office has reduced its request for penalty against BC lumber exporters to the US by \$200 million. In its latest filing at the LCIA, the international tribunal responsible for ruling on SLA arbitrations, the US rebuttal to Canada's defense asks for a penalty of \$303.6 million rather than the \$499 million initially requested. [READ MORE](#)

JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Nov-11	72,635	32,507	40,128	55
Oct-11	67,273	29,198	38,075	57
Sep-11	64,206	27,525	36,681	57
Aug-11	81,986	35,085	46,901	57
Jul-11	83,398	35,238	48,160	58
Jun-11	72,687	32,438	40,249	55
May-11	63,726	29,600	34,126	54
Apr-11	66,757	31,475	35,282	53
Mar-11	63,419	27,994	35,425	56
Feb-11	62,252	28,720	33,532	54
Jan-11	66,709	30,969	35,740	54
Dec-10	74,517	30,917	43,600	59

Source: Japan Wood-Products Information and Research Center

Douglas Fir Green Std&Btr 2x4



US Construction Employment

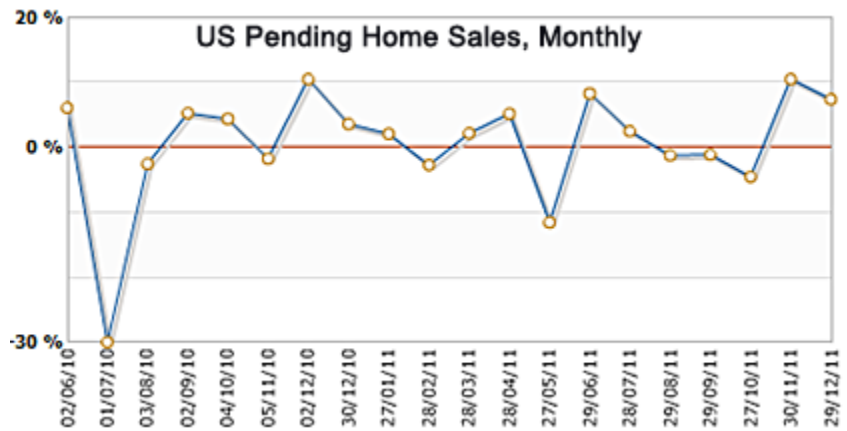
US construction employment remains below peak levels in all fifty states and the District of Columbia according to a new analysis released today by the Associated General Contractors of America.

Construction employment in Nevada declined 61 per cent since its peak level in June 2006, from 146,400 employees to just 57,500 as of November 2011. Other states experiencing large declines in construction employment compared to peak levels include Arizona (55 per cent below peak); Florida (52 per cent below peak) and Idaho (43 per cent below peak).

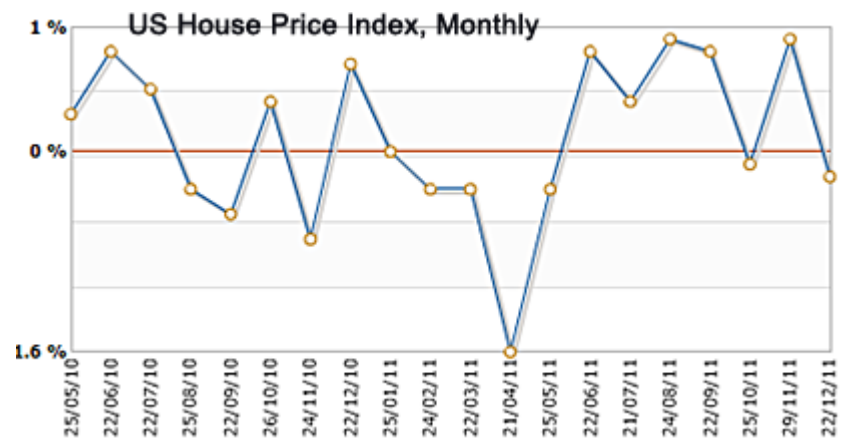
In contrast, construction employment has almost returned to peak levels in North Dakota, where the November 2011 industry employment of 25,400 is only 3 per cent below the peak set in September 2011 of 26,100.

US Construction Material Prices

The amount contractors pay for a range of key construction materials in the US edged down 0.2 per cent in December but climbed 5.3 per cent from a year earlier, according to an analysis of producer price index figures released today by the Associated General Contractors of America. Meanwhile, the amount contractors charge to construct projects remained largely flat for the month and is up only between 3.3 and 4.7 per cent for the year, adding to the challenges the hard-hit industry is facing, association officials said.



SOURCE: ForexPro



Canadian Mill Services Association

"Your Association of Choice"

Exporters, Wholesalers, and Brokers of Softwood Lumber – get registered with Canadian Mill Services Association (CMSA) and benefit from:

- **Under the CHTWPCP;**

- Issue your own HT certificates for Domestic, the EU, and other Countries around the world. As an issuer of consolidated HT certificates, your sources and supply can be kept discreet.
- Expedite the issuing of Phytosanitary Certificates and save money in the process.

