



AT THE TABLE: BUILDING CONTRACTOR SUSTAINABILITY ON THE COAST

As I approach my half year mark in the Executive Director seat, the aura of being the new guy has begun to fade. While the colourful history and stories of this Association and its members are varied and never ending, many of the challenges that I continue to hear from contractors are becoming all too familiar. I am growing to appreciate that the role of the TLA, and my position in particular, is to be a change agent on behalf of our members and perhaps the industry as a whole. And change is what I aim to achieve, starting with dispelling the many misconceptions that permeate the forest industry.

For example, the notion that there is a never ending supply of contractors has likely led some major licensees to hold a false sense of security when negotiating with a lack of respect and pushing rates ever lower. Recent evidence of this concept failing came to light when West Fraser publicly advertised for contractors with steep slope experience to come to Quesnel. This suggests two things. First, those hoping a flood of BC Interior logging contractors will come to the coast as the Interior allowable annual cut (AAC) falls due to the mountain pine beetle are betting wrong. (A large contractor operating in the heart of the beetle belt, is going to auction as the magazine arrives in your mailbox.) Second, as the transition to steeper slope continues, those contractors with the requisite skills and capital are clearly less abundant.

Another common argument used by the majors is that “the pie is only so big” implying markets are what they are and there is no ability to improve rates. Yet, early financial results for 2015 for some of the majors boasted double-digit margins. From the view of the contractor, the financial success begetting some of their customers has come largely at the expense of contractors barely breaking even or

worse. Obviously, contractors are not even eating from the same pie. Unfortunately, the Chinese market has gotten worse, but I am not convinced the full impact of that has been felt in the coastal logging sector. And as such, I have been hearing rumblings that the top officers of the majors want costs reduced as a way to preserve profitability in this worsening market.

However, it is not only the major licensees that are guilty. As an outsider, I'm surprised that many in the contractor community accept a culture of failure. The asymmetry of massive financial risks that provide low returns to contractors is mind boggling. Yet, when a contractor fails, it is often just discounted as “that guy should have known better.” This culture needs to change. I said recently at a TLA industry networking event: hope and passion do not make for a good business plan. Contractors always need to know their markets, costs and abilities. And while it is easy for me to write, and as was opined in a letter to the editor by Dave Lewis in our last magazine, contractors need to say “no thanks” when it comes to offers of work which are uneconomical or the sharing of the risks are grossly lopsided. Yes, there always seems to be another low-ball operator willing to step up. But I find it hard to accept that this is the kind of supply chain licensees and their investors want. Managing new and unfamiliar faces all the time does not contribute to lower delivered log costs.

As I interact within the industry, both sides tell me that contractors and licence holders need each other. Trees do not get cut and logs do not get delivered without loggers doing the work and without operating mills, there is no need for the logs. I also hear that the majors believe in having a healthy contractor community. Unfortunately, the follow through on demonstrating that value by walking their talk is

glaringly absent. Why else would they rely on the next lowest bid and having communities pay the bills when contractors go insolvent as a strategy to reduce log costs? Many a contractor has lamented that the old days of trust in a relationship where a contract was sealed with a handshake are long gone.

At the same time, I have been told by the majors that trust needs to be re-established between us. I can honestly say that we (the contractors) have never left the conversation and are willing to provide solutions. This industry is ripe for technological advancements, which would likely add to safety and lower delivered log costs. But without progress on changing the relationship between the major licensees and contractors, this potential will continue to wither and investors will look elsewhere.

The first step towards re-establishing trust is acknowledging that contractor sustainability is an issue facing the forest industry supply chain in this province. Ironically, while rates are perceived as the major concern, there are many areas where the relationship with contractors can be improved that will reduce costs, especially as we appear on the cusp of another belt-tightening cycle. Once a discussion on contractor sustainability begins in earnest, then the misconceptions outlined fall to the wayside and work can begin on bringing about a fair and respectful relationship. A lack of positive traction on this will be problematic.

At the end of the day, success of the industry is a joint responsibility. Don't be surprised to see contractors looking out for themselves, one way or another, with the TLA helping to lead the way. ▲

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