

MADISON'S LUMBER REPORTER

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News & Updates

US Mortgage Delinquency

Freddie Mac reported Friday that the Single-Family Serious Delinquency rate (three monthly payments or more past due or in foreclosure) in the US declined in January to 3.20 per cent from 3.25 per cent in December 2012. The serious delinquency rate is down from 3.59 per cent in January 2012, and this is the lowest level since mid-2009.

The Freddie Mac serious delinquency rate peaked in February 2010 at 4.20 per cent.

Fannie Mae reported earlier that the Single-Family Serious Delinquency rate declined in January to 3.18 per cent from 3.29 per cent in December 2012.

Canada Housing Starts

Canadian housing starts climbed in February as multi-family construction rebounded in Ontario and Quebec, Canada Mortgage and Housing Corp said Friday in a report that nevertheless showed the housing market is continuing to moderate.

The seasonally adjusted annualized rate of housing starts was 180,719 units in February, up from 158,998 in January. The January figure was revised down from the 160,577 units reported previously.

The six-month trend level in housing starts was 195,087, continuing a downward slope that began in the middle of 2012, when Canada's red-hot housing market peaked.

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LNG Plant in Howe Sound

An Asia-based energy company is proposing what it calls a "small-scale" liquefied natural gas (LNG) processing and export facility at the site of the former Woodfibre pulp mill along Howe Sound, said *The Squamish Chief* Wednesday.

In a statement issued on Monday, Pacific Energy Corp officials said they have launched a feasibility study for such a facility on the 86-hectare (212-acre) waterfront industrial site. The site's current owner, Western Forest Products, is also doing remediation work, including the clearing of wood waste from the portion of Howe Sound that surrounds the site, officials said.

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AFPA Results

The Alberta Forest Products Association has released its financial information for 4Q 2012.

Values of lumber, pulp and paper, and panelboard manufactured by AFPA members totalled approximately \$2.3 billion for 2012. The value of production was up \$184 million or 9 per cent from 2011.

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British Columbia's Timber Allocation

Recent discussions about timber allocation to woodlots, community forests, and other small-tenure holders between stakeholders of various sizes in the Arrow Boundary district of British Columbia are examined.

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CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

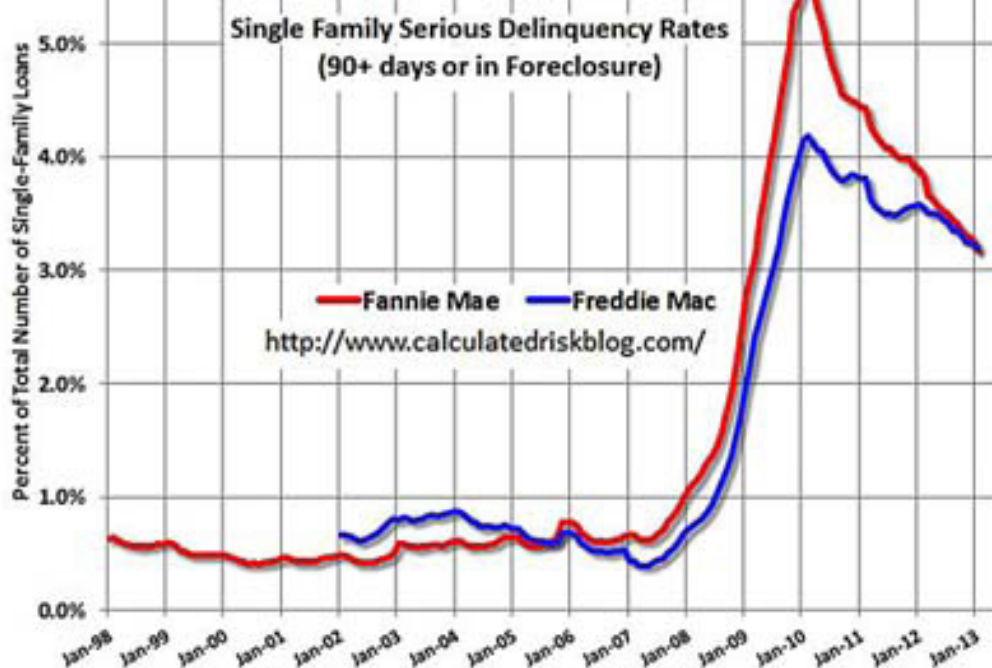
| | February 2013 | | January 2012 | |
|--------------------------|---------------|----------------|--------------|----------------|
| | Actual | SAAR | Actual | SAAR |
| Canada, all areas | 10,965 | 180,719 | 9,904 | 158,998 |
| singles, urban centres | 3,352 | 62,609 | 3,279 | 59,035 |
| rural areas | 663 | 19,088 | 745 | 22,443 |
| multiples | 6,950 | 33,022 | 5,880 | 77,520 |
| Atlantic urban centres | | 8,320 | | 12,181 |
| Quebec urban centres | | 32,980 | | 24,442 |
| Ontario urban centres | | 60,808 | | 41,430 |
| Prairie urban centres | | 37,462 | | 36,891 |
| BC urban centres | | 22,061 | | 21,611 |

