AN INDUSTRY IN TRANSTION…

THERE IS NO GOING BACK!

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BC COUNCIL OF FOREST INDUSTRIES

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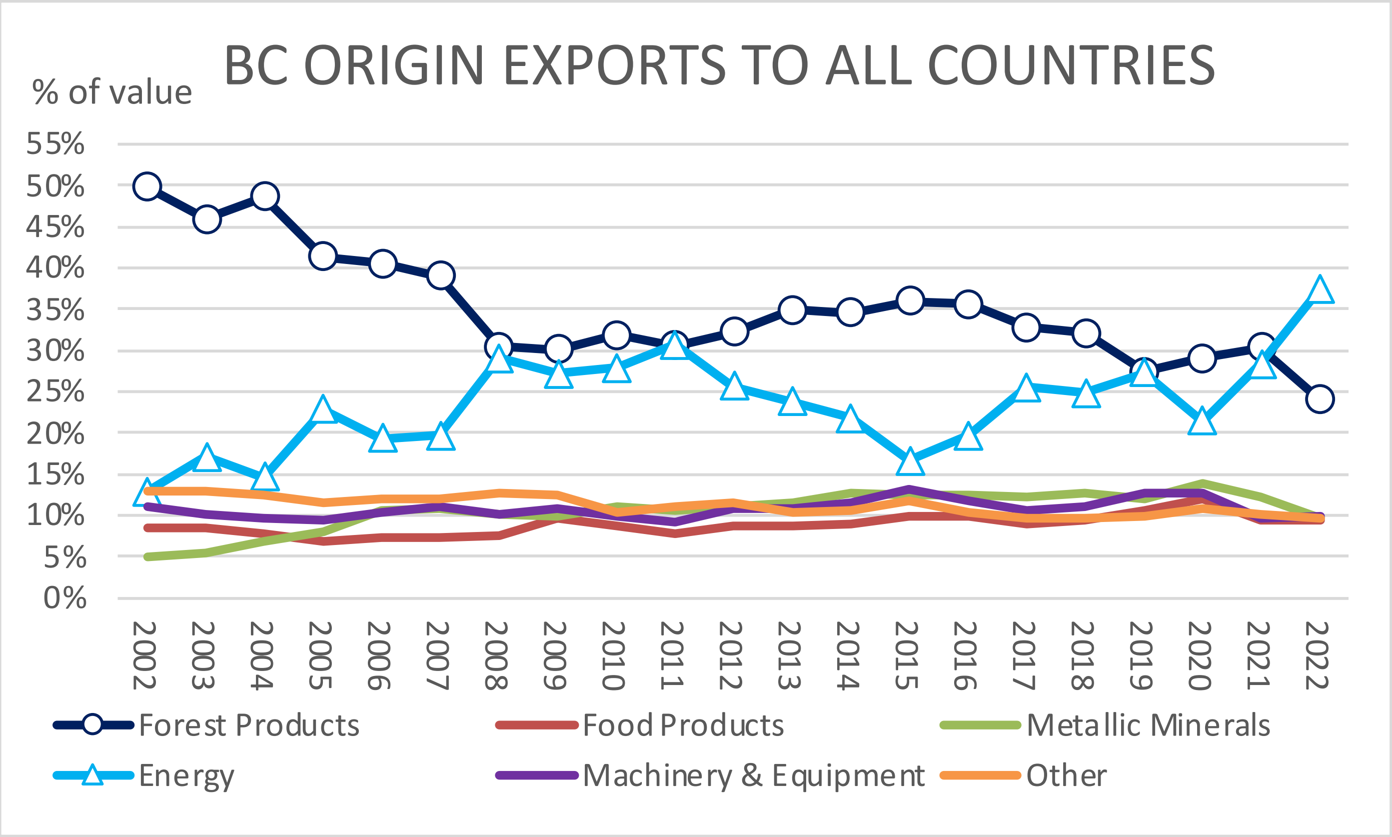
The following is a bullet point summary of a presentation that I gave at the BC Council of Forest Industries (COFI) conference in Prince George, BC on April 13, 2023…

INTRODUCTION

- There is a lot going in British Columbia's forest industry…
- Last January, upwards of 40% of the sawmilling capacity in the province was affected by some form of curtailment or permanent closure announcement which in turn affected a number of pulp and paper mills.
- Spar Tree Group Inc., a consulting firm and the newsletter, *View From The Stump* were created to provide an independent understanding of the issues affecting the BC forest industry's supply chain. I hope to share some of my perspectives with you today.

