

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview : Timberland Value 2011

This week's issue of *Madison's Timber Preview* examines projected timberland values for 2011, analyst comparisons of TIMOs vs REITs, as well as the latest news out of Sino-Forest and TimberWest.

Contact us any time for a subscription.

US Home Building

US housing starts unexpectedly rose in September, reaching its highest level since government home-buying incentives ended in April, but permits for future home construction fell on a sharp decline in approvals in the volatile multi-family segment, the US Commerce Department said Tuesday.

Housing starts rose 0.3 per cent to a seasonally adjusted annual rate of 610,000 units, while building permits, an indicator of future construction, fell 5.6 per cent to a seasonally adjusted annual rate of 539,000.

Compared with the same month in 2009, housing starts increased by 4.1 per cent in September and permits fell by 11 per cent.

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Pulp and Paper Products Council September Release

According to data released Thursday by the Pulp and Paper Products Council, September global pulp shipments showed higher than expected shipment levels. Global market pulp shipments increased 14.4 per cent over August, and 2.9 per cent compared to September 2009, to 3.6 million metric tonnes. Most of the increase is attributable to higher than expected consumption in China, up 70.4 per cent from August and 7.4 per cent compared to one year ago, to 685,000.

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US Mortgages, Update

New York courts are the first in the United States to require lawyers handling foreclosures for banks and servicers to take steps to ensure the procedure is done properly, the state's top judge said Wednesday.

According to Jonathan Lippman, the chief judge of the New York State Court of Appeals, the courts were appalled to find that big banks were lax in handling mortgage documents and several lenders and servicers had hired staff who did not properly review files or submitted false statements to evict delinquent borrowers.

Effective immediately, lawyers representing the plaintiffs in residential foreclosure actions must file signed affirmations that they took "reasonable" steps to verify the accuracy of the underlying documents.

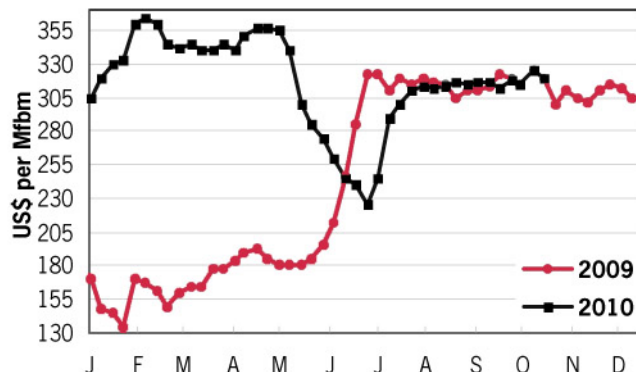
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CORE Biofuels' Proposed Facility in Houston, BC

Progress continues at a break-neck speed in new developments and partnerships for making fuel from wood cellulose. A technology company out of Sarnia, ON, is working on building a commercial demonstration facility to make 92 octane, tank-ready gasoline from forest and wood residues.

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WSPF KD #2&Btr 2x10



U. S. HOUSING STARTS

	Sep-10	Aug-10		Sep-10	Aug-10
Starts			Permits		
Actual	54,000	555,000	Actual	46,700	53,200
SAAR*	610,000	608,000	SAAR*	539,000	571,000
1 Unit	452,000	433,000	1 Unit	405,000	403,000
2-4 Units	(s)	(s)	2-4 Units	23,000	18,000
5+ Units	150,000	161,000	5+ Units	111,000	150,000
Starts by Region			Permits by Region		
Northeast	72,000	70,000	Northeast	67,000	68,000
Midwest	101,000	110,000	Midwest	88,000	92,000
South	305,000	291,000	South	266,000	279,000
West	132,000	137,000	West	118,000	132,000

*Seasonally adjusted annual rate

Source: U.S. Census Bureau

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	254	254	0	235	+19	196	+58
WSPF KD R/L 2x6	255	255	0	248	+7	202	+53
WSPF KD R/L 2x8	280	280	0	275	+5	225	+55
WSPF KD R/L 2x10	325	320	+5	312	+13	320	+5
WSPF KD PET 2x4 Stud	225	240	-15	210	+15	190	+35
Douglas Fir Green R/L 2x4	190	195	-5	172	+18	200	-10
Douglas Fir Green R/L 2x10	240	245	-5	260	-20	230	+10
ESPF KD 2x4 8ft Stud	285	280	+5	285	0	285	0
OSB Ontario 7/16" (CDN\$)	210	210	0	210	0	185	+25

Weekly News

Home Building, US

CONTINUED "The 0.3 per cent monthly increase in US housing starts is better than it looks as starts were revised up in each of the previous two months," said Paul Dales, an economist with Capital Economics.

