

## Bridging the Gap Between Government, Licensees, Contractors and Suppliers...

**WELCOME!** - I am very proud to present the first edition of my *View From The Stump* newsletter, a ground-level perspective of the BC forest industry.

In my five years as the Executive Director of the Truck Loggers Association, I would see in my daily interactions with government, licensees,



manufacturers, contractors and their respective suppliers that there were large gaps in understanding each other's businesses. For example, shifts in costs and what they mean for profitability, or the outlook for demand and what the meant for the need for contracting services or equipment purchases.

Such a gap in awareness and understanding is problematic when you consider how interdependent each of these groups are to the success of the industry. Through this newsletter I want to bring perspective to your decision-making process for your business.

In each edition of the View From The Stump newsletter my goal is to do an analysis of key issues affecting the forest industry supply chain, up-to-date snapshot of key **BC Forest Industry Metrics**, updates to the **Contractors Business Network** and **The Radar Screen** - a summary current policy initiatives and announcements that you need to be aware as they will affect your business.

**If you like what you read here, and wish to continue receiving *View From The Stump*, please send me an email: [CLICK HERE](#)**

**CONTRACTORS BUSINESS NETWORK:** One of the ways I will be adding a unique perspective to this newsletter is by taking insights gathered from my newly established networking group, the *Contractors Business Network (CBN)*.

Participation in the CBN is exclusive to contractors who operate heavy equipment. The purpose of the CBN is to collect on-the-ground expectations from harvesting and road building contractors. Those expectations are shared with the contributors so that they may learn what their fellow contractors are thinking in order to test the views that influence their business plans.

Analytics of CBN data will become useful as contractors are central to the forest industry supply chain, not only as the ones who harvest and build roads, but also the ones who buy equipment and hire services to keep their operations running.

If you are a contractor running heavy equipment you should be part of the CBN. Please contact me and I will set you up so you can gain a better understanding of what your fellow contractors are thinking.

**To join the CBN, [CLICK HERE](#)**

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## Analysis: It Was Bad Before Covid-19...

**WARNING** – don't expect much optimism from the following: This year will be recorded as one of the slowest in recent times. I can quickly point to Covid-19 and its ensuing negative impacts on our businesses, including availability of workers, new limitations on work-place operations, and market demand for the forest products we manufactured, (aside from, of course, toilet paper and medical grade market pulp).

Unfortunately, there is strong evidence that industry performance was already suffering dramatically well before the global pandemic began. Refer to the harvest, lumber production, and product export charts on the following page, **BC Forest Industry Metrics** to see that late 2019 and early 2020 monthly data points were well below year-ago levels.

- The seven-and-half month long strike at WFP obviously drew down coastal harvesting and lumber production levels, but it was not responsible (at least directly) for the severe cratering of BC log exports (see charts following page). The collapse in overall log export levels as seen starting in December was mostly related to China, which has become a massive consumer of less expensive and plentiful European logs, to the detriment of BC log exporters.
- Without a doubt, stumpage rates in the interior are at very high levels, having doubled over the last three years (chart in following section, **BC Forest Industry Metrics**). The cost of stumpage is essentially on par with the cost of harvesting.

**WHAT HAPPENS NEXT?** The message from this analysis is that much of the industry was severely suffering well before Covid-19 hit. WFP is ramping up its harvesting and

sawmilling on the coast, but they won't be going full-on for a while. While Chinese log imports from Europe and Russia may be in Covid-19-related flux, Covid-19-free New Zealand re-started operations late April and will push hard into Chinese market. There may be some short-term spurts of coastal activity for the Chinese export market to cover the gaps, but don't count on it for long.

