



# Realizing the Vision

2010 and Beyond:  
British Columbia's  
forest industry of the future



**Council of  
Forest Industries**

## About the Council of Forest Industries

The Council of Forest Industries (COFI) is the voice of the B.C. interior forest industry.

COFI companies operate 120 production facilities in more than 60 forest dependant communities in the interior of British Columbia. COFI member company operations accounted for approximately 80 percent of all B.C. softwood lumber shipments and 35 percent of Canadian softwood lumber shipments in 2002.

COFI members practice sound, sustainable forest management while producing about 11 billion board feet of lumber, 3.5 million metric tons of pulp and paper, 2.5 billion square feet of panels and veneer, and other value added wood products that are sold around the world. The combined value of the products our members produce is approximately \$10 billion annually. COFI member companies and their employees contribute on average, about \$3.2 billion annually to government revenues.

COFI members employ approximately 50,000 people directly. About 150,000 families directly and indirectly depend on COFI member companies in the interior for their livelihood and well-being.

**COFI's Vision:** *“To positively influence the revitalization of British Columbia’s forest industry as the recognized primary contributor to the economic growth and stability of the Province, now and in the future.”*

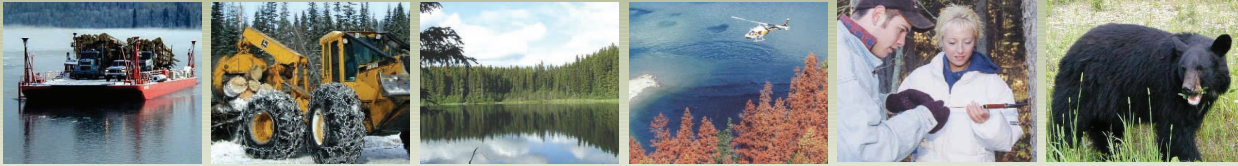
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**B.C.'s forest sector: the cornerstone of our economy**

British Columbia has a proud history of growth and prosperity largely due to the abundant forest resources found within our provincial borders. Over the past century, B.C.'s forest sector has helped drive our provincial economy, shape our local environment and provided British Columbians with a quality of life unsurpassed anywhere in the world.

Today the forest sector continues to be the economic engine of the province, powering 25 percent of the economy<sup>1</sup>. The economic activity created by the forest sector is the largest source of provincial employment, accounting for approximately one out of every five jobs.

Of the 34 Interior provincial local economic areas defined by B.C. Stats, 24 rely on the forest industry for the dominant share of employment income (exclusive of the public sector), making a healthy forest sector critical to their future<sup>2</sup>.

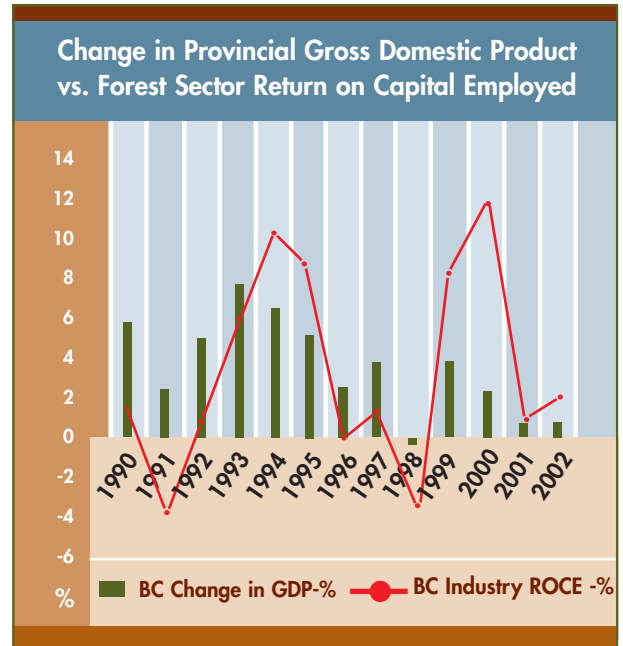
The provincial interest is clearly served by a strong, competitive forest industry. Not only is forestry the largest contributor to government revenues, enabling expenditures on valued public services, but there is a remarkable correlation between industry profitability and the overall growth of the B.C. economy, as displayed on the accompanying graph. Senior governments acknowledge that without a vibrant forest sector, not only will workers

and communities suffer but programs delivered by government will face severe fiscal restraints.

