

# WOOD MARKETS MONTHLY

**December 21, 2011**

Don Deckard, Forest Economist  
<mailto:donald.deckard@state.mn.us>

## Cover: Market pulp races to bottom

### General Interest – p2

- Maine Governor's exec order equalizes forest certification programs
- U.S. home prices continue decline
- Flawed appraisals killing U.S. home sales
- Super committee flops, debt 100% of GDP
- FAO finds planet's forest area declined 180 million acres 1990-2005, 25 acres / minute
- Minnesota's EAB invasion reaches Winona

### Finance & Mgt – p5

- Potlatch to reduce harvest by 15%, cut dividend by 39%
- Global Sticks shut for lack of wood, asking for \$2 million government bailout
- Ontario Minister of NR speaks out on Global Sticks wood supply issue
- Verso reports \$69.2 million loss ytd
- More lawsuits filed against Finnish wood procurement cartel
- AbiBow CEO refuses \$1.7 million bonus
- St. Marys Paper wins property tax appeal

### Production & Prices – p7

- Correction to Nov. "Bluestain hardsell"
- Provinces desperate to stop MPB
- Terrace Bay, ON pulp mill shut 3-months for fatal explosion repairs
- Pulp demand down 10% y/y in NA, Europe
- Delivered wood prices decline in US South
- Booming PNW Asian log trade goes bust
- Lake States aspen stumpage tops \$30/cord despite paper market downturn
- Chinese cutting dissolving pulp production on 50% price drop
- Crosstie Q3 purchases up 24% q/q
- In hardwood, low-grade is the only grade

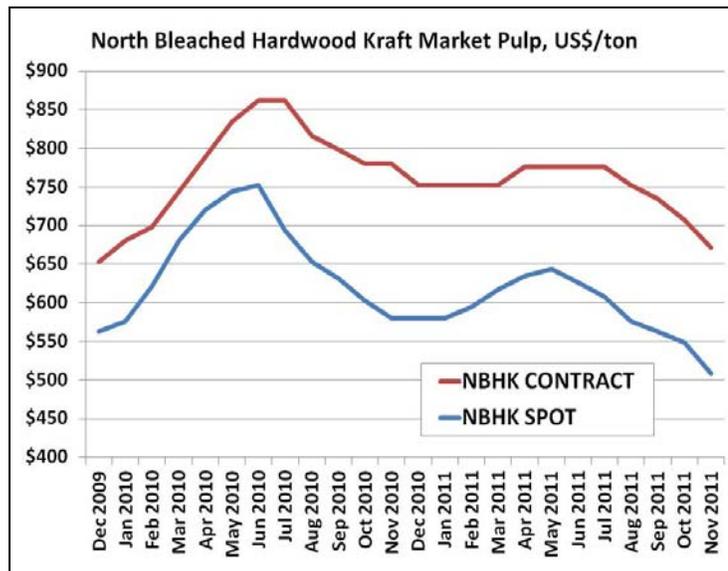
### Renewable Energy – p10

- Biomass Outlook 2012
- "Game on" for NA wood pellet exporters

### Wood Statistics – p11

NOTE: In accordance with Title 17 U.S.C. §107, any copyrighted material herein is distributed without profit or payment for non-profit news reporting and educational purposes only. Refer to:

<http://www.law.cornell.edu/uscode/17/107.shtml>



Source price data: RISI - PPI Fiber.

## November market pulp spot discounts accelerate --- it's a race to the bottom

November 18, 2011 (PPI Pulp & Paper Week) – November U.S. market pulp spot prices were at least 25% lower than November effective list prices, raising the likelihood that U.S. list prices will continue to drop even if spot prices bottom over the next month or two. Since June 2010, hardwood market pulp spot prices have plummeted from a peak \$750/ton to around \$510/ton, a 32% decline. On-going price erosion has led industry contacts to predict that high-cost producers in North America and Europe will likely be forced to take market-related downtime as mills reach cash costs and either shut or lose money.

Spot market activity heated up this month with a pricing war underway between mills in the U.S. East pushing the spread between spot and contract prices into the high 20s. There's talk of spot deals at \$500/ton net delivered and even lower, causing some producers to balk but quietly give bigger market allowances on contract business.

Market participants widely say that bleached hardwood kraft dynamics are considerably worse than bleached softwood kraft, with producers trying to shed larger inventories and able to do so only through major concessions on price. U.S. northern bleached hardwood kraft (NBHK) effective list prices have dropped \$100/ton since July.

