BUILDING A DIVERSITIED AND COMPETITIVE WOOD MANUFACTURING SECTOR

Challenges[1]

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Overall Goal: *Create a sustainable wood manufacturing sector contributing to resilient communities[2] using the principle of balancing environmental, economic and social values.*

Achieving the goal as part of the "new forest sector" will require Government to:

- Utilize long-term stable legislation, regulations, policies and incentives, but not subsidies, to address priority challenges, that support profitable wood manufacturing businesses returning a profit over and above the cost of capital and the assessment of risk and
- Maintain a transparent, consistent and clear commitment to the industry, investors and communities regarding movement toward the new wood manufacturing sector.

Challenges

Transitioning to a new BC wood manufacturing sector will not be easy or quick! Activists and Governments are quick to say what is desired with little thought to overcoming the many difficult and time-consuming hurdles. It will require Government, industry and communities to work together in addressing the various challenges they will confront on the way to a new sustainable wood manufacturing sector.

We currently have legislation, policies and regulations etc. that were put in place in the 1960's and then continually tweaked, adjusted and re-worked ending up with what we have today. This will continue unless we embark on a different model. Currently we have an industry ill-equipped to deal with the converging of climate change impacts (e.g., the Mountain Pine Beetle epidemic and other forest health impacts along with wildfires), trade protectionism, a transparent global economy and new technology.

[1] The comments in this paper are a compilation of my experiences/analyses and comments from innovative and knowledgeable, but not aligned people, with practical and/or academic experience in the various aspects of the wood manufacturing industry and Government policy.

[2] Communities in this paper include Aboriginal and Non-Aboriginal communities.

It is common for Governments to set a goal of increasing value-added manufacturing. This has been stated for several decades while BC remains a primary[3] wood product producer. Why is this? In my view, decision-makers are either not aware of the challenges or do not have the long-term commitment to achieve the goal. Without a focus on these fundamentals, the results will be rhetorical statements resulting in major impacts to communities and the Provincial economy. **It should be recognized that markets and investment will be the ultimate arbitrator in developing the composition of the new manufacturing sector, not Government.** Companies and investors are driven by returning a profit over and above their cost of capital and their assessment of risk. Government, in working toward a new wood manufacturing model, must consider this fundamental factor and provide a supportive legislative, regulatory and policy environment to be consistent with current and future markets and a desirable investment climate. Failure to do this will result in a continuous erosion of the BC forest sector.

Historically, Government has used a broad consultation model to provide guidance in making changes to the forest sector or dealing with challenges. This may be good politics but has not been very successful. Although the model has involved committed people, the process commonly generated positional discussions/negotiations with each component of the sector arguing for what they need and not directed to the collective. Unless this process is changed, marginal success, if any, will be achieved. Moving to a new wood manufacturing sector requires collaboration, innovation and focus on a common goal.

In spite of the political enthusiasm for a new forest sector, there are economists and financial planners with considerable experience in the forest sector who believe it will be very difficult to change the composition of the sector due to the high capital and international market dependence and geographical location. These constraints also affect the necessary profitability of new entrants. In addition, it is the view of some of these knowledgeable people that unless major changes to the industry infrastructure occur (e.g., convert all tenures to market loggers with log sort yards or investments of hundreds of millions of dollars converting pulp mills to bio-refineries, etc.) we will perpetuate a mode of tweaking the system resulting in a continuous erosion of the BC forest sector.

Embarking on the major changes as suggested by these knowledgeable people would be very disruptive to the industry and communities. However, there is merit in using the principles as a long-term strategy within the current model. This would have to involve significant change in the system, not just tweaking. It will require using both a process model that has a greater chance of success than those used in the last four (4) decades and a strategic focus that considers the current challenges confronted by Government and the industry.

[3] Definitions: Primary manufacturer converts logs to commodity type products (e.g., lumber, plywood, OSB). A Secondary manufacturer produces products that move up the value stream (e.g. Pressure treated lumber or decorative plywood), or a manufacturer who produces a product using the commodity product (e.g. LVL, CLT etc.) or a manufacturer who acquires logs to produces a product up the value stream from the primary product.

The following challenges include a series of barriers to achieving the overall goal and a diversified new wood manufacturing sector for BC. The proposed new model is intended to develop recommended actions that provide Government with advice on movement toward the new forest sector. Instead of a broad, positional-based consultation model, it would require involvement of a series of small groups of experienced, committed and innovative people familiar with each specific barrier and mandated to develop actions required to remove the obstacle as part of achieving the overall goal. Government and staff involvement in the process would be as a resource providing input regarding how proposed recommendations would fit within the regulatory system not as a participant.

It is recognized that actions have been taken on some of the priority challenges but without a more assertive strategic focus on overcoming them, the new vision for the manufacturing sector will not be achieved. In each challenge identified below, a strategic action plan needs to be developed to provide a focus on the actions required to overcome the barrier(s). It is recognized compromises will be required to achieve a balance. A method of removing a barrier may not be suitable for all geographical areas within BC. Consequently, the approach to barrier removal must be flexible.

