

MADISON'S LUMBER REPORTER

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News & Updates

Labour Agreements

CEP Local 10b at Domtar's mill in Kamloops, BC, voted 99.6 per cent in favour of a strike on Monday night. The union wants to establish pattern bargaining in British Columbia's pulp sector, using Canfor's deal as the pattern. Canfor's latest contract with its workers includes a 7.5 per cent wage increase over 5 years (with no wage hikes in the first 2 years.) Domtar and the union have scheduled two days of bargaining. The workers have been without a contract since April.

The members of CEP Local 1115 have ratified their proposed agreement with the Cariboo Pulp and Paper Company. The vote was 76.6 per cent in favour with 171 members voting.

US Home Foreclosures

Lenders seized fewer US homes in August, in part due to the rising popularity of alternatives to foreclosure, data analysis firm CoreLogic said on Thursday.

There were 57,000 foreclosures completed in August, down from 58,000 in July and 75,000 a year ago, according to CoreLogic. [READ MORE](#)

Forestry Workers Lien for Wages Act

The Law Commission of Ontario (LCO) has launched a public consultation for its project on the Modernization of the Forestry Workers Lien for Wages Act. The public consultation is the first stage of a project that will develop recommendations for changes to the Act.

[READ MORE](#)

United Steelworkers Release Plan

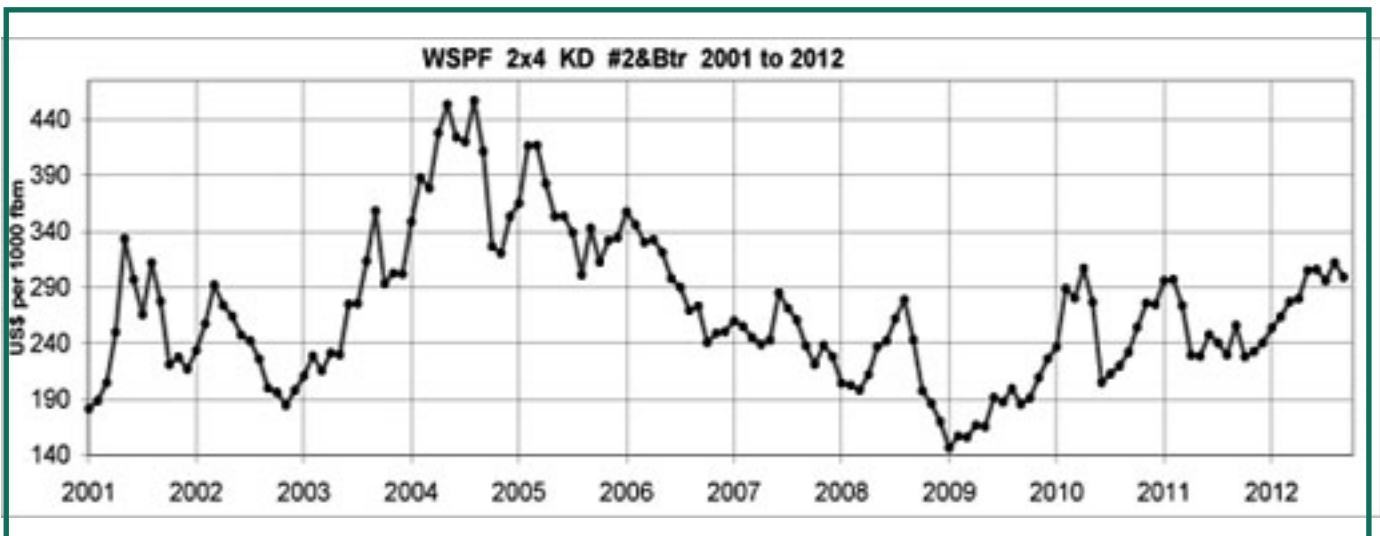
The United Steelworkers Wood Council this week released its plan for forest plan that works for British Columbia. The United Steelworkers propose a forest policy that creates family-supporting jobs, supports value-added manufacturing, and generates economic wealth for our province, says the release.

[READ MORE](#)

North American Railway Regulations

Canada's forest industry, as well as other sectors, has long complained about the level of service offered by the country's railways. Those in remote communities, in particular, are absolutely at the mercy of a sole service provider and subject to unilateral decisions on everything from how many rail cars will be delivered to the state of repair, or disrepair, of those cars. Madison's has heard endless complaints and examples of poor service, or no service, for years. Indeed, for decades. Too often there is no resolution; in fact a lot of the time concerns aren't even responded to much less addressed.