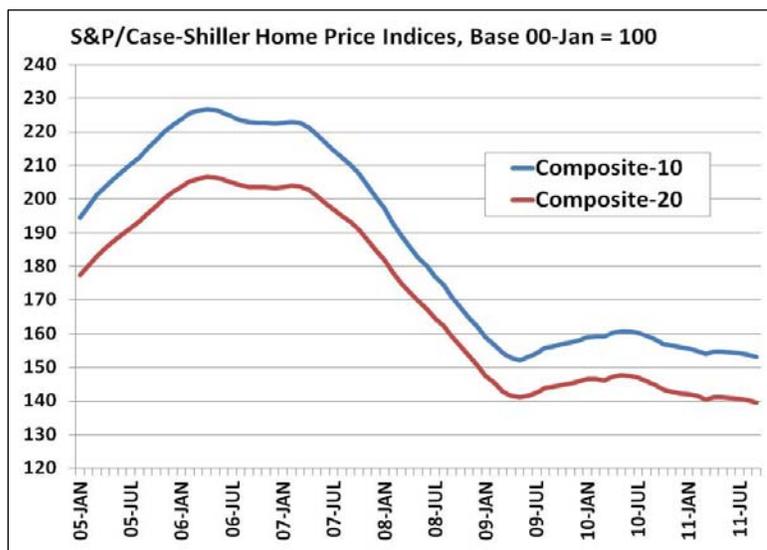
## GENERAL INTEREST

### Maine Governor's executive order equalizes forest certification programs

WASHINGTON, December 8, 2011 — Maine Governor Paul LePage signed an executive order today directing that “any new or expanded state buildings shall incorporate Green Building standards that give certification credits equally to forest products grown, manufactured, and certified under the Sustainable Forestry Initiative Standard (SFI), Forest Stewardship Council (FSC), American Tree Farm System (ATFS), and Programme for the Endorsement of Forest Certification (PEFC) systems.”

### U.S. home prices continue decline

New York, November 29, 2011 (News Release) - Data through September 2011, released today by S&P Indices for its S&P/Case-Shiller Home Price Indices, the leading measure of U.S. home prices, show U.S. home prices are back to their first quarter of 2003 levels. The 10- and 20-City Composites posted annual rates of decline of 3.3% and 3.6%, respectively. Eighteen of the 20 MSAs and both monthly Composites had negative annual rates in September 2011, the only exceptions being Detroit and Washington DC.



### Flawed appraisals killing U.S. home sales

December 8, 2011 (NAHB News Release) –Some 60 percent of U.S. home builders reported losing signed sales contracts during the preceding six months because appraisals on their homes were less than the contract sales price, according to a recent nationwide survey conducted by the National Association of Home Builders (NAHB). “The inappropriate use of distressed and foreclosed sales as comparables in determining new home values is needlessly driving down home prices, killing home sales, causing more workers to lose their jobs and delaying a housing and economic recovery,” said NAHB Chairman Bob Nielsen, a home builder from Reno, Nev. Too often, due to faulty appraisal practices, brand new homes with sparkling appliances and interior upgrades get compared to a distressed property that has been sitting vacant and in disrepair. The end result has been the new house winds up getting appraised at less than the cost of construction. That is precisely what is occurring in today’s marketplace, according to the NAHB survey, where a full 60 percent of respondents reported they were experiencing appraisals coming in below their contract sales price. Of those reporting that they had encountered this problem, 53 percent said the appraisal amount was actually less than the cost of building the home.

“This is not only unfair and unreasonable, but it perpetuates the cycle of declining home values, drives more home owners underwater, harms local economic activity and acts as an obstacle to the recovery of the housing market,” said Nielsen. These appraisal practices are a major contributing factor to the current acquisition, development and construction (AD&C) lending crisis that has choked off credit for home builders and threatens to prolong the current housing downturn. Falling appraised values for land and subdivisions under development have led some financial institutions to stop lending to developers and builders, to demand additional equity and even to call performing loans.

### U.S. household mobility hits record low

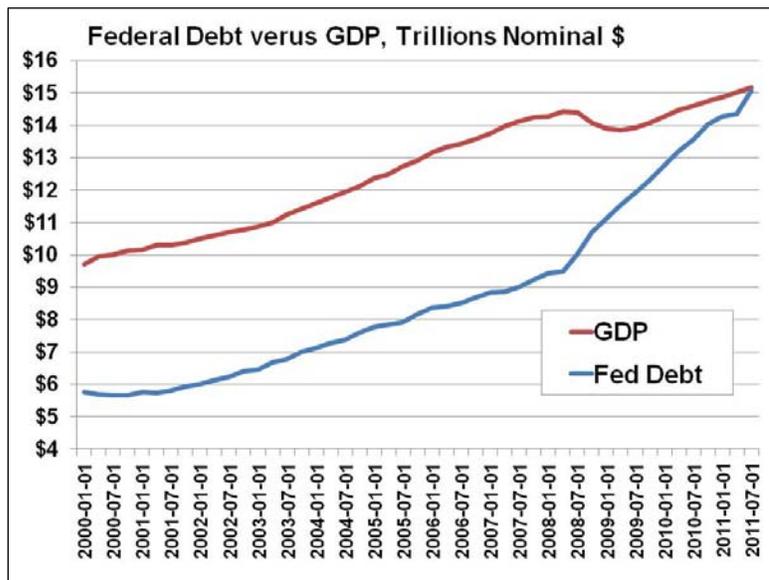
November 15, 2011 (Washington Post) – New Census statistics show that Americans are less likely to move than ever, as **the percentage of people who moved during the previous year dropped to historic lows**. Fewer than 12 percent of people in the United States changed residences between 2010 and 2011, the lowest rate since the census began keeping track in 1948. As recently as 1985, more than 20 percent moved during the year. The shaky economy and the collapse of the housing market are partly to blame for the most recent drop, but the trend is long-standing. On average, Americans are getting older as baby boomers move into their 60s, and older people don't move as much as people in their 20s who are finishing school, getting jobs, and marrying.

