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# ***Coast Forest Products Association Economic Impact Lumber and Logging***

*Study of 2011 and 2010*

*November 2013*



# **Coast Forest Products Association**

*Economic Impact of Coastal British Columbia Companies*

## **At-a-Glance**

### **Preface**

### **Tables**

1. Consolidated Statement of Operating Results
2. Operating Statistics – Lumber
3. Profitability – Lumber
4. Operating Statistics and Profitability – Crown Logging
5. Capital Employed and Expenditures
6. Employment Statistics, Compensation and Benefits - 2011
7. Employment Statistics, Compensation and Benefits - 2010
8. Payments to Contractors – Crown Logging
9. Payments to Government

Appendix A – Glossary of Terms

Appendix B – List of Participating Companies

# Coast Forest Products Association

## *Economic Impact of Coastal British Columbia Companies*

### At-a-Glance <sup>(1)</sup>

	2011	2010
<b>Employment</b>		
Lumber Manufacturing	2,228	2,251
Logging – Company	1,027	1,135
Logging – Contractor	325	320
<b>Total</b>	<b>3,580</b>	<b>3,706</b>
Average compensation and benefits per employee	\$ 68,982	\$ 63,535
Average Hourly employee compensation and benefits per hour	\$ 39.78	\$ 40.08
<b>Payments to Government</b> (\$ millions, except as noted)		
By Companies	\$ 57	\$ 53
Related to Direct Employees	55	51
Payments to WorkSafeBC <sup>(2)</sup>	9	8
<b>Total Payments to Government</b>	<b>\$ 121</b>	<b>\$ 112</b>
Total payments to government per m <sup>3</sup> of Crown log harvest	\$ 14.54	\$ 15.81
<b>Profitability</b>		
Operating Earnings – Lumber (\$ /m <sup>3</sup> of lumber production)	\$ 13	\$ 9
Operating Earnings – Crown Logging (\$/ m <sup>3</sup> of Crown log harvest)	\$ 6	\$ 4
Net Earnings – Combined Lumber and Crown Logging (\$/m <sup>3</sup> of Crown log harvest)	\$ 6	\$ 3
Return on Capital Employed	7.1%	3.3%

#### Notes:

- (1) Results shown are for the Coastal British Columbia forest products producers listed in Appendix B.
- (2) Assessment income as reported to WorkSafe BC by the reporting companies.

# **Coast Forest Products Association**

## *Economic Impact of Coastal British Columbia Companies*

### **Preface**

This report summarizes the financial results and economic impact for the Coastal British Columbia lumber and logging producers listed in Appendix B for the years ending 2011 and 2010. The Study has been prepared independently by PricewaterhouseCoopers LLP (PwC) with the cooperation and assistance of the participating forest products producers.

Data was gathered by means of comprehensive questionnaires which were returned in confidence to PwC. We reviewed the information for reasonableness and consistency. We provide no opinion, attestation or other form of assurance with respect to our work or the information upon which our work is based. The procedures performed do not constitute an examination or a review in accordance with generally accepted auditing standards or attestation standards. We did not audit or otherwise verify the information supplied to us.

The Study includes only data reported by the participants and does not represent the Coastal industry as a whole. Data regarding logging operations on private land has been excluded from this report. Where data could not be obtained directly from participants, PwC made estimates based on best available data.

This report sets out the results of our research and analysis, by lumber manufacturing and logging sectors, while maintaining the confidentiality of individual company data. Although many Coastal British Columbia based companies have extensive operations elsewhere in Canada, the United States and overseas, such operations do not form part of this report.

We thank all the participating companies for their input and assistance.

**PricewaterhouseCoopers LLP**  
Vancouver, British Columbia  
November 2013

**Coast Forest Products Association**  
*Economic Impact of Coastal British Columbia Companies*

**Consolidated Statement of Operating Results**

Table 1

Lumber and Crown Logging (\$ amounts in millions)	2011	2010
Sales		
Lumber	\$ 713	\$ 645
Logging	714	589
Combined	<u>\$ 1,427</u>	<u>\$ 1,234</u>
Total Costs (including inventory change)		
Lumber	\$ 698	\$ 636
Logging	665	563
Combined	<u>\$ 1,363</u>	<u>\$ 1,199</u>
Operating Earnings		
Lumber	\$ 15	\$ 9
Logging	49	26
Combined	<u>\$ 64</u>	<u>\$ 35</u>
Interest Expense <sup>(1)</sup>	\$ 12	\$ 17
Income and Logging Taxes (recovery) <sup>(1)</sup>	0	0
Net Earnings before Non-Recurring Items <sup>(1)</sup>	<u>\$ 52</u>	<u>\$ 18</u>
Return on Sales <sup>(2)</sup>	3.7 %	1.5 %
Return on Assets <sup>(3)</sup>	5.3 %	1.8 %
Return on Capital Employed <sup>(4)</sup>	7.1 %	3.3 %

