

MADISON'S LUMBER REPORTER

Publisher
KetaDesign Productions

Editor
Kéta Kosman
Market Analyst
Earl Heath

Annual Subscription Prices
E-mail/Fax: C\$389
Discounts available for multiple
subscriptions
Published 50 times a year

www.madisonsreport.com
madrep@shawcable.com
604 984-6838
PO Box 2486 Vancouver, BC
V6B 3W7 Canada

In Canada, add GST or HST
ISSN 0715-5468
Printed in Canada © 2013

All material contained within is the property
of KetaDesign Productions Inc. Reproduction
or retransmission is expressly forbidden.



News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* covers the proceedings at the 11th Global Timberland Investment Summit in New York City this week. Estimates of US and Canadian timber volumes, as well as projections for US housing starts, in the next five years are examined.

Contact us any time to receive this valuable and timely information.

Quarterly, Annual Results, Norbord OSB Restart

Norbord Thursday reported earnings of US\$72 million for the full year of 2012. Earnings were US\$38 million for 4Q 2012.

Norbord generated EBITDA of US\$188 million in 2012 compared to US\$45 million in 2011. North American and European operations recorded EBITDA of US\$165 million and US\$39 million, respectively, versus US\$14 million and US\$44 million, respectively, in the prior year. In 4Q 2012, Norbord delivered EBITDA of US\$70 million versus US\$66 million in 3Q and US\$9 million in 4Q 2011.

Norbord also announced plans to restart its Jefferson, TX, mill by mid-2013. That mill has 415,000 msf of reported annual capacity. Norbord is going to invest approximately US\$10 million to restart the mill.

Tembec reported, also Thursday, a net loss of \$10 million in its 4Q, ending December 29, 2012, on consolidated sales of \$376 million. For comparison, in 3Q, Tembec reported a net loss of \$16 million on consolidated sales of \$401 million. [READ MORE](#)

US Storm Season Early Start

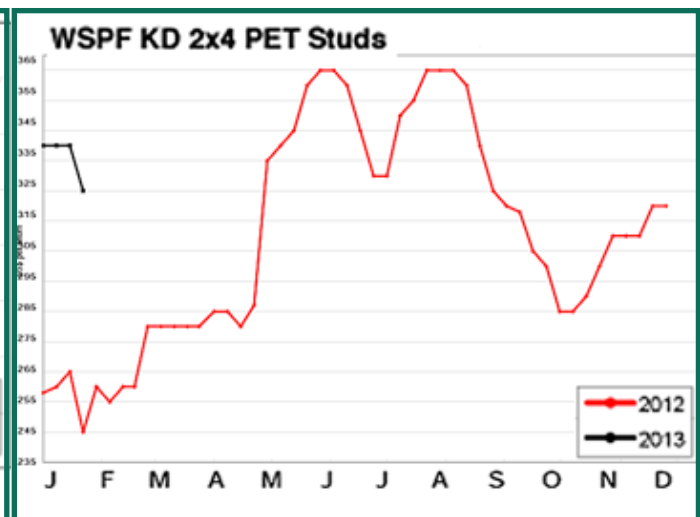
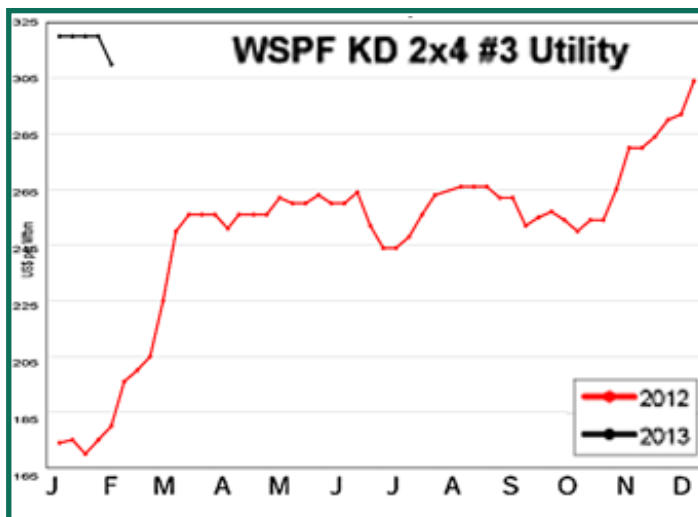
A massive storm system raked the southeast US on Wednesday, spawning tornadoes and dangerous winds that overturned cars on a Georgia interstate and demolished homes and businesses, killing at least two people. [READ MORE](#)

