

# MADISON'S LUMBER REPORTER

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## News & Updates

### STUDS Asia Exports

The export duty on shipments crossing into the US on or after July 1 returned to ten per cent and is again collected by the Canadian government. In other export news, offshore shipments are more heavily booked for August and September by bulk buyers. Japan remains the largest volume Asian buyer of #1 and #2 "J" grade studs, primarily going into custom built homes. In the China market, still a small fraction of the quantity going to Japan, there is a better demand for six-foot and seven-foot studs.

The rest of Asia and the middle east continues to explore Canadian studs and dimension lumber for use in home building and concrete forms. Some premium studs are being ripped by remanufacturers overseas for use in crates and other secondary products. Our high grade studs hold together well and there is less waste in the reman process. Even the best grades of WSPF studs from Canada are a bargain on the international market due to the low Canadian dollar.

The fabled wall of wood crossing the US border from Canada during duty free June turned out to have been less than had been totted up by thumbnail calculators.

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### US Export Growth

US President Barack Obama said in a speech at the White House on July 7, "American exports grew almost 17 per cent over the first four months of this year, compared to the same period last year. Part of this, of course, is due to the global recovery. But we are also moving forward on improving conditions for America's exporters."

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### EACOM Timber Closes Deal

EACOM Timber Corporation announced July 1 that it has completed the acquisition of the Forest Products business of Domtar Corporation. The purchase was funded out of the previously announced \$145 million private placement.

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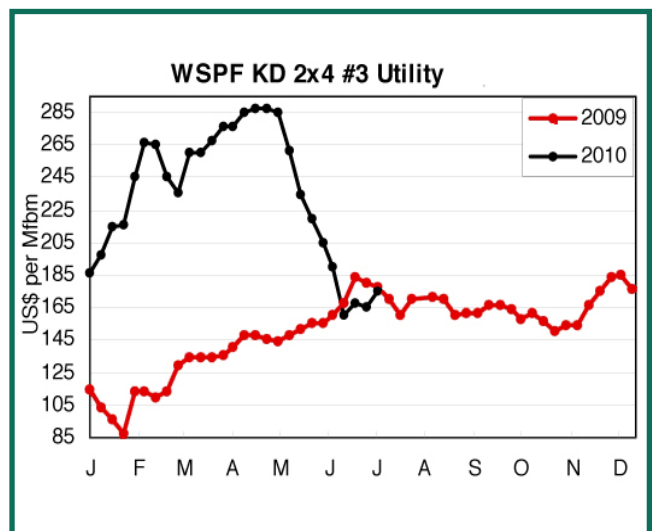
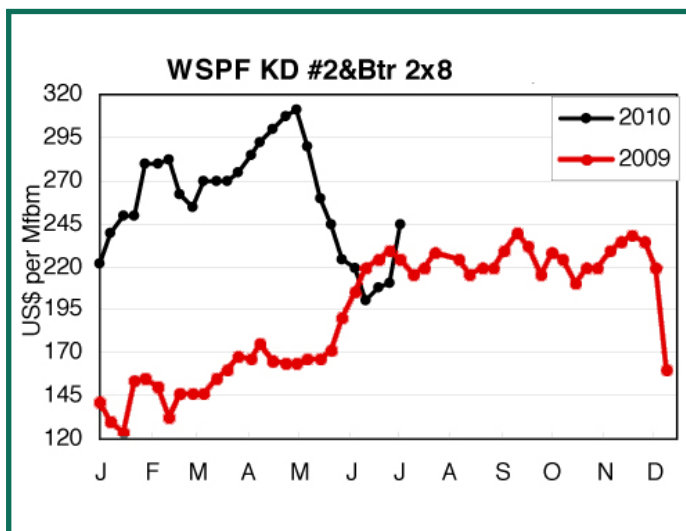
### West Coast Pulp Mills

In the same week that Catalyst Paper announces the permanent closure of its Elk Falls, BC, paper mill, the Canadian government distributes more funding under its Pulp and Paper Green Transformation Program for pulp and paper mill upgrades in BC and Alberta.

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### Erratum

A typographical error on Page 7 of last week's issue put the US 'black liquor' tax rebate to pulp mills at US\$8 million rather than \$8 billion. We regret this error and any confusion it may have caused.



