

Onwards And Upwards – Four Years Of Political Stability

I am often asked for my views on how the political landscape in British Columbia will influence the forest industry. With the BC NDP winning a strong majority in the recent provincial election, it is an appropriate time to share some of my thoughts.

Last October's election saw the NDP win in 57 of 87 ridings, effectively eliminating the Green Party's outsized influence it once had in supporting an NDP-led minority government over the prior three years.

What's In This Issue...

- Onwards And Upwards...page 1
- BC Forest Industry Metrics...Page 3
- The Timber Harvesters Business Network...4
- The Radar Screen...page 5

The new majority government will be able to focus on implementing its own agenda including getting more logs to job creators, promoting development of higher value forest products, and implementing the recommendations of *the Old Growth Strategic Review* in consultation with First Nations, communities and industry.

In addition, there are initiatives the government began prior to the election, including its *Interior Forest Sector Review* and the *BC Economic Recovery Plan* that have yet to be completed. The latter of which benefits the supply chain with support for new hires and a provincial sales tax (PST) rebate on equipment purchases (see page 5).

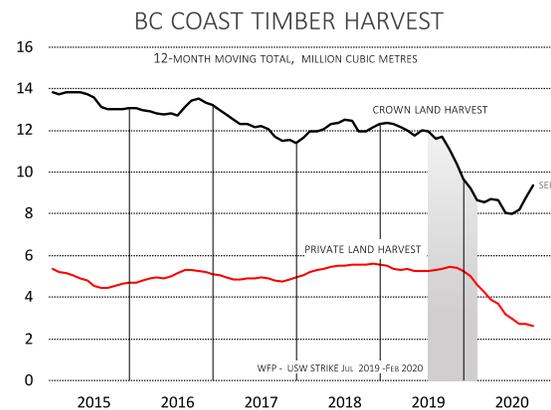
From my perspective, the new government has a four-year runway to influence the direction of the BC forest industry, and in particular, the coastal forest sector.

Two key indicators to benchmark that influence include the timber harvest on Crown land and coastal lumber production.

A seven-month long labour strike on the coast was the primary reason for the drop-off in 2019 for both Crown timber harvesting and lumber production. However, stats for harvesting and lumber production have yet to show a recovery, despite that strike ending almost 10-months ago, last February.

Overall timber harvesting on the BC Coast as of October is down 23% year-to-date, with the private land harvest severely off by 60% ytd and Crown harvest levels down by 4% ytd.

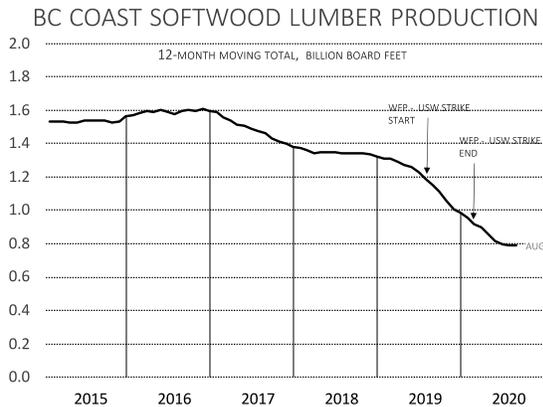
Prior to the labour strike, the Crown land harvest was a little over 12 million m³. To return to harvest levels comparable to mid-2019, the current level of Crown land harvesting has to rise by almost 3 million m³.



On the BC Coast, in general, harvested timber is consumed by domestic sawmills, veneer mills or pulp mills or it is exported unprocessed.

Coastal lumber production is down 27% year-to-date through August and trending at 800 million board feet. Prior to the strike, lumber

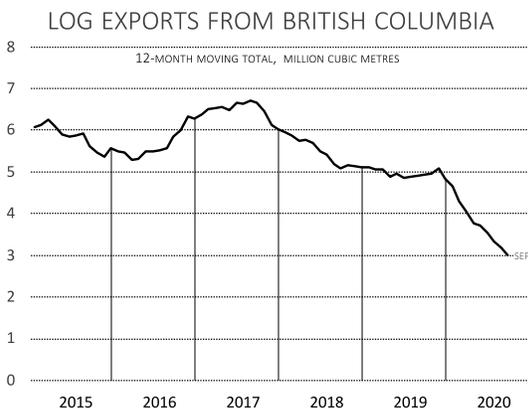
production was close to 1.3 billion board feet, leaving roughly half a billion board feet to come back to close the gap to pre-strike levels.



