

# INCREASED LOG EXPORTS IN THE NORTHWEST ARE THE RESULT OF MILL CLOSURES—NOT THE CAUSE



In response to the Premier's speech at the TLA convention, the solutions to maximizing value and jobs from our forests in the Northwest are more complex than stating a simple solution of limiting or reducing the opportunities for local operators to access the international log markets. To be clear, the increase in log exports in the Northwest is the result—not the cause—of mill closures and the economic reality of operating a manufacturing plant here.

The ability to access both domestic and international log markets has sustained this region's forest industry for the past 18 years since the closure of both Skeena Cellulose in 2001 and West Fraser's Skeena Sawmills shortly thereafter followed by the permanent closure of the Eurocan Pulp & Paper Co. At that time, the northwest lost all domestic log markets. All that remained of the Northwest forest industry were the logging and road contractors, who had to adapt and develop their own log markets abroad. This allowed them to continue to provide jobs that supported small businesses and communities while at the same time providing a consistent and reliable log supply to local small sawmillers.

Combined, the regional harvesting and small sawmiller sector directly employs well over 400 people. Local small mills have been able to source and compete for fibre from the harvesting sector at competitive rates and at rates that at the very least provide a reasonable rate of return for the loggers. This contrasts with large mills who because of their volume demands, believe they can set a price for logs that is, on average, below the combined cost of road building, logging and hauling.

For domestic mills to expect to source logs below the cost of production is a business model that is flawed. The high cost of delivering logs in the Northwest

(on average currently estimated at \$80 per cubic metre for the timber profile with all costs included) has resulted in previous wood products companies to either go broke or shut down their facilities. Simply put, they have not been able to compete globally and have failed. That has left the harvesting sector to pick up the pieces.

For too long the harvesting sector has been expected to supply logs to the domestic pulp mills and sawmills below the cost of production. To meet the economic realities, we end up harvesting less timber, high grading our forests, creating fewer jobs and reducing the economic contribution to the communities in which we live and work. Offering prices below the costs of production is not sustainable for the financial health of the industry.

In addition, the majority of forest tenures in the region are held by First Nations, community forests, and woodlot owners. Each needs to make a profit to support their business. The main purpose of the province's support and creation of these businesses is to provide value back to the communities. The value is based on creating employment, capacity, economic diversification, and wealth. The ability to create that wealth for First Nations licensees is seen as critically important in providing for the social and cultural projects necessary for a component of the nation's rebuilding process. Because the newly created forest licensees are operated as profit centres and not cost centres as most major licensees operate, the average delivered log cost for our region of \$80 per cubic metre does not include a rate of return that is needed to meet the objectives of why those new licensees were created in the first place. Needing to make a profit is a reality that demonstrates why the cost of logs for the larger mills will be higher than

their own delivered log cost from their own licences.

The ability to access international markets is the most significant contributing factor related to the health of the forest industry and sustainability of the harvesting sector in the Northwest. To support the harvesting sector and forest licensees, we will need to adapt the following changes through government policy and regulations.

- Maximize access to log markets for the Northwest forest industry and maximize value.
- Return Order in Council (OIC) to the 35 per cent levels previously in place to ensure a level playing field in supply and price negotiations.
- Establish OIC term for a rolling 5-year period to allow for investment certainty, and for harvesting sector and licensee market relationships.
- Institute a fair market pricing system that recognizes the unique position of the forest industry log quality and costs in the Northwest and the limited domestic market.

The forest industry in the Northwest has had a tough go of it, but we have always proven to be resourceful and have survived many of the challenges that have come our way. Provincial government recognition of the unique challenges of each region of this province should lead to development of policies and regulations that work to the benefit of all. From this we can build relationships that are economically sustainable. For domestic sawmills that have a business plan based on the real costs of log supply, this will ensure continued access to logs. When logs move, everyone benefits.▲

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