**Challenges and opportunities: prospects for growth**

In spite of its major contribution to B.C.'s socio-economic development over the years, the forest sector has significant prospects for

growth beyond 2010. By taking needed steps to position the industry for the challenges and opportunities ahead, it is envisioned the sector can add \$1.2 billion in future economic activity to the provincial gross domestic product as a result of incremental growth in harvests derived from the same environmental footprint<sup>3</sup>.





*“Our 2010 vision includes ensuring that British Columbians are recognized as extraordinary custodians of the natural beauty of our forests and committed to the preservation of its social and ecological values.”*

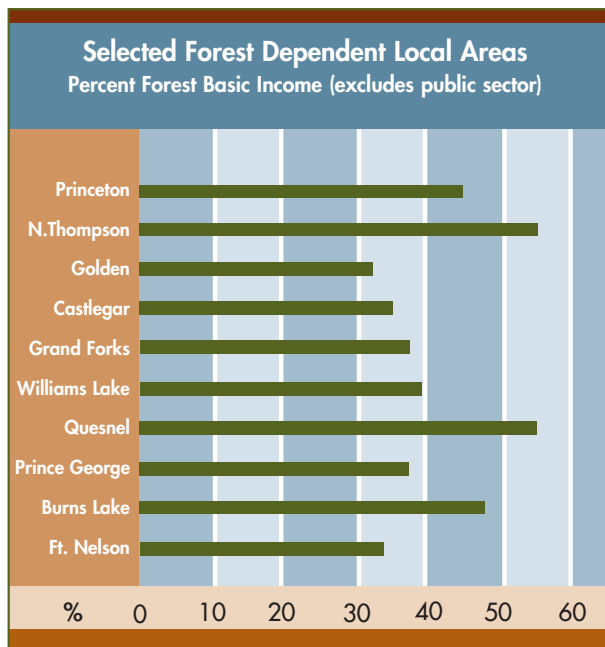
Realizing this vision can result in an additional \$500 million in direct contributions flowing to all levels of government from the industry and its employees; revenues that can be used to respond to ever increasing demands for public programs while ensuring that forest companies earn a return that encourages further investment in new technologies, products, markets and skills.

COFI believes the forest sector has the potential to generate 30,000 new direct and indirect well paying jobs – from the most highly skilled and motivated employees working in the world’s safest and most efficient plants to jobs in the design and maintenance of high-tech equipment. This will

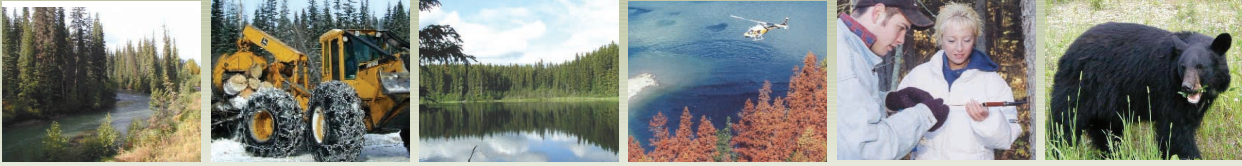
provide stability and continued opportunities for prosperity for forest-dependent communities across B.C.

British Columbia can have an increasingly sustainable supply of quality fibre from the same timber harvesting land base for conversion into products that meet the needs of all its customers. This vision of growth can also be realized while ensuring that on-going access to forest resources is not only secure but realized in conjunction with all stakeholders.

