

THE GLOBE AND MAIL

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SECTION B

Report on Business

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S&P/TSX 13,441.06 (+49.71) | DOW 12,479.58 (-68.79) | S&P 500 1,328.98 (-0.49) | DOLLAR 102.82 (+0.17) | GOLD 1,480.00 (-10.60) | OIL 96.91 (-0.46) | GCAN 10-YR 3.154% (-0.02)

FOREST PRODUCTS

B.C. foresters join forces to skirt port backlog

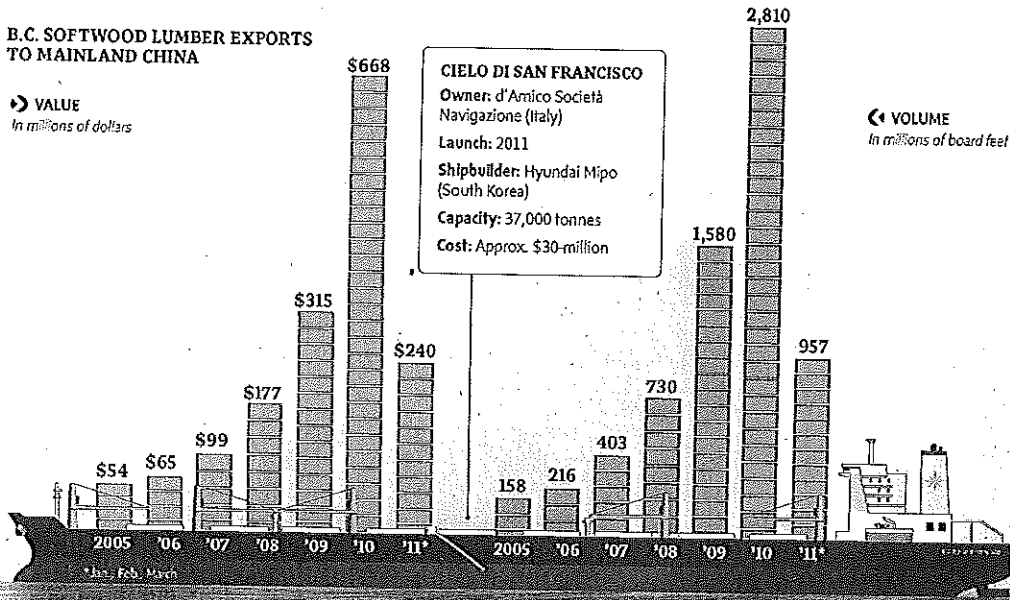
Faced with a worsening bottleneck, four companies charter cargo ship for lumber shipments to China

B.C. SOFTWOOD LUMBER EXPORTS TO MAINLAND CHINA

► VALUE
In millions of dollars

CIELO DI SAN FRANCISCO
Owner: d'Amico Società Navigazione (Italy)
Launch: 2011
Shipbuilder: Hyundai Mipo (South Korea)
Capacity: 37,000 tonnes
Cost: Approx. \$30-million

◀ VOLUME
In millions of board feet



THE GLOBE AND MAIL. SOURCES: BRITISH COLUMBIA STATISTICS; GRAPHIC NEWS; IL SOLE 24 ORE

DAVID EBNER VANCOUVER

The Cielo di San Francisco, a newly built cargo ship, is sailing across the Pacific Ocean, destination Vancouver, and set to arrive in late May with one purpose: bring British Columbia lumber to China.

Booming sales of B.C. wood to China - March sales tripled from a year ago - have injected the long-suffering forestry industry with some much-needed optimism and a sense that better days could be lasting.

But the surge has created its own problems.

For decades, most of B.C.'s wood went south to the United States, by rail or truck, with a smaller portion exported by sea. Today, however, the U.S. market remains extremely weak in the wake of the housing bust, while lumber is lined up at jammed ports in Vancouver and Prince Rupert ready to set sail for China.

Faced with a transportation bottleneck that will only worsen as demand in China soars, the forestry industry has come

together in a deal to secure vital shipping capacity.

This spring, four leading forestry companies - West Fraser Timber Co. Ltd., Canfor Corp., Tolko Industries Ltd. and Western Forest Products Inc. - partnered to charter the Cielo di San Francisco for the next year, an experiment to give the firms more control over the movement of their products.

"We are putting the ports under a lot of pressure, with the volumes of lumber," said Chris McIver, vice-president of lumber

sales at West Fraser, North America's top producer. "We've never seen anything like this."

The chartered cargo ship is the latest solution for an industry enjoying and grappling with an export renaissance.

Lumber and pulp now fill about half of all containers exported from Vancouver. That has helped strain the availability of containers at the busy port.

Years ago, industry powers such as MacMillan Bloedel actually owned their own fleets of ships. Lumber, Page 6

GEOPLITICS

Race begins to replace IMF head

BARRIE MCKENNA
JEREMY TOROBIN OTTAWA

As Dominique Strauss-Kahn sits in a New York jail cell awaiting his day in court, furious political jockeying is already under way to pick his successor.

Key European countries are insisting on maintaining the 65-year-old tradition of handing the top job at the International Monetary Fund to one of their own - particularly now that the fund is grappling with the debt woes of several euro zone members.

Brazil and other emerging economic powers, meanwhile, argue that the time has come for the stodgy Washington-based institution to break with the past and appoint someone from the developing world.

And some prominent Canadians, including former prime minister Paul Martin, say the job should go to the best candidate from anywhere in the world, pushing Bank of Canada Governor Mark Carney on to the IMF short list.

