

MADISON'S LUMBER REPORTER

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News & Updates

Federal Railway Order

The federal government says it will introduce an order-in-council forcing rail-ways to move a minimum amount of grain each week, according to CBC Friday morning. Transport Minister Lisa Raitt says that minimum will be set at 500,000 tonnes, which works out to 5,500 grain cars each for Canadian National and Canadian Pacific.

She says there will be penalties of up to \$100,000 a day if CP and CN don't meet the requirement.

The government is giving the railways four weeks to ramp up to the minimum level. A record harvest coupled with a transportation bottleneck has left grain sitting in bins across the Prairies. Last year's harvest was up by about 20 million tonnes.

Oregon Log vs Lumber Exports

The Port of Newport on the Oregon coast has finished a major, award-winning renovation of the site, and is negotiating with several timber companies that want to use the terminal to export logs to Asia just as Hampton Affiliates have been investing in the expertise to cultivate a customer base in China and produce lumber those customers want to buy.

Steve Zika, CEO of Hampton Affiliates, said to KUOW Thursday that sawmills could still be in trouble if log exports continue to grow. A new log export proposal for the Port of Newport is dangerously close to his company's Tillamook mill and could compete for logs from some of the same timberland the mill relies on.

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US New Home Sales

New home sales in January, as estimated by the US Census Bureau and HUD Thursday, were up 9.6 per cent over the December pace, coming in at 468,000 seasonally adjusted annualized rate. This pace is 2.2 per cent higher than the January 2013 measure. The month-supply measure of inventory fell to 4.7, with the count of new homes for sales standing at 184,000. Only 45,000 of those were completed, ready-to-occupy new homes.

The National Association of Realtors (NAR) Pending Home Sales Index, meanwhile, was up marginally January (0.1 per cent) after a 5.8 per cent decline in December. Despite the January reading, the pace of existing home sales has slowed significantly, with the most recent Index down 9 per cent year-over-year. The NAR measure for existing home sales was down 5.1 per cent in January and was 5.1 per cent lower compared to a year prior.

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Rail Transport Issues

A sudden order-in-council in Canada's Parliament Friday morning demonstrates the severity of rail car shortages expressed by Canadian industry for the past several months.

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JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Dec-13	77,843	37,644	40,199	52
Dec-13	89,578	38,073	51,505	57
Nov-13	91,475	36,671	54,804	60
Oct-13	90,226	37,009	53,217	59
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

Source: Japan Wood-Products Information and Research Center

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The Oregon Coast Alliance says the terminal would route at least 50 log trucks a day.

Port President JoAnn Barton says the Port needs to bring in large industrial customers to make enough money to support maintenance on the docks it manages for local fishing and recreation fleets. She says log exports could begin moving out of the rehabbed terminal later this year.

Log exports from the Northwest grew by another 20 percent last year, said the US Forest Service PNW Research Station, and they've doubled since 2009.

"I think everybody would agree that it would be better if Oregon logs were processed into higher-value products in Oregon," said Oregon Department of Forestry economist Gary Lettman. Research shows sending logs to local mills creates three jobs for every million board feet of timber while exporting the same volume of logs adds less than one job to the local economy.

"There are considerably more jobs from domestically processing logs than there is from exporting them," Lettman said.

China's building boom has also spurred Chinese companies to import lumber — just not nearly as much lumber as raw logs.

Zika's strategy to preserve his company's sawmills — in Tillamook and elsewhere in the Pacific Northwest — is not to shut down all log exports but to get more Chinese builders to buy lumber instead.

"We've somehow got to convince them to buy lumber versus logs," Zika said.

Half of the lumber made at Hampton's Tillamook mill is exported.

Changing operations to sell lumber into Asian markets wasn't something that could happen overnight. There are language barriers and logistical hurdles. Unlike logs, lumber has to be packed in containers before it can be shipped. That means you can't ship lumber out of any port. Hampton had to get its lumber onto ships at the Port of Portland. It had to hire new people, change its sales office hours to cater to its new customers across the Pacific, and adjust its sawmills to cut lumber in new dimensions.

Kit LaBelle, Hampton's global logistics director, told KUOW that shipping lumber to new overseas markets has been a game-changer for the company. In five years, Hampton has gone from shipping about 5 percent of its sales to Asia — China, Japan, Korea and Taiwan — to 25 percent. And it's not just exporting lumber from its own mills but from other mills as well.