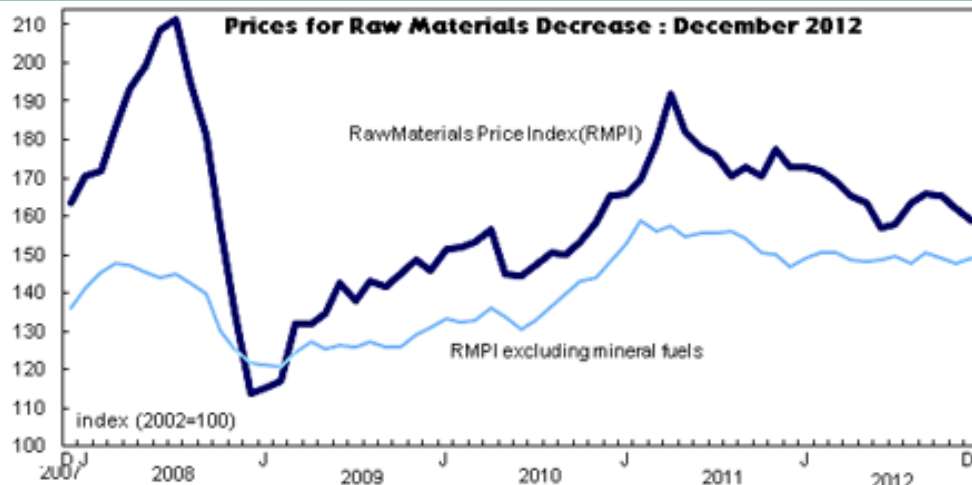
Sawmill Restarts, Construction, Sales, Completions

Ontario's McKenzie Forest Products and Prendville Industries as well as Quebec's Resolute Forest Products all announced this week mill restarts or new construction. As well, British Columbia's Western Forest Products announced a pulp mill sale, while Fortress Paper said its Quebec cellulose mill in near completion. [READ MORE](#)

Mixed Use Timberland Management

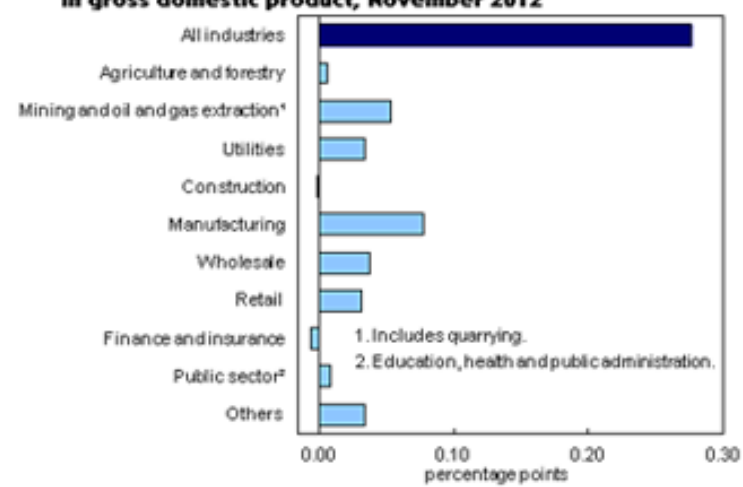
The hotly contested British Columbia provincial election is not even underway but the rhetoric was already flying this week. The BC Ministry of Forests, Lands and Natural Resource Operations, as well as the Ministry of Jobs, Tourism and Skills Training, have spent the last two years looking at ways to better capitalize on the province's stricken timber supply. Roundtables, travelling committees, discussions with communities and First Nations, and several large consultation processes have been taking place for over two years now. The reports, suggestions, and recommendations offer a dazzling array of ideas and work-arounds to get BC's forest products industry back on track. [READ MORE](#)





Main industrial sectors' contribution to the percent change in gross domestic product, November 2012

SOURCE: Statistics Canada



Japan Timber Demand 2013

According to the 'Japan Foreign Timber General Supply & Demand Liaison Conference' report, 2013 demand for logs in Japan is estimated to be 4,437,000 cubic meters, 0.5 per cent lower than 2012's 4,459,000 cubic meters. Demand for lumber is estimated to be 6,920,000 cubic meters, 2.2 per cent higher than 2012's 6,770,000 cubic meters. Total demand for imported logs and lumber in 2013 is expected to increase 1.1 per cent from the previous year, to 11,357,000 cubic meters.

