

MADISON'S LUMBER REPORTER

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News & Updates

Wood Tech 2010

The 2010 biennial Wood Tech Show – to be held March 9-11, 2010, at the Oregon Convention Center in Portland, OR, promises to be the best resource for attendees to strengthen their business through education that includes; discovering the latest products, discussing current trends and industry-critical issues, and connecting with the wider primary wood processing industry.

The Wood Tech Show will feature over 175 top manufacturers, such as USNR, Co-mact, Vollmer, Wellons, HewSaw, Autolog, and Optimill Machinery, just to name a few. The exhibit hall will showcase virtually every product in the primary wood processing industry, making Wood Tech Show the best opportunity for attendees to see the most innovative products, machines, equipment, and services that are moving the industry forward in today's economy.

For the more information about Wood Tech Show, visit woodwideweb.com. If you would like to exhibit at this year's show, please contact David Muirhead, Sales Manager, by email at david.muirhead@nielsen.com or by phone at 770 291-5432.

US Real Estate Market

The US National Association of Realtors reported Monday that existing home sales in September rose 9.4 per cent to 5.57 million units. Total sales were up 9.2 per cent in year over year comparisons. Single family sales rose 9.4 per cent to 4.89 million, up 7.7 per cent in year over year comparisons.

The US Commerce Department released September new home sales Wednesday at 402,000, off 3.6 per cent. August sales were downwardly revised from 429K to 417K. Sales of new homes were off 7.8 per cent in year over year comparisons. Median new home prices rose 2.5 per cent against August levels to \$204,800.

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Quarterly Results

3Q 2009 financial results are being released, with Canfor, Domtar, Interfor, Norbord, Weyerhaeuser, TimberWest, International Paper, Potlatch, and Rayonair already reporting.

Many companies detailed fewer losses than for the rest of this year, generally due to closures, curtailments and other cost-cutting measures. Some companies pointed to a slow increase in demand, but cautioned that the forest industry has a way to go yet before full recovery is achieved.

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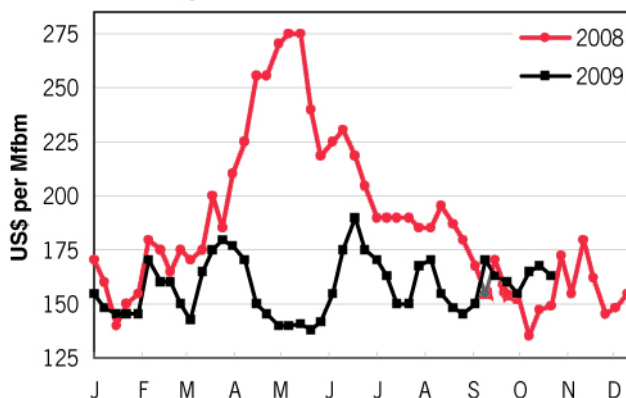
Technology Developments for Forest Resources

At the 6th Timberland Investment World Summit in New York city this week *Madison's* learned about all kinds of exciting developments, discoveries and updates for the forest products sector.

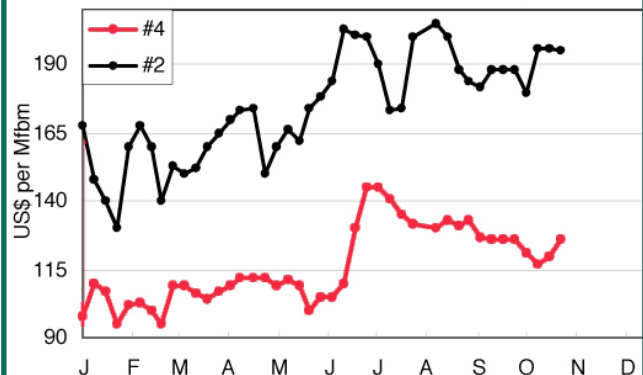
Miles Drake, Chief Technology Officer for Weyerhaeuser made a presentation about what progress that company has been making in the fields of silviculture, landscape forestry, and - most importantly - biofuels.

