

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

Wood Fibre Prices Globally

Global wood fibre prices in 4Q 2008 experienced the largest drop in over 20 years, according to the Wood Resource Quarterly, with the average softwood fibre price falling 12 per cent to \$97.32/odmt. This substantial reduction was both the result of a stronger US dollar against all currencies in the 17 WRQ regions with the exception of Japan, and because of lower costs in the local currencies in the western hemisphere.

Wood fibre costs in Western US have fallen by 22 per cent in just six months. The average hardwood fibre cost fell 11 per cent in 4Q 2008 to US\$98.38/odmt, the lowest level since 2Q 2007.

Eucalyptus pulplog prices in Chile have fallen almost 40 per cent in 12 months (in US dollar terms) reaching their lowest levels in over four years.

The fourth quarter was gloomy for the global forest industry. Every price indicator pointed downward, including prices for pulp, paper, lumber and wood panels. Prices for sawlogs, pulpwood and wood chips also declined, which was good news for manufacturers but increased the reluctance by many landowners to harvest timber.

The only wood-manufacturing sector that was able to keep prices up was the wood pellet producers as demand continued to be strong, particularly in Europe.

The continued decline in demand for pulp and paper worldwide will force additional capacity to close temporary or permanently and, with reduced competition for wood fibre, it can be expected that wood fibre costs will continue to slide in 2009.

Mill Down Time

Long awaited major curtailments by large, low cost producers in BC were announced this week. Expectations are that a much-needed balance of supply and demand for dimension lumber products can finally be achieved.

West Fraser Timber Co. announced Monday curtailments at seven of its BC sawmills, ranging from one to two weeks in length commencing March 16, 2009. [READ MORE](#)

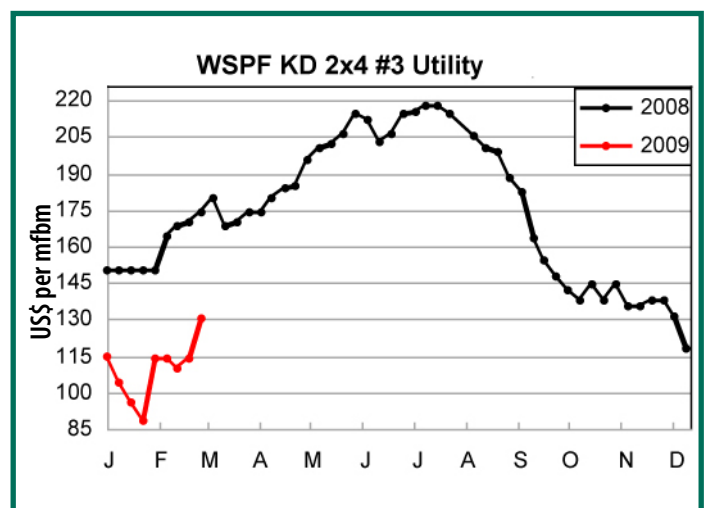
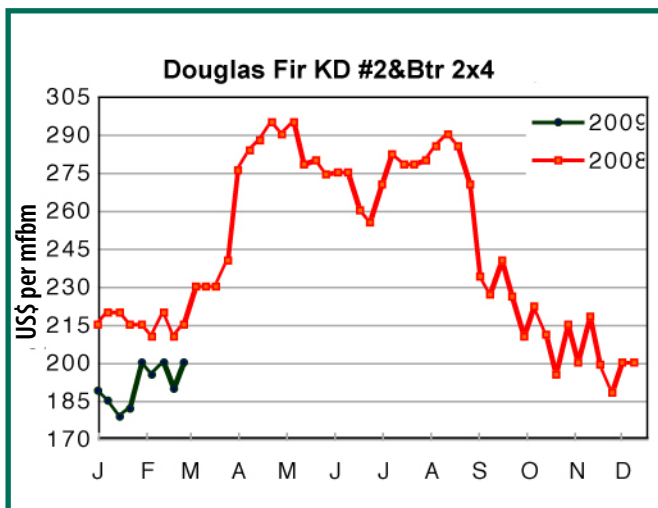
US Pending Home Sales

