

MADISON'S LUMBER REPORTER

Publisher
KetaDesign Productions

Editor
Kéta Kosman

Market Analyst
Earl Heath

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

www.madisonsreport.com
madrep@shawcable.com
604 984-6838

PO Box 2486 Vancouver, BC
V6B 3W7 Canada

In Canada, add GST or HST
ISSN 0715-5468

Printed in Canada © 2013

All material contained within is the property
of KetaDesign Productions Inc. Reproduction
or retransmission is expressly forbidden.



News & Updates

USDA to Fund Biomass Fuel Research

The US Department of Agriculture announced Wednesday it awarded nearly US\$10 million to a consortium of academic, industry, and government organizations led by Colorado State University and their partners to research using insect-killed trees in the Rockies as a sustainable feedstock for bioenergy. The award, provided under the Agriculture and Food Research Initiative, is part of USDA's effort to develop modern solutions for climate challenges in agriculture and natural resource management.

Specifically, the team will explore recent advances in scalable thermochemical conversion technologies, which enable the production of advanced liquid biofuel and co-products on-site. The project is working with Cool Planet Energy Systems, which is based out of Greenwood Village, CO. The company's prototype pyrolysis system can be tailored to the amount of feedstock available and thus can be deployed in close proximity to stands of beetle-killed timber. This localized production leads to significantly lower costs related to wood harvest and transportation. Their distributed scalable biorefinery approach is a key element in making the use of insect-damaged trees as feedstock plausible.

Housing Starts, Canada

The Canada Mortgage and Housing Corp said Friday the pace of housing starts heated up again in October, continuing the momentum that began to build in July. The agency estimates there were 17,033 actual starts in October. Seasonally adjusted starts were 198,282 units, compared with 195,929 in September.

[READ MORE](#)

Japan Housing Starts

Total September housing starts in Japan were 88,539 units, a 19.4 per cent improvement over the same time last year, according to the Japan Lumber Reports. Seasonally adjusted starts were 1.04 million units, up 8.3 per cent over September 2012.

Buyers raced to complete purchases before increasing consumption taxes and mortgage rates came into effect. After September, a 5 per cent tax will apply on home purchases so there was a rush of orders before that month ended.

[READ MORE](#)

US ISM Manufacturing Index

Manufacturing in the US grew in October at a faster pace than forecast, showing factories were a source of strength for the economy at the start of 4Q.

The Institute for Supply Management's index climbed to 56.4, the highest since April 2011, from 56.2 a month earlier, the Tempe, AZ-based group's report showed November 1. Readings above 50 indicate growth.

Resilient motor vehicle sales and the recovery in housing are helping sustain production at the same time global markets begin to pick up.

[READ MORE](#)

Trade Agreements and Tarriffs, Forest Products

In a shrinking world, modern governments are moving forward with multi- and bi-lateral trade agreements at an astonishing pace. Even as interests are discussed and documents are drafted, business moves forward nonetheless. Decision makers can only hope their plans come into line with eventual government or legal decisions.

[READ MORE](#)