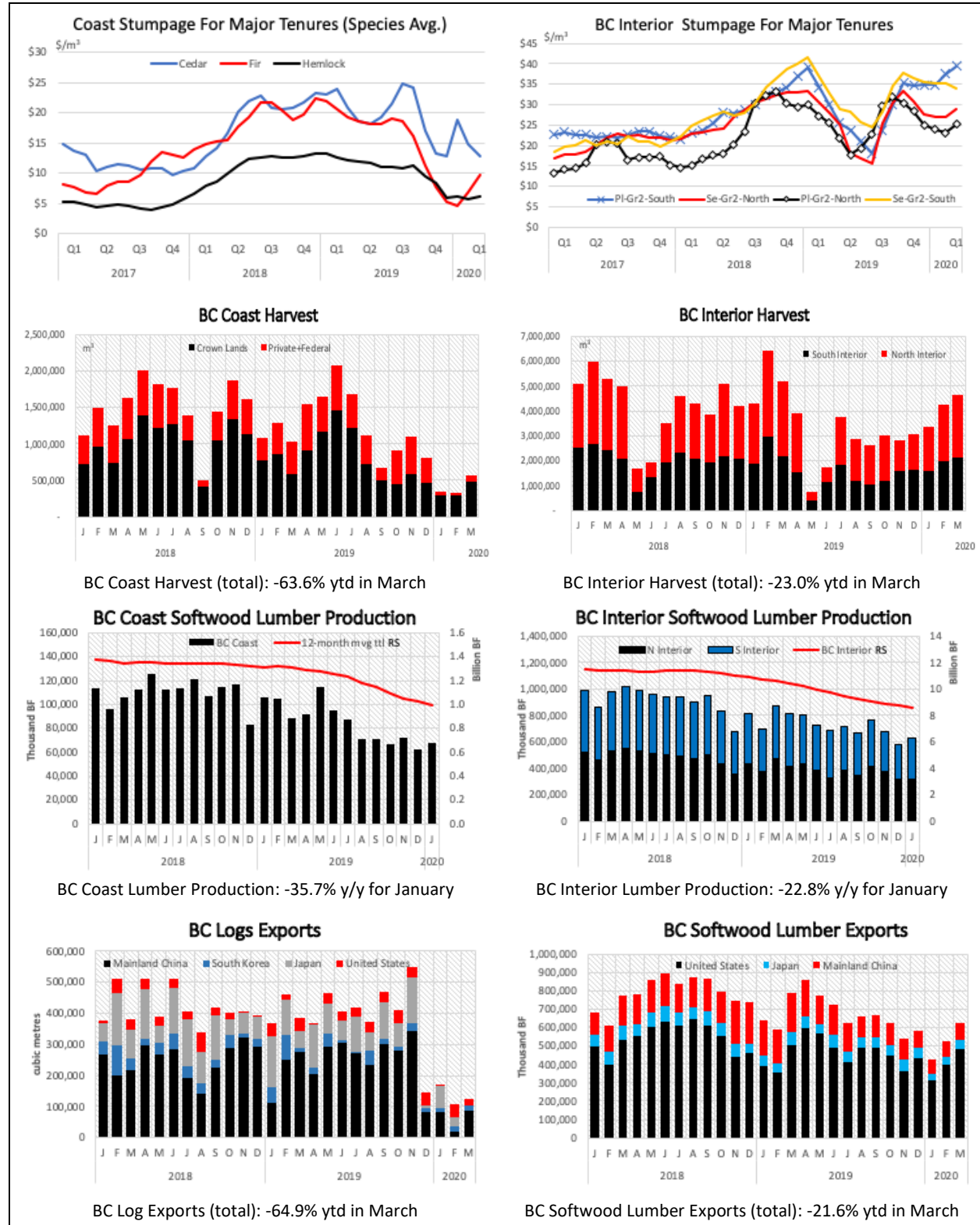
Despite being an essential industry, it does not guarantee profits. I would expect no relief from high stumpage rates for the interior in the next quarter or two. Interior sawmilling is at best volatile especially if lumber prices weaken again. While there have been some sawmill restarts lately, expect those already down will see their downtime extended. SPF 2x4 prices have improved, which is partially due to reductions in BC interior lumber production.

