

MADISON'S LUMBER REPORTER

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News & Updates

Dust Safety Data Referred to Crown Counsel

The WorkSafeBC investigations into two deadly explosions at BC sawmills earlier this year have been completed, and results are passed on to Crown counsel in BC to review and possibly lay charges, the safety agency revealed Thursday.

Senior vice-president, Roberta Ellis, said to media it will now be up to Crown counsel to determine if charges are pursued under the Workers Compensation Act. Ellis stressed the WorkSafeBC investigations are not linked to any possible criminal charges, and there are no criminal investigations underway.

Madison's caught up with Ellis Friday morning. She explained in a phone interview that, in addition to the press release about WorkSafeBC's **legal** decision to pass the reports and evidence to Crown, is a one-page backgrounder which fully provides all the **safety findings** made so far, as well as **preventive information**.

Please go here for the latest on sawmill safety: <http://tinyurl.com/cgwfn03>

BC Hydro Right of Way Timber Update

The November 9th issue of your *Madison's Lumber Reporter* included a story about the large volumes of timber being cleared in northern British Columbia for an electrical right-of-way that BC Hydro is building. Stakeholders complained that the fibre was simply being burned, and some logging contractors maintained they could not find lumber companies willing to ship the sometimes low quality logs to production facilities.

Owners of the newly reopened Skeena Sawmill in Terrace, BC, have stated they will buy all of the trees it can from those that have been cut down to make room for BC Hydro's Northwest Transmission Line, according to the *Terrace Standard* Wednesday. The company is currently negotiating with local logging contractors and First Nations for a steady timber supply.

AFPA Reports

Values of lumber, panelboard, and pulp and paper manufactured by Alberta Forest Products Association (AFPA) member companies totaled approximately \$615 million for the 3Q 2012. The value of production was up \$66 million, or 12 per cent, from the same period last year, and increased roughly \$33 million, or 6 per cent from the 2Q 2012, as the AFPA said in the press release.

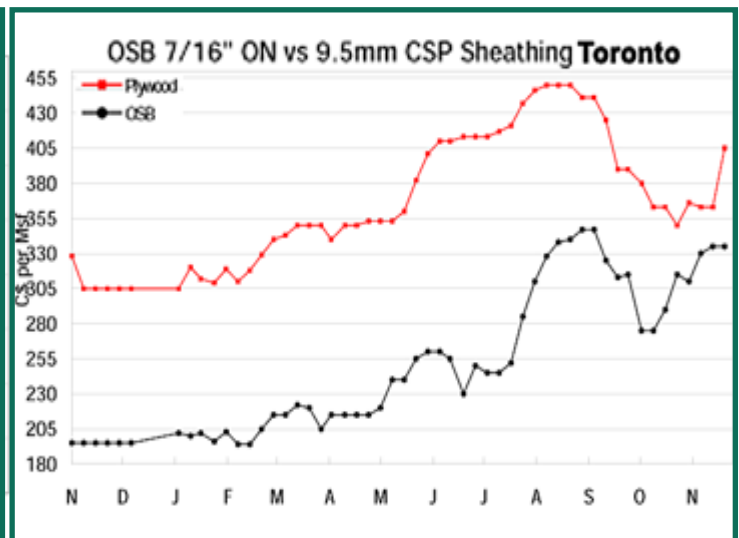
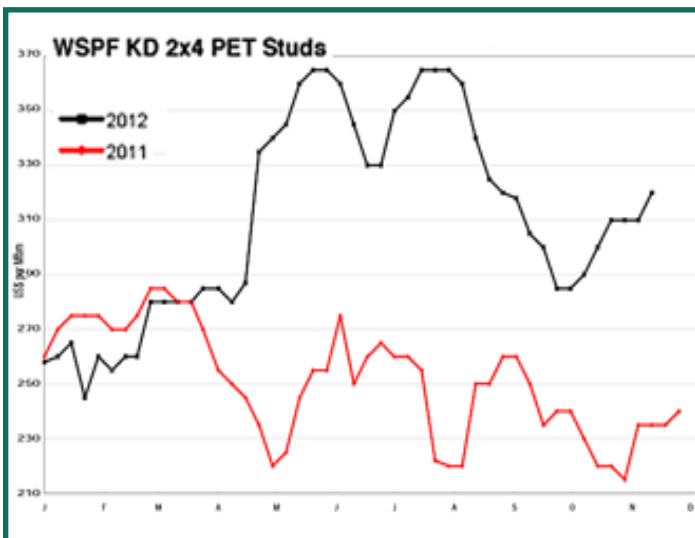
AFPA-member companies produced 763 mmfbm of lumber in the 3Q 2012 with a value of \$248 million. Part of this production came from the secondary manufacturing sector. Total production volumes increased 43 mmfbm, or 6 per cent, from the 3Q 2011, and values increased \$75 million, or 43.4 per cent.