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

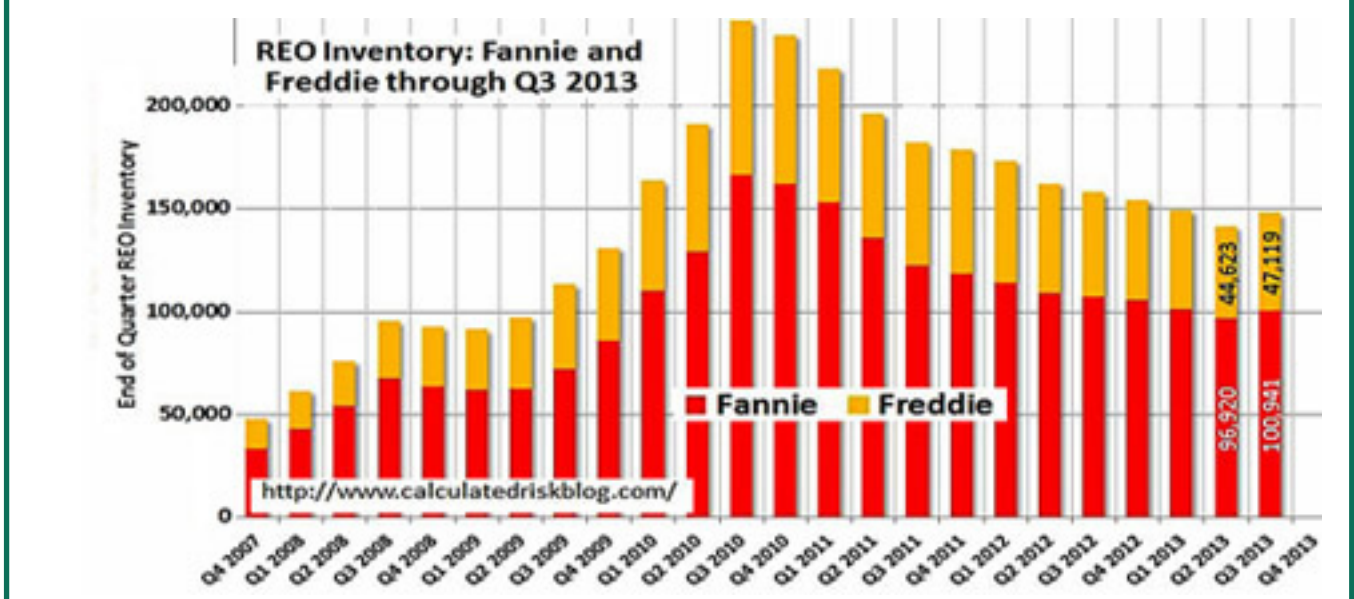
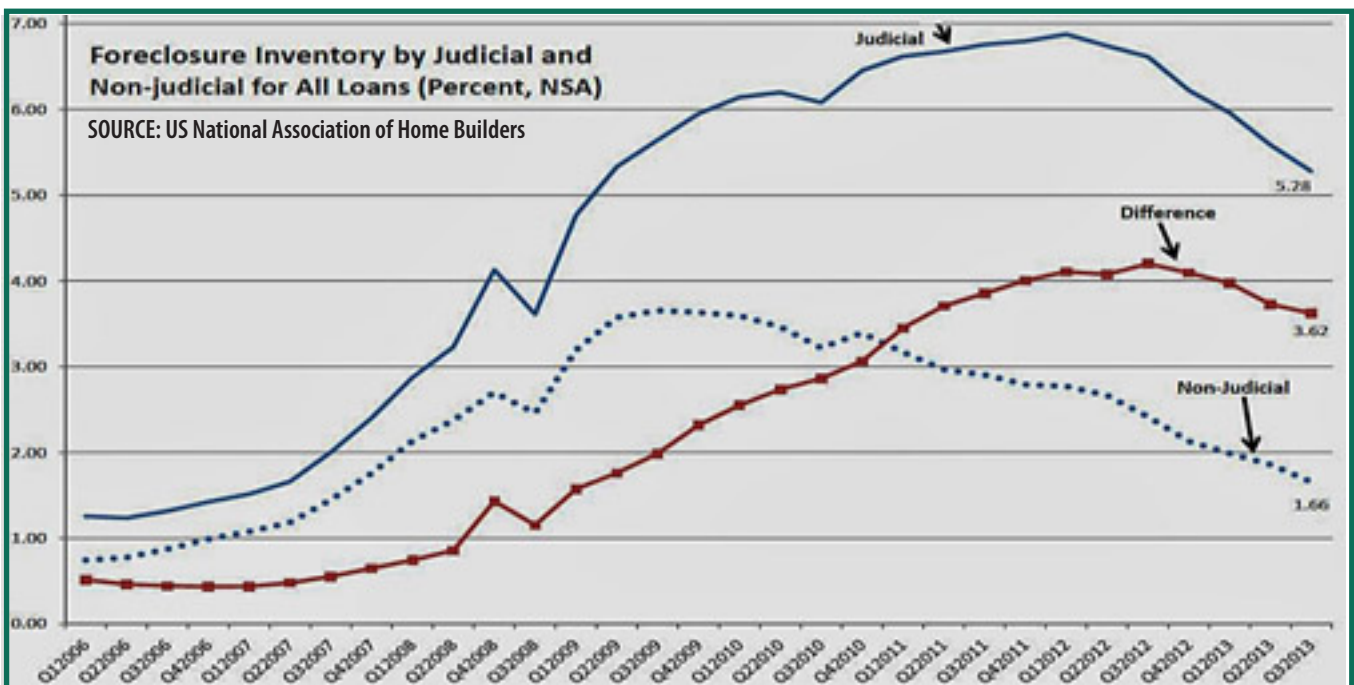
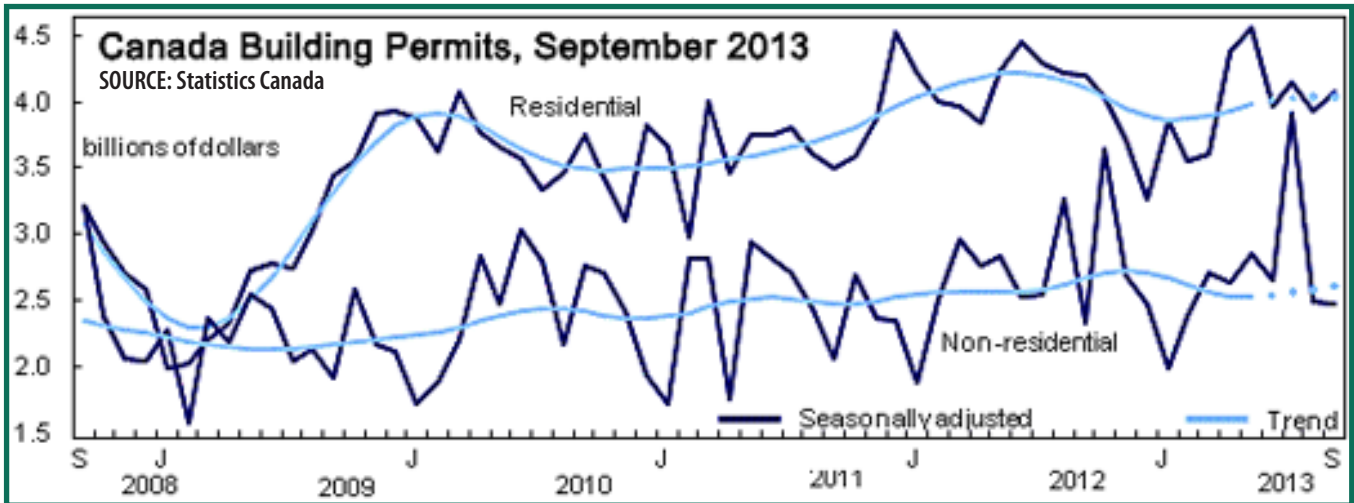
	October 2013		September 2013	
	Actual	SAAR	Actual	SAAR
Canada, all areas	17,033	198,338	17,559	195,929
Canada, urban ctrs > 10,000	15,220	177,434	15,451	177,463
Canada, singles, urban centres	5,333	62,423	5,838	63,497
Canada, multiples, urban centres	9,887	115,011	9,613	113,966
Canada, rural areas	1,813	20,848	2,108	18,466
Atlantic region, urban centres		8,410		9,130
Quebec, urban centres		30,524		31,694
Ontario, urban centres		68,227		57,811
Prairie region, urban centres		46,355		49,212
British Columbia, urban centres		23,918		29,616

