

MADISON'S LUMBER REPORTER

Publisher
KetaDesign Productions

Editor
Kéta Kosman
Market Analyst
Earl Heath

Annual Subscription Prices
E-mail/Fax: C\$364
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 GST or HST
ISSN 0715-5468

Printed in Canada © 2012

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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines new analyses, and forecasts, for the strength and growth potential of India's economy.

Contact us any time for a subscription.

Resolute Battles for Fibrek

Quebec regulators are allowing a friendly takeover bid for Fibrek Inc by Vancouver, BC-based Mercer International to proceed, but have halted trading in 32.3 million special warrants issued by Fibrek for the purchase of its stock.

The decision, announced Thursday, granted a request by hostile bidder Resolute Forest Products, out of Montreal, QC. Resolute, the former AbitibiBowater, had also argued against what it described as an improperly discounted and dilutive private placement of warrants.

Following the decision Resolute, which had also complained about what it saw as an unreasonable break fee in Fibrek-Mercer acquisition agreement, said it would extend its own bid until March 9.

Resolute is offering \$1 per share in a bid that values Fibrek at \$130 million, while Mercer has made what Quebec pulp producer Fibrek has described as a "significantly superior offer" of \$1.30 per share.

US Existing and New Home Sales, Housing Supply

Sales of previously owned US homes rose in January to the highest level since May 2010 as investors took advantage of lower prices to buy distressed properties.

Purchases climbed 4.3 per cent to a 4.57 million annual rate, from a revised 4.38 million pace in December that was slower than previously estimated, a report from the National Association of Realtors showed Wednesday.

New single-family home sales in the United States fell in January, but an upward revision to the prior months' data and a drop in the supply of properties on the market added to growing signs of a budding recovery in the housing sector. The Commerce Department said Friday that home sales slipped 0.9 per cent to a seasonally adjusted 321,000-unit annual rate. December's sales pace was revised up to 324,000 units, the highest in a year, from the previously reported 307,000 units.

[READ MORE](#)

Canada's Rejoinder to US SLA Rebuttal

In advance of its public release Friday, *Madison's* has obtained Canada's latest response to the US in the current arbitration of the 2006 Softwood Lumber Agreement.

The Rejoinder states, in part, that the US claim of "deliberate misgrading of British Columbia timber [. . .] is speculation and unpersuasive."

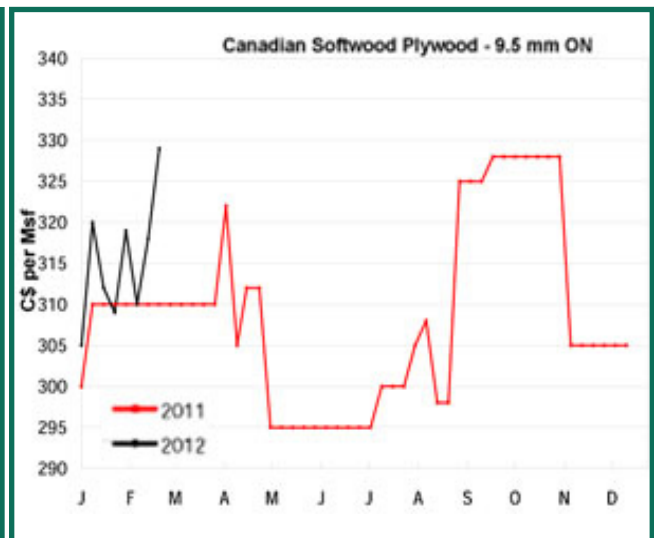
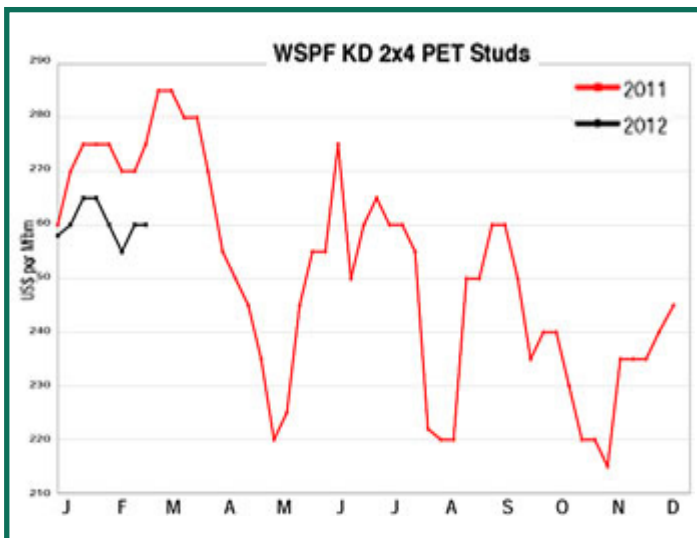
"None of [the four "actions" claimed by the US] comes close to constituting circumvention under Article XVII," continues Canada's response.

