

# MADISON'S LUMBER REPORTER

**Publisher**  
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**Editor**  
Kéta Kosman

**Market Analyst**  
Zara Heartwood

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www.madisonsreport.com  
madrep@shawcable.com  
604 984-6838  
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## News & Updates

### Madison's Timber Preview

This week Norbord Inc. is examined in an issue jam-packed with company information and stock analysis. *Madison's Timber Preview* has already gone out to subscribers today, order yours any time.

### Boralex Inc. Posts Huge 3Q Profit Increase

Power producer Boralex Inc., which develops and operates power stations that run on renewable energy, with 21 generating stations in Quebec, the northeastern United States and France, posted 3Q profit of \$5.7 million, up from \$1 million a year ago, as revenue from energy sales rose 42.3 per cent to \$48.8 million. The revenue improvement was the result of higher renewable energy certificate sales, improved production volume in its wood residue and hydroelectric-driven power producing segments and higher energy selling prices.

"The diverse nature of Boralex's assets and its aggressive position in the wood-residue market, particularly with respect to (renewable energy certificates), proves once again that we have made the right strategic decisions which have led to these strong results," president and CEO Patrick Lemaire said in a statement.

### Russian Log Export Tax Increase Cancelled

China, Scandinavia and large parts of Europe celebrate as the previously announced 80 per cent export tax on raw logs out of Russia was abruptly cancelled this week by President Vladimir Putin.

Citing pressure from importing nations and the volatility of the credit market, not to mention the current global economic crisis, Putin put an indefinite hold on the export tax, saying the issue will be revisited sometime next year. [READ MORE](#)

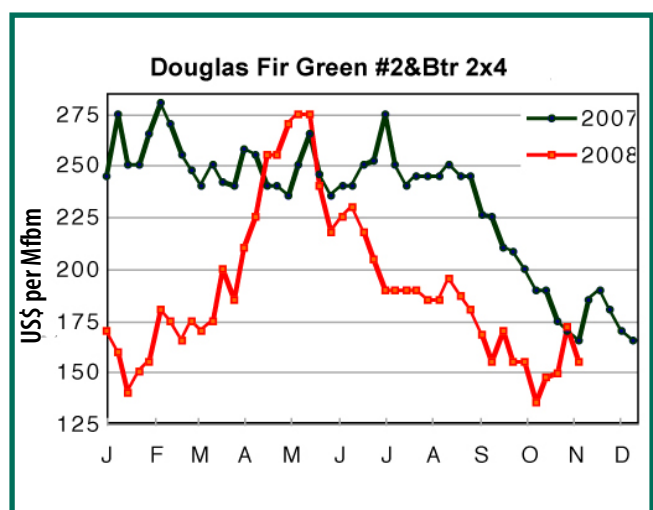
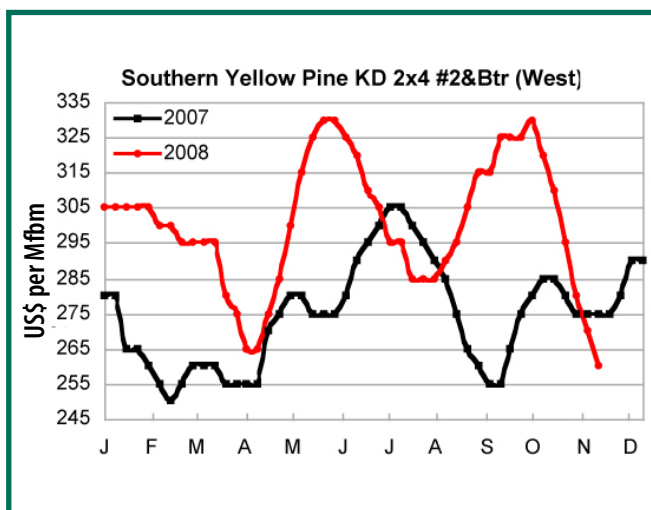
### Canadian Railway News

In a week that saw Canadian National Railway Co. post strong 3Q profits, the company is putting pressure on US regulators to make a decision on its drawn-out purchase of Illinois' Elgin, Joliet & Eastern Railway Co.

