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Time To Join The 21st 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 21st 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.
BC Budget 2022 – What It Says About Forestry
By David Elstone, RPF, Managing Director, Spar Tree Group Inc.

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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 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.

STUMPAGE RATES

For 2022/23, estimated stumpage rates are forecasted to drop by 33%, to $25.04/m³. Stumpage rate
estimates are mostly driven by estimates for SPF 2x4 US$ 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/m³ 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 m³ to 40 million m³, which will be its lowest level in well over a decade.

The interior harvest will decrease by 12% or 4.3 million m³. The interior harvest is projected to be 31.4 million m³, much lower than it was in 2009 (at 36.5 million m³).

The coast harvest will decrease by 8% or 0.7 million m³. The coast harvest of 8.6 million m³ will still be above its 2009 low of 7.9 million m³.

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 m³ 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 m³ 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 m³.

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:

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 m³.
- Industry estimates of another 6 million m³ 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 m³ 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.
Trends In The Western Red Cedar Harvest
By David Elstone, RPF, Managing Director, Spar Tree Group Inc.

A Black Press Media news article\(^1\) 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...\(^2\)

“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\(^3\). In 2021, approximately 1.9 million m\(^3\) was harvested. The difference these two periods was 0.9 million m\(^3\) – 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.

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\(^1\) February 9, 2022, Vancouver Island Free Daily, by Don Bodger, Length of Chemainus Sawmill Curtailment Unknown

\(^2\) Not specific to Western Forest Products, but the coast in general.
BC Forest Industry Metrics

BC Coast Harvest (total): -17.3% ytd in Feb

BC Interior Harvest (total): -20.7% ytd in Feb

BC Timber Harvest (total): -20.1% ytd in Feb

BC Lumber Production (total): +5.8% ytd in Nov

BC Log Exports (total): +57.2% ytd for Dec

BC Lumber Exports (total): +3.0% ytd for Dec
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.


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