

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

This week's Timber Preview examines 1Q 2009 financial results for North American forest products companies that have reported to date. Contact us any time for a subscription.

Coalition Complaint Against Canfor

A press release late Wednesday by the US Coalition for Fair Lumber Imports claims that the BC government violated the softwood lumber agreement by allegedly subsidizing timber prices to Canfor's sawmill in Mackenzie. The province adjusted timber pricing to make it more in line with other Northern Interior BC forest districts, potentially reducing the fees by millions of dollars to Canfor.

"While initially claiming that these latest SLA inconsistent stumpage reductions were as a result of "anomalies," media reports have clarified that Canfor simply pressured for, and received, "concessions on stumpage" rates from the provincial government," states the press release.

California Wildfires

A fire erupted Tuesday on the slopes above Santa Barbara, CA. On Wednesday, gusting winds had stirred the stalled wildfire to threaten 2,000 homes. By Friday, the stubborn brush fire that consumed 75 foothill homes above the coastal town raged with renewed ferocity for a fourth day, forcing at least 20,000 people to flee as it advanced on the city and two nearby communities.

The fourth wildfire to strike the affluent, picturesque Santa Barbara area in two years had charred some 3,500 acres (1,400 hectares) by daybreak Friday. [READ MORE](#)

US Pending Home Sales

Pending sales of previously owned homes rose for a second straight month in March, while construction spending edged higher, according to reports on Monday that suggested moderation in the long housing slump.

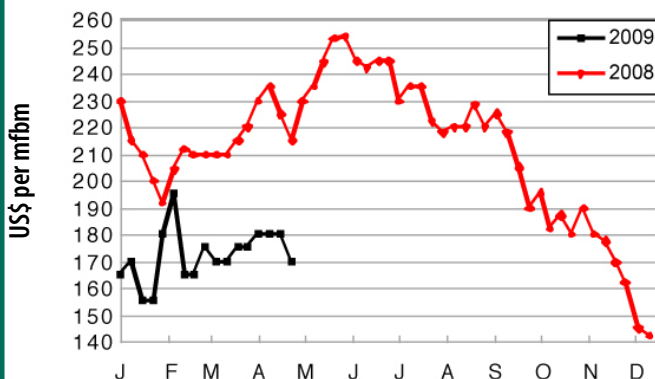
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Pulp and Paper Markets Globally

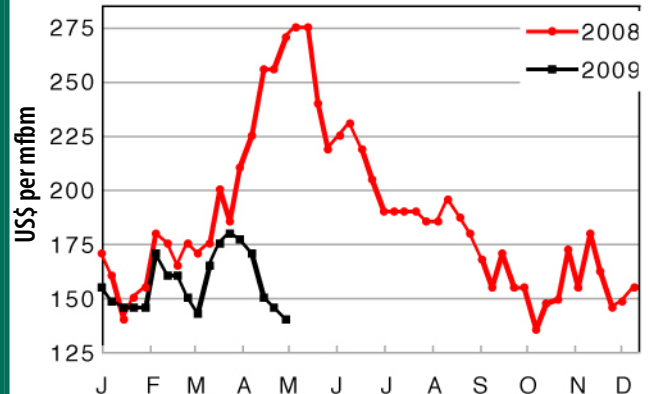
The Pulp and Paper Council hosted their annual International Pulp Week this week in Vancouver. Pulp producers, traders, stockers, transporters as well as investors and analysts gathered to discuss recent major changes in the pulp and paper industry.

Presentations were made showing the latest figures for pulp and paper production and demand, as well as forecasts for the pulp industry globally and the world economy. [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	160	150	+10	170	-10	235	-75
WSPF KD R/L 2x6	146	140	+6	165	-19	220	-74
WSPF KD R/L 2x8	164	165	-1	168	-4	210	-46
WSPF KD R/L 2x10	180	185	-5	184	-4	280	-100
WSPF KD PET 2x4 Stud	170	180	-10	175	-5	235	-65
Douglas Fir Green R/L 2x4	140	145	-5	177	-37	270	-130
Douglas Fir Green R/L 2x10	183	200	-17	205	-22	240	-57
ESPF KD 2x4 8ft Stud	235	240	-5	235	0	310	-75
OSB Ontario 7/16" (CDN\$)	195	195	0	195	0	190	+5

Weekly News

US Mortgage Issues

CONTINUED The unusually early start to California's fire season was due to very dry fuel littering the landscape.