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Biomass Fuels

The 2012 Canadian Bioenergy Association Annual Conference and Trade Show was held this week in Vancouver, BC. An extensive list of attendees from around the world heard presentations on global, and Canadian, bioeconomy, bio-trade, on powering remote communities with sustainable energy, and enjoyed an entire forum devoted to torrefied wood.

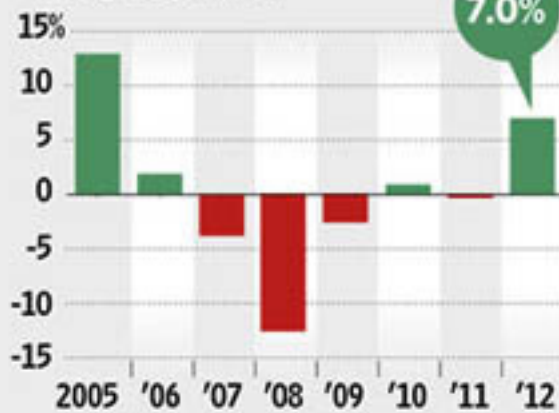
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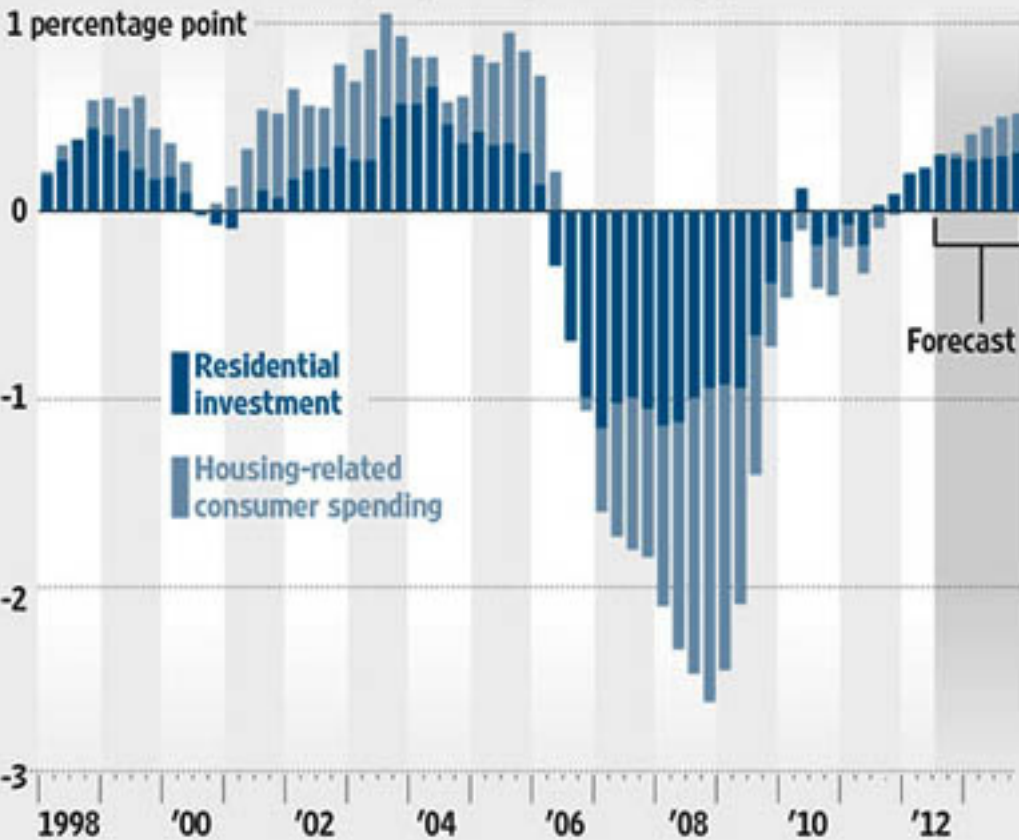
Gaining Ground

