

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Announces . . .

At *Madison's* we continually strive to react quickly to changes in the North American lumber and panels marketplace. Readers will have noticed that we recently added ESPF Delivered Toronto prices to Page 1, and several nine-foot studs prices to Page 3. This week we have also made changes to our cedar decking and boards information on Page 10.

As always we welcome comments and suggestions for added or edited content. Please contact our office any time with your ideas!

USW and IFLRA Settle in BC's South Interior

Just in time for press Friday, the United Steelworkers Union and IFLRA, negotiating for employers in BC's southern interior, reached a tentative labour agreement.

PNW Lumber and Log Exports: 3Q 2013

Lumber and log exports from Washington, Oregon, northern California, and Alaska both increased dramatically in 3Q 2013, compared to this time last year, the US Forest Service's Pacific Northwest Research Station reported Tuesday. Lumber exports grew by 50 per cent both in value and volume compared to the third quarter of 2012, while log exports increased by nearly 40 per cent in value and about 25 per cent in volume.

"Demand from China is the major reason for the increased lumber exports we saw in the third quarter," said Xiaoping Zhou, a research economist with the station who compiled the data.

Compared to the second quarter of 2013, west coast lumber exports jumped by 21 per cent and totalled 279 million board feet. Log exports decreased by about five per cent to 514 million board feet.

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Illegal Timber Harvest Arrests

In very fitting timing for today's story in your *Madison's Lumber Reporter*, two large arrests were made this week by international authorities over illegally harvested tropical timber in Africa.

German authorities seized two batches of illegal timber from the Democratic Republic of Congo, said *AllAfrica.com* Wednesday. The seizure is the strongest case of enforcement of an EU law banning the trade in illegally sourced timber which took effect in March 2013.

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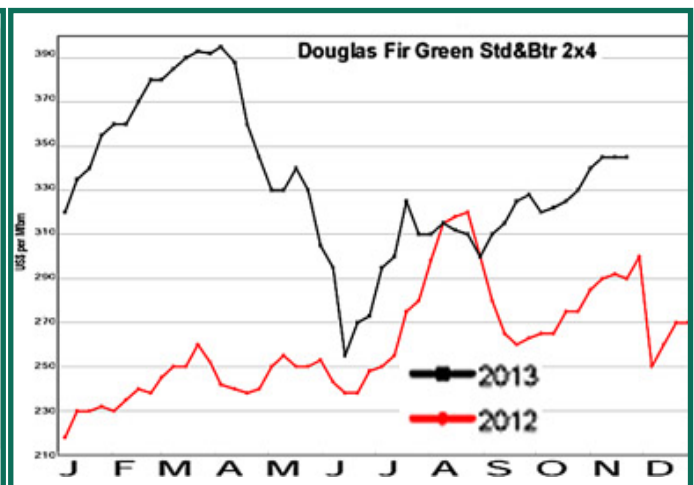
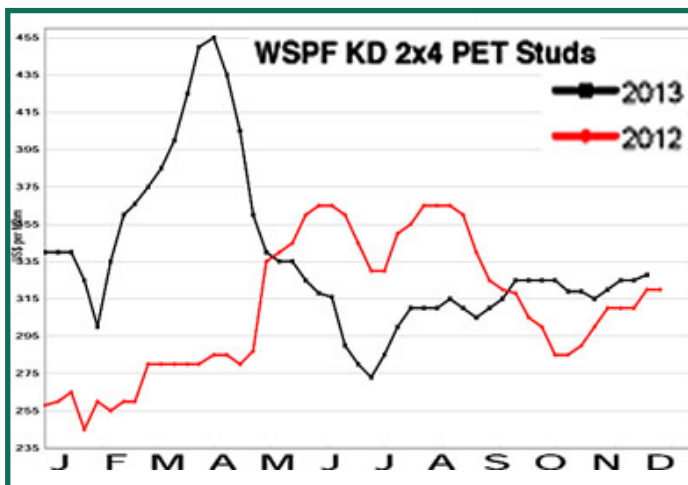
Timber Harvesting Regulations Globally