- Custom Grade Inspections to provide your International Customers with 3rd party Quality Assurance Certificates.

- Meeting the requirements of the California Wildland Urban Interface Code for Decking and Siding products – CSFM Labels.

Contact the CMSA office at 604-523-1288 (local 2) or 604-230-2661 or E-mail to sing@canserve.org to find out more details!

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	245	250	-5	260	-15	310	-65
WSPF KD R/L 2x6	247	255	-8	260	-13	283	-36
WSPF KD R/L 2x8	246	250	-4	250	-4	285	-39
WSPF KD R/L 2x10	310	312	-2	305	+5	345	-35
WSPF KD PET 2x4 Stud	265	265	0	258	+7	275	-10
WSPF KD PET 2x6 Stud	305	305	0	260	+45	310	-5
Douglas Fir Green R/L 2x4	232	230	+2	218	+14	265	-33
Douglas Fir Green R/L 2x10	330	325	+5	310	+20	315	-25
ESPF KD 2x4 8ft Stud	310	315	-5	315	-5	335	-25
OSB Ontario 7/16" (CDN\$)	196	202	-6	200	-4	210	-14
CSplywood Toronto 3/8" (CDN\$)	309	312	-3	305	+4	310	-1

Weekly News

Housing Starts, Japan

CONTINUED Japan's new housing units built for sale and condominiums increased, but units built for owners and rental units declined for the third straight month, says the *Japan Lumber Reports*.

Owners units were there at the third lowest level and rental units were at the second lowest in record for November.

US Real Estate

CONTINUED Still, sales of new homes rose in the final quarter of 2011, supporting other signs of a slow turnaround that began at the end of the year.

Though new-home sales represent less than 10 per cent of the housing market, they have an outsize impact on the economy. Each home built creates an average of three jobs for a year and generates about \$90,000 in tax revenue, according to the National Association of Home Builders.

The median sales price for new homes dropped in December to US\$210,300., and there was a 6.1-month supply of homes at the current rate of sales. Builders continued to slash prices to stay competitive in the depressed market.

The National Association of Realtors affordability index was at 194.5 in November, second only to the prior month's level as the highest on record. A reading of 100 means a household earning the median income can afford a median-priced home at current lending rates.

Sales of homes in foreclosure comprised 20 per cent of all US residential sales during the third quarter, according to a RealtyTrac release Thursday.

That share is a significant decline from the same period in 2010, when foreclosed homes made up 30 per cent of residential sales, but it's still a far cry from levels

seen during healthier housing markets when foreclosures comprised less than 5 per cent of sales.

In total, 221,536 distressed properties were purchased during the quarter, down 11 per cent from the previous quarter and 5 per cent lower than the same quarter a year earlier, RealtyTrac said.

BC Forest Conversation

The Healthy Forests-Healthy Communities: A conversation on BC forests is a non-partisan, volunteer supported initiative to provide an opportunity for experts, communities and concerned citizens to inform decision-makers of their views and concerns regarding management of BC forests.

The results from expert papers on current and future forest management, and of Community Dialogue Sessions identifying community issues and suggested actions have just been released.

The report summarizing the results, conclusions and recommendations generated from input of 37 experts on aspects of future of BC forests and the views communities provided through 20 Community Dialogue Sessions has been posted on the HFHC website (<http://bcforestconversation.com>).

The report concluded:

- Communities, experts and professionals are concerned about the future of BC forest lands

- The concerns are shared by a wide range of stakeholders and First Nations across the Province, including a move away from a current short-term forest industry economic focus to long-term stewardship practices directed at meeting community needs

- Community issues are consistent throughout BC and communities want:

- o More influence on local forest lands decisions

- o More information on the status of local forest lands

- o More diverse economic development opportunities from forest lands

- o More sustainable integrated resource management

- o Better monitoring and assessment of forest lands management

- o A high level of stewardship on private forest lands

- A forest lands vision and an evaluation framework are required to guide forest management

- related legislation, regulation, policies, practices and plans

- Experts are of the opinion more needs to be done in forest management to achieve the draft BC

- forest lands vision and deliver on the needs of communities over the long-term

- Innovative solutions to twelve (12) key challenges arising from the expert opinions are needed.

The report recommends that political parties engage in dialogue with communities and concerned citizens, and that government review legislation and adopt the requirement for a forest lands vision to guide policy.

Calendar

January 2012

IQPC 10th Timberland Investment Summit

January 30 - February 1 - New York, NY
<http://www.timberlandworldsummit.com/>

Softwood Lumber Agreement

BC Arbitration Update

by Kéta Kosman

The US rebuttal to Canada's defense at the most recent arbitration under the 2006 Softwood Lumber Agreement, initially filed on December 23, has been made public. At 145 pages it is no more light reading than any of the other legal documents filed at the LCIA, the international tribunal charged with settling 2006 SLA disputes. In the rebuttal, the US Trade Representative's Office strengthens its case against the Interior Region of British Columbia for alleged subsidies to stumpage fees in that province's effort to harvest as much of the mountain pine beetle-killed timber as possible before its degrades beyond usefulness for lumber. The US rebuttal also answers Canada's defense against the initial US claim and the expert witnesses report.