In the most recent census statistics, every socioeconomic group was growing more sedentary, including young adults. Barely 7 percent of people ages 20 to 24 moved in the last year, down significantly from 10 percent who moved between 2005 and 2006. “These are the people putting their lives on hold,” said William H. Frey, a demographer with the Brookings Institution. In another reflection of tough economic times, college graduates are moving at the lowest rate since the post-World War II era. Frey attributed that fact to their inability to sell their existing homes as prices continue falling, and a credit crunch limiting their ability to obtain loans and buy new homes.

### Super Committee flops, federal debt reaches 100% GDP

November 29, 2011 (Editor's Remix) -

**The 12-member, bipartisan committee was unable to agree on a single measure to reduce the immense federal government debt of about \$15 trillion [100% of U.S. GDP] and growing daily.** The committee's mission was to recommend \$1.2 trillion in deficit reductions, over the next ten years. Among the items on the table for discussion and negotiation were raising taxes, revamping the tax code, plugging tax loopholes, lowering the 35% corporate tax rate, Social Security, Medicare, Medicaid and the federal retirement program. Democrats refused to cut entitlement programs, such as Social Security and Medicare. Republicans refused to increase taxes.



**The super committee's failure will automatically trigger \$1.2 trillion in mandatory across-the-board cuts in government spending, beginning in 2013, with about \$600 billion cut from military spending and the remainder from entitlement programs. Even after the automatic spending cuts for 2013 are made, total U.S. government spending for that year would be above the level projected in 2007 by one-third.**

Far-reaching results may ensue from the committee's failure. **If the federal deficit is not reduced to a more manageable level relative to gross domestic product (GDP), long term negative impacts to the U.S. economy may mirror what's currently happening in Europe**, according to some financial experts. Several countries in the European Union, including Greece, Italy and Spain, face potential defaults on their debts, severe recession, and escalating unemployment, or they must print more money, causing runaway inflation, to pay down their obligations. Either way, failure to manage government debt is anticipated to

negatively impact U.S. economic growth potential for years to come. This is “not good news” for the average U.S. company or citizen.

### **Verso partnership leads to SFI certification of 790,000 new acres in Maine**

MEMPHIS, TN, Dec. 13, 2011 (Business Wire) - Verso Paper Corp. today announced that their participation in a groundbreaking partnership involving Time Inc., Hearst Enterprises, National Geographic Society, the Sustainable Forestry Initiative (SFI), and another forest products company has led to 790,000 acres of additional forest lands being certified to the SFI Standard in Maine. The partnership was an extension of an earlier project in 2010 that led to 620,000 acres certified to the SFI Standard - bringing the total of additional lands certified to the SFI Standard over the two year period to 1.4 million acres.

### **FAO finds the planet’s forested area declined by 180 million acres from 1990 to 2005**

Rome, November 30, 2011 (FAO News Release) - A new, satellite-based survey released by the UN Food and Agriculture Organization (FAO) provides an accurate picture of changes in the world's forests. The findings of a global remote sensing survey showed the world's total forest area in 2005 was 3.69 billion hectares, or 30 percent of the global land area. The rate of world deforestation averaged 14.5 million hectares per year [35.8 million acres] between 1990 and 2005, which is consistent with previous estimates. Deforestation largely occurred in the tropics, likely attributable to the conversion of tropical forests to agriculture. Net loss of forest land totaled 72.9 million hectares [180 million acres] over the 15-year period. In other words, the planet lost an average of 4.9 million hectares [12.1 million acres] of forest per year, nearly 10 hectares [25 acres] of forest per minute.

Between 1990 and 2005 the loss of forests was highest in the tropics, where just under half of the world's forests are located. Net losses in this region averaged 6.9 million ha/yr [17 million ac/yr] between 1990 and 2005. The highest rate of conversion of forest land to other land uses was in South America, followed by Africa. Asia was the only region to show net gains in forest land area. Deforestation occurred in all regions, including Asia, but the extensive planting that has been reported by several countries in Asia (mainly China) exceeded the forest areas that were lost. Slight net increases in forest area were registered in subtropical, temperate and boreal zones over the 15-year period.

### **USFWS proposes 375,000 acres “critical habitat” to protect Canadian reindeer**

December 05, 2011 (National Post) – The U.S. Fish and Wildlife Service has unveiled a plan to help ensure the survival of one of North America’s most endangered populations of caribou — an isolated, one-of-a-kind herd of about 40 of the antlered animals that ranges across the Canada-U.S. border from southern British Columbia to northern Idaho and Washington states. The proposal to protect as “critical habitat” some 152,000 hectares [375,000 acres] of old-growth wilderness on the American side of the border is being hailed by both U.S. and Canadian wildlife advocates as a potential salvation for the continent’s only trans-boundary population of so-called “mountain caribou”, known in Europe as the reindeer.

### **Minnesota’s EAB invasion reaches Winona County**

November 16, 2011 (Local News) - Winona County joined the ranks of Hennepin, Houston and Ramsey counties in August after emerald ash borers [EAB] were found in trap boxes with adhesive lures. The tiny beetles are continuing their march from Illinois, Michigan, Wisconsin and other states and are believed to have first taken residence in the state in about 2005, according to Minnesota Department of Agriculture (MDA) Entomologist Mark Abrahamson.