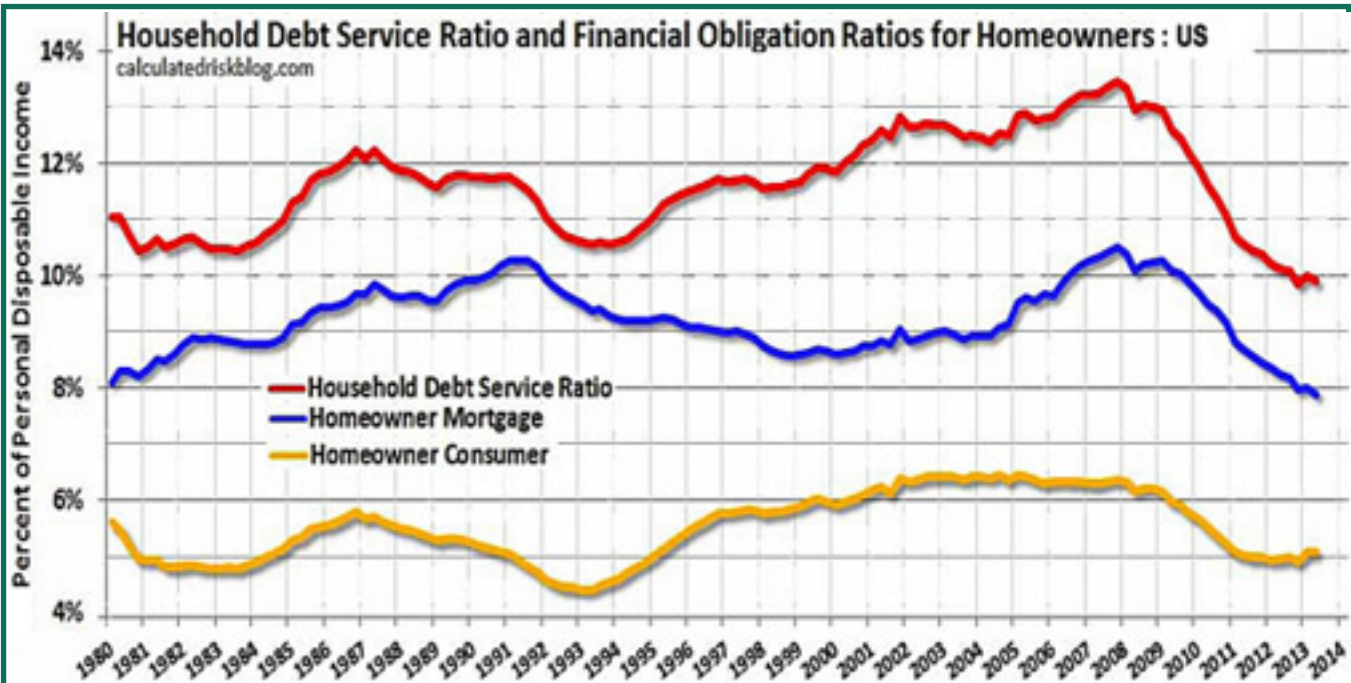
It seems the EU Timber Regulation (EUTR), enacted in March 2013, continues to cause confusion about compliance and other bureaucratic issues with both suppliers globally and importers locally in Europe.

At the International Wood Products Association (IWPA) AGM this April in Vancouver, BC, hardwood exporters from Sawarak in particular expressed frustration at the cumbersome paperwork and auditing process required by the new EUTR regulations.

The EUTR follows the lead of the Lacey Act in the US, and Australia's Illegal Logging Act, in prohibiting the import of timber products without proving sustainable chain-of-custody requirements.

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Five Economic Trends to be Thankful For : US

Falling gasoline prices

Fuel price inflation is among the more damaging types of price increases. People have little choice but to pay up; in the short run, people don't have much control over how much gas they use on their commute, for example.

That means that higher gasoline prices leave Americans with less money to spend on everything else.

Fewer layoffs

The job market isn't great overall, with unemployment still high. But one key measure of the labor market has shown major progress in 2013.

