

MADISON'S LUMBER REPORTER

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News & Updates

Canadian Rail Problems

The studs comment, on page 3 of last week's *Reporter* said it all, "Prince George, BC, is gradually going to become a hub for transport through the expanded Port of Prince Rupert. Unfortunately, the CN yard in Prince George is only running one shift and that is slowing the development of business out of Prince Rupert."

This week Canadian forestry companies called for improvement of CN Rail and CP Rail freight rail services. They asked railways and shippers to cooperate on voluntarily implementing a minimum notification period for changes of rail service, to negotiate good-faith service agreements, and to make reporting of service performance more transparent.

This week's market comments on pages 1 and 3 of your *Reporter* give further details on freight transportation problems.

US Mortgages, Continued Trouble

As detailed in last week's issue of *Madison's Timber Preview*, some US banks and mortgage lenders have been processing foreclosure and eviction documents without proper documentation.

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Nova Scotia Biomass Funding

The Nova Scotia Utility and Review Board has approved a \$208 million biomass project proposed by that province's power utility and the owners of a Port Hawkesbury paper mill.

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More Funds from Green Transformation Program

Nanaimo, BC's, Harmac pulp mill received \$4.31 million on Wednesday, part of a \$1 billion federal aid package for the nation's struggling pulp and paper industry.

Tolko Industries Ltd. has received \$2.26 million from the federal government for its kraft paper mill in The Pas, MB.

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USDA referendum

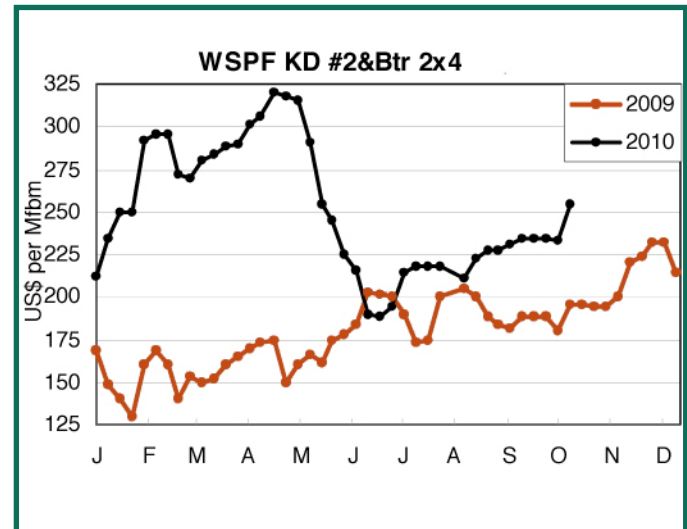
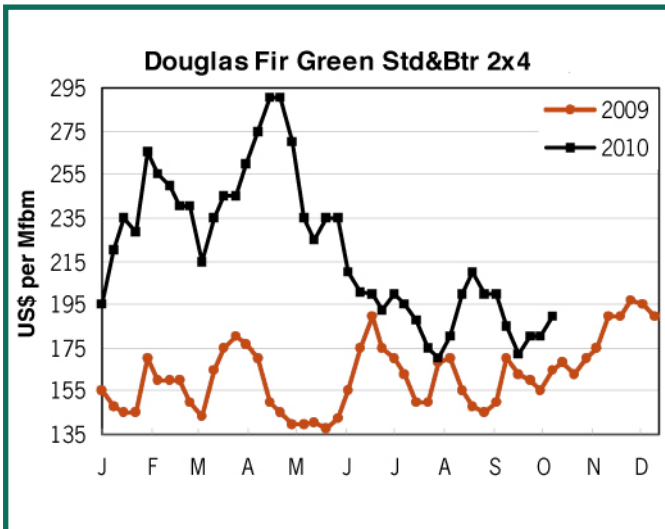
A USDA referendum for a Softwood Lumber Research, Promotion, Consumer Education and Industry Information Order, to assess a \$0.35 per thousand board feet "User Fee" against imports of softwood lumber, as well as domestic sales within the US, was proposed this week, *Madison's* has learned from Jones & Jones Customs Brokers and Trade Consultants.

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2010 Canadian Bioenergy Association Conference

Vanilla and smokey wood flavouring, ethanol, adhesives, textiles, coatings, animal feed, soft acids, chemicals, and gasoline are but a few products made from wood through exciting new developments in biomass technology. At the Canadian Bioenergy Conference, dubbed CanBio, September 30 to October 1 in Vancouver, speakers from around the world gave presentations on the latest breakthroughs in uses for cellulose and lignin.