Home prices, as measured by the S&P/Case-Shiller 20-city index, are off to their strongest start in seven years, as housing begins to power the economy.

Year-to-date home-price change through September



Estimated effect of housing on year-on-year real GDP growth



Sources: S&P Dow Jones Indices (prices), Goldman Sachs (GDP) The Wall Street Journal



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Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	350	336	+14	312	+38	235	+115
WSPF KD R/L 2x6	360	336	+24	310	+50	245	+115
WSPF KD R/L 2x8	340	315	+25	300	+40	242	+98
WSPF KD R/L 2x10	360	350	+10	345	+15	248	+112
WSPF KD PET 2x4 Stud	320	310	+10	290	+30	235	+85
WSPF KD PET 2x6 Stud	300	295	+5	295	+5	260	+40
Douglas Fir Green R/L 2x4	290	292	-2	275	+15	238	+52
Douglas Fir Green R/L 2x10	330	335	-5	310	+20	325	+5
ESPF KD 2x4 8ft Stud	390	380	+10	365	+25	280	+110
OSB Ontario 7/16" (CDN\$)	335	335	0	315	+20	195	+140
CSplywood Toronto 3/8" (CDN\$)	405	363	+42	363	+42	305	+100

Weekly News

Alberta Forest Products Production

CONTINUED Compared to the 2Q 2012, lumber production volume dropped by 4 mmfbm, or 0.5 per cent, but stronger prices caused values to increase by \$19 million, or 8.4 per cent.

AFPA-member panelboard operators produced 265 million square feet of 7/16 inch equivalent product in the 3Q 2012 valued, at \$92 million.

Compared to the 3Q 2011, production was down roughly 8 million square feet, or 3 per cent, but stronger prices led to a \$24 million, 36 per cent, increase in values. In comparison to the 2Q 2012, production dropped by 24 million square feet, or 8.2 per cent, but values increased by \$7 million, or 8.6 per cent.

The AFPA's pulp and paper sector total production for the 3Q 2012 was 393,800 air dried metric tonnes (ADMT) valued at \$275 million. Production was up 14,500 ADMT, or 3.8 per cent, from the 3Q 2011, but a softer market caused values to decline by \$33 million, or 10.7 per cent. Compared to the 2Q 2012, production increased by 31,000 ADMT, or 8.5 per cent, and values increased \$6.4 million, or 2.4 per cent.

PwC Third Quarter Earnings Summary: Forestry

Canadian and US forest and paper products companies reported an overall improvement in net earnings for 3Q 2012 compared to 2Q, with timber, solid wood and packaging/tissue sectors posting generally better results than the pulp and graphic paper manufacturers, says a PwC report released Friday. Lumber and panel prices were supported through the

quarter by the continued improvement in US housing starts. Pulp prices continued to decline through the quarter, but have likely bottomed.

Western Canadian based companies posted net earnings of \$775.1 million, compared with net earnings of \$28.4 million in 2Q 2012, and net losses of \$243.8 million in 3Q 2011.

Eastern Canadian based companies posted net earnings of \$14.8 million, compared to net losses of \$36.1 million for 2Q 2012, and net losses of \$82.8 million in 3Q 2011.

Ten of the largest US-based forest and paper companies reported net earnings of US \$1.3 billion for 3Q 2012, up from US \$1.1 billion in 2Q 2012, and down from US \$1.5 billion in 3Q 2011.

