

# 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 data on US mortgage rules, mortgage insurance, federal penalties to banks, and financial results of lender companies.

Contact us any time for this worthwhile and timely information!

### CN Rail Labour Contract Talks Stall

Canada's government is closely monitoring a dispute between the railway workers' union and Canadian National Railway, and is urging both parties to continue talking, a spokesperson for Labour Minister Kellie Leitch said on Tuesday.

The Teamsters said Monday that talks had broken down, raising the possibility of a strike or a lockout at the country's largest railway operator once a union-set October 28 deadline is passed, according to the *Globe and Mail* Tuesday. [READ MORE](#)

### UK Timber Shortage

The "Grown in Britain" campaign this week launched a report detailing proposals to boost Britain's domestic forest industry. The construction industry was hoping that the report would contain suggestions for increasing the amount of British-grown timber available for new buildings, said *The Economist* Thursday.

But the report merely suggests that there is a need for "generating more demand" for British wood by improving "wood culture" among the general public.

Although the UK's production of sawn timber increased by 22 per cent between 2008 and 2012, according to the Forestry Commission, production is now levelling off due to bottlenecks in the timber-processing industry. A 2011 report said that 40 per cent of potential British timber production is lost due to a lack of business investment in processing facilities. [READ MORE](#)

### US Builder Confidence : October 2013

The National Association of Home Builders/Wells Fargo housing-market index fell to 55 in October, from 57 in September, the NAHB reported Wednesday. A prior September estimate pegged the level at 58, which matched the highest reading since 2005.

Results above 50 signal that builders, generally, are optimistic about sales trends.

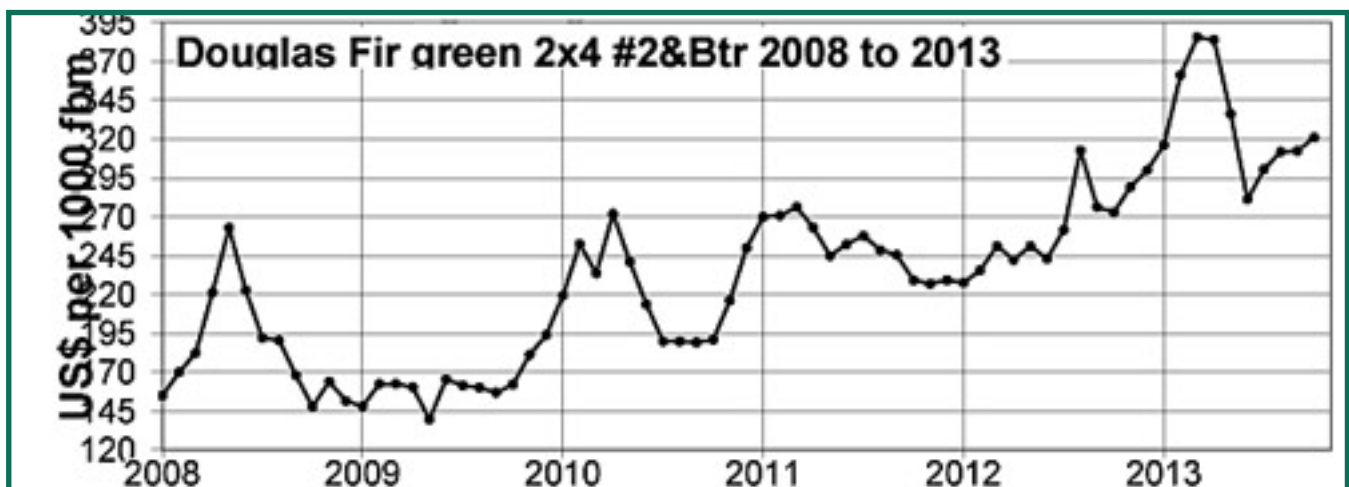
"Interest rates remain near historic lows and we don't expect the level of rates to have a major impact on sales and starts going forward," said David Crowe, NAHB's chief economist. "Once this government impasse is resolved, we expect builder and consumer optimism will bounce back."

