

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines the latest freight statistics out of the US and Canada, infrastructure and railcar investments by railways, and railcar manufacturers' latest news.

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Canada's Rail Freight Service Review

In a move sure to bring relief to Canadian operators in remote areas who are at the mercy of Montreal, QC's, Canadian National Railway's monopoly on freight service, federal Transport Minister Denis Lebel Monday announced former Alberta Conservative cabinet minister Jim Dinning's appointment to the Rail Freight Service Review, which started in 2008 to address issues with rail freight service. The goal of the six-month process is to bring together shippers, railways and other key players to develop a template for service agreements and a streamlined commercial dispute resolution process. To support the commercial measures, Canada's government also intends to table legislation to give shippers the right to service agreements with the railways and provide a process to establish such agreements when commercial negotiations fail.

Canadian forestry companies long frustrated by the fickle and unreliable service provided by the CN welcome such progresses, no matter how long in coming, with widely open arms.

Report on Earthquake and Tsunami Damage, Japan

Japan's Building Research Institute has released a report on the damage caused by the Great East Japan Earthquake after sending 25 staff to the affected region eight times, according to the *Japan Lumber Journal*.

The damage to wooden buildings caused by the tsunami is closely examined in the report, available here <http://www.kenken.go.jp/english/index.html>

Quarterly Results, Mill Curtailments

Canfor, AbitibiBowater (soon to be Resolute Forest Products), Interfor, Acadia Timber, and Norbord all announced quarterly results this week. Bowater Mersey, Swanson Group, Cheslatta Forest Products, Georgia Pacific, JD Irving, Weyerhaeuser, and the recently reopened Kitwanga Sawmill have announced downtime, while Minas Basin Pulp and Paper is cutting staff.

Canfor posted a net loss of \$9.6 million in 3Q 2011, compared to net income of \$26.2 million for 2Q and net income of \$37.2 million for 3Q 2010.

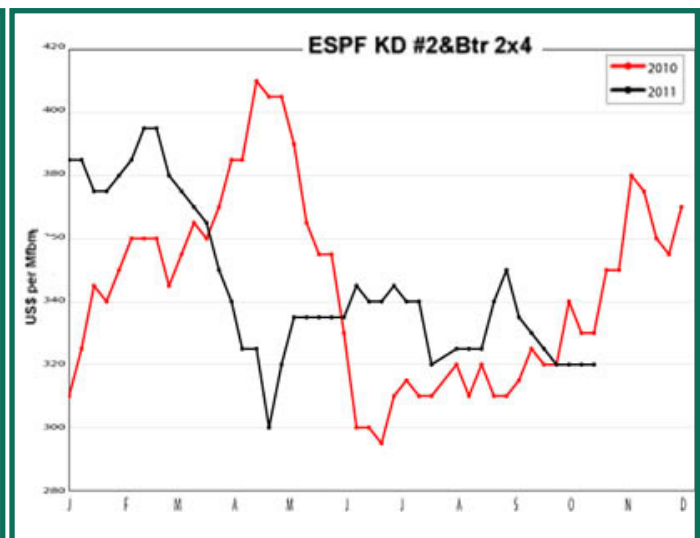
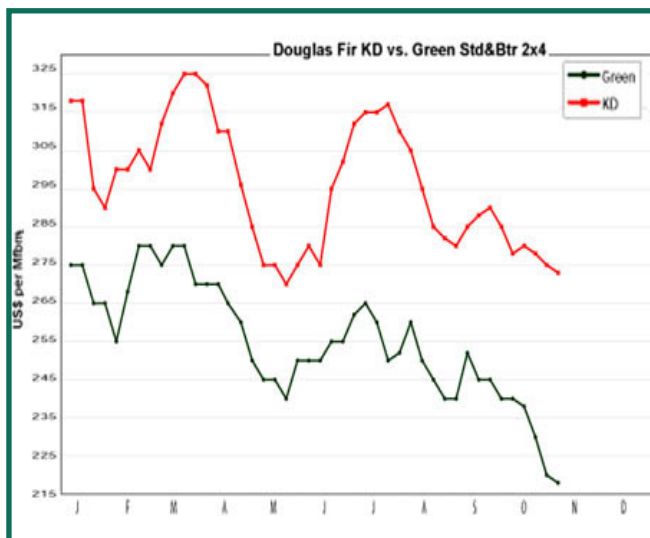
AbitibiBowater reported a net loss of \$44 million in 3Q 2011 on sales of \$1.2 billion. This compares with a net loss of \$829 million on sales of \$1.2 billion in 3Q 2010.

