



# MADISON'S TIMBER PREVIEW

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Large volumes of information on the true status of current and mid-term British Columbia timber supply for all regions have finally been released in easily accessible formats by the provincial government. While opening up the issue for discussion and public consultation is a good thing, there are ways to offset looming job losses in the wake of the mountain pine beetle infestation that go far beyond simply releasing previously protected timber areas for a short-term increase in fibre supply, as suggested in the reports. The latest of these documents are available on the Madison's website, please refer to the June 8 issue of your *Madison's Reporter* for links. This week's issue of *Madison's Timber Preview* will break down some of the data so readers can have a solid grasp of the impact of future fibre availability on business practices for BC lumber producers.

Perhaps it is best to start with some anecdotal narrative. In the past five years of this epic downturn in the North American lumber market, Madison's has come across several Canadian companies that actually improved their business model. One case involves a long-established fence post maker in Ontario, while another is a BC truss maker. How is it that these companies could thrive and grow, increasing their earnings, and hiring on new staff, while so many others floundered helplessly in the face of such a massive reduction in new US home building?

Company owners and managers have provided significant details over the years, but always off the record. *Madison's* would like nothing better than to broadcast these success stories widely, but is prohibited from doing so by confidentiality. Regardless, the lesson is clear even when speaking in generalities.

There are some common characteristics among all of these successful solid wood producers, whether newly-established or existing: a focus on a value-added product, and on service. In all cases, owners and managers were adamant that the reason their businesses improved while those around them failed is because they picked a specialty product that is in demand and stuck to making that one thing. They sought out new customers based on expert production of that item, be it trusses or fencing components or something else, then nurtured that new customer base by providing service.

The Ontario fencing company for example, began producing not just the fence posts but the rails and slats as well, then took on a whole new crew that would install the fences on location. Previously the manufacturer had simply dropped off the material. Not only that, but due to the reduction in demand for wood from the US, the fencing company was able to secure logs from a Quebec supplier at an excellent rate. Logistically the new business model was more complicated than it had been previously, as were the human resource demands, but the financial reward far outweighed this additional work load. Once the planning stage was over, the mechanics of running the company were not much different than before.

"I cut my own wood so I'm saving 30 per cent on what the lumber yards charge my fence installation competitors," the owner explained to Madison's in 2009. "Last year we sold \$1 million in cedar fencing, this year it will be more than \$1.8 million. This while a lot of the remanufacturers in Ontario are going out of business.

"I don't borrow money. Export Development Canada guarantees my payments."

That is already more than *Madison's* is at liberty to say. Its been several years and these details don't reveal any particular company secrets.

The truss manufacturer in BC had the exact same philosophy: find a niche market, become an expert in manufacturing that product, and keep customers coming back by providing service. In the case of the truss manufacturer that service involved shipping specifically cut components directly to the destination. Again, this conversation was several years ago, and again this producer was hiring on new staff when other companies in that region were laying off or closing entirely.

Looking at the big picture, the basic reason the crash in US housing during the second half of 2006 hit Canadian lumber producers especially hard was because there is -- by far -- too much focus on simply producing 2x4's. Dimension lumber is the easiest, quickest thing to make out of trees. While US home building was going strong, it seemed a good idea to pump as many 2x4's into that market as possible. After five long years of muted buying, and with a pending fibre shortage in BC, simply hacking trees into dimension is definitely not the best business model.

The Williams Lake Timber Supply Area document seems a good one to use as an example, as it is one of the largest TSAs in the province, covering 4.9 million hectares.

In 2007, the Williams Lake TSA annual allowable cut was "increased to 5.7 million cubic metres, with no partition," says the BC government document. "However, the determination is predicated on directing the entire allowable annual cut at stands with at least 70 per cent pine that are located west of the Fraser River."

"During the period 2001 to 2010, the average harvest was 3.4 million cubic metres a year. Of that volume, about 74 per cent was pine.

"The mid-term timber supply forecast indicates that, without mitigation, timber supply in the Williams Lake Timber Supply Area is projected to decline by 32 per cent in the mid-term – from 2.8 million cubic metres a year to 1.9 million cubic metres a year. The 2.8 million–cubic-metre-per-year figure is approximately the harvestable volume of 2.4 million cubic metres attributable in the 2003 determination to the main timber supply area, plus 450,000 cubic metres attributable to the three western supply blocks."