**Notes:**

- (1) Due to limitations in certain companies' financial reporting systems, interest and taxes cannot be allocated accurately between manufacturing and logging operations. Interest and taxes for both sectors have been consolidated for reporting purposes. As a result, all calculations using net income can only be calculated on a combined basis.
- (2) Return on sales equals net earnings (loss) divided by sales.
- (3) Return on assets equals net earnings (loss) divided by total assets.
- (4) Return on capital employed equals net earnings (loss) plus estimated after-tax interest divided by capital employed (total assets less non-interest bearing current liabilities).

# Coast Forest Products Association

## Economic Impact of Coastal British Columbia Companies

### Operating Statistics – Lumber

Table 2

	2011	2010
Sales Volume (million board feet, net)	1,173	1,038
Production Volume (million board feet, net)	1,183	1,060
Logs Consumed (thousands m <sup>3</sup> )	5,094	4,540
Lumber Recovery (fbm per m <sup>3</sup> )	232	233
Production Indices (average) <sup>(1)</sup>		
Production per Hour of Labour (fbm/hour) <sup>(2)</sup>	383	368
Production per Dollar of Labour (fbm/\$) <sup>(2)</sup>	9.9	9.4
Production per Dollar of Capital (fbm/\$)	1.4	1.2
Production per Dollar of Combined Labour and Capital (fbm/\$) <sup>(3)</sup>	1.2	1.1

#### Notes:

- (1) These figures are calculated using only labour and capital of lumber manufacturers.  
(2) These figures are calculated using only hourly labour hours and dollars respectively.

#### Lumber Sales By Market (%)

Region	2011	2010
Canada	28.7	27.5
US	17.3	16.9
China	26.7	25.4
Korea/Vietnam	1.1	1.3
Rest of Pacific Rim/Asia (incl. Japan, Australia, India)	22.9	25.4
Europe & UK	3.2	3.4
Other	0.1	0.1
<b>Total</b>	<b>100</b>	<b>100</b>

#### Lumber Production By Specie (%)

Specie	2011	2010
Hemlock	51.8	51.4
Cedar	16.1	13.9
Fir	28.9	30.9
Other	3.2	3.8
<b>Total</b>	<b>100</b>	<b>100</b>

**Coast Forest Products Association**  
*Economic Impact of Coastal British Columbia Companies*

**Profitability – Lumber**

**Table 3**

	2011		2010	
	\$ millions	per Mfbm <sup>(1)</sup>	\$ millions	per Mfbm <sup>(1)</sup>
Gross Mill Realization	838	714	746	719
Freight Costs	103	88	84	81
Selling Expenses	10	9	8	7
Export Tax	12	10	9	9
Net Mill Realization	713	608	645	622
Direct Costs				
Wood Fibre	454	384	409	386
By-Product Revenue Credit	(59)	(50)	(53)	(51)
Net Wood Fibre	395	334	356	335
Labour and Benefits	139	118	130	123
Other Direct Costs	147	124	124	117
Total Direct Costs	681	576	610	575
Indirect Costs				
Depreciation	13	11	14	13
Inventory Write-downs and Other Indirect Costs	14	12	22	21
Total Indirect Costs	27	23	36	34
Total Costs	708	599	646	609
Inventory Change	(10)		(10)	
Operating Earnings (Loss)	15	13	9	9

**Note:**

(1) Unit calculations for sales and earnings are determined using sales volumes, and unit calculations for all costs are determined using production volumes. As a result, unit values do not accurately sum.

