

# VIEW FROM THE STUMP



PUBLISHED BY  
**SPAR TREE GROUP INC.**

February 2022  
Volume 3, Issue 2  
spartreegroup.com

To see full 15-page version, please subscribe

## WHAT'S IN THIS ISSUE

Time To Join The 21 <sup>st</sup> Century By David Elstone, RPF, GDBA	1
BC Budget 2022 – What It Says About Forestry By David Elstone, RPF, GDBA	2
Trends In The Western Red Cedar Harvest By David Elstone, RPF, GDBA	7
BC Coast Forest Industry Metrics	9
BC Interior Forest Industry Metrics	10
BC Forest Industry Metrics	11
BC Forest Industry Metrics – Quarterly View	12
Fundamentals & Forecasts	13
Canadian Mill Watch	14
The Radar Screen	15

## Time To Join The 21<sup>st</sup> Century

By David Elstone, RPF, Managing Director, Spar Tree Group Inc.

British Columbia's forest industry is losing a battle against those who would prefer the sector be reduced to a small cottage industry.

The evidence is of such loss is real – major changes to forest policy have been implemented by the BC government, without much apparent regard to the industry

The industry has barely shown up to the fight due to an unwillingness to engage in a public campaign designed to illicit emotions. All the while the effective use of social media by the industry's antagonists has been a game changer for the public's perception of forestry.

Some industry folk believe the public perceives the industry as "bad" so it's better not to put ourselves out there. In my opinion, that's wrong. There has been an information vacuum in showing the public what, when, how and why of forestry. Minimal credence by the industry to this vacuum has left others to fill it with their own misguided narratives.

The BC forest industry underutilizes social media and leaves messaging to associations or grass-roots advocacy groups, which do their best on limited budgets. There needs to be more in the form of genuine connections from the individual companies – the employers, the forest managers, the manufacturers and the leaders. Just because a company has well-paying jobs, does not entitle it to sit back. That should be obvious with how the industry is



being treated/regarded today. The forest industry must up its social media game.

BC forestry has a great story to tell that desperately should be told... again... and again.

The power of social media should not be underestimated, even when the odds are against you. Just look to Ukraine's President Zelensky as he wins hearts and rallies support for his country using Facebook.

If the industry wants to survive, it needs to show the public what we do – this is how social licence is built in the 21<sup>st</sup> century.

Sometimes the message is as simple as showing the public, yes indeed the forest grows back after timber harvesting. That's why I have chosen this newsletter's cover image of a logged area from where I had once collected firewood and now, 14 years later it looks like this. Forests do grow back! A simple message.

In this issue, I examine the recent BC Budget 2022 and what can be interpreted about the government's thoughts on forestry. Also, I take a look into the western red cedar harvest, which is important to so many in British Columbia and elsewhere. Also, **Economic Forecasts for 2022** have been updated.

**SPAR TREE**  
GROUP

SUBSCRIBE TO VIEW FROM THE STUMP  
[CLICK HERE](#)

AVAILABLE FOR CONSULTING ENGAGEMENTS  
specializing in business planning, market research &  
analysis, communications and working with First  
Nations' businesses

AVAILABLE FOR CORPORATE PRESENTATIONS  
on the BC Forest Industry & Market Updates



# BC Budget 2022 – What It Says About Forestry

By David Elstone, RPF, Managing Director, Spar Tree Group Inc.

PLEASE CONTACT [david@spartreegroup.com](mailto:david@spartreegroup.com) TO  
SUBSCRIBE

To be honest, looking at a provincial government budget in most any year can be boring; however, this year's budget is different with so much happening with forestry. BC Budget 2022 offers insights, particularly for those trying to understand the BC

government's views on their old growth deferral strategy. The BC Budget was released on February 22, 2022

## FOREST REVENUES

Forest revenues for the nearly finished 2021/22 fiscal year represent a forecasted 53% positive variance to budget (\$1.8 billion vs. \$1.2 billion). As described in the January 2022

