MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* closely examines the latest round of mergers and acquisitions in the North American lumber and paper sectors.

International Paper and Temple-Inland, KapStone Paper & Packaging and US Corrugated, Boise and Hexacomb, and IP together with India's Andhra Pradesh Paper Mills, are all closing acquisition deals before the end of this year.

Contact us any time for a subscription.

2006 Softwood Lumber Agreement Extension

A two-year extension of the Canada-US Softwood Lumber Agreement is under review.

The agreement is currently scheduled to expire October 12, 2013. The SLA is designed to constrain softwood lumber exports from Canada to the US when demand in the US is low and to allow unrestricted trade in favourable market conditions. As part of this agreement the US agreed to cease the collection of antidumping and countervailing duties on softwood lumber from Canada and to refund US$5 billion in deposits of duties. In exchange, Canada agreed to apply export charges and volume limitations to shipments of softwood lumber to the US when the price of softwood products falls below a certain level.

US Housing Starts

Taking a huge step in defying analysts' overly gloomy expectations, housing starts surged 15 per cent in September to the highest level in 17 months, according to government data released Wednesday, as increased demand for rental stock as well as rebuilding after Hurricane Irene contributed to the upturn.

The Commerce Department said starts rose to a seasonally adjusted annual rate of 658,000, which is 10.2 per cent above the September 2010 reading and the best level since April 2010 — the month the homebuyer tax credit expired. The median forecast for housing starts in a *Bloomberg* survey called for a 590,000 pace. READ MORE

Japan Forestry Projections

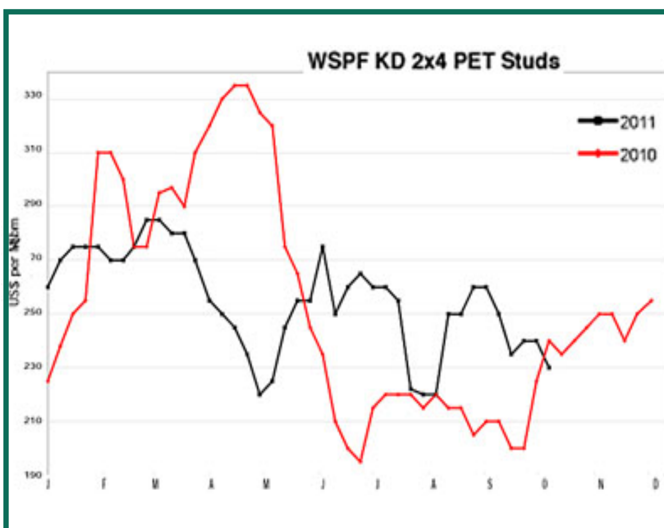
The Forestry Agency in Japan has released 4Q 2011 and 1Q 2012 wood demand projections.

Housing starts in Japan are projected to be between 800,000 and 850,000 units in total for 2011, according to the *Japan Lumber Reports*.

Domestic log demand for lumber and plywood production is expected to be 3.6 thousand cubic metres, which is the same level as 4Q last year. READ MORE

Sustainable Pulp Wood Harvest: Indonesia

The public image of Indonesia's Asia Pulp and Paper needs much improvement as the company's products are now actively dropped from Mattel's packaging material, and Kmart is taking a serious look at the tropical hardwood content in its APP-sourced envelopes and office paper supplies. READ MORE



U.S. HOUSING STARTS

	Sep-11	Aug-11		Sep-11	Aug-11
Starts			**Permits**		
Actual	60,100	53,100	Actual	52,200	60,900
SAAR*	658,000	572,000	SAAR*	594,000	625,000
1 Unit	425,000	418,000	1 Unit	417,000	418,000
2-4 Units	(s)	(s)	2-4 Units	19,000	25,000
5+ Units	227,000	148,000	5+ Units	158,000	182,000
Starts by Region			**Permits by Region**		
Northeast	62,000	55,000	Northeast	64,000	61,000
Midwest	94,000	86,000	Midwest	108,000	107,000
South	339,000	293,000	South	291,000	313,000
West	163,000	138,000	West	131,000	144,000

