

# MADISON'S LUMBER REPORTER

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## News & Updates

### US Government to Buy Mortgages

The Federal Reserve announced bold, open-ended steps Thursday to stimulate the US economy and reduce high unemployment, saying it will spend US\$40 billion a month to buy mortgage-backed securities for long as necessary. [READ MORE](#)

### Healthy Forests, Healthy Communities Report

The Healthy Forests-Healthy Communities: A conversation on BC forests initiative Thursday released its draft *Strategic Action Plan* to inform political parties of the actions needed to ensure the future of BC's forests and the products and services they provide are available to BC residents. HFHC thought it would be useful to provide the current information at this time as an opportunity to extend the dialogue among interested citizens and inform the political parties of the recommendations to date. The *Plan* includes the recommended actions arising from the information collected to date during the community and expert dialogues.

The *Plan* is presented as a series of nested recommendations to be delivered over 10 years using strategic actions in each of two phases (0-5 years; 5-10 years). The focus is on long-term stewardship and not short-term economics in order to protect forest sector jobs and deliver the expected goods and services. [READ MORE](#)

### Housing Starts, Canada and Japan

Canadian housing starts surged unexpectedly in August as a few large multi-unit projects in Toronto broke ground, data from Canada Mortgage and Housing Corp showed Tuesday. The seasonally adjusted annualized rate of housing starts was 224,900 units in August, up from 208,000 units in July.

Housing starts in Japan rose 3.8 per cent in July, to 75,421 units, from 72,566 new units in June, according to the *Japan Lumber Reports*. [READ MORE](#)

### India Solid Wood Imports

Arbitrary phytosanitary restrictions on Canadian Spruce-Pine-Fir lumber coming into India were removed in the beginning of 2011. The latest figures available on Canadian lumber exports to India show a jump in 2011 compared to 2010, and further growth this year but not to the same degree.

Please refer to the January 14, 2011 issue of your *Madison's Lumber Reporter* for background.

While most involved parties agree that the potential market for wood products in India rivals that of China, there continue to be some issues and barriers. Expectations are that once transportation difficulties are resolved and the currently negotiated free trade agreement between Canada and India is signed, the movement of Canadian lumber into India will increase.

To that end, BC Forest Innovation Investment (BCFII) and the BC Ministry of Jobs, Tourism and Innovation, along with federal partners, are in the process of setting up offices in cities to facilitate both the arrival and transport of Canadian wood to India and to educate local players on the product. [READ MORE](#)

#### CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

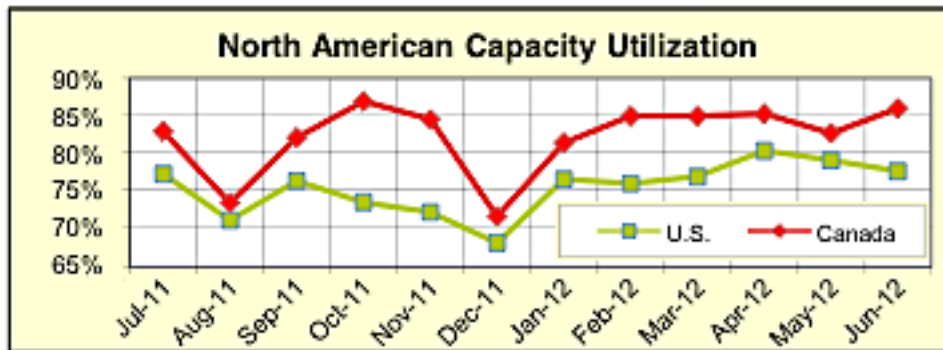
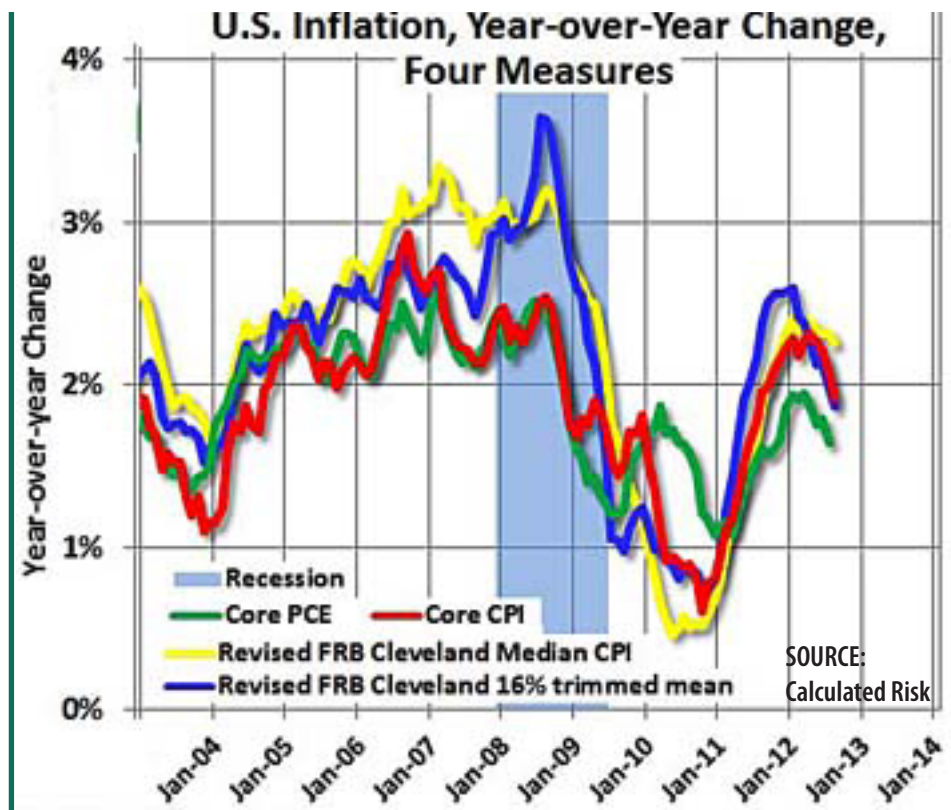
	August 2012		July 2012	
	Actual	SAAR	Actual	SAAR
<b>Canada, all areas</b>	<b>19,860</b>	<b>224,900</b>	<b>19,252</b>	<b>208,000</b>
urban ctrs with >10,000	17,725	205,900	16,876	186,800
singles, urban centres	6,015	64,300	6,315	64,200
multiples, urban centres	11,710	141,600	10,561	122,600
rural areas	2,135	19,000	2,376	21,200
Atlantic urban centres	1,112	11,800	890	8,000
Quebec urban centres	2,807	39,700	3,989	44,000
Ontario urban centres	7,744	86,900	6,324	72,200
Prairie urban centres	3,582	38,900	3,565	38,400
BC urban centres	2,480	28,600	2,114	24,200

Source: Canada Mortgage and Housing Corporation

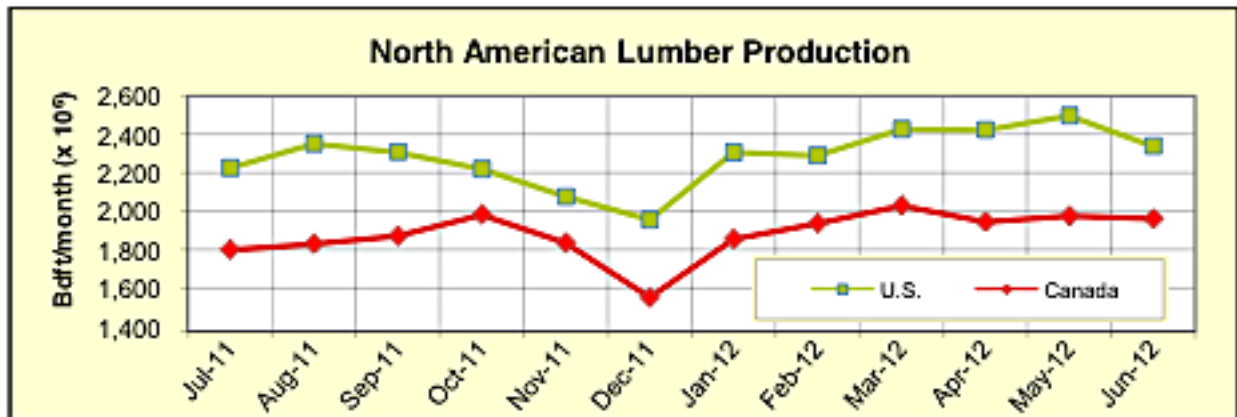
#### JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Jul-12	75,421	32,883	42,538	56
Jun-12	72,566	31,654	40,912	56
May-12	69,638	31,439	38,199	55
Apr-12	73,647	36,535	37,112	50
Mar-12	66,597	30,985	35,612	53
Feb-12	66,928	31,363	35,565	53
Jan-12	65,984	30,867	35,117	53
Dec-11	69,069	28,531	40,538	59
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