BC BUDGET Estimates February 22, 2022	Fiscal Calendar	Forecast			Election Yr 2024/25	2021/22 vs 2024/25
		2021/22 2021	2022/23 2022	2023/24 2023		
<b>US Housing Starts (thousand units)</b>						
BC Government Fiscal Plan	Calendar	1,595	1,480	1,400	1,380	(215)
Economic Council of BC	Calendar	1,595	1,580	1,530	1,540	(55)
<b>SPF 2x4 (US\$ per mbf)</b>	Calendar	\$883	\$575	\$475	\$450	(433)
<b>Stumpage Rates (C\$/m<sup>3</sup>)</b>	Fiscal	\$37.14	\$25.04	\$20.71	\$20.75	(16)
<b>Crown harvest (million m<sup>3</sup>)</b>						
Interior	Fiscal	35.7	31.4	30.2	31.1	(4.6)
Coast	Fiscal	9.3	8.6	8.3	8.4	(0.9)
Total	Fiscal	45.0	40.0	38.5	39.5	(5.5)
BCTS (included in above)	Fiscal	9.7	6.5	6.7	7.6	(2.1)
Excluding BCTS	Fiscal	35.3	33.5	31.8	31.9	(3.4)
<b>Forests Revenues (\$ millions)</b>						
Timber tenures (net of First Nations revenue sharing recoveries)	Fiscal	\$1,229	\$715	\$505	\$499	(730)
BCTS	Fiscal	\$417	\$260	\$258	\$290	(127)
First Nations revenue sharing	Fiscal	\$46	\$46	\$53	\$49	3
Other	Fiscal	\$155	\$100	\$71	\$71	(84)
	Fiscal	\$1,847	\$1,121	\$887	\$909	(938)

edition of the *View From The Stump*, record stumpage in 2021 was the reason for the variance.

For 2022/23, a \$726 million drop or 39% year-over-year decline in forest revenues is projected. A comparison of 2024/25 to 2021/22 shows an even a steeper decline of 51% or a decrease of \$938 million. These are major drops in revenue which one might associate with the BC government's old growth harvest deferrals announced last November, but deeper analysis of the budget shows that the old growth deferrals are not as responsible as one would think in for decreasing revenues.

Forest revenues have two components, stumpage and harvest. The BC Budget states the decline in forest revenues is associated with stumpage rate.

BC BUDGET Year-over-Year % Change	Fiscal Calendar	Forecast			Election Yr 2024/25	2021/22 vs 2024/25
		2021/22 2021	2022/23 2022	2023/24 2023		
<b>US Housing Starts (thousand units)</b>						
BC Government Fiscal Plan	Calendar	1,595	-7%	-5%	-1%	-13%
Economic Council of BC	Calendar	1,595	-1%	-3%	1%	-3%
<b>SPF 2x4 (US\$ per mbf)</b>	Calendar	\$883	-35%	-17%	-5%	-49%
<b>Stumpage Rates (C\$/m<sup>3</sup>)</b>	Fiscal	\$37.14	-33%	-17%	0%	-44%
<b>Crown harvest (million m<sup>3</sup>)</b>						
Interior	Fiscal	35.7	-12%	-4%	3%	-13%
Coast	Fiscal	9.3	-8%	-3%	1%	-10%
Total	Fiscal	45.0	-11%	-4%	3%	-12%
BCTS (included in above)	Fiscal	9.7	-33%	3%	13%	-22%
Excluding BCTS	Fiscal	35.3	-5%	-5%	0%	-10%
<b>Forests Revenues (\$ millions)</b>						
Timber tenures (net of First Nations revenue sharing recoveries)	Fiscal	\$1,229	-42%	-29%	-1%	-59%
BCTS	Fiscal	\$417	-38%	-1%	12%	-30%
First Nations revenue sharing	Fiscal	\$46	0%	15%	-8%	7%
Other	Fiscal	\$155	-35%	-29%	0%	-54%
	Fiscal	\$1,847	-39%	-21%	2%	-51%

