

MADISON'S LUMBER REPORTER



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News & Updates

Forest Certification Complications

There has always been a complicated relationship between global forest certification agencies (such as FSC, SFI) and stakeholders. Consumers, environmental groups, forest companies, unions, and local governments are all able to express their priorities and concerns about preserving ecology and other values, making use of the forest resource sustainably, and the economic impact of timber harvesting activity.

The relationship is fraught with politics often driven by regional considerations.

It is puzzling that, in 2016, there should be acrimony arising in Canada. Compared to operators internationally, Canada has among the highest ratio of third-party certified merchantable timberland in the world, and the sustainability standards in Canada are the highest in the world.

Many Canadian forest product companies are certified by more than one agency.

Given that other jurisdictions (Indonesia leaps immediately to mind) are committing outrageous crimes against the environment and local people with their timber management practices, it is difficult to understand why there is suddenly serious drama surrounding certification of forest practices for a large operator in Quebec.

Please see below and Page 9 for details.

Japan Wood Imports from North America 2015

Tallying organizations' rough estimate of North American log imports to Japan for 2015 is 2,444 million cubic metres, a 19.8 per cent drop from the previous year, according to *Japan Lumber Reports* Friday.

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Russia Lumber Exports: Nov 2015

Russian export of lumber is increasing to new record levels, *Woodstat* reported Thursday. Exports increased by 17 per cent in November 2015 compared to same month of 2014.

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Forest Products Association of Canada Urges

The Forest Products Association of Canada announced Thursday it urges the federal government to ratify the Trans Pacific Partnership as soon as possible.

Please refer to the October 23, 2015 issue of your *Madison's Lumber Reporter* for details of Japan's expectation of wood products imports from Canada under the TPP.

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Japan Housing Starts: Dec 2015

December housing starts in Japan were 75,452 units, a 1.3 per cent drop from December 2014, according to the *Japan Lumber Reports* Friday.

CONT'D PAGE 7

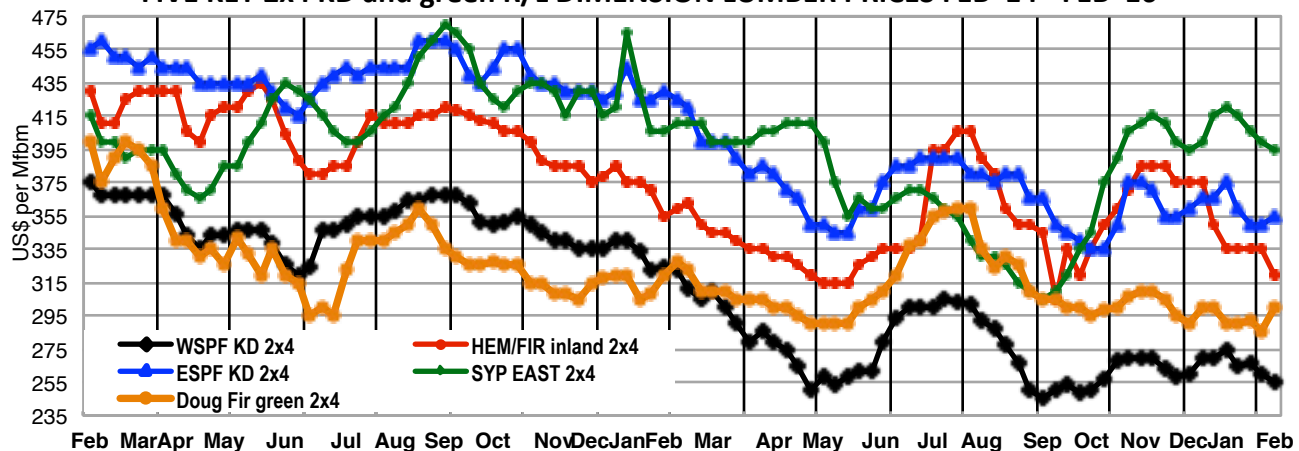
Canadian Forest Certification Disagreement

Madison's sincerely hopes this sudden development between Resolute Forest Products in Quebec and the Forest Stewardship Council's certification policy is not due to the expiration of the 2006 Canada-US Softwood Lumber Agreement.

