david@spartreegroup.com
spartreegroup.com
December 2020 – Vol 1, Issue 4

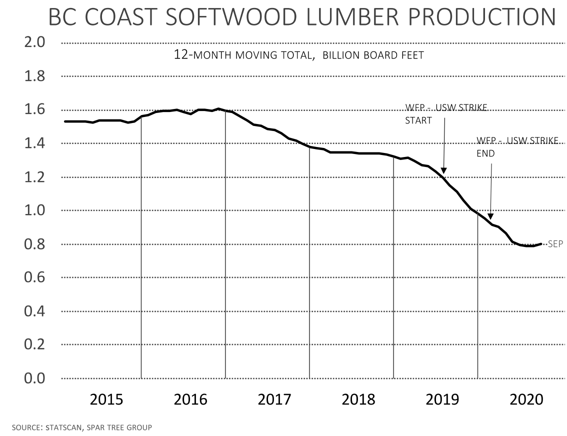
A Path Forward – Ideas For The BC Wood Processing Sector

Major changes are on the horizon for the BC forest industry. Not only is the Ministry of Forests, Lands, Natural Resource Operations and Rural Development to be divided into two Ministries, the proverbial table has been set for significant structural shifts in the industry itself.

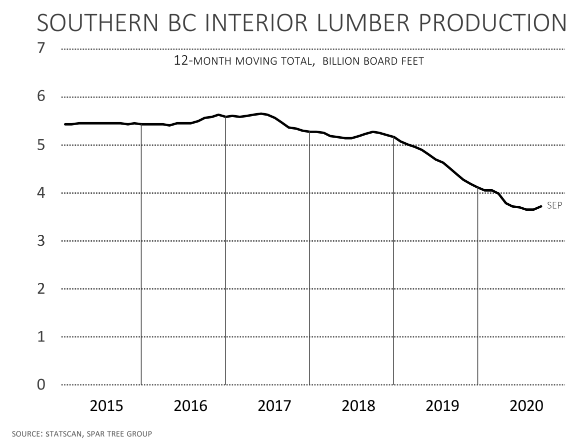
Recognizing that the province's forest resource is capable of more than just making 2x4s, Premier John Horgan asked in his mandate letter to Minister Katrine Conroy for "the transition of our forestry sector from high-volume to high-value production, increasing the value-added initiatives of our forest economy." In addition, the Premier has asked that a portion of the allowable annual cut be dedicated towards "higher value producers who can demonstrate their ability to create new jobs for workers in BC."

If there was one group set to capitalize on this new direction towards value-added, it should be the independent wood processors consisting of sawmills, remanufacturers, custom cutters and wholesalers who rely on entrepreneurialism and innovation in order to offset their general lack of forest tenure ownership.

The [November 2020 issue of the *View From The Stump*] highlighted the ongoing downward trends of coastal BC harvesting and lumber production and that hopefully the next four years of political stability will create the opportunity for the new NDP provincial government to change these trends.



Invigorating the value-added side of the industry is one path forward to addressing ways to maximize the harvest and increase production. To be clear, such opportunities in value-added initiatives can occur both on the coast and the interior, particularly in the southern region.



Unfortunately, despite a strong political desire for higher value production, there is actually no comprehensive picture of what the current state of the value-added sector looks like in the province, nor is there a strategy on how to expand it. To be impactful, significant investment is required.

What's In This Issue…

- A Path Forward…page 1
- BC Forest Industry Metrics…Page 3
- The Timber Harvesters Business Network…4
- The Radar Screen…page 5

Starting down the path to higher value production may include the following ideas:

Preparation of a situational analysis – A description of the current state of the value-added sector including independent wood processors would be strategic in establishing a baseline. Areas to focus on would be:

- Assess the type of fibre these producers use and where do they source it from;
- Determine the type and amount of fibre is anticipated to be needed in the future as the sector grows;
- Identify pending constraints to fibre availability; and,
- Benchmark the current level of First Nations involvement given their connectivity to the forest resource as future partners/investors.

While the desire to see greater value-added production has been widely expressed, surprisingly, there is no current provincial plan or strategy ready to be implemented to make this transition happen.