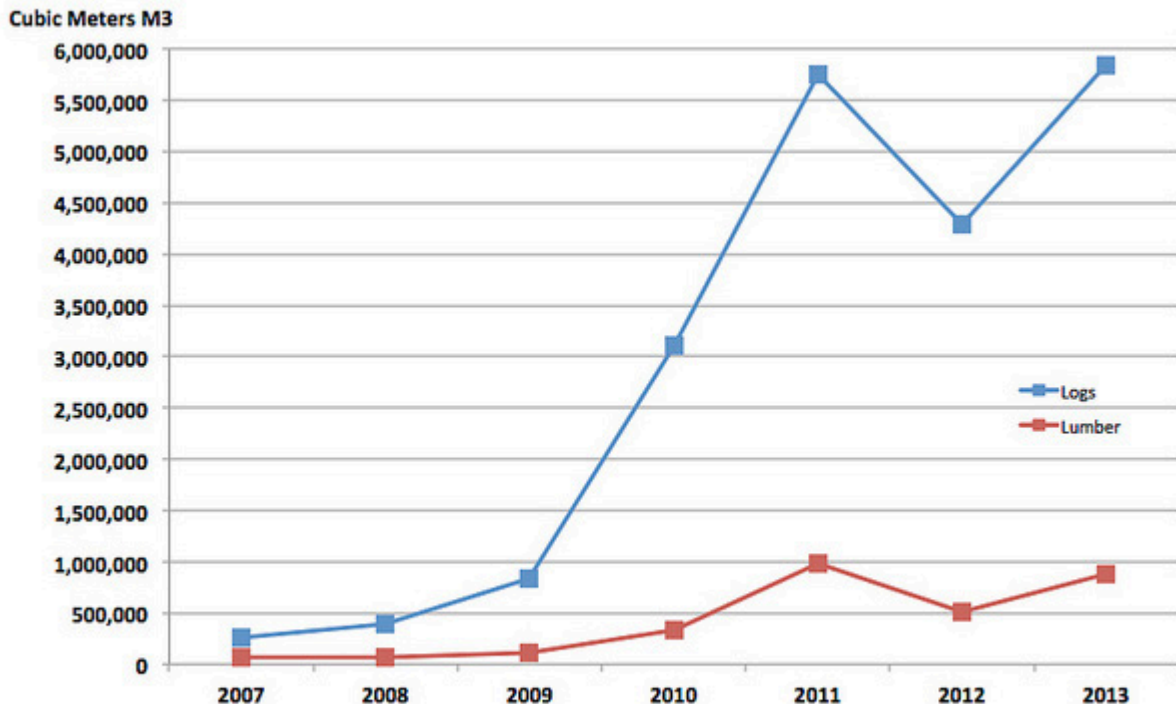
"There's a lot of cargo we didn't used to do, but now we know how. I think there's a lot of hope that sending lumber overseas will open another door for the business as a whole," said LaBelle.

LaBelle said the same principles that drove up log prices — lots of demand competing for a limited supply — could also drive up lumber prices.

Hampton's mills are still running at two-thirds of capacity, but Zika's hoping that could change if lumber prices go up.

"If lumber prices continue to go up, then we can out-compete the Chinese for logs," Zika said. "If the sawmills can pay more for logs, maybe the Chinese won't match those prices. And maybe they'll find another market to get logs from."

U.S. Log & Lumber Exports to China



Courtesy USDA Foreign Agricultural Service

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	368	368	0	376	-8	400	-32
WSPF KD R/L 2x6	354	354	0	358	-4	390	-36
WSPF KD R/L 2x8	338	338	0	342	-4	380	-42
WSPF KD R/L 2x10	400	400	0	410	-10	404	-4
WSPF KD PET 2x4 Stud	350	350	0	350	0	385	-35
WSPF KD PET 2x6 Stud	305	305	0	310	-5	385	-80
Douglas Fir Green R/L 2x4	395	400	-5	400	-5	385	+10
Douglas Fir Green R/L 2x10	452	452	0	480	-28	403	+49
ESPF KD 2x4 8ft Stud	390	400	-10	405	-15	435	-45
OSB Ontario 7/16" (CDN\$)	220	220	0	230	-10	435	-215
CSplywood Toronto 3/8" (CDN\$)	386	386	0	402	-16	416	-30

Weekly News

Home Sales, US

CONT'D FROM PG 2 The improvements in housing over the last two years are also apparent in the balance sheets of home builders. According to National Association of Home Builders industry surveys, average builder net profit margins (4.9 per cent) in 2012 were higher than prior readings in 2010 (0.5 per cent) and 2008 (-3 per cent) but still lower than 2006 (7.7 per cent).