The number of people filing new claims for unemployment insurance benefits was a mere 316,000 last week, and over the last four weeks has averaged 332,000. That's below the 340,000 of December 2007, the month the recession began, and far, far below the high of 670,000 the last week of March 2009.

No one would claim that the labor market is in a healthy place, but the simple reality is that the rate at which people are finding themselves newly jobless is back down to pre-crisis levels.

Home prices are rising

One of the best pieces of news for US household finances over the last couple of years: higher home prices.

Americans owned homes worth US\$18.6 trillion in 2Q 2013, up US\$2.3 trillion, or 14 per cent, since the recent bottom during 1Q 2012.

In the year that ended in September, prices rose 13.3 per cent in 20 major metro areas, according to the S&P/Case-Shiller home price index.

This translates into higher wealth levels among Americans, leaving them the confidence to spend more money. And it that fewer people are underwater on their mortgages, or owing more than their homes are worth.

More job openings

Hiring has been slow to rebound, but employers are increasingly reporting that they have jobs open.

There were 3.91 million job openings in September, the Labor Department said in its Job Openings and Labor Turnover Survey. That was the highest since May 2008 and returns the number of jobs available to early 2005 levels (though the population was smaller then).

The story through this slow, halting jobs recovery has been about employers failing to hire; this data suggest things are starting to thaw.

Debt burdens keep on falling

The ratio of Americans' income going to meet debt obligations has plummeted in recent years, as consumers have both reduced debt burdens and benefited from lower interest rates.

The debt service ratio was only 9.89 per cent in 2Q, hovering near an all-time low of 9.84 per cent from late 2012 (the data go back to 1980).

That ratio was 13.5 per cent in 3Q 2007, before the financial crisis.

SOURCE: Washington Post

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	380	384	-4	380	0	350	+30
WSPF KD R/L 2x6	360	366	-6	354	+6	360	0
WSPF KD R/L 2x8	354	354	0	344	+10	340	+14
WSPF KD R/L 2x10	454	454	+6	450	+4	360	+94
WSPF KD PET 2x4 Stud	325	325	0	315	+10	320	+5
WSPF KD PET 2x6 Stud	315	315	0	300	+15	300	+15
Douglas Fir Green R/L 2x4	345	345	0	330	+15	290	+55
Douglas Fir Green R/L 2x10	545	545	+5	510	+35	330	+215
ESPF KD 2x4 8ft Stud	375	380	-5	380	-5	390	-15
OSB Ontario 7/16" (CDN\$)	230	230	0	223	+7	335	-105
CSplywood Toronto 3/8" (CDN\$)	386	378	+8	363	+23	405	-19

Weekly News

Log and Lumber Exports US Northwest

CONTINUED The total value of lumber exported from the west coast in 3Q 2013 increased by 16 per cent to US\$200 million, while the total value of logs exported from the west coast decreased about 10 percent to US\$359 million, compared to the second quarter of 2013, according to the US Forest Service's PNW Research Station.

In 3Q 2013, China imported 116 million board feet of west coast lumber, a 45 per cent increase from 2Q. At west coast ports, 41 per cent of outgoing lumber and 64 per cent of outgoing logs were destined for China during the third quarter of this year.

Other highlights:

- Total U.S. lumber exports in the first nine months of 2013 increased about 10 per cent compared to the same period in 2012, while the value increased over 14 per cent;

- Total US log exports in the first nine months of 2013 increased by about 22 per cent compared to the same period in 2012, while the value increased by more than 28 per cent;

- West coast lumber exports during the first nine months of 2013 represented 30 per cent of the total US lumber export, a 2 per cent increase compared to the same period in 2012;

- West coast log exports during the first nine months of 2013 represented 60 per cent of the total US log export, a 2 per cent increase in the share compared to the same period of 2012.

Illegal Timber, Africa

CONTINUED Elsewhere, international police organization Interpol said

Friday it seized more than 240 kg of elephant ivory and 856 timber logs, and arrested 660 suspects during a month-long coordinated operation across southern and eastern Africa, according to *Xinhu* via *GlobalPost* Friday.

