

MADISON'S LUMBER REPORTER



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Annual Subscription Prices
E-mail/Fax: C\$339
Discounts available for multiple
subscriptions
Published 50 times a year



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In Canada, add 5% GST
ISSN 0715-5468
Printed in Canada



News & Updates

Madison's Announces . . .

Next week we will launch a new publication, *Madison's Lumber Investment Preview*, as part of our continued effort to provide the industry with up-to-the minute information on new developments. Issued twice a month, it will focus on the business of lumber, wood products and timberland investment across North America.

As a special introductory promotion, for the first month *Madison's Lumber Investment Preview* will be emailed to all current subscribers and beyond. We encourage everyone to forward these promotional issues to anyone they think might find it useful! We will also be providing the full content on our website.

Next month any subscribers that wish to continue receiving the bi-weekly updates will be invoiced. We look forward to any feedback you may have on this new initiative.

Forest Fires

California continues to be a major hotspot with 64,305 acres (26,020 hectares) of the state's central coastline engulfed in the so-called Basin Complex fire.

Northern Saskatchewan is experiencing it's own blaze, which has so far caused almost 2,000 people to be evacuated, 170 by bus. [READ MORE](#)

Softwood Pulp

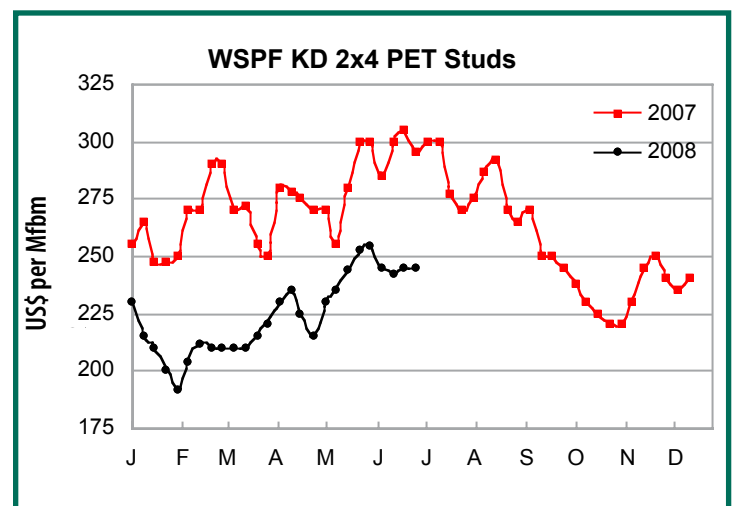
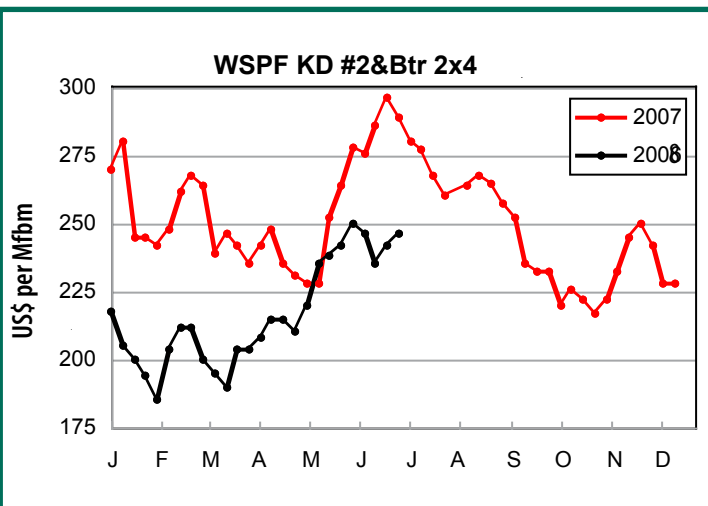
For the first time in a year and a half, European NBSK pulp price is down, due to a slowdown in both the European and US economies. Despite pulp mill closures in North America and Finland, continued weak demand for paper is causing a turn-around in the pulp market. [READ MORE](#)

The New Business of Lumber

As everyone is by now aware, the current slump in the US housing market will not soon be over. Despite what some analysts predicted earlier this year, there is clearly at least two years' worth of fall-out from the zero-interest mortgage fiasco before the market can even start to turn around.

