



## THINGS ARE TOUGH—KNOW WHAT'S HAPPENING AROUND YOU

To be honest, conditions are becoming bad. Very bad.

If you are operating in the BC forest industry today, you need to know that what's happening around you will more than likely negatively affect your business. On the demand side, China has imposed tariffs on US lumber and logs. That means more American forest products are likely to stay within a US domestic market, which is experiencing lackluster demand and means less need for Canadian lumber for the time being.

On the supply side, sawmill costs continue to rise. The US is still imposing 20 per cent tariffs on Canadian softwood lumber imports. Due to the lagged response in stumpage, operating costs are high while lumber markets are in the tank. Lumber prices have decreased to less than half of what they were a year ago making the economically available timber supply in the Interior substantially less. Not to mention the impact of the pending Caribou Recovery Strategy Agreement, one of the largest ever spruce bark beetle infestations, potential strike action on the BC Coast, and another hot wildfire season.

Layer in the uncertainties of government implementing new forest policy on the Coast and Interior, it makes for one heck of a time to be operating a forestry-related business in BC. It should be no surprise then that BC sawmills and other forest products manufacturers have been announcing curtailments or permanent closures of their facilities in the province.

There is a lot going on.

For contractors, conditions are ugly and I don't expect much improvement for some time. Please be cautious about over extending yourself, as the good times (if contractors can call them that) are clearly over. When demand slumps, there is no rate that matters if there is simply no need for logs.

The last few years of strong lumber prices has masked the inevitable in the Interior. We can't escape the realities of Mother Nature; the mountain pine beetle

has killed much of the pine, and now with lower lumber prices and higher costs, the forecasted reductions in Interior sawmilling are finally becoming reality. Jim Girvan has forecasted that possibly 13 sawmills are expected to close in the next decade (see page 41), of which, a number of closures have already been announced. To help you make business decisions, be sure to clearly understand timber supply on the tenure you are operating on.

The TLA is working on several ways to help with your relationships with licensees including shaping new sections of the *Timber Harvesting Contract and Subcontract Regulation* (aka Bill 13) that will help replaceable and non-replaceable contractors. We have also recently released the TimberTracks™ Hourly Equipment Rate Sheet to improve the industry's knowledge of harvesting equipment costs.

Government needs to keep in mind when developing policies, that contractors, communities and First Nations keep their profits here in BC, unlike major tenure holders who have known about the looming impact of timber supply reductions for many years and have chosen to make substantial investments outside of the province.

When it comes to the host of forest policy changes being either considered or implemented, ideological intentions may not always align with on-the-ground realities. Implementation of Coast revitalization initiatives is still in its infancy, but already the feedback is that utilization policies are causing major concerns. Forthcoming changes to fee-in-lieu for log exports as well have many questioning their future harvest plans. As mentioned previously, government needs to generate business conditions that are favourable for investors of future manufacturing facilities—which they are not. If there is no demand for recovered fibre or logs that have become too expensive to export, the only accomplishment is unintended consequences.

The upcoming interior revitalization process may be needed, but timing may be questionable given the turmoil unfolding there.

Of particular note is the recent addition of Bill 22, which amends the *Forest Act* to increase government oversight in the transfer of tenure. While contractors are not often tenure holders, they have a significantly vested interest in it. The TLA was essentially founded on the opposition to state and corporate owned monopolies of forest tenure in BC. So notionally, the TLA supports efforts to address consolidation. Unfortunately, such efforts should have been made 50 years ago as consolidation has already occurred.

I would advise the government as they implement Bill 22, to ensure that the realities of any particular tenure transfer take into consideration the impact to the amount of work available to contractors. If there is no apparent immediate alternative to use a portion of tenure, then transferring that tenure to assist in the reallocation of timber supply for a sawmill might be considered a tolerable outcome given the current circumstances of required capacity rationalization.

Things are tough. Contractors never shared in the upswing of recovering lumber markets but will surely be hurt in the downturn. We need the pendulum in policy to swing to support those who remain once the storm in markets has past.▲

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David Elstone, RPF, Executive Director, TLA

Tel: 604.684.4291 ext. 1

Email: david@tla.ca