BC FOREST PRODUCTS HAVE BEEN #1

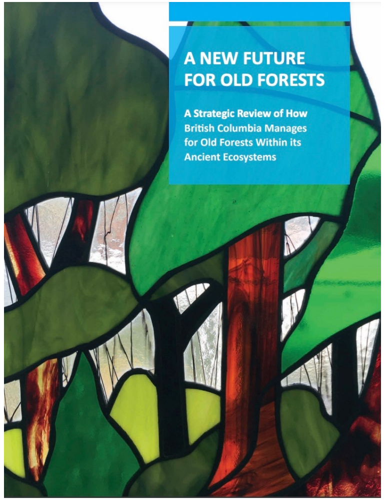


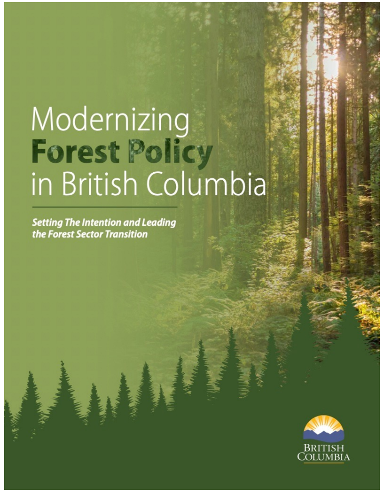
BC FOREST PRODUCTS HAVE BEEN #1

- In terms of the forest sector's relevance to the province, the value of forest products exported (lumber, pulp etc.) have dominated BC exports for decades. That status changed last year when the value of energy exports took over the top position.
- On a provincial or state jurisdictional basis, our province is the largest timber harvester and lumber producers in North America, if not the world.
- Three out of the five largest global lumber producers have their head offices in this province.
- What happens to BC's forest sector matters, both internationally and here at home.

BIOTIC, ABIOTIC & POLICY FACTORS

- Old story was Mountain Pine Beetle….
- New story is Wildfire, Spruce Beetle, Mountain Caribou +
- New forest policy…



