

MADISON'S LUMBER REPORTER



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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines recent mechanizations at Domtar Corp. The company's stock has risen dramatically this quarter due to some very specific reasons.

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Wildfires

A new forest fire was sparked in British Columbia this week, as California continued to battle in a persistent forest fire season.

A raging wildfire in the British Columbia Interior sparked the evacuation of approximately 75 residents, and local officials have declared a state of emergency as flames sweep within one kilometre of nearby homes. The evacuation order was put in place when the Hihium Lake fire, near the town of Clinton northwest of Kamloops, grew from 40 hectares Wednesday afternoon to 600 hectares Wednesday night.

Crews planned heavy air attacks Thursday at daybreak to halt the spread of a Southern California wildfire that has chewed through more than 25 square miles (645 square kilometres) of bone dry brush, threatening hundreds of homes as well as a multimillion dollar agriculture industry and valuable oil production fields. [READ MORE](#)

US Existing and New Home Sales

Sales of previously owned homes in the US unexpectedly fell for the first time in four months in August, indicating a less vigorous pace of economic recovery from a deep recession. The US National Association of Realtors reported this week that existing home sales in August fell 2.7 per cent to 5.10 million units. Total sales up 3.4 per cent in year over year comparisons. Single family sales fell 2.8 per cent compared to July, to 4.48 million. Single family home sales up 2.5 per cent in year over year comparisons.

The US Commerce department this week released August new home sales at 429,000, up 0.7 per cent. Homes sales have been boosted by an \$8,000 tax credit for first-time buyers and the lowest house prices and mortgage rates in decades. With the tax credit expiring at the end of November, there are concerns that sales could slip and stall the housing market's recovery from a three-year slump.

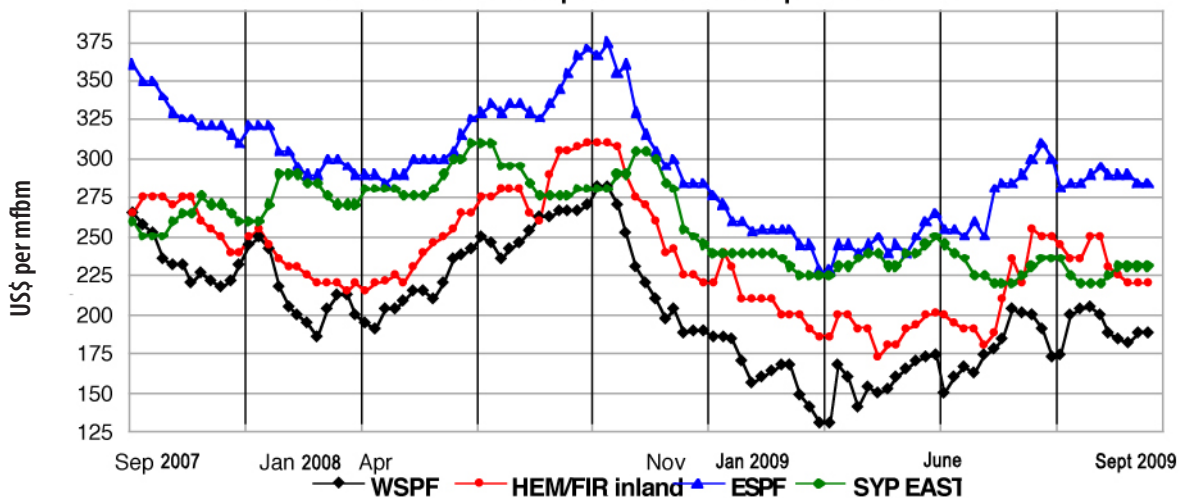
July new home sales were downwardly revised from 433K to 426K. August new home sales were off 3.4 per cent in year over year comparisons. Median prices of new homes were off 9.5 per cent in year over year comparisons to \$195,200. [READ MORE](#)

Alberta Lumber Shipments into the US

A recent speech by Pat Bell, British Columbia's Minister of Forests and Range/Minister Responsible for the Integrated Land Management Bureau, has caused some strong reactions by both the lumber industry and environmental groups.

In a talk entitled "Generating More Value From BC's Forests: The Next Four Years", Bell told The Vancouver Board of Trade on Monday what the BC government will do over the next four years to strengthen the forest sector and help it reach new markets and new heights. [READ MORE](#)

KEY 2x4 PRICES September 2007 - September 2009



Prices are in U.S. dollars per 1,000 fbm.

