



THE HOLY GRAIL OF JOB CREATION IN BC'S FOREST SECTOR?

By Ian MacNeill

Long-time readers of *Truck LoggerBC* magazine will recall that it has published numerous stories about the challenges independent manufacturers face when it comes to accessing affordable fibre for their operations.

At one time, BC had competitive open markets for timber, logs, and lumber,

and the independents had access, using it to produce high-quality finished products, and jobs. Lots of jobs. Over the last couple of decades, the markets were transformed in such a way that, from their perspectives, the independents faced increasingly high prices and more limited access. They watched

a slow erosion of available fibre, and inevitably, independents started going out of business, taking with them the jobs they provided. The proof is in the numbers. In 2002 the Independent Wood Processors Association (IWPA) had 107 members, it is now down to 52.

“It’s been going on for a long time, and it’s still a problem now,” says IWPA President Russ Cameron.

The issue is further complicated by the Softwood Lumber dispute. The complexity of the issues, and the financial penalties that are imposed on the export of finished products into the United States has led to a situation where those with access to most of the fibre—the major licensees—ship it across the border and add the value there, in some cases at sawmills they own themselves. Last year, Western Forest Products finalized the purchase of Columbia Vista Corporation, which owned a sawmill in Washington State. Interfor, one of the world’s largest lumber producers, has sawmills in Georgia, Arkansas and South Carolina, while Canfor has a mill in South Carolina.

“While Interfor and other tenured companies already have Washington State facilities doing their value-added work on BC’s unfinished lumber, the straw that broke the camel’s back was Western Forest Products’ acquisition of a remanufacturing plant in Arlington, Washington,” says Cameron. “Their stated intention is to ship another 110,000,000 bf a year of BC’s western

red cedar, and the jobs that go with it, to their new facility for value-added processing. Unless we figure out a way to reverse that flow, more will follow.”

You cannot blame a publicly traded company for designing a business model that works to its benefit; it’s what business does. But another question is worth asking. The timber resources that are located on public lands belong to all British Columbians; shouldn’t all British Columbians be the ones to derive the most benefit from them? The jobs, whenever possible, should be in Quesnel and Houston, not Washington and South Carolina.

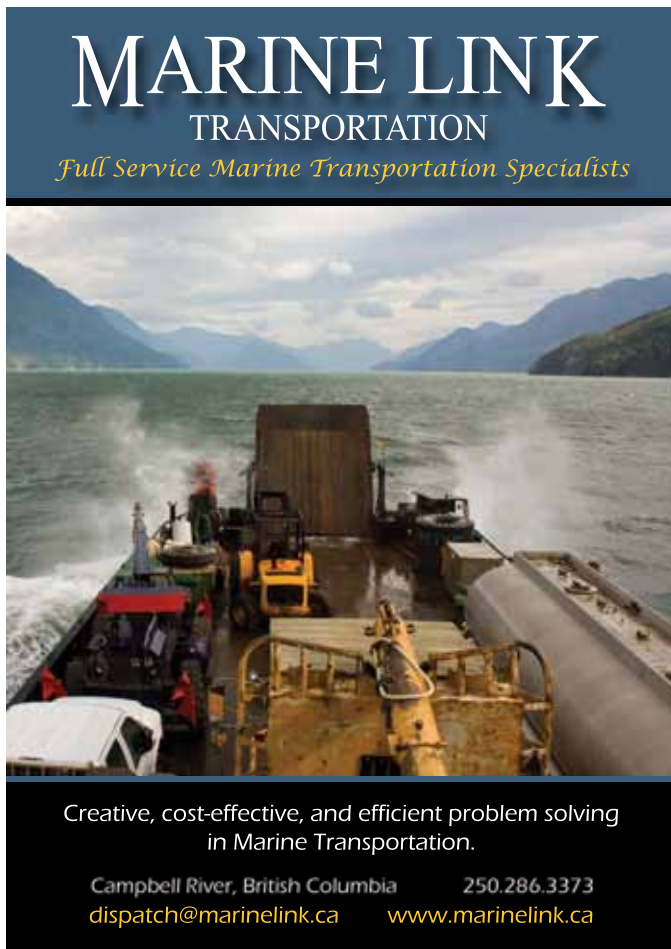
However, there is increasing pressures on many fronts to change this trend, at least incrementally. Many groups and politicians want changes made that ensure more accessibility to fibre for local manufacturers, supports and creates local employment, and gets more value for British Columbians from public resources. However, there is a debate as to how such a transition will happen and the timelines needed to make it happen. On June 11, government announced it is moving forward on the following changes to the Manufactured Forest Products Regulation (MFPR).

Introduced in 2003, the MFPR defines the criteria that products must meet to be considered manufactured under the *Forest Act*. Under the current regulation, logs that are squared off up to a maximum dimension of 43 by 43 centimetres (17 by 17 inches) are categorized as a sawn-wood product and may be exported without further manufacture. As of September 30, the amended regulation will change the maximum dimension of lumber to be considered a sawn-wood product to 30.5 by 30.5 centimetres (12 by 12 inches), requiring further domestic processing of lumber prior to being eligible for export.

Additionally, and due to come into effect in December, the regulation amendments will require that in the Coastal area, lumber that is made from Western red cedar or cypress must be fully manufactured to be eligible for export, or the seller or exporter must obtain an exemption from the manufacturing requirement and pay a new fee-in-lieu of manufacture to the Province.

