

MADISON'S LUMBER REPORTER



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News & Updates

Madison's Timber Preview

This week the rapidly changing global softwood kraft pulp market is examined against the annual sales and earnings of Quebec's SFK Pulp Fund. Contact us any time for a subscription.

US New Home Sales

Sales of newly built US single-family homes dropped 0.6 per cent in March, but the stock of homes for sale at the end of the month still plummeted at a record pace. The inventory of new homes shrank in March, to 311,000, from 328,000 in February. That left the supply of homes available for sale at 10.7 months' worth, compared to February's 11.2 months.

Lower prices and historically low borrowing costs have increased affordability. The average 30-year mortgage rate was 5 per cent in March, down from 5 per cent in February and 6 per cent in March 2008, Freddie Mac data show. The housing industry also hopes demand is stirred by the \$8,000 tax credit for first-time home buyers included in the Obama administration's economic stimulus package. But hard credit and a bad job market are working against sellers. The unemployment rate in March rose to 8.5 per cent from 8 per cent.

US Pulp Industry Tax Credit

International Trade Minister Stockwell Day has spoken with and written to US Trade Representative Ron Kirk about America's black liquor tax credit. The credit — an unintended consequence of a 2007 law — could add up to billions of dollars this year for an industry that has suffered big losses from the economic crisis. [READ MORE](#)

New Biomass Fuel Research Funding

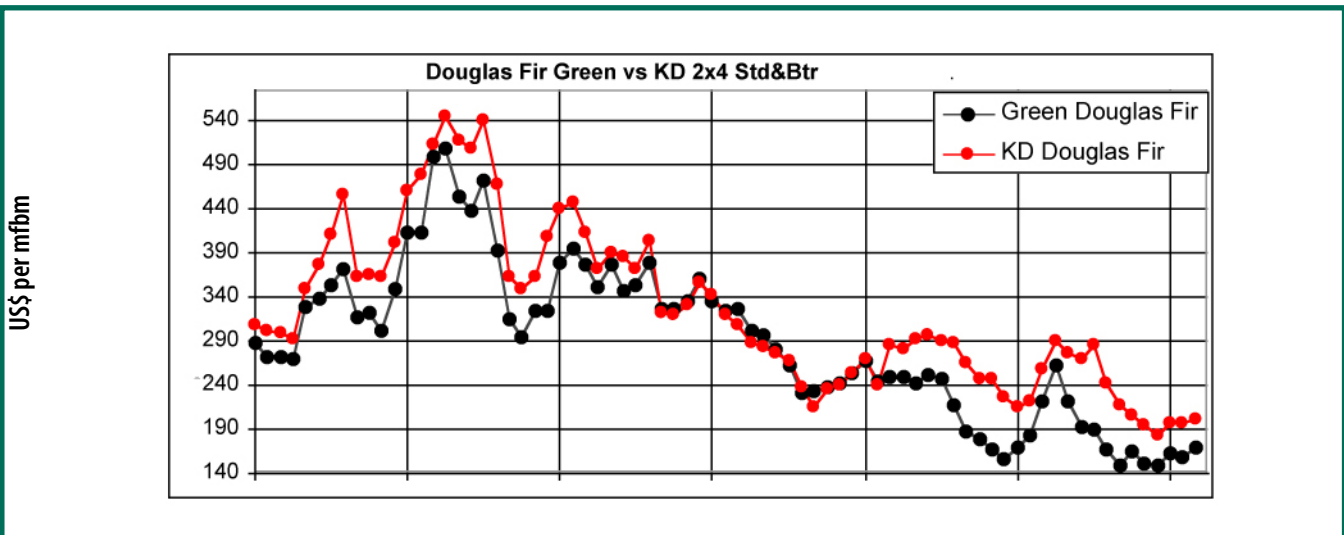
Two Concordia University researchers have been awarded \$22 million to study ways to transform agricultural and forestry waste into reusable fuels. Dr. Adrian Tsang will receive \$17.4 million from Genome Canada and Genome Quebec. He has studied the genetic make-up of fungi in hopes of discovering more efficient and ecologically friendly ways to harvest the debris left over when forests and crops are harvested and convert them into bio-ethanol.

This represents the largest single budget of the ABC competition and the most significant investment in a project toward environmental sustainability in Genome Canada's history. [READ MORE](#)

British Columbia Provincial Election

BC goes to the polls on May 12, 2009. *Madison's* will feature interviews with current Minister of Forests and Range Pat Bell (Lib - Prince George North) and current Forests Critic Bob Simpson (NDP - Cariboo North).