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Douglas Fir Green #2&Btr 2x4



WSPF KD 2x4 #2&Btr vs Econ



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	195	196	-1	188	+7	189	+6
WSPF KD R/L 2x6	193	202	-9	202	-9	182	+11
WSPF KD R/L 2x8	210	225	-15	232	-22	215	-5
WSPF KD R/L 2x10	300	320	-20	320	-20	215	+85
WSPF KD PET 2x4 Stud	190	190	0	200	-10	190	0
Douglas Fir Green R/L 2x4	163	168	-5	160	+3	149	+14
Douglas Fir Green R/L 2x10	240	235	+5	220	+20	200	+40
ESPF KD 2x4 8ft Stud	285	285	0	275	+10	255	+30
OSB Ontario 7/16" (CDN\$)	185	185	0	188	-3	215	-30

Madison's Lumber RETROspective
60 years of lumber history over 60 issues! Check out additional pages in your Reporter

Weekly News

US Home Sales

CONTINUED The median price of existing homes fell 1.4 per cent to \$174,900 from August's revised \$177,300. Median prices were off 8.5 per cent against year ago levels. Inventories fell to 3.630 million, from 3.924 million units in August. At the higher sales pace inventories fell to 7.8 months from 9.3 months in August.

A seven months' supply is usually consistent with stabilization in prices, NAR chief economist Lawrence Yun has said in recent months.

The market is "close to a self-sustaining recovery" where home values stabilize or start increasing, Yun said in a press conference. The drop in sales runs counter to figures on pending purchases and signals that low appraisals and slow underwriting remain obstacles to sustained gains, Yun said.

Unsold inventories of new homes continue to fall and were off 3.8 per cent to 251,000 units. Outright inventory levels were the lowest in 27 years, with months supply flat at 7.5 months based on the slower sales pace. Regionally, sales rose 34 per cent in the Midwest and were flat in the Northeast. Sales off 10 per cent in the South and 10.6 per cent in the West.

Financial Reports

CONTINUED Timberwest generated a distributable cash loss for 3Q 2009 of \$3.8 million, compared to a distributable cash loss of \$5.4 million for the last quarter, and a loss of \$6.3 million in 3Q 2008. Year to date, the distributable cash loss was \$24.5 million including \$9.0 million of financing costs, compared to a distributable cash loss of \$13.4 million for the first three quarters of 2008.

Canfor Pulp Income Fund reported sales of \$202 million and net income of

\$18.3 million for the quarter ended September 30, 2009. The Fund reported net income of \$8.5 million.

Norbord reported a loss of \$7 million in 3Q 2009. Norbord recorded losses of \$18 million in the prior quarter and \$18 million in the 3Q 2008.

Domtar has reported net earnings of \$183 million for 3Q 2009 compared to net earnings of \$48 million for 2Q 2009 and net earnings of \$43 million for 3Q 2008. Sales for 3Q 2009 amounted to \$1.4 billion.

Canfor reported a net loss 3Q 2009 of \$5.2 million compared to net income of \$10.5 million for the second quarter of 2009, and a net loss of \$94.2 million for 3Q 2008. For the nine months ended September 30, 2009, the Company's net loss was \$53.5 million, compared to a net loss of \$115.4 million for the comparable period in 2008.

Weyerhaeuser reported a 3Q 2009 net loss of \$56 million, wider than \$3 million in 3Q 2008. For 2Q 2009, the company's net loss was \$106 million.

Interfor showed earnings of \$9.7 million compared to a loss of \$15 million in 2Q 2009 and a loss of \$8.1 million in 3Q 2008.

West Fraser Closes Paper Mill

In a not surprising move, West Fraser Timber is closing its aging Eurocan paper mill in Kitimat, British Columbia on January 31, 2010.

535 people will lose their job.

West Fraser said the 40-year-old mill, which produces linerboard and kraft paper, has struggled over the years with high costs and negative returns.

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MADISON'S
MILL WATCH

Forest Resources

Biofuels

Having returned early Thursday morning from the 6th Timberland Investment World Summit in New York

by Kéta Kosman

city, *Madison's* is excited to bring to subscribers timely information on critical issues surrounding the valuation of the landscape and the forests. Fascinating presentations were made by experts from around the world on everything from mapping the pine genome, technology developments in wood and paper production, pine beetle issues, carbon credits and sequestering, high yield forestry, biofuels and more.