Japan, Europe and other importers can only pick up a portion of the slack in lumber demand. Wood products companies across North America are coming up with innovative ways of protecting their bottom line, most notably sales of timberlands.

This week *Madison's* explores the financial viability of this activity, looking closely at two British Columbia companies that have already embarked on such measures; TimberWest Forest Corp. and Western Forest Products. [READ MORE](#)



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	254	246	+8	205	+49	289	-35
WSPF KD R/L 2x6	244	236	+8	235	+9	282	-38
WSPF KD R/L 2x8	240	240	0	237	+3	300	-60
WSPF KD R/L 2x10	250	255	-5	270	-20	365	-115
WSPF KD PET 2x4 Stud	230	245	-15	254	-24	305	-75
Douglas Fir Green R/L 2x4	205	218	-13	240	-35	252	-47
Douglas Fir Green R/L 2x10	205	200	+5	216	-11	285	-80
ESPF KD 2x4 8ft Stud	315	310	+5	315	0	365	-50
OSB Ontario 7/16" (CDN\$)	210	210	0	205	+5	235	-25

Weekly News

Forest Fires

CONTINUED 1,800 homes and businesses in the Big Sur area of California stand in the path of the fire, which jumped a containment line on Wednesday, causing authorities to immediately order the evacuation of 850 Big Sur residents. High winds and low humidity are responsible for the continued stubbornness of the blaze, which surprised officials Wednesday night by sending flames 200 ft (61 meters) into the air.

Wood residue from a fire in the mid-1990s litters the forest floor, with literally thousands of dead oak trees providing a dangerous fuel source. The US National Guard has been mobilized to help with the fire fighting efforts.

California Governor Arnold Schwarzenegger declared a state of emergency for Santa Barbara County Thursday, after a fire in the Goletta area burned 2,400

acres (970 hectares) and knocked out power.

So far this year, 460 fires in northern Saskatchewan have consumed 494,000 hectares (122,000 acres) of largely uninhabited forestland. 36 helicopters and 17 air tankers are currently fighting the blaze.

As the Boreal forest goes through its usual cycle of burn and regrowth, NASA planes are circling overhead to collect air samples. The Saskatchewan fire is expected to go "pyro" (an effect similar to a volcano going off) over the weekend, sending smoke and ash 10 km high, into the stratosphere.

Pulp

CONTINUED This week European Softwood Kraft pulp was selling for US\$903.70 per metric ton, down US\$0.94 from last week and up US\$32.54 from the beginning of 2008. (SOURCE: www.foex.fi).

In a sign of potential future pulp oversupply, Europulp reported a 7 per cent increase in May pulp inventory at European ports (to almost 1.4 million tons) when compared to April, and up almost 27 per cent from May of 2007.

US NBSK pulp stayed firm at US\$880 per metric ton, due to very low North American sawmill activity. Wood chips are in short supply, prompting producers to announce an expected price increase of US\$20 for July.

Packaging Plant Closure

Cascades Inc. announced Wednesday that the Norampac division is closing its Toronto boxboard plant in September, affecting 140 employees. The move will take 180,000 tons of coated recycled boxboard out of production annually.

Later the same day Cascades announced a \$15 million upgrade investment in its Lachute tissue plant in Quebec, which will greatly increase productivity by replacing five converting lines with one significantly more efficient line. Necessary to keep the mill competitive, the upgrades are expected to preserve the 160 jobs currently held there.

Calendar

August 2008

Forest BioEnergy International Conference and Exhibition

August 28-30 - Finland

BioForest

<http://bioforest.finbioenergy.fi/default.asp>

September 2008

Who Will Own the Forest?