This week Pat Bell talks about his accomplishments since taking over the Forest Ministry almost one year ago, and his plans for the future of the BC forest industry. [READ MORE](#)



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	174	173	+1	160	+14	210	-36
WSPF KD R/L 2x6	166	163	+3	158	+8	198	-32
WSPF KD R/L 2x8	175	167	+8	155	+20	202	-27
WSPF KD R/L 2x10	192	190	+2	177	+15	270	-78
WSPF KD PET 2x4 Stud	180	180	0	175	+5	215	-35
Douglas Fir Green R/L 2x4	150	170	-20	175	-25	225	-75
Douglas Fir Green R/L 2x10	200	208	-8	185	+15	227	-27
ESPF KD 2x4 8ft Stud	250	245	+5	225	+25	300	-50
OSB Ontario 7/16" (CDN\$)	195	195	0	202	-7	155	+40

Weekly News

US Tax Rebate

CONTINUED Congress expanded the tax credit for developing alternative fuels in 2007, offering firms 50 cents a gallon to blend renewable fuels like ethanol with traditional fossil fuels like diesel.

The Senate Finance Committee was scheduled to hold a hearing on energy tax credits Thursday, and the issue is sure to come up. A bill from Senator Max Baucus, chair of the Senate Finance Committee could come as early as this week.

"His objective to make sure that the credit is used in a way that is consistent with the spirit and intent of the law," said Dan Virkstis, a spokesman for the Montana Democrat.

However, the American Forest & Paper Association said if the Senate revokes the forest products industry's eligibility for the fuel mixture tax credit, it could have "serious consequences for our companies and our nearly one million employees at a time of unprecedented economic challenges."

Should American pulp companies take

full advantage of the bill, the US government could stand to lose \$6 billion in corporate tax revenue this year.

News reports late in the week stated that most politicians involved were leaning towards simply changing the wording of the legislation so that pulp companies would not have to add diesel to the black liquor in order to qualify for the tax credit.

Biomass Ethanol

Vincent Martin of the Centre for Structural and Functional Genomics, who holds the Canada Research Chair in Microbial Genomics and Engineering, will receive \$4.6 million for his team's share in a joint project with researchers at the University of Calgary. Martin uses genetic engineering of the simple baker's yeast to synthesize natural products normally made by plants.

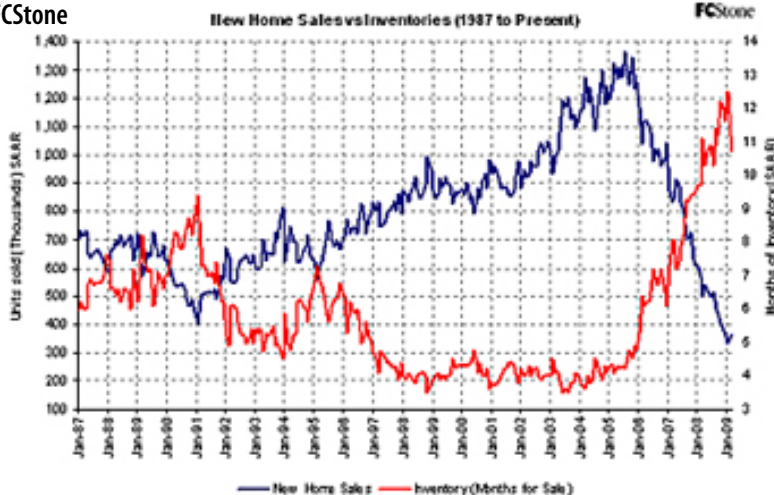
Tsang says fungi provide "an ideal natural laboratory" in which to study how decomposing leaves, shrubs and tree limbs break down to create sugars.

"Those sugars are the basic blocks required to build the advanced biofuels and biochemicals that can turn agricultural and urban waste into products and energy," the biologist said in his description of the project. "Once we have developed new enzymes, they will become the cornerstones for the development of large-scale industrial biorefineries."

Concordia's Centre for Structural and Functional Genomics is actively involved in research to identify, analyze and develop potential enzymes to be used as catalysts in breaking down industrial and agricultural waste into clean-burning biofuels and other plant-based products for use in a wide range of industrial applications.

Since its creation, Genome Canada has invested in long-term partnerships with numerous provincial and private-sector institutions at home and abroad, thereby ensuring for Canadian researchers in genomics and proteomics a place among the world leaders in this field.

SOURCE: FCStone



Calendar

May 2009

Pulp Week

May 3 to 6 - Vancouver, BC
<http://www.internationalpulpweek.com>

Global Forest and Paper Industry Conference

May 14 - Vancouver, BC
<http://www.pwc.com/forestconf09>

BC Bioenergy Conference 2009

May 14 to 15 - Vancouver, BC
<http://www.bcbioenergy.ca>

BC Provincial Election

Incumbent Forest Minister Pat Bell

Almost a year after taking over as British Columbia's Minister of Forests and Range, Pat Bell (Lib

by Kéta Kosman

- Prince George North) speaks confidently about the

work his Ministry has achieved to date, and looks forward to an exciting future for BC's forest industry. Madison's caught up with Bell on the campaign trail, just pulling into Prince George after having spent the morning in Quesnel with Liberal candidate Bruce Ernst and Premier Gordon Campbell. The trio toured an innovative Spruce-Pine nursery and West Fraser's brand-new, \$20 million, planing facility.

