

COASTAL CLARION



THE LATEST NEWS FROM BC'S COASTAL FOREST INDUSTRY

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PRESIDENT'S PERSPECTIVE, RICK JEFFERY, RPF

“While softwood lumber negotiations dominated the agenda over the summer, a new issue emerged – coastal log supply. Currently, log inventories are tight for everyone. But what is causing this shortage of logs on the coast?”

Weather has played a prominent role. An unusually slow start to the harvesting season because of high winter snow packs caused coastal log production to ramp up in late spring only to be curtailed through July and August by the heat. Harvesting operations only fully resumed recently.

Weather factors were accompanied by tight log inventory management in Q1 and Q2 as the market driven consolidation of Western Forest Products, Cascadia and Englewood came to a close and the affects of poor wood products markets in 2005 worked their way out of the system.

Some people believe consolidation is the primary reason for the tight log supply on the coast, but the facts don't support this argument. In 1996 Coast Forest membership accounted for 87 per cent of the Crown allowable annual cut (AAC). In 2006, 10 years later, following the implementation of the Forestry Revitalization Plan, Coast Forest member companies' portion has fallen to 60 per cent of the cut. The new market-based system means that major licensees are net buyers of wood and now compete in the marketplace for a large part of their fibre supply.

Others point to B.C. Timber Sales (BCTS) as the causal factor, but the data indicates BCTS is selling its AAC. However, there's still work to be done to ensure government policy and practices result in the timely harvest of market-driven timber sales.

Improvement is also needed in getting First Nations and Community Forest volumes into the market. Of 7.4 million cubic metres allocated to First Nations, only 1.4 million cubic metres (19 per cent) have executed licences. Only two of 12 community licences have been issued. These volumes are missing from the market to the detriment of First Nations, communities and the log market. Together, we have to work to find ways to resolve this challenge.

The changing face of the coastal forest industry is driven by external end markets, and requires that we adapt our business models, forge new business relationships and invest in competitiveness. What is not needed is government social engineering to direct the functioning and structure of the market. To become world competitive we need to allow market forces to drive change – this would be a bold departure from our historic approach.

AMBASSADOR MEETS WITH COAST FOREST



Coast Forest President Rick Jeffery and Canadian Ambassador to Japan Joseph Caron launched the coast's new kiln-dried hemlock lumber product in Tokyo on September 14. (See inside story – New Hemlock Product.)

Canadian Ambassador to Japan Joseph Caron took time out of his busy schedule to meet with Coast Forest Products Association President Rick Jeffery to affirm that forest products is one of the embassy's highest priorities in Japan. The two met to discuss ways in which the Canadian Embassy could assist in marketing coastal forest products in Japan.

“Mr. Caron understands the importance of the Japanese customer to the coastal forest industry and is enthusiastic about making sure the Japanese customer is informed about the benefits of building with our products,” says Jeffery.



Fraser River Port, an engine of commerce

Photo: Fraser River Port Authority

PORTS UPDATE

Do we need three separate port authorities in the region? Federal Transportation Minister Lawrence Cannon is leading discussions to merge the Vancouver, Fraser River and North Fraser Port Authorities into a single port authority by the end of the year.

"The emergence of China as a major trading partner is driving these discussions," says Clay Brown, Coast Forest's General Manager of Security Services. "It stems from a growing recognition of the importance of China's trade capacity and how we can maximize efficiencies between the port authorities in terms of container traffic."

According to Allan Baydala, President and CEO of the North Fraser Port Authority, the goal of the merger is to "maximize synergies" between the ports so that facilities are utilized to their maximum potential.

According to Brown the challenge will be to ensure funding remains in place to maintain log storage, especially along the North Fraser. "The concern is that dredging takes a lot of maintenance, which requires funding in order for log storage to be safe and secure. It's our hope that Coast Forest member companies' log storage needs will be considered as well as container traffic interests."

LUMBER BUSINESS, CHRISTINE KENNEDY

NEW HEMLOCK PRODUCT Japanese certification of a new hemlock grade was announced at a ceremony in Tokyo at the Canadian Embassy from a joint research initiative between the B.C. and federal governments, Coast Forest Products Association and the University of B.C. on September 14. The new E120-F330 grade marks an important step in regaining ground in the Japanese lumber market.

Hemlock accounts for 60 per cent of the coastal forest industry's fibre supply and Japan is the coastal forest industry's number one customer for the species. B.C.'s share of that market declined over 50 per cent from 1994 to 2004, mostly due to Japan's changing regulatory environment, a shift in buyers' preferences and imports of laminates from Scandinavia, China and Russia.

As Business Reporter Gordon Hamilton pointed out in the Vancouver Sun (Sept. 14): "In 1994, before the Japanese rejected green hemlock, this province shipped over a billion board feet of hemlock a year to Japan, worth almost \$1.2 billion. By 2005, hemlock exports had dropped to little over 300 million board feet worth only \$200 million."

