

MADISON'S LUMBER REPORTER



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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines the latest financial releases for US publicly-owned timberland companies, and announcements of sawmill restarts across the US.

Contact us any time for this valuable and timely information.

Wildfire Season

Alberta has declared an early wildfire season for the second year in a row. With fires sparking earlier in the year than ever before and dry conditions across Alberta, the government is hoping to get a head start by beginning the season on Friday.

As of Friday, all burning in the province's forest protection area, except campfires, will require a permit. Wildfires burned more than 375,000 hectares in Alberta in 2012, which is about one-and-a-half times the five-year average of 215,000 hectares, the province said in a news release.

Wildfires are burning in southern California as the Colorado drought threatens to bring fires. [READ MORE](#)

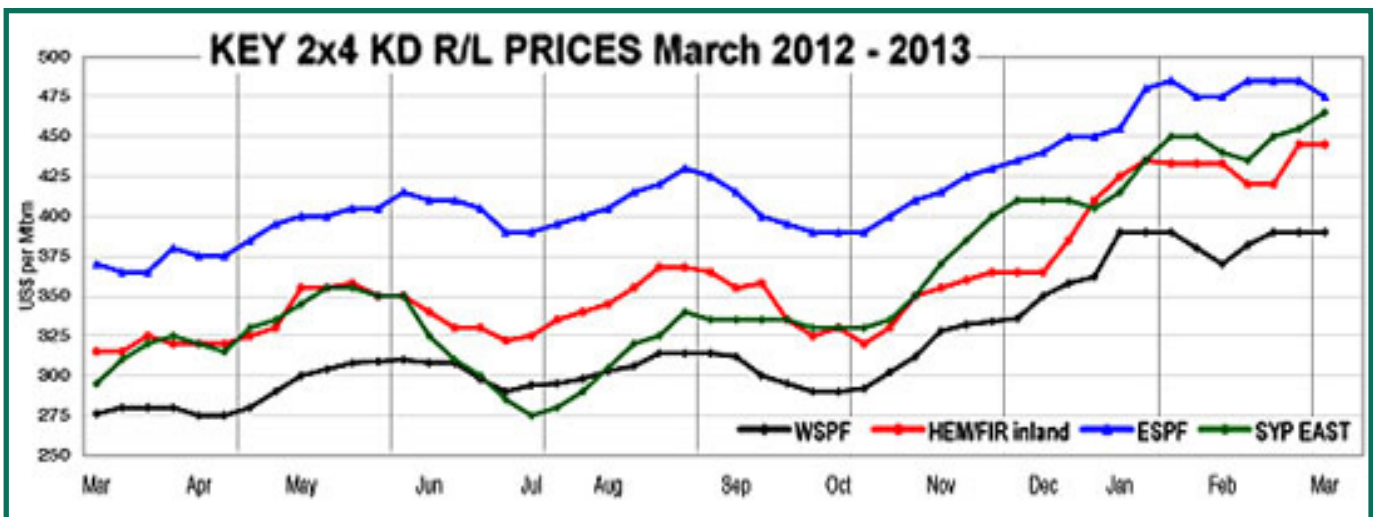
BC Logging Firm in \$3.5 Million Fight with Province

On February 22 the BC Supreme Court ruled a trial can proceed to resolve a \$3.5 million question about the value of logs from the Campbell River area. [READ MORE](#)

British Columbia's Forest Practices Model

Two important documents released in the past month address serious issues with access to timber for British Columbia's small- and medium-sized forest operators. On January 25, three regional beetle action coalitions – Omineca (OBAC), Cariboo-Chilcotin (CCBAC) and Southern Interior (SIBAC) – jointly released a report titled "*The Pathway to Prosperity in British Columbia Runs Through Its Rural Places*". This position paper is the final report from the Rural BC Project, and makes recommendations to assist with rural economic development throughout the province. And on February 14, Healthy Forests, Healthy Communities made public the results of extensive, two-year, consultations with communities and stakeholders around the province. The intent of that final report was to inform politicians of recommended strategic actions necessary to ensure the future forest will restore the BC forest legacy and energize the forest sector.

