



MADISON'S TIMBER PREVIEW

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AbitibiBowater, under court protection from creditors since April, 2009, has been all over the mainstream news lately as it continues to emerge from bankruptcy protection. The recent agreement by the federal government of Canada to pay \$130 million to the company after Newfoundland-Labrador's (NL) controversial grab of the company's idled hydro and timberland assets in December 2008 is doing much to fuel the journalistic frenzy. The world's largest newsprint producer by capacity, and eighth-largest publicly traded pulp and paper manufacturer globally, AbitibiBowater at that time declared its intention to bring the issue before a NAFTA tribunal, which would judge on a claim against Canada not NL. In an effort to avoid a lengthy and costly battle in international courts, Canada has agreed to pay off the company.

Please refer to the December 12, 2008 issue of your *Madison's Timber Preview* for gruesome details on AbitibiBowater's slide into bankruptcy protection.

With more dramatic twists and turns than a paperback crime novel, the saga of AbitibiBowater continues to unfold. The NL government is determined to force the company to pay for multimillion-dollar environmental cleanup at five sites it ran between 1905 and 2008. The sites include the defunct Grand Falls-Windsor paper mill in central Newfoundland that the provincial government unintentionally expropriated; in its rush to get documents drawn up followed quickly by agreement from its legislature, the province accidentally included the Grand Falls-Windsor site with the valued hydro and timberland assets. NL is seeking leave to appeal a Quebec Superior Court ruling three months after the Quebec Court of Appeal refused to hear the case.

Based in Delaware but headquartered in Montréal, QC, AbitibiBowater owns or operates 21 pulp and paper mills and 24 wood products plants in Canada, the US, UK, and South Korea, making legal issues cross not only provincial but international borders.

While these complications get sorted out, the company continues to move toward an exit from bankruptcy and creditor protection projected for October. After having grown to monumental proportions following the merger of Abitibi-Consolidated and Bowater Inc, AbitibiBowater is now trimming its size and divesting assets, while contemplating new technology such as biomass fuel.

On February 22, 2010, AbitibiBowater announced it would give itself six weeks to find buyers for mills temporarily closed the previous year in Roberval, Saint-Fulgence and Lebel-sur-Quévillon, all in Québec. The company had shut two paper machines at the Thunder Bay, ON, plant in August 2009, then announced in early May, 2010 that it was seeking proposals for power cogeneration at that site. In a swift about-face, a June 10, 2010 press release stated that the Thunder Bay paper mill and the three Québec properties were sold to American Iron & Metal Company for US\$8.7 million. AbitibiBowater will be paid 40 per cent of the proceeds from the sale of the mill's paper machines, of which American Iron has agreed to pay US\$5 million by September 6, 2010, regardless of whether any sale takes place.

Separately, Conifex, out of Fort St. James, BC, purchased long-idled AbitibiBowater assets in Mackenzie, BC, including a paper mill, two saw mills and timberland operations including a forestry licence covering 932,500 cubic metres of land.

Over the last three years, the company has sold more than US\$940 million of assets and land, including its 60 per cent stake in Manicouagan Power Co. for \$615 million. The restructuring plan will see AbitibiBowater's debt decrease from US\$6.5 billion to US\$1.6 billion as it pays off secured creditors and debtor-

in-possession financing. AbitibiBowater reined in its losses in 2Q 2010, reducing its red ink to US\$297 million in the three-month period ended June 30, compared with US\$510 million in the same year-ago quarter.

Revenue grew 14 per cent to US\$1.18 billion, from US\$1.04 billion one year earlier, on higher prices for paper, pulp and wood products, although the results were negatively affected by lower prices for specialty papers.

Clearly much effort is focussed on assessing which operations are profitable and worthy of investment, as on August 6 and August 20, 2010 respectively, the company announced possible reopening of its Gatineau paper mill, and upgrades to the sawmill in La Tuque, both in Quebec. AbitibiBowater will conduct a two-month, \$100,000 feasibility study of a plan to reopen the paper plant, which could cost as much as \$200 million, and will invest \$1.8 million at La Tuque to reduce overall costs by 10 per cent.

"We believe newsprint demand will continue to decline and that we have to deal with that decline not by continuing to shut down capacity but by developing new products on those machines," said company CEO David Paterson May 25, 2010.

Late Thursday AbitibiBowater won court approval to borrow as much as US\$1.35 billion to help fund its exit from bankruptcy, according to Bloomberg. A US Bankruptcy Judge gave the company permission to obtain the funds after no objection to the financing proposals was filed, according to court documents filed yesterday in Wilmington, DE. Units of JPMorgan Chase, Barclays, and Citigroup will be the agents for a US\$600 million asset-based loan and each will contribute US\$100 million, court papers show. The company will also seek to raise as much as US\$750 million through a notes offering in the capital markets.

For the near-term, "AbitibiBowater is concerned by these numbers," spokesman Pierre Choquette said Wednesday, noting that the latest housing starts dipped 10 per cent to below 600,000 per year. "2011 looks like a slightly better repeat of 2010, so we will likely see the same volatility on lumber, plywood and OSB prices, as distribution inventories remain historically low," he said in an email to *Canadian Press*.

He noted that softwood lumber issues that "continue to bubble below the surface" could have a "material impact" on west coast lumber producers.

That last sentence speaks volumes. The US Coalition for Fair Lumber Imports will release a claim of shocking magnitude against British Columbia in the next couple of weeks.

Prime Minister Stephen Harper said Thursday, in reference to AbitibiBowater's spat with NL but bearing wider implications, "the federal government intends to ensure it will never again have to foot a hefty bill if a province's actions force Ottawa to compensate foreign investors under international trade agreements. I do not intend to get back the monies expended in this case from the government of Newfoundland and Labrador. But I have indicated that in future, should provincial actions cause significant legal obligations for the government of Canada, the government of Canada will create a mechanism so that it can reclaim monies lost through international trade processes."

Should the Coalition's claim against the BC forest industry, when it does materialize, amount to \$500 million or more as veteran industry insiders suspect it will, and should Canada's federal government abandon BC to pay the full claim on its own, west coast lumber producers could be facing hard times ahead indeed.

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