

COASTAL LOG MARKETS: MAKING THE CASE FOR CYPRESS LOG EXPORTS

By Bill Markvoort and Duncan Chisholm

Yellow cedar has suffered a depressing fall from grace in the coastal log market over the past 20 years. The reasons are complex and speak to changing market tastes, technological improvements and Japanese government subsidization. With these reasons in mind, we believe it is time to review the policy of banning yellow cedar log exports.

housing starts obviously had a lot to do with the downturn in demand for yellow cedar, but other societal factors also came into play. Younger Japanese did not have the same appreciation for clear yellow cedar as the previous generation. Advances in manufactured wood processing meant laminated clear yellow cedar over a low grade core looked just as impressive as the solid clear product

price and booms of yellow cedar inventory languish in Lower Mainland storage locations. This severe downturn in the yellow cedar market shows no sign of abating and creates problems not only for the coastal forest industry but also for the BC government.

The Case for Yellow Cedar Log Exports

While yellow cedar only contributes 3 per cent of the coastal inventory, it grows intermixed with high altitude, poorer quality hemlock and balsam stands (hembal) which comprise close to 50 per cent of the coastal land base. The market for hembal has been encouraging these past few years and the China market has a steady appetite for the product. BC Timber Sales (BCTS) has responded by developing and offering for sale more hembal timber sales in 2013 and 2014. But the yellow cedar inventory bottleneck has put a damper

There are very few buyers at any price and booms of yellow cedar inventory languish in Lower Mainland storage locations.

The History of Yellow Cedar

Also known as cypress (*Chamaecyparis nootkatensis*), yellow cedar is unique to the Pacific Northwest and was a species much utilized by Aboriginal coastal cultures for boatbuilding.

In the 1960s, the Japanese discovered our yellow cedar had properties similar to their *Hinoki* timber and this created a strong demand as the domestic supply of *Hinoki* was reduced. Used for timber framing, foundation sills, restaurant countertops, shoji screens and temple logs, yellow cedar was held in high regard. For two decades, the Japanese trading companies bid fiercely against each other to secure supplies.

The '70s and '80s were the boom time for yellow cedar when prices reached \$2,500/m³ for high grade logs (in 2014 inflation adjusted dollars). Two coastal BC mills were dedicated to the yellow cedar market as well as several custom cut mills for larger diameter logs. Then in the mid '90s, yellow cedar log prices started a downhill slide following in the footprint of the Japanese recession, a trend that has continued. By 1994, an "H" quality sawlog could still capture close to \$700/m³ (Chart 1, all prices in 2014 Inflation Adjusted \$). Today, the market price sits closer to \$100/m³.