There are 20 recommendations in the Rural BC Project's report, including the designation of a cabinet minister with responsibility for rural issues. The paper asserts that places where forestry is the main industry have gone from being the fastest-growing to the slowest-growing in the province over the last 50 years, to the detriment of BC's economic stability. Among the other recommendations are the establishment of a leadership group consisting of the beetle action coalitions, regional trusts, and the First Nations Forestry Council, which would work with government on a long-term strategic work plan. [READ MORE](#)



CONTINUED This group would be funded by the rural stakeholders and senior government. OBAC chair Stephanie Kilm, the mayor of Mackenzie, said to the Prince George Free Press that the final report is not the end of that project.

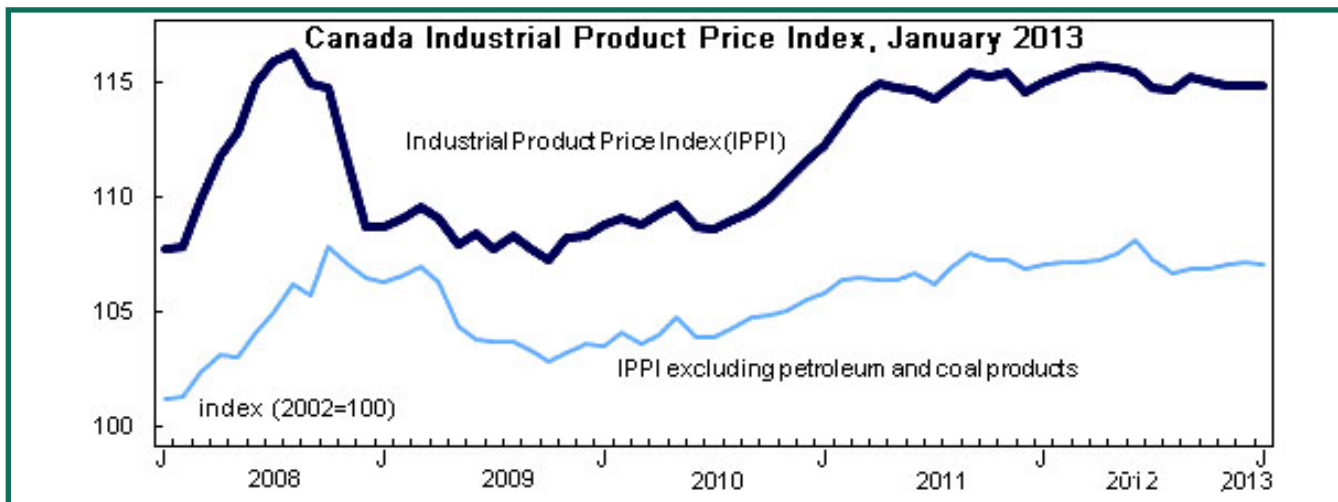
Healthy Forests, Healthy Communities presented a series of 13 nested recommendations, to be delivered over 10 years, as a Strategic Action Plan implemented in two five-year phases. The recommendations are directed toward investing in the forest asset through actions regarding long-term stewardship and community involvement, including:

- Long-term stewardship
- Legislated principles, vision and goals to guide BC forest lands decision-making;
- Reliable and trustworthy forest resources inventories to base decisions upon;
- Protecting forests from wildfire, insects and disease, regenerating disturbed or harvested lands and increasing forest productivity to move towards creating healthy forests, and more.

- Community involvement
- Providing resources and laws for communities to develop local forest visions to guide decision-making;
- Establishing policies that generate real influence by communities in local forest decision-making;
- Establishing a Government emphasis on community economic diversification, and more.

On February 22, the BC Ministry of Forests, Lands and Natural Resource Operations announced it will finally be undertaking a proper forest inventory. The province on Friday committed \$8 million a year to a 10-year plan for renewing long-out-of-date inventories of the province's forests. Minister Steve Thomson said the work will ensure 35-million hectares of British Columbia forests that have been devastated by the mountain pine beetle are properly inventoried. Thomson said he has increased the budget for inventory work to \$7.5 million in the 2012/13 fiscal year, from \$3.7 million in 2010/11, and staff allocated to the task number 24 full-time and three auxiliary employees.