While some are cynical that government, any government, will wave a magic

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wand and reverse years of continental drift into consolidation and market control, others are cautiously optimistic that the new regulations will level the playing field, or at least reduce the tilt.

“What we want, in general, is for the smaller family-owned value-added firms to have access to a share of the public’s resource,” says Cameron. “The big primaries’ motivations are understandable, but the current system does not lend itself to getting the most socio-economic benefit per cubic metre from a public resource.” He cautions that any new directions must be carefully crafted to ensure they do not lead to further problems with the US Lumber Coalition.

Brian Hawrysh of BC Wood says he’s supportive of any initiative to increase manufacturing in BC, but the main issue for his group revolves around what kind of definitions the government will eventually come up with for what constitutes a finished product in Western red cedar and yellow cedar. The concern, he says, is that if what you are making does not meet the definition of a manufactured forest product, it will attract a fee in lieu before you can export it.

“Everything we have seen so far is the stick,” he says. “Where are the carrots? More thought seems to have been put into penalizing players when they do not do things, why not spend an equal amount of time finding ways to reward companies who do the right thing?”

It is a fair question to ask. At the 2019 TLA convention in Vancouver, Premier John Horgan promised both “carrots and sticks,” to create incentives for mills in BC.

Hawrysh adds that the devil will be in the details, and that it will be impossible to “sign-on” until those details are revealed. Some of these devilish aspects include having a better understanding of how punitive fees would be calculated, and what kinds of products qualify for exemptions. (“Yes it is,” argued the exasperated manufacturer. “No it isn’t,” argued the government inspector. Etc.)

He worries that if the fee is small, it will just become another cost of doing business that will be passed on to customers.

“And how are they going to enforce it,” he wonders. “That’s what we’re concerned about.”

Jim Fenton of Central Cedar in Surrey frames the arguments differently.

“I’ve never had a problem buying lumber,” he says. “I’ve had a problem buying lumber and making money.”

He can’t compete with the price of labour in Japan or Vietnam, he says, but he’d like to see every contractor on the coast working and making “a tremendous amount of money, either buying or selling logs, because that would mean more wood being cut, and that will provide us with an opportunity to make money.”

He worries that much of what is going on has as much to do with politics than it does in fixing a broken system. The NDP ran on promises to cut log exports and create more jobs in BC, or at least stanch the bleeding. These are policy initiatives that resonated with voters, but most voters don’t understand the complexity of the business and are easily convinced that there are magic-bullet solutions.

“Walk up to 10 people on the street and ask them if they think we should be making more products here and they’re going to say, hell yes, we should be making our doors and windows here,” says Fenton. “But the tenth guy says, but wait a minute, we can’t make any money doing it. But all 10 of those people have 10 votes, and the government now has nine of them.”

Jim Tyrer of Trans-Pacific Trading (Trapa), says he would welcome changes that reduced uncertainty. “It’s hard to go out and buy logs and take on materials when you don’t know what’s coming. Will the border be blocked? Will we have to pay punitive tax for shipping material over the border? It’s to the point where it’s getting a little bit scary.”

He too believes much of what is wrong about fibre-access issues can be traced back to “the majors setting up shop across the border in order to skirt around duties.”

In terms of policy, he suggests having a quota system. “Perhaps there should be a certain percentage that is required to stick around,” he says. “But again, until we know what the volumes and percentages are that are going over the border unprocessed that could be processed here, it’s too difficult to say.”

Brian Brown, manager of fibre and log supply at Riverside Forest Products in Surrey, says that any regulatory changes that encourages remanufacturing in BC are indeed welcome, but he’s concerned

that conflict is inevitable because “what we would like to see is somewhat opposed to what the licensees want.”

Fibre-supply access problems are further exacerbated by a shrinking AAC and “a dramatic rise in log exports.”

Like other people we spoke to, Brown was reluctant to go into details about the kinds of solutions the reman community is looking for. “We put up a proposal, but we can’t say anything until we hear back from government. It would be totally unfair to either ourselves or government to discuss it.”

The Interior Lumber Manufacturers Association (ILMA), which has 13 primary members and as many as 100 associate members, is also welcoming change, says President Dan Battistella.

“Our members are starving for fibre,” he says. “We’d much rather see logging trucks delivering logs to local mills, extracting the value here, and providing the jobs that keep our communities alive, so we see the overall direction the ministry is taking to increase BC manufacturing as a step in that direction.”

He describes his membership as small to medium-sized family owned sawmills that produce a final product here in BC. “Our members take a log and extract the most value out of it,” he explains, including high-value cedar products, appearance-grade lumber, veneer and soon, cross-laminated timber. “They’re trying to extract as much value from a log as possible, because they have to.”

He too worries about the shrinking land base. “We’re fighting tooth and nail now to protect our operating land base, but a vocal minority are coming at us from many directions trying to reduce it.” There is also the ongoing pressure from targeted, ideological organizations, “many of which believe we shouldn’t be harvesting at all. Quite simply, British Columbia’s forest land management approach, which includes locking up our forests in static reserves, and ignores the fact that forests are dynamic, needs to be uprooted.”

British Columbians deserve to derive the most benefits from a publicly owned resource. Let’s hope that any new provincial policies and regulations, whenever they are unveiled, are a step in the right direction. Then maybe we can focus on the elephant in the room, tenure reform.♣