

# MADISON'S LUMBER REPORTER

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Annual Subscription Prices  
E-mail/Fax: C\$389  
Discounts available for multiple  
subscriptions  
Published 50 times a year

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In Canada, add GST or HST  
ISSN 0715-5468  
Printed in Canada © 2013

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## News & Updates

### Madison's Investment Rx

This week's month's issue of *Madison's Investment Rx* examines the latest spikes in solid wood prices against inventories, production, and log supply. Contact us any time for this valuable and timely information.

### Financial Results

Cascades Inc reported Thursday a net loss of \$29 million in 4Q 2012. Cascades' net loss for the full 2012 year was \$11 million.

Western Forest Products Thursday reported EBITDA of \$14.2 million in 4Q 2012, compared to EBITDA of \$11.6 million for 4Q 2011.

Net income for 4Q was \$14.6 million, on sales of \$231.2 million, which compared to a net income reported for 4Q 2011 of \$3.3 million on sales of \$220.7 million. Full year sales were \$925.4 million, the highest in Western's history

Net debt decreased to \$15 million, a record low for Western while year-end liquidity improved by \$73 million to \$185.1 million.

### US Housing Starts, Home Sales, Prices

US housing starts fell 8.5 per cent in January after several months of increases, the Commerce Department reported Wednesday. Builders started construction at a seasonally adjusted annual rate of 890,000 last month, compared to 973,000 in December.

The December performance was the best since June 2008. Applications for building permits rose to an annual rate of 925,000 in January, 1.8 per cent higher than December, which had been the high-point since mid-2008.

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### China Wood Imports 2012

According to "The China Wood", imports of logs and lumber to China in 2012 dropped but the export of plywood and fibre board increased, says the *Japan Lumber Reports*.

Log imports in 2012 were 37.9 million cubic metres, a 10.5 per cent drop over the previous year. Imports from the US fell by 25.5 per cent, to 2.6 million cubic metres, while those from Canada dropped by 6.2 per cent to 2.1 million cubic metres. Log imports from Russia also fell, by 20.5 per cent, while those from New Zealand and the Solomon Islands increased.

China's total lumber imports were down by 4.3 per cent, to 20.6 million cubic metres, Lumber imports from the US dropped by 17 per cent, to 2.2 million cubic metres, while that from Canada was 6.4 million cubic metres, a 6.2 per cent drop.

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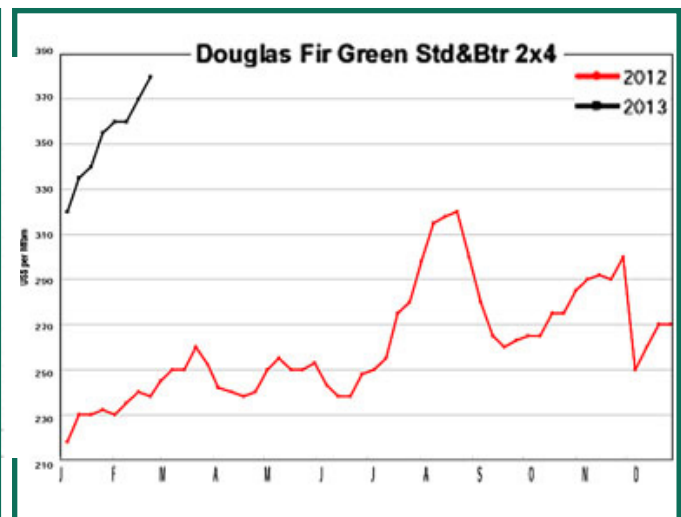
### Ban on Illegally Harvested Timber in Europe

The EU's Forest Law Enforcement, Governance and Trade (FLEGT) legislation takes effect March 3, 2013. The EU rules join the US Lacey Act and the Australian Illegal Logging Prohibition Bill in requiring certification against the standard to prevent the import and sale of illegally harvested timber in Europe.

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Starts			Permits		
Actual	58,500	62,500	Actual	65,500	65,100
SAAR*	890,000	973,000	SAAR*	925,000	909,000
1 Unit	613,000	608,000	1 Unit	584,000	573,000
2-4 Units	(s)	(s)	2-4 Units	30,000	28,000
5+ Units	260,000	352,000	5+ Units	311,000	308,000
Starts by Region			Permits by Region		
Northeast	75,000	116,000	Northeast	109,000	99,000
Midwest	95,000	190,000	Midwest	143,000	141,000
South	483,000	464,000	South	452,000	447,000
West	237,000	203,000	West	221,000	222,000

Seasonally adjusted annual rate.





