

MADISON'S LUMBER REPORTER

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News & Updates

US New Home Sales

The US Commerce Department released October new home sales Wednesday at 430,000, up 6.2 per cent over September and well above pre-report estimates for 410,000 units sold. September sales were upwardly revised to 405,000 from 402,000. October 2009 sales were up 5.1 per cent compared to October 2008. Median home prices rose 0.7 per cent against September levels, to \$212,200.

Unsold inventories continue to fall and were off 4.4 per cent to 239,000 units. Out-right inventory levels were the lowest since May 1971. Months supply eased to 6.7 months, from 7.4 months in September.

Mill Purchases, Sales and Closures

British Columbia's Dunkley Lumber has purchased Stuart Lake Lumber in the Fort St. James, BC, area, a mill that has been closed since 2007.

Tolko Industries, based in Vernon, BC, has announced that its lumber division in High Level, AB, is closing. The mill initially closed in February 2009, but reopened later in the year. There are enough logs to allow the sawmill to operate until December 18, though some employees will be able to stay on until mid-January.

A judge has approved the sale of bankrupt AbitibiBowater's Belgo pulp and paper mill in Shawinigan, QC, to Recyclabe Arctic Beluga Inc. [READ MORE](#)

Russian Timber in Japan

At the October 21, 2009 Japan Russian Wood Products Conference in Tokyo, Russian timber exporting firms indicated that the proposed 80 per cent Russian tax on raw log exports will be postponed for another year, leaving Russian log taxes at 25 per cent for 2010, according to the Japan Lumber Journal

Russian log imports into Japan declined by as much as 40 per cent in 2009 compared to 2008. The Russian emphasis on processing lumber domestically for export made progress in 2009, with the start up of large scale operations in the Far East and Siberian regions, according to the Journal. There are finished goods inventories of 15,000 cubic meters, and 4,200 cubic meters of red pine logs, at the Russian port of Nakhodka.

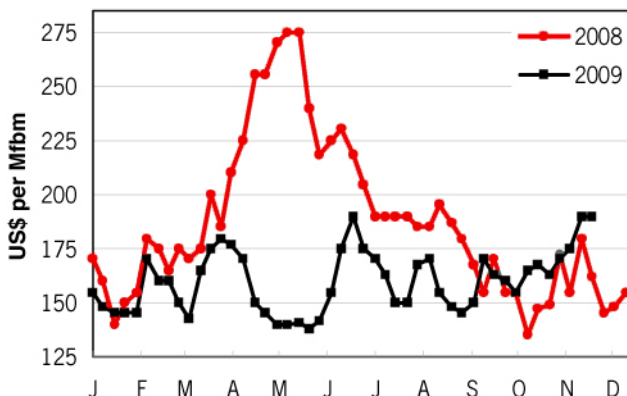
Logging volume in Russia has dropped by 20 to 30 per cent this year and is expected to drop even more, says the Journal, as the number of logging companies operating has been reduced by half. [READ MORE](#)

Carbon Credits Market

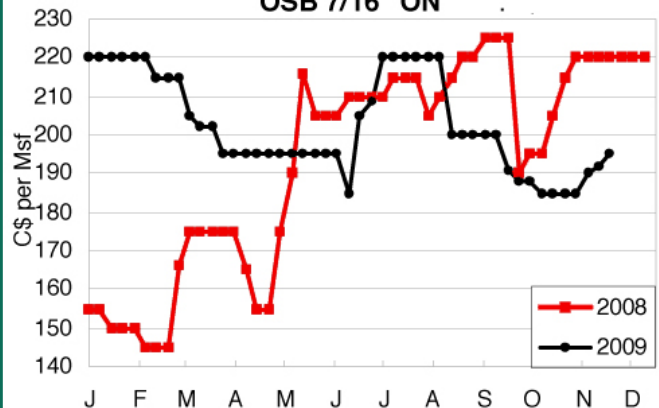
A market that is currently being developed could well serve British Columbia's beetle kill problem, regardless of which proposed system is eventually implemented. In the US, industry's first year of compliance for reducing carbon emissions is 2012, with a 17 per cent reduction required by 2020. In the EU, a 20 per cent reduction in carbon emissions by industry is required for the same year.

As BC embarks on large scale salvage of beetle kill, and silviculture, there is potential for significant revenue while the newly planted trees grow, before they mature and are ready for harvest. [READ MORE](#)

Douglas Fir Green #2&Btr 2x4



OSB 7/16" ON



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	224	220	+4	195	+29	184	+40
WSPF KD R/L 2x6	224	220	+4	193	+31	172	+52
WSPF KD R/L 2x8	234	230	+4	210	+24	190	+44
WSPF KD R/L 2x10	310	302	+8	300	+10	195	+115
WSPF KD PET 2x4 Stud	225	215	+10	190	+35	162	+63
Douglas Fir Green R/L 2x4	190	190	0	163	+27	162	+28
Douglas Fir Green R/L 2x10	260	257	+3	240	+20	250	+10
ESPF KD 2x4 8ft Stud	285	280	+5	285	0	245	+40
OSB Ontario 7/16" (CDN\$)	195	192	+3	185	+10	220	-25

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

Weekly News

Russian Wood into Japan

CONTINUED Despite Japan's reduced volume of log buying in 2009, that country's buying of lumber has increased by 10 per cent, according to the Japan Lumber Journal.