The situation got so bad that toward the end of 2011, federal Transport Minister Denis Lebel Monday announced former Alberta Conservative cabinet minister Jim Dinning's appointment to the Rail Freight Service Review. Please see the November 11, 2011 issue of your *Madison's Lumber Reporter* for details. The Review's final report was released June 24. [READ MORE](#)



Global Forest and Paper Industry

PricewaterhouseCoopers

PwC Friday released its Net Earnings Summary 2Q 2012. The quarterly report is prepared from financial statements issued by the companies. The summary identifies trends in performance by comparing financial results with previous periods.

Please refer to the August 24 issue of your *Madison's Lumber Reporter* for Canadian solid wood producers' 2Q sales and net earnings.

KEY HIGHLIGHTS OF PwC's REPORT INCLUDE:

Canada

The 2012 second quarter net earnings reports for the Canadian forest and paper companies show a distinct quarter to quarter change in fortunes between the Western and Eastern based companies, says PwC. Western Canadian based companies posted net earnings of \$30.1 million compared with net losses of \$39.5 million in the first quarter of 2012 and net earnings of \$6.8 million in the second quarter of 2011. Eastern Canadian based companies posted net losses of \$58.3 million compared to net earnings of \$31.2 million for the first quarter of 2012 and net earnings of \$185.2 million in the second quarter of 2011.

US

Ten of the largest US-based forest and paper companies reported net earnings of US\$1.1 billion for the second quarter of 2012, up from US\$905.4 million in the first quarter of 2012, and US\$899.9 million in the second quarter of 2011.

Based on lumber prices and sales volumes through September, *Madison's* can confidently say that 3Q will show similar results.

Europe

Ten of the large European-based forest companies reported overall earnings of €482.6 million for the second quarter of 2012, up from earnings of €477.7 million in the first quarter of 2012, but down from earnings of €696.1 million in the second quarter of 2011, according to PwC.

Japan and Emerging Markets

Five of the largest forest and paper companies in Japan posted net earnings of US\$241.3 million in the second quarter of 2012, up from US\$123.6 million in the first quarter of 2012 but down from net earnings of US\$273.0 million in the same period of 2011.

Four of the largest forest and paper companies in emerging markets reported net losses of US\$271.2 million in the second quarter of 2012, compared to net earnings of US\$228.8 million in the first quarter of 2012 and US\$424.5 million in the second quarter of 2011.

SOURCE: PricewaterhouseCoopers

Net Earnings (Loss): Western Canada \$ Millions

Company	2012 Q2	2012 Q1	2011 Q2
West Fraser	\$26.9	\$16.7	\$10.3
Fortress Paper Ltd	12.5	(10.5)	2.9
Western Forest Products	12.3	1.9	11.4
Canfor ¹	7.0	(10.9)	26.2
Mercer International	4.1	2.4	22.1
Interfor	0.3	(6.5)	(5.3)
Conifex	(2.4)	(6.5)	(3.6)
Millar Western	(6.7)	(0.9)	3.5
Ainsworth	(11.5)	0.6	(13.0)
Catalyst Paper Corporation	(12.3)	(25.8)	(47.7)
Total CAD	\$ 30.1	\$ (39.5)	\$ 6.8

¹ Represents net earnings of Canfor, Canfor Pulp Limited Partnership and the Taylor Pulp mill

Net Earnings (Loss): Eastern Canada \$ Millions

Company	2012 Q2	2012 Q1	2011 Q2
Cascades	\$ 7.0	\$ 6.0	\$ 122.0
Norbord	6.1	0.0	1.0
EACOM	(0.7)	6.2	(13.8)
Tembec	(5.0)	(14.0)	17.0
Resolute Forest Products	(65.7)	33.0	59.0
Total CAD	\$ (58.3)	\$ 31.2	\$ 185.2

Net Earnings (Loss): United States US \$ millions

Company	2012 Q2	2012 Q1	2011 Q2
Kimberly-Clark	\$ 518.0	\$ 487.0	\$ 432.0
International Paper	137.0	187.0	227.0
MeadWestvaco	90.0	50.0	90.0
Weyerhaeuser	84.0	41.0	10.0
Rock-Tenn	59.3	32.7	(28.4)
Domtar	59.0	28.0	54.0
Sonoco	51.4	42.9	53.7
Packaging Corp. of America	45.2	17.8	39.4
Graphic Packaging	41.4	17.3	32.1
Boise Cascade Holdings LLC	15.0	1.7	(9.9)
Total USD	\$ 1,100.3	\$ 905.4	\$ 899.9

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	290	290	0	314	-24	238	+52
WSPF KD R/L 2x6	309	308	+1	324	-15	250	+59
WSPF KD R/L 2x8	299	298	+1	308	-9	270	+29
WSPF KD R/L 2x10	354	350	+4	360	-6	270	+84
WSPF KD PET 2x4 Stud	300	305	-5	340	-40	240	+60
WSPF KD PET 2x6 Stud	315	320	-5	350	-35	260	+55
Douglas Fir Green R/L 2x4	263	260	+3	320	-57	240	+23
Douglas Fir Green R/L 2x10	305	285	+20	305	0	285	+20
ESPF KD 2x4 8ft Stud	370	370	0	410	-40	305	+65
OSB Ontario 7/16" (CDN\$)	275	313	-38	340	-65	210	+65
CSplywood Toronto 3/8" (CDN\$)	390	390	0	450	-60	328	+62

Weekly News

Foreclosures, US

CONTINUED There were approximately 1.3 million homes in the foreclosure process, accounting for 3.2 per cent of all mortgages. That was unchanged from July, but it was down from the 1.4 million, or 3.4 per cent, seen in August 2011.