## FINANCE & MANAGEMENT

### **Potlatch to temporarily reduce timber harvest by 15%, cut dividend by 39%**

December 5, 2011 (Business Wire) - Potlatch Corporation (NASDAQ: PCH) announced its Board of Directors agreed to reduce the company's dividend by 39%, following the board's approval to temporarily reduce harvest levels to preserve the long-term value of strategic timberland holdings. The dividend will be reduced to 31 cents from 51 cents a quarter, with the reduction saving the company about \$8 million a quarter. The dividend change coincides with the board's agreement to reduce harvest levels by 15%, to 3.5 million tons, until log demand and pricing improves. The real-estate investment trust controls about 1.45 million acres of timberland in Arkansas, Idaho and Minnesota, which it manages for timber production.

### **Global Sticks shut for lack of wood, asking for \$2 million government bailout**

November 28, 2011 (Local News Remix) - A Thunder Bay, Ontario area plant that opened just six months ago closed its doors putting 80 employees out of work. Global Stick's CEO, Reggie Nukovic, is taking full blame for the fact the plant also has no consistent wood supply. Nukovic said the company made errors when applying for wood allocation from the province, most notably not including enough Aboriginal content in the application, one of the main reasons Global Sticks was denied. Three to four truckloads of birch are required every day to keep the plant operational. Global Sticks is willing to pay between \$60 and \$65 a cubic meter to secure a steady wood supply. Global Sticks utilizes birch to make value added products like sticks used for ice cream bars, popsicles, corn dogs, paint paddles and tongue depressors. The province of Ontario gave Global Sticks \$7 million in startup financing, but the company was not granted a wood supply license by the province of Ontario. In August it was reported that Global Sticks had been getting 95% of its wood from Minnesota.

### **Ontario Minister of Natural Resources speaks out on Global Sticks wood supply issue**

December 3, 2011 (The Chronicle Journal) - Today, Ontario's Minister of Natural Resources, Michael Gravelle, wrote an opinion piece in *The Chronicle Journal*, responding to an earlier editorial. "I feel compelled to respond to your recent editorial regarding the situation at Global Sticks, as well as to clear up significant misinformation that continues to swirl around this project. When the company first approached us with a request for a facility license it was on the basis that the 50,000 cubic meters of birch required would be accessed on a business-to-business basis. This is not unusual and, in fact, made sense to our forestry officials as there are a large number of license holders and private companies which could have met that demand. Subsequently, when Global Sticks had difficulty making those arrangements, our forestry officials became directly engaged with the company, identifying over 30 potential suppliers." It is important to note that the manufacturing process used by Global Sticks requires white birch veneer and only 10 percent of any white birch stand meets this high standard. In essence, this creates a challenge for the harvester who must find a market for the remaining 90 per cent of the trees it can't use. It is also important to say that these issues would exist even if the company had a Crown-allocated wood supply. A Crown-allocated supply doesn't create a market for the rest of the tree."

### **Verso reports Q3 \$0.3 million loss and \$69.2 million loss ytd**

MEMPHIS, Tenn., (Nov 7, 2011) – Verso Paper Corp. (NYSE: VRS) reported financial results for the third quarter and nine months ended September 30, 2011. Verso posted a net loss of \$0.3 million in the third quarter of 2011, or \$0.01 per diluted share, which included \$1.1 million of charges from special items, or \$0.02 per diluted share. Verso had a net loss of \$19.2 million, or \$0.36 per diluted share, in the third quarter of 2010, which included \$0.6 million of charges from special items, or \$0.01 per share. Year-to-Date Financial Results - Verso reported a net loss of \$69.2 million, or \$1.32 per share, for the first nine months of 2011, which included \$31.3 million of charges from special items, or \$0.60 per diluted share.

### **More lawsuits filed against Finnish wood procurement cartel**

BRUSSELS, Nov. 23, 2011 (RISI) - More municipalities in Finland plan to file claims for compensation for financial losses suffered due to a wood procurement cartel between **UPM, Stora Enso, and Metsäliitto** that operated in the country from 1997-2004. The Association of Finnish Local and Regional Authorities are naming 36 municipalities in total, of which five already filed claims with the Helsinki District Court some weeks ago, asking for almost EUR 2 million (US\$2.7 million) in damages as well as other compensation. **At the end of 2009, the Finnish Market Court found the three companies guilty of illegal price cooperation and exchange of information in the purchase of wood. The Court fined Stora Enso EUR 30 million and Metsäliitto EUR 21 million. UPM escaped penalty for blowing the whistle.**

### **Resolute [AbBow] CEO refuses \$1.7 million bonus**

November 07, 2011 (Globe and Mail) - The chief executive of Resolute [AbiBow] (ABH-T) is declining his incentive compensation of US\$1.7 million this year in an act of good faith as he reaches out to employees and communities for help in cost-cutting efforts at the forestry giant's Quebec operations.

### **Fibrex fears Resolute's unsolicited offer may undervalue company**

MONTREAL, November 30, 2011 (CNW) - Fibrek announced today that its Board of Directors, with the support of its financial and legal advisors, initiated a diligent assessment of the current situation and of the intention of Resolute Forest Products (AbiBow) to make an offer to acquire Fibrek, as previously announced. The Board of Directors will also fully consider any other strategic alternatives available to Fibrek and communicate Fibrek's views to its shareholders in due course. **The Board of Directors fears that Resolute's unsolicited offer undervalues Fibrek and its future prospects.** "The consideration offered under the Resolute proposal does not capture Fibrek's true value for its shareholders", said Pierre Gabriel Côté, President and Chief Executive Officer of Fibrek.