The operation which was conducted as part of Interpol's Project Wisdom and Project Leaf, jointly targeted ivory smuggling and illegal logging, with smugglers often concealing ivory inside charcoal containers or welded chambers of trucks used to transport logs across borders.

The month-long operation involved enforcement officers, forest authorities, park rangers, police, and customers of officers from Tanzania, Swaziland, Zimbabwe, South Africa, and Mozambique.

Proposed Bill Doubles Oregon's Timber Harvest

US Senator Ron Wyden, OR-D, is seeking to roughly double timber harvests on Western Oregon's federal forest land under a much-anticipated bill unveiled Tuesday, according to the *Register-Guard* Wednesday.

As with a plan backed by Oregon US Representatives Peter DeFazio, OR-D, Greg Walden, OR-R, and Kurt Schrader, OR-D, that passed the House this fall, Wyden's bill would split in half the former Oregon & California Railroad Co. lands, with half facing increased logging and the other half dedicated to conservation. Logging of "old growth" forest stands older than 120 years old would be prohibited on all 2.1 million acres.

Unlike the House bill, however, Wyden's plan doesn't create a state-run trust to take over management of the land where logging would increase. The senator from Oregon, along with environmental

groups, had expressed concern that such a trust would circumvent key federal protections for the environment and endangered species on more than 1 million acres of Oregon forestland.

Wyden's plan would ramp up timber production on the O&C lands to an average of between 300 million and 350 million board feet a year, well above the 150 million board feet produced on average over the past decade, but less than the estimated 400 million to 500 million board feet a year that the House bill would allow, said the *Register-Guard*.

Wyden's bill would produce enough lumber to restore about half of the US\$35 million in funding timber counties lost through the decline of the county payment program.

Timber Theft by Russian Official

Authorities in Russia's Siberian region of Tomsk said Wednesday that they are investigating the misappropriation of almost US\$1 million worth of timber by a local district official, said the *Moscow Times* Thursday.

The Investigative Committee said that Pervomaysk district head Mikhail Pristavka used his position in 2011 and 2012 to request that the regional forestry department cut down 9,700 cubic metres of timber, which he said would be used for municipal purposes.

Instead, the federally owned timber, estimated to be worth 30 million rubles (US\$911,000), was forwarded to two private companies, investigators said.

Pristavka is under investigation for three counts of abuse of authority, a charge punishable by up to seven years in prison.

Pristavka said Wednesday that he was not aware of any criminal cases against him and that he was only a witness in the investigation.

EUTR Update

Timber Harvest Regulations

EUTR prohibits the use of illegally harvested timber in the EU market, and came into force under British law in March 2013. Any business or individual that imports such timber or timber products into this market must for the first time implement a due-diligence system. This means they

by Kéta Kosman

must assess the risk that the timber may have come from an illegal source, which must happen before the timber is made into any product and before it is treated and certified.

The regulations set out the components of the due-diligence system. The bulk of these regulations apply to the person or business that first places the timber on the EU market, referred to as the operator. The operator should not place any order for timber until he has been through the due-diligence procedures.

A trader is anyone who buys timber or a timber product once it has been placed on the EU market. The regulations state that the trader has to keep records for at least five years on timber purchases. These must specify the operator or trader from whom the timber was bought and the trader to whom the timber or timber products were sold.

Apparently its not just Sawarak and other exotic, or tropical, hardwood exporting nations that are having trouble navigating the bureaucracy of EUTR.

The UK's National Measurement Office (NMO), gave the initial results of EUTR enforcement to more than 50 hardwood traders during a London Hardwood Club meeting in central London, UK, according to Timber Trades Journal November 12. Michael Kearney, enforcement project manager at the NMO, also addressed a 187-strong audience at the Plywood Luncheon Club's Shippers Luncheon in mid-November.

Kearney said the NMO had seen excellent examples of due diligence in action, a strong performance in information gathering, and supply chain transparency. But also highlighted "shortcomings" due to either misinterpretation or misapplication of the legislation, says Timber Trades Journal. He emphasised the NMO was working with companies to aid compliance and had gathered practical experience, examined industry best practice, and identified specific products for scientific analysis.