About 3.8 million foreclosures have been executed since September 2008. August was the fourth month of fewer foreclosures.

Still, there were higher concentrations of foreclosures in some areas. In the last year, nearly half of all completed foreclosures occurred in five states - California, Florida, Michigan, Texas and Georgia.

Ontario's Workers Lien Act

CONTINUED Under the Act, which applies only to Northern Ontario and the County of Haliburton, forestry workers are entitled to claim a lien for wages on certain wood products. The outdated drafting of the Act, which dates back more than a century, frustrates workers' attempts to protect their interests since complex and costly litigation is required to interpret the Act in contemporary circumstances, according to the LCO.

"Recent cases have shown that the Act does not reflect modern logging practices or legal processes," said the executive director of the LCO, Dr. Patricia Hughes, "and if it is to fulfill its purpose of protecting workers in the logging industry, reform is essential."

The Consultation Paper outlines a number of problems with the Act, sets out issues for consideration, and asks a series of questions about those issues. Written

submissions on the Consultation Paper will be accepted until December 14, 2012. The Paper also explains how people may provide feedback in more informal ways.

USW Forestry Plan

CONTINUED The Steelworker's five point plans is:

1) Enact an "equivalency fee" on raw log exports at a rate equal to the difference between their domestic and export prices, currently about 50 per cent. Along with reducing log exports, it would provide BC manufacturers such as sawmills, pulp mills and value-added plants with access to BC logs at a fair price;

2) Enact the same policy at the federal level to ensure the fee applies to raw log exports from federally regulated private lands - the prime source of log exports;

3) Move collection of the province's "resource rents" to the end of the value chain rather than the stump - a change that would make it easier to buy, sell and add value to logs domestically;

4) Create a wood-manufacturing investment fund utilizing BC's share of revenues from the Canada-US Softwood Lumber Agreement to support efforts to rebuild our province's manufacturing base;

5) Develop a reforestation strategy that ensures proper management, monitoring and reporting of our forests to secure the future of the industry and the provincial economy. It would create jobs today and healthy, sustainable forests for tomorrow.

Canfor to Restart

Long awaited good news for the people of Radium Hot Springs, BC, arrived this week when Canfor announced plans to restart its Radium sawmill this autumn. The

sawmill was closed indefinitely in May 2009 due to the market downturn.

Canfor has been investing approximately \$38.5 million in the sawmill since the spring to install a new planer facility and a biomass energy system, and to modify the existing sawmill.

The biomass energy system will utilize the mill's waste wood.

Canfor is also investing \$1.5 million in their Canal Flats mill with the installation of new lumber drying equipment.

Ligni Bel to Restart

Word was circulating around Pictou County, NS, over the weekend that salaried staff, including some supervisors, received letters with offers to return to work from a newly formed affiliate of Northern Pulp, which operates an Abercrombie Point mill.

A late October restart of the former Ligni Bel lumber mill in Pictou County by an affiliate of Northern Pulp Nova Scotia will reboot the local economy, a union official said Monday.

About 70 union workers lost jobs when the mill shut down last December. The mill lost its wood supply when NewPage Port Hawkesbury failed last September.

The mill went into receivership in August, a victim of the NewPage Port Hawkesbury bankruptcy, where it sources raw product, and also of the stalled United States housing market.

Northern Pulp has indicated it will supply the mill with raw product from its Crown-lease lands, with the mill shipping studs to the American and Canadian markets.

Wood chips resulting from stud production will be shipped to the pulp mill.

North American Railways

Logistical Difficulties

CONTINUED The report makes it clear that commercial solutions are preferred over regulated agreements. In the meantime, a small minority of shippers worked with the federal NDP to introduce a private member's bill that would regulate service.

The main recommendations of that report were: transport Canada should make the service agreement template available

by Kéta Kosman

to rail freight stakeholders; transport Canada should

make the commercial dispute resolution process publicly available; railways should be encouraged to revise their current dispute resolution processes; industry should be encouraged to review and update the service agreement template; transport Canada should monitor the use of the service agreement template and commercial dispute resolution process.