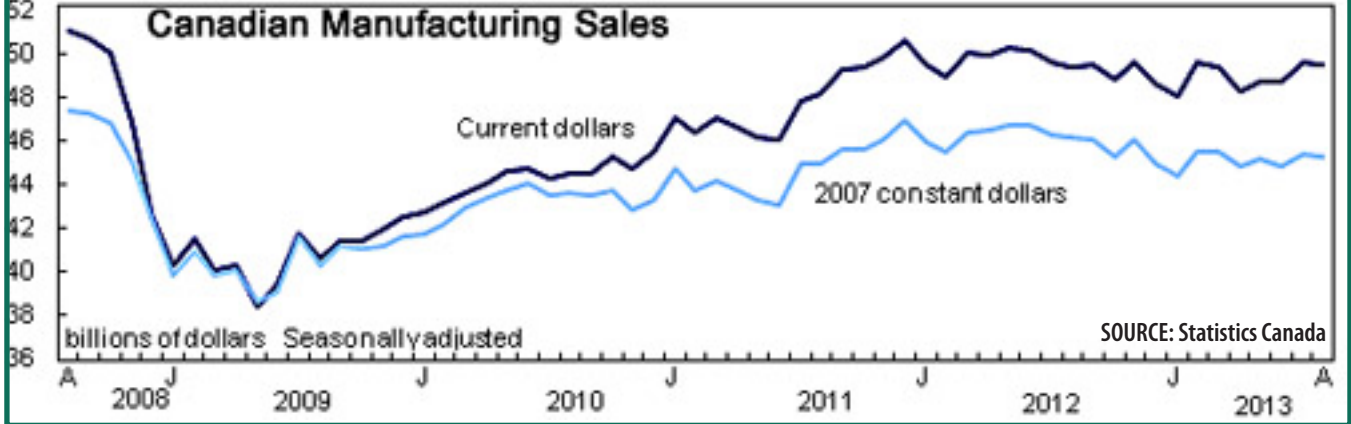
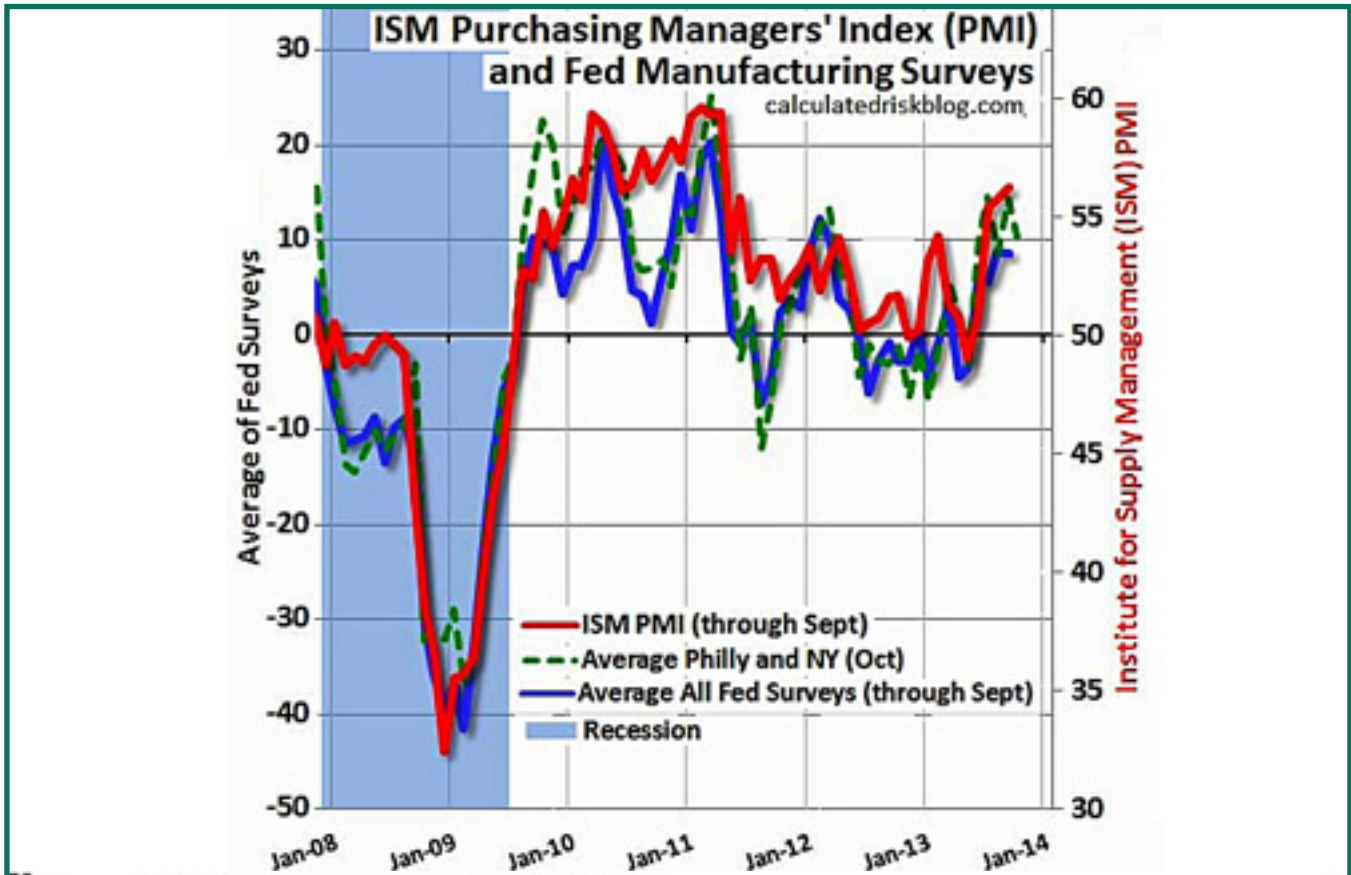
Despite the recent decline, pent-up demand is supporting builder sentiment, which has increased 34 per cent over the past year, outpacing home-construction growth.