That this new disagreement is being driven by the demands of 13 US-funded environmental groups is cause for alarm to anyone working in or of the forests in Canada.

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FIVE KEY 2x4 KD and green R/L DIMENSION LUMBER PRICES FEB '14 - FEB '16



Japan Log Imports from North America: 2015

Tallying organizations' rough estimate of North American log imports to Japan for 2015 is 2,444 million cubic metres, a 19.8 per cent drop from the previous year, according to *Japan Lumber Reports* Friday.

Based on the Japan Lumber Import Association's record, lumber imports from North America for the first eleven months of 2015 was 2,089 million cubic metres, 1.4 per cent less than the previous year.

A drop in Douglas fir log demand by Japan's plywood mills, due to domestic production curtailments, was given as a large part of the reason for the drop.

From Canada, log imports dropped by more than 30 per cent, continuing a more than two-year trend of dropping North American log imports in Japan.

US Construction Spending: December 2015

The US Census Bureau of the Department of Commerce announced Monday that construction spending during December 2015 was estimated at a seasonally adjusted annual rate of US\$1,116.6 billion, 0.1 per cent above the revised November estimate of US\$1,116.0 billion.

The December figure is 8.2 per cent above the December 2014 estimate of US\$1,031.6 billion.

The value of construction in 2015 was US\$1,097.3 billion, 10.5 per cent above the US\$993.4 billion spent in 2014.

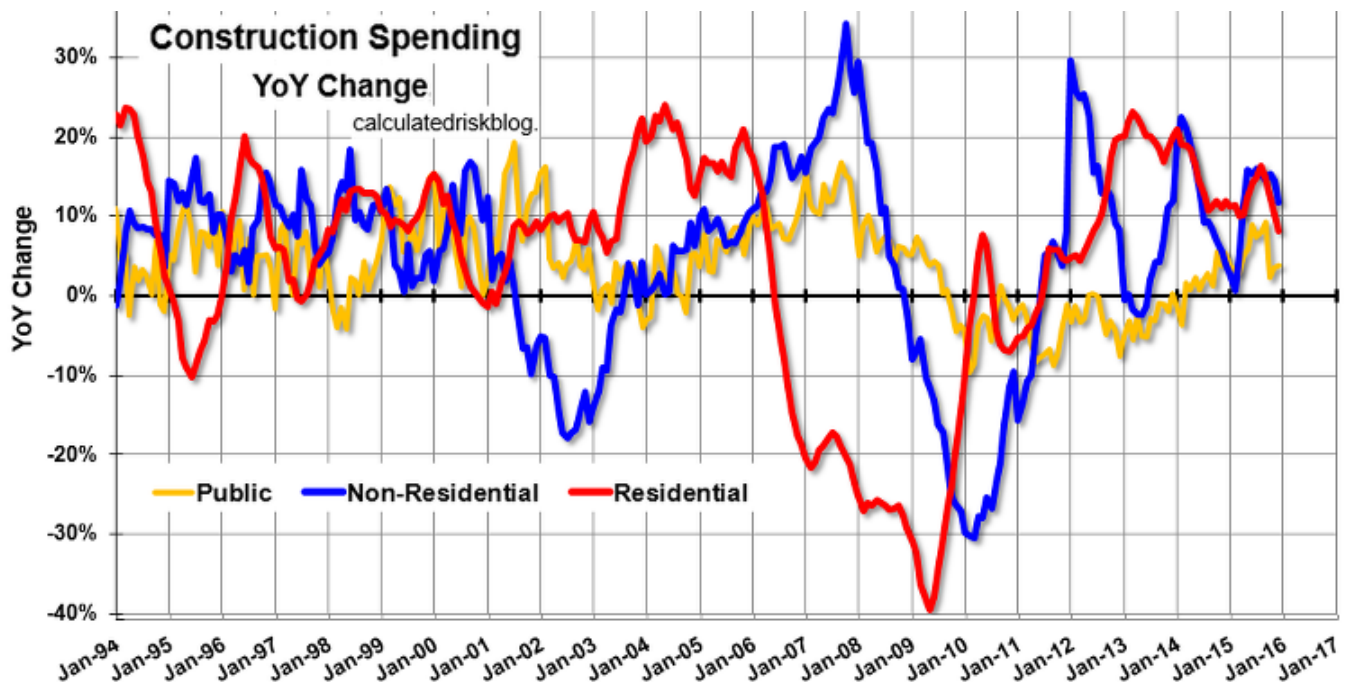
Spending on private construction was at a seasonally adjusted annual rate of US\$824.0 billion, 0.6 per cent

below the revised November estimate of \$828.8 billion. In December, the estimated seasonally adjusted annual rate of public construction spending was US\$292.5 billion, 1.9 per cent above the revised November estimate of US\$287.1 billion.

