

COASTAL CLARION



THE LATEST NEWS FROM BC'S COASTAL FOREST INDUSTRY

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PRESIDENT'S PERSPECTIVE, RICK JEFFERY, RPF

The coastal industry continues to spend significant time and energy restructuring to improve competitiveness, but until we solve the puzzle of what to do with coastal hemlock the industry will inevitably contract as we lose market share to other jurisdictions.

Why? Because hemlock makes up 60% of coastal forests and increasingly much of this inventory is second growth. Optimizing product mix and achieving profitability with both mature and second-growth hemlock is challenging.

After eight months at Coast Forest, I am convinced that addressing this challenge requires the development of a comprehensive coastal hemlock plan. Here's why.

We have an emerging pulp log crisis. Hemlock chips are competing with a flood of low cost SPF wood chips from the Interior. Pulp companies are driving optimization strategies to reduce fibre input. Rationalization has closed mills and NorskeCanada has reduced its newsprint capacity. The cumulative effect is a 1.3 million cubic metre reduction in demand for hemlock pulp logs that currently bear the full stumpage burden.

China is an emerging market where demand for B.C. wood products is a mid- to long-term proposition. Increased lumber consumption attributable to wood-frame construction is in its infancy. The Chinese supply chain for lumber products is murky. Thus, before spending needed additional money on product development, market access and promotion activities in China, the coastal industry needs to answer these questions:

1. To what degree is China a competitor and how do we respond?
2. What is the potential for China as a consumer of coastal products?
3. Is China a viable option for offshore production of B.C. wood products?

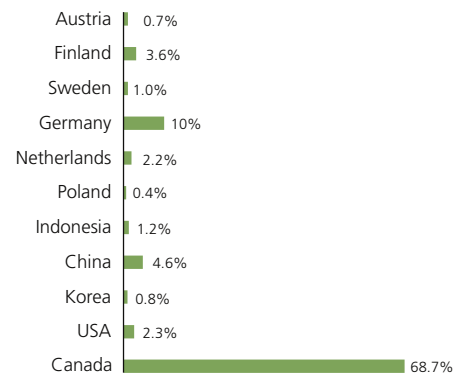
In contrast, Japan is a mature market that has its own set of challenges. Eighty per cent of homes in Japan are being built by pre-cutters, and their preference is clearly for engineered wood products. European whitewoods now dominate this market by running on pulp economics, dumping product into the marketplace at breakeven or below cost, and making the competition for coastal green or kiln dried hemlock fierce. Today, the coast struggles to maintain its share of market (SOM) in Japan; use of our products has been relegated to roofing components and floor joists. We need to stop this decline and regain SOM in Japan.

Furthermore, notwithstanding the duty, we have opportunities in the U.S. in the traditional housing market, but also in the multi-residential and commercial segments.

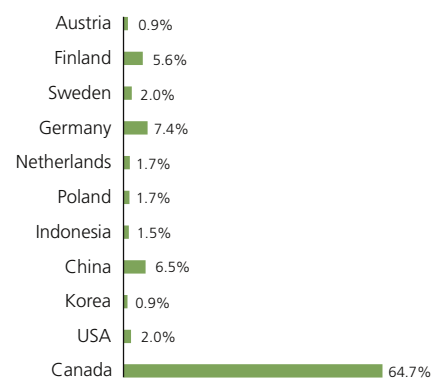
A hemlock plan is part of the answer to address these challenges and opportunities. And the key to a successful plan is competitively providing the market with a full family of hemlock products - from green lumber to kiln dried products to engineered wood to floors and doors.

Hemlock is our future. Our success as an industry depends on it.

2003 Imported Lumber to Tokyo Lumber Terminal



2004 Imported Lumber to Tokyo Lumber Terminal





Forests Minister Mike de Jong, Coast Forest's Rick Jeffery and Interfor's Ric Slaco inspect kiln dried Canada Tsuga E120 grade Hem-Fir used as roof structural beams in Japan.

