

MADISON'S LUMBER REPORTER


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News & Updates

Madison's Announces

Given the enormous amount of interest currently burgeoning within investment circles to get into the extremely depressed forest industry, *Madison's* will be expanding the *Reporter* content in coming weeks. The most often requested information has been in regards to log - sawlog and roundwood - prices, chip prices and carbon credits. There is likely other information that could be useful to our readers in this time of flux and change, which we will also consider adding.

Once we establish stable sources, we will add a page to your weekly *Reporter*. Never fear, the current content will stay in the same place! No hunting around to find a particular commodity. Rather we will place the new information together on a separate page at the back.

Global Pulp and Newsprint

The sale price of bankrupt Pope & Talbot's former Mackenzie pulp mill to Alberta's Worthington Properties has dropped from \$20 million to \$6.5 million due to the cancellation of a chip supply deal with Canfor Corp. Canfor bought out of the agreement with receiver PricewaterhouseCoopers this week for an undisclosed amount.

Finnish paper makers UPM-Kymmene Corp. and Stora Enso Oyj each announced mill closures this week, putting a total of 3,300 employees in Finland, Germany and Russia out of work. [READ MORE](#)

Borex Power Chip Shortage

Borex Power Income Fund said this week that it is temporarily closing a second power plant in Quebec because it can't get enough wood residue to fuel its operations. The Canadian renewable power company using waste wood from sawmills in that province had to close operations because so many primary mills nearby have shut, and it is too expensive to transport wood waste from further afield.

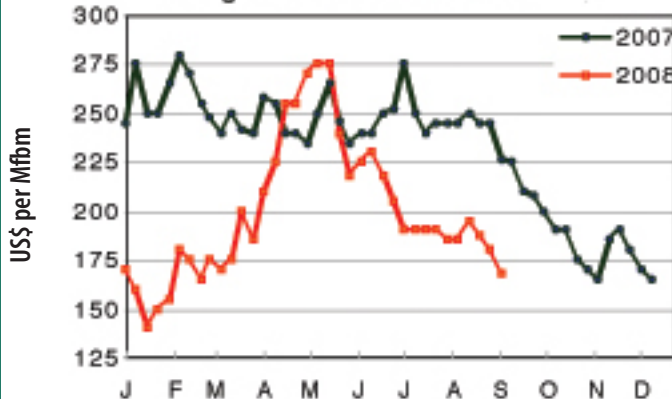
A company statement explained that Borex Power will stockpile as much wood as it can so it can get back into power production in the peak December-to-March period when it is paid the most for the electricity it generates. [READ MORE](#)

Investing in Forestry

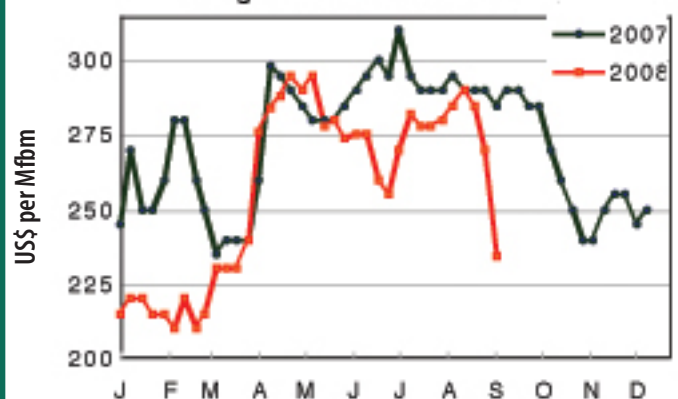
The fourth annual "Who Will Own the Forests?" timberland investment conference in Portland, OR, this week was sold out to capacity. In fact organizers had to turn late registrants away.

While Canadian wood products manufacturers and distributors lament current horrible market conditions, long term investors with vast amounts of ready money look to the sector for stable investment. Interested specifically in buying at a discount and waiting several years for projected solid returns of between five and 11 per cent, such groups of investors can literally not wait to put money into distressed operations. [READ MORE](#)

Douglas Fir Green #2&Btr 2x4



Douglas Fir KD #2&Btr 2x4



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	252	270	-18	270	-18	235	+17
WSPF KD R/L 2x6	275	295	-20	274	+1	269	+15
WSPF KD R/L 2x8	290	300	-10	284	+6	250	+40
WSPF KD R/L 2x10	290	292	-2	290	0	355	-65
WSPF KD PET 2x4 Stud	218	225	-7	220	-2	250	-32
Douglas Fir Green R/L 2x4	168	190	-12	185	-17	225	-57
Douglas Fir Green R/L 2x10	210	240	-30	230	+20	288	+22
ESPF KD 2x4 8ft Stud	280	281	-1	295	-15	335	-55
OSB Ontario 7/16" (CDN\$)	225	220	0	215	+10	185	+40

Weekly News

Paper Production

CONTINUED Stora said it also plans to transfer 1,450 employees in 2009 to a joint venture with Swiss-Swedish electrical engineering company ABB Ltd., and invest €135-million to improve efficiency. UPM said it plans streamlining measures that would save €70-million in fixed costs.