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Biomass Fuel Update

New biomass fuel research, projects, and developments announced this week in North America and Europe are examined.

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Canada Industrial Product Price Index

Canada's Industrial Product Price Index rose for a second straight month in September, increasing 0.4 per cent to its highest level since August 2008. Statistics Canada attributed the advance in industrial product prices largely to a 1.3 per cent increase in motor vehicle prices.

Petroleum and coal products were up 0.7 per cent, lumber and other wood products rose 1 per cent, and chemical products, up 0.5 per cent, also contributed to the increase, while three of 21 product groups declined.

The industrial index was up 5.3 per cent from a year earlier, while the raw materials index was up 15.2 per cent from September 2010.

Construction Materials Price Index, US

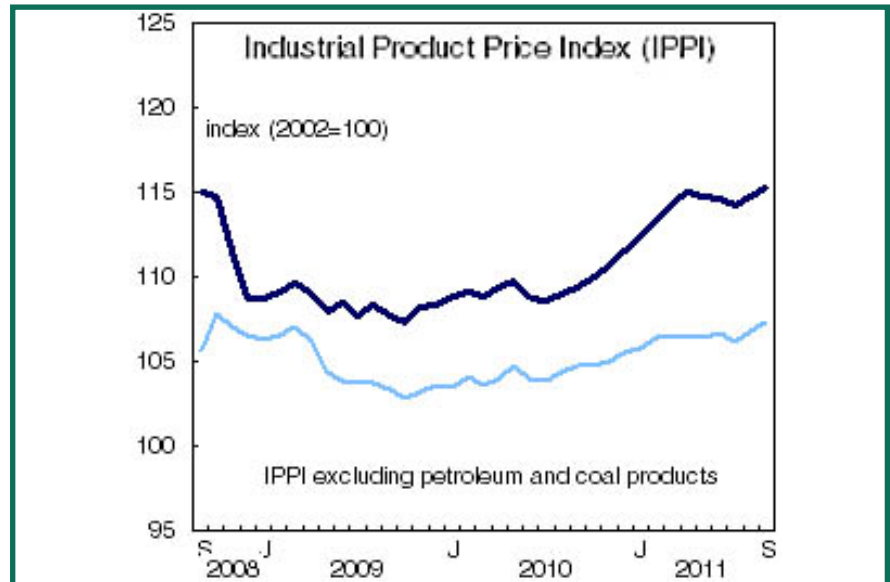
Construction materials prices were unchanged in September, according to the October 18 Producer Price Index report by the Department of Labor. Construction materials prices decreased 0.2 per cent for the quarter, but are 8.1 per cent higher than one year ago, although only 3.3 per cent higher than September 2008.

Prices for softwood lumber fell 1.2 per cent in September, but were up 1.4 per cent for the quarter and rose 3.7 per cent from the same time last year.