easonally adjusted annual rate

Source: U.S. Census Bureau

Shipments and Inventory: Printing and Writing Paper, Containerboard

US printing and writing paper shipments decreased 8 per cent in September 2011 compared to September 2010, the American Forest & Paper Association said in a press release October 19. All four major printing-writing grades posted decreases compared to last September. US purchases (shipments + imports – exports) of printing-writing papers decreased 7 per cent in September. Total printing-writing paper inventory levels decreased 2 per cent compared to August 2011.

On October 18 the American Forest & Paper Association released its July 2011 United States paper statistics reports. Containerboard production rose 4.6 per cent when compared to June 2011, and the month over month average daily production was up 1.2 per cent. US containerboard operating rate for July 2011 was down slightly, 0.6 points over July 2010 to 98.1 per cent but it gained 1.2 points over June's operating rate.

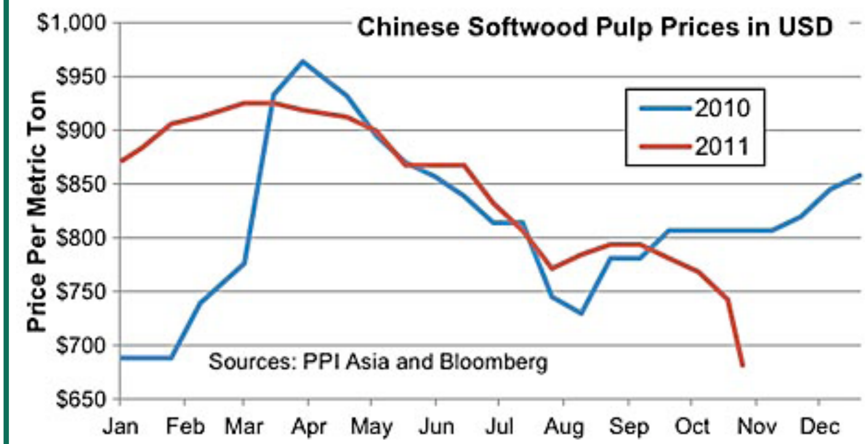
Total boxboard production decreased by 1.3 per cent compared to July 2010, but increased 1.5 per cent from last month.

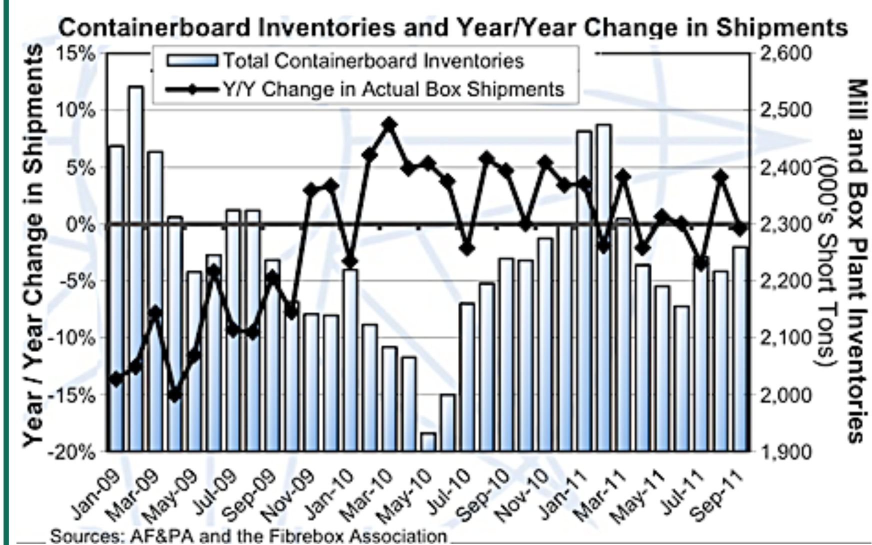
Total United States industry consumption of recovered paper in July was 2.56 million tons, 7 per cent lower than June of last year, and essentially the same as June 2011. The flat consumption coupled with a decrease in recovered paper receipts in July contributed to an industry-wide inventory reduction of over 6 per cent. Continuing the trend of reduced consumption, the United States has now consumed 4 per cent less recovered paper over the last 7 months than during the same period last year.

