



The Independent Wood Processors Association
(IWPA)

**The State of BC's Non-tenured value
added wood processors**

March 2018

**Representing BC's family owned non-tenured wood
processors since 1971**

Tenured vs Non-tenured

- We do not view industry sectors as being primary vs reman, or commodity vs value added, or as being defined by product
- We view industry sectors as:
 - Tenured ... those who have exclusive renewable access to the BC Public's administratively priced non-competitive timber resource
 - Non-tenured ... those that must compete for all their wood fibre on the open market and pay market prices

We see two wood processing sectors in B.C.

- Non-tenured Sector

- buys input wood fibre at arm's length on the open market
- competes for and pays market prices for fibre
- tend to be small family owned community based businesses
- tend to be family run (by owner)
- USA is by far the largest market
- **focus is on value added specialty products and services**

- Tenured Sector

- has exclusive renewable rights to non-competitive public timber
- price of fibre is determined administratively using formulas
- tend to be large consolidated publically owned multinationals
- run by professionals (by CEO's)
- have access to global markets
- **focus is on framing and other commodity products**

Local IWPA members include

- Centurion Lumber Manufacturing Ltd
- Aquila Cedar Products Ltd
- B&L Forest Products Ltd
- Coastland Wood Industries Ltd
- Errington Cedar Products Ltd
- Harmac Pacific

The Problem

- The BC Interior faces further job loss due to:
 - Declining AAC
 - Consolidation of control of the public's non-competitive timber resource
- The BC Coast faces further job loss due to:
 - Consolidation of control of the public's non-competitive timber resource
 - The movement of value added work to the USA

The Challenge

- To replace these job losses by employing British Columbians to add more value to their resource in British Columbia

The VIEA wants to grow Value Added

- But value added firms are not in growth mode
- We are in survival mode
- 54 of 107 IWPA members have gone out of business since 2001
- Excess capacity in the IWPA is currently 27%
- Present conditions will lead to more business failures
- There is currently very little opportunity to build anymore value added capacity

Why are we in this predicament?

- **Loss of access to fibre** ... Consolidation of control of the BC Public's timber resource and the loss of the Small Business Forest Enterprise Program (SBFEP) has made it increasingly difficult to obtain a share of the resource for further processing in BC
- **Loss of access to our market** ... Being caught in the middle of the commercial Softwood Lumber dispute between the tenured companies and the US Coalition has resulted in non-tenured wood processors being priced out of the US market due to having to pay US imposed duties and Canadian imposed border taxes

Our 3 biggest problems

1. Since 2003, there has been **no agency of the BC Government with the mandate to ensure that value added wood processors have access to a share of the BC Public's wood resource**
2. The **consolidation of the Tenured Sector** into regional monopolies has reached the point where open markets for logs and lumber no longer function or no longer exist
3. **Loss of access to our US market** due to border taxes and duties

No mandate to supply non-tenured wood processors

- In an effort to develop the province, the BC Government granted certain companies the exclusive right to harvest the public's timber on the condition that they build and operate mills in the vicinity of the timber
- The 10 million m³ Small Business Forest Enterprise Program (SBFEP) was established in 1978 with the **mandate to provide access to competitively priced timber to those with less than 10,000 m³/yr of renewable tenure**
- It later added provisions via Section 21 and its subsections, to provide non-tenured wood processors with competitive access to a 3.1 million m³ share of the public's timber resource

continued ...

- Due to the Government's inability to price the public's non-competitive harvest, we lost the Small Business Forest Enterprise Program in 2003
- The Government decided to use the auction results as data points in the formulas used to price the non-competitive harvest
- To that end, they gave the tenured companies the right to bid on the timber that was formerly reserved for non-tenured companies
- Also in 2003, the social obligations were largely removed from the tenure holders but the rights to the public's non-competitive harvest were not

Consolidation of control of the Public's forest resource

- When our Association was formed 47 years ago to represent the interests of non-tenured wood processors, we had healthy and competitive open markets for timber, logs, and lumber
- Consolidation has now reached the point where a few mega-companies have regional monopolies and control about 2/3rds of the BC Public's timber resource
- Open markets for timber, logs, and lumber are now non-functional or no longer exist

Loss of access to the US market

- As long as the tenured timber remains non-competitive, there will be difficulty pricing it and there will be Softwood Lumber Disputes
- This is therefore a commercial dispute between the tenured companies and the US Coalition
- If a price is to be paid to retain administrative pricing their timber, the full price should be paid by those whose timber is priced administratively
- Those of us buying 100% of our input on the open market should not be subjected to paying a share of that price

Continued ...