Source: Canada Mortgage and Housing Corporation

JAPANESE HOUSING STARTS

| Month | TOTAL | Non-Wood | Wood | %Wood |
|--------|--------|----------|--------|-------|
| Jan-13 | 69,289 | 31,982 | 37,307 | 54 |
| Dec-12 | 75,944 | 32,392 | 43,552 | 57 |
| Nov-12 | 80,145 | 34,396 | 45,749 | 57 |
| Oct-12 | 84,251 | 37,883 | 46,368 | 55 |
| Sep-12 | 74,176 | 31,159 | 43,017 | 58 |
| Aug-12 | 77,500 | 34,485 | 43,015 | 56 |
| 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 |

Source: Japan Wood-Products Information and Research Center



Scoreboard

| | October - December 2012 | | October - December 2011 | | SALES 2011-12 (%) |
|-------------------------|-------------------------|--------------------------|-------------------------|--------------------------|-------------------------|
| | Sales (\$,million) | Earnings (\$,million) | Sales (\$,million) | Earnings (\$,million) | |
| Ainsworth | 117.9 | 6.7 | 69.5 | 2.8 | +41.1% |
| Canfor | 721.8 | 21.6 | 576.2 | (44.1) | +20.2% |
| Cascades | 904.0 | (2.0) | 913.0 | (4.0) | -1.0% |
| Catalyst | 260.5 | (35.2) | 272.2 | (708.0) | -4.3% |
| Conifex | 60.0 | (3.6) | 38.7 | (7.5) | +35.5% |
| Domtar | 1,327.0 | 19.0 | 1,369.0 | 61.0 | 0.0% |
| Eacom | N/A | N/A | 67.4 | (27.1) | N/A% |
| Interfor | 222.4 | 3.7 | 188.7 | (2.8) | +15.2% |
| Norbord (US \$) | 322.0 | 38.0 | 229.0 | (9.0) | +28.9% |
| Resolute FP | 1,100.0 | (36.0) | 1,100.0 | (6.0) | 0.0% |
| Taiga FP | 247.7 | 0.4 | 203.1 | (1.7) | +18.1% |
| Tembec (1Q) | 376.0 | (10.0) | 401.0 | (16.0) | -6.3% |
| Western Forest Products | 231.2 | 14.6 | 220.7 | 3.3 | +4.6% |
| West Fraser | 773.0 | 22.0 | 650.0 | 6.0 | +16% |

Key Prices

| | This Week | Last Week | Change | Month Ago | Change | Year Ago | Change |
|--------------------------------|-----------|-----------|--------|-----------|--------|----------|--------|
| WSPF KD R/L 2x4 | 400 | 390 | +10 | 370 | +30 | 276 | +124 |
| WSPF KD R/L 2x6 | 390 | 386 | +4 | 370 | +20 | 288 | +102 |
| WSPF KD R/L 2x8 | 380 | 374 | +6 | 362 | +18 | 272 | +108 |
| WSPF KD R/L 2x10 | 404 | 400 | +4 | 394 | +10 | 314 | +90 |
| WSPF KD PET 2x4 Stud | 385 | 375 | +10 | 300 | +85 | 280 | +105 |
| WSPF KD PET 2x6 Stud | 385 | 375 | +10 | 285 | +100 | 245 | +140 |
| Douglas Fir Green R/L 2x4 | 385 | 380 | +5 | 360 | +25 | 250 | +135 |
| Douglas Fir Green R/L 2x10 | 403 | 390 | +13 | 355 | +48 | 315 | +88 |
| ESPF KD 2x4 8ft Stud | 435 | 420 | +15 | 395 | +40 | 350 | +85 |
| OSB Ontario 7/16" (CDN\$) | 435 | 440 | -5 | 380 | +55 | 215 | +220 |
| CSplywood Toronto 3/8" (CDN\$) | 416 | 423 | -7 | 437 | -21 | 343 | +73 |

Weekly News

Housing Starts, Canada

CONTINUED Urban housing starts in Canada rose 18.4 per cent in February to 161,631 units, led by a 27.7 per cent increase in multiple urban starts to 99,022 units. Single urban starts rose 6.1 per cent to 62,609 units in February, the CMHC said.