COFI believes all this could be realized while meeting worldwide environmental standards and in conformity with public and market expectations for responsible stewardship of our forests. Our 2010 vision includes ensuring that British Columbians are recognized as extraordinary custodians of the natural beauty of our forests and committed to the preservation of its social and ecological values.



**Facing the future: responding to challenges and opportunities** While the B.C. forest industry experiences important challenges, the provincial government has responded with a significant commitment to revitalization. The Forestry Revitalization Plan championed by the Honourable Gordon Campbell and the Honourable Michael DeJong will, with direct involvement from industry, play a major role in shaping the sector’s future.

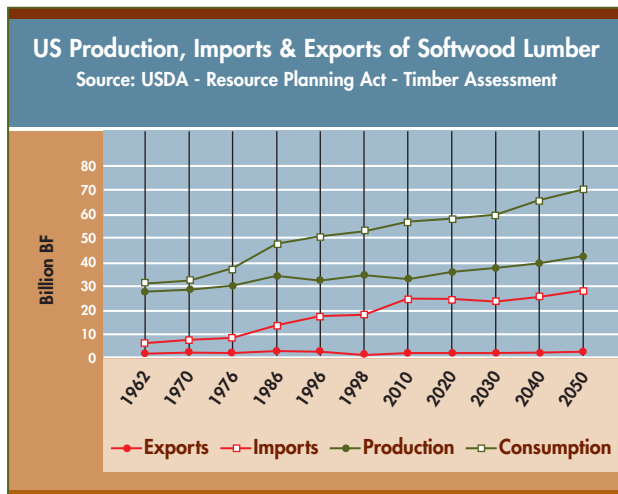


**Global markets:  
the challenges  
and  
opportunities**

Global market demand for forest products presents a unique opportunity for the B.C. forest industry with its long history as a global leader in the manufacture and distribution of forest products.

Despite US trade actions and on-going programs to open new markets for B.C. forest products, the United States will continue to be the primary forest products market in the foreseeable future.

In a recent report to U.S. Congress, “Resource Planning Act – Timber Assessment,” the USDA Forest Service predicts that softwood lumber consumption will continue to outpace the timber supply and capacity of the US industry<sup>4</sup>.



The report forecasts a shift in the shares of lumber imports from Canada to other non-Canadian sources. Canada’s share is forecast to remain steady until 2010 when it will begin to decline to 27 percent by 2020. The outlook is for off-shore imports to increase from the current 5 to 15 percent by 2020. The report also forecasts an increase in softwood lumber consumption in the US of approximately 10 percent over the same time frame.

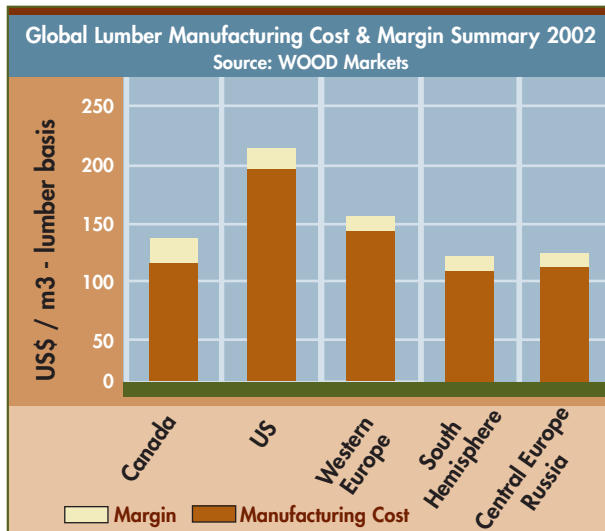
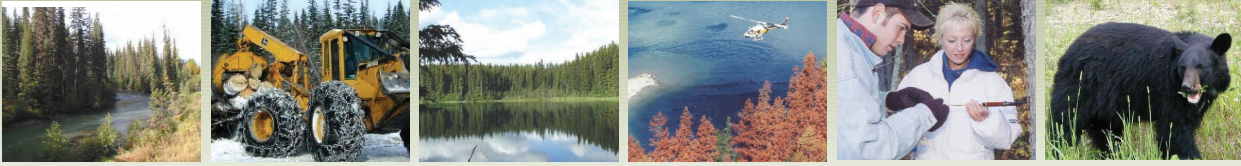
**Exploring new world markets:** Competition, new suppliers, substitute products, fluctuating exchange rates, oversupply, as well as tariff and non tariff barriers present additional challenges.