- For 5 years, beginning in 2001, the products of non-tenured wood processors were subject to Countervailing and Antidumping Duties
- For most of the next 9 years our products were subject to a Canadian imposed tax of 15% (usually \$75/mfbm)
- Due to the Tax, it was cheaper to ship from Vancouver to Shanghai than from Vancouver to Bellingham, USA
- The tax was designed to make our value added products uncompetitive in our primary market and it did the job very well

And conditions continue to deteriorate

- There is still no agency within Government to ensure that non-tenured wood processors have access to a share of the Public's wood fibre
- Consolidation of control of the resource continues
- We are once again subject to duties in our primary market and the tenured primaries are moving more value added work to the USA

The Outlook for the Non-tenured wood processors

- Open market wood fiber is becoming increasingly difficult to obtain
- Our products are being priced out of our primary market by duties
- We are being forced into becoming custom processors for the tenured companies
- The tenured companies are moving more of our value added work to the USA
- We may become subject to Quotas again if there is new Softwood Lumber Agreement

So what can we do about our 3 problems?

1. No mandate to supply non-tenured wood processors
 2. Consolidation of control of the Public's forest resource
 3. Loss of access to the US market
- We extend our thanks to Councillor Rob Douglas for piloting the following Resolution through the UBCM on behalf of the non-tenured value added sector.

Union of BC Municipalities Resolution

- *Resolution,*
- *Where as British Columbia's non-tenured value added wood processors are finding it increasingly difficult to access a share of the BC Public's wood resource for further processing in British Columbia due to the consolidation and control of the non-competitive harvest into very few hands and ...*
- *Where as British Columbia's non-tenured value added wood processors have had their access to the US market impeded by the dispute between the US Coalition and the tenured companies that have exclusive access to the BC Public's non-competitive administratively priced wood resource ...*
- *Be it resolved that the UBCM ask the BC Provincial Government to take whatever steps are necessary to ensure that BC's non-tenured value added wood processors have access to a share of the BC Public's non-competitive wood resource for the purpose of processing it in BC and that BC's non-tenured value added wood processors have unimpeded access to the US market for their products ...*
- *And be it further resolved that in the event of a quota based Agreement with the United States that the BC Provincial Government allocate quota in such a way that it does not impede the survival and growth of BC's non-tenured value added wood processors.*

No mandate to supply non-tenured wood processors

- We believe it was a mistake to commandeer the SBFEP timber, give the licensees access to it, and change the **mandate** to one of providing **“the cost and price benchmarks for timber harvested from public land in British Columbia”**
- Collect **Market Pricing System data points** elsewhere. Perhaps the tenured companies should auction some of the wood that they control to price the rest
- **We need to restore the Small business Forest Enterprise Program** to provide non-tenured wood processors access to a share of the Public’s wood resource

Consolidation of control of the Public's forest resource

- The public needs to take back, or buy back, the right to harvest their timber
- Take back volume for **mill closures**
- Take back consistently **undercut volume**
- Take back volume on **mergers and acquisition**
- Perhaps this wood can be given to 1st Nations

Loss of access to the US market

- As previously mentioned, the softwood lumber dispute is a commercial dispute between the US Coalition and Canada's tenured companies over the use of formulas instead of competition to set stumpage rates.
- In the event of another Softwood Lumber Agreement that requires Canada to impose Border Taxes again, those taxes should only be imposed upon the products of those companies that enjoy exclusive renewable access to administratively priced public timber.
- In the event of another Softwood Lumber Agreement that requires Canada to impose Quotas on exports, BC should implement the "Growth Pool" system of Quota allocation. More on that later.