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	215	195	+20	216	-1	190	+25
WSPF KD R/L 2x6	208	190	+18	218	-10	208	0
WSPF KD R/L 2x8	245	210	+35	220	+25	230	+15
WSPF KD R/L 2x10	245	225	+20	260	-15	322	-77
WSPF KD PET 2x4 Stud	215	195	+20	235	-20	200	+15
Douglas Fir Green R/L 2x4	200	192	+8	210	-10	170	+30
Douglas Fir Green R/L 2x10	270	260	+10	270	-10	245	-35
ESPF KD 2x4 8ft Stud	300	290	+10	340	-40	285	+15
OSB Ontario 7/16" (CDN\$)	230	230	0	250	-20	220	+10

## Weekly News

### EACOM Looks to Europe

CONTINUED Rick Doman, president and chief executive, is very keen on expanding trade with Europe and said the sawmills he is acquiring in Ontario and Quebec have a strong potential to tap into that market, according to the Timmins Daily Press.

He aims to build up a more diversified market for the company by expanding sales to Europe, the Middle East and within Canada.

In other news, Eacom is suing the government of Saskatchewan.

Statements of claim filed July 6 in Court of Queen's Bench in Regina allege that the government worked to keep the timber allocation historically provided to the Big River sawmill out of Eacom's hands.

"The defendants did not want Eacom to acquire or operate the sawmill," the statement of claim says.

Regina lawyer Tom Waller, who is representing Eacom, said the lawsuit

was a last resort for the company, which remains baffled by the hostility from the Saskatchewan Party government, according to the StarPheonix.

The Big River sawmill has historically been supplied out of the Prince Albert forest management agreement. Weyerhaeuser closed that mill in 2006.

Waller said the government has essentially broken a contractual obligation in its actions.

### US Exports

CONTINUED Declaring that his administration is off to a "solid start" on his State of the Union pledge to double US exports over the next 5 years, President Obama gave what the White House is calling a "progress report" on the goal.

Obama named 18 business leaders to the advisory committee on stimulating business abroad, which advises him on promoting US goods and jobs. This council is to be headed by Jim McNerney, President and CEO of Boeing and Xerox CEO Ursula Burns, and includes the lead-

ers of large companies such as Ford Motor, Xerox and Walt Disney.

Obama announced also on Wednesday said that he would soon present three controversial trade agreements with South Korea, Panama and Columbia to the Congress for consideration.

The key to job growth is increasing US exports to other countries, which account for 95 per cent of the world's fastest-growing markets,

Obama said his administration is making sure that the access of the world market by US companies is free and fair.

Democrats are divided over all three deals, but are particularly hesitant about moving forward with the Colombia agreement.

However, the South Korean deal has more support as it is considered as the most important of the agreements for the US economy, but is opposed by labour groups and Ford.

Obama said his goal to double America's exports in five years will boost economic growth and support millions of American jobs in a manner that is deficit-friendly.

### Log Broker for TaanForest, Haida Gwaii, BC

TaanForest Ltd. is a new and exciting entrant into the coastal BC forest industry. With operations located on Haida Gwaii, a significant volume will be harvested annually comprised of Hemlock, Cedar, Cypress, and Spruce destined for global markets. Work is currently underway to secure FSC certification for all wood.

TaanForest Ltd. seeks a qualified log broker with experience in all facets of the coastal log market including old growth and second growth wood along with export markets.

**Proven performance, integrity, and references are all critical prerequisites.**



**Deadline for Submission;  
July 18, 2010.**

**Contact B. Brash, President,  
brash@taanforest.com**

### Calendar

September 2010

#### AFPA 68th AGM and Conference

September 22 to 24 – Jasper, AB  
<http://www.albertaforestproducts.ca/home/default.aspx>

#### 2010 CIF-IFC AGM and Conference

September, 26 to 29 – Jasper, AB  
<http://foothillsresearchinstitute.ca/pages/home/cif2010jasper.aspx>

October 2010

#### 2010 NHLA Annual Convention and Exhibit

October 13 to 16 – Vancouver, BC  
<http://www.nhlaconvention.com/>

# Paper and Pulp Industry

## Canada

Industry and analysts debate the health of the North American pulp and paper industry as short-fibre eucalyptus pulp mills in the southern hemisphere increase global production and new demand out of Asia throws old analysis models out the window. Increasingly it seems that, in order to survive, pulp and paper mills across North America need to adapt to changing market conditions. Traditional issues of fibre supply, product mix, and dedicated customers combine with emerging factors such as the benefits of converting to specialty products, more efficient co-generation, and new technologies in biomass fuel to give pulp and paper producers a lot to think about.