LUMBER BUSINESS, CHRISTINE KENNEDY

DREAM HOME CHINA Coast Forest President Rick Jeffery joined Forests Minister Michael de Jong and a 60-member delegation in late January for the opening of Dream Home China in Shanghai. Through the support of Forestry Innovation Investment Ltd., Dream Home China will provide office, training and demonstration facilities, and a showcase wood building that displays B.C. products directly to Chinese customers. The Dream Home China project is constructed entirely of forest products from British Columbia.

"The Centre gives B.C. forest company associations a major presence in one of the fastest growing economies of the world," said de Jong. "It provides a world-class facility for showcasing B.C. forest products and wood-frame construction."

More than 150 representatives from Chinese development, builder and architectural firms joined Minister de Jong, Minister Patrick Wong and MLA Gillian Trumper at the opening ceremony.

In China, 10 million new homes are built each year - five times the volume of the U.S. housing market. However, most new housing in China is built using concrete and cement block construction. The Dream Home China project is aimed at shifting consumer demand towards wood-frame homes and wood finishing by promoting North American style housing and design.

JAPAN TRADE MISSION From Shanghai, Forests Minister Mike de Jong, Rick Jeffery and a few other delegates traveled to Tokyo for a firsthand look at the competitive realities of the Japanese marketplace.

Over the last several years, Japanese customers have shifted their purchase decisions away from solid wood, increasing their utilization of European laminates in post (hashira) and beam (hirakaku) components of traditional Japanese housing. Green and kiln dried solid hemlock continues to be used in ground sill (dodai), roof components (moya and keta) and small structural (warimono) applications, but Coast Forest members face stiff competition in retaining market share. Changes in Japan's wood product preferences have come largely as a result of regulatory and home warranty changes, and demand for stronger and more stable wood products found in pre-cut power built homes.

"Coast Forest and its member companies are responding to changing Japanese customer preferences by providing comprehensive technical information on hemlock's exceptional strength and stability, which will help our products compete against European laminates in a wider range of applications," says Jeffery.

The association is also working with its government funding partners to develop and test new products that will position coastal manufacturers favourably, helping them regain market share in Japan.

AUSTRALIA Lumber importing regions around the world have become increasingly sensitive to the risk of foreign pests and fungi that could be carried into their countries with lumber shipments. The Australian Quarantine Inspection Service (AQIS) is in the process of implementing interim measures for imports of B.C. lumber which could create potential trade barriers for coastal companies.

In response, Coast Forest is proactively working with AQIS to develop practical pest control measures that can be implemented without affecting market competitiveness. These include enhanced visual inspection procedures, assessment of new fumigants, anti-stain chemicals and knock-down sprays as alternatives to mandatory heat treating or kiln drying. "While these treatments have immediate application to the Australian market, they will also apply to other markets for B.C. lumber" says Coast Forest's Christine Kennedy.

Last December, President Rick Jeffery, along with representatives from grading agencies, the Canadian Forest Service and the Canadian Food Inspection Agency, met with AQIS to design interim measures. As a result, AQIS officials visited B.C. in late February to review logging and lumber operations. During the visit, the Association was able to demonstrate the tremendous care that goes into mitigating the risk of pests and pathogens in B.C. wood shipments, causing Nin Hyne of AQIS to comment that AQIS was "very impressed" with our quality control measures, which has favourably changed their view of the interim measures required.

BETTER GRADES

Coast Forest member companies have identified differences between the Canadian and U.S. systems which are restricting Canadian product lines, market share and mill returns for Douglas fir and Hem-fir. At the January National Lumber Grades Authority meeting, Coast Forest technical and member company representatives requested changes that would provide equal grade listings. They also secured agreement to pursue design stresses for #1&BTR grade of Douglas fir and Hem-fir in the U.S.

