



MARKET LOGGING: A WIN-WIN FOR EVERYONE?

By Jim Girvan

When looking for solutions to address conflicts between the major tenure holders that need logging and road building to produce timber products and the harvesting and road building contractors who are trying to ensure their sustainability in the face of never ending rate pressure, sometimes one has to look outside the box.

For the major licensees, their right to harvest timber via tenure provides control and security of their log supply that has to be balanced with their delivered log costs and the costs of managing the forests on behalf of the Crown via their tenure obligations.

For contractors, the return from their business operations needs to be sufficient to support reinvestment in infrastructure, equipment and training while being able to satisfy their customers' needs.

So how do we overcome the difficult rate discussion hurdle while ensuring a competitive industry? Market logging offers that chance. While not a new concept, as we collectively work to improve industry competitiveness, it once again may provide a solution for many.

Doug Sladey of Sladey Timber recalls market logging in the late 70s and early 80s for L&K Lumber on the Sunshine

Coast. His experience with market logging led to a similar arrangement with Doman Industries in the mid 80s. For his part, Sladey took responsibility for locating suitable timber on Doman's tenure, development and engineering, securing cutting permits and doing all the logging and sorting. The responsibility for silviculture was retained by Doman. "It was great," says Sladey. "We looked after every aspect of the operation and Herb Doman simply bought the logs we delivered. It was a very good relationship."

To make the operation work for both parties, Doman retained a first right of refusal on all logs produced and Sladey paid Doman 4 per cent of the market value of all logs transacted to cover their tenure related costs. This ensured that his operation always made money for Doman, regardless of where the market was. If they could not agree on a market price, their agreement required Sladey to pay an additional 5 per cent in order to allow selling of the boom of logs himself. While this clause was in place, it was never used.

Over the years, Sladey Timber logged 100 per cent of their quota every year and Doman bought every log they

produced for either their own use or for subsequent sales or trades. At one point, Sladey had seven years of layout, five years of road construction and one year of logging completed. Despite having to finance this pre-development on his own, being that far ahead kept his crews working year-round and allowed Doman to react quickly to market opportunities which ensured maximum value creation for the wood supply they had. "This is something that is simply not happening today and often times creates havoc for contractors," explains Sladey.

Doman eventually sold this particular tenure to Interfor and made Sladey a contractor on the tenure. While remembering his experience market logging, Sladey now questions the situation many contractors find themselves in today. "Why would anyone want to risk millions of dollars of investment in equipment, be at risk of being sued over safety issues, have no control over when they actually get to work and all the while make no money operating as a contractor? Market logging addressed all of these issues as we were accountable for ourselves and the mill still got the wood."

In the late 90s, markets were weakening and Rob Wood of Alm-Wood Contracting was contract logging the offshore tenures previously held by West Fraser near Kitimat. The costs were high in these remote coastal areas and West Fraser was indicating a pending shut down of all operations due to diverging costs and market values.

To keep his crews working, Wood proposed a market logging program. Wood purchased cutting permit ready blocks from West Fraser, built all roads, harvested the timber and sold the logs into the open market. Wood paid a fee meant to cover the costs borne by West Fraser for management of the tenure. “West Fraser was very good to work with and were fair in the negotiations. In the end, it worked for both parties,” says Wood.

Marketing of coastal logs required a new skill set for Wood, so he partnered with Mike Creed. A colleague from the past, Creed started selling logs in Japan with some focus on China and Korea. West Fraser did not require a first right of refusal to the volume. However, the export of logs from the North Coast was not possible at the time, so Wood ap-

proached the Jobs Protection Commissioner and advocated for a log export permit in order to make the program work.

Wood’s efforts resulted in an Order in Council (OIC) for the export of a portion of their harvest, an initiative that was the precursor of the current North Coast OIC. It was this out-of-the-box thinking that made the whole program sustainable. “The Jobs Protection Commissioner cut through a lot of red tape quickly, got us the OIC and saved jobs

before any return on the sale of logs was realized.

