

TIRED IRON: THE STATE OF THE
HARVESTING SECTOR
ON THE BC COAST

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THE TRUCK LOGGERS
— ASSOCIATION —

Our strength is in our roots.

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Tired Iron: The State of the Harvesting Sector on the BC Coast

Executive Summary

British Columbians have benefitted from the province's abundant forest resources throughout the course of history and BC's forests continue to provide important economic benefits. However, over the past decade, poor market conditions, higher logging costs, changes in government policy and environmental factors have resulted in reduced forestry activity on the BC coast.

As the forest industry emerges from what has been an unprecedented cyclical trough, the risk it faces is whether the changes that took place within the different parts of the industry become structural ones that affect how well the industry will operate in the future. In particular, whether these changes have negatively affected the operating costs and productivity of the harvesting sector which supports the downstream activities associated with further processing and manufacturing of timber. The consequences could be that even as forest products markets recover, the coastal industry could miss out and longer-term be unable to attract the capital necessary to sustain itself.

What has been the net effect of these changes on the coast harvesting sector? What does the current landscape look like and what are the implications for the province and the local communities that depend on forestry? These and other questions posed by The Truck Loggers Association are the focus of this report.

Trends Over the Past Decade

The economic benefits of the forestry industry are typically emphasized in terms of employment given that it leads to an increase in spending and, consequently, an increase in economic activity. However, economic value due to employment is also generated in the form of income taxes collected along with consumption taxes. Local governments also collect taxes for the services they provide and in the case of publicly owned forests, taxes and fees are collected by the provincial government on the volume of wood harvested.

In 2011, 21,405 people were employed in the forest industry on the BC coast, of which 5,780 (27%) were employed in forestry and logging; wood product manufacturing accounted for 38% and pulp and paper manufacturing accounted for 27%. The remaining 8% were employed in support activities for forestry.

Since 1990, the Annual Allowable Cut (AAC) on the coast has fallen 23% and over the past decade, actual harvest levels, with the exception of two years, have been significantly below the AAC. This undercut reflects changes in government policy that caused delays preparing timber for harvest and poor market conditions that reduced the amount of timber that could be accessed economically. Since 2000, government revenue dropped from \$340 million to \$50 million (2001-2010) and total forestry employment fell by almost half.

As harvest levels have fallen, not only has total employment dropped, but there has been a shift in the composition of

the workforce. Throughout most of the coast, with the exception of urban areas around Vancouver and towns with a pulp and paper mill, the forestry and logging sector has become the larger employer in the forest industry. Further, forestry and logging employment is particularly important for rural BC, as the jobs are local and well-paying and for every 10 jobs, an additional five are created elsewhere in the community.

Three forces underlie the significant changes observed in the forest industry over the past decade. First, there have been several important changes in export markets, including the collapse of the US housing market. Second, the cost and availability of timber has meant that a significant portion of the available timber that can be accessed is now at a higher cost. Third, there have been important changes to forest policy that have resulted in a consolidation of the BC coastal industry, as larger firms purchased smaller firms and tenures.

Current Health and Future Prospects

The net effect of these changes over the past decade is that most businesses in the forest harvesting sector have been unable to reinvest in either their capital assets or their workforce. Further, most firms continue to have difficulty finding and retaining workers and many continue to experience downward pressure on contract rates. According to the contractors surveyed, the latter is due in large part to their diminished bargaining power resulting from the concentration of forest tenure into fewer hands.

Despite these trends, the opportunity for recovery and growth is significant. However, the sector's ability to take advantage of emerging opportunities depends on addressing the impacts of consolidation and restoring conditions that encourage investment in equipment and the workforce (e.g. training and retention). If the pool of

available contractors is reduced to only those who are able to operate at the lowest cost, the quality of knowledge, safety and harvesting practices may deteriorate. Furthermore, if rates are not competitive, new firms will be reluctant to enter the business, and overall capacity within the sector will shrink, as equipment wears out, firms exit, and neither are replaced.

Ultimately the health of the harvesting sector will affect the downstream industries and their ability to generate economic activity and the associated economic benefits for local communities and the province as a whole. The sector's ability to take advantage of emerging opportunities depends on decisions the province makes about sustaining the forest resources and industry and the benefits derived from them. Bottom line—what happens in the harvesting sector on the coast is part of a broader issue of how we generate value from the forest resource and has significant implications for all British Columbians.