READ MORE



ISM US Manufacturing Index : February 2013

The Institute for Supply Management's factory index rose to 54.2, the highest reading since June 2011, the Tempe, AZ-based group said Friday. The index is at its highest since June 2011.

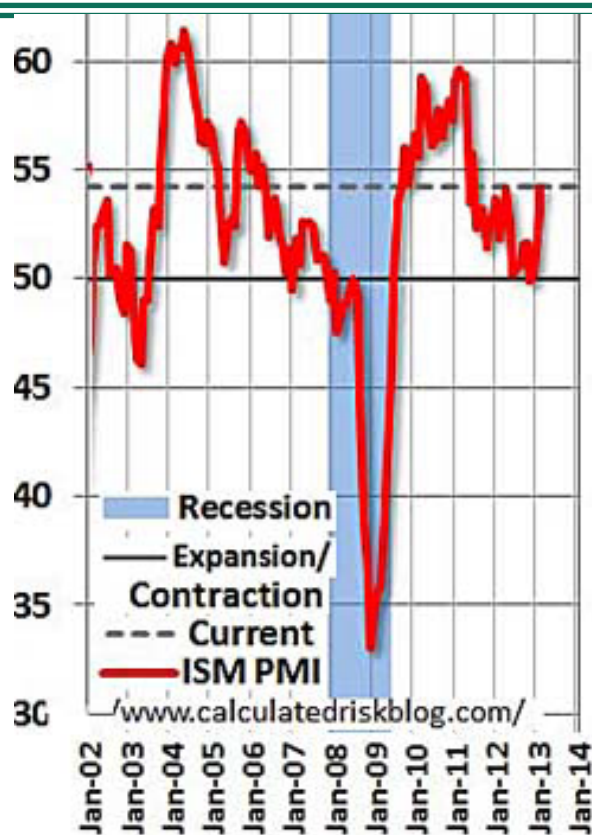
American factories expanded in February at the fastest pace in almost two years, spurred by a jump in orders that is helping propel an economy about to be tested by federal government cutbacks.

Demand strengthened last month. The new orders index increased to 57.8 from 53.3. The exports index jumped to 53.5 from 50.5. The new orders index is the highest since April 2011.

The production index improved to 57.6 in February from 53.6 in January.

The inventory index edged up to 51.5 from 51.0. Businesses didn't add much to their inventory levels in the fourth quarter, according to Commerce Department data. The ISM readings suggest faster stocking in the first quarter, which is a plus for economic growth.

The prices paid index jumped to 61.5 in February from 56.5 in January.



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	390	390	0	380	+10	273	+117
WSPF KD R/L 2x6	386	386	0	390	-4	279	+107
WSPF KD R/L 2x8	374	375	-1	385	-11	260	+114
WSPF KD R/L 2x10	400	400	0	400	0	314	+86
WSPF KD PET 2x4 Stud	375	366	+9	325	+50	280	+95
WSPF KD PET 2x6 Stud	375	366	+9	315	+60	245	+130
Douglas Fir Green R/L 2x4	380	380	0	355	+25	245	+135
Douglas Fir Green R/L 2x10	390	380	+10	355	+35	300	+90
ESPF KD 2x4 8ft Stud	420	420	0	410	+10	350	+70
OSB Ontario 7/16" (CDN\$)	440	445	-5	380	+60	215	+225
CSplywood Toronto 3/8" (CDN\$)	423	433	-10	437	-14	340	+63

Weekly News

Wildfires, Droughts

CONTINUED Southern California firefighters Friday morning made significant progress against remnants of a wildfire that damaged a home and cut power to about 2,000 residents in Riverside County.

The blaze in the Santa Ana River bottom is 40 per cent surrounded. Better mapping of the scene has increased the size from 200 acres to 311 acres.

The fire erupted late Thursday in heavy vegetation in the river bottom between Riverside and Jurupa Valley, and at its peak prompted a call for voluntary evacuations.

Fire spokesperson Greg Birchfield said flames died down overnight but there are still hotspots and there is concern about winds picking up.

Southern California is experiencing a round of gusty Santa Ana winds caused by high pressure over the Great Basin. Temperatures are expected to reach the 80s.