In the meantime

- It is within the BC Government's power to restore the Small Business Forest Enterprise Program and collect Market Pricing System data elsewhere or use a different method of setting stumpage rates.
- Breaking up control of the Public's timber is more difficult and will likely take time as the forest policy changes of 2003 mandate that the public must pay the tenured companies to buy back the right to cut the public timber.
- Other than lengthy litigation, hopefully leading to victory or a settlement, there is very little that Government can do about the Americans imposing duties on our products.

Survival

- It is hoped that the BC Government will help us by restoring the Small Business Enterprise Program
- It is hoped that the BC Government will begin trying to recover the rights to some of the Public's timber
- But we are going to have to try and survive the duties that have recently been imposed upon us by the USA
- There are significant obstacles to surviving the most recent Softwood Lumber Dispute

Surviving the latest Softwood Lumber Dispute

- The effect of a 20% duty on our products is intended to price us out of the US market and it does
- We not only pay duty on the wood, but also on the cost of adding value if the work is done by British Columbians in BC, but not if done in the USA
- We have to provide an increasing amount of security to US bonding companies and the result is a drain on our cash
- The Importer of Record gets any refunds that may result from litigation or settlement
- The Importer of Record may eventually be allocated Quota based upon being the Importer of Record

What are the tenured companies doing?

- They are doing what any good CEO would do in the interests of his shareholders
- But their actions are not necessarily in the interests of the BC public that owns the timber.

The big 5 prefer to sell to the Americans

- To retain eligibility for potential refunds
- To accumulate Importer of Record history for potential quota allocation
- To avoid the duties on the cost of adding value in BC they also prefer to have Americans do their custom value added work

In the Interior, Interfor, West Fraser, and Canfor

- Continue to lock up control of the BC public's timber
- are using the money made in BC to invest in the USA
- They have purchased over 45 US sawmills
- Interfor produces about 70% of its lumber in the USA
- West Fraser produces about 45% of its lumber in the USA
- Canfor produces about 27% of its lumber in the USA

The problems on the Coast are worse

Western Forest Products

- Controls about 6.0 million m³ of the public's timber
- Mill capacity is < 4.0 million m³
- Exports logs but bought 1.1 million m³ of market logs in 2017
- Undercut last 4 years 1.0, 1.0, 1.6, 2.0 million m³ in 2017
- Controls the price and disposition of Western Red Cedar
- Closed Somass and another reman plant in 2017
- Is converting BC's non-tenured companies into custom processors
- Has now purchased a US reman plant in Arlington, Washington

Western Forest Products new US acquisition

- WFP has just purchased a US reman plant
- We hear that they are upgrading it to process 110,000,000 bf/yr
- WFP employees tell us that they plan to employ Americans to remanufacture their WRC in the USA

- The previous slides tell you about the things that will kill BC value added slowly
- This slide tells you what will kill BC value added quickly
- We need the BC Government to prevent this from happening

