

# MADISON'S LUMBER REPORTER

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## News & Updates

### Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines a recent rush of institutional investment into US real estate, and looks closely at Blackstone Group specifically. Contact us any time to receive this vital and timely information regularly.

### Sawmill Accident

An incident at McKenzie Forest Products' mill in Hudson, ON, has resulted in a Ministry of Labour investigation.

Ministry Spokesperson Matt Blajer says the mishap happened on Tuesday. Blajer says a male worker suffered a crushing injury to his left arm and is in hospital in Winnipeg, MB. There is no word on the extent of the injury.

Blajer says it appears the worker was injured when he was changing blades on a saw. He notes the investigation is on-going but an inspector has issued 8-work orders against MacKenzie Lumber. Blajer says the orders surround the requirements of documents and information as well as the lock-out of equipment while it's being maintained.

### Asian Lumber Company Visits to US Sawmills

A delegation of Chinese and Korean wood and lumber companies is visiting Idaho and Montana this week. The delegation spent Thursday in Coeur d'Alene, ID, at the Small Log Conference hosted by the Forest Business Network. One of the largest trade delegations to ever visit Missoula, MT, will arrive Friday evening to begin what state leaders hope is a shopping spree in Montana wood products and a new market for Asian buyers, says the *Billings Gazette*.

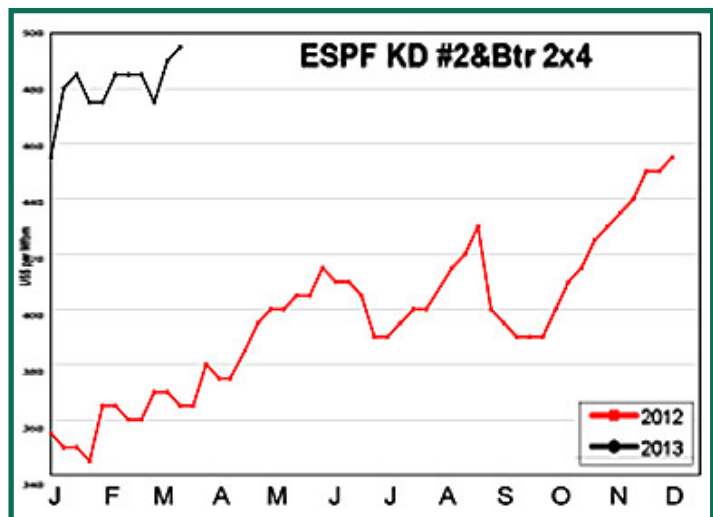
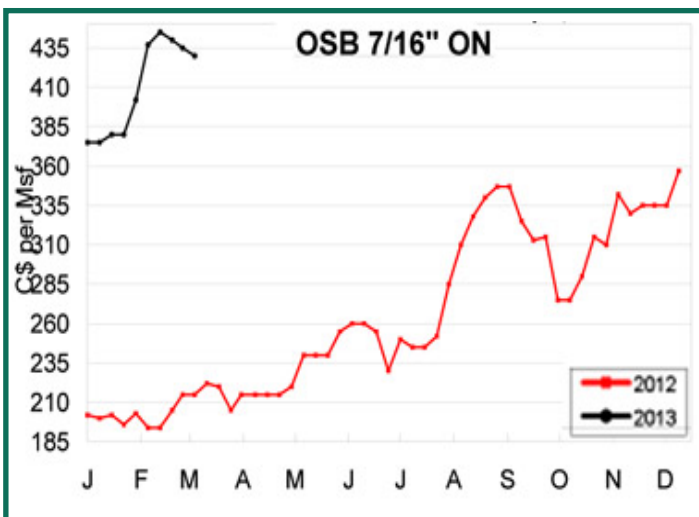
The Montana World Trade Center at the University of Montana will introduce its members to Montana wood products, lumber companies, and the state timber industry. [READ MORE](#)

