

BIV'S TOP 100 COMPANIES: CONTRACTORS AND SHAREHOLDERS NEED EACH OTHER

By Robin Brunet

It was good news for BC's forest industry when *Business in Vancouver (BIV)* announced its Top 100 Public Companies list in June: no less than 13 of the 100 firms cited were forestry and forestry-related companies, either local or with substantial operations in the province.

The forestry related companies named by *BIV* are: Finning International Inc.; Ritchie Bros. Auctioneers; West Fraser Timber Co. Ltd.; Canfor Corp.; Interfor; Taiga Building Products; Mercer Canada Ltd.; Western Forest Products; Canfor Pulp Products Inc.; CanWel Building Materials Group Ltd.; Conifex Timber Inc.; Fortress Paper Ltd.; and Acadian Timber Corp.

But to insiders, the accolade went deeper than just industry recognition. Although the firms named by *BIV* are diverse, the licensees are united in one respect: their success is due to the hundreds of contractors who serve them.

David Elstone, Executive Director of the Truck Loggers Association, says, "Canfor, Western Forest Products, and other licensees named by *BIV* depend on a timber harvesting contractor base. While we're happy to see so many forest products producers make the list and report quarter after quarter of improved earnings, it's painfully important to point out that the contracting community is not partaking in this upward trend."

According to *BIV* data, the forestry sector played a big role in the average total revenue of BC's top 10 publicly owned companies increasing from \$4.9 billion to \$5.4 billion between 2012 and 2016. Forest products producers West Fraser and Canfor enjoyed "consistent profit and revenue growth." In fact, the former's profits jumped 213 percent between 2015 and 2016, and Canfor's grew 122 percent in the same time frame.

It's no surprise to TLA members that the big licensees are posting substantial gains and success in an industry that has withstood so many challenges is cause for cheer. "But we also need to address imbalances within the sector if that success is to be sustained," says Elstone.

He is referring to many of the province's contractors, who collectively employ thousands of fallers, log haulers, and loggers, not seeing a return on their investments in equipment and employees that are necessary to maintain operations. This is in stark contrast to the rosy image conveyed by the earnings of their employers—clearly something is not right.

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The situation has long been viewed by the TLA as untenable and is even more disturbing given the countervailing duties on Canadian softwood lumber exported to the US. It is widely believed that if the softwood dispute causes an industry downturn, many contractors won't be able to survive it as they now have far less equity and financial reserves than they did prior to the advent of the 2009 recession.

Recently, hope came in the form of the Contractor Sustainability Review led by George Abbott and his partners at Circle Square Solutions who are the independent facilitators overseeing the review process.

So far in the Review process, PNL Consulting Inc. has completed a financial assessment of the contracting sector; it was based on input from 122 contractor companies who log about 26 percent of the average provincial harvest, and it identified drivers that may impact their well-being. "George Abbott and his team are currently in the middle of meeting with contractors and licensees, listening to personal accounts of the issues that exist," says Elstone.

The facilitation process will be completed by the end of 2017, with the intent of determining why contractors are not able to be as successful as their employers, the tenure holders. Abbott will recommend what can be done to improve the situation, with remedies that can presumably be embraced by contractors and licensees while maintaining global competitiveness.

The focus isn't exclusively on contract rates: elements such as regulatory constraints and legislative roadblocks impact the ability of a contractor to turn a fair profit, while the time it takes to lineup steady work and planning are two of many examples of operational issues. Elstone remarks, "All we can say at this point is that contractors and licensees have been meeting with Abbott, and

so far we're satisfied with the process. What I hope is being achieved is a demonstration that a lack of returns in these small businesses is a symptom of broken relationships between them as the independent timber harvesting contractors, and the forest products producers that retain their services."

The TLA executive director, who has gone on record calling the sustainability review the most important development to the BC industry in the past 20 years, won't describe his mindset as cautiously optimistic. Instead, and like so many of his colleagues, he is simply hoping for the best possible outcome: "The *BIV* Top 100 list is yet more proof that BC is still very much dependent on forestry; but given that contractors are the foundation of this industry, we must do whatever we can to ensure that they operate on an even playing field." With a dose of sober realism he adds, "This process is, for some, their last chance. If the Review doesn't result in practical changes, these contractors say they're done with this industry."

If contractors continue to exit the business, that puts into question the continued success of the firms that the *BIV*'s article reports on. ♣