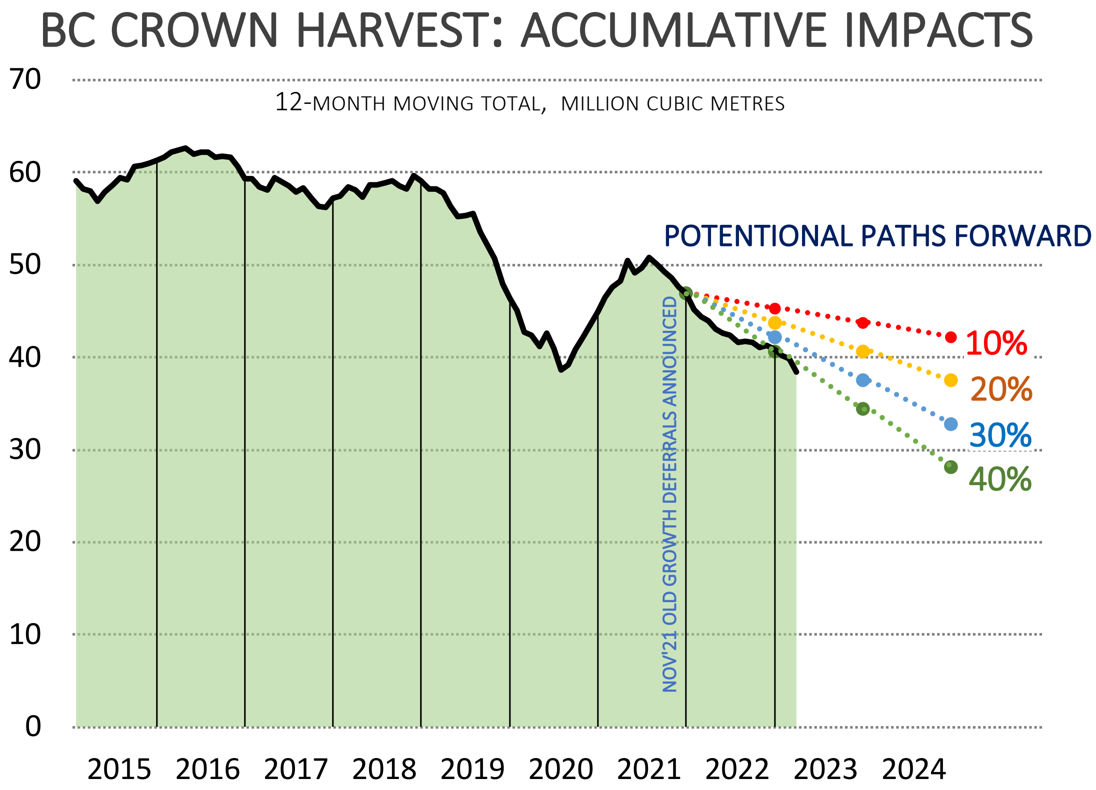


BIOTIC, ABIOTIC & POLICY FACTORS

- A decade or more ago, when talking about the BC forest sector, it would have been all about the mountain pine beetle. Some 731 million m^3 of 54% of the merchantable pine in the province was killed during the beetle epidemic that ran from the early 2000s to 2015. That amount of killed timber volume was the equivalent of 15 years of the average BC interior timber harvest. Several predictions on timber supply and sawmill closures were made, and unfortunately, they all proved to be correct. This was the old story on timber supply.

- Today, understanding timber supply has become much more complicated:
    - Still experiencing the lingering after-effect of the mountain pine beetle epidemic
    - Wildfires burnt three million ha since 2017, or the equivalent area of Vancouver Island
    - Spruce beetle outbreaks in the Prince George and Mackenzie areas killed spruce - the trees that were to be harvested following the mountain pine beetle epidemic.
    - Habitat conservation measures for mountain caribou, a threatened species under the Canada's *Species At Risk Act,* have reduced areas to harvest timber.
    - What appeared to be intended as an information gathering review on old growth forest management, the *Old Growth Strategic Review* has become core forest policy.
    - And, along with old growth recommendations, there is the *Modernizing Forest Policy in British Columbia* intentions paper with several initiatives to reshape BC's forest sector.