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Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	254	233	+21	235	+19	196	+58
WSPF KD R/L 2x6	255	247	+8	249	+6	202	+53
WSPF KD R/L 2x8	280	276	+4	280	0	228	+52
WSPF KD R/L 2x10	325	315	+10	316	+9	325	0
WSPF KD PET 2x4 Stud	225	200	+25	210	+15	200	+25
Douglas Fir Green R/L 2x4	190	180	+10	185	+5	165	+25
Douglas Fir Green R/L 2x10	240	260	-20	260	-20	238	+2
ESPF KD 2x4 8ft Stud	285	280	+5	275	+10	270	+15
OSB Ontario 7/16" (CDN\$)	210	210	0	210	0	185	+25

Weekly News

Home Foreclosures, US

CONTINUED US President Barack Obama this week endorsed a coordinated investigation by attorneys general from all 50 states into whether lenders used false documents to justify foreclosures. Mounting a response on the federal level is complicated by the fact that responsibility for overseeing housing finance and foreclosure law is fragmented among US, state and local agencies, with no single regulator shaping policy.

Bank of America is reviewing 102,000 foreclosure affidavits in 23 US states and expects to halt 30,000 foreclosure sales during its self-imposed moratorium, a company spokesperson said on Friday.

US mortgage rates reached new record lows in the latest week, according to a Freddie Mac survey released on Thursday, as data showing economic weakness fueled demand for safe-haven government debt.

Interest rates on US 30 year fixed-rate mortgages, the most widely used loan, averaged 4.19 per cent for the week ended October 14, down from the previous week's 4.27 per cent.

The Mortgage Bankers Association said on Wednesday mortgage applications for home refinancing loans rose for the first time in six weeks, with demand jumping to its highest level since late August.

An increase in refinancing may provide a jolt to the economy as it could portend an increase in consumer spending.

Funds, Biomass

CONTINUED The board says Newpage Port Hawkesbury and Nova Scotia Power can proceed with plans to burn waste wood for energy using a massive steam boiler at the Newpage mill, but it has applied several conditions.

The board says the utility won't be allowed to pass on any contract price in-

crease to ratepayers, and that should the project fail, any associated costs can't be passed on to consumers.

The utility has argued that the biomass plant would help the provincial government meet its goal to have 25 per cent of its energy supply come from renewable sources by 2015.

User Fees, USDA

CONTINUED The stated purpose of the Order is to support and promote the use of softwood lumber in the US. Softwood lumber articles are the same as those captured by the 2006 Softwood Lumber Agreement, as well as those captured by the US Softwood Lumber Act of 2008, explained Michael Jones, President of Jones & Jones Customs Brokers, to *Madison's* in an email.

There are provisions allowing for the \$0.35 mfbm assessment to be increased to \$0.50 mfbm

Interested parties have until November 30 to submit their comments regarding the referendum. If the referendum passes, US Customs will be charged with the collection of this user fee on imports. US producers will make their submissions to the Blue Ribbon Commission Board, said Jones.

See the USDA press release here.

Pulp and Paper Mill Upgrades

CONTINUED Planned upgrades will allow the Harmac mill to better control the amount of energy that is consumed, process more wood fuel and help displace the use of fossil fuels.

Energy savings will help Harmac reduce its reliance on natural gas by approximately 108,000 gigajoules annually.

The funding to Tolko's mill will be used to improve energy efficiency and to

increase renewable energy production. Alterations will be made to the power and recovery boilers to promote better fuel combustion.

The new equipment will increase the production of thermal energy from wood waste, and black liquor, by close to 114,000 gigajoules a year. This increase will reduce the Tolko mill's need to use fossil fuels to compensate for renewable energy shortfalls.

Norampac Trenton, in Ontario, a division of Cascades Canada Inc, is receiving \$83,000, also from that federal program. That investment will be used to improve the energy efficiency of the mill's existing paper machine by upgrading its capacity to capture and redirect energy for other uses within the mill.

Norampac has made improvements that have increased the efficiency of the mill's heat exchangers. The recovery of this additional energy will reduce the mill's energy requirements and its use of natural gas by more than 20,000 gigajoules per year.

WFP Another CEO Change

Stephen Frasher has resigned as President and CEO of Western Forest Products.

The WFP board of directors has re-appointed Dominic Gammiero as CEO, in addition to his current role as Chair.

Lee Doney, currently Vice Chair, will play a more active role and will focus on strategic initiatives.

"Our goal now is to position the company to grow as the US housing markets are poised for recovery over the medium term. Lee Doney's experience in the sector will be of great assistance in pursuing growth opportunities," said Dominic Gammiero.

Biomass Fuel

Fast Growing Developments

Jerry Gargulak, of Borregaard Industries in Norway, kicked off the Thursday afternoon session with a fact-jammed presentation titled *'Bio-Refining for Pulp Mills'*. Introducing himself as a chemist and lignin technologist, Gargulak explained that his job revolves around finding value in wood residue. The main components of wood that can be used for these various applications are; lignin, including lignosulfate (modified) and oxylignin; cellulose, specifically cellulose octanacate; and hemi-cellulose and sugars, which can be used to make yeast, bioethanol and animal feed.

by Kéta Kosman

"Once you start manufacturing material from lignin you can't change your feedstock, or you will see a change in product quality," explained Gargulak. "Rather than sell your product as a commodity, try to sell it as a service."

