THE IMPACT OF SOFTWOOD LUMBER ON SMALL FORESTRY FIRMS

Eleven years after the previous softwood lumber dispute ended in a negotiated agreement, the BC forest sector is back at the table. While some of the emerging details of the current negotiation differ this time around, much of the playbook looks the same. At the time of writing, countervailing duties have been established, with additional anti-dumping duties to be announced on June 23.

Though the game is familiar, the field has changed: There are now fewer small sawmills and contractors operating in the province and several First Nations now hold forest tenures. What impact might a new softwood lumber agreement have on these players? Past experiences can offer some insights into how the dispute may unfold and the implications for small forestry businesses across the coast and the Interior.

As with the previous softwood lumber agreement, forestry businesses in the Interior will likely bear the brunt of the impact due to dependence on the US softwood lumber market. In the months leading up to the US announcement of countervailing duties, US lumber prices rose in anticipation, which will help to cushion the impact. Over the longer term, however, US prices will fall again as markets adjust, with offshore imports of lumber and US production filling some of the gap in supply to US consumers. A similar run-up and adjustment occurred during the previous softwood lumber dispute. The effect of combined duties and lower lumber prices will translate into lower log values for softwood lumber log grades and reduced returns for companies involved in harvesting and selling timber. Anticipated reductions in the allowable annual cut (AAC) due to lingering effects of the mountain pine beetle will keep log supply tight. In the short term, this will help offset downward pressure on prices for those with timber to sell into the market. Those without tenure will face lower lumber prices and a smaller market while paying relatively higher prices for logs.

The effects of duties will also play out differently among firms of different sizes. While most licensees will be slapped with retroactive duties, the three major licensees in the Interior will not, which will put them at an advantage as they attempt to compete for logs. Furthermore, if large firms under scrutiny for anti-dumping respond as they did the last time, they will attempt to increase volumes to reduce their per unit cost, increasing competition for logs. Contractors for major licensees will also be under pressure to reduce costs, even as they scramble to expand their procurement areas to find enough logs. All parts of the supply chain will be squeezed, with the smallest firms under the greatest pressure despite having less capacity to pay duties and fewer options to consolidate operations and cut costs.

Firms on the coast will be shielded somewhat by their diverse geographic and product markets, including log exports. Logs that would otherwise have been milled into lumber for the US market may instead be exported to avoid duties. This shift to favour log exports over manufacturing could be strengthened if higher lumber prices in the US pull back high-quality logs that would otherwise have been exported from Washington and Oregon to Asia. This may lead to an uptick in demand for logs from BC and boost prices as overseas markets look to make up for a reduction in exports from Pacific Northwest states.

Firms dependent on red cedar, a high-value coastal species, have already raised prices in the short term to pass on the impact of duties. However, over the longer term, buyers will become less willing to pay these higher prices; as buyers eventually turn towards other products demand will erode. In the meantime, the limited supply of cedar means little benefit to small firms that use cedar and rely on the market although suppliers of cedar will see some small benefits short term. Over time, duties create an incentive to move value-added processing (especially cedar products) across the border to avoid the extra duties, similar to what happened during the last dispute. Longer term, this is likely to lead to a decrease in higher-grade log values that could reduce harvest levels as marginal stands become uneconomic to harvest. As in the Interior, the result will be margins that are squeezed for contractors due to lower harvest revenues while operating costs remain unchanged.

In short, the overall effect of the dispute will be to reduce market opportunities for lumber producers that will ripple through to their suppliers (contractors and timber suppliers, including smaller First Nations licensees and those looking to establish or grow their business, many of them First Nations). While negative impacts can be expected throughout the sector, smaller forestry businesses will be hit the hardest. Over the next few years, absent a satisfactory resolution to the dispute or policy response to the distortions created by it, we are likely to see further consolidation within the industry and a less diversified industry—a continuation of trends that followed the last dispute.

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