**Coast Forest Products Association**  
*Economic Impact of Coastal British Columbia Companies*

**Operating Statistics and Profitability – Crown Logging**

**Table 4**

	2011		2010	
	\$ millions	\$/ m <sup>3</sup>	\$ millions	\$/ m <sup>3</sup>
Volume Produced (thousands m <sup>3</sup> )		8,372		7,144
Total Sales and Transfers	714		589	
Direct Costs	360	43.00	307	42.97
Indirect Costs	202	24.13	177	24.78
Total Cost of Logs Produced before Stumpage and Royalties	562	67.13	484	67.75
Stumpage and Royalties	16	1.91	13	1.82
Timber Rentals and Fees	5	0.70	6	0.98
Total Stumpage, Timber Rentals and Fees	21	2.51	20	2.80
Total Cost of Logs Produced	583	69.64	504	70.55
Other (Income) Expenses	(13)		(18)	
Logs Purchased	66		50	
Log Inventory Adjustment	29		27	
Total Cost of Logs	665		563	
Operating Earnings (Loss)	49		26	



**Coast Forest Products Association**  
*Economic Impact of Coastal British Columbia Companies*

**Capital Employed and Expenditures**

**Table 5**

(\$ millions)	2011	2010
<b>Lumber and Crown Logging</b>		
Current Assets	522	516
Net Fixed Assets	282	283
Other Assets	199	222
Total Assets	1,003	1,021
Less: Current Liabilities <sup>(1)</sup>	153	147
<b>Lumber and Crown Logging Capital Employed</b>	<b>850</b>	<b>874</b>
<b>Capital Expenditures</b> (including Roads)	59	45

(1) Excluding short-term debt and current portion of long-term debt

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*Economic Impact of Coastal British Columbia Companies*

**Employment Statistics, Compensation and Benefits – 2011**

Table 6

	Lumber	Crown Logging	Total
<b>Average Number of Employees<sup>(1)</sup></b>			
Hourly	1,931	690	2,621
Salaried	298	337	635
Total Employed by Company	2,229	1,027	3,256
Contract Employees (estimate) <sup>(2)</sup>	n/a	325	325
<b>Total</b>	<b>2,229</b>	<b>1,352</b>	<b>3,581</b>
<b>Hours Worked (000's)</b>			
Hourly	3,088	1,290	4,378
Salaried	467	683	1,150
<b>Total</b>	<b>3,555</b>	<b>1,973</b>	<b>5,528</b>

(\$ millions, except as noted)	Lumber		Crown Logging		Total	
	Hourly	Salaried	Hourly	Salaried	Hourly	Salaried
Compensation <sup>(3)</sup>	102	16	47	25	149	41
Employee Benefits <sup>(4)</sup>	18	4	6	5	24	9
<b>Total Compensation and Benefits</b>	<b>120</b>	<b>20</b>	<b>53</b>	<b>30</b>	<b>173</b>	<b>50</b>
Compensation and Benefits per Hour	\$ 39.04	\$ 42.79	\$ 41.58	\$ 44.55	\$ 39.78	\$ 43.83

**Notes:**

- (1) Number of employees is calculated as total number of employees on the payroll at the end of each pay period, divided by the number of pay periods in the year. Employees temporarily laid off due to labour disruptions or mill shutdowns are included in these employment numbers. The employment impact of such employees is reflected through hours worked.
- (2) Reporting companies only. Excludes contract logging companies.
- (3) Compensation includes shift differential, call time, premium time, and overtime.
- (4) Employee benefits include the employer's portion of all benefit expenditures, excluding severance pay.

**Coast Forest Products Association**  
*Economic Impact of Coastal British Columbia Companies*

**Employment Statistics, Compensation and Benefits – 2010**

Table 7

	Lumber	Crown Logging	Total
<b>Average Number of Employees<sup>(1)</sup></b>			
Hourly	1,912	845	2,757
Salaried	339	290	629
Total Employed by Company	2,251	1,135	3,386
Contract Employees (estimate) <sup>(2)</sup>	n/a	320	320
<b>Total</b>	<b>2,251</b>	<b>1,455</b>	<b>3,706</b>
<b>Hours Worked (000's)</b>			
Hourly	2,883	1,120	4,003
Salaried	694	576	1,270
<b>Total</b>	<b>3,577</b>	<b>1,696</b>	<b>5,273</b>