SOURCE: STATSCAN, SPAR TREE GROUP

There seems to be more at play with coastal lumber production than just the strike affected production of Western Forest Products. Even with Interfor’s Hammond Bay sawmill (~175 million board feet) closure in late 2019, the trend in production should have turned upwards by now.

The exporting of logs is often cited as detrimental to lumber production. Since 2017 log exports have decreased by more than half, from 6.5 million m³ to 3 million m³, and yet there has been no positive response in lumber production – so log exports clearly are not the cause.

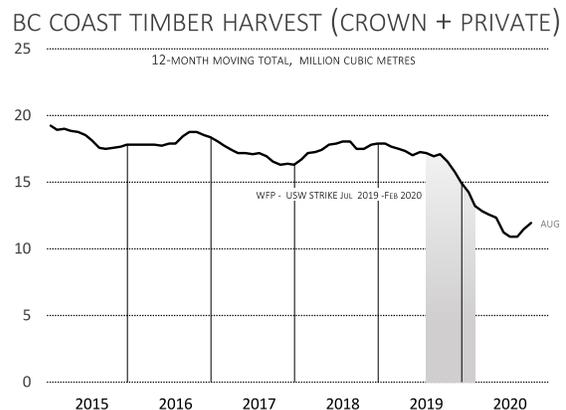


SOURCE: HARVEST BILLING SYSTEM, SPAR TREE GROUP

A steepened decline in log exports since late 2019 helps to explain why private timberlands continue to underperform.

With both lumber production and log exports in decline, we can only assume that the other consumers of logs are helping to drive uptick in the Crown land harvest.

The overall decline in harvesting (Crown+ Private) of 5 million m³ since mid 2019 represents a substantive loss of around 4,300 direct jobs.



SOURCE: HARVEST BILLING SYSTEM, SPAR TREE GROUP

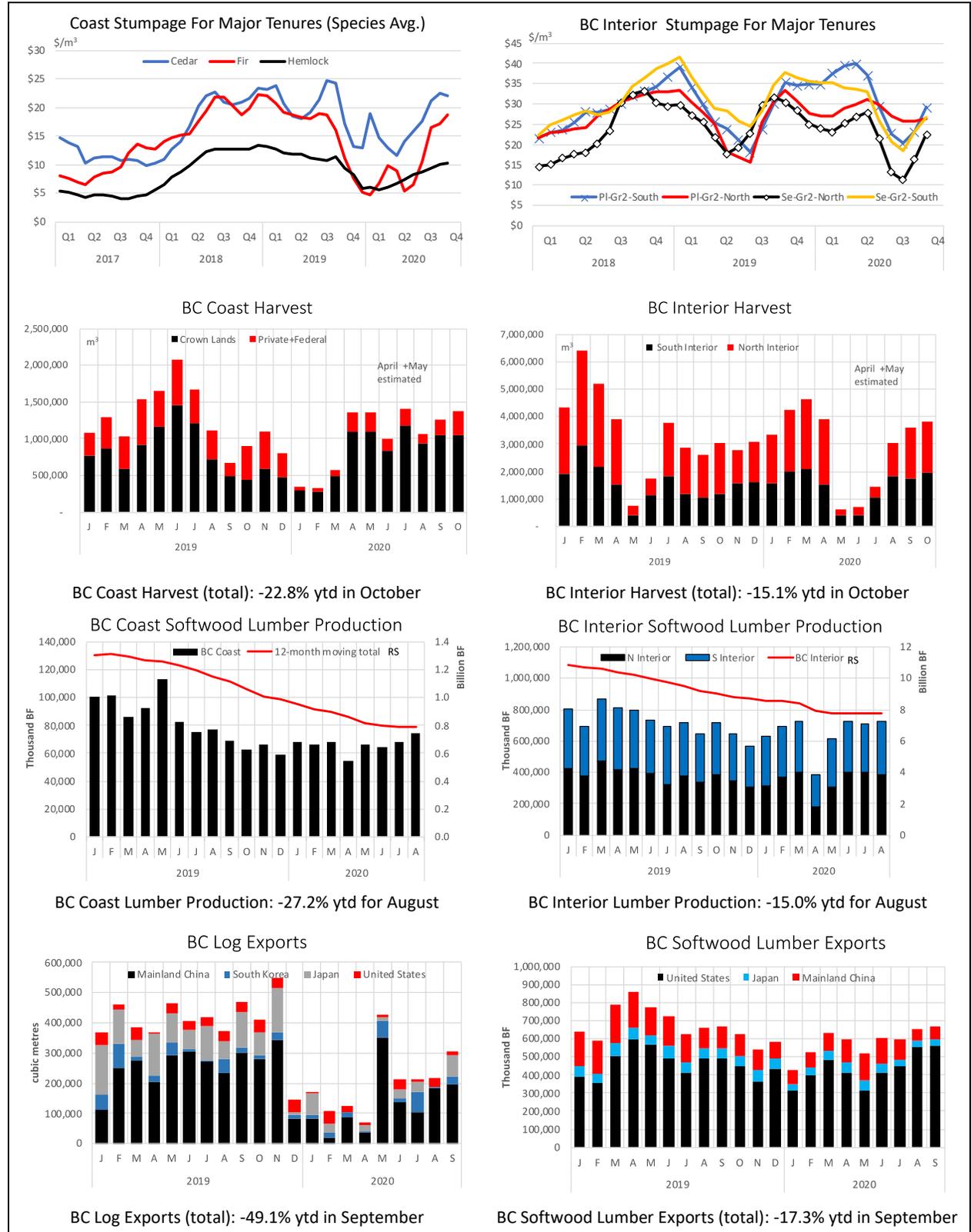
Undoubtedly, some of those jobs should come back as Western Forest Products resumes post-strike operations. For a labour-leaning government, bringing back all those lost jobs should be a natural goal.

