

MADISON'S LUMBER REPORTER

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News & Updates

The Canadian lumber industry : 2012

Canada produced 54.5 million cubic metres of softwood lumber in 2012, up 5 per cent from 2011, said Statistics Canada Tuesday. While softwood production rose in 2012, hardwood lumber production declined 13.2 per cent, 1.3 million cubic metres.

The top three softwood producing provinces are British Columbia, Quebec, and Alberta. British Columbia, at 53.5 per cent, accounted for more than half of Canada's softwood production in 2012, of which 83.1 per cent, or 24.2 million cubic metres, was spruce, pine and fir.

Quebec, the second largest softwood producer in 2012, had a 20.1 per cent share of the national total, followed by Alberta, at 15 per cent.

Of Canada's total softwood excluding spruce, pine and fir produced in 2012, 90.1 per cent was produced in British Columbia.

Lumber Prices in China

The value of imports of softwood lumber to China in January-September 2013 increased by 25.9 per cent year-on-year, to reach US\$2.64 billion, said *What Wood* Thursday. After the slowdown in 2012, the rise of the housing market in the country triggered a boom for roundwood and sawnwood. In the coming years, Chinese villagers will continue moving to the cities, and the demand for cheap housing will continue to grow, so by 2015 the Forestry Agency of China predicts a serious shortage of wood products.

The leading suppliers and the major competitors, in the Chinese market are Canada and Russia: in 3Q 2013, Canada shipped softwood lumber worth US\$390.6 million to China, while Russia shipped US\$336.8 million. [READ MORE](#)

Access to Timber on Government Lands

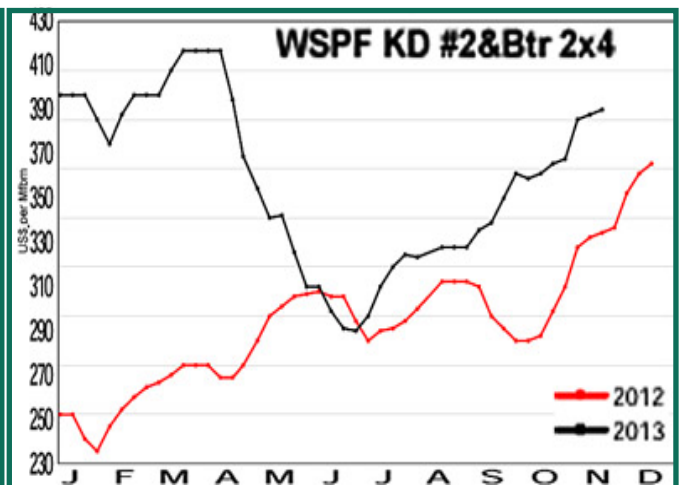
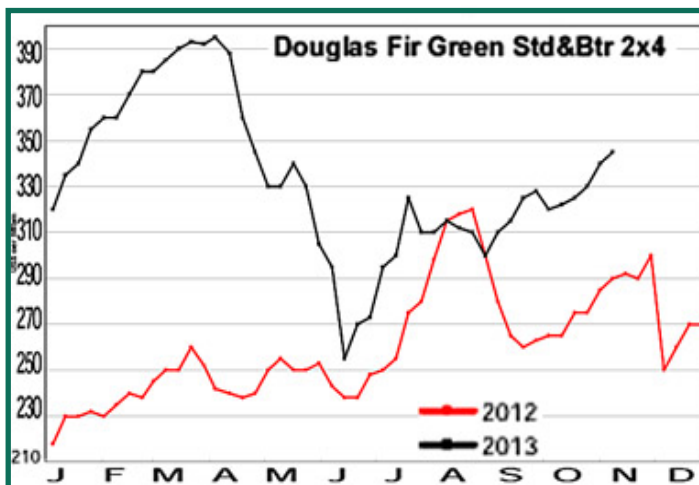
A headline on a small Oregon TV station's website this week jumped out at *Madison's*: "Bird Spotted, Drops Timber Land Value \$18 million", said *KPIC CBS 4* Wednesday.