3,231,000 cubic meters of North American logs are expected to be imported into Japan in 2013, accounting for a 72.8 per cent share of total imports.

Demand for North American lumber is expected to increase 0.2 per cent from the shipping volume of 2,744,000 cubic meters in 2012, to 2,750,000 cubic meters.

In the North American lumber items, SPF dimension lumber is popular for its cost advantage, and also demand for KD lumber is growing mainly among precut factories.

SOURCE: Japan Lumber Journal

Japan's Demand for Major Imported Timber

(1,000 cubic meters; %)

	2012 Results (presumption)	y/y	2013 Estimates	y/y
Logs				
<i>Southsea</i>	364	-28.5	227	-37.6
<i>for Plywood</i>	286	-28.9	167	-41.6
<i>for lumber</i>	78	-27.1	60	-23.1
<i>North American</i>	3,118	-0.4	3,231	3.6
<i>Russian</i>	265	-20.7	270	1.9
<i>New Zealand-Chilean</i>	703	-0.4	700	-0.4
<i>European</i>	9	-	9	-
Sub-total	4,459	-4.9	4,437	-0.5
Lumber				
<i>Southsea</i>	587	-7.6	600	2.2
<i>North American</i>	2,744	-0.3	2,750	0.2
<i>Russian</i>	626	-8.3	680	8.6
<i>New Zealand-Chilean</i>	342	-13.0	340	-0.6
<i>European</i>	2,471	-0.6	2,550	3.2
Sub-total	6,770	-2.5	6,920	2.2
Total	11,229	-3.5	11,357	1.1

Source: Japan Foreign Timber General Supply and Demand Liaison Conference

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	370	380	-10	362	+8	255	+115
WSPF KD R/L 2x6	370	390	-20	386	-16	255	+115
WSPF KD R/L 2x8	362	385	-23	362	0	250	+112
WSPF KD R/L 2x10	394	400	-6	368	+26	314	+80
WSPF KD PET 2x4 Stud	300	325	-25	325	-25	260	+40
WSPF KD PET 2x6 Stud	285	315	-30	305	-20	305	-20
Douglas Fir Green R/L 2x4	360	355	+5	300	+60	230	+130
Douglas Fir Green R/L 2x10	355	355	0	328	+27	330	+25
ESPF KD 2x4 8ft Stud	395	410	-15	390	+5	330	+65
OSB Ontario 7/16" (CDN\$)	380	380	0	335	+45	203	+177
CSplywood Toronto 3/8" (CDN\$)	437	437	0	410	+27	319	+118

Weekly News

Financial Results, Tembec Mill Sale

CONTINUED Tembec's operating earnings before EBITDA was \$19 million for the three-month period ended December 29, 2012, as compared to adjusted EBITDA of \$12 million a year ago and adjusted EBITDA of \$23 million in the prior quarter.

Tembec also announced plans to sell its pulp mill in Skookumchuck, BC, which employs about 280 workers and contributes about \$150 million in annual revenues. Proceeds from the sale will be reinvested in the company, primarily in the Temiscaming project.

Domtar Corporation reported Friday a net earnings of \$19 million for 4Q 2012 compared to net earnings of \$66 million in 3Q. Sales in 4Q were \$1.3 billion.

For Domtar's fiscal year of 2012, net earnings were \$172 million. In comparison, net earnings in 2011 were \$365 million.

Storm Season, US

CONTINUED In recent days, people in the South and Midwest had enjoyed unseasonably balmy temperatures. A system pulling warm weather from the Gulf of Mexico was colliding with a cold front moving in from the west, creating volatility.

One other death was reported in Tennessee after an uprooted tree fell onto a storage shed where a man had taken shelter.