Madison's first question was if there were going to be any big, new announcements for BC's troubled forestry sector during this election. Pat Bell stressed a continued focus on four key factors that he sees as priorities: fibre utilization, the growing Chinese market for wood, silviculture, and non-residential building.

Research and development into commercial uses for biomass will encourage timber harvesters to "use every part of the tree when it hits the ground", said Bell. A fault of BC's old stumpage system is being rectified by a pilot project to value timber stands by land area rather than by cubic meters. According to Pat Bell, the "days of slash piles are gone." When he took office at the Forest Ministry, there were no active grinders in the woods. By November 2008 a grinder had been operating in the Prince George area for several months, and today Bell is "aware of 13 grinders" active on a full-time basis in Interior forests. Bell estimates one million cubic meters in logging residues have been chipped, all of which were sold out immediately. Madison's knows that figure is greater, as portable mill and grinder sales on Vancouver Island enjoyed a large spike in 2008.

There are currently two main customers for biomass residue:

- Pellet mills, including industrial pellets (those containing bark) which have a higher BTU value and are in great demand in Scandinavia. The pellets are processed locally then exported, with the added bonus that the product displaces coal use therefore earns carbon credits. Wood pellets have been proven to be a growth industry, with expectations of potential future demand on a massive scale.

- The second main group of customers for biomass residue are pulp mills and energy plants, that already use hog fuel to supplement energy needs, and greenhouses that use it as a heat source. Recognizing the almost unlimited potential of biomass as a fuel source in various forms, the BC government has pledged \$21.5 million to the University of Northern BC for development of gasification technology, and \$1.5 million for research into cellulosic ethanol.

Pat Bell pointed out that adding biofuels to the equation of forestry economics "changes the whole market dynamic." Given current demand for biomass residue, a four hour cycle time from bush to plant is profitable. That viable distance will increase as the value of slash rises.

Finding new customers for wood products in China is also seen as a potentially limitless source of future growth for BC's wood products. While good headway has already been made both by politicians and individual industry members, Pat Bell sees a need for a "concerted effort, on an organized basis rather than ad hoc." Building on progress made in 2008, when BC Premier Gordon Campbell travelled to China several times, as did Pat Bell along with a group of lumber industry executives and the Canada Wood Program, Bell is "drafting programs for this year and into 2010" that would bring a "constant presence in China, with the focus on selling wood." Currently the main use for wood in Chinese building is for concrete forms, which generally requires only utility and economy grades. Bell intends to launch initiatives that would encourage Chinese use of wood truss systems, then move into the use of wood for infill walls and partition walls. After that would come efforts to encourage the building of wooden single family homes. An important realization made by the BC forest products sector during recent trips to China was that it is not a "wood culture. They need to be more efficient with it," said Bell. He continued that education of Chinese builders in the use of wood and further implementation of existing partnership programs could increase Chinese demand for Canadian wood by 50 per cent.

Uncertainty and doubt about the fate of the forestry sector would make it very easy to "turn ship" right now, said Bell, but this is the time to continue efforts already underway. In that regard, some timber harvesting licenses were issued recently by the BC government in a pilot project to study a "new methodology for charging for wood." Rather than paying per cubic meter, licensees would buy timber, at auction, per hectare. Licences were advertised in autumn 2008 by BC Timber



Beetle Kill

Sales to facilitate harvesting of mountain pine beetle-attacked trees, pulp stands or other timber. Since then, eight licences with a total volume of 214,010 cubic metres of timber have been sold. Another six, with a total volume of 154,433 cubic metres of timber are being developed.

Selling timber stands on a "lump sum basis introduces 'sunk costs'," Pat Bell explained, which then encourages companies to "utilize everything." Those involved in the pilot project had generally very positive responses, learned from each other, and have so far voiced "a lot of support" for the new process. While he may still keep the stumpage system as well, Bell intends to establish a new model that would make it economical for companies to use everything they cut.

The lump sum valuation would render beetle kill a non-issue. With no grading or scaling, there would be no under- or over-incentive in managing the harvest. While the Ministry of Forests is actively encouraging forest companies to first harvest beetle kill in danger of blow down, the reality today is that "most companies are harvesting whatever is closest to their operation," said Bell. He plans to continue with a policy of "constraining the harvest" with a look to the future, so that as much of the standing dead timber can be processed as possible. Government figures show that BC could see a "70 per cent reduction in harvest over the next 10 years," making adjustments to current logging practices integral in sustaining the forestry industry until new trees can grow.