Private residential spending has been increasing, but is 37 per cent below the bubble peak.

Non-residential spending is only 5 per cent below the peak in January 2008 (nominal dollars).

Public construction spending is now 10 per cent below the peak in March 2009 and about 11 per cent above the post-recession low.



Madison's Weekly Lumber Key Prices Table

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	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
Prices are in U.S. dollars per 1,000 fbm (net FOB mill)							
WSPF KD R/L 2x4	255	260	-5	265	-10	324	-69
WSPF KD R/L 2x6	255	260	-5	265	-10	334	-79
SYP KD R/L East Side 2x4	395	400	-5	415	-20	405	-10
SYP KD R/L East Side 2x6	285	290	-5	305	-20	345	-60
ESPF KD R/L 2x4	355	350	+5	360	-5	430	-75
WSPF KD PET 2x4 Stud	220	200	+20	205	+15	330	-110
WSPF KD PET 2x6 Stud	215	215	0	215	0	340	-125
Douglas Fir Green R/L 2x4	300	285	+15	290	+10	320	-20
Douglas Fir Green R/L 2x10	340	330	+10	335	+5	378	-38
ESPF KD 2x4 8ft Stud	290	265	+25	290	0	400	-110
OSB Ontario 7/16" (CDN\$/msf)	305	330	-25	325	-20	240	+65
CSplywood Toronto 3/8" (CDN\$/msf)	404	395	+9	412	-8	460	-56

Madison's Weekly Lumber News

Lumber Exports, Russia

CONT'D FROM PG 2 During January-November 2015, Russian lumber export increased by 6 per cent compared to 2014, said *WoodStat* Friday. This means an increased competition in some markets for among others; Swedish, Finnish and Canadian sawmills.

Egypt is now the largest pine lumber market for Swedish sawmills and the exported volume is now nearly twice as large as the volume to United Kingdom. The Russian sawmills are increasing their exports also to other markets, such as China, South Korea and Iran.

FPAC Supports TPP

CONT'D FROM PG 2 "The TPP would greatly benefit the Canadian forest products industry by eliminating prohibitive tariffs. For example, forest products from Canada now face up to a 31 per cent tariff in Vietnam, 40 per cent in Malaysia, 20 per cent in Brunei, and 10 per cent in Japan," said FPAC Thursday.

Please refer to the October 23, 2015 issue of your *Madison's Lumber Reporter* for details of Japan's expectation of wood products imports from Canada under the TPP.

Housing Starts, Japan

CONT'D FROM PG 2 Total housing starts for 2015 were 909,299 units, a 1.9 per cent improvement over 2014 said the *Japan Lumber Reports* Friday.

Canada Sawmills

Lumber production by sawmills decreased 1.7 per cent from October to 5.6 million cubic metres in November, said Statistics Canada Wednesday. Compared with November 2014, lumber production rose 15.5 per cent.

Sawmills shipped 5.5 million cubic metres of lumber in November, down 6.8 per cent from October. Shipments rose 16.1 per cent compared with November 2014.