Source: Canada Mortgage and Housing Corporation

JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Sep-13	88,539	39,421	49,118	55
Aug-13	84,343	36,442	47,901	57
Jul-13	84,459	37,939	46,520	55
Jun-13	83,704	36,230	47,474	57
May-13	79,751	36,751	43,000	54
Apr-13	77,894	34,133	43,761	56
Mar-13	71,456	31,819	39,637	55
Feb-13	68,969	33,242	35,727	52
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

Source: Japan Wood-Products Information and Research Center



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	382	380	+2	358	+24	332	+50
WSPF KD R/L 2x6	360	354	+6	338	+22	324	+36
WSPF KD R/L 2x8	358	344	+14	336	+22	315	+43
WSPF KD R/L 2x10	454	450	+4	450	+4	350	+104
WSPF KD PET 2x4 Stud	320	315	+5	325	-5	310	+10
WSPF KD PET 2x6 Stud	305	300	+5	295	+10	300	+5
Douglas Fir Green R/L 2x4	340	330	+10	320	+20	285	+55
Douglas Fir Green R/L 2x10	525	510	+15	466	+59	335	+190
ESPF KD 2x4 8ft Stud	380	380	0	375	+5	380	0
OSB Ontario 7/16" (CDN\$)	223	223	0	235	-12	342	-119
CSplywood Toronto 3/8" (CDN\$)	378	363	+15	371	+7	366	+12

Weekly News

Housing Starts, Canada

CONTINUED Canada's October urban starts were essentially unchanged at a seasonally adjusted rate of 177,434 units, said the CMHC. Rural starts were estimated at a seasonally adjusted annual rate of 20,848 units.

Multiple urban starts registered a slight increase of 0.9 per cent, to 115,011 units in October, while the single urban starts segment saw a decrease of 1.7 per cent, to 62,423 units.

The seasonally adjusted annual rate of urban starts increased in Ontario, but slipped in BC, the Atlantic, the Prairies, and Quebec.

Building permits in September were up 1.7 per cent from August, to \$6.5 billion, the seventh monthly advance since the beginning of the year, said Statistics Canada Wednesday.

The total value of residential building permits rose 3.3 per cent to \$4.1 billion, following a 4.8 per cent decline in August. Residential construction intentions increased in five provinces, led by Alberta and Quebec.

In the non-residential sector, the value of permits edged down 0.8 per cent in September to \$2.5 billion, said Stats Can

Japan Housing Starts

CONTINUED Units built for sales showed the single greatest increase, at 20,000 units, for a very unusual time of the year. Looming tax changes were also credited for this increase said the *Japan Lumber Reports*.

New units built for owners continued their hot streak, now on the increase for 13 consecutive months.

Wood-based units also fared well, with a 14.6 per cent improvement, to 49,113 units.

New home building and rebuilding efforts in the earthquake-affected areas continued brisk, said the *Reports*.

Manufacturing Index, US

CONTINUED It was the fifth straight monthly gain for the index. A measure of new orders rose slightly, while a gauge of production fell but remained at a high level. Factories added jobs, though at a slower pace than the previous month.

These latest figures show the brinkmanship over the budget that closed the federal government for 16 days last month did little to spoil the rebound in manufacturing since the middle of the year, according to *Bloomberg*.

Financial Results

Third quarter results continue to pour in for North American forest products companies.

West Fraser Timber, out of Quesnel, BC, this week reported its lumber division's 3Q 2013 sales grew to \$581 million, from \$491 million a year ago.

Stella-Jones showed sales for 3Q totalled \$268.1 million, up 37.2 per cent over last year's sales of \$195.4 million. The operating facilities acquired from McFarland on November 30, 2012 contributed sales of approximately \$86.2 million, said the Montreal, QC, company.

Goodfellow, based in Delson, QC, announced this week the company generated net earnings of \$5.3 million in 3Q, compared to net earnings of \$4.4 million a year ago. Consolidated sales for the fiscal year 2013 were \$483.5 million, compared to \$500.7 million for the same period a year ago. During Fiscal 2013, lumber sales were positively impacted by the demand for hardwood lumber and company

efforts to widen the distribution network in all traditional lumber markets.