THE PATH WE'RE ON…

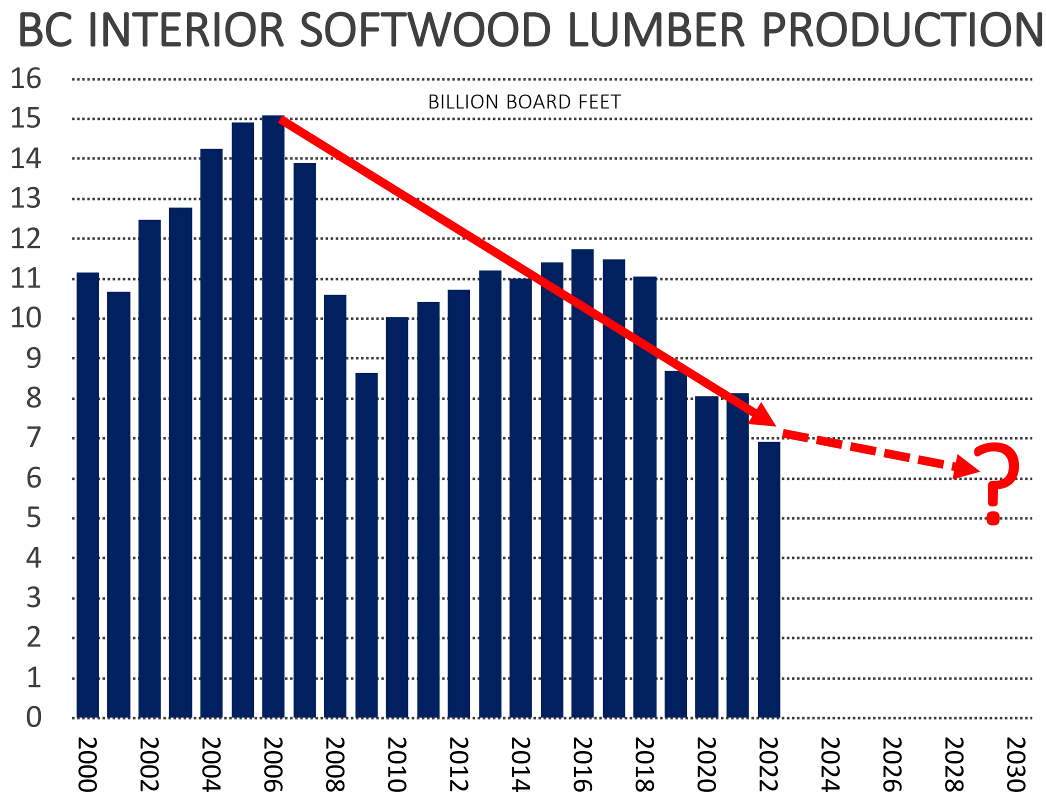


SOURCE: HARVEST BILLING SYSTEM, SPAR TREE GROUP

THE PATH WE'RE ON…

- The chart shows BC's Crown timber harvest has been declining due to the accumulative impacts of these aforementioned factors. The twelve-month moving total for the Crown harvest (coast +interior) was at 38.4 million m^3 for March. I anticipate the harvest to continue decreasing in 2023.
- The chart's coloured dash lines shows the potential paths in the relative change in harvest from the end of 2021 to the end of 2024. These lines are not forecasts, but the data shows that the harvest is currently tracking below (i.e., greater than) the 40% decline in timber harvest to the end of 2024 from the time the old growth deferrals started (at the end of 2021).
- We are not running out of trees in this province! Sawmills are curtailing due to the decreasing economically available supply of timber, which reflects the combined interaction of merchantable timber supply, market conditions (SPF 2x4 prices were at US$350/mbf, below cash costs) and costs (which have been increasing, even despite recent reductions in market-driven provincial stumpage).

REALITY CHECK: BC INTERIOR LUMBER PRODUCTION



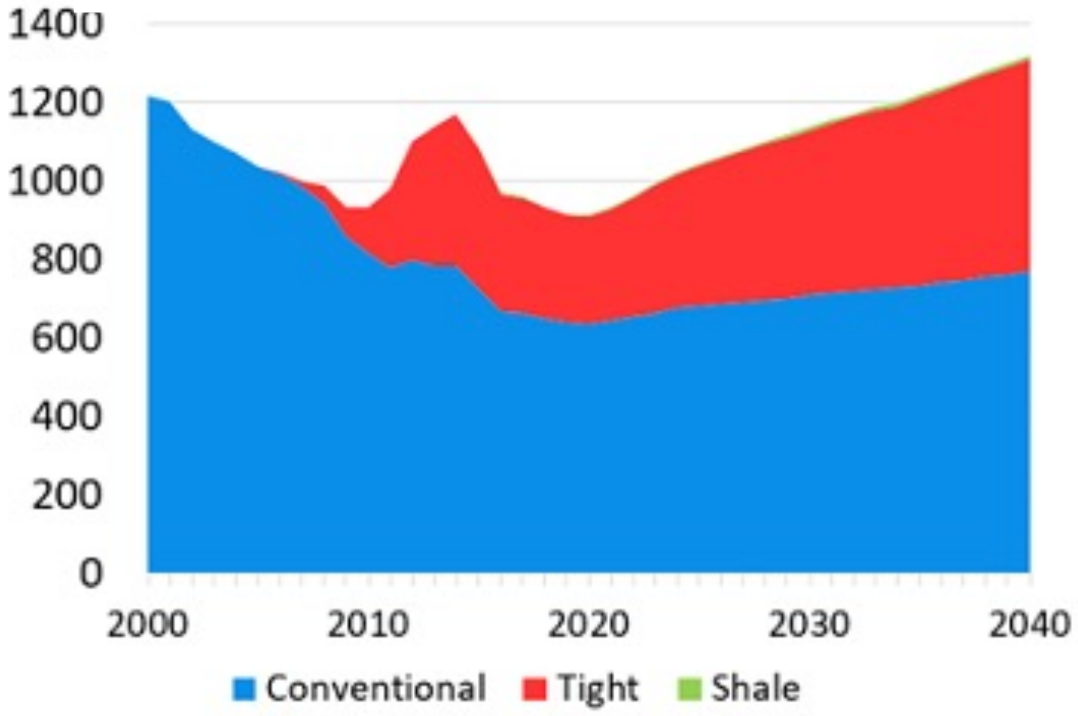
SOURCE: STATSCAN, SPAR TREE GROUP

REALITY CHECK: BC INTERIOR LUMBER PRODUCTION

- The reality check of accumulative impacts to the Crown timber harvest are reductions to lumber production. The timber harvest and lumber production have fallen below levels comparable to the severely negative market conditions of 2009 in the last recession.
- BC Interior softwood lumber production in 2022 declined by 15% and is likely to decrease by upwards of another 15% in 2023 to around six billion board feet, much of which will be from the Q1 2023 curtailments including Canfor's announced restructuring of its BC manufacturing assets (including the closures of the Chetwynd and Houston sawmills).
- How far will reductions in future lumber production go as the BC industry transitions? Clearly, there is no going back.