In my view this is still within the realm of possibility to overcome the hurdles challenging the return of harvesting and lumber production (including with higher value products) to mid 2019 levels.

The new BC government has the benefit of the next four years to change the direction of the coastal sector. Opportunities still exist, as after all, the trees are still in the forest.

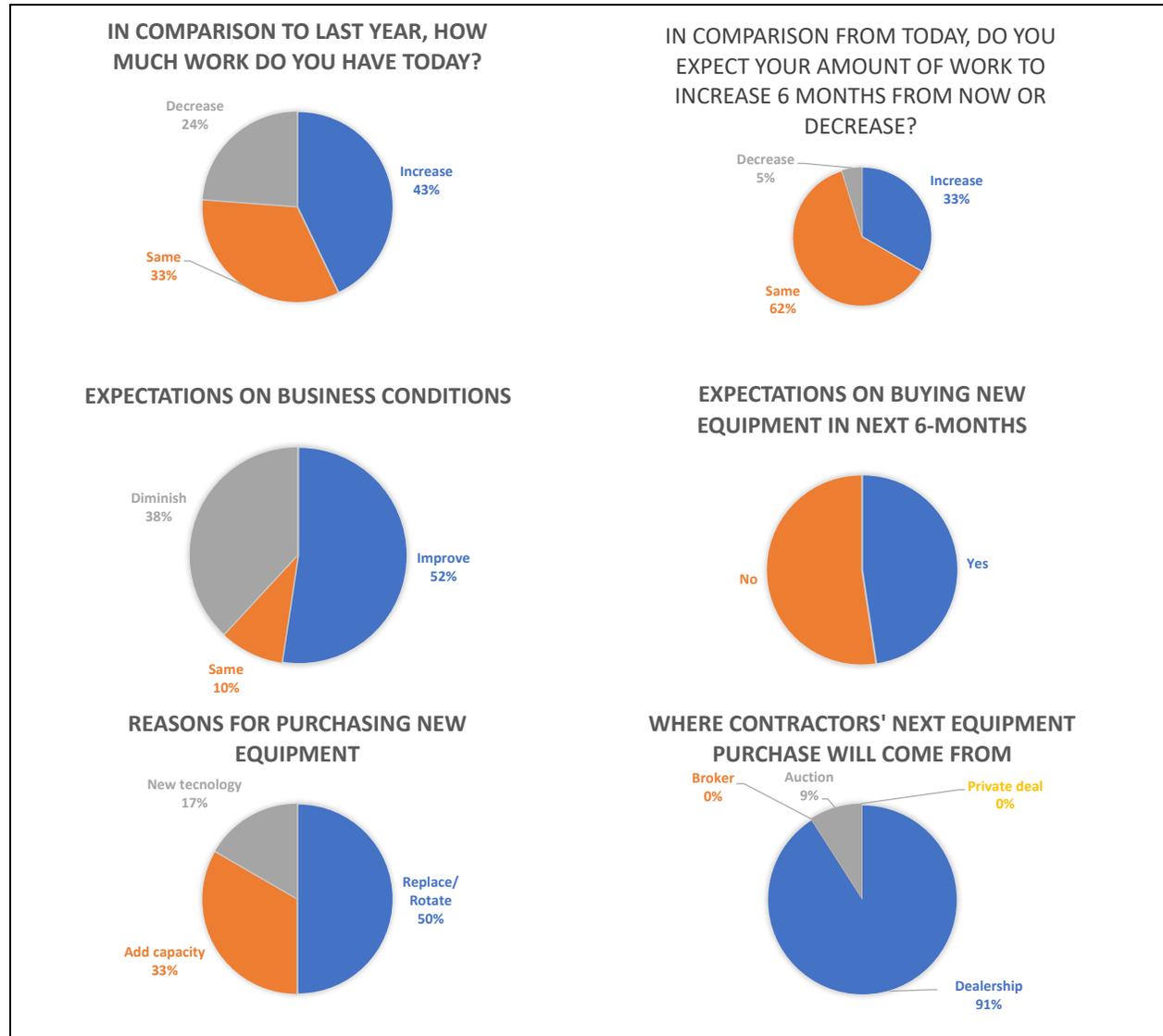
Onwards and upwards!