### **Maine finance agency provides \$1 million loan toward Great Northern Paper mill restart**

AUGUSTA, ME, Nov. 30, 2011 (Press Release) - The Board of Directors of the Finance Authority of Maine (FAME) recently approved direct loan financing for Great Northern Paper Company, LLC in Millinocket. FAME's actions will help to strengthen the company's financial position and create and retain approximately 215 jobs in Maine.

### **Nova Scotia provides \$25 million loan to keep Bowater Mersey [AbiBow] paper mill afloat**

LIVERPOOL, NS, December 2, 2011 (Press Release) - Premier Darrell Dexter acted today to protect about 2,000 jobs affiliated with the Bowater Mersey [Resolute Forest Products formerly AbiBow] pulp and paper mill in Queens County with a provincial investment in energy, innovation and productivity improvements at the facility. "The investment is part of a larger effort to support the Liverpool mill and its workers, and will give the facility a new lease on life," the premier said. The investment includes a \$25-million capital loan through the Nova Scotia Jobs Fund for a long-fiber refining project, which will reduce electricity consumption at the mill. Further details of support for the mill include a new agreement with the union, a property tax break from the Municipality of Queens and contributions from the Port of Halifax and Nova Scotia Power. Last month, employees at the mill voted 104-97 in favor of accepting concessions from the company, including layoffs, in an effort to try to keep the mill operating.

### **St. Marys Paper wins property tax appeal, refund = \$829,321**

December 6, 2011 (Local News) - The St. Marys Paper mill of Sault Ste. Marie, Ontario has won a property tax appeal. The company appealed its property assessment for 2006, 2007, and 2008. **An assessment board ruled that the total assessment (both property taxes and education taxes) be reduced from \$12.935 million to \$3.78 million. As a result, the company is due a total refund of \$829,321** for both its city and education taxes. Some \$414,893 of the refund is payable to the Wishart Law Firm LLP under a solicitor's lien on the refund, and the remaining \$414,428 has been paid to St. Marys Paper. This reduction will also have an effect on the tax years 2009, 2010, and 2011 due to tax capping.

## PRODUCTION & PRICES

### Correction to November article “Bluestain wood is a hard sell”

As reported in the Black Hill Pioneer: “According to the U.S. Department of Agriculture, approximately 74% of trees on the forested lands in the United States have been killed by the mountain pine beetle...”

*Editor’s note – obviously, this statistic was incorrectly reported in the source article.* While a reliable estimate does not appear to be readily available, the epidemic is a very serious ecological and economic problem in portions of the Western U.S. (Colorado) and Western Canada (British Columbia). The bugs have jumped to eastern species and are moving toward Ontario and Minnesota.



Flooring manufactured from beetle-killed Colorado lodgepole pine.

### Provinces desperate to stop eastward march of mountain pine beetle

April 2011 (The Globe & Mail) - It’s no longer a matter of if, but when the destructive mountain pine beetle will spread east of Alberta through Canada’s northern boreal forest, say provincial forestry experts in Manitoba and Ontario. These provinces, along with Saskatchewan, are stepping up efforts to reduce the insect’s anticipated damage. A recent study confirming that, **in Alberta, the beetle has jumped species from lodgepole pine to jack pine trees** – the most common type of pine in the boreal forest – has amplified concerns and stirred new calls for the federal government to play a stronger role in implementing a national forestry pest strategy.

### Terrace Bay, ON pulp mill shut 3-months for fatal explosion repairs

Nov. 23, 2011 (Local News) - Terrace Bay Pulp's 350,000 tonne/yr northern bleached softwood kraft (NBSK) pulp mill in Ontario will shut November 30 for 3-months to make repairs after a fatal explosion occurred at the facility. **Repairs are needed on a blow tank in its old mill #1 that exploded, killing one worker and injuring two.** In addition, the firm intends to finish other project work related to Canada's Green Transformation program. Terrace Bay Pulp restarted in September 2010 after being idle for 20 months after it was able to obtain refinancing, including a \$25-million loan from the province of Ontario

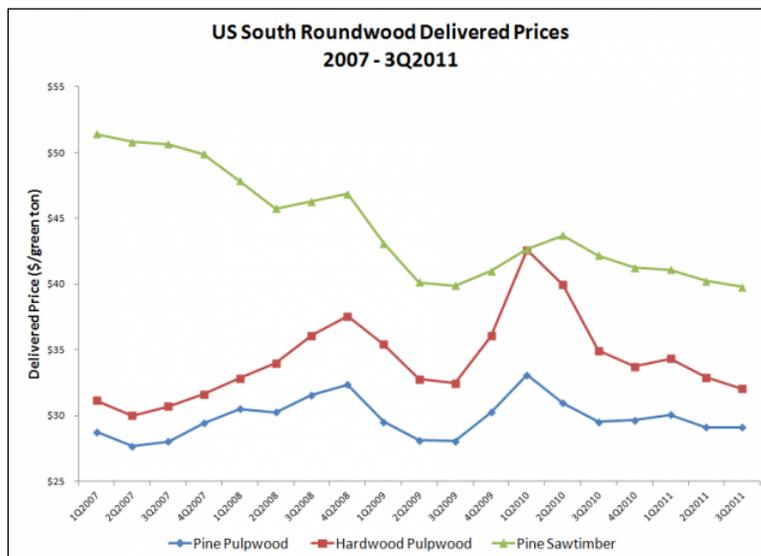
### Pulp demand down 10% y/y in North America and Europe