At its peak, the fire downed power lines and burned near a residential area, prompting a call for voluntary evacuations. That order was lifted and electricity was restored by Friday morning, county fire officials said.

The fire surged through tinder-dry brush and palm trees in the riverbed, but 200 firefighters, aided by water-dropping helicopters, had reduced it mainly to hotspots by Friday morning, although dry palm trees continued to erupt in fire occasionally, throwing out showers of sparks.

Although morning winds were calm, the National Weather Service forecast dry weather with winds gusts of up to 35 mph possible through late afternoon.

No injuries were reported.

Colorado state climatologist Nolan Doesken says a series of snow storms or one monster blizzard, like the one in 2003, would go a long way to improve conditions along the Front Range and Eastern Plains.

Last year the state dried out during an extremely dry and warm March, which also marked the start of a deadly wildfire season.

April and May often bring rain and snow. Doesken says March precipitation is key because the normally cooler weather helps moisture penetrate the ground and slows evaporation.

Doesken said this week's series of storms benefited any areas that got at least 7 inches of snow, the equivalent of about a ½ inch of water.

BC Log Price Dispute

CONTINUED As well, on January 11 the BC Court of Appeal ruled Timberwolf Log Trading can proceed with a civil lawsuit against the province and Daniel Smallacombe, an investigator with the Forests Ministry..

It is alleged that during the ministry's investigation Smallacombe suggested Timberwolf deliberately misreported the grade of logs being scaled. As well, he implied that Timberwolf was shipping narcotics to other countries concealed in log exports.

The other issue for a separate trial is the \$3,449,039 the province says is owed by Timberwolf.

According to court documents, the province believed Timberwolf was under-reporting the value of its logs coming through Menzies Bay between May 2006 and December 2008.

Timberwolf paid just over \$6 million

in stumpage fees to the province, but after further investigation by Smallacombe, the province issued a new bill, plus a 25 per cent penalty, for \$3.5 million.

EACOM Timber Announces . . .

EACOM Timber announced Tuesday that it has concluded with its insurer the negotiation of a global settlement in the amount of \$48,250,000 in respect of the fire that occurred at its Timmins mill in January 2012. As at September 30, 2012, the Montreal-based company had received \$23,700,000 of insurance proceeds. During 4Q, the company collected a further \$6,900,000. The Company received today the remaining proceeds of \$17,400,000.

The Timmins mill is currently under reconstruction which is expected to be completed in the summer of 2013.

Calendar

March 2012

Western Wood Products Association AGM

March 3 - 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/>

BC Timber Access Community Forests, Woodlots

CONTINUED The Association of BC Forest Professionals said a year ago that the current data in 40 per cent of inventories hadn't been updated since 1990, and in 30 per cent of cases inventory work had been completed before 1980. That foresters' report noted that the province's inventory budget once amounted to \$15 million a year, and before 2006, staff numbered 40.

Thomson said the inventory plan sets out nine goals, with five and 10-year targets, to integrate data on harvesting, reforestation and forest fires while ensuring no forest-cover data in inventories is more than 30 years old.

Developed in consultation with industry and academic experts, the ministry plan is intended to focus on areas where inventory needs are greatest, to collaborate with the groups with an interest in the forest, and to employ cost-saving technology such as satellite imagery and high-resolution aerial photography.

Improving the forest inventory data is a vital step in making a forest plan which works for all players: large companies, small operators, as well as the community forests, woodlots, and First Nations.

In the meantime, there are situations occurring on the ground right now, with the forest land base, that are counter to the improvements and progress for the future as spelled out in the above reports and announcements.

A striking example involves a small lumber manufacturer in the Kootenay Forest District, where the very rare and uncommon instance of the ministry suspending a forest license with significant AAC for poor practices occurred. In this case the failure was very poor performance in meeting its silviculture, road building, and maintenance obligations.

On February 18, 2012 the Ministry of Forests, Lands and Natural Resource Operations announced it had suspended Meadow Creek Cedar's forest license and fined the Kootenay-based company \$42,000 for failing to meet its legal obligations to reforest logged areas. In addition to the fine and license suspension, the ministry issued a remediation order requiring Meadow Creek Cedar to reforest each of the blocks to the levels prescribed in its site plans. If Meadow Creek Cedar failed to meet its reforestation obligations, the ministry had the option to carry out the work on the company's behalf and

levy additional fines to cover its costs.