It seems an endangered marbled murrelet was spotted in the summer by state surveyors and volunteers in the Elliott Sate Forest, in Coos County, OR. The value of three timber tracts, where logging is now in doubt, have been drastically lowered. State appraisals dropped from US\$22.1 million to US\$3.6 million.

Subscribers to *Madison's Timber Preview* are well aware of Oregon's financial troubles since timber harvesting was drastically reduced in the 1980s due to concern over the future of that small bird, and more recently since federal transfer payments - in lieu of timber revenues - ran out.

Oregon owns some 700,000 acres, including most of the Elliott State Forest, and uses revenue from mineral and timber leases and sales on that land to fund public education, emergency services, and more.

Federally, recent changes to policy at the US Forest Service are a good start for moving forward with much-needed forest inventory, silviculture management, and post beetle-kill timber salvage across the country. The majority of informed players maintain that these updated policies do not go far enough, and are very late in coming. After 25 years of combined forest under-investment, and of actively putting out all wildfires, the forested land base in the US is severely underutilized and badly in need of intensive management, most professionals agree. [READ MORE](#)



Lumber prices in China : Jan - Sep 2013

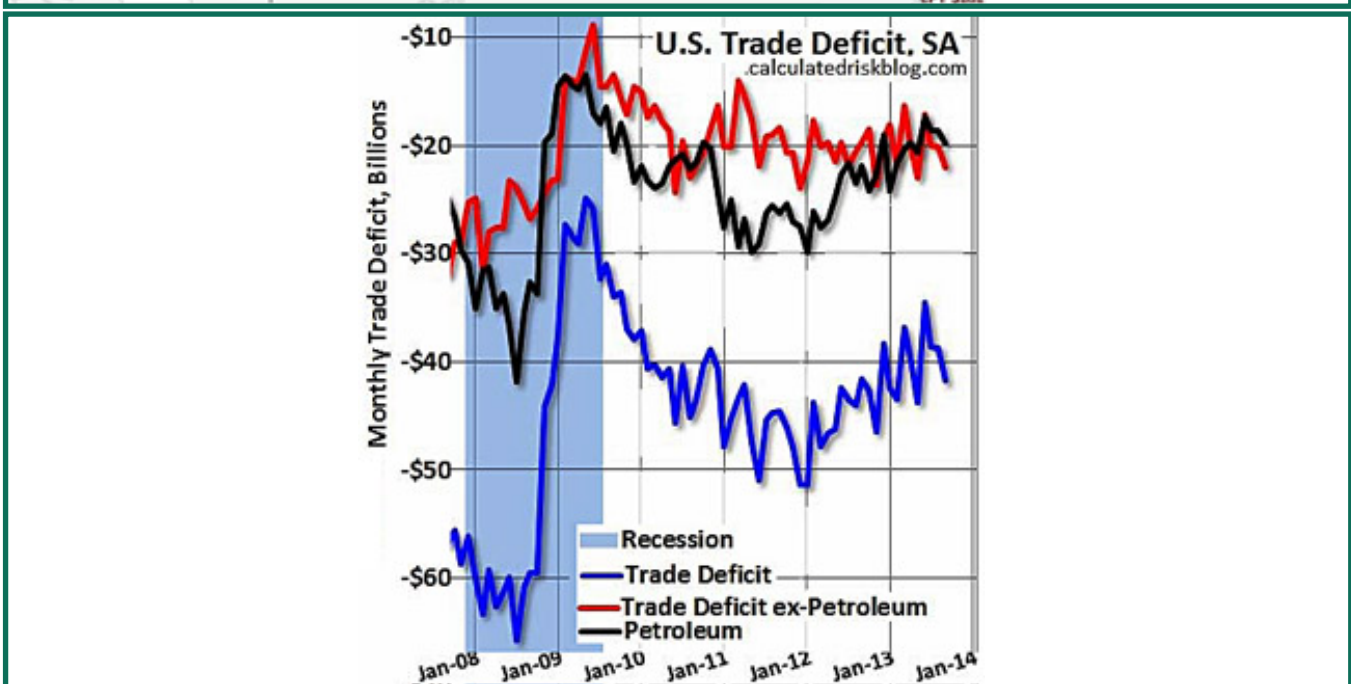
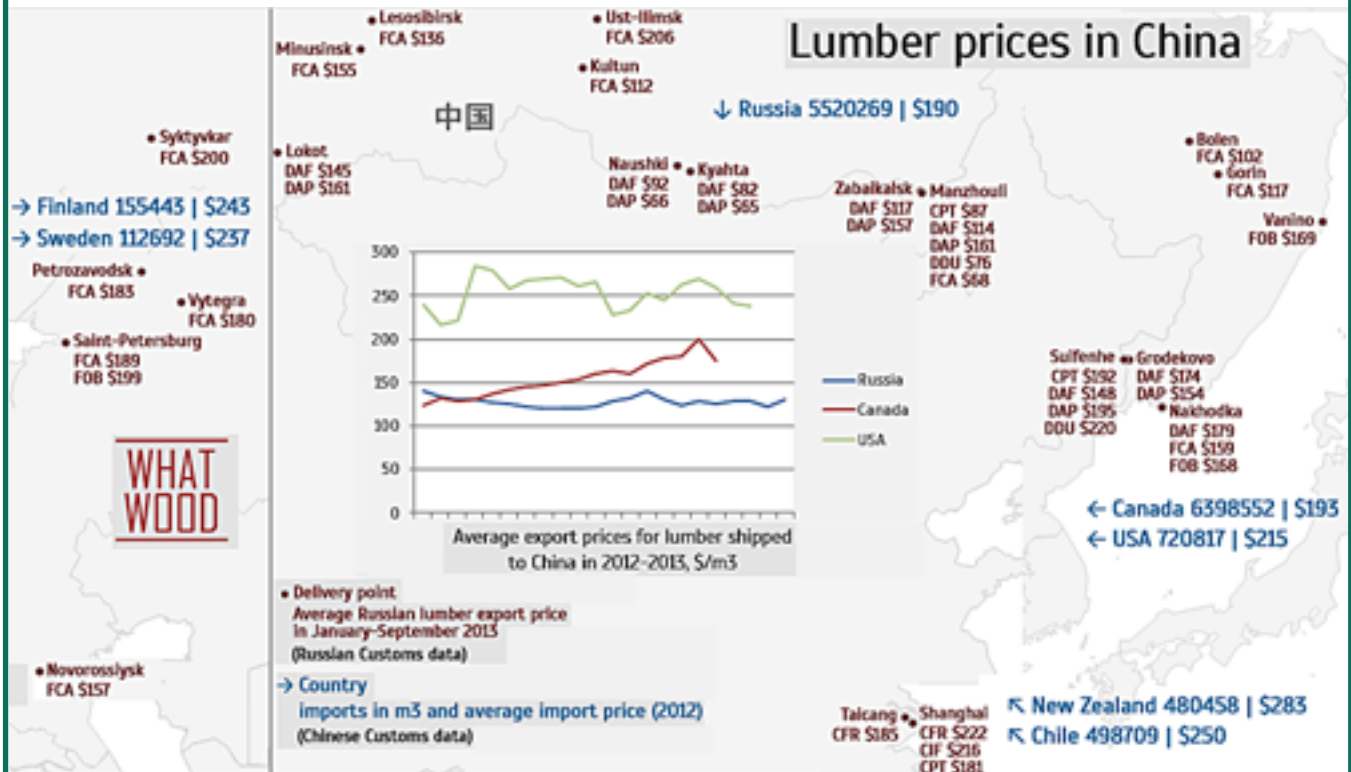
CONTINUED Average import prices for products from these two countries are roughly equal (US\$193 from Canada and US\$190 from Russia in 2012): ocean transport from Canada across the Pacific costs even less than rail deliveries from the Russian mills, said *What Wood* Thursday. Due to this, the Chinese prices are comparable, although export prices for Canadian products are higher than for Russian.