BC Forest Industry Metrics



The Timber Harvesters Business Network: Expectations

Data collected throughout July, August and September represents the second survey for what is becoming a unique perspective of expectations. The expectations shown in the charts below consist of coastal and northern interior timber harvesting contractors in aggregate.



The Radar Screen...a summary of announcements including new government policies that you must have on your radar screen as they will affect the BC forest sector supply chain:

Old Growth Strategic Review – the report is now public! Upon release of the report, the BC Government moved immediately to defer harvesting in 353,000 ha across nine areas around the province.

Interior Forest Sector Review – a public engagement process to gather input on what the industry/communities see for the future of the BC interior forest sector. A “What We Heard” report has been released. *Tenure and fibre supply topped the list of policy areas of highest importance.*

Softwood Lumber Dispute – changes to cash deposits for U.S. counter-veiling and anti-duties has been postponed until late November 2020. *This will reduce the cost burden of the Canada/U.S. trade dispute on BC lumber exporters to the U.S.*

Manufactured Forest Products Regulation – implementation of changes was delayed to September 30, 2020 - when there will be a fee-in-lieu on exports of minimally processed sawn-wood on all permits as of October 30, 2020.

Contractor Sustainability Review – discussions led by industry associations on potential changes to the Timber Harvesting & Sub-contractor Regulation (aka Bill 13). *Timing – indefinite given October 24, 2020 provincial election. Maybe January or February 2021?*

Short-term Work Opportunities For Interior Contractors – no indication yet what this will look like going into 2021.

Coast Logging Equipment Support Trust – offers bridge financing from a \$5 million fund for coastal contractors – the majority of funds remain unused.

Covid 19 – Provincial Tax & Revenue Changes - carbon tax increases have been postponed, staying at April 1, 2019 rates of 8.89 ¢/litre for gasoline and 10.23 ¢/litre for diesel.

Industrial Inquiry Commission – recently announced Ministry of Labour review of contract tendering in the forestry sector to assess protections for fair wages and job security when services are tendered.

BC Increased Employment Incentive (*election dependent*) – as part of the recently announced BC Economic Recovery Plan, a tax credit for businesses hiring new employees.

BC PST Rebate on Select Machinery and Equipment (*election dependent*) – as part of the recently announced BC Economic Recovery Plan, a 100% PST rebate on equipment purchases – ends September 30, 2021

Russia To Ban Coniferous Log Exports – Putin requested a complete ban effective January 1, 2022 as well as has ordered a subsidization program for wood processing facilities effective January 1, 2021. *Russian tariff increases on log exports back in 2010 is what triggered China to look to BC for logs and lumber – CAUTION - unverified*

Special Tree Protection Regulation – effective September 11, 2020 - \$100,000 fine for cutting trees with exceptional diameters (dbh)

View From The Stump

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