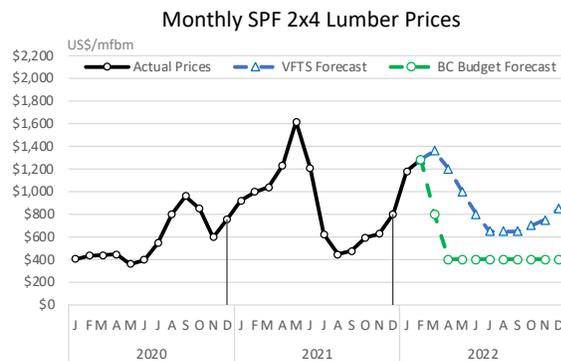
## STUMPAGE RATES

For 2022/23, estimated stumpage rates are forecasted to drop by 33%, to \$25.04/m<sup>3</sup>. Stumpage rate



estimates are mostly driven by estimates for SPF 2x4 US\$ lumber prices.

SPF 2x4 lumber prices as of the end of February are US\$1,350. For a BC Budget forecast of US\$575 in 2022/23 to be realized, lumber prices would have to collapse immediately and stay well below US\$575 for the remainder of the year.



Global lumber demand and supply dynamics, including a decline in the British Columbia timber harvest are supportive of relatively strong lumber prices. Such conditions do not appear to suggest there are impending weaker markets as inferred by the price forecast of US\$575. For reference, Spar Tree Group’s price forecast for SPF 2x4s is **US\$923** in 2022.

That said, Q1 2022 stumpage has retrenched by as much as \$80/m<sup>3</sup> for interior species to levels prior to their 2021 run-up. This decrease in stumpage is its lag effect to lumber prices which collapsed mid-2021. The Q4 2021 rally in lumber prices, that has carried over into Q1 2022, means stumpage will start to climb in Q2 and be much higher into Q3 2022.

As such, forest revenues should be significantly higher than the 2022/23 forecast because lumber prices will be higher than the BC Budget’s estimate and thus so too should stumpage rates.

**BC TIMBER HARVEST ESTIMATES**

In reference to the BC Budget summary table (previous page), the total crown harvest for 2022/23 is expected to decline by 11% or 5.0 million m<sup>3</sup> to 40 million m<sup>3</sup>, which will be its lowest level in well over a decade.

The interior harvest will decrease by 12% or 4.3 million m<sup>3</sup>. The interior harvest is projected to be 31.4 million m<sup>3</sup>, much lower than it was in 2009 (at 36.5 million m<sup>3</sup>).

The coast harvest will decrease by 8% or 0.7 million m<sup>3</sup>. The coast harvest of 8.6 million m<sup>3</sup> will still be above its 2009 low of 7.9 million m<sup>3</sup>.

The BC Budget cites the impacts of the mountain pine beetle infestation, forest fires and the old growth deferral strategy for reducing the supply of timber.

For the interior, the combination of all three factors would explain the relatively large drop in harvest. The effects of the mountain pine beetle have been ongoing and will continue to impact interior harvests and lumber production. As an example, Canfor recently announced the capacity rationalization of its Vanderhoof sawmill due to reduced harvest affected by the mountain pine beetle.

For the coast, the projected decrease of 0.7 million m<sup>3</sup> is probably all due to the old growth harvest deferrals given the other cited impacts are not major factors in the coastal region.

**BC Timber Sales – THE FALL GUY**

It would appear BCTS is taking the brunt of old growth deferrals with a 33% decline or 3.2 million m<sup>3</sup> reduction in 2022/23. In last November’s announcement on old growth deferrals, the government said it would immediately cease advertising and auctions of BCTS sales in deferral areas. It would appear



the BC Budget is reflecting that immediate action.

Reducing the BCTS harvest by a third will impact many forest products businesses, which will have essentially no economical alternatives for finding substitute timber supply.

