



## ANOTHER TURN FOR THE WORSE

This past summer had ideal timber harvesting conditions with not a lot of heat, just enough rain, and very few wildfires. Yet, there was minimal harvesting throughout the Province. The United Steelworkers (USW) and Western Forest Products (WFP) strike caused the shutdown of a large portion of the coast, while both Interfor and Mosaic shutdowns in August as a precautionary measure for wildfires and weak markets, followed by Interfor's announcement in

well aware of. Industry data lags real-time data and mainly serves to confirm what many within the industry already know, but it also provides context by indicating the degree market conditions have changed. With this information, a business owner can make more informed decisions.

Data reveals that the BC industry activity has been sliding back into some of the worst levels since the last major downturn in 2009-2010; this is even be-

1.2 million starts) have failed to recover back to their 50-year average high of 1.5 million starts. Underperformance notwithstanding, what is concerning is that US housing starts are actually starting to head downwards, with data in August showing overall starts down 1.8 per cent year-to-date and single-family starts off by 2.7 per cent year-to-date—not quite a free-fall yet. Such data is in contrast to the perceived image that the US economy is strong and growing and is not a good sign for the BC forest industry.

BC lumber export trends reflect the connectivity of the provincial industry to international markets. Since 2016, BC softwood lumber exports have been slipping year after year. Based on the year-to-date trend of June 2019, BC's exports of lumber could reach their lowest since 2010. The picture is mixed with demand from two of BC's major export markets in decline: Japan and the US, while China is actually growing this year.

Unfortunately, a decline in exports to the US is troubling for the BC lumber sector given they represent just over 60 per cent of lumber exports. While weak lumber prices are problematic, the 20 per cent duty on Canadian lumber exports specifically to the US makes that market less profitable.

Despite all that we hear about rising tariffs as the US and China exchange salvos in the expanding trade war and the fractured relationship the Canadian government currently has with the Chinese government, it is somewhat surprising that BC exports to China, up until at least June data, are showing some growth. If the trend holds, 2019 will be the first increase following five years of retrenchment.

Do international markets not want BC lumber or are declines in exports due to BC not being able to produce enough?

The significance of a downward trend in BC lumber exports is reflected even more poignantly through BC lumber (Continued on page 48)

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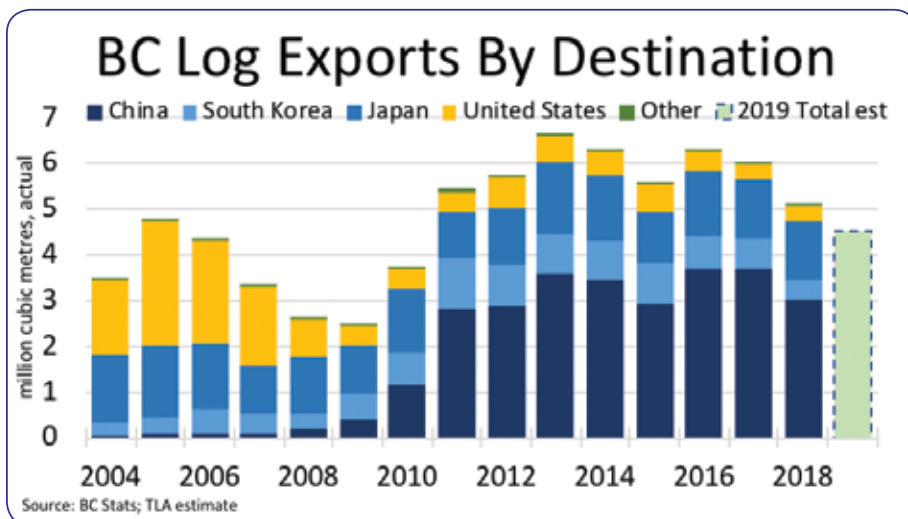
September to close its Hammond sawmill. Forest products producers (e.g. lumber, oriented strand board and pulp) in the Interior announced curtailments, some of which were permanent due to a shrinking timber supply, while others were made temporarily due to claims of high fibre costs and low commodity prices. Across the Province, this left a lot of contractors and their workers idle, with little to do, and few alternatives.

Industry data points to a significant recession in the BC forest products sector—a fact that many contractors and their suppliers have already become

fore the impact of the USW/WFP strike and a majority of the curtailments were captured in the data.

The last major downturn in 2009-2010 was singularly driven by the massive slump in US lumber consumption which was caused by the implosion in US residential construction. However, this time there are many other variables at play.

US housing starts are the best indicator of US lumber consumption, which went from a peak in 2005 of over two million to a low of 0.6 million in 2009. As of writing, US housing starts (a high of



pine have extra thick bark able to protect the tree through some burns that take out competing trees.

### Mature and Juvenile Wood

Where age matters is in fine wine and fine wood. Wood scientists don't use the term old growth and second growth (trees either naturally regenerated or replanted after logging).

UBC's Simon Ellis, a wood scientist, explains that all trees have a combination of mature wood and juvenile wood. Younger trees have a greater percentage of juvenile wood, which is prone to longitudinal warp when drying and is not as strong as mature wood. "The hormone that drives the production of the growth is at the top of the tree," he says, as the top spurts toward sunlight. "The tree grows at the top and leaves cells behind (new growth) but also grows outward leaving wood behind (growth rings)." The cambium layer (between the outside bark and the inside layer of wood) adds wood and is fed by the tree's inner bark layer carrying leaf nutrients downward.