"We saw the fire spread laterally across the top of the city and the fire front extend to almost 5 miles (8 km) last night," said city Fire Chief Andrew DiMizio.

As of Friday morning, more than 20,000 area residents were ordered to leave their homes and nearly 17,000 others were warned to be ready to flee at a moment's notice, county officials said. That amounts to over a third of the population of Santa Barbara, located 90 miles (145 km) northwest of Los Angeles.

Joe Waterman, the state fire commander on the scene, told reporters he expected the force of 2,300 firefighters to get some additional help later in the day from the state's specially equipped water-dropping DC-10 jet. Firefighters' aerial arsenal already includes several smaller planes and some 15 helicopters.

California Governor Arnold Schwar-

zenegger declared a state of emergency Tuesday. The cause of the fire is being investigated.

US Home Sales

CONTINUED The reports lent support to the view that the recession, now in its 17th month, was close to finding a bottom.

Prices, however are still falling. The median price of a new home sold in March dropped to \$201,400, a 12 per cent decline from a year earlier. The demand for new homes appears to be recovering faster than that for previously occupied homes. In March, sales of existing homes fell 3 per cent to an annual rate of 4.57 million from a downwardly revised pace of 4.71 homes in February, the National Association of Realtors reported.

A report from the U.S. Commerce Department showed construction spending rose 0.3 per cent in March, the first increase in six months. Non-residential construction rose 2.7 per cent in March, the biggest advance in nine months. It marked

the second straight increase and was led by gains in office construction, hotels and power plants.

Mackenzie Pulp Mill Offer

Mackenzie Timber Group, a wholly owned subsidiary of Range Gold Corp, has entered into an option to purchase the Worthington Mackenzie pulp mill.

The offer is for a cash payment of \$12 million, and as much as \$33 million in shares of Range Gold. The option is good until May 1, 2010.

Worthington Properties purchased the mill for \$20 million in 2008 from bankrupt Pope & Talbot, but when Canfor cancelled the mill's wood chip supply contract, the purchase price was reduced to \$6.5 million.

In other news, Worthington Properties is facing the court-ordered sale of their fire-damaged building in Edmonton, AB. The building is an historic Edmonton landmark. In March it was damaged by arson, and is expected to sell as part of a court-ordered sale for less than half of what is owing on the property.

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Calendar

May 2009

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>

International Pulp Week

Pulp and Paper Conference

The Pulp and Paper Products Council's (PPPC) annual conference was held in Vancouver, Canada, this year.

by Kéta Kosman

Pulp and paper, producers, buyers and sellers as well as investors and analysts from around the globe gathered to discuss the latest changes to the industry and what is to come for the future.

All were in agreement that China is rapidly becoming a major customer, while Brazil's production is expected to climb in the years to come.

Another common topic was the emerging biomass fuel industry, which is expected to compete with pulp mills for their main source of fibre, sawmill residuals, into the long term.

The global pulp production industry is undergoing a fundamental shift. Due to developments in technology, high-quality, long-fibre northern bleached softwood kraft (NBSK) is no longer necessary to make quality paper grades. Pulp mills south of the equator are able to mix a small percentage of NBSK with Eucalyptus pulp and some recycled fibres to make good quality pulp. Smaller, older (usually at least 25 years), pulp mills in North America, and to some extent in Europe, with no meaningful capital investments in the past two decades, will simply not be able to compete with brand new pulp mills in emerging markets. Coupled with fast-growing fibre, and energy and labour subsidies or discounts in those regions, the obvious conclusion is that traditional pulp mills north of the equator must either adapt or die.

In terms of consumers, China has doubled its market share to 20 per cent of world demand since mid 2008. It was largely acknowledged by all in attendance at the conference, however, that this surge of pulp buying in China is simply a function of stock building in the face of recent sharp price reductions. Those pulp orders are either currently "in transit, with traders or with customers but not yet consumed" according to the PPPC. In other words, that increase in pulp purchased has gone into inventory. The rate of pulp buying in China is not expected to continue rising at this pace, in fact some of the volume recently purchased will likely find its way back onto the open market when pulp prices rebound.