FUNDING

Coast Forest was busy in January preparing funding proposals for fiscal 2005/06 to support its product development and marketing efforts. With a concerted effort to continue to increase market share in Japan, China, Australia, Europe and the United States these funds will support lumber promotion, market access and technical services. Proposals were submitted to government funding partners Forestry Innovation Investment Ltd. and the Canada Wood Export Program.



MORE POLICY, LES KISS, RPF

COASTAL PULP LOG CRISIS A number of dynamics, including the reduction of pulp capacity on the coast, beetle kill timber in the Interior and the increased movement of wood chips from the Interior to the coast have all conspired to seriously disadvantage the utilization of coastal pulp logs.

Coast Forest has initiated a work plan to summarize fibre consumption and chip flows, particularly the increased SPF chip volumes utilized by coastal pulp producers. The Association is working with the ministry of forests to develop and implement an incentive-based approach for utilization of coastal pulp logs, ensuring pricing reflects the market's willingness to pay and parity with the pricing of Interior off-grades.

RIPARIAN PRACTICES The Forest Practices Board is revising its audit approach to make it consistent with the results-based Forest and Range Practices Act. Four areas within the Chilliwack Forest District with sufficient levels of harvest were selected to test the new approach. The pilot audit concluded forest practices were in compliance with the riparian provisions of the Code (which was in effect during the time of the audit) and are effective in managing stream riparian areas.

Forest Practices Board Chair Bruce Fraser noted, "These results confirm that the Code's riparian requirements and licensee's harvesting practices are effective in protecting riparian values."

The board is conducting further pilot results-based audits on biodiversity conservation, visual quality and stream riparian management, and will be discussing the results of the pilot audits with forestry professionals, industry, government and environmental organizations over the coming months.

MPS The Coast Forest Products Association has the ministry of forests' commitment to engage industry later this spring to develop the next version of the market-based pricing system (MPS). The ministry has agreed to provide Coast Forest with timber sales data to the end of December 2004.

"We will work cooperatively with the ministry to ensure the final data set is clean and useable in development of the new MPS equations," says Les Kiss, Vice President of Forestry.

Coast Forest will carry out preliminary data analysis to ensure we have productive discussions with the ministry of forests around the new MPS model, especially with respect to second-growth adjustment, log exports and data issues.

TRUST FUND Premier Gordon Campbell announced in January that the Province will increase the Forestry Revitalization Trust Fund by \$50 million to help workers and contractors who are negatively affected by the 20% timber reallocation process, initiated in 2003.

The Trust's Advisory Board concluded early on that the original \$75 million targeted for the Trust was inadequate to ensure workers and contractors would be compensated fairly.

The additional funds will now allow Trustee Eric van Soeren to provide the needed assistance to workers and contractors on the coast impacted by volumes that have been allocated to B.C. Timber Sales, First Nations or small tenures.

"Fully funding the Trust will facilitate the licensees' ability to develop quality reallocation proposals," says Coast Forest's Rick Jeffery.

BRASCAN BUYS WEYERHAEUSER

The sale of Weyerhaeuser's B.C. Coastal Group to Brascan Corp. for \$1.4 billion signals "a vote of confidence" in the future of the B.C. coastal forest industry, according to Industry Analyst Paul Quinn of Saloman Partners. The sale of the timber empire, which was assembled by the legendary H.R. MacMillan and stretches from southern Vancouver Island to the Queen Charlotte Islands, is expected to be completed by June.

Included in the sale are 635,000 acres of private timberlands in the coastal region of British Columbia, five sawmills, two remanufacturing facilities and 3.6 million cubic metres of Crown timber. It is expected that the public timber and sawmills will be transferred to Western Forest Products (WFP). Toronto-based Brascan is 50% owner of Tricap Investment Corp, which owns 18% of WFP.

"This is a historic day for the B.C. coastal forest industry."

"This is a historic day for the B.C. coastal forest industry," said Coast Forest President Rick Jeffery, adding "It is a great day for our industry because this agreement will facilitate much needed consolidation and restructuring of the coastal forest industry."