### US Home Prices

JPMorgan Chase & Co more than doubled its forecast for US home price gains in 2013 to 7 per cent this week, and predicts a more than 14 per cent increase through 2015, according to Bloomberg Friday. Bank of America Corp said last week property values will jump 8 per cent this year, up from a prior estimate of 4.7 per cent in a report titled "Someone say house party?" [READ MORE](#)

### India's Trade Growth

Touted as a major global consumer in the near future, the explosive growth of India's middle class is surely an important statistic to watch for manufacturers and exporters of all kinds. Major trading partners around the world, Canada included, are working hard to increase exports to India. It is estimated that India's GDP will grow by 5.9 per cent this year and by 6.4 per cent in 2014. Sixty-six per cent of India's population is under the age of 35 and the country is poised for economic and social prosperity similar to that of industrializing European countries at their peak. The US, UK, EU, and China are all vying to foster significant trading relationships with India. [READ MORE](#)



**Excerpts of Letter from Tom Sundher, President, Sundher Group of Companies to  
Canada's Standing committee on International Trade in regards to a CEPA with India  
February 12, 2013**

**Some basic facts about India:**

- A population of 1.2 billion people that all require housing;
- A shift from rural agrarian lifestyle to a urban industrial life-style requiring new housing units;
- By 2020 it is estimated that 200 million new housing units will be required, of which 80 million will be urban with somewhat similar characteristics that you would find in homes or condominiums in North America. The majority will be multi-family type;
- A demographics skewed towards a younger age group that is evolving into a middle class consuming society for such items as furniture and other housing amenities constructed of lumber.

**Other significant changes that took place over this time frame include**

- In 1995, the banning of domestic harvest of timber on all government lands to protect the environment;
- A significant increase in both Hardwood and Softwood log imports to make up for some of this shortage (approximately 200 ship loads of logs/year);
  - Hardwood logs – 5 million m3/year
  - Softwood logs – 1.0 million m3/year
- A drop in the import tax on lumber from 37.5 per cent to 14.75 per cent;
- A subsequent increase of lumber imports from 100,000 m3 of hardwoods to 600,000 m3 of hardwood and softwoods in 2011 (12,000 containers per year)
  - Hardwood lumber 300,000 m3/year
  - Softwood lumber 300,000 m3/year
  - From Canada 65,000 m3/year

**Hurdles remain for Canadian lumber export to India:**

Imported logs are subjected to a duty of 9 per cent, Lumber is at 14.75 per cent, and finished products such as doors, windows, flooring products are 33 per cent thereby skewing buying decisions

India is a “fibre deficit” nation and needs to import logs and lumber to meet it's growing needs for wood products. The reality is that India is a wood culture. As consumption grows along with demographic and economic trends, all estimates are for more wood use, not less.

India is developing an export economy of furniture, doors etc. that will put it at a competitive disadvantage with other exporting nations. I am not aware of any import duty tax credit for goods, which includes lumber products, that a duty has been paid on but that are exported out of the country.

Current tariffs for the importation of lumber into India are 14.5 per cent. However, various other duties, taxes and surcharges increase this to 22 per cent by the

time the product reaches the customer. These are surcharges levied for port, distribution, trucking, border crossings etc. that are above and beyond the cost of the service.

