

FIBRE, FIBRE EVERYWHERE, BUT NOT A LOG TO MILL

By Ian MacNeill

The TLA's most recent report, *Community Perspectives On The BC Coastal Forest Industry*, found coastal mayors are not nearly as optimistic as they once were about the future of forestry in their communities, marking a significant change in tone. Just over a decade ago, 88 per cent of community leaders surveyed felt positive about the direction forest policy changes were taking and were confident these changes would lead to a successful forest industry in their community. A dozen years later, only 56 per cent of community leaders are optimistic about the future of forestry.

The report findings also showed that lack of local manufacturing in their communities continued to be one of the mayors' biggest concerns. They are frustrated

by BC's inability to compete with other regions and other countries in manufacturing and with the lack of local mills capable of efficiently utilizing the harvest while recognizing the true value of our fibre. While the finger is often pointed at log exports as a detractor to local manufacturing on the BC coast, the community leaders we surveyed show guarded support for log exports with 62 per cent supporting them today as compared to 60 per cent in the past. Discussions with small to medium size independent sawmillers on the coast made it clear that log availability was an issue. We asked the same type of manufacturers in BC's Interior and got a similar response. **So, why are logs not available?**

With this question in hand, we set out to investigate the challenges small mill

owners on the coast and in the Interior are facing and ask them about their fibre supply knowing that both regions have issues unique to their operating areas.

Interior Fibre Supply Perspective

All Ken Kalesnikoff wants is some wood. Not just any wood. Good wood. High-quality fibre he can use to produce a wide range of specialty products for niche markets, everything from lamstock and furniture-grade wood to flooring and Japan Zarai, a fine grain, small-knot fibre used to build traditional Japanese houses. He even produces wood to build guitar tops and pianos. "We look at every log and try to come up with the best use for it," says the owner of Kalesnikoff Lumber in Castlegar, adding that doing so is the proven way to get the maximum



value out of British Columbia's forest resources and create the most jobs, often in small communities that need these jobs to survive.

Kalesnikoff Lumber has a history that spans more than 75 years and four generations. Ken Kalesnikoff would like to see it carry on into the future; his son Chris is the mill's operations manager and his daughter Krystle Seed is the chief financial officer. The company has practiced sustainable forestry management throughout and boasts a solid reputation for maximizing value from the resource.

The problem is not that the fibre he needs doesn't exist, says Kalesnikoff; it's that he has trouble getting his hands on it. (It is important to note that Castlegar is well outside of the beetle-killed areas.) Most of the wood in British



Photo courtesy of Kalesnikoff Lumber

Kalesnikoff Lumber is based in Castlegar and has created secure, local, well-paid jobs for over 75 years.

Columbia's Interior is controlled by a handful of companies whose business model, according to Kalesnikoff, consists of "blowing it all into dimension lumber as quickly as they can" rather than sorting through it and sifting out the kind of logs Kalesnikoff and other wood remanufacturers in BC need.

"When we try to do deals they just don't work," he says. Adding to the frustration is that he can't even buy the logs he needs when he's prepared to pay over and above market prices. He recalls a deal he tried to do where he offered one of the major mills in his area \$200 a cubic meter for the logs he needed at a time they were worth about \$50. "I even offered to sell him two logs for every one he sold me and he still said no," Kalesnikoff recalls in disbelief.

While Castlegar isn't in the heart of beetle-kill country, over 54 per cent of the merchantable pine in the province—roughly the equivalent of 15 years of the current BC Interior annual harvested

volume—has been killed by the mountain pine beetle outbreak according to BC provincial government projections. In Enderby, mountain pine beetle has much more impact on the fibre supply shortage. But even there, it's not the whole story.

Warren Carter of North Enderby Timber, which employs 160 directly in the north Okanagan community, say both tenure consolidation and the beetle kill have presented serious challenges, often forcing him to augment his fibre supply by turning to BC Timber Sales (BCTS), First Nations and woodlots. However, "while we may have fibre today, we are left waiting for others to determine our destiny." He says supply is so uncertain that it is virtually impossible to plan for the future because he hardly knows from one month to the next where his next log is coming from.

"We were one of the largest independent bidders of BC Timber Sales wood in BC," says Carter. "Traditionally, over

the last 10 years, we've logged 250,000 – 300,000 cubic metres of BCTS wood annually in both categories one and two [bidding categories as defined by BCTS]. Currently, I only have one timber sale license in inventory of about 13,000 cubic metres where we would normally have 150,000 cubic metres and more ahead of us." But Carter is experiencing another change in industry dynamics—major licences are now bidding to supplement their licence wood reflecting future planning around timber reductions. It boils down to this: There is more milling capacity in the BC Interior than there are logs to support it. Our tenure system is outdated and needs major reform to account for the new reality of falling AAC and the growing needs of First Nations, communities and other industry sectors.

It's no exaggeration to say that it's a matter of survival. Kalesnikoff Lumber is part of the Interior Lumber Manufacturers Association (ILMA), an industry group of nine members and they're struggling to access fibre at a price they can afford. They're located in smaller centres in southeast British Columbia and they all play a vital role in the economic health of their communities, providing both employment and taxes. They range from companies like J.H. Huscroft in Creston to Atco Wood Products in Fruitvale.