The National Association of Home Builders on Monday said its housing market index rose three points to 16 in October, the first improvement in five months, but still a low mark of confidence. A reading above 50 indicates more builders view sales conditions positively than see them negatively. The index, based on data collected through monthly surveys, hasn't hit 50 in more than three years.

If the US housing market continues to crumble, taxpayers in that country could face a total bill of more than US\$400 billion to bail out mortgage brokers Fannie Mae and Freddie Mac by 2013, due to a rise in failed mortgages and a sluggish economy, a report Wednesday from regulator the Federal Housing Finance Agency revealed.

Those two government-sanctioned entities hold about US\$6.8 trillion in all mortgage obligations, or nearly 57 per cent of outstanding home loans in the US.

PPPC September Figures

CONTINUED PPPC reported that market pulp producers' global inventories dropped by 2 days, to 32 days, during September, greater than the normal 1-day drop seen during the month of September over the prior 10 years.

Despite the drop in days of supply, Credit Suisse economists estimate that total world inventories increased slightly to 3.74 million metric tonnes, from 3.71 million metric tonnes in August.

During September, market pulp shipments to paper mill customers in North

America and Europe combined rose by a strong 6 per cent month-over-month, says the PPPC. Shipments to Latin America and Japan picked up slightly, by 8 per cent and 4 per cent, respectively, while shipments to China and the rest of Asia increased a combined 39 per cent.

US Mortgage Issue

CONTINUED Bank of America share prices fell 3.4 per cent Tuesday, erasing an earlier gain of 0.9 per cent, after people familiar with the matter said PIMCO and the Federal Reserve Bank of New York are seeking to make the bank buy loans that were packaged into US\$47 billion of bonds.

US federal officials have said delays in foreclosures, as attorneys general in 50 states investigate allegations of falsified documents, won't lead to a moratorium on property seizures. About 26 per cent of the loans underlying the securities are at least 60 days late, in foreclosure proceedings or already backed by seized properties, according to data compiled by Bloomberg.

Interfor Reports

International Forest Products reported Thursday a 3Q 2010 net income of \$1.5 million. Included in the company's accounts for the quarter was a gain of \$4.8 million representing Interfor's share of the sale of two vessels by the Seaboard Partnership net of associated costs. Also included was a tax valuation allowance of \$1.6 million and \$0.7 million in other one-time costs.

Total sales for the quarter, including wholesale volumes, were 277 million board feet, an increase of 7 million board feet versus 2Q. On a volume basis, excluding wholesale programs, sales to North American markets accounted for 66 per cent of shipments in 3Q versus 78 per cent in 2Q, while Pacific Rim markets including Japan and China accounted for 32 per cent compared to 21 per cent in 2Q.

"Positive results from the start-up of our Castlegar sawmill and higher sales to China helped to offset the impact of lower prices in North America during the quarter", said Duncan Davies, Interfor's President and CEO.

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Harvest vs. Salvage BC Timber Supply and Biofuel Feedstock

Between the quantity of dead timber left behind in the wake of the mountain pine beetle infestation in British Columbia and the varied, seemingly endless opportunities for biomass fuel production, those in the forest industry should be enthusiastic about entering into partnerships with biofuel producers. And many are. But others are reluctant or outright opposed to the idea due to a fear of what they imagine is a potential impact on sawlog timber supply.

Huge masses of unusable timber and harvest residue are left behind on the forest floor every year. Some large lumber companies are continuing to burn slash either in the bush or in beehive burners. Given these conditions, the suggestion that a thriving biomass fuel industry in BC could threaten timber supply is utter nonsense. At the recent CanBio conference in Vancouver (refer to the October 15 issue of your *Madison's Reporter* for details), Gordon Murray, Executive Director of the Wood Pellet Association of Canada, charged that "Canfor and West Fraser are responsible for 100,000 cubic metres of slash burning". That volume of waste alone is enough to run two large pellet plants.

Biofuel producers don't want sawlogs; the cost would be prohibitive to their business model. Forest companies can and should be working in cooperation with biofuel companies to best utilize their cut block, and to speed up the silviculture renewal process.

Also at the CanBio conference, Jack MacDonald of FPInnovations explained how timber harvesters can make a few simple alterations to their practice in order to leave slash and other residue in manageable piles for removal by biofuel companies. Of forest feedstock, MacDonald pointed out that harvest residues include: roadside, in-block, MPB-killed stands, burned stands, non-merchantable stands, thinnings, FireSmart treatments, and stumps. None of these waste materials are useful at the sawmill.