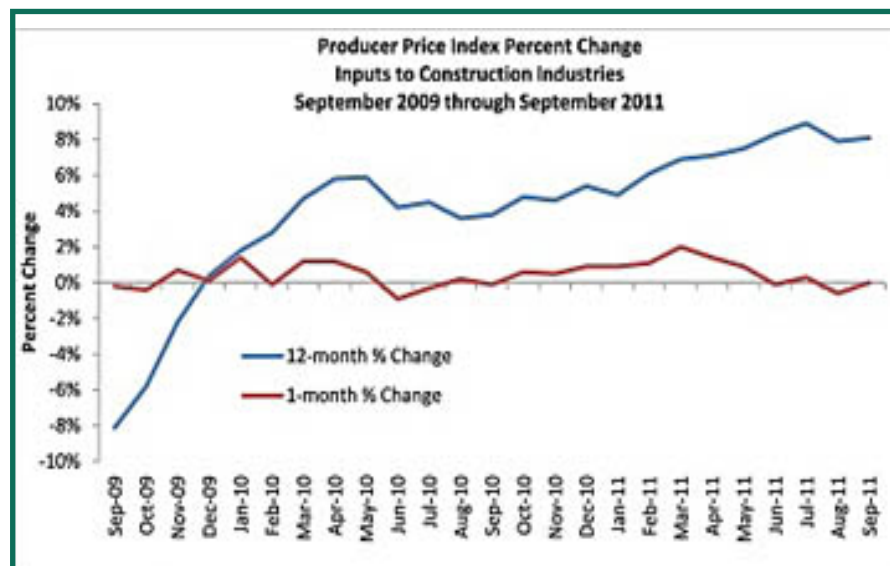
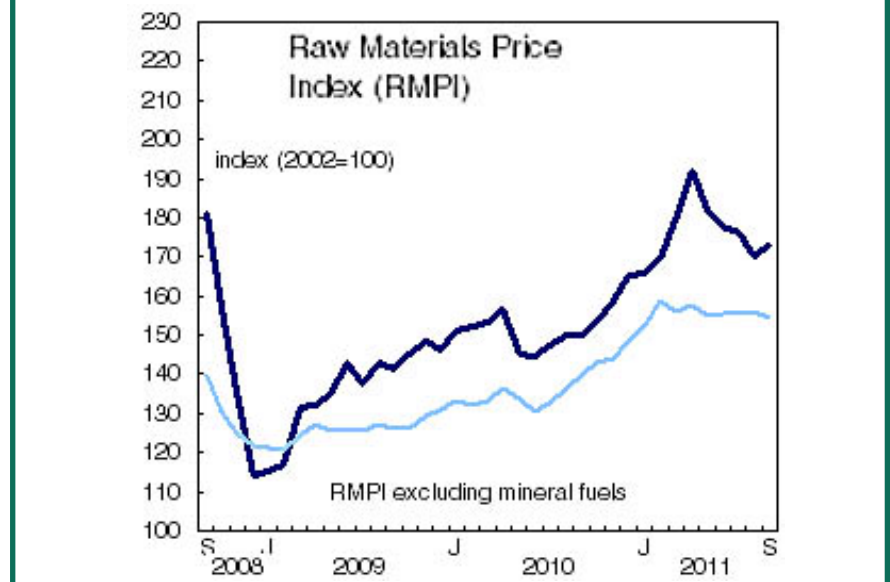
Cement prices, which have generally been falling over the last three years, rose 1.3 per cent after a 2.3 per cent drop in August. This marks the fifth monthly increase this year. Nonetheless, cement prices are down 0.2 per cent since the end of last year, 1.5 per cent since September 2010, and 10.1 per cent since September 2008.

Generally, metal prices trended downward for the month. Nonferrous wire and cable prices dropped 3.5 per cent in September and were down 0.8 per cent for the third quarter. However, prices were still up 9.3 per cent year-over-year. Steel mill product prices slipped 0.6 per cent last month, 1 per cent lower for the quarter, but are still 13.5 per cent higher from one year ago.

Prepared asphalt, tar roofing, and siding products fell 2.3 per cent in September, were down 1.5 per cent for the quarter, but are up 3.7 per cent over the past twelve months.



SOURCE: Statistics Canada



Source: Bureau of Labor Statistics

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	222	226	-4	238	-16	276	-54
WSPF KD R/L 2x6	250	252	-2	250	0	275	-25
WSPF KD R/L 2x8	258	260	-2	270	-12	280	-22
WSPF KD R/L 2x10	250	255	-5	270	-20	322	-72
WSPF KD PET 2x4 Stud	220	220	0	240	-20	240	-20
Douglas Fir Green R/L 2x4	218	220	-2	240	-22	195	+23
Douglas Fir Green R/L 2x10	290	290	0	285	+5	280	+10
ESPF KD 2x4 8ft Stud	300	305	-5	305	-5	300	0
OSB Ontario 7/16" (CDN\$)	195	195	0	210	-15	205	-10

Weekly News

Curtailments, Financial Results

CONTINUED AbitibiBowater CEO Richard Garneau said Tuesday he is "prepared to forgo \$1.7 million in personal compensation this year" because his top priority is the long-term success of the company.

Interfor reported a net income of \$6,000 in 3Q 2011. Sales revenue was \$200.2 million, up \$12.0 million or 6.4 per cent versus 2Q, resulting from higher log and lumber sales volumes and prices.

Acadian Timber reported a loss of \$341,000 in 3Q 2011. Acadian generated net sales of \$17.5 million on sales volume of 341 thousand cubic metres, which represents a \$0.3 million, or 2 per cent, decrease in net sales compared to the same period in 2010.

Norbord said Friday that its losses were US\$1 million in the three months ended October 1. These results compare to a deeper loss of US\$4 million in the same period for 2010. Sales rose to US\$242-million from US\$229-million.

Downtime has been scheduled for Bowater Mersey Paper Company Ltd for November 14 – 21, and tentatively for December 19 – January 2.

Swanson Group has announced plans to take downtime at all of its manufacturing facilities during November, and the company warned that there would likely be more to follow in the coming months. The Glendale and Roseburg, OR, sawmills will be down the weeks of November 14 and 21. The company's plywood mills in Glendale and Springfield, OR, will be down the week of November 21.