The main premise of the conference was generating revenue from forest land, primarily in the US but also globally, by whatever means. All topics were examined in detail, and were followed by questions and discussions from the floor. Over the coming weeks *Madison's* will spell out this information and new developments, particularly in terms of what it can mean for Canada and Canadian producers.

Miles Drake is Chief Technology Officer for Weyerhaeuser. With a doctorate in sciences and in-depth experience in the North American solid wood industry, Drake explained the challenges and breakthroughs Weyerhaeuser has recently been dealing with.

Drake spoke first about precision landscape forestry, and nursery engineering, as a means to maximize the future value stream and potential of forest land. By implementing advances in the technology of silviculture and in the understand-

ing of the metrics of trees, Weyerhaeuser has been able to increase the volume of its sawtimber production in the US south while keeping pulp wood volumes at the same level. In terms of sustainability, Weyerhaeuser staff take the time to get a third party to validate their findings, for peer review of their scientific work, in order to achieve high yields, high returns, and truly transparent sustainability. This transparency is critical for garnering investment revenue, a fact that was echoed by almost every presenter.

Weyerhaeuser has deployed LIDAR, light detection and ranging using a laser beam, in flying a light plane over timberlands to map the ground surface beneath the trees. The technology then provides a map of terrain, giving information on hill grade, presence of scarp, eroded debris, slump deposit and more. Eventually Drake expects that LIDAR will be able to map trunk diameters, and widths, just by flying a light plane over the timberland.

Drake dedicated the bulk of his presentation to biofuels. That topic, as well as carbon capture, was discussed extensively by a wide range of presenters. The importance of these developing markets on the global stage can not be stressed enough. According to Drake, due to the US renewable fuel mandate, multiple sources will be needed for feedstock in the coming years. There is much research being done into breaking down biomass from forests to make liquid transport fuels. This technology is still in the early stages, and Weyerhaeuser is currently looking for partnerships to develop the technology further. However Drake did state that "leveraging pulp mills is a good way to deliver biomass to biofuel mills."

Like other facets of industry, both forestry and otherwise, Weyerhaeuser is placing emphasis on liquid transport fuels made from cellulose. *Madison's* has detailed progress in this field in recent issues of your *Reporter*. Drake listed several challenges to processing forest residue into liquid fuel.

Scalability of feedstock can be a major problem, and Drake defined collecting and transporting slash as currently prohibitively costly. On site chipping, compressing, and baling before transport, would bring this cost down. At least two forest harvesting equipment manufacturers are already marketing such equipment. Drake mentioned an interesting concept that could be implemented at the silviculture stage; intercropping of dedicated energy crops within the tree plantation. Switchgrass and other low-growing, short-rotation species could be used to fill in space between seedlings and eventually as feedstock for biofuels.

Logistics remain difficult; the collecting, processing and distributing of feedstock and fuel products continues to be a high expense. Drake suggested the solution of "aggregating biomass from multiple ownership of the land to maintain sustainability." In this way a variety of feedstock from various sources could come together to produce biomass fuel even more efficiently.

Another important issue for the development of this technology, and indeed for gathering interested investors, is the need to galvanize policy. Investors want long term stability to ensure maintenance of their investments. Policy makers need to provide incentives to increase biomass supply into the future. Drake maintained that "if we are thoughtful in the next decade, we can substantially increase biomass to use as a fuel source." Refer to the table on this page to see Weyerhaeuser's projections of the breakdown of feedstock for biofuels from forest residue and other sources into 2020.

Drake concluded by saying that good science must happen to ensure good policy, that there must be multi-partnerships working across the entire supply chain. In addition, and probably most importantly, due to intensive planting practices over the past 20 years, forest supplies in the southeast US are growing.

Organizers are pleased to announce that the 7th Timberland Investment World Summit will be held in Vancouver, BC, in June 2010. Don't miss the key meeting place for the North American timberland investing community, including pension and endowment funds, TIMOs, and REITs. -ed

