



EXECUTIVE SUMMARY

June 2007

B.C. Coast Strategic Options: Current Business, Future Opportunities and Outlook to the Year 2020

It doesn't take a crystal ball to know that the future of forestry on the coast of British Columbia has changed. It is no secret that B.C.'s forest industry has been undergoing unprecedented change since wood products production reached its peak in 1987, that it has undergone a major downsizing transition over the last 20 years. And it is not even a surprise that this change has literally impacted every aspect of the way we do business on the coast, change that will continue to impact us into the future.

But what does the future look like for the coastal forest industry? What kind of wood products will the coast be producing in the year 2020 and who will be buying them? These are the questions that Coast Forest Products Association, with funding from the provincial government, set out to answer in "*B.C. Coast Strategic Options: Current Business, Future Opportunities and Outlook to the Year 2020*".

It seems a crystal ball can come in handy as the industry looks to the future and strategically tries to reinvent itself. That's why Coast Forest hired the International Wood Markets Group to conduct some research and find out what opportunities lay ahead for the coastal forest industry, which wood products will be winners and which markets will provide opportunities for future growth. We also wanted to know how best to develop the competitive advantage that is needed to capitalize on these markets.

And here's what we learned. Some sectors of the coastal forest industry have been able to develop products and markets, and use mill configurations that provide a competitive advantage and profits. These sawmills and veneer mills have been able to exploit the coast region's unique timber qualities and specific log species and sorts, and have been successful in introducing new manufacturing technologies that help to reduce production costs.

In future, the best prospects are:

- High volume cedar sawmills, targeting specialty and some semi-commodity products
- Custom cut or specialty sawmills, targeting specialty products and niche markets with all the major species and niche species
- Veneer mills which offer a growth sector for Douglas fir and possible opportunities for hemlock-balsam if it can be used in greater volumes in the future
- High volume sawmills processing small diameter and second-growth hemlock and Douglas fir logs, making a new small log industry with low costs a logical fit for commodity markets

Currently, the most profitable operations manufacture western red cedar, Douglas fir and other unique species. One of the study's conclusions is that the old-growth harvest consumed in the specialty sector, including western red cedar, should be given full industry and government support. It is the only sector on the coast that consistently generates enough value from log sales to make harvesting profitable even at current high coastal logging costs. Specific policy measures, designed to support this sector, should be

developed to ensure that a steady supply is maintained at affordable levels to support a stable cedar processing industry into the future.

A significant amount of the increasing second-growth forests is hemlock-balsam, which makes up 60% of the coastal timber supply. Along with finding solutions for the higher costs associated with manufacturing products from this species, the study points out that a better understanding of the harvesting costs of the new second-growth forest and the age class/harvest options needs to be developed and explored to provide a better understanding of where the products produced from these forests could fit in the global market place.

And what about the future of engineered wood products on the coast? Amongst the products rated, Laminated Veneer Lumber ranked highest, providing a possibility for new or potential business opportunities.

The good news is that B.C.'s coast is not really limited by any market, or product restrictions, or limitations. The key to the coast's competitiveness in these markets lies in cost reduction in delivered log costs and processing or in determining ways to define an economic timber base.

Progress has certainly been made, but more important work lies ahead. The recommended next steps in this project are to:

1. Integrate this research into the Ministry of Forests and Range's parallel work underway to identify the economic timber supply on the coast
2. Update this report with current and accurate cost data, inclusive of June 2007
3. Perform additional market research and research into new processing technologies to allow for improved information on the utilization of hemlock-balsam fibre qualities in both old-growth and second-growth timber
4. Adopt technical research options to better evaluate hemlock-balsam wood qualities on the stump or before delivery to the mill to increase economic knowledge of harvesting and processing this species

The coastal forest industry has adapted and will continue to adapt into the future. But as we have learned, the future is now. And we're ready.