Source: Japan Wood-Products Information and Research Center



Sources: FEA, LLC: Softwood Sawmills in the United States and Canada, WWPA



Source: Southern Forest Products Association, U.S. Census Bureau, Council of Forest Industries-CAN, WWPA



## WHO WILL OWN THE FOREST?

SEPTEMBER 18-20, 2012 : PORTLAND, OREGON



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## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	300	312	-12	306	-6	262	+38
WSPF KD R/L 2x6	318	324	-6	310	+8	270	+48
WSPF KD R/L 2x8	302	308	-6	308	-6	278	+24
WSPF KD R/L 2x10	355	360	-5	360	-5	285	+70
WSPF KD PET 2x4 Stud	320	325	-5	375	-55	260	+60
WSPF KD PET 2x6 Stud	325	340	-15	375	-50	275	+50
Douglas Fir Green R/L 2x4	280	300	-20	315	-35	245	+35
Douglas Fir Green R/L 2x10	285	300	-15	305	-20	290	-5
ESPF KD 2x4 8ft Stud	400	400	0	410	-10	325	+75
OSB Ontario 7/16" (CDN\$)	347	347	0	310	+37	210	+137
CSplywood Toronto 3/8" (CDN\$)	441	441	0	446	-5	325	+115

## Weekly News

### Mortgages, US Government

CONTINUED Thursday's actions pointed to how sluggish the US economy remains more than three years after the Great Recession ended. The Fed's policy committee announced the aggressive actions after a two-day meeting.

The bond purchases announced Thursday are intended to lower long-term interest rates to spur borrowing and spending. But some economists said they thought the benefit to the economy would be slight.

The Fed's new bond purchases, which will start Friday, amount to less per month than either of its first two bond purchasing programs. But by committing to buying bonds indefinitely, the Fed is seeking to assure investors and consumers that borrowing will remain cheap far into the future.

Skeptics warned that further bond buying might provide little benefit. Rates are already near record lows. Critics also warn that more bond purchases raise the risk of higher inflation later.

### A Plan for BC's Forest Health

CONTINUED "The HFHC Strategic Action Plan was created using input from the workshops and dialogue sessions we have been holding across the province, as well as expert papers," explained project lead Bill Bourgeois to *Madison's* in a phone interview Thursday. "There is too much that needs to be done. Even if there was unlimited money and people, it still couldn't all get done. So we broke the issues down to what is the most important, and what has to be done first.

"There are three main goals to start with: sustainable forest management; community involvement and diversification; and, improving the resource inventory. We are still collecting input and holding sessions so the final report will come out in January or February. The key messages of my draft released today, are that BC needs to move back to long term stewardship, and away from short term economic decisions. Since around 2000 the focus has been on making decisions based on short term economics. Communities have asked for, and have to have, more say in what is going on. And the forest inventory is terrible, we have to know what is out there."

*Madison's* asked about the recent Mid Term Timber Supply Committee report, and whether there is a cross-over or a clash of suggestions between that report and the HFHC one.

"The Timber Committee report is focussed on timber supply only, and in the beetle-affected areas specifically, while our report is concerned with forest management across the entire province, including the coast," explained Bourgeois. "There are some consistencies between the two, in terms of increased community involvement and the call to recreate land use implementation. But our report goes further in making suggestions for the future health of all of BC's forests."