New technologies and the development of new capacities encourage former customers and developing countries to become competitors and often world players. World exports from non-North American sources – Europe, Russia and the Southern hemisphere – have increased by 26 percent since 1990 while North American off-shore exports have decreased by 230 percent over the same period.



To remain competitive in international markets, the B.C. Interior industry will need to be efficient and innovative and will need to differentiate its products relative to other suppliers.

With the abundance of new and existing suppliers with lower cost profiles and pressure from substitute products like steel, concrete and plastic, the Interior sector will be challenged to provide products at world



regional differences. The poor performance of the pulp sector continues to threaten the overall viability of the industry in the Interior. The interdependent linkage between the lumber and pulp and paper sectors is critical to the viability of the industry and improvements in one sector cannot be achieved through a reduction in the economic performance of the other.

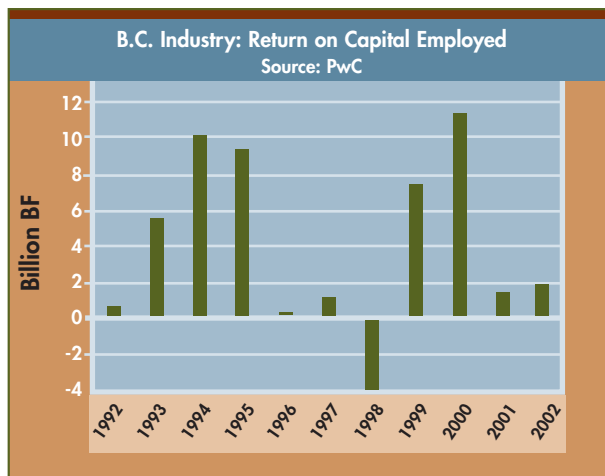
US trade actions have stressed the lumber sector and presented significant challenges to off-set cost increases imposed by duties and restricted access to traditional markets, putting the B.C. economy at risk, along with all British Columbians who depend on free trade in forest products.

In 2002-03 the Interior lumber sector responded to these challenges and imposition of new duties by retrieving market share forfeited to other Canadian jurisdictions and off-shore imports during the term of the Softwood Lumber Agreement.

**Sector performance**

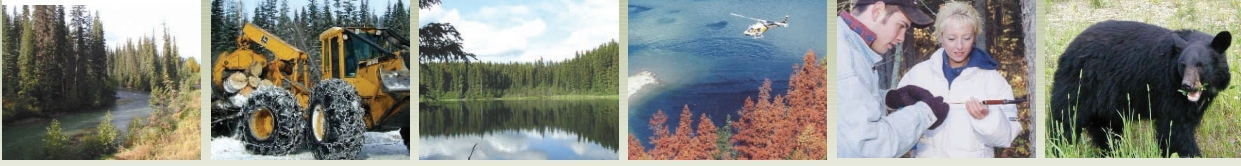
market prices while earning returns that encourage reinvestment.

The performance of the forest sector in British Columbia over the past five years has been exceptionally poor, with a combined return on capital employed of less than 4 percent per annum.