### Illegally Harvested Timber Legislation Globally

Amendments to the US Lacey Act, the new EUTR regulations, and now Australia's ban on illegal timber imports - which passed Monday - are all making great strides in preventing the unsustainable harvest of exotic timber in developing countries.

[READ MORE](#)

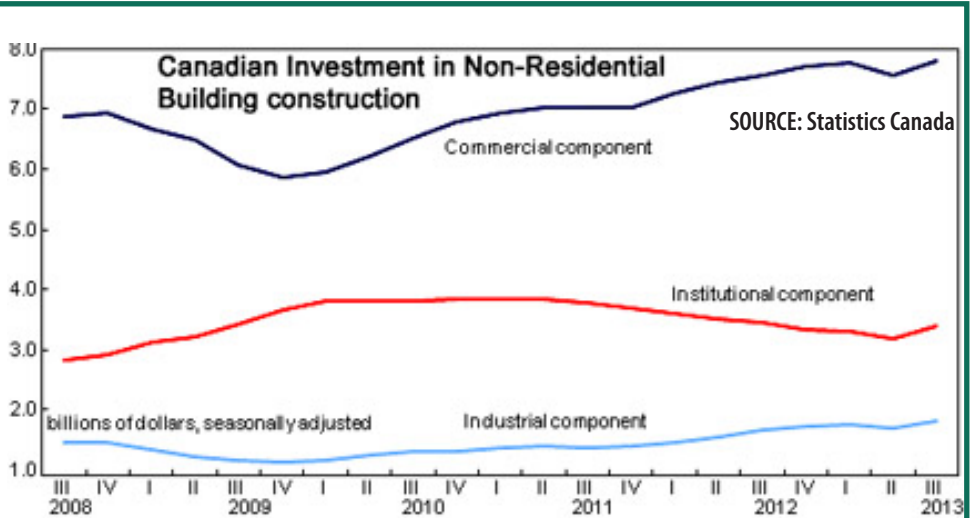




Investment in Canada's non-residential building construction increased 4.4 per cent to \$13 billion in 3Q, following a 2.7 per cent decline in 2Q. The 3Q gain was attributable to the end of a construction strike in Quebec as well as increases in five other provinces.

Investment in commercial building construction reached \$7.8 billion in 3Q, up 3.1 per cent from the previous quarter.

Commercial investment increased in four provinces. The largest gain occurred in Quebec, where investment rose 23.9 per cent to \$1.5 billion, following an 11.4 per cent drop in 2Q.



