



B.C.'s forest industry is battling on several fronts, and investment at home and in key foreign growth markets is proving increasingly crucial

Taking the strain

It seems little doubt: B.C.'s forest industry, a mainstay of the provincial economy, is being shaken to its roots by a convergence of natural, domestic, market and trade forces.

Having to contend with everything from a strong Canadian dollar, a revenue-busting U.S. housing downturn that's putting extra strain on coastal operators, plus an onslaught of lower-cost competitors in Russia, Europe and South America.

Changes in timber supply – heightened by the Interior's mountain pine beetle epidemic – and rising input costs are also forcing the industry to examine how it operates, what it produces and where it stands in the market. As a 2006 federal report on the state of Canada's forests summarized: costs are rising, demand is shifting, mills are closing and firms are restructuring.

Yet through this fog of unsettling forces, one thing stands out: investment.

The pine beetle itself is spawning a major international business opportunity, with new pellet plants and cogeneration facilities springing up to make fuel from the damaged pine, a commodity in which Kamloops company River-City Fibre is investing \$3.2 million. The company said in July it has plans for a log chipping facility using wood as fuel for a cogeneration facility, and chips to make paper.

As well, BC Hydro is sifting through more than 100 business power proposals to use beetle wood.

"The horse is out of the gate here. We need a strategy with the energy, pulp and paper and lumber and other stakeholders to figure out what we're going to do [with beetle killed wood]. That's a key thing," said Craig Campbell, forest and practice leader at global advisory firm PricewaterhouseCoopers.

With no investment in the B.C. pulp sector in 15 years, Campbell noted this could change if there was a stable fibre supply arrangement, in which players would obtain low-cost wood to leverage the impact of the beetle. "We've got pine beetle wood that's just standing there doing nothing. If we had the right stumpage and the right incentives, we could get wood as low as the South Americans."

Federal, provincial and industry dollars are

also flowing, although some may dispute whether it's enough. This year, Ottawa pledged more than \$300 million to deal with the infestation and its consequences, as well as to address long-term competitiveness in the forest industry.

Of this, \$122.5 million will support three initiatives, including promoting innovation and investment in the forest sector, and expanding market opportunities through the Canada Wood Export Program with the wood industry.

The program, says Ottawa, has led to higher overseas sales of products, such as prefabricated homes, and has boosted exports of Canadian wood products to China by more than 76%.

And South Korea's emergence as one of Asia's hottest economies is generating new hope in B.C.'s forest industry, which is also investing money with government to grow the market. Of the approximately 400,000 Korean housing starts in 2006, about 6,000 were made of wood – a jump of 50% to 60% from the year before, said Wayne Iversen, program manager for emerging markets with the Council of Forest Industries.

Most of that wood came from Vancouver-based Canfor Corp. Last year, Canfor shipped 1,500 containers of dimension lumber to South Korea. Tolko Industries Ltd., West Fraser Timber Co. Ltd. and Weyerhaeuser Co. Canada also supply the growing market.

COFI estimates that annual Korean wood-frame housing starts would jump to 20,000 by 2010 and last year set up an office in Seoul to market Canadian wood products. It also has offices in Beijing, Shanghai and Japan.

Korea ranks close to China as a potential Asian growth market for B.C. wood – Japan ranks first – and COFI has budgeted approximately \$1.5 million in its 2007-2008 fiscal year for market access and development activities.

Rick Jeffery, president and CEO of the Coast Forest Products Association, remains upbeat about prospects for coastal companies, despite the odds stacking up against them.

"Yeah, we've closed some sawmills [but] over the last four-year period, my membership has put \$180 million back into the sawmill business."

Increased investment in mills, said Jeffery, not only increased efficiency but allowed companies to remain competitive. ■

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