The United States exported 4 per cent less recovered paper in June than in May. Despite a second straight month with a 4 per cent drop, exports in 2011 continue to be higher than last year. Year-to-date exports of recovered paper are up 14 per cent by volume and 18 per cent by dollar value.

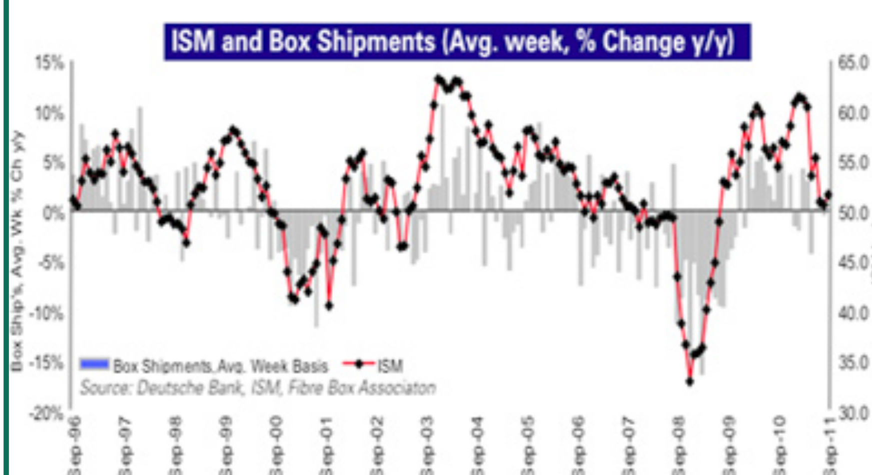
US kraft paper shipments in September 2011 were 124.6 thousand tons, an decrease of 13.4 per cent compared to September 2010. Total inventory was 80.9 thousand tons, the American Forest & Paper Association said in a press release October 17.

SOURCE: Vertical Research Partners





SOURCE: Deutsche Bank



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	**232**	242	-10	260	-28	254	-22
WSPF KD R/L 2x6	**248**	256	-8	270	-22	255	-7
WSPF KD R/L 2x8	**260**	266	-6	280	-20	280	-20
WSPF KD R/L 2x10	**260**	266	-6	285	-25	325	-65
WSPF KD PET 2x4 Stud	**230**	240	-10	250	-20	225	+5
Douglas Fir Green R/L 2x4	**230**	238	-8	245	-15	190	+40
Douglas Fir Green R/L 2x10	**290**	280	+10	288	+2	240	+50
ESPF KD 2x4 8ft Stud	**280**	305	-25	320	-40	285	-5
OSB Ontario 7/16" (CDN$)	**195**	195	0	210	-15	210	-15

Weekly News

US Home Building Rates, Sentiment Index

CONTINUED The rise was led by a 53 per cent surge in starts of buildings with five or more units to 227,000, the best reading in three years, as demand for rental units is booming.

Starts of single-family homes, the largest part of the sector, rose just 1.7 per cent.

Building permits fell 5 per cent in September from the prior month to a rate of 594,000.

The figures on housing starts were led by activity in the West, where starts gained 18.1 per cent to hit a three-year high. In the South, the largest market for new homes, starts rose 15.7 per cent to register the best reading since April 2010.

Meanwhile, home-builder confidence in October rose by the largest amount since the home-buyer tax credit program ended, though the gauge remains mired at historically weak levels, according to an index released also Tuesday.