"The best person available should get the job, and if that person is from an emerging economy or from Canada, I think that's the person who should be chosen," Mr. Martin said in an interview.

If fundamental change is on the way, replacing Mr. Strauss-Kahn, who sits in a New York City jail on sexual assault charges, could be a prelude to a broader reshuffling of the global financial order - one that gives more influence to fast-growing and important economies in Asia and South

Lumber: Chartered cargo ship a 'hedge' against troubles securing enough containers

» This strategy was largely abandoned in the 1990s when containers – a cheaper way to move wood – became widely available.

But as containers become more scarce, forestry companies are turning more to cargo ships. Vancouver-based International Forest Products Ltd. in January bought full control of Seaboard Shipping Co., which owns two cargo ships and has contracts for others.

For West Fraser and its partners the Cleo di San Francisco offered a perfect chance to ensure access to the lucrative Chinese market. The ship was built in a Korea.

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CONSULTANTS + ACTUARIES

set sail for Vancouver on May 9, and is expected to arrive around May 24. The first official fully loaded sailing for the ship, owned by di Avanco of Italy, is slated for the end of May from Vancouver.

Seven round-trips are planned for the next year, which would bring a total of 175 million board feet of lumber to China – about 3 per cent of the wood B.C. will send to China in 2011. That 175 million board feet is more than the amount of wood B.C. exported to China in all of 2009.

Tolko, privately held and based in Vernon, has had several record months for overseas sales, said

John Langley, general manager of export sales. He called the chartered ship a "hedge" against troubles getting enough containers.

Pat Bell, B.C.'s Minister of Jobs and formerly in charge of forestry, called it a "major challenge" earlier this year. B.C. foresters depend on so-called backhaul containers, which arrive from Asia fully loaded with other products. Once delivered largely by rail to their destinations in different parts of Canada or the U.S., they remain empty to Vancouver.

Given the still-uncertain future of the U.S. economy – and thus demand for imported goods, and a steady supply of empty backhaul containers – foresters decided to co-operate on their year-long bet on the cargo ship.

It gives us control of our own destiny," said Dave Ledebvre, a Canfor spokesman. Companies that are normally rivals have learned to co-operate as they have cracked China. Under the leadership of Mr. Bell, who is widely credited by industry executives for leading the charge, companies present a united front in China rather than individually competing for business.

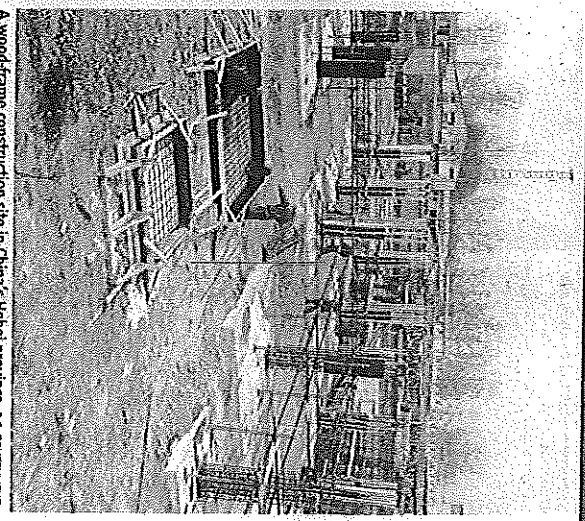
The strategy has produced spectacular results. Last year B.C. sales to mainland China jumped 12 per cent to \$668-million, making China the No 2 destination for Canadian wood.

This year, the pace of growth has picked up significantly. March was the second-biggest month ever for exports to mainland China and sales are up 18 per cent to \$240-million in the first three months of the year.

The strong start to the year is somewhat unusual. Demand in China for B.C. wood is generally strongest in the last four months of a calendar year and if the current pace of growth holds up, B.C. exports to China would reach \$1.7-billion in 2011.

That would be a dizzying figure, nearly as high as the value of wood sent to the U.S. in 2010 and far greater than even the most optimistic forecasts of Mr. Bell. Even if growth slows, B.C. appears certain to hit four billion board feet of wood shipped to China in 2011. When Mr. Bell first made a forecast of four billion board feet three years ago in 2008, it was roundly dismissed as impossible.

NEW CHINA BOONING



A wood-frame construction site in China's Hebei province. B.C. GOVERNMENT

British Columbia has worked for the past decade to sell China on the merits of wood construction and the effort has scored some recent success.

Several years ago, almost all of the B.C. wood sold to China was low-grade lumber, used mostly in construction as frames to pour concrete or to brace parts of buildings as they went up. China primarily builds with concrete and steel and B.C. officials have lobbied successfully for changes to building codes to allow for a greater use of wood in construction.

Now, about one-third of the province's lumber exports are higher-quality wood, suitable for home construction, according to a recent estimate by Pat Bell, B.C.'s Minister of Jobs who was previously in charge of forestry.

However, even as China buys the higher-quality wood, part of the reason is availability rather than a sudden shift to construction buildings from wood. As Chinese demand soars, higher-quality grades are bought after all the low-grade wood is taken.

The second main use of B.C. wood is for manufacturing, for such products as furniture, doors and pallets.

B.C. – through government and industry – promotes wood with demonstration projects and has established a close connection with the Chinese Ministry of Housing and Urban Rural Development. Several wood-frame buildings are being built in Tianjin, near Beijing.

The bulk of B.C. wood comes from the prolific Interior, whose vast forests have been hit by the ravages of mountain-pine beetle.

Spruce, pine and fir (known as SPF in the industry) are the three dominant species harvested and sold.

David Ehnor