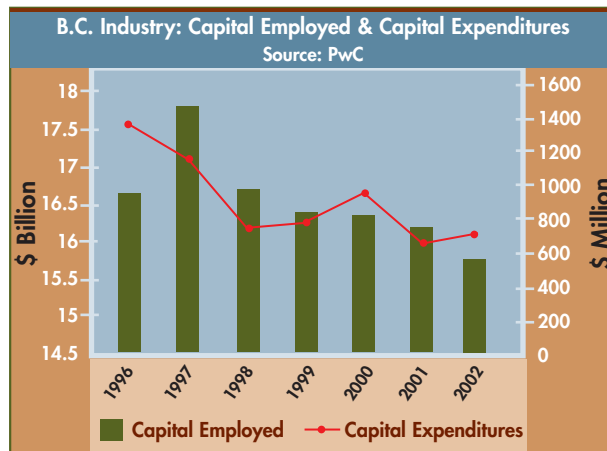


The Interior lumber sector has performed better than the combined industry, but there are significant

Poor returns across the industry have limited capital expenditures to below depreciation rates and affected



the availability of new capital. Innovation and the strategic application of scarce capital, however, resulted in significant increases in productivity and product recovery in the Interior lumber sector.



Productivity, as measured by production per dollar of combined capital and labour, has increased by approximately 30 percent since 2000 and product recovery, as measured by output per cubic metre of logs processed, has increased by more than 12 percent over the past decade. The increase in lumber recovery is equivalent to producing an additional 1.3 billion board feet of lumber from the same log input.

The re-evaluation of all major currencies added to the anxiety of all exporters in recent months having a detrimental effect on the profitability of the sector. Longer-term, currency fluctuations will affect the competitive positioning of all major forest products exporting countries.

**Plan of action:** Converting vision to reality will require cooperative  
**the way** action. COFI is confident that British Columbians  
**forward** can realize this vision and stands ready to marshal

its members to work with our government and other stakeholders in our province to that end.

We believe the steps to success must include the following:

### 1. AAC Strategy

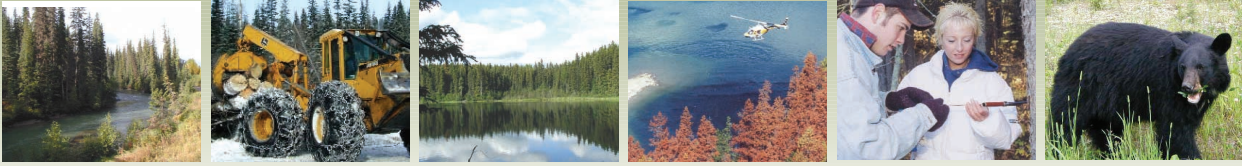
COFI encourages government to undertake the development of a joint strategy, together with industry and other stakeholders, that will stabilize the current harvest and increase the AAC over time. There are compelling socioeconomic reasons to pursue this strategy to enhance the provincial harvest including avoiding short-term fall-downs and planning for future growth.

The short-term strategy would focus on immediate challenges presented by the Mountain Pine Beetle epidemic, wildfires and reductions to the timber harvesting land base. The long-term strategy would focus on the opportunities to enhance the AAC through silviculture activities, resource utilization, forest health, knowledge, research and development activities and preserving the timber harvesting land base.

Increasing the AAC is technically feasible and will result in direct economic and social benefits to the province. *“British Columbia’s long-term sustainable timber supply is increasing,”* was the primary conclusion of an independent assessment commissioned by the B.C. Forest Sector and Communities Coalition in 2001.

Over time the AAC can be increased by 10 million cubic metres resulting in an additional 30,000