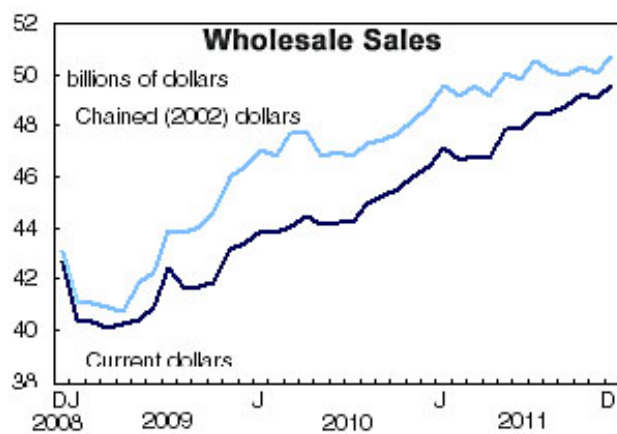
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China's Future Business Model

New reports on developments in China's banking system and business structure are released as that country's new leader prepares to take control later this year.

[READ MORE](#)





Canada Wholesale Trade - December 2011

SOURCE: Statistics Canada

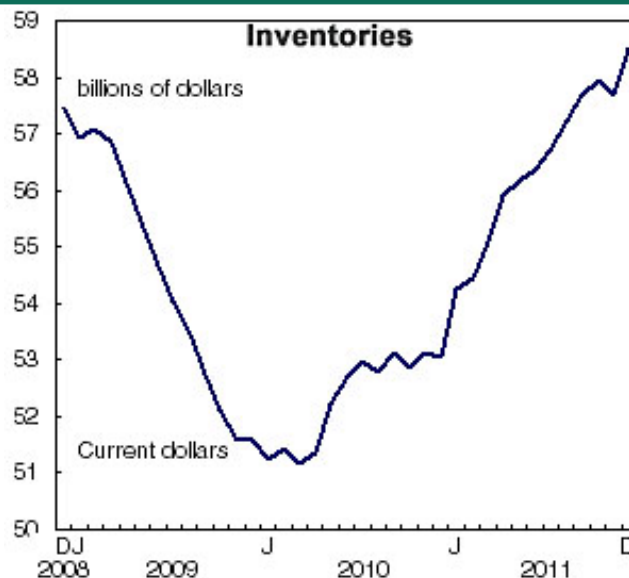
Canada's **wholesale sales** rose 0.9 per cent in December to \$49.6 billion, mainly as a result of higher sales in the motor vehicle and parts, and the food, beverage and tobacco products sub-sectors.

December's increase in wholesale sales was the seventh in the last eight months of the year. In volume terms, wholesale sales were up 1.3 per cent in December.

The building materials and supplies subsector, up 0.7 per cent, and the machinery, equipment and supplies subsector, up 0.4 per cent reported gains in December.

Inventories rose 1.4 per cent in December to \$58.5 billion. Overall, 18 of the 25 industry groups reported an increase in their inventories.

Wholesalers in the agricultural supplies industry, up 9.9 per cent, and the construction, forestry, mining and industrial machinery, equipment and supplies industry, up 1.8 per cent, reported the largest inventory gains in dollar terms.