The report states, "The expectation is BC will enter into BC-Canada joint funding agreements for community diversification, amounting to \$40 million/year, and wildfire risk treatments and research, totalling \$32 million/year, associated with MPB areas."

When asked about this funding, Bourgeois explained, "These are the incremental costs to government [of our plan] in addition to what they are already spending."

While there are some sections of the costing that still need to be filled in, it looks like the total for the most significant costs: community economic diversification; wildfire hazard management; forest inventory; and, forest lands research, would add up to about \$175 million per year for the next five years.

The full report can be found here <http://tinyurl.com/9mtpc9f>

### Canada, Japan Housing Starts

CONTINUED The CMHC report showed urban starts increased by 10.2 per cent to 205,900 units in August. Urban single-family starts remained relatively unchanged at 64,300 units, while multiple urban starts increased by 15.5 per cent to 141,600 units, the agency said.

Starts rose 47.5 per cent in Atlantic Canada, 20.4 percent in Ontario, 18.2 per cent in British Columbia and 1.3 per cent in the Prairies. They dropped 9.8 per cent in Québec.

July 2012 actual housing starts in Japan were 9.6 per cent less than the same month last year, says the *Japan Lumber Reports*. However, on a seasonally adjusted annualized basis, starts were 870,000 units, compared to 840,000 in July of last year.

New units built for owners increased by 5 per cent in July from June and new rental units were the second highest for 2012, providing a continued positive outlook for Japan housing starts this fiscal year.

Condominium starts recovered in July from dips in May and June, particularly in Tokyo where starts rose 23.6 per cent, or by 2,000 units, to 6,576 new condominiums, says the *Reports*.

# India Wood Products

## Supply

CONTINUED *Madison's* spoke to BCFII CEO Ken Baker Thursday to get an update.

"We are in the organizing process," explained Baker in a phone interview. "We have gone through the legal process, received our business license to practice in India, and have opened a bank account in that country. BCFII hired three people who will be moving

by Kéta Kosman

into our temporary office space in Mumbai shortly, we are hoping to have our permanent location ready in January. This year BCFII's investment in India has been \$1.1 million."

When asked what it was last year, Baker said, "Almost nothing."

"This week we had the second round of interviews in BC for a technical expert to work for about two years in Mumbai to explain the grades and applications of BC wood to the industry there," detailed Baker. "It is our hope that COFI, the Canadian Wood Group, and others, will install people in the new office."

It is important to note that the vast majority of wood used in India is not for wood building, but rather goes to finishing – mouldings, flooring, saunas, windows, etc – or furniture. Wood products from North America had to overcome a perceptual disadvantage because the term 'softwood' was viewed as meaning the product was deficient. India has access to, and the people are accustomed to, exotic hardwoods. Part of the hurdle for North American exporters was the perception that softwoods are poor quality.

"For the first year our staff will work on market research, there will be a lot of door knocking," continued Baker. "There needs to be education in India about the competitive advantages of Canadian wood compared to tropical hardwoods and radiata pine. Despite higher freight costs, BC lumber is cost effective. The question right now is how to get through the distribution chain and how to get to the users. The supply chain in India is tightly controlled by a handful of people.

"Our office will eventually provide an Export Guide, similar to the one we did in China. We hope the private sector will step up next year and put people in that office. So far both coastal and SPF producers have expressed interest."

*Madison's* asked the BC Ministry of Jobs, Tourism and Skills Training for details about the two offices it is opening, in Bangalor and Chandigarh, to facilitate the sale of wood products in India. BC will double its international presence by March 2013 to accelerate its foreign direct investment attraction by marketing the province's competitive advantages

and world-class business environment, said a Ministry statement to *Madison's* Thursday. The province will be adding new offices in Mumbai and Chandigarh in India, as well as Hong Kong, China, by mid-November. The International Trade and Investment Representatives and their support teams bring immediate local market knowledge, access to large networks of key influencers within government and industry, and language and business cultural skills to attract investment and connect BC businesses with new markets and opportunities. The first Jobs and Trade Mission to China and India in November last year was successful at establishing relationships and generating new business: 14 corporate signings occurred, nine partnership agreements were reached, four new offices were opened and the value of delegation deals exceeded \$60 million.