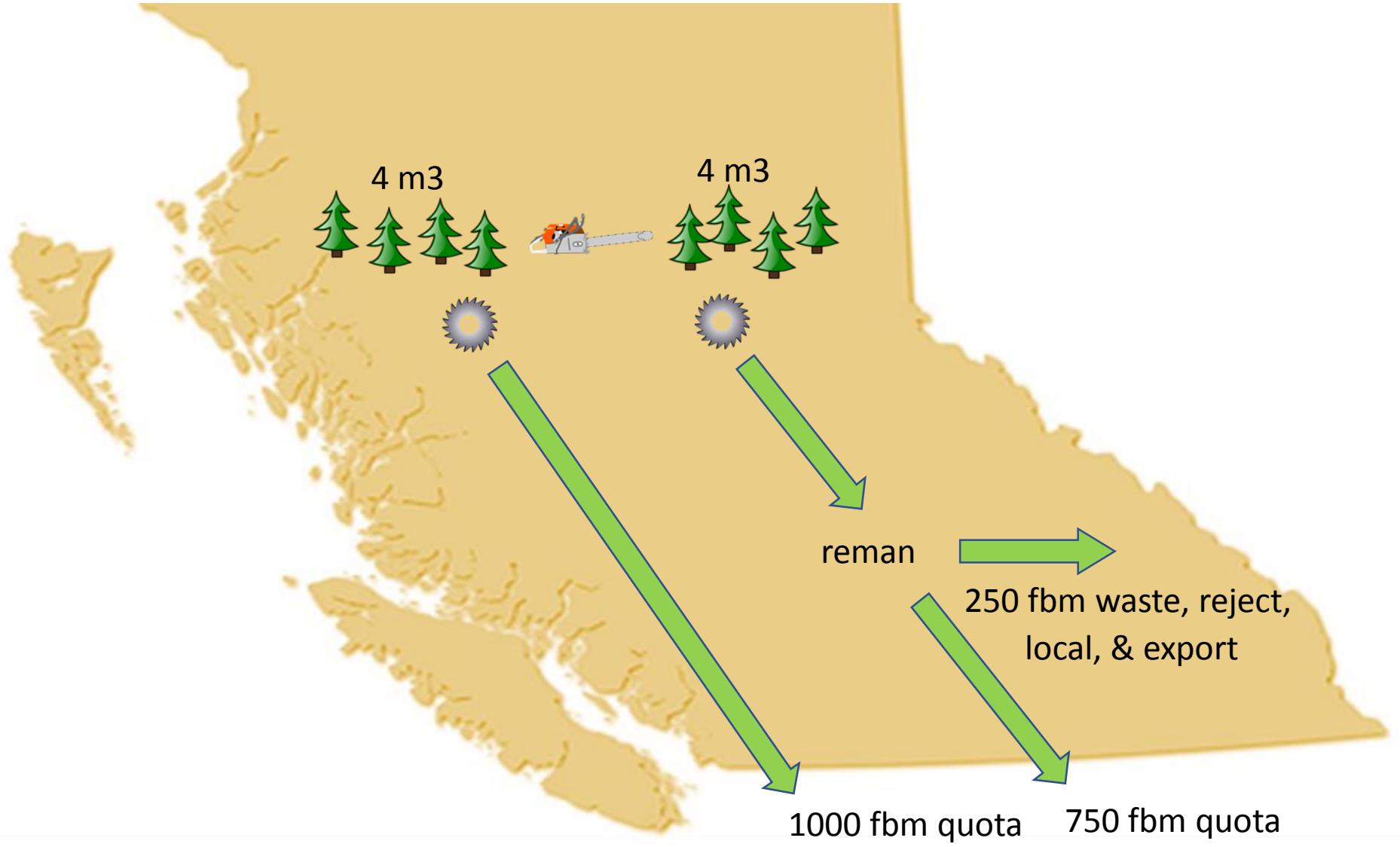
In the event of a Softwood Lumber Settlement