…A SIMILAR PATH – CAN WE CHANGE?

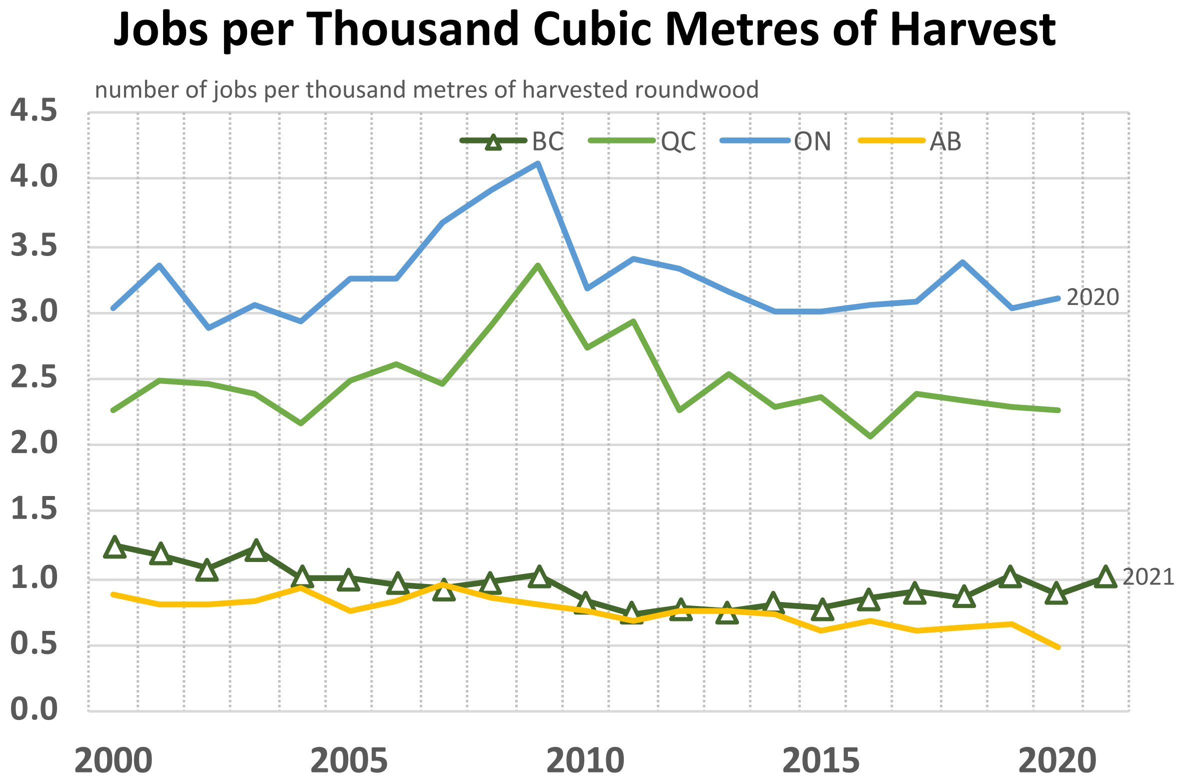
OIL PRODUCTION IN WESTERN CANADA
(by Class & Type (Mb/d))



…A SIMILAR PATH – CAN WE CHANGE?

- The question is, can we change our current path?
- Some twenty years ago, Western Canada's conventional oil production was experiencing decreasing production - a similar path to that of BC's timber production. Adoption of new technological advances made previously uneconomic oil stocks commercially viable. As such, oil production has changed it course to follow a growth path.
- What do we dare to dream about for the BC forest sector in order to change its path? Indigenous forestry? Ecological regenerative forestry? Silviculture investment? New value-added products and manufacturing innovation? New products from fibre we previously considered uneconomic?
- To bring about this change, the trick will be to figure out how to bring together industrial forestry with indigenous forestry and the increasing expectations of British Columbians for management of our resource.