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Calendar

May 2016

International Pulp Week 2016
May 1 - 4, 2016 - Vancouver, BC
<http://www.forestproductssummit.com>

PwC's 29th Annual Global Forest, Paper & Packaging Industry Conference
May 4, 2016 - Vancouver, BC
<https://www.pwc.com/ca/en/industries/forest-paper-packaging/publications/annual-global-forest-paper-industry-conference.html>

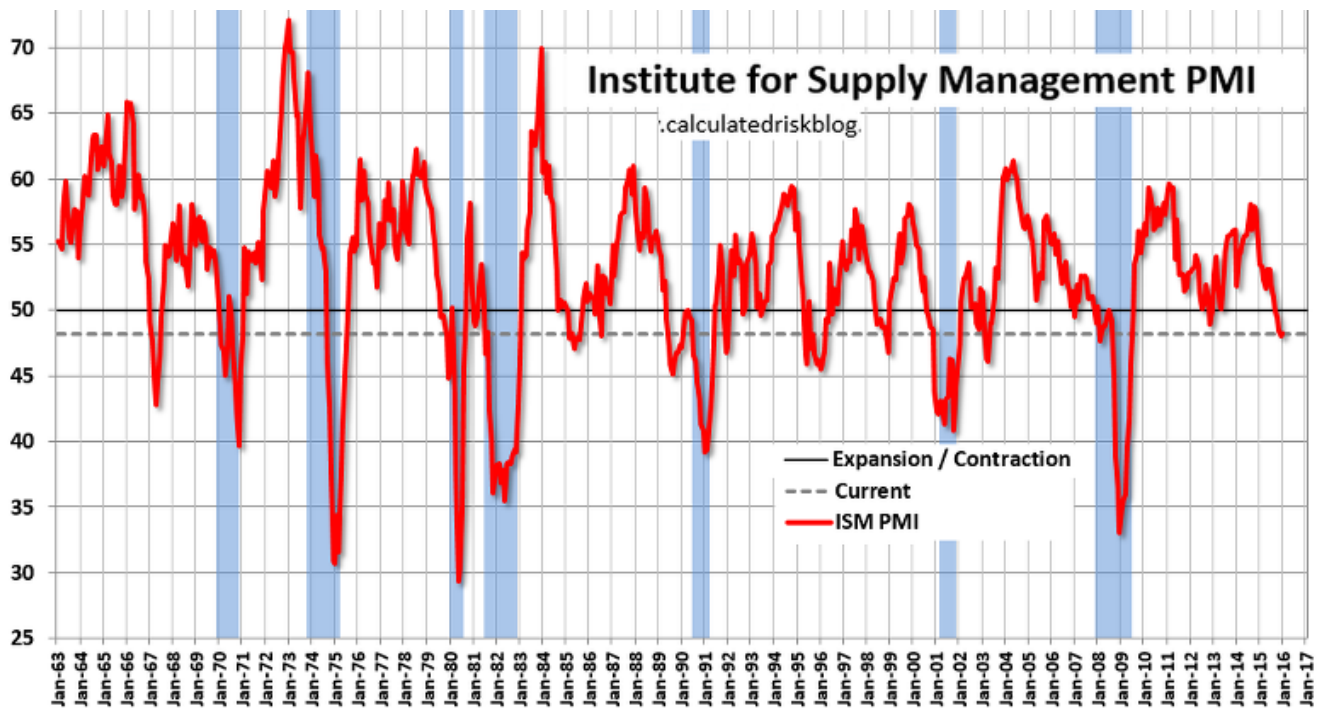
Canada Industrial Product Prices and US Manufacturing Index: Dec 2015 and Jan 2016

Canada's Industrial Product Price Index (IPPI) declined 0.2 per cent in December, said Statistics Canada January 29. The Raw Materials Price Index (RMPI) fell 5.0 per cent. The IPPI (-0.2 per cent) fell for the fifth consecutive month in December and has declined 1.7 per cent since July 2015. The main reason for the decline in the IPPI in December was energy and petroleum products (-5.4 per cent).

The IPPI rose 1.1 per cent over the 12-month period ending in December, its largest gain since November 2014.

The RMPI declined 5 per cent in December, after falling 4.1 per cent in November. The main reason for the decline in the RMPI were lower prices for crude energy products (-11.9 per cent). The RMPI excluding crude energy products fell 0.4 per cent.

In the US, the ISM manufacturing index indicated contraction in January, said the Institute for Supply Management Monday. The PMI was at 48.2 per cent in January, up from 48 per cent in December. The new orders index was at 51.5 per cent, up from 48.8 per cent.



FHFA and S&P/Case-Shiller US Home Prices in November: Nov 2015

The Case-Shiller National Home Price Index, reported by S&P Dow Jones Indices Monday, rose at a 10.9 per cent seasonally adjusted annual pace in November. The Home Price Index from the Federal Housing Finance Agency (FHFA) rose at a seasonally adjusted annual rate of 6.7 per cent in November.