The National Association of Home Builders/Wells Fargo housing market index rose by four points to 18, the biggest one-month gain since April 2010 and the best level since May 2010. The index, which measures builder confidence in the market for new-built single-family homes and is closely correlated with single-family housing starts data, came in stronger than the 14 reading seen by a *MarketWatch*-compiled economist poll.

Forestry, Japan

CONTINUED Imported log demand, meanwhile, is expected to rise 11.3 per cent compared to 4Q 2010, to 1.1 thousand cubic metres. The main supplier of import logs will be North America, as the US dollar is the most competitive currentcy against the Yen. Demand is projected to drop in 1Q 2012 as the usual seasonal factors come into play.

The appetite in Japan for softwood logs for plywood will result in a continued decrease is the import of south sea logs.

Japan's Forestry Agency also said that demand for lumber from North America should remain firm due to active housing starts, and are expected to increase slightly in 4Q 2011 and 1Q 2012, says the *Japan Lumber Reports*.

Japan's plywood demand should remain active in 4Q as restoration from the March earthquake and tsunami continues, staying unchanged in 1Q 2012.

Plywood mills damaged by the earthquake have restarted so log demand is expected to increase in 4Q then slow somewhat in 1Q 2012 as mill restock their yards.

Some decrease in structural laminated lumber is expected in 4Q due to seasonal conditions.

Demand for Russian logs in 4Q will keep dwindling as the prices are not competitive with other materials. However finished lumber supplies from Russia in 1Q 2012 should be more than in 4Q.

Radiata pine lumber demand is expected to increase somewhat for year end as demand picks up, then stay stable in 1Q 2012, says the *Reports*.

More Green Transformation Funding Announced

The Government of Canada made another $41.9 million in funding announcements on October 13.

West Fraser Mills, of Quesnel, BC will receive $2 million for its Quesnel River Pulp mill Waste Water Heat Exchanger Upgrade Project to improve the mill's energy efficiency through the installation of four heat exchangers. The company's Slave Lake, AB, facility gets $5.1 million to reduce greenhouse gas emissions and improve the mill's energy efficiency.

Also in Quesnel, Cariboo Pulp & Paper, is receiving $5.5 million to make the facility's processes more green and lower its environmental footprint by reducing the amount of chemicals that are delivered to the mill.

Tolko Industries' mill in The Pas, MB, will get $2.5 million

In Windsor, QC, Domtar qualified for $5.5 million for two projects that together are expected to reduce the mill's water use and energy consumption while improving energy efficiency and increasing production of renewable electricity.

Fibrek, of Saint-Félicien, QC, receives $5.1 million to increase the mill's energy efficiency and environmental performance.

Trois-Rivières, QC's, Kruger Wayagamack will get $6.3 million for five projects to improve environmental performance through upgrades to mill processes.

Fortress Specialty Cellulose, of Thurso, QC, is receiving $9.9 million to generate more renewable thermal energy and reduce its greenhouse gas emissions.

Collectively, these 15 projects are expected to generate enough renewable energy to power nearly 5,600 homes. They are also expected to save enough energy to heat an additional 18,000 homes while reducing greenhouse gas emissions by 49,000 tonnes per year.

Pulp and Paper

Sustainability Issues

by Kéta Kosman

Indonesia-based Asia Pulp and Paper, among the largest pulp and paper producers in the world and an affiliate of the Sinar Mas group of companies, is a family-controlled operation of murky credibility. The growing importance of forest certification and sustainability to customers was only further proven October 5 by Mattel's announcement of cancellation of all packaging material orders from APP.

Mattel told pulpwood suppliers it wouldn't buy wood and paper from APP and other companies that destroy rainforests. Indeed, its new policy increases recycled paper and wood certified by the Forest Stewardship Council in packaging. In June, Mattel found itself to be the subject of a Greenpeace campaign because it sourced fibre for disposable packaging from APP.

In response, Mattel announced it would develop a sustainable procurement policy for all its wood-based product lines, going beyond packaging to toys, books and accessories.

Increasingly, consumer demands for certification and a focus on stewardship are driving industry decisions in sourcing raw material.