CORE BioFuel Inc, out of Sarnia, ON, has embarked on several partnerships for their proposed biomass-into-gasoline plant at Houston, BC, for: fibre licenses, engineering, and fuel off-take. As the first commercial demonstration plant for this exciting new technology, the Houston plant would use 220,000 metric tonnes of waste wood annually at a 30 per cent mois-

ture content to produce 67.7 million litres of 92-octane gas, 24.8 million litres of clean water, and 141 kilo-tonnes of neutral carbon dioxide. Because wood is the raw material, gasoline produced will be carbon neutral. In addition, the process generates large quantities of heat so the plant will cogen enough electricity to be self sufficient, and for community heat or community greenhouses. The plant will employ a projected 40 plant employees and generate 150 harvesting jobs out of the Houston site. CORE hopes to build more production plants, projected to be three times the size, if there is enough fibre available in those areas.

CORE President and CEO, George Stanko explained to *Madison's* in a phone interview, "We chose BC due to an abundance of wood; both from beetle-kill and due to provincial government timber salvage policies. There is security for wood fibre feedstock for CORE in BC."

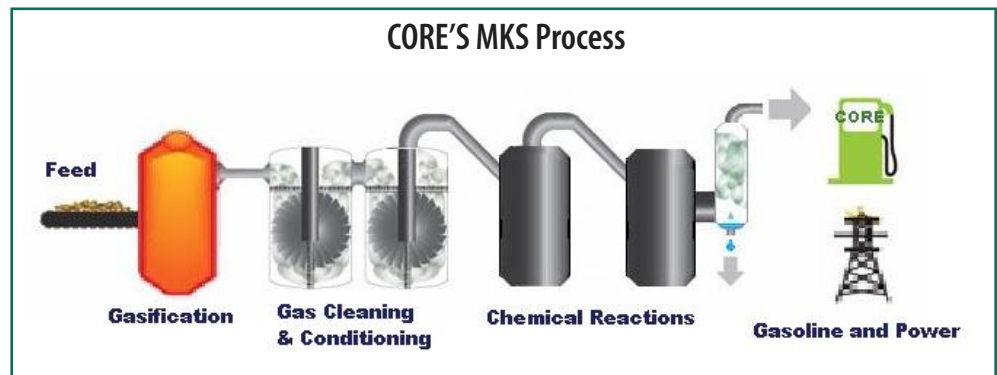
One important partnership CORE has nurtured is with Lakes Timber Health and Salvage, which has a biomass non-replacable forest license for 50,000 cubic metres annually for the next ten years, will be supplying the Houston plant.

per cent sawlog are not economically viable for the sawmill, which leaves a large quantity of biomass throughout the forest. If the stand has a larger sawlog volume, there is still at least a 25 per cent share of biomass."

"Right now in the bush some lumber companies are using slash pile burning and beehive burners to eliminate forest residue, which we could remove for them if they were interested in developing a relationship," continued Stanko. "We can also use the bark, charred forest fire wood, and the poplar or maple species that lumber companies don't want."

"One sawmill left behind enough biomass in whole log form, which is being burned this autumn, from their summer harvest this year to run the CORE plant for two years," added Schneider.

When asked for details about CORE its from concept through implementation, Stanko said, "A group of five of us with a lot of experience in the energy field evolved the concept over time. Right now we are putting the financing together. Once the engineering starts



Bob Schneider of LTHS told *Madison's* in a phone interview, "LTHS will secure fibre from the community forest licenses, wood lots, local First Nations, and other opportunities, to spread out our feedstock supply beyond a few fibre sources. As we move forward there will be more agreements, because we can use residual material from pellet plants, fibreboard producers, etc. In fact we can both supply fibre and take feedstock from those facilities."

Stanko went on, "CORE uses a thermochemical process to produce gasoline. We are a technology company; we are not lumber people and are not experienced in bringing fibre from the bush to the plant. BC's Minister of Forests and Range, and Integrated Land Management, Pat Bell, has provided a letter which in part assures that enough fibre will be available to run our plant. LTHS will continue to broker arrangements for feedstock with the community forest, First Nations, etc."

Schneider detailed further, "The timber stands in our area that are less than 50

we anticipate a two year timeline to plant startup. We are looking at several government programs, both provincial and federal, for support as well as seeking a strategic investment partner."

One agency which "helped CORE get commercialized and provided a vote of confidence", according to Stanko, is the Sustainable Chemistry Alliance headquartered at the new Bioindustrial Innovation Centre at the University of Western Ontario. With a board of 12 chemists, the Alliance's focus is to play an important role in the development of solutions to the impacts of climate change, peak oil, energy security, the need for safe water, and the use of scarce natural resources. Through its work the Alliance hopes to offer the opportunity to create thousands of new jobs for Canadians.

"We intend to offer a solution for a lot of the current energy problems," concluded Stanko. "For example, ours is one of the few gases that meets California's new guidelines."