Federal Way, WA's, Weyerhaeuser said in its 3Q financial release that its wood products division revenue was hit by a 26 per cent decline in average OSB selling prices compared with 2Q, while lumber selling prices fell 7 per cent. The declines were partially offset by improved average selling prices for engineered wood products, higher sales volumes across all product lines, and lower western log costs.

CanWel Building Materials, based in Vancouver, BC, showed in its 3Q results that revenues increased to \$205 million, compared to \$198 million in the same period in 2012.

Also out of Vancouver, Conifex Timber Tuesday reported a net loss of \$0.1 million for 3Q 2013, compared to net income of \$2.4 million for 2Q and a net loss of \$3.7 million 3Q 2012.

Still in Vancouver, Interfor Wednesday reported a net loss of \$0.1 million in 3Q 2013, compared to net earnings of \$15.8 million in 2Q and \$0.9 million in 3Q 2012.

Burnaby, BC's, Taiga Building Products Thursday reported consolidated net sales for 3Q were \$344.9 million, compared to \$315.9 million in the same period last year. The increase in sales by \$29 million, or 9.2 per cent, was largely due to higher sales from US and export operations selling into the United States and Asian markets.

Gross margin for the quarter increased to \$29.7 million, from \$28.9 million last year.

Net earnings for the quarter ended September 30, 2013 remained relatively consistent at \$4.0 million compared to \$3.8 million in the same period last year.

Trade Issues

Globally

This week two separate trade issues relevant to forestry between China and the US, as well as Canada and Brazil, were decided.

One was the seemingly improbable threat of a 74 per cent import duty on hardwood plywood from China coming into the US. The International Trade Commission (ITC) voted 5-0 Tuesday to strike

down anti-dumping (AD) and counter-vailing (CVD) duty rates of 74 per cent

on imported Chinese hardwood plywood, according to the International Wood Products Association (IWPA), out of Alexandria, VA. The ITC ruled that the US domestic industry suffered no material injury as a result of imports from China.

"IWPA is thankful to the hard work of the American Alliance for Hardwood Plywood (AAHP), which led industry efforts in opposition to the petition", said the agency's press release.

A second, more serious, arbitration was also decided this week.

The Chinese Ministry of Commerce announced Wednesday that it will impose provisional anti-dumping measures on cellulose pulp – also known as dissolving pulp – used to make cloth, cellophane, tires, and other products, imported from the US, Canada, and Brazil, *Xinhua* reports. The ministry stated that beginning on Thursday all importers of cellulose pulp are required to place deposits, ranging from 0.7 to 50.9 per cent depending on dumping margin, with Chinese customs.

The Chinese ministry said that the three countries had dumped 'cellulose pulp on the Chinese market and such imports caused substantial damage to the domestic industry'.

A final duty decision by the Chinese is expected in February 2014, about a year after it first began to review the actions of foreign producers.

Already, some Canadian exporters expressed their disapproval with this decision. Fortress Paper, based in Vancouver, BC, decided to implement a swing mill strategy at its Specialty Cellulose mill in Quebec to also make kraft pulp for the paper industry. Fortress Paper, along with other companies such as Tembec and two private dissolving pulp producers in the Maritimes, face 13 per cent interim duties.

Duties will also apply to US producers Buckeye, Georgia-Pacific, Weyerhaeuser, Rayonier, and Cosmo Specialty Fibers.

Under international trade rules, dumping refers to selling exported goods below

prices in the producer's home market. Under World Trade Organization (WTO) rules, duties can be applied by importing countries if the dumping is harming their domestic producers.

Fortress Paper said to Canadian Press Thursday it's considering legal challenges to China's new duty. The company said it disagrees with China's decision, which Fortress says "represents an unsupported assessment of injury to China's dissolving pulp market and the allegations of 'dumping' activities by Canadian producers."