“Market logging is not for everyone,” says Wood. “But for those who have the skills and financial stability, it is a great alternative to contracting. The TLA has been proposing market logging as a viable alternative to improve contractor relations since 2000.”

Mike Hamilton, through his company May Trucking entered into a five-year market logging agreement with Teal Jones in mid-2000 for 200,000 cubic

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and the economic activity needed in the community,” says Wood.

Over the next six years as they learned the markets, all engineering was reviewed and they shifted from optimizing volume to optimizing of log values on every permit which allowed for improved margins. This was important since at times, Alm-Wood had up to \$3 million invested in development

metres annually. Ongoing disputes over their Bill 13 contract led to the agreement—May Trucking operated on the Teal-Jones tenure between Stave Lake and Lytton.

Hamilton explains how it worked. “We were responsible for everything ourselves so there was no head butting over rates and terms. We agreed to the market logging contract and then hired



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some of the Teal Jones employees to support our engineering and development. No one was looking over our shoulder and it worked well very quickly.”

May Trucking partnered with Probyn Log to provide log marketing support. Teal Jones had a first right of refusal for all logs at the market price on a boom-by-boom basis; however, they did not buy many of the logs.

Mike sold his interests in the company after the five-year term and believes the process worked for everyone. “Generally speaking, if you are market logging it is because the major tenure holder can’t make it work. The downside, however, is that once you demonstrate that even tough operating areas can work through the market cycles, they generally take it back and operate it on their own,” explains Hamilton. “While this alternative addressed the Bill 13 issues we had, exchange of Bill 13 for an equitable piece of tenure would have been my preferred option.”

Jacqui Beban partnered with A&A Trading to develop Nootka Sound Timber when the opportunity to undertake a forest licence utilization agreement

with Western Forest Products was presented in 2011.

Nootka Sound Timber is now responsible for all licence management including engineering, permitting, harvesting and log marketing. From Beban’s perspective, “market logging allowed for

After five years of operation, Beban prefers the challenges associated with the current business relationship. “We have had steady work for our crew which has allowed us to retain people and they all have a better understanding of our expectations in meeting our obligations.

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an alignment of goals between us and Western Forest Products as well as developing a consistent flow of fibre and predictable revenue stream from the forest license.”

Nootka Sound Timber decides where to invest their capital, be it advanced road development, equipment or human resources because they can predict the benefits of their investments alongside their two, three and five-year development plans. “It gives us a better understanding of the management obstacles and competing interests licensees face in managing the land base as well as where the opportunities really are,” says Beban.

Everyone works as a real team. For their part, Western Forest Products no longer invests any capital in any of the forest licence development or infrastructure requirements but they also know they have a sustainably managed licence with a steady flow of wood. It is a real win for both parties.”

While market logging contracts may not work for everyone, the benefits for the parties who do adopt this practice are many. For the licensee, the cost of engineering and development is essentially transferred to the contractor. In addition, fees paid by the loggers for access to the timber ensures tenure man-



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in the United States where privately owned timberland is prolific. Privately owned timber offers very little guarantee of log supply.

For the contractor, the security of work and a better likelihood of a sustainable return are the definite draws of market logging. On the other hand, they have to be in a strong enough financial position to support the costs of engineering, development and log sales which may come with the need to hire more staff. Most importantly, market logging eliminates the hurdle of rate negotiations along with the conflict it generates.

Looking at the industry more broadly, market logging would have more logs bought and sold on the open market and this could address a number of related issues such as sawmill competitiveness, trade and, of course, community stability. While tenure ownership is everyone's first choice, market logging appears to be a win-win for everyone.▲

agement costs are addressed. In return, licensees generally get full control to the logs generated from their tenure on a first right of refusal basis. This might be further extended to the opportunity to purchase other volume, such as that bid via BC Timber Sales, that the contractor

may also have available for sale.

Licensees have not embraced these concepts, many citing the apparent loss of control. However, these same companies that value the control they perceive within the BC tenure system, are investing greatly in their sawmills located

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