

WHAT IS IN STORE FOR THE BC INTERIOR INDUSTRY?

TLA Perspective

Photo: TLA Staff



At the 9th Annual FEA/WOOD MARKETS Global Softwood Log and Lumber Conference in Vancouver, local BC consultant and industry forecaster, Jim Girvan, left some in the audience somewhat stunned by his forecast for BC Interior lumber production over the next decade. In 2010, Girvan and business partner Murray Hall collaborated with Russ Taylor, produced a blockbuster outlook for the Interior timber harvest and wood products industry. The resulting forecast of “16 sawmills to close by 2018” made headlines nationally and around the world.

Mountain Pine Beetle Impact

Girvan provided an update to the original forecast, which predicted the fate of the Interior industry in the wake of the Mountain Pine Beetle epidemic. Girvan reported that since the 2010 report, 12 more mills had permanently closed (up to April 2019) and six others had reduced shifting, or the equivalent closure of 15+ mills. “The only reason the sixteenth mill was still operating was as a direct result of the exceptionally strong lumber markets in the first three quarters of 2018,” noted Girvan, suggesting that “its closure was imminent.” And, as if foretelling the fu-

ture, the very next day Tolko announced closure of its Quest mill in Quesnel, BC and the elimination of one shift at its Kelowna mill.

While the mountain pine beetle epidemic has fundamentally subsided, strong markets in 2018 kept sawmills operating at close to capacity while, at the same time, the allowable annual cut (AAC) continued to fall in the Mountain Pine Beetle-impacted forest management units across the Interior. In 2018, over 40 million cubic metres of logs were converted into lumber (as compared to 56 million cubic metres in 2005).

However, looking forward, and when considering the current forecasts for mid-term timber supply (or within the next 10 years), there remains a deficit of 6.5 million cubic metres of forecast sawlog supply as compared to the operational log capacity required to furnish existing mills. With the average BC Interior mill consuming about 800,000 cubic metres per year at full capacity, it suggests the Mountain Pine Beetle alone could account for up to eight more mill closures.

Forest Fire Impacts

But it is not just the Mountain Pine Beetle that is threatening the Interior sawlog supply, explains Girvan. In 2017 and 2018, the Interior saw its worst two fire seasons on record where 1.2 and 1.35 million hectares, respectively, were burned. Much of this area contained green timber that was meant to support the mid-term AAC. Looking forward, the 2019 fire season is shaping up to be just as bad with further reductions possible in the AAC. Girvan pointed to a 2018 government analysis of the Caribou region fires in 2017 which suggested incremental reductions in the mid-term AAC of up to 10 per cent, depending on the forest management unit in question. This analysis demonstrates large fires have the potential to impact the mid-term timber supply in BC wherever they occur.

Spruce Beetle Impacts

In north-central BC, the spruce beetle epidemic in the Omineca region is also killing green timber that had been set aside to support the mid-term harvest during the time that dead pine timber was being harvested. The 2018 province's aerial reconnaissance (used to gauge spread of the spruce beetle epidemic) indicates to date there is about 100,000 hectares in "moderate to severe" attacked areas with an additional 200,000+ hectares in "light and trace" attacked areas. What is troubling is that very little of this timber has been harvested to date and, unlike pine, the shelf life of dead spruce is much shorter. Again, reductions to mid-term timber supply are forecast.

Mountain Caribou Impacts

Then there is the Mountain Caribou, a threatened species under the Federal *Species at Risk Act*. Since 2017, BC and the federal government have been developing a *Bilateral Conservation Agreement*

under Section 11 of the Federal *Species at Risk Act* to protect the species. The draft Section 11 Agreement contains overarching commitments, measures and strategies to aid in the recovery of Mountain Caribou in BC, while attempting to minimize impacts to local governments, communities and the various industry sectors that operate in caribou habitat.

This agreement builds on a draft Partnership Agreement the BC government, the federal government and the West Moberly and Sauteau First Nations negotiated in 2017 covering the Central Caribou Group located in the Peace Region in the northeast of the Interior, effectively expanding its scope to all Southern Mountain Caribou in BC.

The draft Partnership Agreement covering the Central Group includes protection of important caribou habitat while a long-term plan is developed through engagement with local communities, stakeholders and Indigenous peoples. It ensures the federal government won't unilaterally impose resource development closures in the region via an emergency order. The Central Group Agreement may represent the template for Caribou recovery plans for the remainder of the province in areas where Caribou are considered at risk.

When the Central Group plan is compared to the timber harvest land base of the underlying forest management units, an immediate impact of a 7 per cent reduction in the mid-term AAC can be expected, with the potential for greater impacts as the habitat protection plans are finalized.

Summary

Putting all of these threats to the timber supply together—the residual impacts of the mountain pine beetle, forest fires, spruce beetles and the likely impacts of a provincial program to protect Caribou habitat—the net result is a continued decline of the timber supply for the Interior.

As the Interior sawlog supply (within the framework of the mid-term AAC) falls, a best case scenario suggests a deficit of 9.7 million cubic metres in the sawlog supply to the operational mill capacity. This cumulative deficit points to the equivalent of an additional 13 sawmill closures over the next decade. If these sawmills were to close, then it will allow all remaining Interior

sawmills to operate close to their full operational capacity. This is in addition to the 16 mills that have closed since 2010 and the 27 mills that have closed since 2005. So, between 2006 to 2029, it is possible that a total of 40 sawmills may close in the Interior.

Alternatively, a combination of sawmill closures and mill shift reductions (as was seen this month by Tolko in Kelowna) or intermittent down time (as we are seeing with most Interior lumber producers this spring) may spread the impact, but the forecast for lumber production remains the same. By the end of the next decade, the Interior lumber production is forecast to fall to 8.7 billion board feet from the high of 15 billion BF in 2006 and the 11 billion BF achieved in 2018.

And, as sawmills close, the supply of residual wood chips, sawdust, shavings and hog fuel are all reduced thereby putting consumers of sawmill residual fibre at risk. Using the same forecast, Girvan suggests, "at least one Interior pulp mill may be at risk of closure along with two pellet plants, one energy plant, not to mention rising costs for all fibre consumers." So, the stakes are high in BC with the potential of even more mill casualties beyond sawmills.

For logging contractors in the Interior, the message is simple. Be aware of the potential for harvest reductions in your area and participate every chance you get when public input into forest management policy decisions is requested. It is only with a strong voice that the impacts of these forecast reductions in harvest will be mitigated or avoided.

A full report will be available in the summer of 2019 that includes complete region by region details of this forecast with an outlook to 2028. The report is prepared in conjunction with the Industrial Forestry Service, Prince George, BC and will be published by Forest Economic Advisors (FEA), Vancouver, BC and Littleton, MA.▲