Preparation of a value-added growth strategy should address the following areas of focus:

Access to fibre – Buying logs or fibre on the open market is one option to access fibre although it does not ensure a steady supply for various reasons. Alternatively, attempting to gain tenure is not easy, with essentially all the AAC in the province already fully allocated (although generally not harvested in its entirety each year). As possible solutions, ways to address fibre access might include increasing the volume of Category 2 timber sales or creation of an “Opportunity” or “Innovation” partition in timber supply areas by the chief forester for un-harvested stands.

First Nations – There is a rising wave of entrepreneurial spirit with First Nations, who have growing control over the timber resource, a desire to invest in economic opportunities and assert their identity. A value-added strategy should factor in how to partner with First Nations as a key component.

Market Development – Much effort is expended in promoting BC forest products in new markets. Designing programs specifically for smaller producers including research into higher value product development is needed.

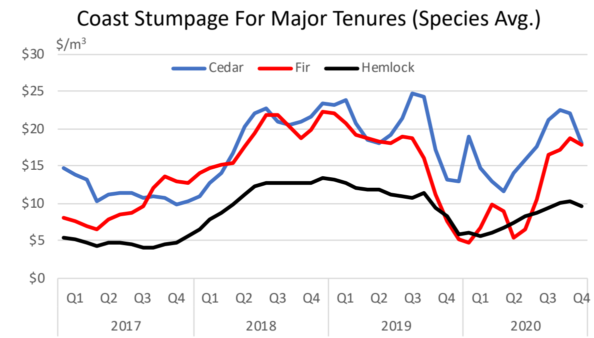
Softwood lumber dispute – As the governments of Canada and the United States continue to negotiate for a new softwood lumber trade agreement, it’s strategically important to ensure conditions within any new agreement that supports higher value production and exports.

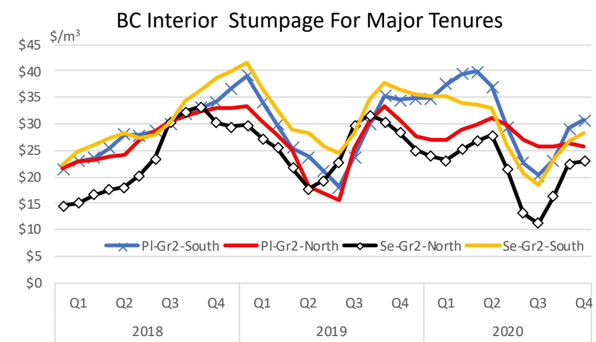
Strategic Investment Fund – *If you want something to happen, you’ve got to put your money where your mouth is…* The Minister of Jobs, Economic Recovery and Innovation has been asked to launch a strategic investment fund to invest in high-potential BC businesses to help them scale and grow. That sounds like a golden opportunity for value-added innovators to access capital. This fund or something like it could be used as an accelerator to fast track development of products and manufacturing processes that support the transition of the industry, provided it does not draw the ire of the US government in terms of being viewed as an “aid” to the Canadian lumber industry.

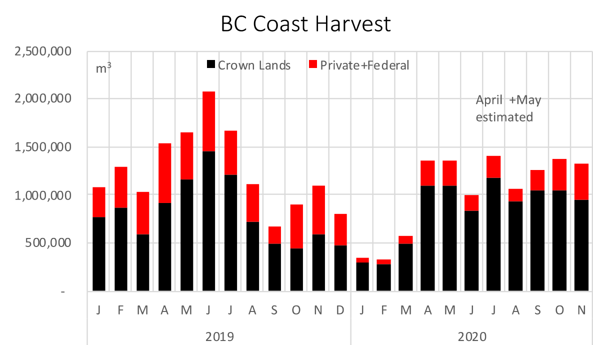
The above framework of ideas is just one of many paths that could be taken to shift the BC forest industry towards increasing value-added manufacturing. There is lots of work to transition to higher value production but conditions are right. Now is the time for independent wood processors to rise to the occasion and grow their presence.

