



## HOW CAN BC BE A MORE ATTRACTIVE INVESTMENT?

While speaking on the direction of the forestry industry at the Association of British Columbia Forest Professionals annual conference in February 2016, I made a number of statements regarding the relative attractiveness of British Columbia for forest investment, the resource's ability to provide sufficient rent for "everyone to do everything" and how the industry's success is ultimately determined by its continued ability to attract capital. After the conference, the TLA asked if I might elaborate in *Truck LoggerBC*. Specifically, I will try to share my views on why several major BC licensees are actively investing in the US southeast rather than in BC and what might be done to make investment in the BC industry more attractive.

In addressing the first question it is important to note that operational growth within BC is increasingly difficult for the major tenure holders as timber is fully allocated and these major players are constrained by post pine beetle harvest level reductions in the Interior and, to some degree, competition issues. Despite competition challenges in regard to further consolidation of the BC forest industry—as evidenced by the requirement of some of the larger consolidators to sell specific acquired mills—I believe further consolidation within BC is possible subject to limited regional constraints.

The major industry players' interests outside of BC are largely a reflection of these companies' successes. With BC now being home to the two largest lumber producers in the world (West Fraser (1) and Canfor (2)) and four of the top nine North American lumber

producers (Interfor (6) and Tolko(9)), their further growth almost certainly requires that opportunities be explored increasingly globally while thoughtful risk management supports a strategy of geographical diversification of assets, products and markets within those areas where their business can excel.

in Figure 1, this has led to a prolonged period where lumber margins in the US south are meaningfully more attractive than the US Pacific Northwest. In addition, US sawmills also benefit from improved market access while being less exposed to foreign exchange. As a result, several of our native BC compa-

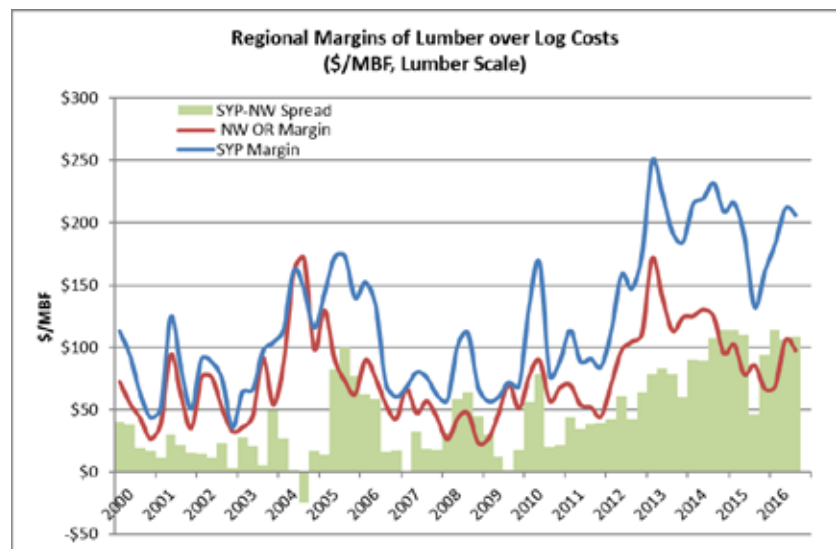


Figure 1

Data Sources: Timber-Mart South, Random Lengths, FEA, Oregon DOF  
Chart & Analysis: WillSonn Advisory

Today, much of BC's coastal and Interior timber supply is shrinking owing to post-beetle fall down and economic operability challenges, as evidenced by the fact that the coastal AAC (allowable annual cut) has not been harvested since 1992 despite at least three very positive market cycles. At the same time, since 2010/2011 many regions in the US south have offered an environment with very significant surpluses of saw timber, positive lumber pricing and continued strong demand and pricing for residuals. As demonstrated

inies: West Fraser, Canfor, Interfor and, to a lesser degree, Conifex have actively made investments in the US south—a trend I expect to see continue.

Addressing what might be done to make investment in the BC forest industry more attractive is a big question. Along with the rest of Canada, BC is somewhat unique in the dominance of Crown timber in the overall supply and the largely natural and extensively managed timber resource versus the more globally typical private land or  
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long-term area-based tenures featuring shorter rotation, more intensively managed plantation forests. Forest management activities in most developed countries are well-regulated whether the land is publically or privately owned. However, public ownership can result in increased emphasis on multiple objectives with timber production and availability becoming less certain increasing business risks and associated required returns.

Initiatives aimed at providing improved certainty around issues such as confirming access to timber, timber pricing mechanisms, ensuring that the regulatory and taxation environment remains stable and competitive, etc. help to ensure businesses can make operating and capital spending decisions confidently. Fundamentally, the ability to add value to the province's timber resource requires significant capital spending across the value chain which in turn requires industry players have the scale and financial health to access capital as well as the confidence to invest.

I believe the coastal forest industry has reduced sawmilling capacity to match harvest levels as much as possible and the capture of potential synergies is now at a mature stage. However, despite the fact that domestic timber prices are meaningfully below US Pacific Northwest and Japan/Asia market prices, the industry has not been able to attract significant capital in the form of new converting capacity with the exception of a few materially advantaged rotary mills. In fact, effectively all sig-

nificant converters are now effectively running for cash as they further depreciate their asset base. This situation has persisted for over 25 years and reflects the historic surplus of uncompetitive legacy assets, complexities of the coastal species and grade mix, market access challenges, and a focus on maximizing long run sustained yield by continuing to target high cost, declining quality natural stands prior to moving more substantially to second growth.

While there is a popular view that redistribution of tenure rights to a larger number of players would result in increased innovation and investment as put forward by Harry Nelson and Ngaio Hotte in their article, "Market Report: Competition and Investment in the BC Coastal Forest Industry" in the Summer 2016 issue of *Truck LoggerBC*, there is very little evidence that this would be the result.

The key to seeing more capital investment will be finding ways for the government and industry to continue to work together to improve profitability and certainty. I expect this will be challenging over the next five years owing to additional costs in accessing the US market and declining markets for residuals. All levels of government and business should be cautious of introducing any additional costs to the business.▲

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- d. Movement sensor(s) and other safety alarms
- 3. Equipment manufacturers' designs:
  - a. Emergency back-up systems (second cable, blade or other attachment, warning devices)
  - b. Software solutions to spikes in tension through better synchronization between tracks and winch
  - c. Tension monitoring and recording
  - d. Lower tension in one of the two lines in twin-line systems to ensure engineering safety redundancy in case of main cable failure
  - e. Rated components of the whole system (2:1, 3:1, or 5:1 safety factors vary by manufacturer)
  - f. Controlled release vs sudden brake in case of failure
- 4. Research:
  - a. Terrain and soil conditions and impacts on traction and stability
  - b. Use of trees to change machine direction (siwashing)
  - c. Anchor types and use of blocks
  - d. Cable tension behaviour in relation to machine activity
  - e. Extreme temperatures and the effects of snow and ice

While it may be difficult to set universal rules for winch-assist technology due to the varying nature of forestry operations—constantly changing terrain, weather, surface and stand conditions; operator experience and aptitude; economic feasibility and accessibility; social acceptance and licence, varying environmental standards—it is certain that winch-assist technology will save lives in British Columbia.▲

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