UPM said, "In Finland, wood prices have increased to such a high level that profitable operation of all our units is no longer possible. Markets are slowing down, and there is overcapacity."

Stora and UPM have both said that paper deliveries will be down in 2008, partly caused by hikes in wood export tariffs by Russia, a major supplier for companies in Finland and elsewhere in Europe.

Prime Minister Matti Vanhanen called a special Cabinet meeting to discuss the layoffs and problems faced by the forest industry, which provides work for 10 per cent of the country's labour force and accounts for 20 per cent of exports.

Finance Minister Jyrki Katainen said the government had set aside emergency

funds to deal with such crises.

Stora Enso is one of the world's largest forest product companies making magazine paper, newsprint, fine paper, pulp and packaging boards. It employs 36,000 people in more than 40 countries.

UPM has production plants in 14 countries with 170 sales and distribution companies worldwide. It employs some 27,000 people, down from 29,000 a year ago.

The slumping global economy and changes in technology have reduced demand for paper, leading to production cuts around the world, including Canada, where mills have temporarily cut output or shut down permanently.

Wood Chips

CONTINUED Boralex Inc., which owns about 28 per cent of the income trust and manages its assets, also runs hydroelectric, wood-residue and wind-turbine power plants in Canada, the United States and France.

Boralex Inc.'s six waste-wood power plants in the northeastern United States have not faced the same shortage of fuel, mainly because there are more private land

owners in the area who are willing to sell wood.

Boralex Power earned \$5 million in 2Q 2008, up from a loss of \$44 million a year ago when it took a large tax deferral. Excluding the tax deferral, Boralex's net earnings grew nearly 93 per cent to \$5.4 million from \$3 million.

Revenues rose 7 per cent to \$25.6 million and operating earnings increased 20 per cent to \$13.4 million.

Japan Housing Starts

July housing starts in Japan jumped 19 per cent over the same month one year ago to 97,212 units, the first such increase in 13 months. This figure must be qualified because in July 2007 new home starts plunged by 23 per cent (the biggest July drop in 14 years) after new building standards were imposed.

As in recent months, wood framed unit construction shot up significantly, by 21 per cent from one year ago to 45,335, which accounted for 47 per cent of total July starts.

July building permits were also up, by 55 per cent from one year ago, and 5.5 per cent from June.

July Housing Starts in Japan

Month	TOTAL	Non-Wood	Wood	%Wood
Jul-08	97,212	51,877	45,335	47
Jun-08	100,929	53,328	47,601	47
May-08	90,804	48,075	42,729	47
Apr-08	97,930	54,656	43,274	44
Mar-08	83,991	44,428	39,563	47
Feb-08	82,962	48,110	36,852	44
Jan-08	86,971	45,305	41,666	48
Dec-07	87,214	39,351	47,863	55
Nov-07	84,252	36,566	47,686	57
Oct-07	76,920	30,990	45,930	60
Sep-07	63,018	25,101	37,917	60
Aug-07	63,076	30,175	32,901	52

Source: Japan Wood-Products Information and Research Center

Calendar

September 2008

**Alberta Forest Products Association
62nd AGM**

Sept 28 to Oct 3 - Jasper, AB
<http://www.albertaforestproducts.ca>

October 2008

SIBO Industrial Woodworking Show

October 23 to 25 - Laval, QC
<http://www.sibo.ca>

Forestry Investment

Wood Products

There is an obvious advantage to getting financially involved in forestry right now, which is not lost on the significant