# Sawmill Hazard Alert

The risk of a dust explosion increases when low humidity levels and colder temperatures, like those seen in winter months, make dust more difficult to control and easy to disperse and ignite. It is important to know how to control the risks associated with combustible dust. To learn more about keeping your workplace safe and to see these and other alerts visit [WorkSafeBC.com](http://WorkSafeBC.com):

- Combustible Dust Winter Alert — Increased Risk in Winter
- Gear Reducer Hazard Alert

[worksafebc.com](http://worksafebc.com)

**WORK SAFE BC**

## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	390	390	0	390	0	271	+119
WSPF KD R/L 2x6	386	386	0	406	-20	273	+113
WSPF KD R/L 2x8	375	375	0	392	-17	256	+119
WSPF KD R/L 2x10	400	400	0	412	-12	312	+88
WSPF KD PET 2x4 Stud	366	360	+6	340	+26	260	+106
WSPF KD PET 2x6 Stud	366	360	+6	325	+41	265	+101
Douglas Fir Green R/L 2x4	380	370	+10	355	+25	238	+142
Douglas Fir Green R/L 2x10	380	375	+5	358	+22	300	+80
ESPF KD 2x4 8ft Stud	420	420	0	420	0	330	+90
OSB Ontario 7/16" (CDN\$)	445	437	+8	375	+70	205	+240
CSplywood Toronto 3/8" (CDN\$)	433	433	0	451	-18	329	+104

## Weekly News

### US Real Estate

CONTINUED The pace of construction of single-family homes rose 0.8 per cent in January, but the more volatile apartment construction dropped 24.1 per cent.

The Commerce data showed new home building was mixed in the four US regions last month. Construction on new homes dropped 35.3 per cent in the Northeast and was down 50 per cent in the Midwest. Construction rose 16.7 per cent in the West and 4.1 per cent in the South.

For all of 2012, builders started work on 780,000 homes. That was still only about half the annual number consistent with healthy markets, but it represents a 28 per cent jump from 2011.

Purchases of existing houses rose 0.4 per cent to a seasonally adjusted annual rate of 4.92 million units., figures from the National Association of Realtors showed Thursday. The nation's inventory of existing homes for sale, which is not seasonally adjusted, fell 4.9 per cent from December to 1.74 million, the lowest level since December 1999.

Inventories were down 25.3 per cent from January 2012. At the current pace of sales, inventories would be exhausted in 4.2 months, the lowest rate since April 2005.

The low inventories are also helping pushing prices higher. Nationwide, the median price for a home resale was US\$173,600 in January, up 12.3 per cent from a year earlier.

The National Association of Home Builders said Tuesday that confidence among US homebuilders slipped in February from a 6½-year high in January. Many builders reported less traffic by prospective customers before the critical spring home-buying season begins.

The homebuilders' sentiment index dipped to 46 in February from 47 in January. It was the first monthly decline in the index since last April.

### Wood Imports to China

CONTINUED Meanwhile, Russian lumber imports to China increased by 2.3 per cent in 2012 compared to 2011, to 6.2 million cubic metres says the *Japan Lumber Reports*.

China's plywood production in 2012 was 142 million cubic metres, an 18.3 per cent increase over the previous year. Of this total 7 per cent was exported. China exported 10 million cubic metres of plywood, a 4.6 per cent improvement over 2011.

### CLT Test Results

Full-scale tests carried out by Natural Resources Canada Construction researchers have demonstrated that cross-laminated timber (CLT) assemblies can achieve good levels of fire resistance, even when unprotected under full loading conditions. The tests are part of a study recently launched by NRC in collaboration with FPInnovations to develop a methodology that will foster the design of fire-safe CLT or hybrid buildings in North America. The study will also facilitate the acceptance of future code provisions for the design of CLT panels with regard to fire resistance.

The tests demonstrated that CLT assemblies can achieve significant fire resistance that is close to three hours in some cases with even unprotected CLT under full loading conditions. The failure modes were a mix of integrity and structural failures.

### Trucker Shortage

Canada's trucking industry may face a shortage of 25,000 truckers or more by

2020 due to an aging workforce and a lack of young people and immigrants taking the job, according to a report released by the Conference Board of Canada Thursday concludes.

The trucking industry moves 90 per cent of all consumer products and food within Canada and 60 per cent of trade with the US. The shortage of drivers stems in part from the sector's struggles to attract young people – between the ages of 15 to 24 – to what's been called the "for-hire" part of the industry.

### Western Forest Products Announces . . .

The Board of Directors of Western Forest Products Friday announced the appointment of Don Demens as President and CEO, effective immediately.

Dominic Gammiero will continue his role as Chair of the Board.

## Calendar

### March 2012

#### Western Wood Products Association AGM

March 2 - Portland, OR  
<http://www.wwpa.org>

#### Canadian Bioenergy Association - World Biofuels Markets 2013

March 11 to 14 - Rotterdam, Finland  
<http://www.canbio.ca/article/world-biofuels-markets-2013-361.asp>

### April 2012

#### Council of Forest Industries Annual Convention

April 4 to 5 - Prince George, BC  
<http://www.cofi.org/>

# EU Timber Regulations

## Illegal Imports

First announced as in the works in the December 19, 2008 issue of your *Madison's Lumber Reporter*, new regulations preventing the import of illegally harvested exotic timber into Europe is about to take effect. The EU's Forest Law Enforcement, Governance and Trade (FLEGT) legislation will require that due diligence is applied to all timber first placed on the EU market.

by Kéta Kosman

In March 2013 the requirements of FLEGT will come into force. This new legislation prohibits placing timber on the EU market if it was illegally harvested. To achieve this, the legislation sets out procedures which those trading timber within the EU must put in place to minimise the risk of illegal timber being sold. The EU rules join the US Lacey Act and the Australian Illegal Logging Prohibition Bill in requiring certification against the standard.