1) Challenge: Creating a positive, healthy and sustainable forest sector investment climate.
   a) **Strategic Action:** Provide a clear and transparent direction by Government by:
      i) Creating an official decision-making vision for the wood manufacturing sector that is structured to be consistent with a predicted baseline of the current and future competitive nature of the global forest industry, including cost, substitution, products, etc.
      ii) Adopting a Government long-term strategic action plan to move the current wood manufacturing sector to the desired vision, including identifying the actions needed to solve the challenges and remove the barriers to achieving the vision.
      iii) Establishing business-based legislation, regulations and policies that are clear, transparent and absent of political ideological bias to assist investors and decision-makers in moving toward the vision.
      iv) Providing investors with assurance of a long-term commitment to the legislation, regulation and policies that will provide confidence in making investment decisions.
   b) **Strategic Action:** Provide a fibre accessibility system that supports the manufacturing sector vision by Government:
      i) Creating log sorting and distribution systems that provide access to logs suitable to specific manufacturing conversion facilities with equipment to make a higher value product than commodity products.
      ii) Creating the desired open log market where logs can go to the highest bidder, recognizing this may have to be developed over time.
      iii) Creating a system that is profit driven but not to the extent that it jeopardizes an overall objective of total fibre utilization.
      iv) Providing confidence in support of investments and balance between the needs of the desired vision of the primary and secondary wood manufacturing sectors.

v) Creating a positive business climate between BC primary product manufacturers and secondary manufacturers that encourages the former to sell product to the latter for the purpose of adding value to meet market demands.
vi) Creating a forest management system that supports long-term stewardship to provide sustainable or increased fibre production for the manufacturing sectors.

2) Challenge: Transition the manufacturing sectors' cultures to support the new forest sector vision.

a) **Strategic Action**: Work with decision-makers to recognize the primary sector culture as a fundamental building block in developing the transition to a new forest sector by Government:
   i) Encouraging primary wood producers to either include value-added products as part of their internal business model or make available logs or lumber that support the independent secondary wood manufacturing businesses.
   ii) Encouraging companies to change the focus of rewarding primary product producing company CEOs and mill managers from one that focuses on primary product manufacturing to one that includes contribution(s) to value-added products.
   iii) Encouraging the building of collaborative and Business to Business partnership arrangements between primary and secondary manufacturing companies to increase production of secondary wood manufacturing products.
   iv) Rewarding primary wood product companies who have a passion for value-added products reflected in investing in secondary wood manufacturing.
   v) Celebrating successes.

b) **Strategic Action:** Work with decision-makers to recognize the secondary wood manufacturing sector culture as a fundamental building block in developing the transition to a new forest sector by Government:
   i) Encouraging the secondary wood manufacturing sector to increase focus on value-added (e.g., engineered wood) products that utilize commodity lumber.
   ii) Creating the necessary investment climate for existing secondary wood manufacturers to expand their businesses and for new entrants to join the sector without transferring profitability from the primary wood producers to the secondary wood producers.
   iii) Celebrating successes.

3) Challenge: Building a bio-products industry

a) **Strategic Action:** Create a profitable and sustainable residue utilization system to support a bio-products industry by Government:
   i) Enhancing current programs and regulations to make access to residual fibre economically sustainable for bio-product manufacturers.
   ii) Providing an investment climate that encourages bio-product companies to enter the new forest sector.
   iii) Supporting a residue collection and utilization system to provide an economic climate for a sustainable bio-products sector.

4) Challenge: Identify markets for BC wood

a) **Strategic Action:** Continue to identify markets for BC wood products by Government and/or industry assertively:

i) Enhancing existing programs, including increased funding, to focus equally on primary and secondary based engineered wood products.

ii) Identifying markets that will use large quantities of primary wood products to generate value-added products while benefiting from unique BC wood properties.

iii) Identifying domestic and international markets that desire value-added products that capitalize on the unique properties of BC wood species and provide a competitive advantage for BC companies.

iv) Establishing a program that maintains up-to-date knowledge from developers, builders, distributors, Pro-dealers, architects, engineers, software companies etc. related to developing markets for existing and new innovative wood products consistent with niche markets that position BC with a competitive advantage.

v) Maintaining a collaborative world leading wood products research and development program.

Conclusion

Although the four (4) challenges noted above are not trivial, they can be overcome with long-term strategic commitments by the Government, industry and communities to work collaboratively and innovatively in delivering a vision for the new wood manufacturing sector using a long-term strategic action plan.

To be successful, it will require:

- Politicians thinking strategically beyond a one-term election period or political ideology,
- Politicians adopting a business environment that addresses the needs of investors, profitability of companies and acknowledging current and future markets,
- Companies committing support for a secondary wood manufacturing sector, and
- Communities being realistic and supporting local investments in secondary wood manufacturing.

All the parties need to recognize BC is embarking on a journey, not an event!