



## BRACING OURSELVES: SLA IMPACTS ON THE COAST

I make no apologies for the following. It may sound alarmist, but I rather shout now and be proven wrong, than be right. Here is the situation.

It is well understood—at least by contractors—that during the last downturn the belt tightening requested by their customers (the major licensees) would be loosened when markets improved. If you have read any *Truck LoggerBC* magazine over the last couple of years, you will know that expectation was not fulfilled. Contractors have steadily gone broke while many major licensees saw a healthy recovery in their balance sheets—and exported their profits as investments in southern US sawmills. While some contractors continue to persist, the TLA predicts the supply chain is at risk. The ebb of frustrated contractors leaving this sector is becoming far greater than the flow of new contractors entering.

This is my concern. Markets have been relatively good for the last few years, keeping up the demand for logs, in particular red cedar. Prices of logs have slowly improved (notwithstanding red cedar's stellar ride). Most importantly, for the last 12 months, Canadian shipments of lumber to the US have crossed the border unimpeded by any financial or volume restraint. In other words, we have actually experienced true free trade. Unfortunately, that last 12 months of constraint-free trade was by design of the architects of the last softwood lumber agreement signed in 2006. As you read this, that free trade window will have closed and the Canadian industry will be vulnerable to whatever the US hits us with.

The probability of a new softwood lumber deal leading to managed trade is low in the next few months given the upcoming US election. In the meantime, it is not unreasonable to expect counter-veiling (CVD) and anti-dumping (AD) duties—likely totaling 30 per cent—based on the last time we were at this juncture.

Some people I've spoken to have said the softwood lumber trade issue is more an Interior SPF lumber thing than an issue for the coastal industry. I respectfully disagree. Under the last SLA, a portion of the coastal market was shielded from the full impacts of the export charges. Charges on red cedar lumber exports to the US were only applied on the first \$500 per thousand board feet. Under a CVD and AD scenario, the full price is now exposed. Approximately 30 per cent of say \$1,800/thousand board feet is \$540. That will have a huge impact. Maybe this species will get excluded from future trade penalties—given its uniqueness it should be—but don't count on it.

As loggers, let me ask you: How will our coastal and Interior industries deal with a 30 per cent increase in costs for lumber? There will be an attempt to pass off some as price increases to lumber purchasers. But it is more likely that sawmills will be looking back down their supply chain for assistance to help absorb that cost. Who is going to help? Fuel suppliers? The unions? Equipment distributors? Bankers? No.

I am betting the focus will be on you. There will be ever more pressure from your contract managers. They'll say "We are all in this together. Help us out Mr./Ms. Logger...your rates are too high for my sawmill to stay in business and manage these CVDs and ADs."

Here's the thing. Contractors and some of their customers have fostered healthy, mutual respectful relationships over the last number of years. In the Fall 2015 issue of *Truck LoggerBC* the article, "Goliath? No, That's The Other Guy: Building Partnerships in the Forest Industry" highlighted these relationships where the service provider and customer worked together. Those are

great relationships and I would expect if those customers ask for help, the discussions between them and the contractor will be meaningful.

However, given that most contractors have not seen their balance sheets repaired over the last few years of good markets, there is very little for most contractors to contribute to sustaining business relationships. This is especially true for those who have been working underneath the thumb of a major licensee. I am not the first to say this; good relationships are not developed for the sake of good markets; they are there for when markets are poor.

So while the logging business has been quite busy over the last year, especially with the favourable weather this summer, please don't be lulled into thinking everything is all right. We are about to enter some very challenging and uncertain market conditions. I predict that as usual loggers will end up bearing the brunt of it as the start of the raw material supply chain.

This means there is an even greater urgency in addressing the TLA's primary concern of contractor sustainability. Contractors are the economic backbone of rural communities. Approximately 90 per cent of the BC harvest is conducted by independent timber harvesting contractors. Community stability will be threatened and the supply chain may break. The softwood lumber trade dispute has the potential to create widespread financial pain. And given that contractor sustainability has not been addressed, I predict today's contractors will not be able to withstand the pressures that they once were able to and there will be no one left to take their place.▲

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