China actually saves European manufacturers this year, compensating for the decline in the domestic market. Finland and Sweden increased exports several times since the end of 2012, however, in absolute figures, deliveries to China are still low.

Very low prices at the Russian border points of Kyakhta and Naushki can be explained by the fact that at the border there are numerous sawmills, which are often owned by Chinese businesses. These enterprises produce inexpensive and rough-cut products that are delivered to China for further processing. Transportation costs of these mills are also low due to their geographical location.

The average Russian FOB price in January-September 2013 amounted to about US\$170 in the Far Eastern ports of Vanino and Nakhodka, and approximately US\$200 in St. Petersburg. Rates on FCA terms in the same ports are US\$10 lower on the average, while CIF Shanghai price grows to US\$216.

SOURCE: What Wood



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	384	382	+2	362	+22	334	+50
WSPF KD R/L 2x6	366	360	+6	340	+26	330	+36
WSPF KD R/L 2x8	354	358	-4	340	+14	315	+39
WSPF KD R/L 2x10	448	454	-8	444	+4	350	+98
WSPF KD PET 2x4 Stud	325	320	+5	319	+6	310	+15
WSPF KD PET 2x6 Stud	315	305	+10	295	+20	295	+20
Douglas Fir Green R/L 2x4	345	340	+5	322	+23	290	+55
Douglas Fir Green R/L 2x10	540	525	+15	470	+70	335	+205
ESPF KD 2x4 8ft Stud	385	380	+5	380	+5	380	+5
OSB Ontario 7/16" (CDN\$)	223	223	0	235	-12	330	-107
CSplywood Toronto 3/8" (CDN\$)	378	378	0	371	+7	363	+15

Weekly News

Lumber Yard Fatality

A 21 year old man was hit by a log bundle at a lumber yard in Mission, BC, Wednesday afternoon, according to the *Mission City Record*.

The Everwood Industries employee fell in the Fraser River and was at risk of drowning before a colleague found him at around 2:30 pm.

The victim suffered major trauma and life-threatening injuries, and succumbed to his injuries at about 4 pm Wednesday.

RCMP confirmed there was no indication of criminal activity.

Work Safe BC is currently investigating the industrial accident.

Canada, US Trade Balance

Canada's merchandise exports grew 1.8 per cent while imports edged up 0.2 per cent in September, said Statistics Canada Wednesday. As a result, Canada's trade deficit with the world narrowed from \$1.1 billion in August to \$435 million in September.

Exports increased to \$40.6 billion on the strength of energy products as well as aircraft and other transportation equipment and parts. Overall, volumes were up 1.7 per cent.

Imports edged up to \$41.1 billion, as gains in energy products and consumer goods were partially offset by declines in basic and industrial chemical, plastic and rubber products. Import prices were up 0.4 per cent while volumes were down 0.2 per cent.

Exports to the United States increased 1 per cent to \$30.5 billion on higher exports of aircraft. Imports from the United States were up 0.9 per cent to \$26.2 billion.

Consequently, Canada's trade surplus with the United States rose from \$4.2 billion in August to \$4.3 billion in September.

In the US, the Department of Commerce reported Thursday total September exports of US\$188.9 billion and imports of US\$230.7 billion. This resulted in a goods and services deficit of US\$41.8 billion, up from US\$38.7 billion in August, revised. September exports were US\$0.4 billion less than August exports of US\$189.3 billion. September imports were US\$2.7 billion more than August imports of US\$228.0 billion.

Canada's Manufacturing Survey

Manufacturing sales in Canada rose 0.6 per cent to \$49.9 billion in September, the fourth increase in five months, said Statistics Canada Friday. The gain in September was largely a result of higher sales in the motor vehicle assembly and food industries. Total sales in September were at their highest level since June 2012.

Sales rose in 11 of 21 industries, representing about 55 per cent of Canadian manufacturing.