However instead of having to carry out the work itself then try to recover the costs, the ministry reached an agreement with another local operator, of three family-owned companies. Gold Island Forest Products, Sentinel Enterprises, and Selkirk Truss are run by the Kanigan family, fourth generation sawmillers in the Slocan Valley.

An agreement is in place as of October 15 that gives the new Kanigan company, Blue Ridge Land and Timber Management Ltd, the exclusive right to conduct forestry operations under the license. This is the first step in the transfer of ownership of the license to Blue Ridge.

General Manager Trevor Kanigan said to the *Valley Voice* on October 31, "It [the license suspension] has been a huge local economic issue and also a huge provincial forestry issue." In an unfortunately accurate insight, Kanigan then said his company was aware that they were stepping into a fairly messy situation. Part of the agreement with the ministry was to get logging operations started around Christmas.

But now, more than four months after the agreement was reached and more than a year since the original license was suspended, Blue Ridge has still not been able to start working at the levels negotiated, in good faith, when implementing the management contract.

"The flexibility I had with the local District Manager appears to have been taken away by Victoria," explained Kanigan to *Madison's* in a phone interview February 22. "Suddenly the Ministry of Forests in Victoria is telling myself and the District Manager that we have to follow the Variance Letter exactly. The District Manager and I needed some flexibility to tailor and streamline our operating plan once we found out what resources we had available to us."

A media representative at the ministry said to *Madison's* in an email Thursday that a "variance to the suspension has been issued to allow the new owner [license manager - Ed] to complete some logging on a previously issued cutting permit."

"When I started the management contract I had an understanding with the District Manager," detailed Kanigan. "When I signed the management contract in October I felt I was supported. I was supposed to have 48,000 cubic metres [of timber] to work with for the winter. But in the last six weeks I found out that this will be half. The ministry is also restricting my access to fibre on the license, to the higher value logs, which were supposed to go to the mill. The higher margins from that lumber processing was supposed to create a

revenue stream to contribute to the backlog of silviculture costs, fines, and other outstanding obligations created by Meadow Creek Cedar."

As a small operator trying to do something which would be completely normal in other jurisdictions, Kanigan is beginning to feel like ministry officials are fearful of this seeming new business model.

"Before we came along the government wasn't acting [on that land]. Maybe because it's a huge problem, maybe because they didn't know what to do. The longer it takes for the work to get done the higher the cost is going to be. Every month we are delayed is a missed opportunity, an opportunity lost. If the government had taken over in October, we estimate there would have been an immediate \$5 to \$10 million in liabilities [to the public]."

The problem right now seems to be that this new scenario, of a private company restoring previous bad practices on public land, has sent longstanding bureaucrats at the ministry into a tizzy. Their reaction is to bury the operator in paperwork, oversight, and a ridiculous level of sticking to details, presumably to ensure no mistakes are made. However this cautiousness is so extreme it is preventing normal business practice.

In the meantime the land sits underutilized, incurring greater and greater costs to reclaim. After performing the public service of taking on this challenge, Blue Ridge is stymied by the very government that was unwilling to address the damaged area in the first place.

Faced with such impediments to what was supposed to be a relatively straightforward operation, Kanigan expressed frustration.

When asked about the ever-slowing forces in Victoria, Kanigan railed to *Madison's*, "Who is MY voice in Victoria?? Who speaks for me, and the work I am trying to do?"

Who indeed. Given the uniqueness of this situation, that "suspensions are infrequent, since the vast majority of licensees are compliant with all their legislative requirements", as the ministry media contact's email to *Madison's* said, a race to slowness based on fear or uncertainty is absolutely the wrong way to go.

Kanigan is spending more time explaining himself, again and again, and going to meetings, than he is working on the land. Meanwhile, operators across the entire Kootenay region are complaining about difficulty in accessing fibre, and municipalities and communities are looking for ways to increase revenue and diversify their economies. All the while here sits this land that has been woefully unused for three years, and the only local willing to stand up and do something about it has been tied up in bureaucracy.