Meanwhile Canadian Pacific Railway said Thursday it plans to chop its capital spending in its operations, and those of its recently acquired Dakota Minnesota & Eastern Railroad. [READ MORE](#)

### Global Pulp and Paper Industry

Another flurry of pulp mill closures across Canada, in addition to a continued sharp downturn in paper demand internationally do not bode well for the short term future of the industry. [READ MORE](#)



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	186	189	-3	197	-11	245	-59
WSPF KD R/L 2x6	175	180	-5	200	-25	247	-72
WSPF KD R/L 2x8	200	207	-7	230	-30	245	-45
WSPF KD R/L 2x10	202	216	-14	215	-13	335	-133
WSPF KD PET 2x4 Stud	177	180	-3	182	-5	245	-68
Douglas Fir Green R/L 2x4	155	170	-17	155	0	185	-30
Douglas Fir Green R/L 2x10	240	230	+10	195	+45	280	-40
ESPF KD 2x4 8ft Stud	250	255	-5	255	-5	300	-50
OSB Ontario 7/16" (CDN\$)	220	220	0	195	+25	210	+10

## Weekly News

### Log Exports

CONTINUED EU leaders have lauded Russia's decision to postpone the increase in tariffs, while Nordic paper makers and the European Union trade chief praised the move. The wood duties have been one of the points which have kept Russia-EU trade talks in a stalemate. The European Commission had also previously said the timber duties could hamper Russia's negotiations to join the World Trade Organization.

Following the announcement, other wood producing countries are worried about Putin's lack of a clearly-defined deadline. Canadian lumber makers had hoped the tax would choke off the more than 60 per cent of China's log imports that have been coming from Russia, and would create a fierce new hunger for Canadian wood.

In a perhaps fortunate twist of timing, BC's Minister of Forests and Range Pat Bell heard of the announcement just after stepping onto a plane headed for China with a delegation of a dozen Canadian lumber industry insiders. A quick change of approach had to be made, but in the end there is no question of huge potential for future import of wood products into China.

"It's disappointing, but it is not by any stretch of the imagination the end of the world," Bell said in a telephone call to the Vancouver Sun from Beijing. "But the mission is still on."

"The Chinese are pushing us hard to be here, saying they want to work with us. Likely what will occur now is a more orderly phase-out of Russian wood and a phase-in of Canadian wood."

He stressed to the Vancouver Sun that the Chinese desire for a secure sup-

plier into the future, rather than focusing on the sudden growth he expected before boarding the plane Wednesday.

### Rail Transport

CONTINUED CP Rail's net income for 3Q 2008 was \$173 million, down from \$219 million on year ago. A 40 per cent profit plunge in 2Q results sparked a concerted campaign to cut fat at the company, which in July the company named a new chief financial officer.

On October 20, 2008 CP Rail celebrated the first day of operational control of recently acquired Dakota, Minnesota & Eastern Railroad Corporation and its subsidiaries: Iowa, Chicago & Eastern Railroad and Cedar American Rail Holdings.

In sharp contrast, CN Rail has once

more requested US regulators to make a quick decision on its own deal to purchase the EJ&E rail line. The company said Tuesday that the US Surface Transportation Board should allow the deal to close by the end of this year. The recent decision by the United States Court of Appeals for the District of Columbia Circuit denying CN's petition for an order compelling an immediate STB decision on the merits of the transaction prompted the renewed call for a decision.

Meanwhile CN Rail posted a significant jump in 3Q profit Tuesday of 14 per cent to \$552 million, including a one-time tax gain, compared with \$485 million for the same period last year.

Canada's largest railway also said it was confident its results positioned it for a strong finish to 2008 and into next year despite the current economic uncertainty.



Lumber Loaded for the Rails

SOURCE: SuperStock

# Pulp & Paper

## North America

There is no longer any question that North America has been left behind when it comes to the fast-changing global market pulp industry. Where once our high quality long fibre northern softwood pulp was the vanguard, new technology has catapulted Brazilian and New Zealand Eucalyptus pulp into the forefront of the marketplace. At a recent timberland investment conference in Portland, OR, Madison's enjoyed a quiet chuckle at the impressed gasp of the audience to a presentation showing a stand of spindly, skinny eucalyptus trees which had been grown in nine years. A question posed to the presenter about the relative quality of so-called Euco-pulp compared to our softwood pulp was brushed off with a glib statement about low production costs therefore more sales, which brought higher revenue earnings for the company.

The southern hemisphere is taking over the traditional market pulp business, and there is nothing we in North America can do about it. There is, however, significant opportunity to capitalize on demand for high-quality textiles, ethanol and other products made from long fibre pulp. Cedar chips, for example, are highly sought after by manufacturers of surgical gowns.

This week European softwood pulp continued its cyclical price downturn by US\$15 from last week, and US\$110 from the beginning of the year, to US\$761 per metric ton according to FOEX. The US price also fell, by US\$6 from last week and US\$42 from the beginning of the year, to US\$823 per metric ton. Besides being part of the regular two year cycle, the drop was blamed on continued reduced demand for newsprint in the key European and American markets. Despite ongoing pulp mill closures, there continues to be enough pulp supply in the pipeline to enable significant spot buying. Without having to resort to contracts, customers are keeping pulp prices soft by purchasing only what they currently need, according to FOEX.