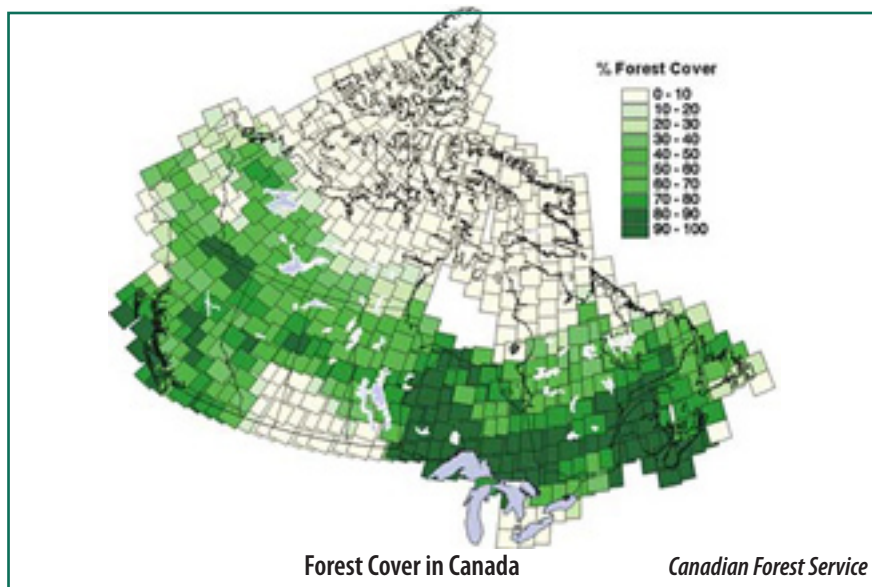
by Kéta Kosman

number of groups, funds and agencies the world over looking to gain ground floor entry before there is even a suggestion of the lumber market turning around. Whether it be buying timberlands, lumber producers or breaking into new remanufactured commodity markets, investors have their cheque books out. Having just returned from a major timberland investment conference in Portland, OR, Madison's can say for a fact that the sharks are circling the tank looking for a place to put their substantial funds.

It is important to remember that in the scope of all of this wild searching for the "next big thing" in which to dump money, these types of investors and fund managers are not typically looking for a return in the next six months. Good news for the wood products industry in Canada, because the market has another couple of years of this downturn at least - all things remaining equal - before demand increases enough to bring commodity prices up to healthy levels.

That is why right now is a perfect time to invest: the situation is so dire, money is so tight, bottom lines are so dismal, that everything from operations to equipment to entire mills can be bought for a song. It's simply a matter of putting the appropriate parties together. Attendees of this particular conference themselves would not necessarily be interested in what Canada has to offer, given that our land - generally speaking - is publicly owned and our largest wood products export customer is the United States.

The interests represented at the conference were looking to buy up timberland, as a proven long-term, stable investment with proven returns of between five and 11 per cent. Thus their eyes were carefully scanning over the rapidly depleting large plots of US timberlands while also looking globally into so-called "emerging markets" (Brazil, New Zealand, parts of Asia and Africa). Mandates and requirements varied, but terms like 'sustainable', 'environmentally sound', 'forward looking' and 'high employment standards' were almost universal among the various groups. All of these conditions are already met here in Canada, if not exceeded, in terms of global standards.



The volume of interest and of information was so great that it can not be contained within just one issue. In the coming weeks we are going to be looking very closely at the various speeches and presentations given at the conference, as well as suggestions and ideas bandied about by attendees, and bringing our readers closer to finding new product solutions, new markets, and new investment interest for themselves.

As demonstrated by the aggressive - and rather brilliant - business plan of Conifex Inc. to buy up shuttered Canadian mills, get them up and running immediately AND embark on intensive capital investments for upgrades, right now is the best possible time to get involved in forestry. The worst of the downturn is likely over. The fact that any significant revival is a few years away does not act as a deterrent for these types of investors, in fact makes the sector even more attractive because speculators are not interested therefore would not have a volatile or emotional impact on returns.

So where can Canadian wood products companies look for new markets or investment, if not to the attendees of this particular conference? The possibilities are so huge they would not even fit on this page; many of them have already been covered in earlier issues. Green gasoline, biofuels, other uses for biomass, cogeneration, pellets, remanufactured products not currently made on a large scale in Canada but for which there is an enormous global market, are but a few. In addition there are new markets for Canadian wood - or indeed Canadian experience and skill - such as Indonesia, China, Russia and parts of Africa. While it is true that these are the precise countries that want to open up new production locally, at most

using North American logs, rather than importing finished products, it is also true that the sector is so new to these regions that they are literally fumbling around in the dark.

Madison's had a rather extensive conversation with three Chinese executives of a German forest products company at this conference who asked, "What is the difference between timber and lumber?" This is not a joke, and they were already doing business in China. Imagine the possibilities of consulting, training or simply exchange that could happen between the thousands of new wood production interests in emerging markets and experienced businesses in North America. The three fellows were greatly surprised to be told by Madison's that, generally speaking, Chinese mills right now are laughably out-of-date and inefficient. When told that out of all the Canadian mills that have closed in the past 18 months they exclaimed, "What? Really? Canadian mills are closing??" (Madison's had trouble keeping a straight face at that comment), then expressed wonder when told that only two or three of those mills were actually dismantled with the equipment shipped overseas, often to China. "Really? China is buying old mill equipment from Canada??"

This is but one small example of people the world over with divergent interests and extremely large bank accounts (this is also not an exaggeration, figures of multiples of billions of dollars were the standard amounts discussed) already involved in the forestry industry in some capacity or another. Our attitude at Madison's is that this is a potential gold mine for anyone working in that sector here in North America who is just trying to find something else to do for the next few years before they can start pumping out 2x4's again.