Both the durable and the non-durable goods industries posted 0.6 per cent sales gains.

Constant dollar sales increased 1 per cent in September, indicating a rise in volumes.

Total inventories, meanwhile, fell 0.9 per cent to \$68.2 billion in September. The decline in September was the third in nine months.

In the petroleum and coal product industry, inventories were down 10.8 per cent to \$5.6 billion. About 53 per cent of the decline reflected a decrease in raw materials held by manufacturers.

The inventory-to-sales ratio, meanwhile, declined to 1.37 in September from 1.39 in August. The inventory-to-sales ratio measures the time, in months, that would be required to exhaust inventories if sales were to remain at their current level.

Housing Affordability, US

Strengthening house prices and increased interest rates in metros across the US contributed to lower housing affordability in the third quarter, according to the National Association of Home Builders/Wells Fargo Housing Opportunity Index, released Thursday.

In all, 64.5 per cent of new and existing homes sold between the beginning of July and end of September were affordable to families earning the US median income of US\$64,400. This is down from the 69.3 per cent of homes sold that were affordable to median-income earners in the second quarter, and the biggest HOI decline since the second quarter of 2004.

Associated Hardwoods Builds Sawmill

Associated Hardwoods Inc, out of South Carolina, secured US\$8.7 million in funding through a New Markets Tax Credit allocation from CEI Capital Management, according to *WoodWorking Network* Wednesday.

Associated Hardwoods will use the funding to build and operate a hardwood sawmill in Gaffney, SC.

Construction has already begun, and will create 93 direct and 23 indirect jobs. Once construction is complete, Associated Hardwoods expects to initially employ 15 full-time workers, expanding to 24 full-time employees in the first three years of operations.

Timberland Management In Government Hands

CONTINUED For the past decade or so significant proportions of merchantable timber in the US has been sourced from private landowners. The volume of logs coming off US Forest Service lands into sawmills is minimal by comparison.

What about Canada? There is very little in the way of private timberland holdings, so operators have no choice but to deal with government constructs in sourcing logs.

British Columbia is a prime example of bureaucratic machination. In this province, the combined blows of multiple high-capacity sawmills, mountain pine beetle devastation, and the US home building downturn, have hit the pocketbook of the Forests portfolio very hard indeed. Now, as companies struggle back to profitability, the extremely budget-conscious Ministry of Forests, Lands and Natural Resource Operations finds itself in a difficult position. The funds needed to re-invest in and to re-assess the forests are deemed simply not available, meanwhile the business of running wood through sawmills continues.

There have been several rounds of public consultations and information sessions over the past five years by the Forests Ministry, and some announcements of possible changes to the land base, but not a lot of action on the ground.

The revelation, October 24, that two major sawmills in the BC interior will shut down – while surprising to no one – seems to be a wake-up call. The looming prospect of restricted fibre supply in western Canada just went from academic discussion to stark reality. The BC government seemed caught off-guard by the sawmill closures and the tenure swap agreements. Immediately following the announcements, Steve Thomson stated the deals will face a review by his Forests Ministry. The Minister has the power to cancel the agreements even after they have been made.

As lumber producers, both public and privately-held, work to find ways to adjust business practice in this changing landscape, many important questions remain about fibre availability going forward.

There has been a lot of discussion, particularly during the Mid-Term Timber Supply Committee hearings last year, about the mountain pine beetle uplift to the Annual Allowable Cut (AAC). Many said then, and even more are saying now, that the province is actually past the salvage stage now and the AAC should have already started coming back down.

Affected parties, which include municipalities, First Nations, wood lots, and community forests, have been vocal about their own ideas for managing BC's timberlands, and especially about timber allocation.

One such voice is Gerry Thiessen, the Mayor of Vanderhoof.

Thiessen is concerned about the anticipated shortage of wood fibre as a result of the beetle infestation but is also quick to point out the innovation and resourcefulness of the local forest industry to find ways to remain in business, according to *Working Forest* June 18.