The real estate market in the US continues to be closely watched. Levels of home sale are a leading indicator to the health of the economy in general, and point to future demand for wood products in particular. [READ MORE](#)

BioFuels

This rapidly growing industry is beginning to display signs of taking off even more forcefully than previously anticipated. The development of technology and the building of facilities which use biomass to make green fuels of various types are coming to light on an almost daily basis. Just this Thursday, BC Hyrdo made an announcement of the second phase of its Bioenergy Call for Power, where any form of biomass will be eligible and it will include wood waste sourced from new forest tenure enabled through provincial legislation in May 2008. The target is to acquire 1,000 gigawatt-hours per year of energy through this stream.

Just one exciting development in biomass fuels globally. [READ MORE](#)



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	153	140	+13	160	-7	195	-42
WSPF KD R/L 2x6	153	135	+18	170	-17	195	-42
WSPF KD R/L 2x8	147	132	+15	154	-7	210	-63
WSPF KD R/L 2x10	160	150	+10	170	-10	290	-130
WSPF KD PET 2x4 Stud	175	165	+10	180	-5	210	-35
Douglas Fir Green R/L 2x4	150	160	-10	170	-20	170	-20
Douglas Fir Green R/L 2x10	185	185	0	225	-40	210	-25
ESPF KD 2x4 8ft Stud	235	230	+5	230	+5	270	-35
OSB Ontario 7/16" (CDN\$)	215	215	0	220	-5	175	+40

Weekly News

Production Curtailments

CONTINUED Total production curtailed is expected to be approximately 44 million board feet. A total of 1,160 employees will be affected by these curtailments, which are in addition to production currently curtailed at the of approximately 1,120 million board feet on an annualized basis.

Canfor Corp. will be reducing work-week schedules at its Clear Lake, Rustad, Polar and Vavenby sawmills, all in BC. The Company will be taking further curtailments at its Isle Pierre and Quesnel sawmills for a one week period, beginning March 15, 2009. In addition, effective March 23, 2009, the Company will remove the third shift at its Isle Pierre operation. These decisions will reduce Canfor's annualized lumber production by approximately 284 million board feet.

Carrier Lumber Group will be shutting down its Valemout Forest Products Ltd. operation in 60 days, company president Bill Kordyban announced Monday.

Responding to the current market demand, SFK Pulp Fund announced it will stop production at its Saint-Félicien, QC mill for six weeks. The company will also halt production at its Fairmont, WV mill for one month. These measures aim to reduce production by 45,000 tonnes of NBSK pulp and 25,000 tonnes of recycled bleached kraft pulp. The shutdowns are planned to take effect this month, and will result in the temporary layoff of up to 225 workers at the Saint-Félicien mill.

US Real Estate

CONTINUED The monthly data released by the National Association of Realtors, which reflect deals that have been signed but not completed, showed

that pending home sales fell by 7.7 per cent during the month and were off 6.4 per cent on the year.

Home resales fell by 5.3 per cent to an annual rate of 4.49m in January and were off 8.6 per cent year-on-year. The median price of an existing home fell 14.8 per cent on the year to \$170,300.

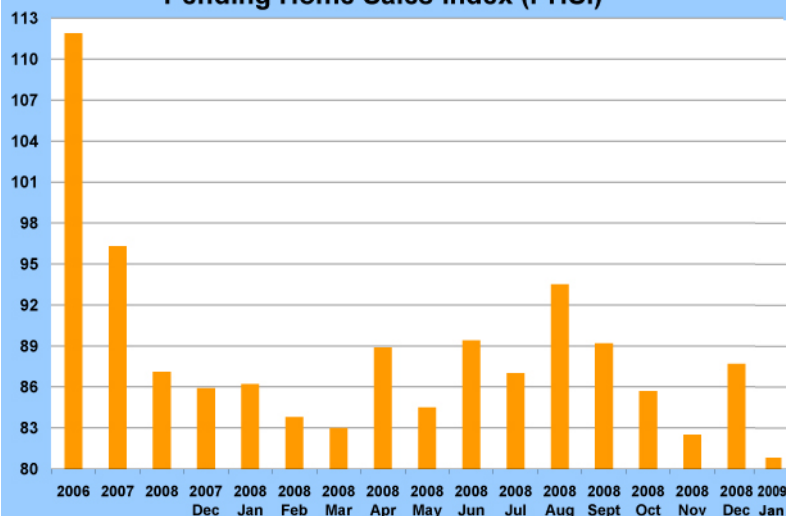
Economists said that homeowners have been reluctant to sell their homes amid falling prices, while buyers await the impact of the government stimulus package and new incentives such as the buyer tax credit.