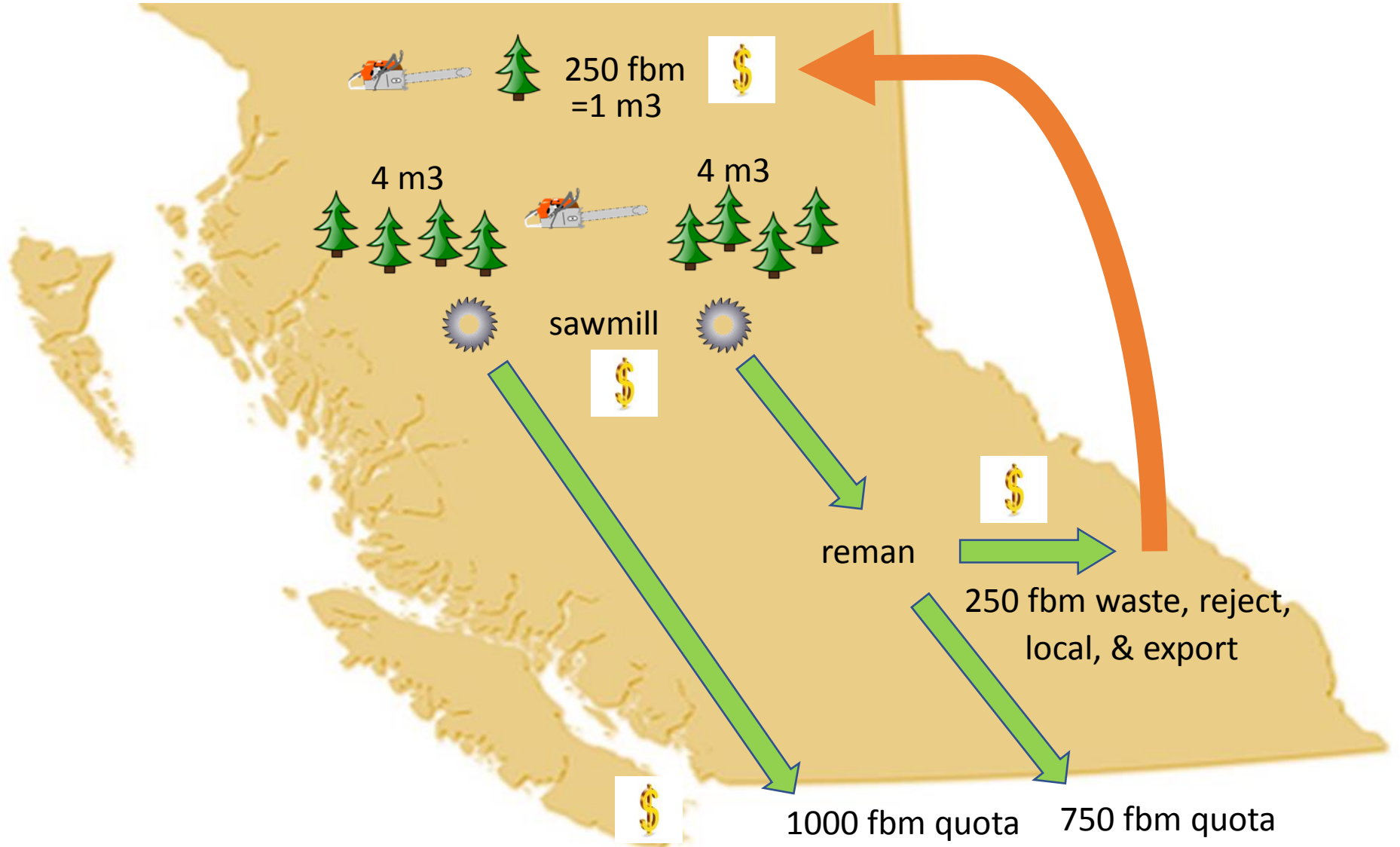
- BC's non-tenured wood processors need a Quota based Agreement
- The only difference between Duties and a Border Tax based Agreement is that the former is imposed by the USA and the later is imposed by Canada, and there is no chance of refunds from Canada
- A Quota based Agreement also frees BC from US oversight of our forest policy
- Quota allocated using the "Growth Pool" concept will increase value added in BC without any negative consequences for the tenured companies

The Growth Pool concept in 4 slides

Instead of wasting Quota shipping trim loss and reject products to the USA, leave them here, and use the Quota saved to create more jobs







'Growth Pool' Bottom line

intelligently allocated quota will result in

- ✓ **an increase in harvesting jobs**
- ✓ **an increase in GBC stumpage revenue**
- ✓ **an increase in primary and secondary processing jobs**
- ✓ **an increase in GBC small business and payroll tax**
- ✓ **renewed opportunity for growth of value added in BC**
- ✓ **freedom from US oversight of BC forest policy**
- ✓ **the greatest socio-economic benefit per m³ harvested and per unit of quota available**

Independent Wood Processors Association

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Representing Competitive Sector wood processors since 1971