**CONTRACTORS BUSINESS NETWORK:** Data from the April **CBN** (the inaugural survey), with input from 2-million m<sup>3</sup> of coastal contracting capacity, confirms the outlook isn't positive. 100% of the CBN said they have less work than last year and almost all are expecting the same amount of work or less than from April's level of activity. Most reported having no more than three months work ahead of them.

The CBN mostly said they have no plans to purchase new equipment in the next 6-months, but those with intentions to buy equipment, their decision to purchase is predicated on either strategic rotation of equipment, and/or in anticipation of confirmation of future work. Despite lumber markets, there are still some buyers for equipment.

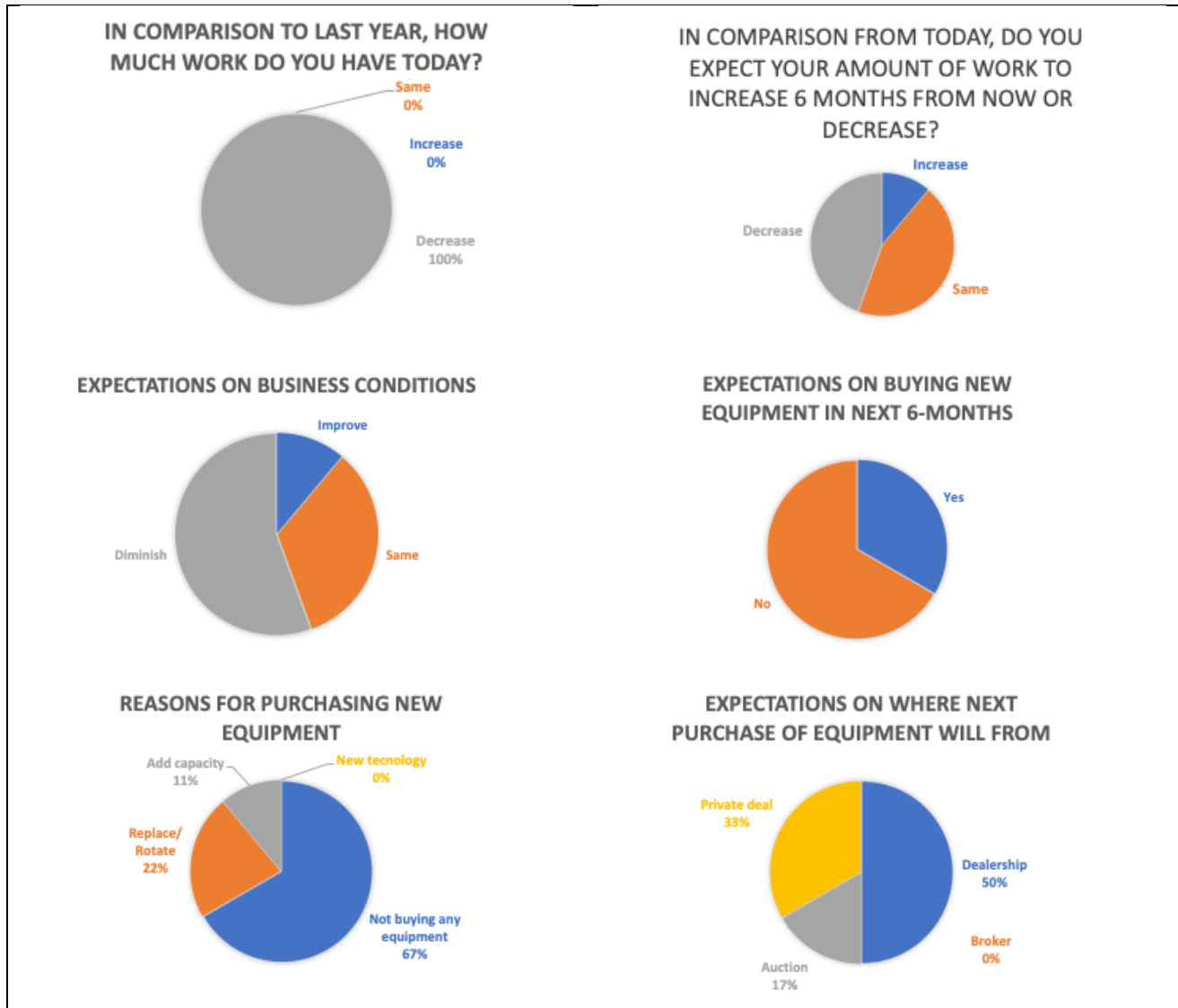
Covid-19 is making a hard situation all that much harder. It's going to be a tough slog...