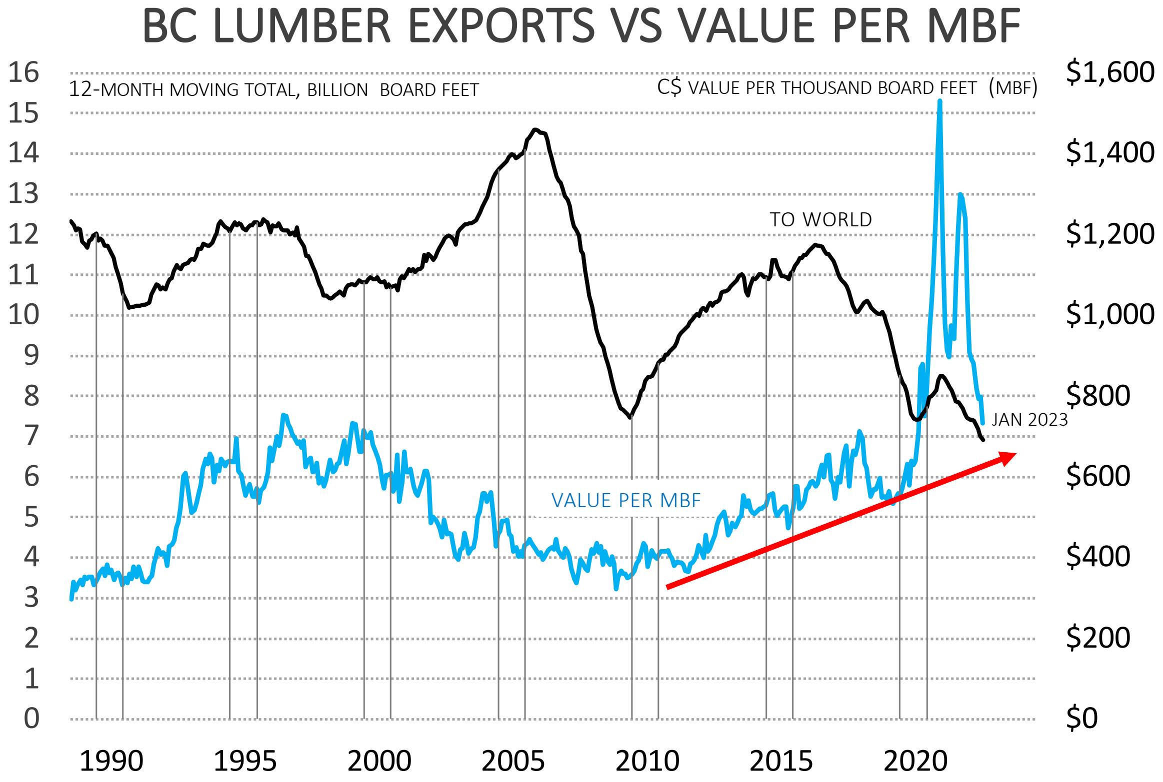
THE RIGHT METRIC FOR JOBS & COMMUNITIES?



THE RIGHT METRIC FOR JOBS & COMMUNITIES?

- The BC government recognizes there is a need to change and is communicating popularized expectations such as “we need more jobs from trees harvested.”
- It is known there is a desire for more manufacturing of the timber harvesting but as a metric, more jobs from trees harvested can be misleading as an indicator of positive change. In fact, lower jobs per thousand m^3 could also represent a more efficient manufacturing sector.
- The chart shows “direct” jobs per thousand m^3 of timber harvested. BC is near one job per thousand m^3 of harvested timber versus other provinces like Ontario or Quebec (or countries like Finland and Sweden), which have higher jobs. The problem is the differences between each region’s forest industry. Unfortunately, it’s all apples to oranges comparisons.
- Understanding the differences between provinces or countries is important. For BC to become like Quebec, Finland or Sweden, our sector would have to increase its number of pulp and paper mills or even begin to import fibre like these other regions do!
- What about log exports? Analysis shows even if all BC log exports were processed at domestic sawmills, the increase to the number of jobs per thousand m^3 harvested would hardly change the picture. (see *Jobs Come From Trees*, Sep 2023 Right From The Stump)

WHAT IS THE RIGHT METRIC FOR HIGHER VALUE?