The projected merger would make Western the largest holder of Crown tenure on the coast, doubling its harvest to 7 million cubic metres or 200,000 truckloads of logs a year. Its mills would produce 1.8 billion board feet of lumber, enough to build 100,000 houses a year.

The Hupacasath First Nation is seeking an injunction to block the deal between Weyerhaeuser and Brascan, saying the province failed to consult with them about the sale's potential impact on their traditional territory.

CLARION CORNER

STAYING CURRENT Coast Forest's Rick Jeffery and Minister of Forests Michael de Jong unveiled the Association's new logo, name and product initiatives during a government / industry trade mission in Tokyo, Japan on January 31.

The new name of Coast Forest Products Association (formerly known as the Coast Forest and Lumber Association) reflects an update in the mandate of the 12-year-old organization. "Coast Forest will now be the driving force for all B.C. coastal forest products," says Jeffery. "Our association will brand coastal products worldwide as the best products in the industry, using the best environmental harvesting practices, while providing the most consistent and reliable supply in the global marketplace."

Coast Forest provides a powerful voice for communities, government and other stakeholders to consult on issues, policy and concerns. "Our success depends upon differentiating the coast's products and practices from its competitors," adds Jeffery, "building on a foundation of solid domestic policy work."

To maintain market share in the face of increasing competition abroad and a rising Canadian dollar, Coast Forest has been directing its efforts at growing existing markets in the U.S. and Japan while creating wood cultures in emerging markets like China.

PROVINCIAL BUDGET Coast Forest President Rick Jeffery says the Province has set the stage for the forest industry to increase its share of market in order to remain competitive and protect high paying jobs in B.C.

"We are glad to see the Province sticking to its economic plan," says Jeffery. "This budget and its economic impact, combined with forest policy reform, are providing the forest industry with stability and certainty moving forward."

Stumpage revenue amounts to \$1.3 billion of the budget, an increase of \$306 million over the previous year, and much of that money has been reinvested in the forest industry. Government has allocated \$266 million in forestry spending over the next three years.

Jeffery noted the government has earmarked \$111 million in ministry spending to streamline approval processes and increase compliance and enforcement, which will guarantee delivery of sustainable forestry practices while maintaining business continuity.

"We are also pleased to see that this budget commits government to steady funding of FII at \$18.75 million through to 2008," he says. "FII is a critical piece of the activities required to maintain and grow our share of market."

The budget also sets aside \$50 million to cover the costs of improvements made by forest companies associated with tenure reallocation under the Forestry Revitalization Plan.

NEW COMMUNITY-BASED TENURE FORUM Hosted by the Coast Forest Products Association, the TLA and the ministry of forests, this event will help new licensees be successful in realizing the economic and social benefits for their communities, presented through the Forestry Revitalization Plan process. Visit www.coastforest.org for more information.

CONGRATULATIONS:

CFCI PROJECT MANAGER Bill Bourgeois has been appointed Project Manager of the Coast Forest Conservation Initiative. Bourgeois will be responsible for guiding the companies' efforts to implement ecosystem-based management (EBM) in the Central and North Coast of British Columbia.

WFP APPOINTMENTS Paul Ireland has been appointed Chief Financial Officer at Western Forest Products, based in Duncan. Ireland has been involved in the mining industry, and replaces Phil Hosier who is retiring from WFP after 25 years of service.

Trevor Boniface has been appointed General Manager of Logging at Western Forest Products, based in Campbell River. Boniface started at WFP as an Assistant Engineer in 1977.



B.C. Forests Minister Mike de Jong and Coast Forest Products Association President Rick Jeffery celebrated the announcement of the new name for the Association at a reception at the Canadian Embassy in Tokyo. The announcement was part of a reception for over 200 builders, agents and importers of B.C. forest products.

The Coast Forest Products Association represents 27 companies in coastal B.C. engaged in the harvesting and manufacturing of added value, niche forest products. Together, these companies manufacture 95% of the lumber produced on the coast. 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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