Ellis says that the vigorous growth topside usually grabs nutrients first so by the time they hit the mature wood in the lower portions in older taller trees, pickings can be skimpy to fuel the growth of another tree ring. It is this process that leads to the sought-after fine and tight grain found in older trees.

Average estimates point to mature wood beginning to form when the tree reaches 20 years. Researchers at FPInnovations studying juvenile wood as

part of the Douglas Fir Task Force study found that old-growth trees (250-500 years) had experienced a longer period to accumulated mature wood bringing the amount of juvenile wood to 10 or 20 per cent from the 50 per cent found in second-growth stands.

Weather and site conditions can also influence growth ring size. In the Interior, the hot dry summers and cold winters result in wood that is slower growing and the spruce pine fir (SPF) lumber from stud mills producing machine rated strength lumber (used in house framing and cross-laminated timbers) while the Coast's larger diameter trees provide large or custom cuts, wood with less knots and the aesthetically pleasing fine lines in appearance grades of wood that architects search for.

### Keeping an eye on the ball

OGMAs are not proven to be perfect; but they can be improved and co-exist with timber harvesting.

The challenge that the Forest Practices Board's Doug Wahl, manager of audits and investigations, a registered biologist and author of the 2012 investigation report on OGMAs, sees (in the absence of an agreed upon definition of old-growth forests) is using sound science over emotion as the key to preserving old-growth traits in a region's biodiversity. Older trees, both alive and dead, provide specific values to plants and animals and their inclusion in OGMAs should reflect

those values. "What are the trees providing ecologically?" is the question that should be asked, he says.

(In 2017, BC issued a procedural paper on how to assess old-growth stands for retention levels in OGMAs released by the Old Growth Forests Technical Working Group, a ministry team, with the protocol to be pilot tested in 26 areas. The project relied upon computer modelling).

Wahl doesn't see modelling as the answer. He favours boots on the ground to gain a realistic idea of how OGMAs are preserving regional biodiversity. "We really need to look, in my mind, at how much old growth we need to preserve to gain an adequate representation of the eco-system," he says.

Wahl says that BC also needs to record the OGMA attributes that are deemed important. Since OGMA emerged, information on unique attributes was either not recorded or as Wahl says the ministry has lost the information. "We need a central registry," he says, where the information can help track attributes over long periods of time, gauge their importance to an area and if they're meeting diversity objectives. More monitoring would also track the impact of climate change, disturbances and recruitment stands able to stand in if the OGMA fails.

Wahl says BC's biodiversity plan is geared toward having old-growth forests forever. "But, we can't have an area on a (harvesting) map that is a plan for the future without having a plan for the future," he says. ♣

### MARKET REPORT

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production. BC interior lumber production as of June 2019 is down 18.7 per cent year-to-date and doesn't fully capture many of the mill closures and curtailments announced in the spring and summer. As such, it is looking to be the worst year for lumber production in the Interior since the trough of 2009.

Similarly, the coastal sawmilling sector was down 9.7 per cent year-to-date for June. Coast lumber production will be dramatically lower than the May rate because it doesn't reflect the strike at WFP that started on July 1 and has so far lasted the entire third quarter. Because of that, the Coast is set to experience one of the lowest levels of lumber production in decades.

**From the TLA's perspective, the last major downturn took out a number of timber harvesting contractors and given those survivors have had little opportunity in the way of rebuilding their balance sheets, we expect further reductions in the number of contractors once this current downturn has past.**

Factoring in the strike on the Coast and impacts of curtailments and closures in the Interior, lumber production in the Province will be nearly as bad or worse than the low of 2009.

Crossing over to log exports, their trend is similar to lumber exports and production, with a peak in 2016 and a steady decline since. For a number of years, log exports have represented ap-

proximately one third of the Coast total harvest. Based on what has happened thus far in 2019, total log exports are likely to be at their lowest since 2010. Unlike its positive trend for lumber, demand from China for BC logs has been decreasing. China is the largest purchaser of BC logs.

These indicators mean less timber harvesting and of course less employment in

the woods. The Interior and Coast harvest will be smaller in 2019, likely similar to 2009-2010. Coastal log brokers have reported that the domestic log demand is very weak. New forest policies were implemented as of April 1 with higher utilization standards that bring three times stumpage for recoverable waste, and in July, higher fee-in-lieu charges for log exports were implemented on all new BCTS' timber sales. The general view is that markets were (are) so poor that it is not possible to confirm fears of a negative harvest response to these new policy changes as of yet, although the growing number of BCTS' no-bid sales is concerning.

The Interior harvest will continue to be dictated by reduced timber supply and lumber prices and stumpage, which are the result of a mountain pine beetle epidemic.

All the data points in the direction that the Province's forest sector is suffering the worst it has since the lows of 2009. Distinct differences exist between the downturn of 2009 and now, including that China has become an established major customer of BC forest products, the US softwood lumber duties have increased from 15 per cent in 2009 to 20 per cent in 2019, and significant cost inflation including stumpage has occurred for the BC industry. Also, the mountain pine beetle epidemic is over, which means we know the extent of the damage. Nonetheless, the industry is once again in crisis.

From the TLA's perspective, the last major downturn took out a number of timber harvesting contractors and given those survivors have had little opportunity in the way of rebuilding their balance sheets, we expect further reductions in the number of contractors once this current downturn has past. The most worrisome aspect thus far is even with all the reduction in harvesting and production across the Province, there has been very little sustained positive response in forest products prices. That's not a good sign.▲

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