At the time of the report, pundits declared that Canadian railways would almost certainly face legislation this autumn in the aftermath of the Rail Freight Service Review. The federal government is now in the midst of drafting new legislation that will be tabled Parliament this autumn, which, among other things, aims to give greater recourse to the customers of both CN Rail and its smaller rival CP Rail in their disputes with the railways, according to the Financial Post September 24.

A spokesperson for Transport Canada said she expects the legislation to be tabled this autumn, says the Post.

Last week things came to a head once again as a group of Canadian industry leaders took it upon themselves to bring their issues to Ottawa.

The group of CEOs and other senior executives from major resource sectors such as forestry, fertilizers, mining, and agriculture converged in Ottawa to deliver the message that "now is the time to address inefficient and inadequate rail freight service," according to Canadian Transportation and Logistics. The business leaders, all members of the Coalition of Rail Shippers (CRS), brought their message directly to Ministers, groups of MPs, and key officials from Transport, Industry, Natural Resources, Agriculture, the Canadian Transportation Agency, and the Prime Minister's Office.

The CRS wants the government to implement legislation that would allow more balanced commercial relationships between railways and shippers. This would include the right to a service agreement be-

tween a rail company and a customer, backed up by a dispute settlement mechanism.

A recent article in the Winnipeg Free Press complaining about major infrastructure changes without municipal consultation illustrates some of the frustration.

As a federally regulated institution, the BNSF Railway is not obliged to disclose how its land would be used, said the Press September 20, but it's unclear if Fort Distributors, who is leased that land, was equally immune from municipal or provincial oversight. The sudden appearance of eight massive metal silos along a railway right-of-way in a dense residential neighbourhood without the slightest whisper to a municipal or provincial official, or to the neighbours, raised alarm. This new development will alter the character of the neighbourhood, not just in appearance, but also in the new truck traffic, noise and pollution that will be generated. Again, it seems remarkable that this substantial reorientation of the district can unfold without a process, says the Press. Winnipeg's legal department is looking into the matter.

On the flip side, railways have complained in the past that municipalities frequently plan new developments without consulting them about the impact, explains the Press. Railways, moreover, were here long before most of the inhabitants, which gives them special rights and privileges.

By comparison in the US, which has significantly more than two national railway companies in operation, the Surface Transportation Board (STB) receives filings and posts decisions openly on its website. However things are not quite as transparent as they seem. Not being a lawyer, Madison's gave up after 15 minutes of trying to decipher the documents available.

The Surface Transportation Board's effort to increase arbitration in disputes over demurrage, accessorial charges, and misrouting and mishandling of cars is part of a broader strategy to ease tension on both parties, according to the Journal of Commerce (JoC) on August 2. The railroad regulatory agency recently announced plans to change rules to give shippers restricted to a single railroad service a better avenue to challenge rates.

The drive for more arbitration between railroads and shippers also appears to result from complaints that the agency takes too long to settle disputes. Arbitration not only can save parties time and money, but also encourage shippers and carriers to reach an agreement before a third party needs to get involved.

Unlike shippers, however, the railroads would have to opt-out of the arbitration process, instead of having the choice to opt-in. They don't like that approach. The "unbalanced" measure could prevent a carrier from seeking a resolution over demurrage with a shipper, said John Scheib, Norfolk Southern Railway's general counsel, to the JoC.

Shippers counter that carriers can opt-out of an arbitration proceeding by filing the necessary paperwork, a statement the Association of American Railroads (AAR) rejected.

The looming question is whether, given the choice, the railroads would opt-in. There is no evidence the railroads are part

of the reason arbitration hasn't been used more often to settle STB-related matters, and the AAR "fully supports increased use of mediation and voluntary arbitration," said Louis Warchot, an attorney for the Association.

An editorial printed in the Financial Post by Michael Bourque, President and CEO of the Railway Association of Canada, on August 6 states, "Canadian freight railways are today recognized as among the most efficient in the world. For the past several years, CN and CP have been improving service to customers, working with supply chain partners (such as ports and terminals) and signing commercial service agreements. These efforts have led to a high-performance supply chain, characterized by increased collaboration, efficient service and rail rates that are the lowest in the world. Changes effected by the rail sector have reinforced its role as the backbone of an integrated supply chain that has helped move Canada's economy to take advantage of growing world demand for Canadian resources. [. . .] The latest myth to be propagated is that railway customers co-operated in the Rail Freight Service Review process because they are interested in commercial solutions. The Report states: 'Shippers expected the facilitation process to impose solutions that would provide shippers with more leverage in shipper-carrier relationships.' The most desperate argument is that 'railways will go back to their old ways' if they are not regulated further. Well, governments can always intervene. But the real question is why railways would abandon a business model that has led to very high levels of efficiency, that enables their customers to remain globally competitive thanks to the lowest freight rates in the OECD and that also delivers profits to their shareholders?"

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