



THE DEPARTURE FROM PERFECT MARKETS AND ITS IMPACT

A “perfect market” is one that features many buyers and sellers of a product or service, and each has complete information about each other. In a perfect market, it is easy to compare prices between products and services because they are the same as each other. Transactions between buyers and sellers typically result when an agreement is reached on a product or service’s value versus cost.

However, where markets are restricted by the number of buyers, the playing field is typically tilted in their favour. This is the case in the BC forest industry contracting sector, where there are many sellers of logging, tree-planting and engineering services, and it seems almost every day the buyers’ side of the market for those services is shrinking (to the detriment of sellers).

Over the past decade, there has been a significant contraction of the forest sector; today, it is dominated by a few large players, causing a departure from a perfect market. Canfor acquired Slocan in 2003 and effectively made itself one of the largest forest products companies in Canada. Shortly after, in 2004, Tolko swallowed up Riverside Forest Products to take its place in Canada’s top five, and West Fraser took over Weldwood’s assets in BC and Alberta.

In 2006, Western Forest Products bought Cascadia, (what was left of the MacMillan Bloedel Crown coastal assets previously purchased by Weyerhaeuser), followed by the purchase of Canfor’s coastal assets (the Englewood logging division on Vancouver Island). By amalgamating three large coastal companies into one, these acquisitions gave Western over 1.5 billion board feet of annual lumber capacity and 6.8 million cubic metres

of allowable annual cut from Crown-owned tenures.

In 2007, Interfor roughly doubled its Canadian company’s lumber capacity in BC after buying mills and tenure from the bankrupt Pope and Talbot. Then, in 2016, Canfor bought Wynndel Box and Lumber Ltd. and its associated Crown tenures (located in the Creston Valley) to augment its previous purchase of Tembec in the East Kootenay region.

As each of these transactions occurred, the market for logging and forestry services was reduced; as a result, contractors had fewer and fewer entities from which to choose. Evidence suggests that rates for services were negatively impacted and, in the logging sector specifically, many contractors left the business.

Paper Excellence, which owns Howe Sound Pulp & Paper, among other assets in BC, recently announced entering into an agreement to acquire Catalyst Paper Corporation—including its three facilities located in Crofton, Port Alberni and Powell River, its Surrey distribution centre, and its headquarters in Richmond, BC. This agreement effectively reduces the number of pulp log and chip consumers on the coast from three to two (given that Neucel Specialty Pulp remains closed).

In August of this year, the owners of TimberWest and Island Timberlands entered into an agreement to provide for shared use of facilities, alignment of best practices and enhanced forest stewardship.

The company’s press release stated that TimberWest and Island Timberlands would continue to be standalone companies, with no change in control and sharing corporate services, and that there will be no significant changes anticipated to sustainable harvest levels, contractor and field workforce employment as a result of

the affiliation. However, with the subsequent announcement of a single CEO and management team for the two companies, one must wonder if the contracting of services and timber supply dynamics will be impacted as they work as a single entity to optimize operational costs.

And finally, in 2018, Mercer International signed a deal to acquire the western Canadian mill properties of Daishowa-Marubeni International (DMI). This included its Peace River pulp mill in Peace River, Alberta, a 50 per cent ownership of the Cariboo pulp and paper mill in Quesnel, BC, and a 50 per cent interest in the Peace River Logging Corporation and associated Limited Partnership (a joint venture with the Woodland Cree First Nation). This transaction effectively reduces BC Interior pulp and chip buyers by one more.

As the number of companies in the industry continues to fall, the regional distribution of their control is also intensifying. Whereas in the past it was not uncommon to see many companies operating within the same region—providing some diversity of market for contractor services—today we see the few remaining companies becoming increasingly dominant in each region. This trend only further intensifies the impacts of company mergers.

So, has the continued departure from perfect markets in the BC forest industry had an impact? For the answer, one need only look at the underlying cause of the ongoing Contractor Sustainability Review and the dilemma for tree-planting contractors struggling to recruit workers (increasingly the latter cannot make reasonable wages; see story on page 45). Simply put, when markets are not perfect, winners and losers emerge.▲

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