NAHB survey data indicates tight but improving acquisition, development and construction (AD&C) loan conditions. FDIC data reveal multiple quarters of expansion of the outstanding stock of AD&C loans, but a lending gap persists between the demand for building and available credit.

Rising building material prices represent another challenge for builders. Data from the Bureau of Labor Statistics Producer Price Index showed a significant increase from December to January in gypsum prices (7.4 per cent). Softwood lumber prices moved up modestly in January after softening at the end of 2013. OSB prices firmed slightly after steep declines from early 2013 peaks, said the NAHB's Eye on Housing blog Thursday.

Resolute FP Quebec Timber Deal

Resolute Forest Products February 28 confirmed the signature of a framework agreement with the Quebec government and explained the measures found in the agreement. The agreement includes measures for renewal of water power leases for certain generating stations in Quebec's Saguenay-

Lac-Saint-Jean region as well as consolidation of some of the company's Quebec facilities.

The framework agreement also provides for an increase in the timber supply guarantee for the La Doré and Saint-Félicien, QC, sawmills as part of the consolidation of Resolute's sawmill operations in the Saguenay-Lac-Saint-Jean region as well as the grant of a 150,000 cubic metre volume of wood for the Aboriginal community of Mash-teuiatsh by the Quebec government, which will enable the community to carry out economic development projects.

Washington State Invests in Mill

The governor of Washington State announced Friday a US\$5 million funding package made up of tax credits and a state loan that will allow Josephine County's last sawmill to reopen, according to SeattlePi Friday.

Speaking at a news conference at a wood products mill in White City, Gov. John Kitzhaber said the funding helps spread the economic recovery happening around urban Portland to rural parts of Oregon.

The Rough & Ready Lumber Co. mill in O'Brien was dependent on large pine logs when it closed for lack of timber supply last year, putting 88 people out of work.

Rough & Ready President Link Phillippi said the upgraded mill will be more automated, employing 67 people, and processing about the same amount of timber, but from smaller logs obtained through forest thinning and ecological restoration projects.

Canfor Sells

Canfor Corp said this week it has an agreement to sell the Daaquam sawmill in Saint-Just-de-Bretenières, QC in a deal worth \$25 million.

The deal with Groupe Lebel and others is expected to close by the end of March, Canfor said in a release on Friday.

The Daaquam mill produced 120 million board feet of lumber in 2013.

CEO Don Kayne said the mill was being sold "because it was not core to our Western Canadian operations."

Canfor said proceeds of sale of the Daaquam sawmill and working capital combined with the sale of other associated properties related to Daaquam to other third parties are expected to amount to about \$25 million

A Reader Responds . . .

Diane Nicol, Regional Communications Manager at Natural Resources Canada:

RE: Canada's Forest Inventory
"Very carefully done piece. I learned some important details. Its commendable Mike [Wulder] was contacted for accuracy check."

Calendar March 2014

IWPA's World of Wood Convention
March 5-7 – St. Petersburg, FL
<http://www.iwpawood.org>

April 2014

Council of Forest Industries Annual Convention
April 4-5 – Prince George, BC
<http://www.cofi.org>

North American Freight Rail Transportation Woes

Canada's prairie grain farmers have been watching the quality and value of their crops decline over the last few months in fields or in storage due to a rail transportation bottleneck.

The situation got so dire this week in Vancouver, BC, that Federal Minister of Transport Lisa Raitt appointed uber-mediator Vince Ready Thursday morning to avert a total walkout by truckers at Port Metro Vancouver.

Early afternoon Thursday Port Metro Vancouver released, "Ready will conduct an independent review directed at resolving issues that have contributed to recent protests by local truckers."

The nation's largest railways have taken the economy "hostage", says Agriculture Minister Gerry Ritz, according to Blacklock's Reporter February 26. His remarks followed farm and industry protests of inexplicable shipping delays despite passage of the Fair Rail Freight Service Act: "We are considering all options".

The law, passed last year, was designed to improve service for railway customers but has delivered no noticeable benefits for Canada's agricultural shippers, says an executive with the Western Grain Elevators Association. That's because no major grain companies have attempted to negotiate service agreements with Canada's major railway companies since the Fair Rail Freight Service Act was passed by Parliament in June 2013, said WGEA executive director Wade Sokbowich to the Western Producer February 7.

