

MADISON'S LUMBER REPORTER

Publisher
KetaDesign Productions

Editor
Kéta Kosman

Market Analyst
Zara Heartwood

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

www.madisonsreport.com
madrep@shawcable.com
604 984-6838
PO Box 2486 Vancouver, BC
V6B 3W7 Canada

In Canada, add 5% GST
ISSN 0715-5468

Printed in Canada © 2008

All material contained within is the property
of KetaDesign Productions Inc. Reproduction
or retransmission is expressly forbidden.



News & Updates

Madison's Timber Preview

This week newsprint prices are tracked against the stock price of AbitibiBowater over a ten year period. Contact us any time for a subscription.

Government Aid to Forestry Workers

The federal government's \$1 billion community development trust fund is being put to good use in Saskatchewan. The province will use \$4.8 million of its \$36 million share to help one-industry towns that have been hurt by downturns in the economy. Hudson Bay and Carrot River, which lost mills that used to employ a total of about 300 people will receive a large portion of the funds. \$3.26 million will go to Hudson Bay for upgrades to its water supply and to refurbish a warehouse, while Carrot River received \$1.16 million to build an access road to a peat moss plant and for a feasibility study about a regional park and an industrial park.

British Columbia has put most of its portion of the funds towards retraining workers and creating new employment opportunities. Most recently a \$98,000 project will help workers in Powell River. The Job Opportunities Program is one component of the Community Development Trust, which was announced in May. BC's share of the federal trust is \$129 million over three years, with funds also directed to a Tuition Assistance program and Transition Assistance for Older Workers Program, according to the BC Ministry of Forests website.

Closures, Curtailments and Changes

More announcements of closures over the holiday season were announced this week by forestry companies all across Canada. [READ MORE](#)

Funds to Expand BC Wood Markets

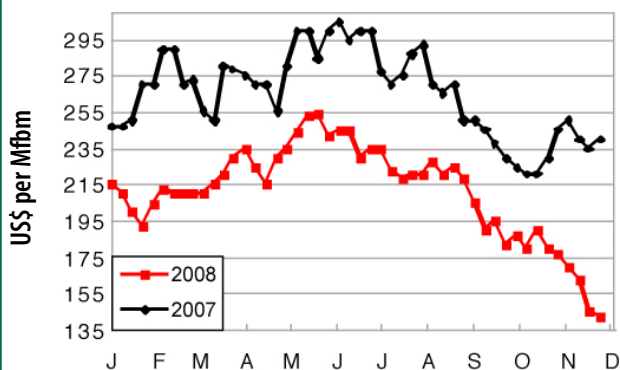
Forestry Innovation Investment, the international forest products marketing agency for the Province of British Columbia, is providing \$11.5 million for market and product development and research to boost demand for BC wood products in Asia-Pacific and other key markets. [READ MORE](#)

2008 Industry Wrap Up

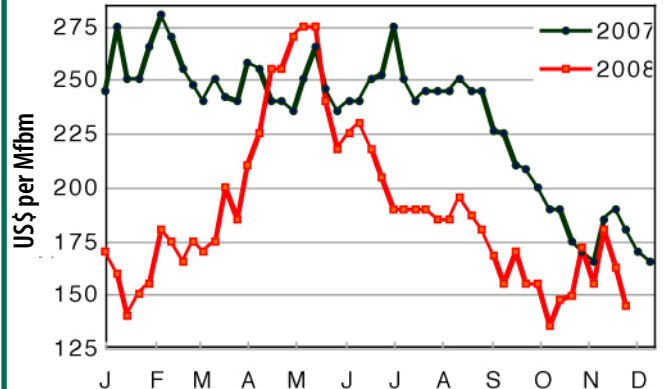
A difficult year signified by closures, curtailments and desperately sagging commodity prices, 2008 draws to a close on a sour note.

Expectations for 2009 are for minimal improvement, as the North American lumber industry continues to rely heavily on the US housing market. [READ MORE](#)

WSPF KD 2x4 PET Studs



Douglas Fir Green #2&Btr 2x4



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	156	170	-14	189	-33	228	-72
WSPF KD R/L 2x6	145	164	-19	180	-35	236	-91
WSPF KD R/L 2x8	160	180	-20	207	-47	250	-90
WSPF KD R/L 2x10	168	180	-12	216	-48	340	-172
WSPF KD PET 2x4 Stud	142	145	-3	180	-38	240	-98
Douglas Fir Green R/L 2x4	148	145	+3	172	-24	165	-17
Douglas Fir Green R/L 2x10	243	250	-7	230	+13	275	-32
ESPF KD 2x4 8ft Stud	225	240	-15	255	-30	290	-65
OSB Ontario 7/16" (CDN\$)	220	220	0	220	0	165	+55

Weekly News

Holiday Closures

CONTINUED West Fraser Timber said it was undertaking "market-related curtailments" at some of its B.C. sawmills, which will reduce production by an additional 35 million board feet. The company had previously announced cuts at Canadian facilities of approximately 435 million board feet over a full year.

West Fraser also said it was further curtailing production at its two bleached chemi-thermo-mechanical pulp mills, which are already running at just 75 per cent capacity. The mills are in Slave Lake, AB, and Quesnel, BC.

There will also be "further curtailments" at the company's MDF (panel and plywood) plants, which are also operating below normal capacity.

The AbitibiBowater newsprint mill in Brooklyn, NS, will shut down for five weeks, starting Dec. 21, affecting about

300 employees due to weak demand and high manufacturing costs.

The SFK Pulp Fund said it will shut down its mill in Saint-Félicien, QC, for 20 days starting Dec. 19. The closing will reduce output by 20,000 tonnes.