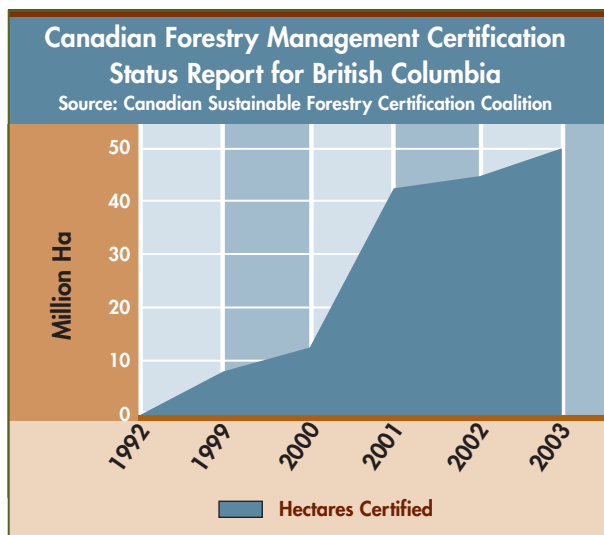
direct and spin-off jobs from the additional economic activity, increasing the industry's direct contribution to government revenues by \$500 million per year.

## 2. Timber Pricing

COFI continues to support market-based timber pricing if it promotes resolution of the trade dispute with the US. The resulting timber pricing regime must be equitable and transparent, recognize regional and sub-regional differences, provide a fair return to the Crown and leave industry in a globally competitive position.

## 3. Laws, Regulations and Policies

COFI encourages government to continue the review and development of laws, regulations and policies that encourage the forest sector to grow, reshape and rationalize in order to achieve demanding environmental standards and attract new entrants to the industry.



A domestic regulatory regime founded on outcomes can be efficiently achieved through professional reliance combined with government inspections and audits at a frequency dictated by demonstrated performance. This would be supplemented by an efficient hierarchy of third-party outcome-oriented certification systems that include regular audits and recertification requirements.

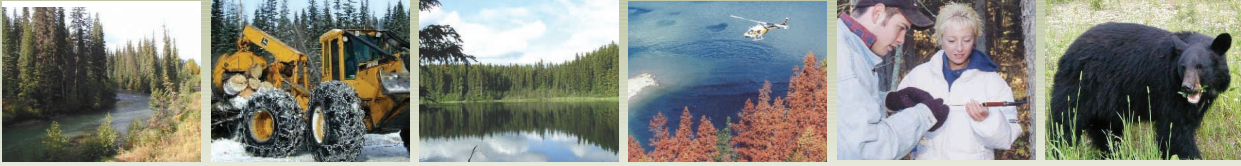
## 4. First Nations

COFI encourages government to continue to provide economic benefits to willing First Nations through accommodation agreements aimed at strengthening their role in the economic activity of the industry and province, bringing a measure of stability to forestry operations.

## 5. Market Access, Development & Promotion

COFI encourages government to continue to provide support for market access, market development and product promotion activities as we seek unfettered access for B.C. products in world markets. From a business and program continuity perspective, longer-term funding commitments will contribute to the effectiveness and efficiency of these successful programs.

The solid wood sector, in partnership with the federal and provincial governments, continues to seek access to new and existing off-shore markets for B.C. wood products. The COFI Market Access Group is actively carrying out projects to open markets in Japan, China, Korea and Taiwan. Recent discussions have resulted in the consolidation of the market access functions both in B.C. and Canada



under the flag of the “Canada Wood Export Program.” COFI will continue to play the dominant industry role in the international market access arena.

The SPF Promotional Program is an industry led program funded jointly by industry and the federal and provincial governments (B.C. and Alberta) to increase the market share for lumber products from the Interior of B.C. and Alberta in Japan and China. The participants include companies representing approximately 80% of the softwood lumber shipments from Western Canada.

### 6. Secondary Manufacturing

COFI encourages government to provide opportunities for secondary manufacturing. The future of the B.C. forest industry will in part, rely on the successes of the solid wood secondary manufacturing sector and our technology leadership.

The need to develop, diversify and add value to B.C. products and markets is crucial to long-term growth. Markets for secondary manufactured products are highly competitive and in many cases, innovative products rapidly evolve into maturity with modest margins. Success in these markets will require astute development, management of risk and supportive public policy.