Some of the shortcomings the NMO found include over-reliance on documentation, some cursory risk assessments, and issues with presentation of due diligence.

Kearney said third-party certification was a valuable tool but due diligence was still needed on certified timber products. He does not see prospects for certification being given a "green lane" for EUTR compliance.

In the medium to long-term the NMO will start to be more demanding on due diligence. "There has to be that deterrent, people have to know that we will take meaningful action," Kearney detailed.

Also in mid-November, John Park, Canada Wood Director of the UK Office and Market Access Coordinator, wrote in a blog post that The EUTR's requirement for due diligence is misunderstood by some operators.

Park explained that there were "mutterings around Canada that it would hinder Canadian timber coming into the EU. It now seems that they were right as the sad reality is that it has, whereas it should be doing just the opposite!"

But it is not the EUTR per se that is the problem, said Park, - it is the 'operators', or rather some of the operators, who are. They have failed completely to understand 'due diligence' and are, as a consequence, treating all their suppliers, regardless of country of harvest, in exactly the same way. Which means, in some cases, equally incorrectly.

Park offers some main points for Canadian operators, and importers of Canadian wood products into Europe and the UK:

- Operators practising appropriate due diligence can easily ascertain that Canada is a negligible risk country under the conditions as outlined in the EUTR; and,

- When negligible risk is ascertained at country level, the operator does not need to obtain documents from the supplier indicating compliance with applicable legislation. For wood harvested in Canada, compliance is embedded in the provincial legislation, which the operator has access to (and for appropriate due diligence has only to indicate that access) via various Canadian web portals.

As Park correctly points out, "The EUTR was put in place to address illegal logging, most particularly in tropical countries, first of all by assessment of risk. Operators are adding enormous complexity and unnecessary burden both for themselves and their Canadian suppliers - by failing to grasp this."

Park offers an 'Operator 8-Point Plan' and further excellent points : <http://www.tjonline.com/blog/canadian-timber-stymied-by-european-regulations-and-operators/>

Navigating the various legal requirements can get tricky, as Lumber Liquidators learned at the end of September.

US federal officials executed search

warrants on September 26 at the company's offices in Toano, VI.

The searches by US Immigration and Customs Enforcement and the Fish and Wildlife Service were related to importation of wood-flooring products made from protected timber in Siberian tiger habitat. The wood originates in Russia and is processed in China, and US government agents suspect it was declared as coming from other countries.

Lumber Liquidators, which sells hardwood flooring at more than 305 stores in the US and Canada, said in a statement at the time, "The company takes its sourcing and compliance very seriously, and is cooperating with authorities to provide them with requested information."

It said it is subject to a range of international and domestic regulations and that it sources its products from about 110 domestic and international mills and has policies and procedures designed to comply with regulations, with more than 60 people performing and monitoring its compliance and regulatory work.

The US Fish and Wildlife Service is charged with enforcing the provisions of the Lacey Act, which aims to curb trafficking in wildlife, fish, and plant products, including illegally obtained timber.

The retailer's share prices were down 9 per cent, at US\$102.87, in midday trading when the fact of the search was broadcast by mainstream media. Shares recovered to US\$119.44 on November 15.

Adding further fuel to a possibly phantom fire, speaking at the Robin Hood Investors Conference in New York City on Friday, hedge fund manager Whitney Tilson, founder of Kase Capital Management, alleged that Lumber Liquidators' recent jump in profits could be attributed to the company's allegedly sourcing illegal timber from Russia, according to the Wall Street Journal.

Lumber Liquidators responded to Tilson in a statement, noting that he did not contact the company prior his presentation. "We have never met with him to discuss our business. Mr. Tilson's presentation is based entirely on his own speculation and the contents of a report released almost two months ago, which we had previously stated contained numerous inaccuracies and unsubstantiated claims."

Even the suggestion of impropriety can have significant financial consequences for operators on both sides of the Atlantic.