In view of the uncertainty over the previously announced 80 per cent tax on Russian log exports, sawmills in Japan switched to re-sawing genban or other species, and plywood mills shifted to domestic species over Russian larch logs, according to the Japan Lumber Report.

Sawmills are looking at the European market for customers rather than within Japan, due to fussy specifications domestically, says the Report. Large volume mills particularly prefer to make standardized products for European markets.

This will increase competition for regional species, as Siberian mills are also looking to the European market, and are not generally interested in making Japanese spec. lumber, the Report says.

Mill Sales, Closures

CONTINUED AbitibiBowater figures it will save nearly \$2.3 million annually after the sale of the Belgo mill.

Dunkley said Tuesday there are no plans to re-start the Stuart Lake sawmill or begin logging in the near future. The mill holds 202,000 cubic metres of annual long-term timber rights, about 4,500 logging truck loads of timber.

In 2005, the amount of timber that can be harvested on the tree farm licence was significantly increased so Dunkley Lumber could salvage mountain pine bee-

tle-killed pine before it decays.

Access to timber is expected to become a critical issue in the next several decades as the beetle epidemic is forecast to result in a 40 per cent decrease in the timber supply in the Interior.

Welco SPF into Japan

Directors at British Columbia's Welco Lumber announced, during a trip to Japan recently, that Conifex's Fort Saint James, BC, mill will increase J grade export production to 56 million board feet, 20 per cent of the mill's total capacity.

The mill uses large diameter logs, so premium grade SPF and MSR lumber is expected to have a high percentage of 2x8 and 2x10 sizes.

Welco VP Kip Fotheringham said the company will increase premium grade lumber production for Japan when other lumber producing companies in BC are focusing on the Chinese low grade market.

Taiga Board Changes

The Board of Directors of Taiga Building Products Ltd. announced today that they have appointed the next generation of Taiga's Executive Vice Presidents, effective January 1, 2010.

Trent Balog will step into the role of Executive Vice President, Operations. Kevin Bradshaw will assume the role of Executive Vice President, Supply Management. Grant Sali will move into the role of Executive Vice President, Allied Products and Treated Wood Products.

The Board also announces that effective March 31, 2010, Jim Bradshaw, President and CEO will be retiring. He will join the Board as a non-executive director thereafter.

Cam White, currently Taiga's Executive Vice President, Sales & Operations and COO, will be assuming the position of President and CEO.

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Carbon Credits

Reforestation BC's Beetle Kill

As subscribers are aware, *Madison's* brings you news of developments and changes in the forestry industry as it happens. We were the first forestry publisher to inform our readers and the public about the growing market in China for wood products (covered in the November 21, 2008 issue of your *Madison's Reporter*). This topic is now all over the mainstream news. We have been updating subscribers on the biofuel industry, providing hard information on new technologies, and on projected demand from the US and Europe.

The next new source of potential revenue from the forest land base is carbon credits.

The US American Clean Energy and Security Act of 2009 passed in Congress on June 26, 2009 by a mere seven votes. This comprehensive national climate and energy legislation will establish an economy-wide, greenhouse gas cap-and-trade system, and critical complementary measures to help address climate change and build a clean energy economy. The bill was placed on calendar in the Senate under general orders on July 6, 2009.

The portion of this legislation relevant to carbon trading states that US industry must, "Reduce carbon emissions from major US sources by 17 per cent by 2020 and over 80 per cent by 2050 compared to 2005 levels." This is much less than the EU's pledge of a 20 per cent cut over the same period, or a 30 per cent cut if there is a global deal; and much less than the 25-40 per cent figure that developing countries are demanding.

In a nutshell, the concept is simple. A total cap has been placed on industrial carbon emissions/greenhouse gases annually. Under the program, as the plan progresses fewer credits are to be issued each year until the final goal is reached. 2012 is the first compliance year. There is a possibility that the remaining available carbon credits will become more valuable each year as companies that are still working to reduce their emissions need them. The EU is formulating a similar system, with an even shorter time frame for rollout.

British Columbia could benefit by providing carbon offsets for the duration of replanting the beetle kill as industry upgrades infrastructure and/or transfers to green energy. Trading credits operates like any other commodity market, and BC could sell credits to the highest bidder. This revenue would help fill the two-generation gap between the salvage of beetle kill and silviculture, and eventual harvesting of new timber, probably a time frame of about 80 years.