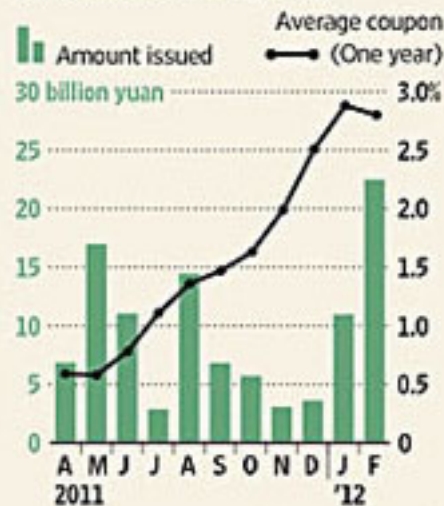


Seven-day repurchase agreements, or repo, are the most-widely used funding instrument by Chinese banks.



Source: Optima (repo); HSBC (CDs)

Interest rates on yuan-denominated certificates of deposit issued by Chinese banks in Hong Kong.



The Wall Street Journal

Japan's Major Wood Products Imports : 2011

The Japan Lumber Importers Association revealed that total log imports to that country remained constant in 2011 compared to 2010, but lumber imports increased by 6.5 per cent, according to the *Japan Lumber Reports*.

While a temporary supply shock following the Great North East Earthquake in March was responsible for some of the increase, the recovery of housing starts also stimulated import volumes.

Log and lumber imports from North America, together with lumber imports from Europe, were 8,350 thousand cubic metres, or 72 per cent of total imports.

European lumber became more competitive in price due to depreciation of the Euro compared to the Yen, so imports from that region continued their three consecutive years of increases.

2011 marked five straight years of declines in Russian log imports, to 343 thousand cubic metres, says the *Reports*.

Logs and lumber import in 2011

Source	item	Volume	'11/'10
North America	Logs	3,078	106.0
	Lumber	2,785	101.4
South Sea	Logs	510	91.9
	Lumber	640	109.2
Russia	Logs	343	79.8
	Lumber	683	107.8
New Zealand	Logs	706	97.9
	Lumber	125	131.2
Europe	Logs	9	81.3
	Lumber	2,484	108.9
Chile	Lumber	272	125.3
Africa	Logs	3	174.1
Total	Logs	4,651	100.5
	Lumber	6,991	106.5

Unit : 1,000 cbms Comparison : %

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	271	267	+4	255	+16	288	-17
WSPF KD R/L 2x6	273	270	+3	255	+18	273	0
WSPF KD R/L 2x8	256	252	+4	250	+6	278	-22
WSPF KD R/L 2x10	312	312	0	314	-2	330	-18
WSPF KD PET 2x4 Stud	260	260	0	260	0	285	-25
WSPF KD PET 2x6 Stud	265	265	0	305	-40	310	-45
Douglas Fir Green R/L 2x4	238	240	-2	230	+8	280	-42
Douglas Fir Green R/L 2x10	300	315	-15	330	-30	295	+5
ESPF KD 2x4 8ft Stud	330	330	0	330	0	330	0
OSB Ontario 7/16" (CDN\$)	205	194	+11	203	+2	205	0
CSplywood Toronto 3/8" (CDN\$)	329	318	+11	319	+10	310	+19

Weekly News

Real Estate, US

CONTINUED Distressed properties made up the largest portion of all existing home purchases since April. Almost one in four of all existing home sales transactions was made by investors. That's helping to clear the market of unsold properties and may stabilize prices. While the threat of more foreclosures risks slowing progress, housing may get a boost from gains in employment and mortgage rates that are near record lows.

Softwood Lumber Arbitration

CONTINUED Canada reiterates the position it has held all along; that British Columbia's timber harvest practices are in compliance with the 2006 Softwood Lumber Agreement.

Canada's Rejoinder accuses the US of "constructing its own version of reality" to try to prove its case, and states, "The US has failed to demonstrate that any benefit has been provided to softwood lumber producers such that compensatory adjustments would be warranted."

Regarding the US request for remedy, Canada references a previous arbitration under the SLA, against Ontario and Quebec for alleged government subsidies, in which the LCIA Tribunal ruled that the US "argument suffers from three fundamental flaws." Canada maintains that the current US claim tries to use these same "flawed" arguments.

Using its own expert witness, Joseph Kalt, Ph.D, a professor of international political economy at Harvard University, to counter the expert witness report of Dr. Neuberger already filed by the US, Canada states that "the benefit associated with the quantity of Grade 4 timber [. . .] would be \$17.5 million [. . .] contrasts starkly with Dr. Neuberger's preferred benefit number of \$303.6 million."