Canada Forest Certification Complications

CONT'D FROM PAGE 2

Madison's sincerely hopes this sudden development between Resolute Forest Products in Quebec and the Forest Stewardship Council's certification policy is not due to the expiration of the 2006 Canada-US Softwood Lumber Agreement.

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by Kéta Kosman

Tembec Curtails Senneterre

In related news, Tembec Inc, out of Montreal, QC, cited weakness in the North American softwood lumber market and high wood costs in an announcement Monday that the company is indefinitely suspending operations at its sawmill in Senneterre, QC, putting 148 employees out of work.

The company, which last week reported strong results in 1Q but an adjusted EBITDA loss in the lumber segment, said the suspension will begin next Monday.

The sawmill in the Temiscaming region in northwestern Québec has an annual production capacity of 100 million board feet.

Resolute FP Certification

Still in Québec, Resolute Forest Products learned Monday from a Forest Stewardship Council Canada press release that FSC has requested that the Rainforest Alliance certification body extend the temporary suspension of one of Resolute's two certificates in Québec's Lac-Saint-Jean region for six months, until July 2, 2015.

The extension of the temporary suspension is intended to give the Québec government time to settle its dispute with the Cree First Nation, which dates back to 2002, and to resolve issues with its caribou conservation plan, the two issues that led to the temporary suspension.

Long Fight

A long brewing dispute over the largest undisturbed boreal forest on Earth, nearly 2-million square miles of pines and firs stretched across northern Canada, began to heat up this week when 13 American environmental advocacy groups wrote the governments of Ontario and Québec urging them to support new conservation efforts.

The letter comes in response to earlier lobbying by the Québec Forest Industry Council, which represents nearly half of Canada's \$20-billion timber industry, warning the government against new measures proposed by a watchdog, the Forest Stewardship Council. The new measures would threaten thousands of jobs and the communities that rely on them, the industry group warned in an October letter to Québec's minister of forests.

Confusion

According to the *Globe and Mail* January 28, FSC — which audits the eco-friendliness of forestry companies — signalled that there is flexibility in the way the controversial motion behind those new standards will be implemented.

François Dufresne, president of the Canadian chapter of FSC, made his remarks the day after he and the council's international director-general, Kim Carstensen, met with Québec Forestry Minister Laurent Lessard and some industry representatives, including Richard Garneau, chief executive of Montreal-based Resolute Forest Products.

Government of Québec Appoints Mediator

The government of Québec's announced January 26 that it has appointed former premier Mr. Lucien Bouchard, attorney, to act in the capacity of mediator in regard to the issues associated with the Baril-Moses letter signed in 2002 and particularly those issues stemming from the suspension of forest certification granted to certain harvesting areas used by Resolute Forest Products.

To a large extent, the current debate over maintaining certification lies outside of the control of companies. This is particularly true in regard to such elements of non-compliance as Aboriginal issues, the conserva-

tion of old-growth forests, and the protection of the woodland caribou population — matters falling under the competence of the Government of Québec.

New Standards

The FSC is setting new standards after members adopted a motion in 2014. Motion 65 has caused some trepidation in the forestry industry because it seeks to protect "the vast majorities" of remaining undisturbed forest. It also requires that harvesting be done with "free prior and informed consent of indigenous people."

One sticking point: The motion stipulates that, should no standards be in place by the end of 2016, 80 per cent of a company's managed forestry zone could be automatically designated as fully protected landscape.

Possible Resolute Expulsion

In an explosive development Thursday, FSC said its international board will decide in March whether to recommend that its 800 members vote to remove the Québec-based company, the second-largest holder of FSC certifications in North America.

Director-general Kim Carstensen said it was considering the move after verbal attacks by Resolute, which has rejected an FSC proposal for mediation to find peace among producers, First Nations and environment groups.

Resolute chief executive Richard Garneau told the *Globe and Mail* it was disturbing that FSC would consider removing his company's membership because it has objected to whether the organization should involve itself in a forest system that is ultimately controlled by provincial governments.

The government of Québec has said it won't participate in FSC's mediation process.