Falling sales and prices have brought home affordability to new highs. According to the NAR housing affordability index, buying conditions are more favourable than they have been since tracking began in 1970. A year ago a median-income family could afford a \$263,300, with a 20 per cent down payment but now that same family could purchase a home costing \$283,400.

"Even with many serious potential home buyers on the sidelines waiting for passage of the stimulus bill, job losses and weak consumer confidence were a natural drag on home sales," said Lawrence Yun, the NAR's chief economist. "We expect similarly soft home sales in the near term, but buyers are expected to respond to much improved affordability conditions and from the \$8,000 first-time buyer tax credit" that was included in the \$787 billion American Recovery and Reinvestment Act of 2009.

"Conditions have been aligning very favourably for home buyers, with the exception of consumer confidence," Yun said, adding: "I am hopeful that sales will turn around by late spring and early summer, because history suggests that home sales can rise even in times of job losses when housing affordability rises."

Pending Home Sales Index (PHSI)



Source: NATIONAL ASSOCIATION OF REALTORS

Biomass Fuel

A Growing Enterprise

Building on previous scientific discoveries and progress in tapping the huge resource of wood residue for fuel, in August 2008 a pair of scientists at Texas A&M University

by Kéta Kosman

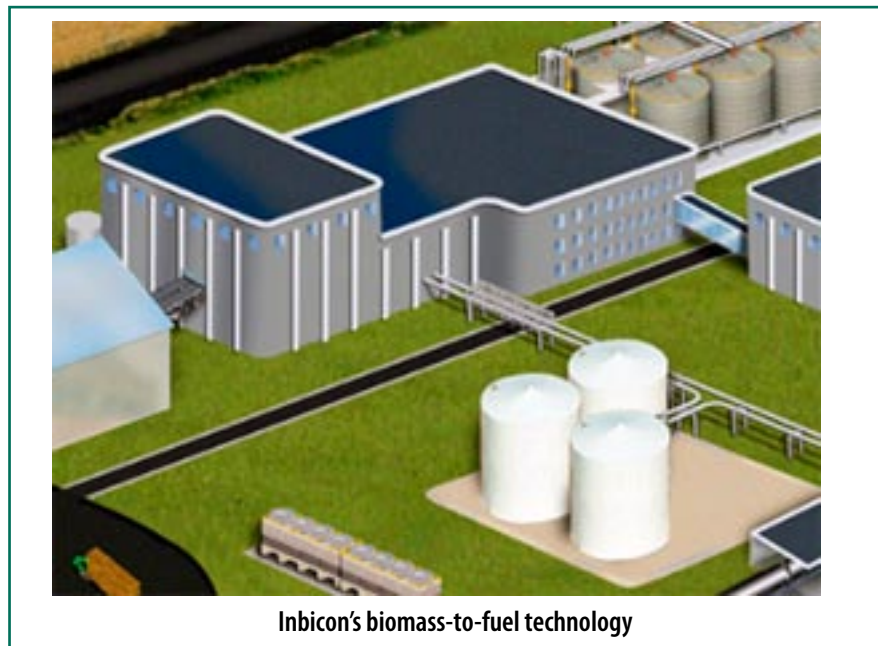
announced a process that makes converting biomass to high-octane gasoline possible. (Refer to your July 17, 2008 issue of *Madison's Reporter* for information on the breakthrough in making green gasoline). While most other emerging processes convert the biomass into alcohol and then blend it with gasoline, this advanced method converts biomass directly to gasoline both inexpensively and with a focus on using biomass waste streams and non-food energy crops.