Please see the August 26 issue of your *Madison's Lumber Reporter* for a summary of the US claim, and the September 16 issue for a summary of the expert witness report. Also please see the December 2 issue for a breakdown of Canada's defense.

British Columbia's lumber industry is awaiting the eventual LCIA ruling in large part due to the vast sums the US is requesting. In its statement of case, the US laid out a claim for penalties to be charged to BC under the 2006 SLA to a total of US\$499 million.

As most people know, the 2006 SLA ended much of the softwood lumber litigation between Canada and the US but replaced the potentially refundable export duties collected by the US with a non-refundable export tax that is collected by the Canada Revenue Agency and stays in Canada.

At the Truck Loggers AGM in Victoria, BC, last week, Russ Cameron of the BC Independent Wood Processors Association (formerly the Independent Lumber Remanufacturers Association) spoke for his members and the difficulties remanufacturers face in having to pay export tax on their products despite not being tenure-holders.

Madison's caught up with Cameron this week for further explanation.

"This trade dispute is about the administrative pricing of public timber harvested by tenured companies. Our members companies do not have tenure," explained Cameron in a phone interview. "We are buying our wood fibre on the open market in competition with the Americans and everyone else in the world, yet if we have British Columbians process our home grown fibre in British Columbia, we have to pay a 15 per cent Canadian imposed Border tax when we ship our products to the US."

It was Cameron who pointed out to *Madison's* that the US request for penalty seems to have changed, to US\$303.6 million from the \$499 million made in the initial US claim.

"Is this a 'back-up' claim?" Cameron asked *Madison's*. "Or has the US reduced the requested penalty?"

Yes, it turns out that they have.

In Canada's defense the federal government claimed that if BC's Grade 4 logs were indeed misgraded, buyers would bid more for timber stands with a significant proportion of low quality timber. Canada put forth the argument that there is no misgrading in BC and no breach of the 2006 SLA because if there were the bids for stands with a lot of Grade 4 timber would actually have been higher.

It seems the US went back to BC Timber Sales to test this notion and found it was actually true.

"BC may be recapturing some of the revenue loss from excessive Grade 4 through Grades 1 and 2 prices that are higher than they would otherwise be, due to the misgrading," explained Zoltan van Heyningen to *Madison's* in an email. "If so, the Tribunal would probably want to offset the penalty with any amount that BC recaptured through higher BCTS prices."

So in essence the US is deducting what appears to be artificially high #1 and #2 sawlog prices from the total penalty request rather than risk having the LCIA tribunal make that calculation.

Using fictitious numbers by way of illustration, van Heyningen explained further in a phone interview with *Madison's* Friday morning, "Let's say a timber stand

is 20 per cent Grade 4, which is worth \$0.25 on BCTS, and a bidder would pay \$5 per cubic metre for the 80 per cent Grade 1 and 2 sawlogs in that stand. So let's say the bid for that stand would be \$30,000. But actually the stand contains 40 per cent Grade 4, with no change to the quality, the bidder still pays \$30,000 so in effect bid \$6 or \$7 per cubic metre for the remaining 60 per cent #1 and #2 sawlogs.

"The penalty should be the difference between that \$6 or \$7 and the \$0.25 for the Grade 4 logs. If Canada was not misgrading logs the bid would have stayed at \$5 per cubic metre."

The US maintains that such a scenario could only happen if much of the Grade 4 would make the 50-50 rule. In other words, the US is alleging that those #1 and #2 sawlogs sold for \$200 million more than they should have, if the Grade 4 timber had not been misgraded. That bidders knew the timber graded at \$0.25 was worth more than that, and were looking for margins on the timber sale in its entirety.

Pat Bell, BC's Minister of Jobs, Tourism and Innovation, which is also responsible for trade issues, explained to *Madison's* in a phone interview, "This latest filing substantiates that the US claim is very weak. The reduction in request for damages is a function of a weak case. No one in their right mind is going to think that a party will reduce its claim if it believes it has a strong case.

"This is typical US behaviour in such matters. They start out huffing and puffing, then they ask for less as more information comes out. When they lose, the US will probably come up with more claims that they hadn't mentioned yet."

"This is the first time that the US is defending their softwood lumber trade claims in an international tribunal. During the softwood lumber dispute the hearings were held in US courts. Even then Canada won several times. I am very confident that Canada will win this arbitration and there will be no penalty charged against BC."

Canada has until February 3, 2012 to file its rebuttal of this latest US document. Hearings at the LCIA in London, UK, take place in March.