Urban starts rose 46.8 per cent in Ontario, 34.9 per cent in Quebec, 2.1 per cent in British Columbia and 1.5 per cent in the Prairies. Urban starts slumped 31.7 percent in Atlantic Canada.

AFPA Fourth Quarter

CONTINUED Lumber production for AFPA member companies in 4Q totalled 745 mmfbm with a value of \$242 million. Compared to 4Q 2011, lumber production was up 66 mmfbm or 9.8 per cent and values increased \$73 million or 43.2 per cent. Compared to 3Q 2012, production volume dropped by 18 mmfbm or 2.3 per cent and values declined by \$6 million or 2.5 per cent.

Panelboard production in 4Q was 269 million square feet with a value of \$90 million. Compared to 4Q 2011, production was up roughly 11 million square feet, or 4.4 per cent, and values rose by \$28 million, or 44.5 per cent. In comparison to 3Q 2012, production increased by 4 million square feet or 1.4 per cent, but values declined by \$2 million or 1.6 per cent.

Howe Sound LNG Plan

CONTINUED Pacific Energy, part of the Pacific Oil and Gas Group, is a Canadian-incorporated company. Its main office is in Jakarta, Indonesia.

The 86-hectare Squamish site was bought last month for \$25.5 million from Western Forest Products. It isn't con-

nected by road to Squamish, but is home to a deepwater port at the head of Howe Sound.

Flavelle Cedar Mill's Future Uncertain

David Gray of Mill and Timber Products said to *Coquitlam Now* Friday that there isn't enough cedar available to keep the company's Flavelle sawmill in Port Moody, BC running. Gray said the province is heading in the wrong direction, arguing policy is leading to fewer logs being available for the domestic industry.

Gray stepped down from the province's Timber Export Advisory Committee last month, citing his opposition to government policy related to the export of raw logs. He said the province is heading in the wrong direction, arguing policy is leading to fewer logs being available for the domestic industry.

US Mortgage Regulator Making Progress

Fannie Mae and Freddie Mac will build a new joint company for securitizing home loans as a stepping stone toward shrinking the government's role in the mortgage market, the regulator of the US government-controlled firms said on Monday.

Edward DeMarco, acting director of the Federal Housing Finance Agency, told the National Association for Business Economics that the goal is to build a single infrastructure to support the mortgage credit business.

Fannie Mae and Freddie Mac, which were bailed out by the government in 2008, help finance about two-thirds of new US home loans. DeMarco is seeking

to shrink their footprint and reduce risks to the taxpayers that support the mortgage giants.

Since they were seized by the government, the companies have drawn nearly \$190 billion from the US Treasury to stay afloat.

By creating a new securitization company, FHFA intends to pave the way for a single securitization platform and force Fannie Mae and Freddie Mac to abandon their separate systems.

DeMarco expects Congress will ultimately decide how the securitization platform is operated and whether it should be privatized.

Calendar

March 2012

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/>

May 2012

International Pulp Week 2013
May 5 to 8 - Vancouver, BC
<http://www.internationalpulpweek.com/>

26th Annual Global Forest & Paper Industry Conference
May 9 - Vancouver, BC
<http://www.pwc.com/ca/>

BC Timber Allocation

Woodlots, Major Licensees

A recent opinion letter by a British Columbia woodlot owner to the Kelowna Capital News sparked *Madison's* interest in the issue of timber allocation in the province. There are several categories under which tenure is available in BC, the most common are: Timber Supply Areas (TSAs), Tree Farm Licences (TFLs), Woodlot Licenses, and Community Forest Agreements. Generally speaking, TSAs

by Kéta Kosman

and TFLs are measured in volume, while Woodlots and Community Forests are measured by area and are a small percentage of all timber tenures. It is important to note that under the terms of the 2006 Canada/US Softwood Lumber Agreement (SLA), 20 per cent of BC's Annual Allowable Cut (AAC) must go through BC Timber Sales (BCTS) as a way of assuring market pricing of timber.

On February 1, George Delisle, a woodlot owner in Westbridge, BC, wrote to the Kelowna Capital News in response to another opinion letter about the Fair Rail Freight Services Act, "I find it very strange that the forest companies are very concerned when they have to do business with another business that has a monopoly that controls part of their supply chain, [. . .] Perhaps what we need is some legislation [. . .] for a fair log price and market act. This would help correct the imbalance in the business relationship between the log buyer and the log seller."