According to Statistics Canada, Canadian lumber exports to India jumped from \$3.2 million in 2010 to \$11.4 million in 2011, once prohibitive phytosanitary restrictions were removed. For January to June 2011, exports were \$6.0 million, and increased to \$6.6 million for the same time period this year, a 9.9 per cent improvement. For BC alone, those figures are \$5.8 million for January to June 2011, and \$6.1 million for 2012.

On the domestic front, investment by India's government and private firms into infrastructure and transportation is moving forward. The government of India is working on a mechanism under which nine major public sector undertakings (PSUs) having large cash reserves would start investing in infrastructure projects to boost growth. Arvind Mayaram, Secretary of Department of Economic Affairs, announced that Finance Minister P. Chidambaram met with the PSUs on Wednesday to fix deadlines for the companies' investments, says the *Oman Tribune*. After the meeting, NTPC Chair and Managing Director Arup Choudhury said the company plans to invest Rs 20,000 crore in the current fiscal year and was confident of the capex plan, according to the *Press Trust of India*. Other similarly-sized companies will also be investing significant amounts.

According to Goldman Sachs, India's infrastructure sector will require US\$1.7 trillion investment in the next ten years. Further, India needs to spend US\$1.2 trillion by 2030 to meet the projected demand of its cities, said a McKinsey Global Institute Report.

The Indian government has no option but to hope that the private sector steps up

to the plate, said Akash Prakash in an article to the *Business Standard* Thursday. The private sector accounted for 30 per cent of all investment in infrastructure in the last Five Year Plan period (2002–2007) and is supposed to mobilise 50 per cent, or US\$500 billion, of the planned infrastructure spending for 2012-17, said Prakash. There is no question that public-private partnerships (PPP) is the only way for India to go, he explained.

India is hungry for infrastructure development, said Datuk Vellu, Malaysian Special Envoy to India and South Asia, to Bernama Thursday. To date, Malaysian investment in India has amounted to US\$15 billion, 65 per cent of the total, said Vellu.

*Madison's* spoke once again to Tom Sundher at Coast Clear Wood for an update on how that company's lumber exports to India were going.

"According to Statistics Canada, Canadian lumber exports to India jumped from \$3.2 million in 2010 to \$11.4 million in 2011, once prohibitive phytosanitary restrictions were removed."

"There has been a shift to the SPF mix, from Douglas fir, hemlock and cedar," explained Sundher Thursday. "SPF prices have been lower than the other species so are attracting many Indian customers. Our annual sales to February 2012 were \$1.2 million for the 12 month period, and I expect that to double for year-end February 2013. Our volumes have already increased by 10 per cent so far

this year.

"At the moment the import duty on all lumber, from all countries, to India is 14.5 per cent. The Canadian government is working on a free trade agreement with India, which will include lumber products. If that duty is reduced to five or six per cent, because I really don't expect to go to zero, that will give Canadian companies a huge advantage over the rest of the world."

In Sundher's experience, the infrastructure in India is "complex".

"Our respective government officials, in Canada and India, are slowly working that out," Sundher said. "It is a bit tricky to send product inland, let's say to Delhi. From the port is transshipped, by rail or by truck. The paperwork must be correct. It is a difficult system to navigate, if new shippers are not aware of the regulations their products might be hung up. New players must understand the paperwork necessary and the logistics or they will incur extra costs while their lumber is stuck somewhere. Customers in India will refuse to pay these costs, which could be as high as the entire profit margin.

"This is a huge opportunity, with BCFII and the federal government working to ease the flow of Canadian wood to India. At last week's Global Buyers Mission in Whistler, BC, there were ten buyers from India. In the previous year there were only two or three."

Baker echoed this sentiment, "Quite a few BC firms have expressed interest at attending the annual Delhi Wood Show in January."