With a reduced timber supply, many independent smaller sawmills, remanufacturers and value-added producers will struggle to survive – ironically these are the type of manufacturers that the BC government’s intentions paper, *Modernizing Forest Policy in British Columbia* sets out a vision for in diversifying the manufacturing base. If these businesses do not have a supply of timber or primary products, they certainly will not be adding to the diversification of the sector – they will be gone.

**WHAT DOES IT ALL MEAN?**

The provincial harvest excluding BCTS volume is projected to decline for 2022/23 by 5% or 1.8 million m<sup>3</sup>.

While I stand to be corrected, this projection does not yet appear to reflect the impact of old growth deferrals on non-BCTS forest licensees. These licensees have not dodged a bullet from old growth deferrals; rather I would guess that government does not have a concrete estimate, so it is likely not including the impact in the budget.

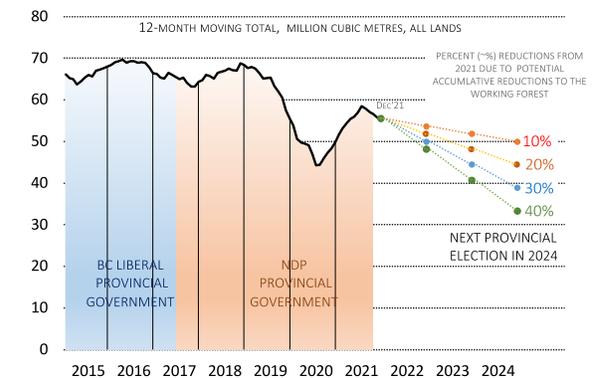
It is still too early for the BC government to confidently estimate the total number of hectares which will actually end up being deferred. A large part of that is because they placed the decision of deferrals with the First Nations of this province. So far very few First Nations have publicly stated their intentions and even then, much of what will be deferred permanently depends on pending forest management plans still to be developed by

engaged First Nations. This process could take years to complete.

I have yet to learn what the BC government will do if there is no response from a First Nations on deferrals; or, 2) if a First Nations does not agree to all the deferral areas in their traditional territory.

The *Right From The Stump* blog post, [Recipe for Gridlock](#) describes a range of reductions from the 2021 harvest (of all lands, crown plus private) due to the accumulative impacts to the working forest by the time of the next provincial election in 2024. A chart showing the range of reductions is below:

POLICY IMPACT SCENARIOS ON BC TIMBER HARVEST



SOURCE: HARVEST BILLING SYSTEM, SPAR TREE GROUP

Potential reductions to the harvest that the BC Budget does not fully reflect may include:

- Industry estimates of direct AAC reductions due to old growth harvest deferrals may be as much 4 million m<sup>3</sup>.
- Industry estimates of another 6 million m<sup>3</sup> hit to the interior harvest, assuming the recommendations of the caribou habitat protections be fully implemented.
- Reductions which may take place because of isolating timber due to deferrals.
- Part of the *Old Growth Forest Strategic Review* is a so-called “paradigm shift”



which could lead to changes in harvesting patterns that may further limit harvesting.

- Ongoing Government Actions Regulation orders (GAR) for wildlife protections which will reduce the working forest.
- Impacts of other *Modernizing Forest Policy* intentions paper initiatives.
- And of course, there are continued timber supply reductions due to the mountain pine beetle, wildfires and other factors.

It does not take too much to move from a 10% reduction scenario to a 40% reduction scenario of 22 million m<sup>3</sup> by 2024 – election year!

The key takeaways from this BC Budget analysis are revenues projections will likely not be as low as forecasted, but harvest levels could be much worse than forecasted, especially by 2024. The BC Budget confirms that the NDP cabinet is fully aware of their policies and accepting of reductions to the provincial forest sector including the job losses that will ensue.

Most frustratingly, a typical political response to such impacts is “that’s why we need value-added...” Such ignorance is too painful.

## WE DESERVE A SECOND OPINION

Despite the negative impacts, the BC government is moving forward on its misguided old growth deferral strategy. It has allocated \$185 million in the budget for the next four years to help transition workers, contractors and communities affected by the deferrals – this will not be anywhere near enough.