"Sinclair Group's L & M sawmill went through about a \$32-\$33 million upgrade to their mill. Vanderhoof Specialty Wood Products has also spent millions of dollars making sure that technologically, they're as operational as possible, as well as making sure that they use all the fibre that they bring into their yard," detailed Thiessen.

The anticipated wood supply shortage has the potential to dramatically affect current forestry companies and their operations. If the available fibre is not sufficient to meet the demand of the mills, the results could include operational downsizing or closures. This is a concern for the District of Vanderhoof, as well as surrounding communities, said *Working Forest*.

Thiessen is out of the country this week on holidays, so *Madison's* caught up with Vanderhoof Councillor Brian Frenkel for a phone interview Wednesday.

"It's a difficult issue from a community standpoint," began Frenkel. "Decisions in general are being made without an updated database [of the forest]. Looking down the road, industry and communities knew there would be a drop in AAC due to the previous increase [to encourage harvest of beetle-kill]."

"Past decisions about the forest inventory should be held accountable. Money should be budgeted to update the inventory as best as can be done, recognizing that it is changing daily."

Frenkel explained that Vanderhoof put forward ideas to the Mid-Term Timber Supply Committee.

"Current partition could be handled a lot better," continued Frenkel. "The partitioned cut, for example, is supposed to be up to 30 per cent non pine species such as spruce or balsam. But there are full cut blocks of spruce being harvested in the region. If we don't get a handle on this now it will negatively affect our communities later when there will be no spruce or balsam to harvest during the mid-term."

"In terms of the partitioned cut, the Chief Forester doesn't specify that it should be incidental. So operators might take a 300 ha block of pine and add on 90 ha of spruce just to get at the spruce."

When asked about oversight, Frenkel replied, "Government staff are trying their best, but Licensees are conducting their operations in a way that they feel matches the intent of the partition; some are harvesting a higher percentage of pine while others are harvesting a lower per cent."

Another district actively campaigning for changes to BC forest practice model is Houston.

A November 5 article in the *Globe and Mail* states, "As the community of Houston, in the province's northern Interior, grapples with the closing of the town's lumber mill, the mayor says his community is unprepared for its post-beetle future. "A lot of money was spent on action plans," Mayor Bill Holmberg said "We haven't really seen the rubber hit the road."

"We were very disappointed with the lack of notice," explained Holmberg to *Madison's* in a phone interview Wednesday. "The companies didn't include us in ANY of these discussions."

"We understand the need for companies to make their own decisions, but we don't agree with the way they did it in this case. Frankly I need someone to explain to me how they can just move Timber Supply Areas (TSAs) around. We want a meeting with the Ministry of Forests regarding due process, regarding the legality of this move."

"Forestry dependent towns in BC are questioning how tenure transfers are handled and how it is going to affect the local population."

Both Frenkel and Holmberg called for a forest re-inventory as soon as possible, and they're certainly not the only ones who see the urgent need for this information.

There is also concern about what kind of timber licenses, and at what value, will remain for First Nations, regional districts, community forests, and villages.

Madison's asked former NDP and Independent MLA for Cariboo North, Bob Simpson, for insight into this complicated subject.

Simpson directed *Madison's* to the BC Apportionment System website, specifically for the Morice and Quesnel TSAs (where the tenure swaps will take place).

Of the all-important Replaceable forest licenses, in the Quesnel district West Fraser would hold almost 1 million cubic metres of the total 1.24 million cubic metres available. For Morice district, Canfor would have both Replaceable licenses for a total of 1.57 million cubic metres.

"Harvesting of those Replaceable licenses will exceed the long-term sustainable cut," explained Simpson to *Madison's*. "The Non-Replaceable licenses are all in the uplift because Replaceable licenses trump everything."

"This means that post the beetle-reset, the government will lose all capacity to address forest issues with First Nations, communities, independent operators, etc. The government will have no capacity to accommodate First Nations' rights to timber resources or to attract new entrants into the forest sector."

by Keta Kosman