Fortress says it has ten days to make an initial decision on its options, which include challenging the duty – a lengthy process that could take years if it goes to the WTO.

For its part, Brazil's Bahia Specialty Cellulose (BSC), a subsidiary of Sateri, released a statement Thursday saying, "The immediate impact of the preliminary ruling on BSC is that, with effect from 7 November 2013, importers of BSC dissolving pulp products into PRC will have to pay a security deposit at the rate of 6.8 per cent of the dutiable value, such deposit to be placed with Chinese customs. In the event that the rate of duty as determined in the final ruling is less than the preliminary rate of 6.8 per cent, the excess shall be refunded to the respective importers.

"Sateri's position is that BSC has at all times acted in accordance with all applicable laws, and any allegations or provisional findings of product dumping are entirely without merit."

Sateri said that it will, through legal advisers, continue to liaise and cooperate with Chinese authorities as they work to a final ruling that is anticipated by February.

The editorial board at *Salem News*, out of Salem, OR, Wednesday printed a lengthy analysis of the cellulose pulp market and the preliminary duties.

"We conclude that the imports from the countries being investigated are not the root cause of the problems faced by China's domestic producers, that any duty imposed can at best provide only short-term relief to the domestic producers, and that any duty imposed may have significant negative impacts for Chinese industries that consume dissolving pulp," says the *Salem News*.

"Specialty dissolving pulp is used for cigarette filters, tire cords, explosives, and other specialty uses. Commodity dissolving pulp is used for the production of viscose fibre which is used in the manufacture of textiles. Commodity dissolving pulp mills cannot produce specialty dissolving pulp without significant modifications with a high capital cost.

"As specialty dissolving pulp is used for products unrelated to those which use

commodity dissolving pulp, it is not surprising that the price (US\$/tonne) of specialty dissolving pulp and dissolving pulp are not correlated. As a result, China's Ministry of Commerce should ensure that in evaluating the dissolving pulp market, it distinguishes between data, particularly price data, pertaining to specialty dissolving pulp, and data pertaining to commodity dissolving pulp."

The article goes on to say that from 2004 to 2012, world production of viscose fibre grew by 84 per cent and China's share of global production increased from 38 per cent to 61 per cent. Hence, China's viscose fibre production has been the major driver of global demand for commodity dissolving pulp.

To meet the growth in demand, global dissolving pulp capacity expanded by 3.1 million airdried metric tonnes from 2008 to 2013, nearly doubling capacity. Of that growth in capacity, China saw the largest increase, expanding its dissolving pulp capacity by 945,000 airdried metric tonnes, or 30 per cent of the total global expansion. Over 2012 and 2013, the global expansion of dissolving pulp capacity continued, with China continuing to be the largest contributor to that growth in both years.

This global expansion in dissolving pulp capacity was also driven as a response to the short-term price increase for commodity dissolving pulp in 2011 caused by cotton crop failures.

The changes in price for commodity dissolving pulp, therefore, have largely been influenced by a rapid increase in the demand for viscose fibre in China and fluctuations in the price of cotton, says the *Salem News*.

The cost of the wood fibre itself is also a large driver of the total cost of dissolving pulp. When reviewing eight international producers, wood fibre represents on average 44 per cent of the total cost of dissolving pulp production. The production cost of dissolving pulp, therefore, is very price sensitive to the cost of wood fibre. For those dissolving pulp producers which must import their wood fibre, their cost structure is closely tied to their wood import price. Unlike dissolving pulp producers in timber rich countries like Canada, United States, and Brazil, dissolving pulp producers in China must import most of their wood fibre.

"As a result of these factors, China's domestic dissolving pulp producers have been unable to remain price competitive against global dissolving pulp producers. This is not due to any dumping by the rest of the world, but rather is due to the high-cost structure of domestic dissolving pulp producers in China caused by the need to import wood fibre at great expense, rising labour costs, a dropping exchange rate, and over capacity," concludes the *Salem News*.