Five thousand coastal forest workers face extended winter layoffs this year as companies respond to the worsening economic climate by shutting down mills.

In addition to Western Forest Products' decision to close its 10 manufacturing plants for an extended shutdown over Christmas, putting 1,230 woodworkers and many loggers out of work for up to a month, another 3,500 coastal pulp and paper employees are being sent home for extended shutdowns as all but one of the coast's seven pulp and paper mills take additional downtime over the holidays.

Catalyst Paper, Howe Sound Pulp and Paper and Neucel Specialty Cellulose have all announced winter closures.

Export Developments

CONTINUED Industry and federal contributions are expected to increase total spending to more than \$27 million in 2009/10. The Province, in partnership with the forest industry and federal government, has been working for several years to diversify and broaden international demand for BC forest products.

More than 80 per cent of BC wood products are sold outside Canada. Asian markets have grown rapidly and continue to show the most potential in replacing the US housing market as a customer for BC wood products. Sales to China more than doubled in 2007 over the previous year and from January to September 2008 have already surpassed the volume sold in all of 2007. BC is the number one supplier with almost half of the import market in South Korea.



Wood-Framed Construction in China SOURCE: Natural Resources Canada

66TH ANNUAL TLA CONVENTION & TRADESHOW
JANUARY 13 - 16, 2009

Celebrating Our Past

Shaping Our Future

WESTIN BAYSHORE HOTEL
CONVENTION: JANUARY 13TH - 16TH, 2009
TRADESHOW: JANUARY 14TH - 16TH, 2009

Lumber Market

Wrap Up

As 2008 draws to a close, lumber prices are at or near record-low levels. The continued unexpected drop in benchmark

by Kéta Kosman

WSPF KD 2x4's, to a seemingly impossible US\$156 mfbm this week, is doing nothing to instill confidence in lumber producers. Dire economic announcements out of the United States, from the housing market to employment to national debt and everything in between, is sending the stock markets on such a relentless pitch of up-and-down that it's enough to make even the most seasoned trader dizzy. While Canada's financial situation might seem a bit more stable than America's, our national politicians waste precious time bickering among themselves and then taking off during a six week prorogue of the House of Commons.

Throughout 2008, many analysts predicted improvements in the lumber industry by 1Q 2009. We at Madison's were less optimistic, expecting a turn-around to begin in early 2010. No one, however, predicted the restriction of credit for business operations which materialized in October as part of the fall out from the asset backed commercial paper fiasco. Governments around the world rushed to prop up banks so that working capital could again be made available to the companies that had always used it. Unfortunately the banks decided to horde the money instead, perhaps fearing a run, and businesses were left with no short term capital to pay shippers, suppliers, even employees.

While the North American lumber industry has been suffering since 3Q 2006, it's the auto industry that is asking for a

hefty bailout. Chrysler LLC recently announced that it will trade-off the closure of plants in Ontario in an effort to keep American workers off the unemployment line. A contact Madison's spoke with this week pointed out that the announcement was likely a bargaining ploy, intended to squeeze the Canadian government into bailing out the Canadian auto industry as well.

Where does this leave lumber producers? They are in a unique position due to the Softwood Lumber Agreement; Canadian lumber companies can not receive direct bail outs for fear of accusations from the US lumber lobby of government subsidies. Much of the industry has proclaimed to prefer tax cuts, energy rebates and capital infusions for upgrades and research rather than direct bailouts. Most agree that the current system in Canada of retraining workers in aid of lumber communities is a better use of tax dollars.

However the help is slow in coming, if it arrives at all, and minimal in comparison to other aid. Recently a plan by BC's Ministry of Forests to promote the development of biofuels from wood residue hit a major snag in coming up against BC Hydro regulations. A major stumbling block is the likelihood that the price of biomass will rise over time, which is counter to Hydro's requirement for a fixed price over a decades long contract for electricity that the wood residue will help to generate. Only four projects out of 22 expressions of interest were accepted by BC Hydro.

Bureaucratic interference, the excruciatingly slow, plodding workings of various Canadian agencies, the obstructionist determinations of the Competition Bureau, and the lack of foresight by Canadian political leaders is sending the lumber industry into a dangerous downward spiral. It is an indisputable fact that it is very

expensive, time-consuming and risky, in terms of a loss of employees to other jobs, for a lumber company to close and later reopen a mill. Meanwhile the mill towns that were built around and depend solely upon the industry will stagnate and die as Canadians sit around and "wait for the US housing market to come back". For instance, in Terrace, BC, since the closure of the old Skeena plant a few years ago, apart from a couple of hearty fellows trying to start an extreme outdoor sports recreation facility, the town has virtually died. The same can be said for innumerable small Quebec forest industry towns that depended on the mills to sustain their livelihoods.

Meanwhile the US Coalition for Fair Lumber Imports announced this week that it will bring new claims against the Canadian lumber industry to the incoming Democrats in the New Year. This time the complaint is against BC interior lumber producers, that they are cooking logs to artificially show cracks thereby reducing the stumps price to \$0.25 per cubic meter. Due to the push in BC to harvest as much of the beetle kill trees as possible while they are still viable to be milled into dimension lumber, producers want to qualify which of those logs are scrap-salvage vs which can still be used. The US lumber lobby accuses that, what it labels "artificially high lumber production in the BC interior" is being encouraged by low timber costs.

The above conditions serve to lengthen delays, to create unnecessary animosity, to slow down business and to involve politicians and lawyers in aspects of the industry where they don't rightfully belong. Meanwhile the people working in the mills, the guys on the ground logging and trucking, the people working in the offices of lumber companies are stuck not knowing where to turn or what the future will hold.



Closed Sawmill