There was also a lot of talk about recent mill closures. The number of pulp producers globally has been reduced by 25 per cent in the past four years. Those reductions were almost entirely among North American and Western European, so-called traditional producers. Expectations are that even when pulp demand rises, a sizable number of these mills will not come back online. New pulp mill building has stalled, with previously announced projects either delayed indefinitely or cancelled outright. All but one of these projects were in emerging market regions.

Fisher International Inc. used very sophisticated computer models to demonstrate that it is "possible that 1.8 million tonnes of NBSK and 2.1 million tonnes of hardwood pulp will come off the market in the next three years", with most of this expected to come from North America. At the same time, forecasts show that "inventories, prices and operating rates will rise sharply into 2011." The business of making pulp is moving from the north to the south, where market pulp production is likely to stay.

Figures gathered by the PPPC showed that North America shipped 82 per cent of pulp production capacity in 2008, while Latin America was very close to 100 per cent. Meanwhile pulp demand fell 22 per cent globally, matching the drop in demand for paper almost exactly. Demand for pulp from Japan fell 28 per cent in 2008 while demand in North America and Western Europe fell 19 per cent collectively. Chinese demand was up 53 per cent, bringing the figure for global demand down 7 per cent in 2008 from 2007. The PPPC then forecast that 6 million tonnes of market pulp will be taken out of production between 2008 and 2011, and a further decline in softwood pulp production of 1.6 million tonnes into 2013.

Wood Resources International (WRI) figures showed that fibre costs almost doubled from 1998 to 2007, then fell back sharply. There will be an increased supply of wood chips into 2011 when the lumber market recovers. Despite fibre costs almost doubling in the US south in the past 20 years, that region still has some of the lowest wood costs globally, followed closely by British Columbia. In fact, according to WRI data, chip costs in eastern Canada are almost double that of the west. WRI also found that there are "major battles in Europe

over chips and other sawmill residuals between biomass energy plants and traditional users like pulp mills." In addition, "competition from the biomass sector in the US will continue to drive up chip prices." Expectations are that "whichever sector has the most buying power at the time will be the winner over fibre sources."

The picture for printing and writing paper is similar. European total paper exports were down over 41 per cent from 1Q 2008 to 1Q 2009, according to Burgo Group SpA. If this trend continues into 2010, there will be another 2 million tonnes less of paper demand. Another presenter, Fisher International Inc., found a decline of 10 million tonnes in global paper demand from 2007 to 2009, an 18 per cent reduction. This loss of demand brought operating rates globally at paper mills down to 80 per cent. From 1Q 2008 to 1Q 2009, paper imports into Asia (excluding Japan) were down 50 per cent, and imports into Europe were down 23 per cent, which is close to 2 million tonnes. Surprisingly, paper imports into Japan were up 31 per cent for the same time period. Given that operating rates at current levels are not sustainable, according to the Burgo Group presenter, there will be a "1.2 million tonne net increase in capacity into 2011, almost entirely in the emerging countries. Capacity in North America and Western Europe is expected to continue declining."

Attendees were very concerned about the new US pulp mill tax rebate, or "black liquor" credit. Jimmy Lee, CEO of Mercer Int., ventured a theory that the "fuel tax rebate will affect southern and hardwood producers rather than NBSK, as those mills are already efficient. As long as there is no restart of old US softwood mills, the fuel credit will make a few companies more competitive but otherwise not bring significant change" to the industry. Lee added that "the fuel subsidy should be reflected in the price of paper to consumers, considering that taxpayers are funding the tax credit." Mark Wilde of Deutsche Bank suggested that, if the tax rebate to pulp mills is allowed to continue, it will be reduced greatly.

A joint presentation by the Chicago Merchantile Exchange and FOEX pointed out that any growth in pulp usage for North America and Western Europe will be outside of the paper industry, specifically in "non-wovens" such as diapers and high alpha pulp for textiles and other uses.