Powerful winds ripped through the entire region, with gusts powerful enough to topple tractor-trailers in several places.

Conditions remained ripe for tornadoes into Wednesday afternoon, and authorities were still investigating to determine if damage was caused by twisters. Since Tuesday, the system had caused damage across a swath from Missouri to Georgia.

Sawmill, Pulp Mill News

CONTINUED The McKenzie Forest Products mill in Hudson, ON, has restarted its operations, the company announced Thursday. The mill is operating with a skeleton crew right now, but by May or June more than 100 people are expected to be back at work. The mill has been closed since 2008, except for a brief opening in 2010. Sales will be handled by Buchanan Sales, out of Ontario.

Resolute Forest Products has announced the construction of a new sawmill in the area of Atikokan, ON, the company announced also Thursday.

The Atikokan project will involve the construction of a single line random length, 16-ft, sawmill with an annual capacity of 150 million board feet. Approximately 90 people will be directly employed by the operation, and additional indirect positions will be created for hauling finished lumber and residual chips. Final site selection in the Atikokan area will be completed in the next few weeks, and construction is anticipated to begin in the spring, with completion targeted for early 2014. The capital cost of the project is estimated at \$50 million.

Prendiville Industries' Kenora Forest Products stud mill would be back operating by summer production could resume, beginning with one shift, sometime between May and July, according to *Northwest Ontario Business* Thursday.

Prendiville's plans for Kenora is a \$30-million capital expansion plan that would boost production capacity from 80 million board feet to 200 million, and could see the mill delve into manufacturing machine-stress related lumber or becoming a random-length or long-length stud mill.

Western Forest Products has entered into a conditional agreement for the sale of its former Woodfibre Pulp Mill site, located at the head of Howe Sound, southwest of Squamish, BC, the company announced Monday.

The purchase price for the site, consisting of 212 acres of industrial waterfront land, is \$25.5 million. The net proceeds from the sale are expected to be approximately \$17 million.

Fortress Paper's cogeneration project at its Fortress Specialty Cellulose Mill is nearing completion, with engineering and procurement completed and overall construction progress continuing and currently at approximately 94 per cent.

Fortress Paper now expects delivery of power to commence late in 1Q or early in 2Q 2013, and anticipates additional costs in the 10-20 per cent range for the overall cogeneration project.

Calendar

February 2012

Association of BC Professional Foresters AGM
February 23 to 24 - Victoria, BC
<http://www.abcfp.ca>

March 2012

Western Wood Products Association AGM
March 2 - Portland, OR
<http://www.wvpa.org>

April 2012

Council of Forest Industries Annual Convention
April 4 to 5 - Prince George, BC
<http://www.cofi.org/>

Biomass Production

Mixed Portfolio of Forest and Agricultural Land

CONTINUED For the moment the actual announcements and decisions by the BC government, and it is understood that the Legislature is just beginning to sit after a very extended break, look like a bunch of stop-gap solutions. So far it looks like the plan is to offer up as much of the remaining healthy, or marginally healthy and accessible, forest to nearby producers to make use of as quickly as possible.

Why are we still trying to find ways to make the highest volume of 2x4s in the shortest time? Simply providing more access to timber so sawmills can run 2x4s before dead trees become too degraded to process, or before the neighbouring mill gets their hands on it, is not the best and most viable business model.

by Keta Kosman

Madison's spent this week in New York City at the 11th annual Global Timberland Investment Summit. Timber holders and investors from around the world, as well as lenders, banks, analysts, appraisers, and innovators gathered together for three intense days of workshops and speeches. In all of this wealth of information no one from any region suggested that the best way to run a forest company is to pick out of the ground the last of the remaining fibre and process it into 2x4s. In fact quite the opposite, and these are funds which manage billions and billions of dollars across sectors.

While other jurisdictions are putting their focus on value-added or higher value products, on improved silviculture or manufacturing, on breaking into new markets, and on building relationships and partnerships to prepare for the future, BC is almost moving backwards by putting more attention on opening up previously-protected areas for timber harvesting. All *Madison's* can see in the most recent BC government announcements is tiny steps to fix large problems, or changes to the existing system which would provide a quick solution at the outset but don't solve the underlying problem.