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	188	188	0	188	0	220	-32
WSPF KD R/L 2x6	202	195	+7	184	+18	227	-25
WSPF KD R/L 2x8	240	230	+10	215	+25	260	-20
WSPF KD R/L 2x10	322	315	+7	305	+17	250	+72
WSPF KD PET 2x4 Stud	200	200	+5	200	0	190	+10
Douglas Fir Green R/L 2x4	163	170	-7	148	+15	170	-7
Douglas Fir Green R/L 2x10	220	240	-20	250	-30	200	+20
ESPF KD 2x4 8ft Stud	280	280	0	280	0	250	+30
OSB Ontario 7/16" (CDN\$)	188	191	-3	200	-12	190	-2

Weekly News

California Wildfires

CONTINUED California firefighters focused Thursday on the fire's eastern and western flanks just north of Moorpark, about 40 miles (64 kilometres) northwest of downtown Los Angeles. The fire was 40 per cent contained late Wednesday.

Firefighters were also concerned about five major electrical transmission lines, a 36-inch (91-centimetre) natural gas pipeline and oil production fields at the top of a ridge.

The blaze was the largest of several that erupted in Southern California on Tuesday as Santa Ana winds blew in from the northeast, pushing back the normal flow of cool and moist ocean air. The weather pattern weakened Wednesday but is expected to continue through Friday with triple-digit heat in inland valleys.

Fire officials said the blaze began near an agricultural mulch pile, but the cause remained under investigation. The Sheriff's Department earlier said it was apparently caused by spontaneous combustion in a pile of manure at a ranch. When manure breaks down it emits volatile gases which, when combined with the late summer heat and sunshine, can explode and catch fire.

Another brushfire quickly burned through 200 acres (81 hectares) of grass Wednesday afternoon in San Bernardino County near Yucaipa, and crested a ridge and could threaten the community of Mentone.

US Real Estate

CONTINUED Another report from the US Labour Department showed new claims for unemployment benefits unexpectedly fell 21,000 to a seasonally adjusted 530,000 last week.

The median price of existing homes fell 2.1 per cent to \$177,700 from July's revised \$181,500. Median prices off 12.5 per cent against year ago levels. Inventories fell to 3.622 million from 4.062 million units. Despite the fall in sales, inventories eased to 8.5 months from 9.3 months in July.

A top White House economic adviser, Christina Romer, said on Thursday the US economy was "back from the brink", but warned policy-makers against removing fiscal and monetary stimulus too quickly.

Unsold inventories of new homes continued to fall and were off 2.9 per cent to 262,000 units. Inventories dropped to 7.3 months supply at the current sales pace. Regionally, sales rose 12.1 per cent in the West and were unchanged in the South. Sales off 5.8 per cent Midwest and 16.3 per cent in the Northeast.

Pine Beetle in Alberta

Mountain pine beetles—the single biggest threat to Alberta forests—are pushing eastward.

Trees in the area are reacting quickly and already changing colour. It has prompted the government to delay its aerial surveys by three weeks so officials can gauge how much devastation the new wave of pests will wreak, and formulate a counterattack.

Beetle-fighters may pull back to new front lines and give up on trying to save trees in western Alberta. Officials would also focus their attention on pure pine stands, with fewer spruce trees, to minimize damage to long-term timber supplies.

There is hope for forestry in the pursuit of innovations, including the use of wood fibre to make products such as insulation and interior car parts. Alberta has three wood-pellet plants, and a fourth has been proposed.

"We expect to see six gasification plants built in Alberta over the next two years to produce syngas, electricity and liquid transportation fuels like syndiesel," said Ted Morton, Alberta's Sustainable Resource Minister.

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BioFuel

Forest Residue

Specifically the Minister intends to work with industry and communities to dramatically expand trade with China, foster bioenergy, harness more economic gains from growing trees, and dramatically increase the demand for wood in commercial, institutional and industrial applications.

Pat Bell explained in *Madison's Lumber Reporter* Sept. 11, 2009 issue that his vision for a commercial forest reserve is centered around "planning for land use, mapping, and First Nations' input to find areas best suited for intensive forest management, in order to extract significant timber values and manage the remaining land." Bell detailed the plan, which will be looking for pilot projects over the next two years at tree farm licenses, wood lots and/or community forests with extended tenures, to take a "small section of land as an intensive forest management zone to gain maximum recovery from the land base, research shorter rotation timber, and invest in silviculture." In his interview with *Madison's*, Bell said the commercial forest reserve will be "meaningfully different to the forest industry."