What is unfathomable from a governance perspective is the blind faith that the Minister of Forest and fellow cabinet ministers have placed in the Old Growth Technical Advisory

Panel’s (“TAP”) members and their recommendations.

Putting aside the controversies of TAP, considering such widespread repercussions and costs to government (and tax payers), would it not be prudent to seek a second opinion?

We should have confidence in these recommendations and know that the best science and data was used. The effects of old growth deferrals will last generations

In my opinion there is too much at stake to not obtain a second opinion on old growth forests. We need to make sure we get it right. **As British Columbians, we deserve it.**

**SPAR TREE**  
GROUP

IF YOU ARE NOT A SUBSCRIBER TO  
THE **VIEW FROM THE STUMP** NEWSLETTER,  
PLEASE CONSIDER SUBSCRIBING

TO SUBSCRIBE PLEASE  
[CLICK HERE](#)



## Trends In The Western Red Cedar Harvest

By David Elstone, RPF, Managing Director, Spar Tree Group Inc.

**THIS A SHORTEN VERSION OF THIS ARTICLE - PLEASE CONTACT [david@spartreegroup.com](mailto:david@spartreegroup.com) FOR THE FULL VERSION:**

A Black Press Media news article<sup>1</sup> on the temporary curtailment of Western Forest Product's Chemainus sawmill located on Vancouver Island caught the attention of many. Arguably it was not because of the sawmill's downtime due to its log supply "temporarily constrained by weather and harvesting conditions", rather it was an additional statement by the company spokesperson on the coastal western red cedar harvest...<sup>2</sup>

*"There was approximately one million (cubic metres) less cedar harvest on the coast last year than the average between 2015-2018."*

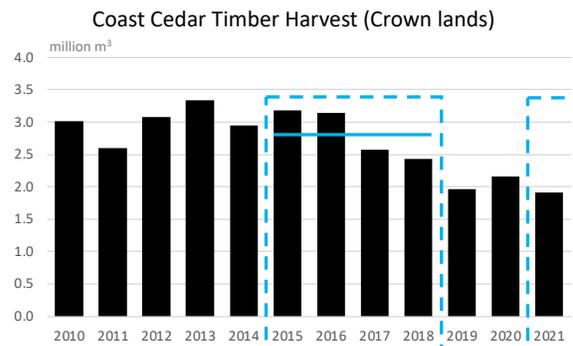
It is a concerning comment because so much of the coastal forest products manufacturing base including value-added manufacturers rely on western red cedar ("cedar").

Cedar is a coveted by the forest industry due to its value and multitude of products that can be made from it. The economic feasibility of harvesting is often determined by whether cedar is part of the stand composition.

The natural thing to do with such a statement is to look at the data which is what Spar Tree Group has done using the Harvest Billing System data.

The average annual cedar harvest on crown land from all coastal licensees, and all grades, between 2015 to 2018 was 2.8 million m<sup>3</sup>. In 2021, approximately 1.9 million m<sup>3</sup> was

harvested. The difference these two periods was 0.9 million m<sup>3</sup> – confirming Western Forest Product's comment of a million cubic metre drop in harvest. In relative terms, that's a 33% decrease.



What about the future cedar harvest? If the coast harvest shrank by a third over the last decade, will that decline continue over the next decade? A third less cedar harvested by 2030 would be crippling.