November 22, 2011 (RISI) – October global pulp shipments to traditional contract markets in North America and Western Europe headed south, leading sources to expect 2011 would close with ongoing price declines around the world. **World-20 deliveries to North America slid to just 541,000 tonnes in October, down 19.2% sequentially and down 10.3% from year-ago results of 603,000 tonnes.** Shipments to Western Europe totaled 1.093 million tonnes - virtually the same as August - as a seasonal bounce in September waned and the continent grappled with financial and economic turmoil. **October deliveries to Western Europe slipped 11.6% month-over-month and were down 11.5% from year-ago shipments of 1.235 million tonnes,** the PPPC reported. The shipment-to-capacity ratio, which some watch as an indicator of demand, slumped to just 81% in October. That was down from 100% in September, according to the PPPC.

### Delivered wood prices continue decline in U.S. South

October 28, 2011 (F2M Market Watch) - Despite increased demand and inventory building by mills, delivered prices for roundwood in the US South continued their downward trend during the third quarter. Supply was not an issue as both delivered and stumpage prices fell despite the increased demand. Favorable weather conditions and declining diesel costs were the primary drivers; they freed up supply and caused the price reduction.

*Pine Pulpwood* - Delivered prices were down \$0.01/ton from 2Q2011 to average \$29.10/ton this quarter.



Stumpage prices fell \$0.18/ton to average \$7.92/ton. Purchased tons were up 5 percent. Compared to the same period last year, delivered prices were down \$0.42/ton, while stumpage was down \$0.75/ton. Over a 5-year history (19 quarters), pine pulpwood delivered prices have increased at a compounded annual percentage rate (CAPR) of 0.2 percent while stumpage prices have decreased at a 2.9 percent CAPR.

*Hardwood Pulpwood* - Despite a 9 percent increase in purchased tons, delivered prices were down \$0.85/ton from 2Q2011 to average \$32.04/ton this quarter. Stumpage prices decreased \$0.35/ton to average \$6.21/ton. Compared to the same period last year, delivered prices were down \$2.90/ton, while stumpage was down \$1.88/ton. After peaking in 1Q2010, hardwood prices have reached their 5-year trend level. As a result delivered prices have increased at a 0.6 percent CAPR while stumpage prices have decreased at a 1.3 percent CAPR.

*Pine Sawtimber* - Despite a meager 1 percent increase in purchased volume, pine sawtimber reached a 5-year historic low this quarter for both delivered and stumpage prices. Delivered prices averaged \$39.78/ton this quarter, down \$0.45/ton compared to 2Q2011. Stumpage, prices averaged \$20.05/ton, a decrease of \$1.24/ton. Compared to the same period last year, delivered prices were down \$2.40/ton while stumpage prices were down \$3.26/ton. Five-year delivered CAPR reflects a 5.4 percent decrease. For stumpage, the CAPR reflects a 10.5 percent decrease.

### Lake States aspen stumpage tops \$30 per cord despite paper market downturn

November 29, 2011 (Editor's note) – Just released Timber Mart North (TMN) price reports for Michigan, Minnesota, and Wisconsin provided a “surprise” as all three states posted average aspen stumpage prices greater than \$30 per cord while pulp & paper prices quickly approach break-even or below. For the record, statewide average aspen stumpage prices reported April - Sept. 2011 were: Michigan = \$30.28 per cord (\$13.46 per ton), Minnesota = \$30.99 per cord (\$13.77 per ton), and Wisconsin = \$34.20 per cord (\$15.20 per ton).

### Booming PNW asian log trade suddenly goes bust

November 23, 2011 (Local News) - The recent frenzy of log and lumber exports to China, which sent ripples rolling through various parts of timber industry this year, has experienced a sudden slowdown. On Monday, the U.S. Forest Service's Pacific Northwest Research Station reported that West Coast log and lumber exports had already surpassed calendar 2010 totals during the first nine months of 2011. However, demand for logs and lumber in China has ground to a sudden halt.

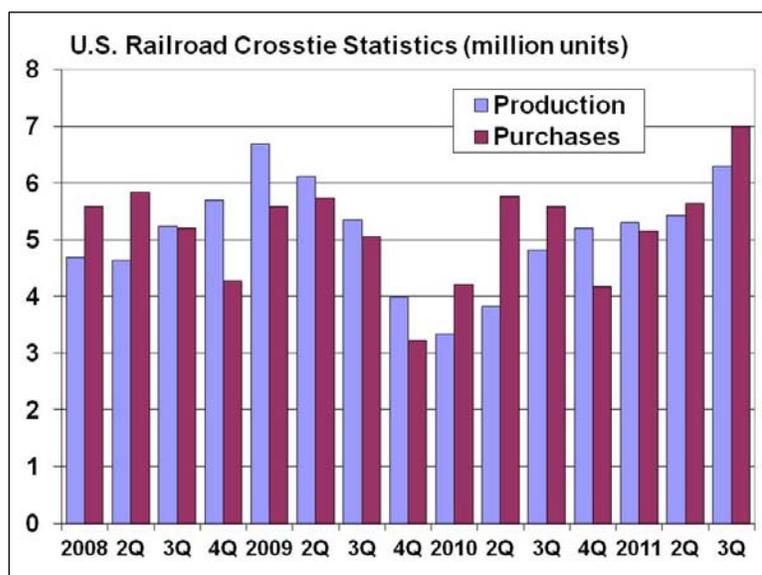
Whether the slowdown lasts several weeks or several months, the lesson to take away is the volatile nature of the Chinese market, said Tom Partin, president of the American Forest Resource Council. “A number of purchase orders simply aren’t being honored.” He said “ships are sitting idle in Chinese harbors, unable to unload their cargo. The Chinese housing market appears to be overbuilt.”