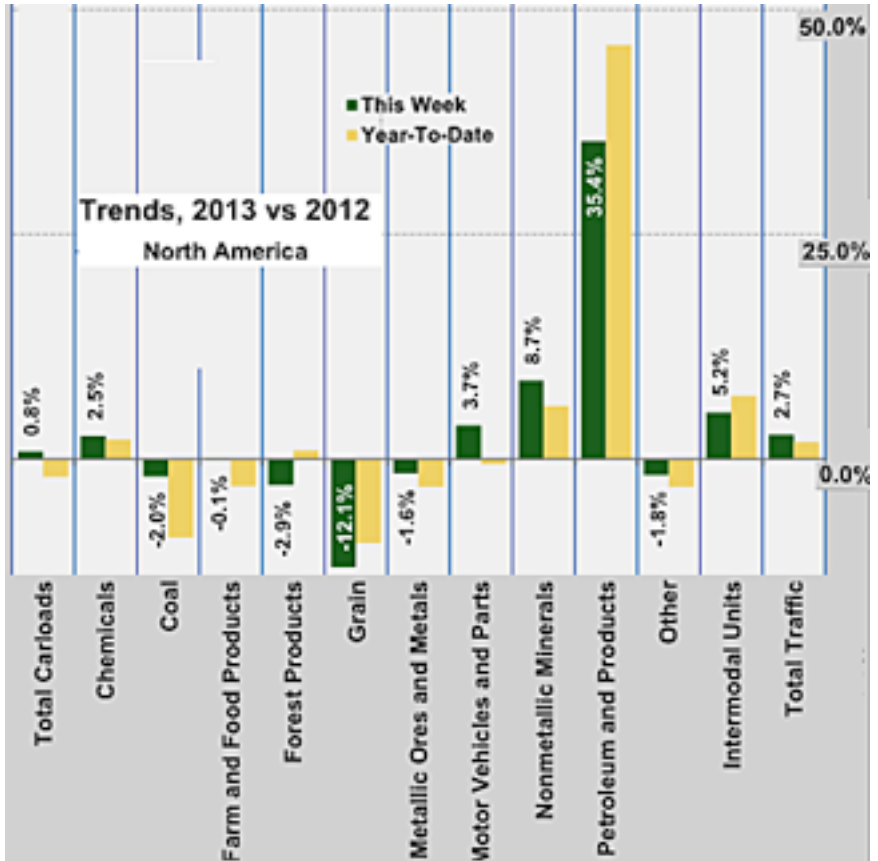
Currently India requires Canadian customers to obtain an Import Permit from India Agriculture for SPF and Douglas Fir (under Section VI of the Import Schedule) while no import permits are required for Hemlock or Western Red Cedar (fall under Section VII of the Import Schedule).

**RECOMMENDATIONS:**

- a reduction in tariffs and duties to as close to zero as possible at all steps of the product reaching the customer;
- put SPF and Douglas Fir fall under Section VII - hence no import permit required;
- less regulation and paper work, uniform application of regulations to all importers or countries, consistent regulations between species, as well as an expedited regulation change system;
- “simplified” clearance systems that speeds the clearance of products once they are off-loaded from a vessel.

Tom Sundher is principal at Coast Clear Wood and Export Sales Agent for Western Forest Products.  
Sundher has been exporting BC lumber products to India for over 15 years

SOURCE: Association of American Railroads



## Key Prices

|                                | This Week | Last Week | Change | Month Ago | Change | Year Ago | Change |
|--------------------------------|-----------|-----------|--------|-----------|--------|----------|--------|
| WSPF KD R/L 2x4                | 408       | 400       | +8     | 382       | +26    | 280      | +128   |
| WSPF KD R/L 2x6                | 394       | 390       | +4     | 382       | +12    | 288      | +106   |
| WSPF KD R/L 2x8                | 378       | 380       | -2     | 372       | +6     | 272      | +106   |
| WSPF KD R/L 2x10               | 404       | 404       | 0      | 390       | +14    | 314      | +90    |
| WSPF KD PET 2x4 Stud           | 400       | 385       | +15    | 335       | +65    | 280      | +120   |
| WSPF KD PET 2x6 Stud           | 400       | 385       | +15    | 325       | +75    | 245      | +155   |
| Douglas Fir Green R/L 2x4      | 390       | 385       | +5     | 360       | +30    | 250      | +140   |
| Douglas Fir Green R/L 2x10     | 410       | 403       | +7     | 365       | +45    | 310      | +100   |
| ESPF KD 2x4 8ft Stud           | 460       | 435       | +25    | 405       | +55    | 365      | +95    |
| OSB Ontario 7/16" (CDN\$)      | 430       | 435       | -5     | 402       | +28    | 222      | +208   |
| CSplywood Toronto 3/8" (CDN\$) | 402       | 416       | -14    | 433       | -31    | 350      | +52    |

## Weekly News

### Asian Lumber Trade Delegation in US

CONTINUED Organizers are hopeful the visit will open a new market to the companies, which represent more than US\$300 million in annual lumber imports throughout the world. The buyers represent a number of large Asian companies, including the Shanghai Anre-sion Wood Industry Co, the Chongqing Zhongnuo Timber Development Co, and the Tae Won Lumber Co, among others.