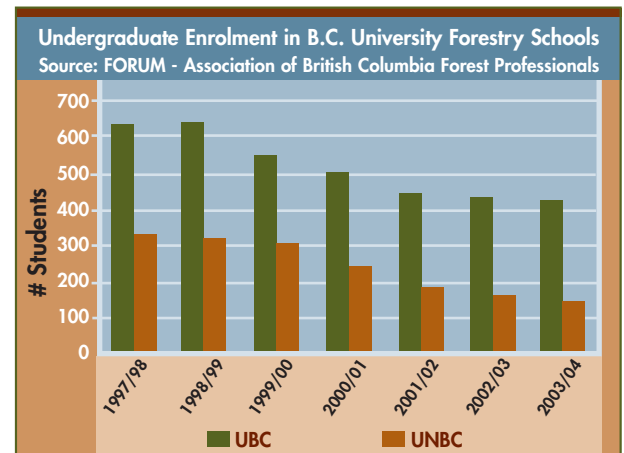
### 7. Research and Development

COFI encourages government to provide longer-term economically sustainable support for commercialization of research and development, including technology, processes and value-added products.

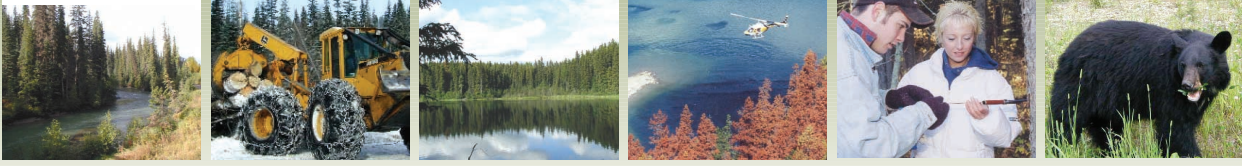
The forest sector can be described as a system of innovation, ranging from harvesting, resource management, primary and secondary manufacturing, and supporting service industries, to the manufacture of machinery, equipment and instruments. B.C.’s world renowned researchers are a key element that will contribute to the sector’s successes.

### 8. Education and Skills Development

COFI encourages government to provide support for industry-related education programs including integrated high technology.



The industry is justifiably concerned about the declining enrolment in B.C. university forestry schools and trade-related programs. While it is understandable from the perspective of current job opportunities in the industry following significant layoffs in both the public and private sectors, it does not reflect the longer-term demands resulting from restructuring and an aging workforce.



The decline in enrolment in these programs has been partially linked to an outdated image of the industry as low tech, cyclical and environmentally irresponsible, with unappealing workplaces. We encourage government to actively work with industry and educators to dispel this image.

Enrolment in high technology programs is also critical to the future of the forest sector. The forest industry and allied supporting industries are significant employers of high technology graduates.

**Converting vision into reality** Much needs to be accomplished to convert vision into reality. Armed with a shared vision and a supportive business climate the member companies of COFI will accelerate The Forestry Revitalization Plan to:

- Fund investment in facilities, jobs and communities
- Improve its environmental lead
- Accelerate the pace of new agreements with First Nations
- Increase the development and implementation of new technologies
- Develop new processes, new products and new markets
- Increase investment in people, skills and education

**References:**

1. Taking Stock: The Anatomy of B.C.'s Economy, November 2001, Vancouver Board of Trade
2. British Columbia Local Area Economic Dependencies - 2001
3. Data has been compiled based upon the studies "The Forest Industry in British Columbia 1992 to 2002" prepared annually by PricewaterhouseCoopers.
  - Additional employment is calculated on a linear basis derived from the actual number of employees per 1000 cubic metres harvested in each year - five-year average.
  - Additional contribution to government is calculated based on 25% of incremental sales from the industry.
  - Additional contribution to GDP is calculated based upon a five-year average GDP by Industry as published by B.C. Stats divided by the five-year average annual timber harvest.
4. "An Analysis of the Timber Situation in the United States: 1952 to 2050," USDA Forest Service, Resource Planning Act – Timber Assessment, February 2003.

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