The Rejoinder concludes by declaring that Canada has not breached the SLA, and

requests the LCIA Tribunal to dismiss all US claims for relief.

All documents under this current arbitration have now been filed by both sides, the hearings will be held in Washington, DC, February 27 to March 9, 2012.

BC's Budget for Forestry

"The budget delivered Tuesday by British Columbia's Liberal government cuts funding for forest health by \$20 million at a time when there is universal agreement our forests are in crisis. In addition, this budget completely ignores the financial impact associated with downloaded costs from the federal crime bill," charged the NDP finance critic in the *Vancouver Sun* Friday.

Finance Minister Kevin Falcon released an austerity budget Tuesday. It shows total spending for the recently consolidated Ministry of Forests, Lands and Natural Resource Operations is to rise from \$590 million in the current fiscal year to \$602 million in 2012-13, then drop again to \$555 million in 2013-14.

At the Association of BC Forest Professionals annual convention in Victoria, BC, this week, CEO Sharon Glover said, "In recent years, the mountain pine beetle epidemic, as well as several severe fire seasons, has had tremendous impact on the forests. Yet due to cutbacks, the scale of the provincial inventory program has been reduced," according to the *Northern View*.

The Association's report says 42 per cent of the province is represented by inventories completed prior to 1990, and 30 per cent of forest records date back to before 1980. The report's top recommendation is "stable and adequate funding" for inventory work, which it estimates at \$15 million per year.

The report says the budget for forest inventory research was \$13.3 million four years ago, and has declined to \$8.4 million for the fiscal year ending this March. Forester staff positions have gone from 40 full-time equivalents in 2006 to 27 in 2011.

Bowater Mersey Says No Local Forestry Contractors

In a disturbing development that will only become more frequent as this year goes on, Resolute Forest Products has quietly hired forestry contractors from outside Nova Scotia for the Bowater Mersey paper mill, according to the *Chronicle Herald*.

Less than three months after the province unveiled a \$50-million deal to keep the plant running and save jobs, the Montreal-based forest products company has hired contractors from Quebec and New Brunswick.

Resolute spokesperson Pierre Choquette said the company has been actively looking for harvesting contractors in Nova Scotia for the last number of years, placing advertisements in local media and online.

Wade Turner, who operates J.A. Turner & Sons, said he understands why Resolute may have hired outside the province, given the dwindling number of forestry contractors left in Nova Scotia.

"Those guys are getting few and far between down here," Turner said in an interview from Bridgewater. "The industry has gotten so bad a lot of those guys have pulled out and gone out west."

Dugal Prest, co-owner of Hefler Forest Products, agrees that the industry has been "really tough," noting that the cost of lumber is down due to sagging demand, says the *Herald*.

Calendar

March 2012

2012 Western Wood Products Association Annual Meeting
March 11 and 12 - Portland, OR
<http://www2.wwpa.org/>

Business in China

The Next 15 Years

Financial analysts and the business media were all abuzz Thursday about a new report expected next Monday, titled “China 2030”. Jointly prepared by the Development Research Center of the State Council of China and the World Bank, this report addresses some of China’s most politically sensitive economic issues, according to a half-dozen individuals involved in preparing and reviewing it. The report findings indicate that China could face an economic crisis unless it implements deep reforms, including scaling back its vast state-owned enterprises and making them operate more like commercial firms.

by Kéta Kosman

“China 2030” comes fast on the heels of a three-step plan published by the Chinese central bank Wednesday. It is the most detailed public proposal yet for loosening the government’s strict capital controls. If implemented as envisaged, the global economic landscape will undergo sweeping changes in the next ten years. The once-a-decade change to China’s leadership, slated for later this year, is prompting changes but could also slow shifts in that county’s policies.

China’s central bank suggestions include: over the next three years, China should clear the path for much more outbound investment, as “the shrinkage of western banks and companies has vacated space for Chinese investments”; in three to five years, lending of the renminbi in international markets should be allowed to take off; and, in five to ten years, foreigners should be given more freedom to invest in Chinese stocks, bonds and property.

At present, foreign institutions are restricted to relatively small quotas that are subject to a slow approval process.

China’s central bank would like foreign investors to be much bigger players in Chinese stock and bond markets. Despite this desire, the wording of the proposal was cautious. Its author was Sheng Songcheng, head of the bank’s statistics department, rather than the bank’s governor, and it was printed in a newspaper managed by *Xinhua*, the state news agency, rather than on the bank’s own website.