This group represents nearly 20 per cent of all wood products imports to China and Korea. Most have annual sales ranging from US\$20 million to US\$75 million each.

"They're interested in dimensional lumber, pine and softwoods for paneling, and architectural lumber," said Arnie Sherman, executive director of the Montana World Trade Center. "Most of what they've purchased in the US has come out of Georgia and the Southeast, but now they're interested in Montana wood."

The trade mission also is sponsored in partnership with the Montana Wood Products Association, Missoula Economic Partnership, Bitter Root Economic Development District, and the Forest Business Network.

### Home Price Forecast, US

CONTINUED Housing and economic indicators are "showing resilience," JPMorgan analysts led by John Sim wrote in the March 13 report. The New York-based firm estimates home prices will increase 3.9 per cent next year and 3.2 per cent in 2015. New-home sales in January saw the highest increase in 20 years.

The two biggest US banks are predicting an accelerating rebound as homebuyers and investors rush to acquire a dwindling supply of properties and the Federal Reserve pushes down borrowing costs by buying mortgage bonds. That's strengthening the economy and sustaining a rally in homebuilder shares after the stocks more than doubled since the end of 2011.

### Canadian Industrial Capacity Utilization

Canadian industries operated at 80.7 per cent of their production capacity in 4Q 2012, down slightly from the 81.1 per cent in 3Q, said Statistics Canada Thursday. The decline was a result of a 2.1 percentage point decline in the manufacturing sector in 4Q, which was partly offset by gains in the non-manufacturing sector.

The manufacturing sector operated at 80.2 per cent of its capacity in 4Q, 2.1 percentage points lower than in 3Q.

The decline was largely attributable to transportation equipment and food manufacturing, though most other industry groups were also down. Of the 21 major groups in the manufacturing sector, 14 reduced their capacity utilization.



## Calendar

### April 2012

#### Council of Forest Industries Annual Convention

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

#### IWPA 57th Annual Convention

April 17 to 19 - Vancouver, BC  
<https://m360.iwpawood.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/>

# India Growth and Trade

## Canadian Lumber Exports

CONTINUED With all that in mind, the first ever BC-India Global Business Forum was held early this week in Vancouver, BC, with several hundred attendees from both India and Canada.

"Canada will have to fight harder to be noticed in India," said Adam Roberts,

by Kéta Kosman

South Asia bureau chief for *The Economist*. "The P5

nations [the five permanent members of the UN Security Council - ed] have a huge presence in India. Canada is barely on the radar."

During the speaker sessions of the Trade Forum, Mike Manson, CEO of TaraSpan, said, "If Canadian companies become trading partners in India, they could ride the coattails of larger countries around the world."

TaraSpan, Canada's leading provider of India market entry services for technology companies, Tuesday announced that it will be opening an office in Vancouver to accelerate technology trade from BC into the burgeoning Indian market.

Said Vivek Rastogi, VP of Americas for Abellon Energy, "More Canadian provinces need to follow the very aggressive example of BC in opening up trade with India. Canada is moving so slowly that individual companies may as well just look for new trade themselves. The danger is in only the biggest companies making deals with each other. There need to be trading offices to provide traction."

In that regard, BC Forestry Innovation Investment opened the lumber trade office in Mumbai on December 10, 2012. The FII operation will provide on the ground assistance for the BC and Canadian wood industry.

It is generally acknowledged, by both Indian nationals and business people from other countries, that India has some hurdles to overcome in the near future, but that the long-term future absolutely is bright. Those both inside and outside India say the situation and business climate is very regional; depending on the state. While the central government makes a lot of decisions, most of the actual control is at the state level. And there are massive differences between states, very generally divided between the north and the south.