### Chinese cutting dissolving pulp production on 50% price drop

SHANGHAI, Nov. 30, 2011 (RISI) - Several Chinese pulp and paper producers have reduced their dissolving pulp (DP) production in response to declining prices. Hunan Juntai Pulp & Paper switched back to producing pulp for paper production earlier this month on a 300,000 tonne/yr swing DP line at its mill in Huaihua city, Hunan province. Elsewhere, a 50,000 tonne/yr DP line at Fujian Nanping Paper is taking downtime this week. A company contact said that due to worsening DP prices, the line at the site in Nanping city, Fujian province, is scheduled to start unbleached kraft pulp production next week. Yanbian Shibian Bailu, which boasts a combined capacity of 100,000 tonne/yr DP at its mill in Yanbian city, in the northeastern province of Jilin province, is also cutting production. Recently, it has cut its daily output by half to around 3,000-4,000 tonnes to cope with the weak market demand. Sources reported that the market price for DP is now around RMB 8,000/tonne (\$1,256/tonne), having dropped by almost 50% from levels earlier this year.

### U.S. railroad crosstie Q3 purchases up 24% q/q and 14% y/y

November 23, 2011 (RTA) - In the third quarter 2011, crosstie purchases totaling 7 million units exceeded second-quarter levels by “an explosive” 24 percent and production rose 16 percent to 6.3 million units, according to the Railway Tie Association’s (RTA) monthly crosstie market report. Through 2011’s first nine months, production stood at 17 million units, up 42 percent year over year, evidence that producers have rebounded from a weak 2010, RTA officials said. YTD purchases grew 14 percent to 17.8 million units.



### Hardwood update, low-grade is the only grade

December 1, 2011 (Pallet Enterprise) - The crash of the U.S. housing market has resulted in grade mill shuts and a low volume market catering to industrial applications. Until there is a significant turnaround in the housing market there is little reason to expect any of the market dynamics to change. Current prices for #1 common hardwood boards currently are the lowest in the history of such record keeping. The crash of grade markets led hardwood sawmills to employ two strategies. The first strategy was to reduce grade lumber output, shutdowns were common. The second strategy was to focus on sectors that displayed better stability. This has many hardwood mills focusing on low-grade markets.

Unlike the grade market, there has been consistent demand for low-grade hardwood in industrial markets. Railroad crossties and pallet material are unique in the hardwood market in that they have not been impacted by the dramatic decline in housing starts. The main benefit is pricing stability as opposed to profitability. The solid to strong demand for rail ties, pallet cants, board road, crane and dragline mats have carried sawmills in some areas. The demand in these sectors helped to stabilize prices that might have otherwise been soft.

## RENEWABLE ENERGY

### **Biomass outlook 2012: international growth and domestic obstacles**, by Kate Bechen

November 22, 2011 (Biomass Magazine) - In 2012, expect to see the continued development of the biomass industry in the European Union and other areas of the world. Currently, the U.S. leads the world in biomass power capacity, but that is beginning to change. The North American wood pellet industry has become a major supplier to the EU. The volume of EU-bound wood pellet shipments in 2010 was double that of 2008, with the Netherlands, the U.K. and Belgium leading the demand. From 2008 to 2009 the EU's gross electricity production from biomass increased more than 10 percent, with Germany, Sweden and the U.K. leading the way.

The U.K. is not the only place to see recent movement in the biomass space that is expected to continue throughout 2012. India, Japan and Brazil have added biomass power capacity with additional projects in development phases. In addition, biogas is expected to see significant growth in Italy, France and Spain. China, in particular, has set ambitious goals for its biomass industry. By 2015, China wants to have 13 gigawatts of biomass power capacity, which is a 160 percent increase from its 2010 capacity. This means China anticipates adding 500 to 700 biomass power plants by 2015. With a biomass reserve equivalent to 500 million tons of coal, from sources such as straw, algae, methane, fallen timber and manure, China may very well emerge as the new high-growth country in the biomass space.

The U.S. biomass industry is growing, though it will continue to face significant challenges during 2012. Several new biomass plants are under construction (not just in the development stage) including 100 megawatt (MW) plants in Texas and Florida and smaller 50 to 75 MW plants in New Hampshire and Florida. Several more plants are in the development phase, with construction expected to begin in 2012. [With portions of the Maximum Achievable Control Technology (MACT) rules stayed and further changes expected, a delay on implementation of the EPA Tailoring Rule for biogenic emissions, and pending revisions of certain waste definitions, the U.S. biomass industry is suspended in a realm of political uncertainty.]

What the biomass industry can't control is the price of natural gas and oil. Further, the inability to establish an acceptable definition of "biomass" has torn the industry's focus away from developing its supply chain and establishing its presence as a cost-effective alternative to fossil fuels. In addition, we are seeing a shift toward investment in smart grid and energy efficiency technologies, which may result in a focus away from biomass projects, at least in the short term. Energy service providers are focusing more on smart grid technologies, as a result of commercial customer demand for real-time energy management capabilities, through the acquisition of battery storage and consumer-driven energy management technologies.