While we wait for this plan to be set into motion, the troubling issue of excessive fibre supply in the form of long-dead beetle-kill trees, both standing and already cut, remains. There is an enormous volume of timber in British Columbia that has been dead for over ten years, which has no hope of being used for any kind of solid wood or wood pulp product. The best viable use for this brittle, dry timber is as biomass fuel. If this tinder dry wood is not removed from the forests, it will serve as an ever greater fire hazard in the future.

In his speech to the Vancouver Board of Trade Monday, Bell did mention bioenergy as part of his four year plan.

In *Madison's* conversations with individuals in the North American forest industry, the topic of biomass fuel is often dismissed with discouraging comments like, "But there is no market for this." That is simply not true. There has been significant progress in the past year alone in both research and investment into biomass fuel. Apparently this fact has escaped the attention of the forest industry.

The largest customer for biomass fuel, in various forms, will be Europe, without a doubt. Specifically, Germany and the Scandinavian countries are making great strides in converting industrial, residential and transportation users to sustainable fuel sources. The US is looking very closely at the subject and liking what it

sees, both on a federal and regional level. Asia is not far behind in seeing the viability of biomass as a sustainable fuel source. An impending shortage of trees and fossil fuels may ultimately encourage the well-forested, resource rich industrialized nations to search for less wasteful, more efficient energy sources.

A report released in August, 2009 by EUBIONET III, which is part of the European Commission, titled "Biomass Fuel Trade in Germany" states that "The German National Biomass Action Plan was published in April 2009 [. . .] The Biomass Action Plan states that the share of bioenergy in primary energy demand has to rise significantly by 2020." By enacting the Renewable Energies Heat Act, Germany has legislated that "New buildings have to use a defined share of renewable energies for heating", thereby increasing the share of renewable energy for heating from 9.7 per cent in 2007 to 14 per cent by 2012. Use of renewable energy for electricity and fuels are similarly legislated to increase. The report features tables with extensive information on current and potential use of solid biomass, bioenergy trade, and biomass use in new industries. View the entire report, and a similar report titled "Market of Biomass Fuels in Finland", here: <http://www.eubionet.net/default.asp?SivuID=25484> .

Even without this legislation Germany is making great strides forward in converting to biomass fuels; according to the German bioethanol association, bioethanol consumption leapt to 453,000 tonnes in the first half of 2009, up 61 per cent on the year-earlier period. Imports of feedstock continued to take a major share of Germany's bioethanol market. Germany's bioethanol production did not rise as high its rate of consumption, at 48 per cent. to 261,000 tonnes.

Elsewhere, the Asia Biomass Office out of Japan states that the "Japanese gov-

ernment has set a goal for domestic production/consumption of bioethanol, that will replace gasoline in the future, as: 50,000 KL in 2010; 1,000,000 KL in 2020; and 3,800,000 KL in 2030." See more details here: http://www.asiabiomass.jp/english/topics/0907_03.html .

Not to be left behind, the US Department of Energy has launched an ambitious program to quadruple that nation's annual use of ethanol, to 36 billion gallons, by 2022. The vast majority of feedstock for this project is expected to be cellulosic biofuel (see graph). The US program has the added bonus of creating jobs. In 2007, production and construction in the ethanol industry supported the creation of about 240,000 jobs in all sectors of the economy. For full details go here: http://www1.eere.energy.gov/biomass/pdfs/green_jobs_factsheet2.pdf .

In addition, US Department of Energy Secretary Steven Chu announced August 31, 2009 that up to US\$21 million will be made available for the selection of five projects that will develop supply systems to handle and deliver high tonnage biomass feedstocks for cellulosic biofuels production. The awards announced are part of the department's ongoing efforts to reduce US dependence on foreign oil, spur the creation of the domestic bio-industry and provide new jobs in many rural areas of the country.

It is generally acknowledged by these regions that are promoting renewable energy sources globally, a fair portion of feedstock is going to have to be imported, with Canada often the first choice as supplier. For British Columbia specifically, the large volume of beetle-kill - which already closely matches the required low moisture content for biofuels of various kinds - will be an excellent way to capitalize on what some regard as a liability.