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	362	358	+4	348	+14	302	+60
WSPF KD R/L 2x6	340	338	+2	334	+6	310	+30
WSPF KD R/L 2x8	340	336	+4	328	+12	300	+40
WSPF KD R/L 2x10	444	450	-6	424	+20	345	+99
WSPF KD PET 2x4 Stud	319	325	-6	325	-6	285	+34
WSPF KD PET 2x6 Stud	295	295	0	290	+5	295	0
Douglas Fir Green R/L 2x4	322	320	+2	315	+7	365	-43
Douglas Fir Green R/L 2x10	470	466	+4	415	+55	310	+160
ESPF KD 2x4 8ft Stud	380	375	+5	375	+5	365	+15
OSB Ontario 7/16" (CDN\$)	235	235	0	230	+5	290	-55
CSplywood Toronto 3/8" (CDN\$)	371	371	0	378	-7	363	+8

## Weekly News

### CN Rail Labour Talks

CONTINUED The Teamsters Canada Rail Conference, which represents 3,300 conductors, train, and yard workers and traffic co-ordinators with Canada's largest railway company, said Monday that CN's decision last week not to extend a conciliation process could lead to a strike or a lockout on October 28. The collective agreement expired on July 22.

The union said the talks have stalled over CN's demands for concessions that would force workers to work longer hours with less rest time between trips, according to the *Toronto Sun* Monday. Wages and the retirement plan are not central issues in this bargaining round, the union said.

The union said the company's demands fly in the face of its statements about safety being a priority.

A CN spokesperson said the company does not comment on the substance of ongoing labour negotiations, but stressed that CN's bargaining proposals would not in any way compromise the health and safety of TCRC members.

CN remains optimistic it can negotiate an amicable settlement with the TCRC to avoid labour disruption in Canada Mark Hallman said to the *Sun* in an email.

Hallman also noted that the company has comprehensive safety programs in place designed to prevent accidents.

### UK's Timber Future

CONTINUED Other factors have increased demand for local timber over the last few years. For instance, a trend to build more houses out of wood rather than traditional clay brick has boosted demand for local supplies, said *The Economist* Thursday. Nearly 30 per cent of new houses in England are soon likely to be

timber framed, according to the Structural Timber Association. In Scotland, that figure has already reached 72 per cent.

New regulations that force companies to use low-carbon materials have also boosted demand for locally-grown wood. New EU labeling codes have encouraged builders to use more locally-sourced materials by insisting that "embodied carbon" emissions, due to transporting materials, should be included in the environmental reckoning for new buildings. Firms have also become fussier about what materials their buildings use since big British companies are now forced to report the level of carbon emissions they produce.

But sourcing wood for new buildings in England has become a particularly tough task in recent years due to supply shortages. Benedict Binns, at the Centre for the Built Environment, claims that finding English-grown timber has become "very difficult" for their projects. Even those willing to pay premium prices, like building preservation experts, say they cannot find the locally-produced timber they need.

### Oregon's Forestry Employment

A recent report of labour trends on Oregon's South Coast showed a rise in payroll employment across several industries, but one industry that's seen a great rebound since the recession is the wood product manufacturing industry, said *KCBY* October 11.

An Oregon Employment Department Report shows wood manufacturing jobs in Coos County have grown by nearly 200 jobs since December of 2010.

Eric Farm from the Menasha Corporation says housing starts have made a dramatic rebound. "Over the last three years,

we've went from about 600,000 starts a year to almost 900, and almost a million a year," he said.

Farm says home construction has a positive effect on all the workers involved in the process. "All the way back to loggers out in the woods, truck drivers, you've got the wood moving on the rail now, so all those it's just a real ripple effect," Farm said.

A local manager who buys from wood manufacturers says the sales side is also thriving. "We've brought in cabinets from local Oregon manufacturers and we've just been selling them like crazy, and just business in general has been up pretty steady for the past three years," said Randall Shelman, manager for LNL Lumber.

Manufacturers say it's not easy to predict the future, but they do expect the growth in the industry to continue in Coos County, according to *KCBY*.

### Large Timberland Sale

Molpus Woodlands Group, out of Jackson, MS, has agreed on behalf of a unidentified client to buy about 73,000 acres of timberland located around Birmingham, AL. The close of the purchase is set to occur in installments starting this month. Terms were not disclosed.

Dick Molpus, president of the timberland investment management firm, says the timberland is located in 13 counties. He said the land consists of Loblolly pine plantations distributed among all age classes. Michael Cooper, the firm's general counsel, declined to identify the buyer, who he said is an institutional investor, and declined to identify the counties where deals are pending.

Molpus currently manages about 1.5 million acres of timberland investments in 17 states.

# Illegal Timber Harvesting

## US, Europe, Australia

Fast on the heels of the US Lacey Act and Europe's EUTR legislation prohibiting the import of illegally harvested timber, this week Australia officially approved its own similar law.