(\$ millions, except as noted)	Lumber		Crown Logging		Total	
	Hourly	Salaried	Hourly	Salaried	Hourly	Salaried
Compensation <sup>(3)</sup>	95	25	42	21	137	46
Employee Benefits <sup>(4)</sup>	18	4	6	4	24	8
<b>Total Compensation and Benefits</b>	<b>113</b>	<b>29</b>	<b>48</b>	<b>25</b>	<b>161</b>	<b>54</b>
Compensation and benefits per Hour	\$ 39.20	\$ 42.23	\$ 42.35	\$ 44.06	\$ 40.08	\$ 43.06

**Notes:**

- (1) Number of employees is calculated as total number of employees on the payroll at the end of each pay period, divided by the number of pay periods in the year. Employees temporarily laid off due to labour disruptions or mill shutdowns are included in these employment numbers. The employment impact of such employees is reflected through hours worked.
- (2) Reporting companies only. Excludes contract logging companies.
- (3) Compensation includes shift differential, call time, premium time, and overtime.
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**Coast Forest Products Association**  
*Economic Impact of Coastal British Columbia Companies*

**Payments to Contractors – Crown Logging**

**Table 8**

<b>(\$ millions)</b>	<b>2011</b>	<b>2010</b>
Logging	259	227
Forestry (including silviculture)	12	11
Road Construction, Maintenance and Deactivation	77	63
Other	22	15
<b>Total Payments to Contractors</b>	<b>370</b>	<b>316</b>

# Coast Forest Products Association

## *Economic Impact of Coastal British Columbia Companies*

### Payments to Government <sup>(1)</sup>

Table 9

(\$ millions, except as noted)	2011	2010
<b>BY COMPANIES</b>		
Income and Logging Tax – Federal and Provincial	\$ 0	\$ 0
Export Taxes	12	9
Stumpage, Timber Rentals and Fees - Provincial	21	20
Fees in Lieu of Manufacture - Provincial	11	10
Property Tax – Provincial and Municipal	9	10
Provincial Sales Tax	4	4
<b>Total – by Companies</b>	<b>\$ 57</b>	<b>\$ 53</b>
<b>RELATED TO DIRECT EMPLOYEES</b>		
CPP & EI – Employer Portion	8	8
CPP & EI – Employee Portion	8	7
Total CPP & EI	16	15
Employee Income Tax Withholdings	39	36
<b>Total – Related to Direct Employees</b>	<b>55</b>	<b>51</b>
<b>Payments to WorkSafeBC <sup>(2)</sup></b>	<b>9</b>	<b>8</b>
<b>TOTAL PAYMENTS TO GOVERNMENT</b>	<b>\$ 121</b>	<b>\$ 112</b>
Total payments to government per m <sup>3</sup> of Crown log harvest	<b>\$ 14.54</b>	<b>\$ 15.81</b>

**Notes:**

- (1) Due to limitations in certain companies' financial reporting systems, payments to government cannot be allocated accurately between manufacturing and logging operations. All payments to government for both sectors have been consolidated and are reported above.
- (2) Assessment income as reported to WorkSafeBC by the reporting companies.

**Average Number of Employees**

The average number of employees by sector is calculated by totaling the number of hourly and salaried employees on the payroll at the end of each pay period and dividing by the number of completed pay periods in the year (rounded).

**Capital Employed**

Total assets less non-interest bearing current liabilities.

**Lumber**

Includes value-added products to the extent produced at primary sawmills.

**Net Earnings (Loss)**

Earnings (loss) after interest and taxes.

**Net Mill Realization**

Gross sales revenue, net of freight, commissions, trade and cash discounts, and export taxes.

**Return on Assets**

Net earnings (loss) as a percentage of total year-end assets.

**Return on Capital Employed**

Net earnings (loss) plus after-tax interest expense as a percentage of year-end capital employed.

**Return on Sales**

Net earnings (loss) as a percentage of sales.

# Coast Forest Products Association

*Economic Impact of Coastal British Columbia Companies*

## List of Participating Companies

Appendix B

This report was prepared by PricewaterhouseCoopers LLP in conjunction with the following companies:

2011	Manufacturing	
	Crown Logging	Lumber
International Forest Products	✓	✓
Teal Jones	✓	✓
Terminal Forest Products	-	✓
TimberWest	✓	-
Western Forest Products	✓	✓

  

2010	Manufacturing	
	Crown Logging	Lumber
International Forest Products	✓	✓
Teal Jones	✓	✓
Terminal Forest Products	-	✓
TimberWest	✓	-
Western Forest Products	✓	✓