A final death knell was sounded this week with Richmond, BC, Catalyst Paper's announcement of permanent closures of the company's Elk Falls, BC, paper mill and its paper recycling operation in Coquitlam, BC.

"The steep decline in commodity paper markets, coupled with uncompetitive labour and tax costs were contributing factors that could not be overcome," said Catalyst President and CEO Kevin Clarke in a company statement.

Catalyst Vice-President of Corporate Relations, Lyn Brown spoke to *Madison's* Wednesday but was not available for a statement later in the week because the company is currently working on "announcing 2Q earnings later this month so is under limited disclosure," Brown explained.

After a long and public battle, Catalyst announced July 1 that it would pay its full municipal property tax bill, or \$13 million, to three of the four BC municipalities where it operates paper mills, and partially pay the tax on the remaining facility.

Dave Coles, President of the Communications, Energy and Paperworkers Union of Canada, explained to *Madison's* in a phone interview that Catalyst's Elk Falls mill is "a case study in how to do it the wrong way."

"Current management didn't create today's problems, but they have run the company poorly. In terms of Elk Falls, its not a bad mill, but operational decisions have lacked foresight and capital investment. There are big disadvantages in running a pulp mill on the west coast, beyond the lack of fibre supply," said Coles. "Details like labour costs and municipal taxes are just elements of the bigger problem."

The real problem is of disconnection. The forest industry is a multiple industry that can not be separated into units determined by the product made. On the west coast, BC Forest Products joined Fletcher Challenge, then became part of Crown Zellerbach. Operations were broken apart so were no longer vertically integrated, which is not how the market works. Forest companies need integration to cushion against market cycles, to keep costs down, and to keep up the supply of fibre. When sawmills started disappearing on the coast, pulp mills started having trouble getting chips," Coles concluded.

The Canadian government continues with its careful plan to distribute funds to Canadian pulp and paper operators as a response to the recent US 'black liquor' tax rebate. On Wednesday, Natural Resources Canada announced, through its Pulp and Paper Green Transformation

Program, \$15.6 million in capital investments to improve the environmental performance of Canfor's Prince George, BC, Pulp and Paper Mill, and \$40.57 million for Daishowa-Marubeni's Peace River, AB, Pulp Division. These are just two of 24 pulp and paper companies across Canada that qualified for credits under the \$1 billion program, based on their 2009 production levels of black liquor.

In BC, part of the funding will go toward the installation of two new pipelines between Canfor Pulp's Prince George and Intercontinental mills. In Alberta, the project will provide for the production of an additional 126,000 megawatt-hours/year of electricity generated from renewable sources that will be sold to the Alberta power grid — enough energy to power 10,588 homes annually, and an anticipated 630 per cent increase over current export levels.

Analyst opinions differ on forecasts for pulp, and lower grade paper, prices for the next year, but almost everyone is expecting a rebound in all paper grades into 2013, and another upward cycle in pulp prices.

While European and US market pulp list prices remain flat according FOEX.fi, spot prices appear to be softening. Mark Wilde at Deutsche Bank Equity Research reported Tuesday that, for the first time in the last 15 months, US spot NBSK prices fell US\$35-40/metric ton from June, or approximately 12 per cent, across key pulp grades, to US\$870-920/metric ton. In a more detailed release July 7, Wilde explained that while reports of spot discounting have been appearing for the past two months, the situation in Asia appears to be deteriorating. Deutsche Bank learned that the world's second-largest pulp producer, Chile's Arauco, has reduced July prices by US\$50/metric ton for all pulp grades in Asia. In Europe however, brokers report the NBSK market remains tight. Sources suggest that Chinese paper markets have weakened markedly during 2Q 2010, with soft volumes and prices off as much as US\$200/metric ton, continues Wilde's letter. This is consistent with other reports suggesting that Asian producers may be becoming more active in trying to identify export opportunities, causing demand to weaken, Wilde concludes.

Whether bullish or bearish, with a short or long term view, industry insiders and observers alike agree that adjustments to operations are necessary. Specialty, recycled, and dissolving pulp seem to be the best options for North American operators. Capital investments for efficiency and increased energy generation also seem to be the way of the future.

