

GLOBAL MARKETS AND DELIVERED LOG COSTS: KEEPING COASTAL BC COMPETITIVE



A fairly flat market for forestry in 2015 combined with several factors restricting the coastal harvest means the coastal industry needs to address delivered log costs to stay competitive.

In 2014, the total coastal harvest was approximately 18.6 million m³, consisting of 5.3 million m³ from private timberlands and 13.3 million m³ Crown harvest. This level of coastal harvest was down slightly from 2013, but marginally above the average coastal harvest level over the past five years. At face value, this suggests that we are not out of the woods yet (no pun intended) when it comes to taking advantage of growing global markets for forest products and that there is still room to increase and fully utilize the total coastal harvest potential.

Log exports totaled approximately 6.3 million m³, or about 34 per cent of all logs harvested on the coast. As with the total harvest, this level was also down from that seen in 2013, but well ahead of the average volume of log exports over the past five years. While harvest levels may be improving, the domestic use of logs is not and significant returns continue to be realized in log export markets. That said, with the data available, it is important to note that 12.3 million m³ of logs were processed domestically in the production of forest products.

At the time of writing, total coastal lumber production figures were not in yet, but estimates from Russ Taylor at WOOD MARKETS Group Inc. show coastal lumber production will be about 1.35 billion board feet. If this level of production materializes, it will be up by about 100 million board feet from 2013, but on par with the average lumber produced on the coast over the past five years.

According to Russ Taylor of WOOD MARKETS, “the overall market trend in mid-first quarter 2015 shows relatively mixed results. China is flat to lower due to a slowdown in the construction market and high inventories around Lunar New Year. At the same, the 50 per cent devaluation of the Russian ruble since mid-2014

has made Russian lumber (and logs) more competitive in China as compared to many other suppliers, including the BC coast,” said Taylor.

He continues, “Japan is also slow as the impacts of last year’s consumption tax increase are resulting in lower overall demand levels. The somewhat bright spot is that US housing starts continue to grind slowly upward. The US GDP outlook still points to 3.2 per cent growth in 2015, its highest level in almost ten years. Together with some bullish housing forecasts out there—WOOD MARKET has a very conservative outlook but still calls for a 10 per cent increase in 2015—the market could get hotter sooner if all things fall into line. However, there are lots of wildcards out there that most likely will create more volatility, so the industry needs to watch out for any of the downside factors that can show up quickly.”

On balance, these statistics show a rather level coastal forest industry despite growth in global markets and a surplus of allowable harvest waiting to be taken advantage of.

On the positive side, given predictions for looming log supply shortfalls in the BC Interior in the next three to five years, the potential to increase coastal harvest and manufacture of forest products is real. On the downside, however, addressing First Nations land claim concerns within the framework of the Tsilhqot’in Decision and the related impacts the decision is having on both BCTS and cutting permit approvals, balancing log exports with the needs of domestic consumers and uncertainty around the pending softwood lumber agreement expiry in mid-October 2015, all unite to keep a lid on substantial gains in coastal harvest levels this year.

But our collective ability to continue to compete in the global market with our wood products still requires a diligent and ongoing focus on the cost of logs and manufacturing efficiency on the coast. All of our livelihoods depend on it.

While we can hope for better markets and benefit from our present currency

advantage, neither constitutes a business plan. Markets will be up and down and clearly we are not alone in overseas markets, such as China. We know the BC government is pushing for increased competitiveness of the forest industry. But what does that mean? Pre-harvest development including permit planning, consultation, engineering, cruising and road construction, log delivery including harvesting, trucking and towing, scaling, log storage, silviculture, deactivation and of course stumpage all add up to provide a total all found delivered log cost.

For the contractors’ part, road building, harvesting, trucking and towing are all areas where we have direct influence. Keeping the costs of these contributors down by using state of the art equipment, safely trained crews and application of best practices are all part of the equation.

But beyond these, there are many other places where collective efforts can be used to make our industry more efficient. Examples may be employing new technologies such as LiDAR to reduce engineering costs and laser scanning technology to lower scaling costs. Higher levels of logistical planning to avoid phase congestion and costly pre-mature road deactivations would result in more efficient use of contractor resources which could mean reductions in average delivered log costs to everyone’s benefit.

While we all know that sustainable rates are at the heart of opportunities to remain competitive from the contractor side, we must all work to ensure there is focus on all of the other opportunities. If we don’t, the markets will pass us by as costs rise and production falls.▲

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