SOURCE: BC STATS, SPAR TREE GROUP

WHAT IS THE RIGHT METRIC FOR HIGHER VALUE?

- Another example of a metric to convey an expectation is the BC government's desire to transition to higher value production.
- Likewise, this is misleading as the chart shows the export value of lumber on a unit basis (per thousand board feet) has been increasing since 2011.
- Even without changing its manufacturing processes over the last decade, as the chart shows, the upward trend in the value of lumber exported suggests the BC forest industry can already check the box on this initiative to higher value production (*tongue-in-cheek*).
- Putting aside being cute with the data, it does beg the serious question as to what does the BC government mean by higher value production?

STRATEGIC POLICY THEMES NEED TO BE COORDINATED

1. New forest management regime(s) with changing control of the resource…

2. Supply for value-added manufacturing…

3. Adaptability of provincial systems for valuing the forest and rights to use the forest resource with expanding market valuations and potential uses of the resource…

4. Forest sector jobs and revenues with image of the sector…

5. Investments in silviculture, product development, and manufacturing with predictability and security…

STRATEGIC POLICY THEMES NEED TO BE COORDINATED

- The vision paper, *Modernizing Forest Policy In British Columbia* offers many good intentions but it is like the recent movie that won the Best Picture Oscar, " *Everything, Everywhere, All At Once*" - there is lots going on.

- There are currently large gaps in understanding how several of the BC government's forest sector initiatives can be achieved. With such large gaps, the industry and its investors are left to figure out what does it all mean? Such large gaps increase unpredictability, dissuading investment in the sector, and making it difficult to move forward.

- Additional details to the examples listed:

    1. Imposition of old growth deferrals or even a framework on ecosystem health etc., may have undesirable economic impacts to First Nations, who are regaining control of their traditional territories and seeking economic reconciliation and self-determination.
    2. Mass Timber construction is promoted heavily by the BC government which has done an excellent job in driving demand. The *Mass Timber Action Plan* projects demand will rise by 2035 to the equivalent of 10 mid-size mass timber manufacturing facilities, but it is not clear where the supply (of fibre) will come from to meet this demand.

STRATEGIC POLICY THEMES NEED TO BE COORDINATED cont'd

2. Another example – value-added manufacturing (to maintain, let alone increase) requires access to high value tree species, like Red Cedar, yet its supply could be impacted by old growth deferrals.
3. With increased expectations on forest management, such as indigenous or community interests that require more management, does our current legislative framework for rights and valuing the timber resource offer enough adaptability? What about carbon offsets?
4. The BC government loves forest sector jobs and the $1.8 billion in stumpage revenues (2022/23), but the imagery of the sector has not been defended. The negative imagery allowed to proliferate is problematic on a number of fronts, including in the industry's ability to attract to new workers.
5. For the industry's transition to yield a future prosperous sector, investment will be needed but current conditions lack predictability largely due to current policy initiatives. Furthermore, there is no security to such investments, such as intensive silviculture with changing control of the resource.

BUILD CONFIDENCE WITH AN ECONOMIC STRATEGY

Economic strategy is needed to coordinate with social and ecological objectives…and would include:

1. Provincial vision based on regional strategies with partners

2. Informed strategies and tactics based on data

3. Meaningful metrics for tracking progress

4. Specific goals and outcomes

5. Realistic time frame for implementation… 2030(?)

BUILD CONFIDENCE WITH AN ECONOMIC STRATEGY

- Notwithstanding the influence of softwood lumber dispute between the US and Canada, one solution to help further current government policy priorities while creating stronger, more specific parameters needed by the forest industry would be to create a strategic plan or economic strategy.
- An economic strategy would be coordinated with social and ecological objectives and include the components as listed….
- A key piece of this strategy would be to formulate a long-term provincial vision for the sector based on regional economic strategies made in partnership with First Nations. The sector needs a data-driven economic plan that reflects regional strategies, specific goals and realistic timelines. It is critically important that appropriate metrics for change are used to help guide the changes that are occurring and need to occur, between now and say 2030.
- Such a plan could help position British Columbia as a leader in value-added manufacturing, indigenous forestry and conservation management etc. If the oil sector can change direction, surely, a “green” renewable resource like BC forestry can change as well!

VIEW FROM THE STUMP

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Thank you!

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