Through an agreement with the Texas A&M University System, Byogy has licensed the process and hopes to have a plant using the technology up and running within 18 months to two years. The cost of such a conversion would lie between US\$1.70 and US\$2.00 per gallon excluding all government subsidies and tax credits. This cost range is dependent on the type and cost of feedstock as well as the size of the biorefinery.

The Province of Ontario, with its energy consumption problems and propensity towards nuclear energy, decided in November 2008 to convert an old coal mill in Nanticoke to burn biomass for fuel. Expecting an 18 month time frame for testing, the province has already begun trials; the Atikokan plant successfully burned only wood pellets in July for one day and a three-day test was conducted in early December.

Atikokan will likely be the first plant converted to biomass. Its boilers are better suited to burning biomass, it can receive fuel by railcar and wood supply from forest slash and sawmill residue is plentiful in northern Ontario. The biggest challenge, however, would be making sure there is adequate supply of biomass fuel. The province is talking with forest-product companies about supply issues, envisioning the signing of a long-term contract for biomass supply that assures stable pricing, secure supply and the economies of scale that can turn niche markets into massive industry.

Not to be left behind, Danish biotech pioneer Inbicon, already successfully operating grain-ethanol facilities, is working together with US based G-team to bring commercial-scale cellulosic ethanol to North America. Inbicon is putting the finishing touches on a new engineer-



Inbicon's biomass-to-fuel technology

ing and business model that incorporates its proprietary technology for converting biomass to ethanol. The G-team is a group bringing together biofuels specialists from marketing, technical, and business disciplines.

A joint statement says, "Bringing Inbicon's cellulosic technology to commercial scale will help producers start taking advantage of government mandates. We believe Inbicon can play a vital role in helping the US and Canada shift to lower-cost, cleaner, renewable fuels like ethanol—especially ethanol made from nature's leftovers like wheat straw and corn stover. And made without using fossil fuels to power the process."

Meanwhile, the Energy Research Centre of the Netherlands has developed a method to produce synthesis gas through the gasification of woody or grassy materials. The so-called Fischer-Tropsch process converts this gas into very clean liquid fuels; for instance diesel. F-T diesel can be used without any problem in the existing infrastructure and in cars, and it causes less environmental problems compared with diesel from fossil fuels. A recent study shows that F-T liquids can be produced for 40 Euro cents /liter. A price for wood of Euro 75 /ton dm was used.

Similar projects and developments are too numerous to detail properly: Brazil's Petrobras Biocombustível plans to invest around US\$2.4 billion in biodiesel and ethanol production over 2009 to 2013 using second generation ethanol production technologies based on residual biomass feedstock; with a £3 million grant, Birmingham's Aston University is working on a three-year project with the Indian Institute of Technology to

develop bioenergy power plants in both India and the UK which will be fueled by waste and energy crops and using both combustion and pyrolysis technology; ArboraNano, the Canadian Forest NanoProducts Network, will receive \$8.9 million over four years from the Government of Canada to create a new Canadian bio-economy based on innovative, highly-engineered, carbon-neutral products containing nanomaterials derived from forest resources; BC's Nexterra Energy will begin to upgrade syngas made by gasifying biomass so that it meets the fuel specification of GE Jenbacher's internal combustion engines to form modular biomass combined heat and power plants; and, Lignol Energy Corporation has completed construction of its fully integrated industrial-scale biorefinery pilot plant in Burnaby, BC, using various non-food feedstocks such as hardwood, softwood, and agricultural residues to produce 100,000 litres per year of cellulosic ethanol.

The biggest complaint our research could find about this rapidly-growing technology is the cost of bringing fuel materials to the facility. Clearly this issue has been circumvented with relative ease by simply building facilities close to large quantities of biomass residue. The other complaint, of the danger of removing all organic material in an effort to maximize capacity thus preventing new trees from growing is also not an issue. These companies are planning to continue operations beyond the 50 year mark and are clearly aware that a sustained source of supply is vital for success. In fact, most of the companies have plans to plant grasses and fast-growing trees in areas already harvested.