The ILMA is working to find mechanisms to allow untenured sawmills and other wood high-value specialty product manufacturers to get the fibre they need. It's "the million-dollar question," says Ken Kalesnikoff. While the ILMA may not have the answers yet, they are exploring options with Ministry of Forest, Lands and Natural Resource Operations staff to help find some and have developed a solutions document, *Making British Columbia's Forest Economic Engine Great*. Right now that work includes the following:

- Initiating pilot projects within the BC Timber Sales structure that would target the flow of fibre to high-value wood-product production, potentially leading to the creation of a separate category in BCTS that would direct a substantial portion of the BCTS cut to these same producers on a permanent basis.



JACQUI BEBAN VP Logging

C 250.951.1410 F 778.441.1191
T 778.441.1190 E jacqui@beban.bc.ca

#204 - 321 Wallace Street Nanaimo, BC V9R 5B6



250-245-1480

We ship anywhere!
Heavy duty leaf springs that last!

- Competitive Prices •
- Custom U Bolts •
- Leaf Springs •
- Lift Kits •

Since 1977

www.islandspring2010.com

- Conducting an economic analysis that would determine the comparative true value to communities, stakeholders and people of British Columbia of optimizing the flow of fibre to “highest best use” as compared to simply directing the bulk of the annual allowable cut through large commodity sawmills. This analysis will help support the business case to invest in creating a stronger high-value wood product sector and ensuring consistent access to the raw log required.
- Creating incentives that encourage large licensees to maximize the trade of high-value logs for logs suitable to their product production so that all players can move forward with greater security of log supply.

“We know we’re not going to gain anything by stomping up and down and yelling about what the major licensees are doing and how they control everything,” says Kalesnikoff. “They’re entitled to their business model and you can’t blame them for making the best use of the wood they control. But I think it’s wrong to take high-value timber and blow it all into two-by-fours. That’s an important part of the business and God bless them for doing it, but what we do is important too. It’s important for us, it’s important for our customers who want and appreciate the products we make and sell, and it’s important to the communities we live in and the BC economy.”

Coastal Fibre Supply Perspective

Here’s how bad the situation has become on the BC coast for small to mid-size sawmills and remanufacturers when it comes to accessing fibre—nobody wants to talk about it for fear of being cut off by suppliers altogether. *Truck LoggerBC* magazine spoke to a few of them, but only on condition that we don’t use their names.

“Nobody wants to say anything for fear of reprisals,” says Mr. Cedar (not his real name). “It happened to me once a long time ago and I don’t want to risk it again.”

“There’s no upside talking to the press,” said Mr. Fir (not his real name).

According to Mr. Cedar, the problem isn’t that the fibre does not exist; it is that the tenure holders who have control of it either won’t cut it, or if they do, won’t sell it. He argues that the distribution of tenure—with the overwhelming majority in the hands of only a few major licensees and a small portion available through BC Timber Sales—is driving up the cost of wood up for everyone else making it a struggle to survive.

“A year and a half ago I was paying \$58 to \$68 a meter for logs with an average diameter of 1.8 meters,” says Mr. Cedar. “Now, before dewatering and trucking I’m paying \$127 a meter and the log average is down to 0.4 to 0.5 meters.” Even at those prices he has trouble getting logs, so much so that “we’re taking more four-day weekends than you can shake a stick at.” Ironically, he considers himself one of the lucky ones. “We have good relations with log suppliers and that has kept us going, but I hear from other mills who can’t get anything.”

In such a climate it is not surprising many smaller mills and remanufacturers are calling it quits or being driven out of business. According to Russ Cameron, President of the Independent Wood Producers Association (IWPA), the uneven economic playing field combined with the impacts of the Softwood Lumber Agreement is primarily responsible for the demise of 54 of the 107 members that the International Wood Products Association had in 2002. “And while BC has been losing its value added sector,” he adds, “the major licensees have purchased as many as 39 sawmills in the United States.”

Given the opportunity to speak without fear of reprisal, Mr. Fir is frank in expressing his frustration and condemning the current system. “We’re not going out of business because we can’t run a business,” he says. “Tenure has consolidated into the hands of a few major licences and now it’s considered the new normal and we’re asked to live with it. We can’t.”

It would be a shame if Mr. Fir’s and yet more independent mills and remanufacturers in BC were to call it quits. Their customer bases, sometimes cultivated over decades if not generations, would

have to find the products they make elsewhere, their employees would have to find new jobs, often in communities that have few options for them, and the community themselves would lose tax revenues, further challenging their very viability. However, if something doesn’t change it’s hard to imagine that there won’t be more casualties.

Provincial Solutions for Fibre Supply

Based on these interviews, it’s clear the preconceived notions of why coastal and Interior small to medium manufacturers are struggling aren’t the whole story. Beetle-killed timber is a challenge but not the be-all end-all. Log exports are often seen as part of the problem, but as Barry Simpson of Oceanview Forest Products explains (see sidebar on page 31), they are actually a part of the solution. However, in both regions there is a distinct underlying theme—an overwhelming control of the public resource by a few.

However, the government isn’t sitting idle. “Last month I attended the launch for *Strong Past, Bright Future: A Competitiveness Agenda for BC’s Forest Sector* and was pleased to see an action plan for the value added sector launched at the same time,” said Elstone. “I also like the ideas the ILMA are working on (see bottom of third column, page 26) and I think they would also be applicable here on the coast.” Elstone considers the *Community Perspectives On The BC Coastal Forest Industry* report on his desk. “All things considered, if coastal mayors are not nearly as optimistic as they were about the future of forestry in their communities a decade ago, we know something’s not working. Perhaps the *Forest Revitalization Act* of 2003 did not go far enough in addressing tenure?” suggests Elstone. “I look forward to seeing what changes the *Competitiveness Agenda* brings about.”⁴