The fastest, most obvious, way to improve lumber production or forest company sales revenues in the short term is not necessarily the best way to manage an asset that – at this moment – remains the best in the world.

Given the combined disasters of the mountain pine beetle infestation and the crash of US home building and subsequent sheer drop in lumber buying from that country, it makes sense that BC is desperate to find ways to reverse the recent epic downward trend in lumber production, sales, and prices. Some amount of lateral thinking is in order, clearly.

Luckily, some in the forest products' sector have already done a lot of study and work to that end. One of these is Richard Boomer, Managing Director at Forest Value Investment Management. A particular section of Boomer's presentation, "Case Study: the Cluster Approach Applied to West Romania" caught *Madison's* attention.

The definition of 'cluster development' in today's economy involves multiple strategies coordinated among states and their local and regional partners.

Boomer explained the current biomass fuel situation in Europe. As *Madison's* has previously reported, EU 2020 renewable energy targets are for 20 per cent renewable fuels, while the 2050 ultimate target is for 80 per cent renewables in all energy consumption.

"The government has no idea how they are going to actually achieve these requirements," said Boomer. "A minimum of 7 million hectares of energy crops are necessary to meet the 2020 goals. But relatively little has been done since the EU decision for targets was made in 2009. There is only approximately 60,000 hectares of land dedicated to woody biomass crops in Europe.

"The EU needs to do something about its energy import dependancy. There is no question the EU is going to have to plant trees, but they have no experience at this. And it would have to be short rotation/very high intensity silviculture, which they don't know how to do."

Using Romania as a base, Boomer's proposal revolves around a land ownership structure which includes many, many very small land owners, a few larger landowners who are now having their title restituted by the government following Soviet occupation, and large amounts of land still owned by the government. One of Boomer's main objectives is to 'build multiple property clusters of around 15,000 hectares'. The model Boomer suggests involves a mixed portfolio of forests and agricultural land, simply because Romania continues to need significant farmland and also because the topsoil is incredibly deep and rich.

Obviously the interior of BC is not going to become farmland, but the same model can be applied after a little tweaking. The major difference is that there is no private timberland ownership in the BC interior. However, since the forest is managed by the government, all that is needed is for new policy to be drafted. There is no cumbersome negotiating to reach agreement between disparate landowners.

In Boomer's model, equal sized plots of land would produce timber and agri-

culture, with the residues of both going to biomass production. For example: with 7,500 hectares each of timberland and farmland, the models suggests approximately 100,000 dry tons per year of biomass could be produced. At the moment, most of the talk is of pellet production. A very important element in this model is the need for long term biomass supply contracts with electricity producers, industrial users, and other users. This is important because no global energy producer is going to invest in a manufacturing plant in BC, Romania, or elsewhere, without assurance of long-term agreements, therefore returns.

Madison's would add that the long-term agreements need to extend to the supply side as well; equally no company is going to build a large biomass energy plant, of whichever process or technology, without a long-term fibre supply agreement. A five-year renewable salvage license is not good enough. Companies will want assurances, and being told that their facility will be "grandfathered in" does not satisfy them because all it takes is one change in policy or government and that renewable license goes out the window.

The BC 'tweak' comes in switching out the agricultural land or farmland in Boomer's model, for land which is targeted specifically for biomass production. BC's former Minister of Forests and current Minister of Jobs, Tourism and Skills Training, Pat Bell, himself suggested a similar idea a couple of years ago when he said BC should plant fast-growing poplar along the thousands and thousands of kilometers of BC Hydro power lines which run through the province.

This is the same idea, except instead of planting a monoculture along vast 1 km wide stretches of previously-cleared land, the province's existing silviculture practice, such as it is, could be adjusted to plant both spruce-pine-fir sawlogs and short rotation biomass crops. Or plant sawlogs in such a way as to allow the poplar, or hardwoods, to grow in the intermediate space.

This particular mixed land-use model is already in place in many jurisdictions, including China, so there is no reason it cannot be applied to BC. The province, and the stakeholders, just need to get away from the idea that the business of managing and harvesting timberland has to be some version of the way it has always been done. We are not living in times as they were before, and we never will be again. This is the time to step into the future and look at what might seem to be radically different ways of operating but actually are not that different from what we are used to.