Many of Canada's current business successes can be found in Gujarat, India's

fastest growing state, where Bombardier and McCain Foods have set up facilities.

Guest speaker Mobashar Akbar very astutely pointed out that it is not the ratio of the population that is heading toward middle-class status, nor is it the relatively low average age of the population, that is important. Rather more important is, "What percentage of India is aspiring to enter the modern world? It is not just about business," said Akbar, former Editorial Director of *India Today*. "They want it [to enter the modern world] in their own lifetimes. India pays the democracy price. Don't punish India for the sins of its government. Thirty to 40 per cent of India has an urban mind, questions of caste and religion get submerged."

Praveen Kandle, CEO of Tata Capital, said, "In terms of consumer power, the middle class in India is close to 400 million people, which is bigger than the entire population of Europe. Most of this growth is due to urbanization."

Apart from BC Premier Christy Clark's speech and a couple of cursory mentions, forest products did not feature very highly in the conversations throughout the day. However clean energy, whether liquified natural gas (LNG) or biomass fuel, both in liquid and solid form, were much discussed.

A lot of the conversation about India and growth comes down the energy. Stable, cost-competitive energy sources are in great demand all over the country. Several of the speakers specifically mentioned an initiative to replace the diesel generators which are backup power units for 350,000 mobile signal towers with sustainable energy.

Explained Manson, "These can be anything from lithium ion batteries to solar or wind power."

Presumably fuel created from the abundant supply of BC's mountain pine beetle wood would also fit the necessary criteria.

Rastogi went even further, saying, "Biomass energy is the only renewable fuel source that has hydrocarbons. India intends to go the biorefinery route. North America has 15 per cent of the world's forests but 70 per cent of the third-party certified forests. BC is a mecca of clean technology and pellets. This province is the largest exporter of pellets in North America, there is a lot of sawmill residue available from the large corporations. In five years we expect there will be 1 million tonnes of pellets produced annually in BC.

This province has an important advantage due to the proximity of Asian

markets. And even though BC is twice the distance from Rotterdam as the east coast is, freight is not that much higher but the feedstock is much cheaper."

Social issues and those of infrastructure and transportation were frequently mentioned topics.

Nirmal Verma, India's High Commissioner to Canada, said, "India needs a \$1 trillion investment in infrastructure in the next five years. Fifty per cent of the funding for this will come from the private sector."

Please refer to the February 24, 2012 issue of your *Madison's Timber Preview* for details of the massive projects planned for India and the public-private partnerships involved in that development.

Some cumbersome bureaucratic impediments and tariff barriers remain between Canada and India, but not for long if ongoing negotiations have the desired affect. On February 5 and 6 the seventh round of negotiations toward a Comprehensive Economic Partnership Agreement (CEPA) between Canada and India was held in New Delhi. A Canada-India joint study concluded that a trade agreement between the two countries could boost Canada's economy by at least \$6 billion. That translates to almost 40,000 new jobs across the country. Canada has identified core economic opportunities in India in the energy, agriculture, infrastructure, and education sectors.

Tom Sundher, principal at Coast Clear Wood and export agent for Western Forest Products explained to *Madison's* in a phone interview Thursday, "About 12 years ago there was a 37.5 per cent tariff on Canadian goods going to India. Now it is 14.5 per cent. If we can get that even lower, trade volumes will be even better."

Sundher indicated that a Canada-India free trade agreement may be completed by the end of 2013. Please refer to Page 6 for Sundher's trade letter detailing BC lumber exports to India.

But Canada is not the only country looking to improve trade relations with a fast-growing India. The US-India Business Council (USIBC) said Thursday that bilateral trade between India and the US could touch US\$500-billion mark over the next decade, according to the *Times of India*.

"From US\$25 billion in 2006, the Indo-US trade has sniffed at US\$100 billion last year, while defence trade alone touched US\$10 billion in the past decade," said USIBC Chairman Ajay Banga. "If both the partners chart out a larger strategy of engagement I am hopeful that two-way trade between the US and India can achieve our next target of US\$500 billion over the next decade."