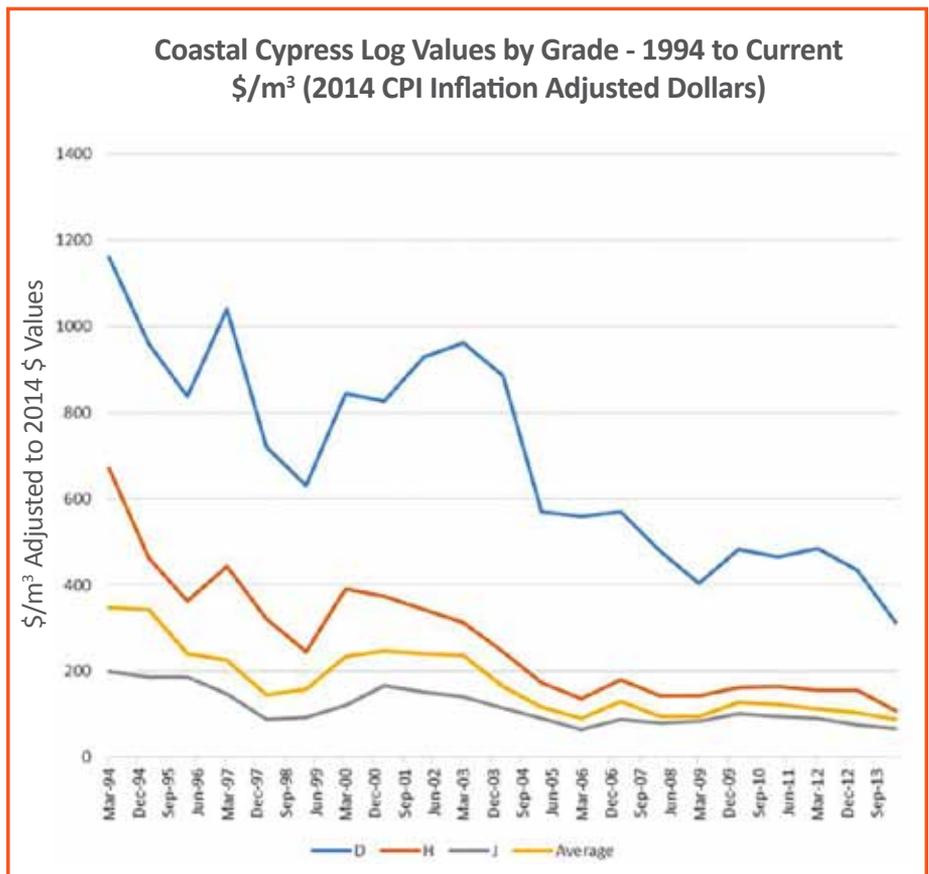
Reasons For The Market Changes

The Japanese recession that started in late 1990 and the concomitant drop in

at a fraction of the cost. More recently, Japanese *Hinoki* forests are achieving merchantable age and the government subsidizes the use of home grown *Hinoki* in their domestic mills.

As a result, over the past two years the yellow cedar log market has gone into a trough. There are very few buyers at any

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agement Centre representing and serving all the First Nations communities affected. In addition to providing a single web portal proponents use to submit applications, the agreement contains a detailed framework for engagement. “There’s a clear process with respect to where to send things and to whom, how to interact with the communities as well as clear and specific time frames for completing the process,” says Schaepe. Along the way individual First Nations can review progress and provide input and comments to the referral team.

One of the virtues of the system is that it allows the referral team to tackle some of the more problematic issues at an earlier stage. “One of the big issues has always been cut blocks. Dealing with them used to come a lot later and consume a lot of time and energy. Now we’re dealing with them a lot earlier,” says Schaepe.

The new way of doing business has dramatically improved relations between First Nations communities and licensees. “It’s opened up a degree of transparency, including forums for discussion that didn’t exist before but are absolutely critical to maintaining the relationships that are fundamental to the

whole process,” says Schaepe.

Either way, going into discussions with First Nations with the right attitude will go a long way toward making the process work for all parties regardless of the territory and the players involved.

“It starts with a desire to make things work,” says Munt.

“To be successful you’re going to have to go in with an open mind and learn as you go,” says Colin Richardson.

“Go in with an open mind and listen to the very real concerns the First Nations have with you operating on what is their traditional lands,” says Jonathan Fane.

As for the rights and title issues, Kelly Brown recommends focusing on the technical details of working relationships, establishing an air of mutual respect and let the chips fall where they may. “Take an administrative approach knowing that we still have to deal with title and rights. On an interim basis make things work for yourself. Develop a Memorandum of Understanding on the operations side and the rights and title stuff will take care of itself.”

on BCTS’s ability to sell these high elevation mixed hembal/yellow cedar sales.

BCTS sales with a significant yellow cedar component are not aggressively bid and in one case, a large volume sale on the Sunshine Coast received no bids twice.

It is time to review the policy that restricts all yellow cedar log exports. Allowing the export of yellow cedar should increase the overall harvest of high altitude hembal leading sales. Selling yellow cedar logs at a higher value and into a more sustained global market will also support the costs of harvesting the hembal component.

Yellow cedar exports would still require advertising and scrutiny under the surplus test to flush out any potential domestic buyers and only where there is no interest within BC for the logs would the seller have access to the global market.

There are still many sawmills in Taiwan, Korea and Japan who would cut yellow cedar logs if they could count on a steady supply of logs. Despite the fact that yellow cedar makes up only a small fraction of the coastal harvest in any given year, export of these logs where no local domestic buyer was available would support the numerous small “mama-papa mills” in Asia.

Allowing yellow cedar logs to be exported would also support BCTS’s initiatives to advertise and sell their apportioned cut and ensure higher elevation hembal is harvested and provided to the domestic market, thereby creating a winning situation. Domestic mills would always have first option to purchase yellow cedar under the surplus test.

The future is notoriously difficult to predict, but making yellow cedar more available to the global market might just ensure a much desired resurgence in yellow cedar demand and support the harvest of BC’s working forest!▲

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