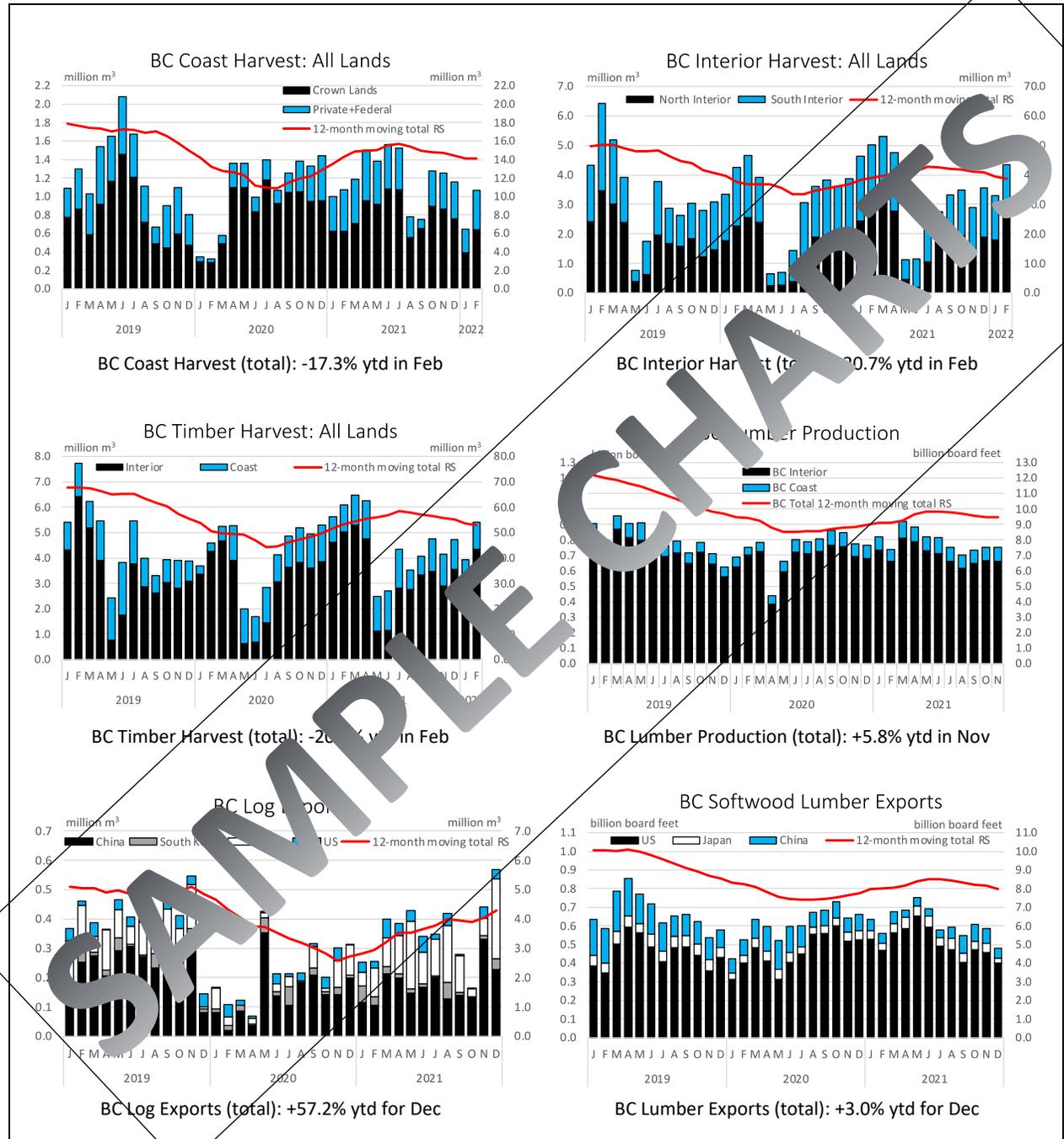
For such a strategic species there are many questions in the minds of consumers with few answers to date. A decline by another third is not beyond the realm of possibilities.

<sup>1</sup> February 9, 2022, Vancouver Island Free Daily, by Don Bodger, *Length of Chemainus Sawmill Curtailment Unknown*

<sup>2</sup> Not specific to Western Forest Products, but the coast in general.