The collapse of the hemlock market in Japan led to the decline of the coastal forest industry. "Now the industry is betting that its rebirth as a component in modern housing designs will be a prime factor in the coast's recovery," writes Hamilton.

"Our new hemlock product is a key step for the coastal forest industry to increase our competitiveness and market share in Japan," says Rick Jeffery, President of Coast Forest Products Association, "We are the first producers to have a kiln-dried solid wood product that is superior in strength to our competitors' laminates. The new product meets the unique needs of the Japanese home building industry and has the potential to double our market share there."

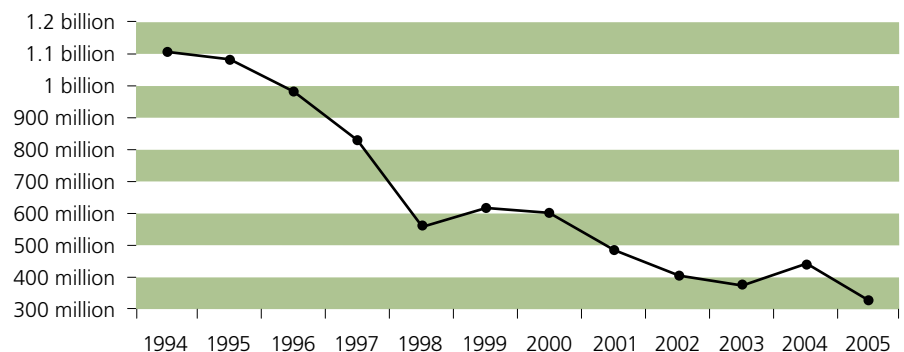
B.C.'s new hemlock product is the result of a \$2 million product development program, and is not only stronger but also more economical than laminates. The kiln-dried hemlock grade was developed at UBC and is part of an ongoing cooperative effort between industry and the Government of Canada and the Province of B.C. to develop new market opportunities for the coastal forest industry.

"This government is committed to revitalizing the coastal forest industry," says Forests and Range Minister Rich Coleman. "That's why we are working with our partners, like Coast Forest, to develop innovative new products that will attract new customers in traditional markets like Japan."

With a strength rating higher than laminates or Douglas fir, it's expected that the use of the new hemlock product will increase in roofing and post applications for Japanese housing where traditional post and beam construction is still very popular.

B.C. COASTAL HEMLOCK EXPORTS TO JAPAN

Board Feet



Source: Statistics Canada



FORESTRY IN OUR COMMUNITIES

In the past decade we have seen the impact of market forces transforming the coastal forest industry. Other factors such as softwood lumber, government policies, foreign exchange rates, housing starts and interest rates, to name a few, are also driving change in the industry. The industry is adapting by changing its focus and business models. Some companies are growing. Some are selling non-core assets. Others are specializing in one specific area of wood products manufacturing.

Today's coastal forest industry is a different industry than it was just five years ago. However, there are still major changes to come and those changes will have benefits and impacts on the communities in which they operate.

Nine out of 10 mayors in coastal communities still rank forestry as their number one industry

Coast Forest Products Association believes there is a need for dialogue with community leaders as we move forward through these market-driven changes, and is working to increase opportunities to share perspectives. This summer Coast Forest surveyed coastal mayors asking them for their views on the coastal forest industry.

What did we learn? Nine out of 10 mayors in coastal communities still rank forestry as their number one industry, but coastal mayors told us that there are still many challenges ahead. We agree and we share their concerns, yet we are also optimistic that together we can find solutions that address the realities of the coastal forest industry.

MORE POLICY, LES KISS, RPF

COAST MARKET PRICING The Ministry of Forests and Range has commenced a review and update of the current Coast Market Pricing System (MPS), with an ambitious targeted implementation date of February 1, 2007 for a revised MPS equation. Through the Coast Steering Committee and related committees, Coast Forest is committed to working with the ministry to achieve its target objective and to ensure that MPS is based on improved market evidence from B.C. Timber Sale (BCTS) auctions.

BCTS provides opportunities for bidders to purchase timber in an open and competitive auction process. Simplistically, for anyone bidding on a timber sale, market value is established directly: the high bid wins the right to harvest the timber. For tenure licensees harvesting under cutting permits, the determination of market value is indirect – stumpage is calculated from the MPS equation that is derived from the BCTS auction data. As such, Coast Forest and its member companies have a keen interest in ensuring that the MPS equation is based on credible data and an open and competitive auction process.

MARKET PULP LOG PRICING In his president's message Rick Jeffery noted that coastal log supply, specifically log inventories, are tight for everyone. This includes the coastal pulp sector where the availability of pulp logs is an issue. The declining supply of pulp logs is not a short-term phenomenon; it has been a growing issue over the last couple of years. The problem of harvesting lower volumes of pulp was directly linked to low pulp values and high extraction costs. In 2005, and earlier this year, pulp log prices were languishing under \$30 per cubic metre, and to compound the problem a large volume of pulp log grades were being charged stumpage rates significantly higher than the market was willing to pay.