September 8-10 - Portland, OR

World Forestry Center

<http://wfi.worldforestrycenter.org/wwoft4/agenda.html>



NASA handout photo of northern Saskatchewan fires

The Business of Lumber

A New Era

2007 proved that continued production of 2x4's and other dimension lumber in the face of clearly eroding demand is a bad idea. This year lumber and wood products companies are faced with the difficult task of finding new ways to help their bottom lines. Particularly since America, the number one lumber customer, is not likely to come back to the market until mid 2010 at the very soonest.

While wood pellets and biofuels from wood residue are seen across the industry as excellent future products, they are currently not cost effective. Consumer demand and production technology both need to improve before these products can be put out to the marketplace on a large scale. So what is to be done in the short term?

Using examples from the United States, there are two major lumber companies in British Columbia embarking in the real estate business. Both privately own significant timberlands, and have been looking at ways to capitalize on the resource beyond simply sawmilling.

TimberWest Forest Corp., the single largest private landowner in BC, hired John Hendry from The St. Joe Company (FL) as their VP of Real Estate in May of 2007. Using the successful business model of his previous employers, Mr. Hendry identified 134,000 acres (54,000 hectares) of forestland as "higher and better use" than from timber management alone. Of that, 39,000 acres (15,700 hectares) is being actively sold off over the next 10-15 years. This quantity of land amounts to 17 per cent of TimberWest's property holdings. The other 83 per cent is still deemed most profitably used for lumber.

TimberWest's web site describes the land to be sold as "provid[ing] a wide range of sustainable real estate opportunities, including mixed use, residential, commercial and resort development".

Stephen Bruyneel of TimberWest's communications office told *Madison's* that the company works very closely with communities immediately surrounding the real estate land to determine its best use. Direct consultation helps decide what kind of development will take place on the land, whether it be residential,

parks and trails, airport or other kinds. Often people who have moved out to the forest do not want their viewscapes marred by logging activity, and are open to alternatives.

Mr. Bruyneel acknowledged that - being uniquely positioned on the west coast - TimberWest is probably in possession of more valuable real estate than a lumber company situated in a remote inland area, however he maintains that the business model is sound and that similar valuations should take place across North America. In these changing times it would be unfortunate to miss out on such an opportunity.

Similarly, Duncan Kerr - CEO of Western Forest Products - sees timberland sales for real estate as an irrefutable aspect of the future of lumber industry. He told *Madison's* that even five years ago this was not the case. The company assessed 2,500 hectares of land on southwest Vancouver Island to have a "better use potential than ongoing forest land". Western Forest Products also started conversations with the community to develop a vision for the best future use for that land. In the interim a slight hitch has been put into place by the Capital Regional District (not to mention no small amount of outcry from some public groups), however WFP is still in a conditional deal with the potential buyer.

Mr. Kerr also holds the opinion that real estate activity is an obvious choice for future potential revenue, particularly as "non forestry people move into the forests". Given the rampant and

continuing mill closures across Canada, the hardest-hit communities must look to other avenues for an income source. Tourism, eco or otherwise, is one possibility. Another is intelligent development and land use management to capitalize on the interest of city-dwellers in moving out to the country.

The United States has already embarked on such ideas. About 4.5 million acres of timberland, worth about \$3.3 billion, were sold in 2007, according to Chris Lyddan, editor of *Timberland Markets Report* in Richmond, Virginia. Lumber and paper companies unloaded about 70 per cent of that total. Land that had previously been considered too remote, too wild or was lacking in infrastructure or services is now becoming more attractive. Of course in the US more lumber companies are also landowners. However in Canada 15 per cent of timberland is privately owned.

During the past 15 years, the NCREIF Timberland Property Index climbed at an annual rate of 14 percent, exceeding the 12 percent gain of the Standard & Poor's 500 Index. Often the pension fund, universities or other investors that are buying up timberlands in the US have little or no intention of development. They plan to simply hold the land for its value, and as a future source of timber revenue when the market does turn around.

With new interest in forest land coming from all kinds of sources, it seems only logical for Canadian wood products companies to jump into the game as well.