# BC Forest Industry Metrics



## The Radar Screen ...a summary of announcements including new government policies that will affect the BC forest sector supply chain:

**The CleanBC Roadmap to 2030 plan** - October 25, 2021 [B.C. launches stronger climate plan for a better future](#)

[Commission to recommend protections for forestry workers](#) – November 17, 2021

[Forest Amendment Act, 2021](#) – Bill 28 changes to Forest Act, November 15, 2021, as part of *Modernizing Forest Policy in BC* initiative. Changes related to tenure redistribution and log exports

[Announced Old Growth Deferrals](#) – November 2, 2021, 2.6 million hectares announced for deferral including supports for forest workers. There is BC government webpage on [deferrals](#) with links to the Old Growth Strategic Review.

[Amendments to Forest and Range Practices Act](#) – October 20, 2021, Bill 23 as part of *Modernizing Forest Policy in BC* initiative. Shared decision making with First Nations, and new forest planning requirements.

[BC PST Rebate on Select Machinery and Equipment](#) – as part of the announced BC Economic Recovery Plan, a 100% PST rebate on equipment purchases – **EXTENDED to March 30, 2022**

[Modernizing BC's Forest Sector](#) – announcement outlining future forest policy changes

[Contractor Sustainability Review](#) – on June 10, 2021 changes were finally announced to the Timber Harvesting Contract & Subcontract Regulation (aka Bill 13).

[Softwood Lumber Dispute](#) – Preliminary rates for AR3 for January 1, 2020 to December 31, 2020 were announced January 31, 2022. The AR3 preliminary rate will be 11.64% for “all others” anticipated to go into effect by August 2022. Until then AR2 rates of 17.91% will be in effect for non-selected companies.

[Support for Coastal and Interior Forest Workers](#) – Programs to support contractors, workers and communities impacted by mill closures in B.C.'s Interior and coastal region as well as due to old growth deferrals.

[Coast Logging Equipment Support Trust](#) – offers bridge financing from a \$5 million fund for coastal contractors – the majority of funds remain unused.

[BC Carbon Tax](#) – carbon tax increased effective April 1, 2021 rates of 9.969 ¢/litre for gasoline and 11.71 ¢/litre for diesel.

**THIS A SHORTEN VERSION OF THIS NEWSLETTER - PLEASE CONTACT [david@spartreegroup.com](mailto:david@spartreegroup.com) FOR THE FULL VERSION:**

© Spar Tree Group Inc., 2022. All rights reserved.

Disclaimer: The editorial views, opinions, estimates, and projections expressed herein are those of Spar Tree Group and are subject to change at any time without notice based on market and other conditions. Spar Tree Group makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions that may be contained herein and accepts no liability whatsoever for any loss arising from any use of or reliance on this report or its contents. Opinions reflect judgment at the time and are subject to change. The text, images and other materials contained or displayed on any Spar Tree Group's product, service, report, e-mail or website are proprietary to Spar Tree Group and constitute intellectual property. No material from any part of any Spar Tree Group reports or website may be downloaded, transmitted, broadcast, transferred, assigned, reproduced or in any other way used or otherwise disseminated in any form to any person or entity, without the explicit written consent of Spar Tree Group. All unauthorized reproduction or other use of material from Spar Tree Group shall be deemed willful infringement(s) of Spar Tree Group's copyright and other proprietary and intellectual property rights...in other words, please respect our research and use the honour system, thank you!

**SPAR TREE**  
GROUP

[CLICK HERE TO SUBSCRIBE TO VIEW FROM THE STUMP](#)

**Publisher & Editor:** David Elstone

**Guest Contributor\*:** n/a

**Contact Info:**

e. [david@spartreegroup.com](mailto:david@spartreegroup.com)

t. 604-740-2814

w. [spartreegroup.com](http://spartreegroup.com)

\*perspectives and opinions of Guest Contributors are not necessarily that of Spar Tree Group

**Subscription rates** (1 year, 6 issues, email [pdf] only, anywhere in the world):

**Regular rate C\$500 (+GST) for 6 issues**

**Board & Council presentations**

-contact Spar Tree Group

**Advertisement & Corporate rates**

-contact Spar Tree Group

**Yearly**

January 2022

February 2022

April 2022

July 2022

October 2022

November 2022

-publishing in 3<sup>rd</sup> or 4<sup>th</sup> week of month