The Fair Rail Freight Service Act is an effort by the federal government to bring relief to Canadian operators in remote areas who are at the mercy of Montreal, QC's, Canadian National Railway's monopoly on freight service. Please refer to the November 10, 2011 issue of your *Madison's Lumber Reporter* for details.

In recent years *Madison's* has heard similar sentiments repeatedly echoed by logging contractors and other independent operators, so these strong words prompted a phone call to Delisle for details of his experiences.

"The current system allows the major licensees to manipulate BCTS through surrogate bidders," explained Delisle to *Madison's* in a phone interview.

Delisle and others maintain that the big players, with such large volumes of timber, have many more options with log sales, buying, and trading available to

them than smaller operators and contractors.

"The Arrow Boundary district has less than 1.5 per cent of the AAC – not including TFLs – going through small scale tenures like Woodlots, Community Forests, and First Nations," detailed Deslisle. "We need to diversify out timber harvest tenure base, there need to be more small scale tenures for many reasons. For one thing, that is where young people get their training in timber management. For another, small scale tenures would improve the mid-term timber supply."

This is presumably because the small operators may be better able to utilize the marginal or lower-volume stands than the large companies which have sizable land mass to manage. Smaller operators can also be more focussed on value-added lumber production than the bigger companies.

"In my area [Arrow Boundary] 42 per cent of the AAC goes to open bid through BCTS, not 20 per cent as it is supposed to be provincially," charged Deslisle. "The proportion of timber available to small tenure holders should be increased from 1.5 to 3 per cent, and should come from BCTS. This would also help the SLA because the logs sales would be more open market."

In search of concrete answers, *Madison's* spoke to Garth Wiggill, District Manager of the Selkirk Resource District, Thursday. That District includes the Arrow Boundary, Kootenay Lake, and Columbia Forest Districts.

One of Delisle's main gripes is the ratio of AAC in Arrow Boundary which goes to open bidding through BCTS.

"The target for the province as a whole is for 20 per cent of the total AAC to go through BCTS to support the BCTS pricing mandate," confirmed Wiggill in a phone interview. "However apportionment for the various districts are not itemized. The ratio is not balanced within each TSA across the province, what is important is the total percentage for the province as a whole.

"Approximately 43 per cent of AAC in Boundary goes through BCTS," Wiggill estimated. "As soon as you start adding TFLs that ratio is reduced."

So even though it seems like there is a disproportionate amount coming from one particular TSA, a change would water-board across the province and bring that total down. Which could cause problems in terms of compliance with the SLA.

Wiggill pointed out that there are currently 34 woodlots in the Boundary district.

As for the issue of logs changing hands

between the big companies with sawmills in different districts, Wiggill said, "For the major licensees to trade logs and sell logs between each other is good business. It is important to get the right logs to the right mill. As a district, in 2012 the volume moving into the Selkirk district exceeded the volume going out. There were 4.5 million cubic metres of timber logged and 8 million cubic metres of lumber processed."

Delisle was quick to note in a follow-up email Friday morning that, "It may be worth pointing out that for the volume coming into the Arrow, it may look like more volume has come into the district than goes out, but a good portion is for pulp wood and biomass that other districts can't use, so this distorts the amount of the good wood portion that is being sent out of an area that has been hit very hard by the down turn in the economy.

Just last week, the Ministry of Forests, Lands and Natural Resource Operations invited the Village of Fraser Lake to apply for a community forest licence. If the application process is successful, Fraser Lake could harvest up to 45,000 cubic metres of timber a year, said a ministry press release March 1. Since 2004, government has signed 47 community forest agreements with a total annual allowable cut of 1.3 million cubic metres of timber a year.

However in October 2008, then Minister of Forests and Range, Pat Bell, announced, "the Province will offer 60 to 75 new woodlots over the next three years, which will result in a total of about 900 woodlots operating in British Columbia by 2011," according to a ministry press release.

At that time there were 828 active woodlots that included about 546,000 hectares in British Columbia.

BC woodlot owner and communications chair of the Federation of BC Woodlot Associations, Lisa Marak, said to *The Working Forest* in May 2012 that the woodlot licence program has grown slowly, since the Forest Act was amended in 1979, to include 875 licenses covering over 575,000 hectares, of which approximately 95,000 is privately owned. Marak said that in 2005, woodlot licenses harvested just over 3 million cubic metres of timber, generating an estimated \$183 million in economic activity within the province.

So between 2004 and last week there have been 47 new community forest agreements. And between 2008 and May 2012 there were only 47 new woodlot licenses offered, with a few additional ones added since May. It does seem like the government is moving much more slowly with these small-scale tenures than previously promised.