It allows companies operating in regulated markets – as well as suppliers around the world – to demonstrate that they exercise due diligence in reducing risks of producing or sourcing illegal timber products. The standard sets out requirements covering supply chain management, risk assessment, risk mitigation, and quality systems for production or sourcing of forest products, amongst others.

Globally, the International Criminal Police Organization (Interpol) estimates total trade in illegal timber is more than US\$30 billion. Both the US and Australia have banned the importation of materials made from illegally logged wood. If law enforcement efforts scale up, many illegal loggers may find that the black-market trade is no longer worth the risk.

In a stunning move of force and speed, Interpol's first strike against widespread forestry crime came Wednesday. Working with local police forces, Interpol arrested 197 illegal loggers across a dozen Central and South American countries resulting in the seizure of 50,000 cubic metres of wood worth around US\$8 million.

Illegal loggers were arrested in Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Paraguay, Peru, and Venezuela.

The global illegal logging trade has been estimated to be worth US\$30-\$100 billion each year and is thought to account for 15-30 per cent of all deforestation in the

tropics. The destruction of forests threatens global biodiversity, watersheds, and releases greenhouse gases; in addition it often robs local communities and indigenous peoples of the forests they depend on. Illegal logging kingpins are also often involved in other crimes, such as human trafficking, weapons sales, drugs, and political corruption.

Suddenly finding themselves motivated to comply with international sustainability standards, countries which formerly ignored illegal logging within their borders are rushing to prove their forest practices meet the standard.

Myanmar announced this week its forestlands will undergo inspections, while Ghana said February 6 it will meet the EU deadline of March.

Ghana's Minister for Lands and Natural Resources, Alhaji Inusah Fuseini announced the country will meet the EU deadline which prevents the export of illegal timber to their markets. Also, it will require traders down the supply chain to keep track of where the timber products were bought from and – where applicable – who they were sold to.

EU delegates will visit Myanmar next month to finish observing current timber extraction and set up a framework for legal trade, which will allow the country to export timber to the EU in June. Myanmar has most severe forest depletion in the region due to widespread illegal logging throughout the country, according to Win Htun, Minister for Environmental Conservation and Forestry. To export Myanmar timber to European countries, a legal authentication certificate will be required.

As well, a proposal has been sent to the President to form a 17 member committee which will issue licences for Myanmar timber, by conducting audits on the Chain of Custody process such as logging, cutting, and transporting, to designate wood as legal, said Bartha Cho, joint secretary of the Myanmar Forest Products and Timber Merchants Association to *ElevenMyanmar*.

The US and some Western countries have already lifted sanctions on Myanmar timber.

Elsewhere, there are concerns that China is now driving global trade for illegally harvested timber.

The British NGO, Environmental Investigation Agency (EIA), published a detailed report at the end of November called "Appetite for Destruction: China's Trade in Illegal Timber". It reveals just how China's appetite for wood has grown

in the past decades as a result of consumption by the new middle classes, as well as an export-driven wood industry facing growing demand from major foreign furniture and construction companies. The report drew on studies from Interpol, the World Bank, and the United Nations,

The EIA said the Chinese government has largely turned a blind eye as wood importers and furniture makers, some of them state-owned enterprises, have profited from an industry that harvests wood illegally from Myanmar, Mozambique, Indonesia, and other countries to feed citizens' growing appetite for rosewood dining sets, hardwood floors, plywood, and printer paper.

Analysts say that at least two-thirds of the logs imported into China ultimately end up in the homes of affluent Chinese who are willing to pay steep prices for teak beds, merbau wood flooring, and mahogany trim, according to the *New York Times*.

After analysing trade data for 36 supplier countries, the EIA has concluded that approximately 10 per cent of the logs and sawed timber is illegal. Public enterprises, often controlled by provincial governments, play a strategic role in this trade, says the EIA. The report describes corruption networks in countries with weak governments such as Myanmar, Papua New Guinea, and the Solomon Islands.

China's log imports in 2000 totaled 13.6 million cubic metres worth US\$1.6 billion. By 2011, imports totaled 42 million cubic metres worth US\$8.2 billion, with Russia the top log supplier last year, the United States second, and Papua New Guinea third, said the EIA report.

The EIA estimates China imported at least 18.5 million cubic metres of illegal logs and sawn timber in 2011, worth US\$3.7 billion. The group said the estimate was conservative.

In a specific example, in 2012, Chinese companies imported between approximately 200,000 cubic metres of timber that had been illegally exported from Mozambique – comprising a staggering 48 per cent of China's imports from the country, resulting in a loss of tens of millions of dollars in taxes to the world's fourth-poorest country.

EIA urged Mozambique to bring in an immediate ban on the export of logs, while they investigate corruption within the forest sector. China is also urged to ban the import of illegal timber and ensure its state-owned companies are not exporting illegal timber from the country.