Cheslatta Forest Products in Burns Lake, BC, has officially shut down, following extended downtime.

Georgia-Pacific closed its stud mill in

Monticello, GA, on October 31, affecting about 50 employees.

JD Irving has announced plans to temporarily close two sawmills in New Brunswick. The company's Kedgwick mill will close between December 2 and the spring of 2012. The Doaktown mill will close between December 23 and February 13, 2012.

Weyerhaeuser's Santiam sawmill in Lebanon, OR, will be down the week of November 7.

The Kitwanga sawmill in northwestern British Columbia, just opened in June, is already taking downtime.

Minas Basin Pulp and Paper in Hantsport, NS, announced Friday it is reducing its workforce by 8 per cent through layoffs and some by attrition. The mill employs about 180 people.

BC Trade Mission to China

British Columbia Premier Christy Clark, along with Minister of Jobs, Tourism and Innovation Pat Bell, and Minister of Forests, Lands and Natural Resource Operations Steve Thomson, will depart Vancouver November 4 for China. Areas of focus in China are transportation, international education, mining, forestry, liquefied natural gas, seafood promotion, and technology. The Premier will meet with government officials and business leaders in Beijing, Shanghai, and Guangzhou.

Both ministers Bell and Thomson will embark on separate programs. Minister Thomson will also visit Japan, while Minister Bell will travel to Hong Kong before returning to BC.

Two hundred and fifty representatives from more than 120 companies and organizations representing sectors such as mining, energy, forestry, seafood, transportation and education will participate.

The Premier will leave China for India on November 10, along with Health Minis-

ter Mike de Jong. In India they will meet with government and business leaders in Delhi, Mumbai, Chandigarh, Amritsar and Bangalore. While in India, the focus will be on mining investment, life sciences, technology, green energy, international education, and forestry.

National Softwood Lumber Board

US Department of Agriculture Secretary Tom Vilsack Tuesday appointed 19 representatives to serve on the first national Softwood Lumber Board. Members will serve two, three or four-year terms of office.

USDA's Agricultural Marketing Service will provide oversight of the Softwood Lumber Board in accordance with the Commodity Promotion, Research and Information Act of 1996 and the Softwood Lumber Research, Promotion, Consumer Education and Industry Information Order.

Members appointed to represent U.S. manufacturers are: Alden Robbins for the Northeast and Lake states region; Jack Jordan, Henry Scott, Michael Case, Robert Taylor, Fritz Mason and Aubra Anthony, Jr. for the South region; and Steven Zika, Marc Brinkmeyer, George Emmerson, Andrew Miller and Rick Re for the West region.

Members appointed to represent Canadian importers are: James Lopez and Charles Tardif for the East region; and Duncan Davies, Al Thorlakson, Hank Ketcham and H. David Gray for the West region.

Francisco Figueroa will represent all other importing countries.

The first Softwood Lumber Board meeting is scheduled for November 29 and 30 in Chicago, IL.

Biomass Fuel

New Projects Announced

There was a flurry of announcements this week on progress in the woody biomass fuel sector, both in North America and in Europe. This exciting, fast-growing industry, focussed on generating clean energy from residual cellulostic material, has passed the experimental stage. A significant number of new power generation facilities in existing plants, and brand-new energy production operations, have gone operational recently.

by Kéta Kosman

Meanwhile, a new report released Thursday by Greenpeace, "*Fueling a BioMess*" declaring that biomass fuel "threatens forests" has received significant media promotion. As an aside, the Greenpeace report is annoying in its language because it repeatedly refers to biomass fuel as "burning trees". It is not accurate to say that a pellet plant in Ontario, pictured on page nine of the report, "uses full trees for combustion". Wood is not combusted to make pellets. However credible, or not, the report may be, the environmental agency is not helping itself by using misleading and inaccurate language. Madison's likes to take all points of view into account, but such a glaring error, or bias, makes the conclusions drawn in the report seem all that less reliable.

Of the latest biomass fuel operation announcements, none simply combust woody biomass to make fuel. Southern Company, based in Sacul, TX, on Tuesday received the first load of feedstock at its Nacogdoches Generating Facility in eastern Texas. This plant uses a bubbling fluidized bed boiler which, together with other technology, to keep nitrogen oxide production almost 31 per cent lower than conventional stoker boilers, and carbon monoxide by-product levels 64 per cent lower. This is a far cry from figures presented on page 31 of the Greenpeace report analysing several biofuel operations.