Foreigners would be given far greater access to the Chinese stock and bond markets within a decade under a three-phase plan to liberalise investment flows into and out of the country. The central bank said the plan would also allow Chinese companies to take advantage of a “strategic opportunity” to buy cheap foreign as-

sets and help transform the renminbi into an important international currency.

The report – a policy proposal – could yet meet opposition from more conservative officials who worry that financial stability is at risk.

Regarding the “China 2030” report, some prescriptions it offers have been made public in advance of Monday’s release, when World Bank Group President Robert Zoellick will be visiting China for several days to help present that major joint report.

Details released so far indicate that the authors consider China has a “strategic opportunity” now to relax restrictions on capital flows to take advantage of lower values of Western companies and elevate the yuan’s role in international trade. China’s capital account, together with the current account, are two primary components of a country’s balance of payments. It reflects the net change of public and private international investments flowing in and out of a country. China’s capital account is partially convertible, and the country has recently been relaxing its regulations governing the field.

Opening the capital account would ease overseas investment by Chinese companies and their purchases of technology and resources. The risks now are relatively small.

“The right time window for opening the capital account may not arrive at all” if China waits until changes to the interest-rate and exchange-rate systems are made and the “conditions for yuan internationalization are ripe,” the report said.

The facts that the country’s short-term external debt balance only takes a small share of total, and that debts and hazards posed by its property and capital markets are controllable also help mitigate the risk, the government could take one to three years to relax restrictions on outbound direct investments and three to five years to loosen controls on commercial credits.

To build the financial market, the government could in turn open its real estate sector, stock market and bond market in five to ten years, since it’s hard to identify speculation and investment demands on these markets. China has been partially relaxing its capital account regulations by reforming its exchange rate formation mechanism and pushing for wider use of the yuan in cross-border trade settlement and investment.

Meanwhile, some analysts have raised concerns that the increased funding activity offshore, while helping foster use of the yuan outside China, also could add to the liquidity squeeze within China’s borders.

Six increases in bank-reserves requirements were initiated by the People’s Bank

of China last year, in a bid to bring down inflation spurred by Beijing’s massive stimulus package launched during the global financial crisis. The tightened reserve rules, which the central bank has been reversing since November, have limited Chinese banks’ ability to lend. At the same time, these banks have also seen what analysts call unprecedented erosion in their deposit base as Chinese savers increasingly shift their money from traditional savings accounts toward higher-yielding investment products. These products total about 5 trillion yuan, according to economists at Standard Chartered, representing 14.2 per cent of all household deposits.

Analysts estimate that about 65 billion yuan of credit-default swaps (CDs) issued by Chinese banks will mature in the next 10 months.

Please see graphs on Page6.

The recent move by Hong Kong regulators to boost liquidity in the offshore yuan market could help ease the funding pressure for the banks.

The new marketing campaigns seem to be working. Depositors bought 16.5 trillion yuan of what banks call wealth management products in 2011, more than double the amount a year earlier, according to Benefit Wealth, a Chengdu-based data supplier that tracks the market. At the same time, deposit growth at Chinese banks last year slowed to 12.7 per cent, after rising 20 per cent in 2010, central bank data show. In January depositors pulled 800 billion yuan from savings accounts, about 1 per cent of the total, the central bank reported. It was the largest monthly decline in at least 12 years, according to data compiled by *Bloomberg*.

The popularity of wealth management accounts may undermine the stability of the US\$1.8 trillion banking system, say analysts including Charlene Chu, a Beijing-based senior director at Fitch Ratings. Banks generally lose money on the accounts, since they pay above-market rates.

On February 16, the Canadian Council of Chief Executives released a report written by former Canadian trade negotiator Michael Hart, titled “*Ambiguity and Illusion in China’s Economic Transformation: Issues for Canadian Policy Makers and Business Leaders*.” This paper examines the impact of China’s rapid economic development on global and Canadian economic interests and considers some of the concerns raised by China’s emergence as the world’s second-largest producer and largest trader and the challenges and opportunities for Canadian policy makers and business leaders.

That report can be found here:

<http://tinyurl.com/6vl3yx4>