Effective May 1, 2006, the Ministry of Forests and Range introduced changes to the pricing of several log grades. This includes hemlock and balsam U and X priced at \$0.25 per cubic metre to be consistent with Y grade and to reflect the market value of pulp logs. Some have argued that the pricing change, in combination with the ministry's take or pay policy, will result in more volume being left in the woods. Coast Forest, however, suggests the change has helped to stimulate the harvest of more pulp logs, as it will provide a positive margin on a larger volume of these logs.

Feedback from member companies and logging contractors indicates pulp log utilization is increasing in areas where economic margin has been provided by the reduction in stumpage and the recent increase in pulp log prices. On Vancouver Island roadside accumulations left behind last year in one operation have been loaded out and sold to a local pulp buyer. This is a positive development.

Of course, it's still too early to tell if the overall increase in pulp log harvest will be dramatic, as the policy change was just introduced in May and logging operations are only now trying to kick into full throttle after a very hot summer. But the take home message is: Let's give the policy a chance to work, let's monitor the impact for at least a year and let's turn our mind to further improvements to encourage utilization, not changes to artificially stifle it.

CLARION CORNER

SAFETY UPDATE With National Forest Week taking place in September, this event provided a good incentive to reflect on the state of safety in the forest sector in our coastal industry. As you might expect, safety continues to be top of mind for Coast Forest and its member companies. We are happy to recognize the Association of B.C. Forest Professionals' (ABC FP) effort to make safety a central ingredient in its exam this year. Our efforts to improve our safety record as an industry are showing results – we are having a significantly better year with fewer fatalities and serious injuries.

This fall, the BC Forest Safety Council is set to launch its SAFE Companies Certification program. This means companies will be able to register into the SAFE Company program, book the services of a Council-approved Safety Auditor and have their operations audited. In addition, SAFE Certified companies will be eligible for partial rebates on their WCB assessments.

"This program distinguishes B.C. forestry employers who meet industry safety standards and demonstrate true leadership and commitment to building a culture where the health and safety of all workers is an overriding priority," says the Council's Tanner Elton. "And what everyone needs to know is that SAFE Companies status will now be a pre-qualification standard for companies to operate within the B.C. forest sector."

The Council recently called for volunteers to test the Small Employer Audit protocols for the SAFE Companies program. Coast Forest member Kim Allan and the District of Mission are volunteering to take part in this important Pilot Project.

As ABCFP President Bob Craven wrote for the Vancouver Sun's National Forestry Week's Special Information Supplement, "The ultimate goal for all forest professionals is for each and every worker to come home safe." We couldn't agree more.

PETER N. AFFLECK MEMORIAL GRADUATE SCHOLARSHIP The Peter N. Affleck Memorial Graduate Scholarship in Forest Policy has been established in memory of the Council of Forest Industry's Peter Affleck.

Peter Affleck was recognized across Canada as a dedicated, effective and highly respected advocate for the forest sector. It is now up to Peter's friends and colleagues to join with us in establishing the fund that will support the provision of annual scholarships to forestry students at UBC in his name.

Please consider making a contribution today as we must raise a minimum amount before the University can formally establish the scholarship. Contributions are tax deductible.

Cheques should be made out to:

UBC - Peter N. Affleck Scholarship Fund and mailed to:
Dan Worsley Associate Director Awards, Gifts and Estate Planning
The University of British Columbia
Suite 500 - 5950 University Boulevard
Vancouver, B.C. V6T 1Z3

Contributions will be gratefully received from corporations, associations, governments and individuals.

NOTICE TO EXPORTERS This notice is now available at www.softwoodlumber.gc.ca. All exporters must be aware that, as of October 12, 2006, an export permit will be required for every softwood lumber shipment to the United States.

For questions regarding export permits or hard copies of the Notice:

Export and Import Controls Bureau
Hot Line 613-944-2168 or 1-877-808-8838

For questions regarding the Agreement:

Softwood Lumber Division (TNS)
Hot Line 613-944-2167



The B.C. Forest Safety Council posts up-to-date safety news on its website. Injury statistics are now posted there in a printable version.
Please visit www.bcforestsafe.org
And remember: Unsafe is Unacceptable

Coast Forest represents forest and paper companies in coastal British Columbia engaged in the harvesting and manufacturing of primary and added value forest products, and pulp and paper products. Together, these companies manufacture 95% of the lumber produced on the coast, 70% of the pulp and paper production and are responsible for 60% of the total harvest. The Association works to ensure that the five coastal species and their product lines have fair access to the global marketplace. Committed to providing leadership to create a thriving forest industry, Coast Forest facilitates cooperation between stakeholders and government on behalf of its member companies.



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THE COASTAL CLARION
CONTACT:**

Coast Forest Products Association

1200-1090 W. Pender St.
Vancouver BC
V6E 2N7

www.coastforest.org

e-mail: info@coastforest.org
Tel: 604.891.1237
Fax: 604.682.8641