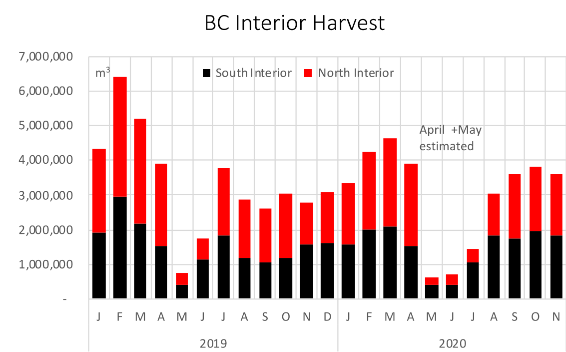
published by the **Spar Tree Group**
david@spartreegroup.com
spartreegroup.com

BC Forest Industry Metrics



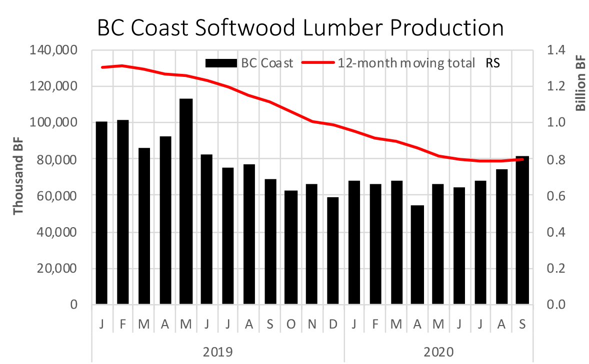


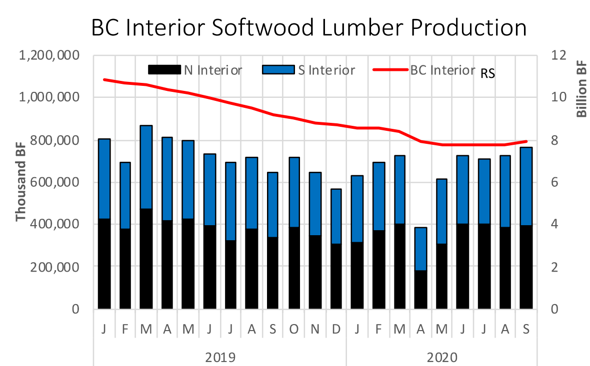




BC Coast Harvest (total): -19.4% ytd in November

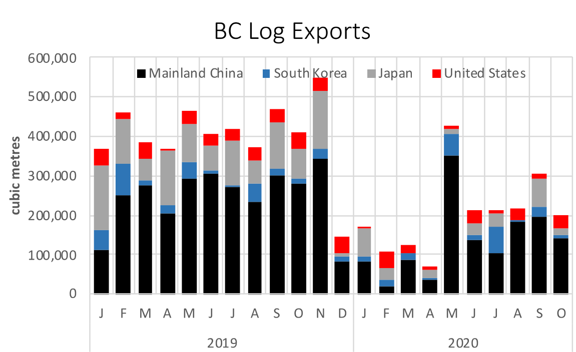
BC Interior Harvest (total): -11.8% ytd in November