Paper production ceased in Norway 30 years ago, pulp production 20 to 25 years ago, Gargulak said by way of explaining the move from a commodity-based mentality to that of service.

"In the EU, the biofuel incentive program drove up the cost of feedstock. In the past biofuel or biochemical producers were dependent on the sulphite process, thus were dependent on feedstock from the pulp mills. Now the focus is on hydrolysis of cellulose," detailed Gargulak. "The current strategy is to produce chemicals, not biofuels. But a second-generation biofuel partnership might be a good fit."

Second-generation bioproducts was a term Madison's heard frequently from the presenters.

Randal Goodfellow of Ensyn, spoke next on *'Pyrolysis Oil – Basis for Bio-Refineries'*. Working with a proprietary process called fast pyrolysis, Ensyn converts solid biomass into a liquid in one second, with the result a highly pure, high level of conversion. This result can be used to make a wide range of chemicals or energy products.

"Our production method involves flash heating of biomass in the absence of oxygen. Sand is introduced to the operation as a medium to carry heat through the system," said Goodfellow. "There is a gas by-product, some of which is returned to the system to move the sand around, the rest goes to a dryer which gets the moisture content of the biomass feedstock down."

The energy products are already cost competitive per BTU with traditional gas heating, explained Goodfellow. The next stage of research and development for En-

syn will be of moving into pharmaceuticals and nutraceuticals.

Herve Chauvin, CEO of Thermya out of France, spoke next on pellets. Not just any kind of pellets, but *'Torrefied Wood in Production'*.

"At Thermya we make a high-performance solid fuel out of biomass. We recycle wood waste into carbon fibre," began Chauvin. "Our product is very dense, with up to 95 per cent energy content and less than 1 per cent moisture content, which makes it more compact and easier to burn [than standard pellets]."

In terms of energy, Thermya found the best results come with biofuel and biocoal cofiring.

"Our torrefication process uses 240 degrees Celsius soft thermal heat to break the wood fibre. The lignin is not changed, there is still cellulose. We then make pellets at 160 to 180 degrees Celsius. Greater heat is not needed," explained Chauvin to the many questions from the floor. "There is a neutral gas byproduct. It is best to use torrefied wood to make second-generation pellets, as the process uses less energy than first-generation pellets."

Thermya's operations produce five metric tonnes of pellets per hour.

Just in case there remained skeptics in the room, Ken Shields of Conifex spoke Friday morning about *'Partnerships in the Forestry Sector'*.

"Conifex has 1.75 million cubic meters of replaceable fibre at our Fort St. James mill site. This is mainly spruce and pine, not fir. We will be able to maintain capacity even after the ravages of the mountain pine beetle kill is over," outlined Shields. "The British Columbia Ministry of Forests has designated MacKenzie and Fort St. James as biomass areas."

Shields maintained that, in order to embark on a proper working relationship, partners need an assured and low cost fibre supply.

"Also, BC is not currently fully utilizing biomass. It makes good business sense to

make better use of the forests," Shields said. "In terms of logistics, roads and handling areas are already in place. The infrastructure is already in place for a biomass plant in MacKenzie."

Conifex has determined that a 34 MW plant with potential for upgrades is ideal given the fibre supply situation in BC. The MacKenzie plant is now 13.8 MW.

"We see green field opportunities of about \$120 million or more," Shields summed up.

At the end of his presentation Shields rattled off recent changes and developments in BC, quickly mentioning that Conifex has "replaced about half the slippage of US lumber demand with customers in China," which was a juicy tidbit of information indeed.

In answer to another mad flurry of questions from the floor, Shields detailed, "With \$10 to \$15 million in cash flow and 320 kilotonnes of production annually, \$30 to \$50 per metric tonne for fibre is a price that makes sense."

Jack MacDonald of FPInnovations kicked off the final afternoon session with his presentation *'Roadside Harvest Residues for Feedstock'*. MacDonald's research has focussed primarily on discovering how much biomass is available in the forest, and how much it costs to transport this biomass.

"Most roadside residue is underutilized," explained MacDonald. "Biomass salvage is a continuation of the traditional logging process, the logger simply changes how they handle the residue so that residue can be utilized. There are no changes to the amount of biomass removed from the harvest site, it's only a matter of recovering the residues instead of burning them as waste."

MacDonald's work discovered that transport of residue up to 80 or possibly 100 km was the farthest range for the process to be economical.

Productivity and Cost

SOURCE: FP Innovations

	Productivity (ODt/h)			Cost (\$/ODt)
	Low	Average	High	
Large grinders (> 600 kW)	-	20-30	-	
Medium grinders (450 – 600 kW)	10-15	20-25	35-55 (DDC, in landing)	20 – 27
Medium chippers (450 – 600 kW)	-	30	35	22 – 30
Small chipper (< 450 kW)	-	10-15	-	23 - 35