The big issue right now being debated in the US is the value of the initial carbon credits. Industry wants a handout, while President Obama's administration wants a 100 per cent

auction system. Congress and other interested parties are calling for a combination of these. If the carbon credits are initially given away, there will be very little revenue at the outset and the average American citizen will be forced to cover the costs, either through higher energy bills or taxation.

In practical terms, BC is in a unique position to service this carbon trading market due to the beetle kill. According to the US's Voluntary Carbon Standard methodology, a given "forest management project must not lead to a decrease in total volume harvested of more than 25 per cent over the life of the project relative to the baseline". Details available here http://v-c-s.org/methodology_eifmm.html. BC will be an exception to this restriction because removal of the beetle kill is salvage, rather than harvest.

Madison's spoke to Greg Arnold, managing partner of CE2 Capital Partners out of San Diego, CA, while at the 6th Timberland Investment World Summit in New York City in October. Arnold explained that "cap and trade is a tool, one tool, to achieve a policy outcome." In this case the outcome is a reduction in total emissions. As legislation is currently being drafted, in the US and in Europe, it is not yet known which markets will be the most lucrative for trading. "International credits are not eligible in the US," said Arnold. "In the end the US may not be part of an international carbon treaty. Canada may be able to have individual deals with the US and with Europe."

The most important thing to understand about the carbon trading market, explained Arnold, is that there must be "additionality. The system is geared to payment for something that would not normally be done." BC's recovery from the mountain pine beetle infestation is precisely the type of situation that would fit this additionality criteria.

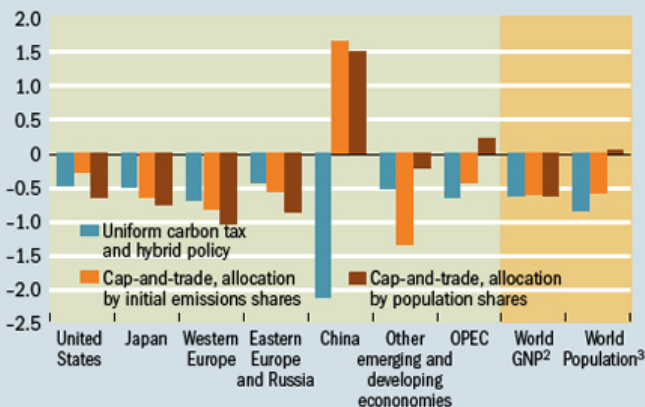
Compliance details for carbon trading can be found in the American Carbon Registry's March 2009 publication, "*Forest Carbon Project Standard*" here <http://americancarbonregistry.org/carbon-accounting/ACR%20Forest%20Carbon%20Project%20Standard%20v1%20March%2009%20FINAL.pdf>.

Chart 2

Costs of reducing carbon emissions

The global costs¹ of mitigation could be moderate between 2013 and 2040, but vary by country and by policy.

(deviation of consumption from the baseline, percent)



Source: IMF staff estimates.

¹The costs are measured by the net present value of the difference between the path for consumption in the policy experiment and the path for consumption in the baseline, divided by the net present value of the path for consumption in the baseline. The discount rate is constant over time and across regions at 2.2 percent, which is the difference between long-term world interest rates and trend GNP growth rates. The net present value of consumption aggregates changes in consumption over time.

²Weighted by GNP shares in 2013.

³Weighted by population shares in 2013.

In a follow-up interview, Laurie Fitzmaurice, Director of Investments and Acquisitions for CE2 Capital Partners, explained to *Madison's* that in there will be a delay in getting revenue from selling carbon credits because when young trees are planted "there is not a meaningful amount of carbon absorbed in the first few years." However that changes soon, as the trees get beyond the sapling stage and this is where "there is potential revenue growth in terms of carbon offset accounting." Fitzmaurice pointed out that under the projected carbon trading market system, "the party that controls the land has to sign up for 100 years. There is a permanence commitment, the system is based on the long term."

Another important point to note is that it is critical to get a baseline of the BC land base prior to taking any action on the beetle kill. Fitzmaurice explained that "no matter what the rate of tree growth, the baseline is zero." The Voluntary Carbon Standard's condition for forest management methodology is "Forest management in both baseline and project cases involving clear cut or patch cut practices." Details on how to assess the baseline for US standards are available here <http://v-c-s.org/docs/Ecotrust%20IFM%2010-15-09.pdf>. European baseline standards can be found on the United Nations Framework Convention on Climate Change website <http://cdm.unfccc.int/methodologies/index.html>.

Between the rapidly growing technologies and markets for biomass fuel, specifically from forest residue, and this new carbon trading market, BC could turn the devastation of the beetle kill into a lucrative source of revenue while the local lumber industry waits for the newly-planted trees to grow.