Louisiana Pacific Buys

Louisiana-Pacific Corporation announced Wednesday that it has entered into a Letter of Intent with Canfor Corporation to acquire Canfor's 50 per cent share in the Peace Valley OSB joint venture in Fort St. John, BC. By completing this acquisition, LP will become the sole owner of the Peace Valley OSB mill.

LP and Canfor currently jointly run the mill, with LP providing operational support while Canfor provides labour, fibre resource management and administrative services. LP already sells 100 per cent of the product made there under the LP brand, so customers will see no change in product quality or service.

Once the agreement closes, Canfor will continue to provide fibre resource management and temporarily provide administrative services during the transition.

The completion of this transaction is expected to occur by the end of this year.

The Peace Valley mill has an annual

production capacity of 820 million square feet of OSB. It currently operates three shifts with plans to add a fourth shift in the first quarter of 2013 depending on market conditions.

Catalyst Paper Accepts Snowflake Bid

Catalyst Paper has accepted a qualified stalking horse bid from MLR Ventures, LLC as part of the sales process for disposition of the Snowflake facility and Apache Railway in Arizona.

The bid by the Stalking Horse is subject to higher and better offers.

Catalyst Paper expects to receive binding bids for the assets from qualified bidders on December 7, 2012 and expects to hold an auction among qualified bidders on December 17, 2012 in New York City.

The Snowflake facility is located in the foothills of the White Mountains in northeastern Arizona. The assets for sale include the equipment and other assets associated with the paper mill, approximately 19,000 acres of land and The Apache Railway Company.

Catalyst Paper permanently closed the Snowflake recycled paper facility effective September 30, 2012.

Calendar

Jan 2013

Truck Loggers Association Annual General Meeting

Jan 18 - 18 - Victoria, BC

<http://www.tla.ca/events/convention>

IQPC 11th Timberland Investment Summit

Jan 28 - 30 - New York, NY

<http://www.timberlandworldsummit.com/Event.aspx?id=828974>

CanBio 2012

BioEconomy

Madison's will focus on torrefaction today, specifically because currently this seems like the most viable option for BC's forest products industry to – in partnership with energy companies – capitalize on fibre opportunities.

The combination of timber company expertise in extracting low value fibre from the forest floor, that left behind after timber harvest, as well as the vast supply of dead and low-value cellulose in the wake of the mountain pine beetle infestation, makes British Columbia a prime location for biomass fuel production. The difficulty is in deciding which process in this new and emerging industry is the best option for individual companies and for the variety of regions.

One specific challenge for BC companies is that, in whichever form, this is strictly an export product. With abundant hydroelectric power, and large volumes of natural gas already exported, there is no market within BC for fuel or energy made from cellulose. Therefore those customers are in other regions. There is a huge market in Europe, which – due to government renewable energy standards – is only going to grow. However transportation costs and logistic challenges are significant. Regardless, bioenergy experts and industry are very bullish on a future for biomass fuel production partnerships between energy companies and BC's forest companies.

A very good place to start is with Rory Gilsonan, Chief Economist at Natural Resources Canada. Gilsonan gave a comprehensive presentation on the Canadian bioeconomy currently, and a projection to 2020.

The first speaker at the conference, Gilsonan explained, "Canadian pellet production is 2.9 to 3.2 million tonnes annually, with a little over 300,000 tonne capacity under construction. Canadian pellets account for 38 per cent of European pellet imports, at 983,065 tonnes annually. The projection for Europe in the next few years is a potential 25 to 150 million tonnes consumed annually," detailed Gilsonan.