"There have been no service level agreements that have been negotiated to my understanding nor have there been any service level agreements arbitrated by the Canadian Transport Agency," Sokbowich said. "Our confidence in the ability of a shipper to successfully get a service level agreement with teeth is very low."

The Fair Rail Freight Service Act was passed last June after a lengthy process aimed at improving rail service for shippers.

Please see the October 26, 2012 issue of your Madison's Lumber Reporter for details on the establishment of the Fair Rail Freight Service Act.

Grain Growers of Canada is urging producers across the country to join forces in lobbying their members of Parliament for changes to the broken grain transportation system.

The group is urging farmers to call their MP and talk about "the rail service issues that are personally affecting you and your farm."

"This is certainly a serious situation for farmers, and we have to get that message out there," said Acme grain producer and Grain Growers vice-president Matt Sawyer.

Canada's forest products' industry has suffered an ongoing season of brutal rail service. Extended extreme bad weather in key delivery markets is partially responsible for the lack of rail cars, but the truth is the oil and gas industry is paying significantly more to move much more volume.

California, the third-biggest refining state in the US, is about to see a flood of oil by rail from places such as Canada and North Dakota as suppliers seek to tap a market isolated from the rest of the country, said Bloomberg February 26.

The western US may bring 500,000 barrels per day of light oil by rail in 2015 as the region's refiners seek to replace shrinking output in California and Alaska and more costly foreign imports, Mark Smith, Tesoro Corp. (TSO)'s vice president of development, supply, and logistics, said at a conference in Glendale, CA, in February. California refineries can run 1.63 million barrels a day, the most in the US after Texas and Louisiana, government data show.

The state is already bringing in record volumes of oil from Canada by rail, totalling 709,014 barrels in December and comprising 67 per cent of rail receipts, the Energy Commission's website shows. Total oil-by-rail volumes to California, the most populous US state, from all sources surged in the fourth quarter to a record 2.83 million, almost double the amount from the three months prior.

West Coast rail terminals can unload 210,000 barrels a day, Smith said to Bloomberg, and almost all the refineries in Washington state have their own offloading complexes.

Operators in sectors like agriculture, and forest products specifically, are getting squeezed as rail lines and engines are increasingly diverted to the much more lucrative — for the railroads — oil and gas shippers.

Malcolm Cairns, a transportation consultant in Brighton, ON, and a former director of business research at Canadian Pacific Railway, released a research paper last year that Canada's two largest railroads, CP and Canadian National Railway, could move a combined 600,000 to 800,000 barrels of Canadian crude a day within two years.

That approaches Keystone XL's proposed capacity of 830,000 barrels a day.

Both railroads reach the Gulf Coast, where 45 per cent of US refinery capacity is located, either directly or via connecting rail lines. They also can haul the oil to East Coast refineries and barge terminals, and they are doing that now.

However, the growth of western Canadian oil production is projected to outstrip rail capacity by a long shot, according to Cairns. The tar sands region in Alberta and Saskatchewan could produce an additional 3 million barrels a day by 2035.

Cairns predicts that rail will provide a "niche service" once more pipelines are built. And if the U.S. doesn't build them, Canada will.

The report is available on the Canadian Transportation Research Forum website: <http://www.ctrf.ca/conferences/2013Halifax/Cairns2013C-TRFPresentation.pdf>

For its part, Burlington Northern Santa Fe has ramped up its operations dramatically, now moving 600,000 barrels of oil per day (once refined, that's enough to fill the gas tanks of 1.35 million cars), more than ten times the amount moved in 2010.

As for that rail service act, apart from the exclamations by various industries, there isn't a single update about progress or action on this important subject.

In an editorial March 4, the Nanton News, out of Nanton, AB, stated "Canada's railway network is a federal responsibility. Alberta is fully supportive of the federal government introducing legislative changes that would make the system more accountable through direct and immediate penalties for whichever part of the system is responsible for the backlog, including inadequate rail service.

While this year's bumper harvest was exceptional, it has exposed some weaknesses in Canada's grain-handling transportation system that must be fixed."

At press time Friday morning the Federal Transportation Ministry announced quotas for Canadian railways and penalties: The federal government says it will introduce an order-in-council forcing railways to move a minimum amount of grain each week.

Transport Minister Lisa Raitt says that minimum will be set at 500,000 tonnes, which works out to 5,500 grain cars each for Canadian National and Canadian Pacific.

She says there will be penalties of up to \$100,000 a day if CP and CN don't meet the requirement.