Environment groups are resorting to fibre analysis to cut through greenwash claims by manufacturers and retailers.

On September 27, the results of lab analysis commissioned from US lab Integrated Paper Services by environment group Markets for Change Laboratory, revealed that Kmart's Indonesian-made 'Office One' home brand envelopes contained 19 per cent mixed tropical hardwood fibre, sourced from rainforests.

A Kmart spokesperson was surprised at the IPS laboratory findings and said the company would "take the matter extremely seriously and begin an immediate investigation," according to the *Sydney Morning Herald*.

That same week, Indonesia's secretary-general of the Ministry of Forestry, Hadi Daryanto, explained at a Forest Tenure, Governance and Enterprise conference in Sydney, Australia, that deforestation in Indonesia was slowing as the government had decreed a two-year moratorium on logging in 89 million hectares of primary forest and peatland, prevented fires, and established a Timber Legality Assurance System as part of its effort to cut greenhouse gas emissions by 26 per cent by 2020.

Daryanto also said deforestation dropped from 2.83 million hectares a year between 1997-2000, to 1.08 million hectares a year between 2000-2006, remaining at those levels in 2010.

However Greenpeace Indonesia campaigner Bustar Maitar said the official data were inconsistent and inaccurate and Greenpeace's own analysis indicated deforestation was continuing at 2.1 million hectares a year.

Greenpeace members denounced the forestry event, saying that conference was a "sign of real desperation".

Speaking of greenwashing, somehow a study of the positive impact of plantation forestry on degraded peat land and greenhouse gas emissions, commissioned by APP and carried out at Bogor Agricultural University, was awarded an Indonesian Green Award on September 28.

Researchers involved claim the study effectively proves that the development of pulpwood plantations - or afforestation - on degraded peat land, or land that had been stripped of forest, can help the land sustainably recover contributing significantly to increased carbon absorption.

The study was carried out on an area of land of about 600,000 hectares in South Sumatra that was largely destroyed by fire in 1997-98, at which point forest cover in the area had been reduced by 80 per cent. The area was then developed into a pulpwood plantation by APP's pulpwood suppliers.

Using airborne and spatial radar technology, the research team was able to evaluate the impact of pulpwood plantation on the degraded land over four distinct periods: before the forest fires; after the forest fires; during the early plantation period; and during the recent plantation period, from 2009 onwards.

However, an Indonesian watchdog released a report October 7 slamming that study.

"The micro-delineation documents that provide the basis for the development of the plantations are not effective as they are fraught with data manipulation. Accordingly, they will also be ineffective for the purpose of saving intact natural forest within the said pulpwood plantations," says the Greenomics Indonesia report.

A policy development institute focussed on good natural resource governance in Indonesia, Greenomics Indonesia calls for government "to re-evaluate forest areas and peatlands granted for pulp and paper plantations to reduce the risk of damaging the international reputation of its forest products and undermining its commitment to greenhouse gas emissions reductions," according to the group's website.

Greenomics Indonesia singles out APP specifically, which claims to have set aside 72,000 hectares of forest areas as a conservation initiative. Yet Greenomics says this area is largely deep peat forest, which under Indonesian law cannot be converted. Therefore APP is claiming credit for avoiding an activity that would be illegal.

"If the Ministry of Forestry fails to reposition Indonesia as a pulp and paper producer by conducting a redelineation process for intact natural forest, including deep peatland areas, located with pulpwood plantation concessions, Indonesia will lose its last opportunity for redemption," states Greenomic. "In the end, historical evidence will show that the present Ministry of Forestry's tenure produced no meaningful change, meaning it continues to be business as usual."

APP's public image has faced a constant uphill battle since 2001, when it defaulted on almost US$13 billion in debt repayments. In 2007, the FSC dissociated itself from working with the company.

Since early 2010, Paper Excellence, another subsidiary of Sinar Mas, has bought four pulp and paper mills in Canada and three in Europe. Two of the Canadian mills are in British Columbia.