



QUESTIONING THE NEED FOR THE BC FOREST SECTOR TO BE GLOBALLY COMPETITIVE

Following the release of the Contractor Sustainability Review (CSR) and its resulting recommendations, we have been hearing a lot about the need for the BC forest sector to be globally competitive.

Raising this issue begs the question, is the BC forest sector globally competitive? And why does it matter? How is competitiveness measured? And how does competitiveness impact contractors? One strategy to be competitive in business is to reduce costs where possible; in forestry, that typically means negotiating lower rates with timber harvesting contractors.

To be frank, contractors do not need to be globally competitive. They are the necessary service providers in the supply chain operating at a local level who harvest and deliver timber from the sidehill of a remote valley to a sawmill. It does not make sense to compare their delivered costs to that of a logger in the US or Chile; they simply are not competing with them. To suggest contractors' costs in BC are higher than in other jurisdictions is to be uninformed; if those other jurisdictions had the same conditions that BC contractors operate within, those competitors would likely have similar costs.

British Columbia is undoubtedly a high cost region to operate within. The ruggedness of our terrain and the logistical challenges of the Coast are not easy hurdles for contractors to overcome. The distance from stump to market can be some of the longest in the world. Not to mention the regulatory and legislative environment they operate within.

Contractors own and operate businesses with the intent to earn a return; they are not in business to subsidize the financial returns of their customers. When it comes to cost savings in the supply chain, loggers in BC have nothing left to give.

The proof of that is abundantly clear based on the data from the CSR that confirms contractors in this province are not earning a return sufficient to reflect the risk of operation.

Furthermore, the Canadian Forest Industry (CFI) 2018 Contractor Survey revealed absolutely startling revelations about contractor margins compared to its survey in 2015, indicating a significant increase in the number of contractors across Canada who did not earn a profit;

We have seen the best ever lumber and pulp markets and yet contractors are continually discouraged, and their costs are not getting any lower. As I have said so many times in the past, this juxtaposition means there are serious issues in the industry.

Contractors need impactful change with government's assistance. Some licensees understand; but obviously most do not. I believe the issues the TLA has raised, which have been confirmed by

Contractors own and operate businesses with the intent to earn a return; they are not in business to subsidize the financial returns of their customers. When it comes to cost savings in the supply chain, loggers in BC have nothing left to give.

77 per cent of contractor respondents who said they were making the same to much lower profit margin; and more than one third of BC Interior contractors made a zero profit.

Is it fair to say the BC forest products sector is globally competitive if its supply chain has margins of zero or less? When businesses do not earn returns, they close down and that impacts communities. Just look at the forest fighting effort this past summer. Whose equipment was used to fight fires? Contractors. When contractors close down, they sell their equipment, which can be sold anywhere in the world and may not necessarily remain local to support community needs.

In contrast to contractors' financial performance over this same period of time, lumber prices rallied to their highest ever, reaching a peak earlier this year. The financial statements of Western, Interfor, Norbord, West Fraser, Canfor, and Conifex all indicate stellar earning returns, but are they sustainable?

the CSR, are viewed as more of an annoyance than identifying an issue that is paramount to the health of the sector and to the province.

Government needs to be creative, and frankly, aggressive in resolutions to level the playing field for contractors in rate negotiations with licensees. We need the CSR recommendations to be implemented to benefit all contractors, not just Bill 13 contractors, throughout the entire province.▲

David Elstone, RPF, Executive Director, TLA
Tel: 604.684.4291 ext. 1
Email: david@tla.ca