In another announcement Tuesday, Scottish & Southern Energy received UK government consent to develop a £250 million biomass and waste project within its Ferrybridge coal-powered station in West Yorkshire, in the north of England. The combined heat and power plant will generate heat and electricity from a range of sustainable fuels; including biomass, waste-derived fuels and waste wood. The only thing remotely resembling a smoke stack at this facility will be cooling towers, used to condense the steam. In using residual cellulostic material that would otherwise end in a landfill, this plant will reduce methane emissions locally by 21

times. There will be no smoke emitted at this operation.

This is actually an important point that the Greenpeace report overlooks entirely. While making grand claims that a significant proportion of biomass must be left behind in the forest to provide organic nutrient for regrowth, the calculations provided do not discuss how much carbon and other emissions are released by biomaterial degrading naturally. However, several pages are devoted to demonstrating how much carbon monoxide is released by "burning" trees. This is a gaping hole in logic that can not easily be dismissed.

Which brings to mind another point: in roundly accusing biomass fuel of being unsustainable and harmful to the environment, the Greenpeace report offers no viable solutions. It is easy to say, "Tell your government to stop harvesting biomass residue to make cellulostic fuel", but what other sources of energy are there? If we are not to use coal, oil, nuclear, or any of the other traditional sources, what is left? In Canada there is easy access to hydro power, but not so in many other parts of the world. It is doing a great disservice, frankly, to vilify an entire industry sector based on old data, out of date production techniques, and carefully selected sources of information. The fact is that modern biomass fuel production involves closed systems and new technology that do not produce smoke nor emit carbon into the atmosphere.

In addition, it is important to note that trees are only one source of feedstock for biomass power, but is the only biomaterial mentioned in the Greenpeace report. Also important is switchgrass, corn stover, and fast-growing, high-rotation crops like eucalyptus and bamboo.

Tennessee's PHG Energy announced Wednesday that it successfully demonstrating its biomass gasifiers at a Gleason, TN, and now has state approval to sell power back to the electricity grid. Using wood residue as feedstock in the clean thermo-chemical gasification process to produce a fuel much like natural gas, the plant then processes and purifies that gas so that it could be used to run in a 1-megawatt Caterpillar generator. Using money from private investors and partnering with a local brick factory that was looking for novel ways to use its idle brick-forging kilns during the housing construction slowdown, PHG has started with six small gasifiers to displace the use of natural gas in the brick kilns.

In yet another announcement Wednesday, Recast Energy, out of Kentucky, will build a biomass energy plant as steam, power and other utility supplier in partnership with latex manufacturer Lubrizol

Corp and specialty elastomer maker Zeon Chemicals. Both facilities need steam, deionized water, waste water treatment and compressed air to operate. Recast Energy is in the process of retrofitting a coal-fired boiler to consume clean biomass. The boiler is expected to be operational in the second quarter of 2012, and is expected to entail a US\$12 million investment which will create 14 new jobs. Additional off-site jobs in the new biomass fuel supply chain are expected to add another 12 to 20 full-time people in the area.

There are a number of research agencies and analysts examining the question of sustainable feedstock availability for large biomass fuel plants. Several presented new data at the Southeast Biomass Conference & Trade Show, held November 1 to 3 in Atlanta, GA.

Bob Randle, vice president of business development for Genera Energy, discussed the overall advantage of all energy crops, emphasizing switchgrass but saying the company's focus can apply to all energy crops. "We're feedstock agnostic," he said at the conference.

Genera has 5,100 acres of switchgrass in nine counties in eastern Tennessee. The company is also working to build a biomass innovation park outside Knoxville, TN, and owns a cellulosic biofuel biorefinery that is operated by DuPont.

Will McDow, manager of the Environmental Defense Fund's Southeast Center for Conservation Incentives also spoke at the conference. He presented a statewide feedstock availability model for North Carolina that takes into account both electricity and liquid biofuels from wood, according to *Biomass Magazine*. Under four different scenarios, McDow illustrated to attendees how much electricity and biofuels can be produced with the resources around the utility, without negatively impacting the wood basket. A 5 per cent electricity standard with production of 100 million gallons of biofuel is sustainable, he explained. Moving up toward 10 megawatt standards brings a more adverse impact on resources, as does the move toward 300 million gallons of biofuels, especially when both are increased.

At the same conference, Daniel Stuber of Forest2Market showed an analysis done for an electric utility, said *Biomass Magazine*. The analysis accounted for renewable capacity, wood fuel required per megawatt, additional demand value, and high sustained price, each different values in the different scenarios. The tipping point, which analyzes maximum consumption a wood basin can sustain without adverse impacts, was between 525,000 and 750,000 tons, depending on the scenario.