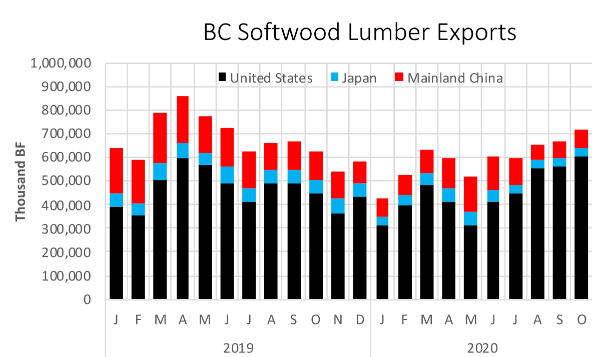




BC Coast Lumber Production: -23.3% ytd for September

BC Interior Lumber Production: -11.9% ytd for September





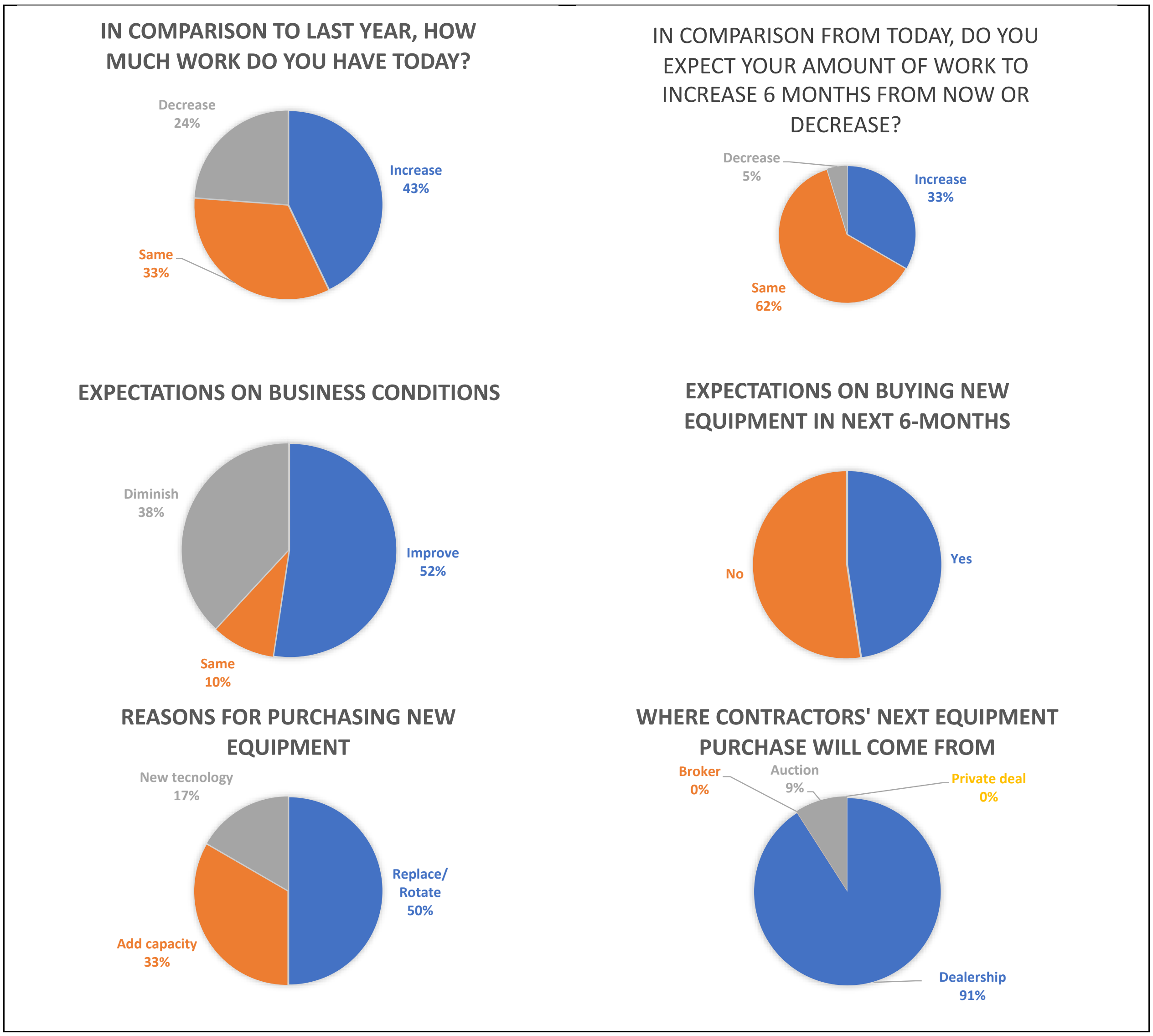
BC Log Exports (total): -49.2% ytd in October

BC Softwood Lumber Exports (total): -14.7% ytd in October

The Timber Harvesters Business Network: Expectations

We expect to update the Expectations presentation in the next issue.

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.



View From The Stump

Editor: David Elstone

Publisher: spartreegroup.com

To subscribe, please contact david@spartreegroup.com

published by the **Spar Tree Group**
david@spartreegroup.com
spartreegroup.com

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:

Forest Sector Safety Measures Fund Program – $9.3 million to offset Covid-19 costs for the forest sector including logging contractors. Apply before February 1, 2021.

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 for U.S. counter-veiling and anti-duties came into effect late November 2020 whereby. BC exporters will pay close to 9% going forward, down from 20.23% previously on shipments 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, maybe first quarter 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.

Government of Canada Carbon Tax Increase – announced that it will increase its carbon tax effective 2023, rising to $170/tonne by 2030. Currently, the BC government carbon tax is $40/tonne.

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 – 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 – 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. *CAUTION - unverified Russian tariff increases on log exports back in 2010 triggered China to look to BC for logs and lumber*

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