Last week Madison's printed announcements of another round of Canadian pulp mill closures by Canfor, Tembec and Domtar. Also at that time Finland's Metsä-Botnia, which is jointly owned by the Metsäliitto Group and UPM-Kymmene, announced that it is

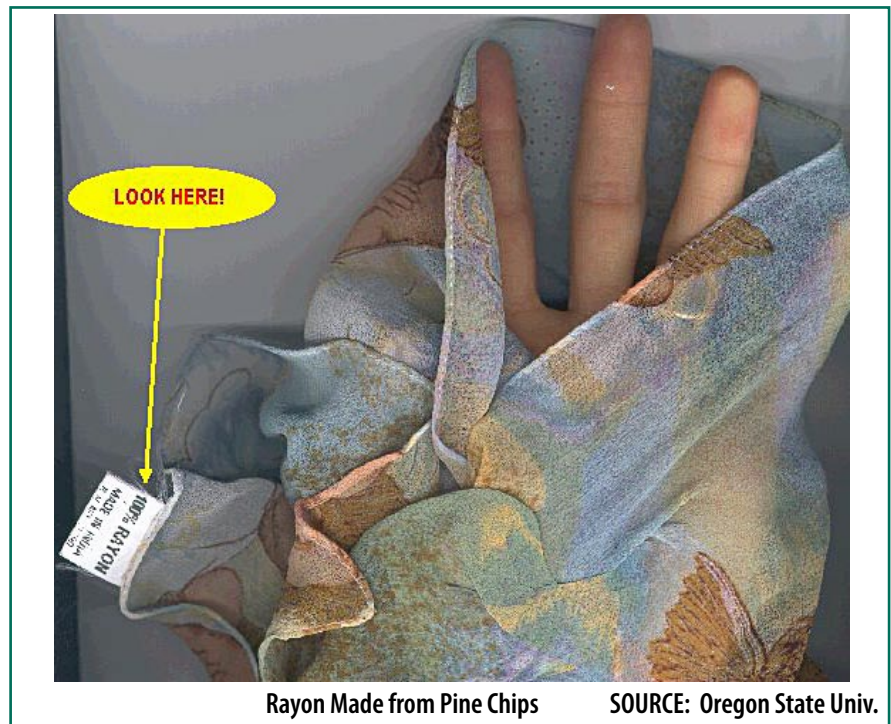
considering the closure of its pulp mill in Kaskinen next year. The Kaskinen pulp mill was established 35 years ago, which means that in the pulp industry it is just a middle-aged plant, and its capacity of 450,000 metric tons annually makes the Kaskinen mill a medium-sized plant. Difficulty in sourcing chips was cited as the main reason for the possible closure. Another 700 Finns are about to lose their jobs when UPM closes its Kajaani and Tervasaari pulp mills by the end of this year, although the Kajaani saw mill and Tervasaari paper mill will continue to operate, said a company announcement last week. The move will result in a 170 million Euro write-off of fixed assets, while the redundancies and other closure costs will be 30 million Euro, with the cash impact mainly felt during 2009. The company explained that the high price of wood fibre has reduced the profitability of pulp production in Finland.

It seems like a ongoing litany of bad news, but it is important to keep in mind that a lot of these closures are not permanent. Many of these mills will come back, with admittedly reduced production, when market conditions improve. However such a drastic drop in pulp demand does suggest developments in new markets and new technologies is warranted and probably necessary.

For example, the just re-opened Harmac Pulp Mill in Nanaimo, now run by an employee group together with a few west coast wood products companies, is looking at diversifying into

high-grade cellulose pulp on top of its NBSK product, as well as using the by products of pulp production to produce ethanol. "Lignon (a chemical compound that comes from wood) which is usually just a waste product at operations like Harmac can also be used in the making of tires and it is of high value," said David McDonald, the vice-president of research and development at FPInnovations in a statement to the Nanaimo Daily News. "The federal government has invested \$70 million over the last year-and-a-half into new technologies for forest products that could help companies like Harmac diversify into any number of areas." The need to diversify Harmac's product line for the mill to be successful was identified as a requirement when the mill went up for sale last spring after its previous owner, Pope & Talbot, went bankrupt. Grant Breber, of new mill owner Nanaimo Forest Products, said NFP is interested in diversification at the mill and is studying FPInnovation's ideas.

Another change coming is the switch to making rayon from pine chips rather than from cotton, due to the inexpensive fibre and cheapness of the chemicals needed for the production process. Given the scope of reduced North American pulp production and mill curtailments, any new product development, especially that likely to be in high demand by an increasingly 'green conscious' consumer, is welcome. Especially if it generates a by-product that can be inexpensively turned into green energy.



Rayon Made from Pine Chips

SOURCE: Oregon State Univ.