Australia's parliament on Monday passed legislation to ban the import and trade of illegally logged timber, joining the United States and European Union in clamping down on a global trade in stolen

by Kéta Kosman

timber that Interpol says is worth about \$30 billion a year,

said *Reuters* Monday. The Australian laws, five years in the making, impose fines, jail, and forfeiture of goods, and oblige importers to carry out mandatory due diligence on timber and timber products sourced from overseas.

The Australian government says about 10 per cent of the more than AUD\$4 billion (US\$4.12 billion) of timber imported annually is illegal, and that illegal logging globally causes environmental and social damage estimated at AUD\$60 billion a year.

Most illegal logging occurs in tropical forests, especially in countries with lax law enforcement, corruption, poor forest management, and underfunded conservation programs. A report published by Interpol last year suggested that large amounts of illegal timber are "laundered" through legitimate forestry enterprises, including the plantation sector.

The Australian laws impose a maximum penalty of five years jail time and a fine of AUD\$275,000 for a company, or AUD\$55,000 for an individual, if they knowingly, recklessly, import or process illegally logged timber products.

Amendments to the US Lacey Act ban trade in illegally sourced timber, wood and paper products within the United States and internationally. Failure to comply means fines, jail time and forfeiture of goods.

In Europe, the EUTR – which came into effect in March – aims to stop illegally logged timber being sold in the EU, by regulating the list of timber and timber products, whether harvested in the EU or beyond, sold within Europe. Government buying of timber makes up 19 per cent of the EU's annual GDP, which amounted to €2,100 billion in 2009.

An investigative project by students from UBC's Graduate School of Journalism, released at the beginning of October, uncovered the criminal, environmental, and social consequences of the illegal tim-



ber trade, one of the largest black markets in the world. Ten graduate students in UBC's International Reporting Program spent a year travelling to Indonesia, Cameroon, and Russia to investigate stories of communities affected by illegal logging and bring awareness to North American consumers who are buying furniture, paper, and building materials made from this wood.

In Russia's Far East, students discovered that massive amounts of illegally logged Russian hardwood are shipped to China, where the wood is turned into inexpensive furniture and other items for export to western consumers. In Indonesia, a student team challenged a representative of one of the world's biggest paper companies on its damaging environmental history. In Cameroon, students encountered a scheme to deprive indigenous people of their livelihoods in their community forest.

Almost US\$40 million worth of timber was seized by Interpol's illegal logging crackdown, Operation Lead, in 2013, and on-going seizures are revealing the true scale of the problem. When Operation Lead was first undertaken, US\$8 million worth of timber was seized.

This year, in mid-February, Interpol arrested nearly 200 people and seized 2,000 truckloads of wood in one of the biggest raids ever on suspected illegal timber operations in Latin America. The raid, Interpol's first international operation against large-scale illegal logging, was carried out in 12 Latin American countries alongside national agencies from September to late November 2012. About 50,000 cubic metres of wood was seized, with an estimated value of about US\$8m (£5.25 million), according to details released by Interpol.

While these new regulations were always expected to severely limit, if not eliminate, the import of illegally harvested timber in the developed world, there is

concern among politicians and stakeholders that emerging markets might not be so concerned with such niceties.

Almost half the timber Chinese companies exported from Mozambique last year was not supposed to leave the south-east African country, nor even the forest in some cases, said *Reuters* Monday. Now both countries are stepping up efforts to crack down on the illegal logging that costs Mozambique millions of dollars a year and put its forests at risk.

In July, Mozambican authorities caught Chinese company Mozambique First International Development trying to export 20 containers of illegally harvested wood. The company's license to harvest its forest concessions has been suspended for a year.

Renewed cooperation between Mozambique and China's forestry departments comes in the wake of several investigations by the Center for International Forestry Research (CIFOR) and others, revealing ongoing illegal activities by Chinese timber corporations. In response, efforts to tackle graft in the forestry sector are being ramped up. Mozambique's anti-corruption body began an investigation of several government officials, and representatives from China's State Forestry Administration visited Mozambique's Directorate of Lands and Forests in May, said *Reuters*.

Most recently, the two countries began crafting a Memorandum of Understanding (MoU) for cooperation in the forest sector, which should be completed by the end of the year. The upcoming MoU could address not only illegal logging, but also aspects like community forest management, and preparation for the United Nations' REDD (Reducing Emissions from Deforestation and Forest Degradation) programme. But experts remain cautious, as similar MoUs have been weak.