According to Martin Junginger of the University of Utrecht, who spoke on the *Bio-Trade Long Term Outlook*, approximately 650 pellet plants produced more than 10 million tonnes of pellets in Europe in 2009. Total European consumption was about 9.8 million tonnes, representing a modest 0.2 per cent of EU Gross Energy Consumption. While most markets of non-industrial pellets are largely self-suf-

ficient, industrial pellet markets depend on the import of wood pellets. Following Junginger's scenarios, additional 2020 demand for woody biomass varies from 105 million tonnes, based on market forecasts for pellets in the energy sector and a reference growth of the forest sector, to 305 million tonnes, based on maximum demand in energy and transport sectors and a rapid growth of the forest sector. Additional supply of woody biomass may vary from 45 million tonnes from increased harvest levels to 400 million tonnes after the recovery of slash via altered forest management, the recovery of waste wood via recycling, and the establishment of woody energy plantations in the future.

"The gap between domestic production and consumption of wood pellets in the EU has already increased 8-fold between 2008 and 2010. Green-X projections, with import of solid biomass from non-EU countries increasing 7 to 8-fold by 2020 compared to 2010, are therefore not unlikely," said Junginger and the other authors of *RE-Shaping: Shaping an effective and efficient European renewable energy market*, delivered to the European Commission in February 2012.

Pellets are a favoured method of biomass fuel production because it is easy for the European consumer, whether industrial, commercial, or residential, to use in existing burners and boilers. Logistical difficulties and the distances required to get pellets from BC to Europe mean that a viable economic model comes with the added step of torrefaction, whether to briquettes or pellets.

Torrefaction produces higher energy content by weight, and also improves the material for storage in large silos or other bulk containers.

In addition, pellets are well suited for co-firing with traditional fossil fuels, and work well with steam or electrical power generation, as well as with combined heat and power (CHP) facilities.

Grant Watkins of Fibreco Terminal in Vancouver explained, "70 to 80 per cent of the delivered price of pellets is in transportation logistics."

Doug Bradley of the Canadian Bioenergy Association said in his presentation, "mixing coal and torrefied cellulose [in transport] makes it easier for the customer because they don't have to do that themselves after delivery, and reduces the freight costs – due to larger vessel sizes and more frequent trips – to about one-third [of transporting pellets alone]."

There was a question from the floor about mixing loads in breakbulk transport, as there is apparently some new regulation coming out of Europe in this

area. The concern for importers in Europe will apparently be around certification of the torrefied cellulose and whether it will still count as renewable if it enters Europe mixed with coal, so this is an issue to watch out for.

John Bennett of Global Bio-Coal then explained further, "We are building a facility at a new port on Watson Island off Prince Rupert, BC, which will be able to take in 2.5 million cubic metres of hog fuel annually. We will be shipping to Japan and will blend our product with coal to reduce transport costs significantly."

Global Bio-Coal torrefies wood cellulose, which is then shaped into small, flat briquettes which "fit together better for transport" than larger briquettes or cylindrical pellets, said Bennett.

The amount of energy in torrefied cellulose makes long distance transportation much more cost-effective. As a comparison, green wood (chips) contain between 4,200 and 4,400 BTUs per pound, while for wood pellets it is 8,500, for torrefied wood it is between 10,000 and 11,000, and coal has between 10,000 and 12,000 BTUs per pound.

Another way of looking at it is: torrefied wood has a high net calorific value, of 19 to 23 megajoules per kilogram. The energy value of the product by weight is higher than regular pellets, which makes it more valuable to customers. Meanwhile, transportation logistics are more flexible, and less costly, for the producers.

There were many other processes discussed at the CanBio conference, all of which have potential to use the vast quantities of dead and decaying trees across large parts of BC as the mountain pine beetle infestation runs its course. Pyrolysis, gasification, community heating, CHP, biogas and syngas, are all getting fine tuned. Some of these new technologies have even scaled up from the pilot, or lab test stage, into commercial production. Others still have specific technical issues to work out. All have progressed in the past year.

The burning question on everyone's mind is: feedstock. While many of these processes can use a mix, of wheat straw or corn stover or switchgrass or fruit bunches or sawmill, agricultural, or forest residue, and more, the preferred method is to use homogenous feedstock. This way the equipment can be best calibrated for efficiency, and the customer receives a product of consistent quality.

The fibre available in BC for salvage, and the residuals left behind after timber harvesting, need only be hammered and ground to become a perfect feedstock for biomass fuel production on a large scale.