It seems a massive oversight that the Williams Lake document proposes only mining projects as "opportunities for diversification". Just last week Madison's did a whole story on engineered wood, and the projected sizable increase in global demand for cross-laminated timber, laminated veneer lumber, and laminated strand lumber. There is a huge opportunity for new developments in this product group alone.

Meanwhile, the Cariboo-Chilcotin Beetle Action Coalition offers a wider variety of strategies, from agriculture to tourism, from mining to arts.

It is an error to believe the forest industry in BC, or indeed in all of Canada, should continue to run on a model created 150 years ago. It is true that Canadian manufacturers have been leaders in methods and technologies for high-speed, innovative dimension lumber production. But other types of developments are completely ignored. International investors looking for regions and sectors to put money into sometimes avoid Canada in part because the range of production is very limited in scope. Just because the pioneers of the BC sawmilling industry focussed solely on softwoods, which made sense at the time given the sheer lushness of those forests, doesn't mean the industry should continue to treat hardwoods as weeds. In the east, hardwood producers have loyal customers for all their products booked long into the future. A huge new customer base is developing in emerging markets, a middle class that will be buying household items for the first time ever. In the west of Canada, the economics of destroying young hardwoods to more easily extract the conifer stands has changed.

This is the time to adapt. The future is specially manufactured wood components for everything from furniture to multi-storey wood framed buildings, is hardwood veneer plants, biomass fuel, and beyond.

Why would the province of BC be in such a rush to hack down the remaining healthy trees as quickly as possible and ship them raw, or as cants, to China so furniture can be processed there, in many cases to be shipped back to Canada or the US? Madison's Live Online Canadian Lumber Directory currently lists 136 manufacturers of furniture and furniture components in Canada. If there is room for a growing number of furniture makers in China there are surely companies on this continent which can make a go of this value-added sector.

Certainly this is not a suggestion that a Canadian furniture maker could compete on the scale of a low-cost, large-volume multinational Chinese company. However, using a focus on specialty products and taking advantage of proximity to the end-user market would certainly serve a Canadian operation well, especially if the furniture, trim, and flooring components are actually manufactured here.

Furniture is just an example; any remanufactured components would be an improvement in job creation, company revenues, and business longevity, over making as many 2x4s as possible as quickly as possible.

In a very telling section, the Williams Lake document goes on to say, "Version 7 of the Provincial-Level Mountain Pine Beetle Model predicted that 93.2 million cubic metres in the timber supply area would be killed by 2020, which is 65 per cent of the mature pine that was on the timber harvesting land base in 1999. BCMPB ver.9, the latest version of the Model, showed 87.4 million cubic metres will be killed by 2022, which is 61 per cent of the mature pine. The difference in estimates – 5.8 million cubic metres of pine that is now projected not to be killed – could increase the mid-term harvest projection by up to 230,000 cubic metres a year."

Less than a quarter million cubic metres per year to feed how many mills in the Williams Lake TSA? For only eight more years before even that runs out. In terms of mitigation strategy it's hardly worth talking about. Not to be simplistic, but only a politician would find this a worthwhile time frame. Anyone in the business world would consider eight years the very near-term future.

The rest of the Williams Lake document focusses on a "mitigation opportunity forecast" which includes outrageous and unsustainable suggestions, such as:

- Harvest stands closer to the minimum merchantability specifications (65 cubic metres per hectare for pine-leading stands and 120 cubic metres per hectare for other stands);
- Allow harvesting in old growth management areas that are not overlapped by other forest values; and,
- Allow harvesting in one half of the area considered to be steep slope.

One has to wonder what the architects of this strategy are thinking. On one hand the BC government touts as an achievement the scope of third-party forest certification in BC, and in Canada, which is the highest in the world by far. But on the other hand it is suggesting diluting, and in some cases, completely evaporating, these environmental standards in preference of a weak, short-term, limited solution.

Given the massive business opportunities using BC wood to make high-value remanufactured products and value-added products, it seems current efforts would be better placed elsewhere.

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