### **"Game on" for NA wood pellet exporters**

December 1, 2011 (RISI PPI Fiber) - Hunger for North American woodfiber to supply production of industrial-grade export pellets is moving from conceptual to actual with the startup of large European wood-fired power plants, and will intensify as development of newly announced projects moves forward. Most of these new pellet mills will require roundwood to operate, promising pressure on pulpwood markets in the US South, US Northeast, and British Columbia. Of note to pulp mills in the South Atlantic region is the influence of Georgia Biomass, a 1.65 million green ton per year softwood consumer (running at a capacity of 825,000 tons of pellets per year), that delivers its product to the newly commissioned RWE npower's 750-MW wood energy plant in Tilbury, England. The massive power plant could consume over 2 million tons per year of pellets after it reaches commercial capacity next quarter.

## Wood Statistics

	Latest Month	Month Ago	M/M Change	Year Ago	Y/Y Change
<b>Conference Board Indices (2004=100)</b>					
LEI (Leading Economic Index) ®	Oct(p) 117.4	116.5	0.8%	111.2	5.6%
CEI (Coincident Economic Index) ®	Oct(p) 103.5	103.3	0.2%	101.6	1.9%
LAG (Lagging Economic Index) ®	Oct(p) 110.9	110.3	0.5%	108.7	2.0%
<b>Industrial Production (2007=100 SA)</b>					
Mfg - Pulp, Paper, & Paperboard	Nov(p) 87.2	86.2	1.2%	88.8	-1.8%
Mfg - Wood Products	Nov(p) 69.1	70.3	-1.7%	70.1	-1.4%
Mfg - Furniture & Related	Nov(p) 69.2	69.0	0.3%	67.2	3.0%
Total Industrial Production	Nov(p) 94.8	95.0	-0.2%	91.4	3.7%
<b>Employment (000s Jobs SA)</b>					
Total Nonfarm	Nov(p) 131,708	131,588	0.1%	130,108	1.2%
Manufacturing	Nov(p) 11,764	11,762	0.0%	11,554	1.8%
State & Local Govt.	Nov(p) 19,172	19,188	-0.1%	19,423	-1.3%
<b>Forest Industry (000s Jobs NSA)</b>					
Logging	Oct(p) 48.3	49.3	-2.0%	51.4	-6.0%
Sawmills	Oct(p) 82.1	81.3	1.0%	81.4	0.9%
Engineered Wood Products	Oct(p) 63.1	64.2	-1.7%	65.2	-3.2%
Pulp & Paper Mfg	Oct(p) 80.7	81.3	-0.7%	82.4	-2.1%
Paperboard Mfg	Oct(p) 29.1	29.6	-1.7%	29.8	-2.3%
<b>Housing Market (000s units SAAR)</b>					
Private Starts	Nov(p) 685	627	9.3%	551	24.3%
Private Permits	Nov(p) 681	644	5.7%	564	20.7%
Manufactured Home Shipments	Oct(p) 62.0	55.0	12.7%	44.0	40.9%
<b>Market Pulp Contract Prices (US\$/ton)</b>					
Eucalyptus (delivered US East)	Dec(p) \$675	\$705	-4.3%	\$807	-16.4%
NBHK (delivered US East)	Dec(p) \$640	\$666	-3.9%	\$744	-14.0%
NBSK (delivered US East)	Dec(p) \$807	\$835	-3.4%	\$869	-7.1%
<b>Structural Panel Prices (US\$/Msf)</b>					
OSB Composite	Dec-2 \$212	\$201	5.5%	\$220	-3.6%
OSB NC 7/16 Sheathing (fob)	Dec-2 \$192	\$185	3.8%	\$202	-5.0%
OSB SE 7/16 Sheathing (fob)	Dec-2 \$169	\$162	4.3%	\$173	-2.3%
<b>Lumber Prices (US\$/Mbf)</b>					
RL Eastern SPF Composite	Dec-2 \$303	\$297	2.0%	\$311	-2.6%
KD SPF 2x4 Std.&Btr. del Chicago	Dec-2 \$308	\$295	4.4%	\$324	-4.9%
Red Oak Grn 4/4 #2A& (fob)	Dec-3 \$500	\$500	0.0%	\$555	-9.9%
Pallet Lbr Grn 4/4 RW (fob)	Dec-3 \$225	\$225	0.0%	\$230	-2.2%
Crossties Grn 7"x9"x8.5ft per piece	Dec-3 \$22	\$22	0.0%	\$22	0.0%
<b>US Rail Shipments (carloads)</b>					
	5 weeks	4 weeks		5 weeks	
Roundwood & Chips	Nov 7,464	6,048	n/a	7,911	-5.7%
Lumber & Wood Products	Nov 13,292	10,802	n/a	11,539	15.2%
Pulp & Paper Products	Nov 29,497	22,806	n/a	29,148	1.2%
<b>Canadian Rail Shipments (carloads)</b>					
	5 weeks	4 weeks		5 weeks	
Roundwood & Chips	Nov 7,844	6,490	n/a	6,582	19.2%
Lumber & Wood Products	Nov 13,195	10,656	n/a	10,978	20.2%
Pulp & Paper Products	Nov 16,792	12,896	n/a	18,368	-8.6%