## BC Forest Industry Metrics



## The Contractors Business Network: Expectations

Data collected throughout April is the first for what is intended to become a trend perspective of expectations. The expectations shown in the charts below consist of only coastal contractors, however the CBN is expanding to include the coast and interior contractors.



Contractors – There is no cost to join the **Contractors Business Network**. Through your participation (anonymously), you receive insights like the above so you can compare if you are off-track or aligned with other contractors.

Contact me to join at: [david@spartreegroup.com](mailto:david@spartreegroup.com)

Suppliers – if there is a question or issue you need researched or would like to ask the CBN, or would like presentation on the BC Forest Industry, I can help!

**The Radar Screen**....a summary of announcements including new government policies that you must have on your radar screen as they will affect the BC forest sector supply chain:

**Old Growth Strategic Review** – a two-person panel engaged the public to hear perspectives on the ecological, economic and cultural importance of old-growth trees and forests. A “What We Heard” report was to be submitted by April 30. *The concern is that will be a negative impact to the working forest/ feasibility of harvesting older stands in some form, although, the Minister has suggested direct removal of area from the timber harvesting land base likely will not happen.*

**Interior Forest Sector Review** – a public engagement process to gather input on what the industry/communities see for the future of the BC interior forest sector. A “What We Heard” report is due spring 2020. *At this time, we unable to ascertain potential concerns.*

**Softwood Lumber Dispute** – changes to cash deposits for U.S. counter-veiling and anti-duties will occur in late September 2020. *This will reduce the cost burden of the Canada/U.S. trade dispute on BC lumber exporters to the U.S.*

**Stumpage Deferral** – on April 30, BC Govt announced it will be deferring stumpage payments for the next three months for most forest licensees. Assuming the deferral starts May 1, it will end by August 1. Stumpage payment is due with interest at some point in the future. *The deferral will help licensees in the short-term with cash flow.*

**Manufactured Forest Products Regulation** – effective July 1, 2020 there will be a ban on minimally processed sawn-wood cedar and cypress products, and reductions in maximum size of minimally processed sawn-wood of other species. *The concern is that these changes will likely negatively impact feasibility of coastal harvesting.*

**Contractor Sustainability Review** – discussions lead by industry associations on potential changes to the Timber Harvesting & Sub-contractor Regulation (aka Bill 13). Timing possibly fall 2020. *Potentially changing the negotiation process between contractors and licensees.*

**Short-term Work Opportunities For Interior Contractors** - new streamlined process to be announced in early 2020.

**Coast Logging Equipment Support Trust** – announced last January 2020, bridge financing of \$5 million fund for coastal contractors.

**Covid 19 – Provincial Tax & Revenue Changes** - carbon tax increases have been postponed, staying at April 1, 2019 rates of 8.89 ¢/litre for gasoline and 10.23 ¢/litre for diesel.

Is there is a topic or issue you think should be on the supply chain’s **Radar Screen** or you would like the **Spar Tree Group** to analyze or delve deeper into any of the topics presented in this newsletter? ...then contact me at: [david@spartreegroup.com](mailto:david@spartreegroup.com)

## View From The Stump

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It has been my labour of love to make this newsletter. I hope you enjoyed it!

Please contact me if you have any feedback or suggestions.

To subscribe, please contact [david@spartreegroup.com](mailto:david@spartreegroup.com) or visit [spartreegroup.com](http://spartreegroup.com)