Minutes

CSA Community Advisory Group

To Western Forest Products
January 9, 2013
Western Forest Products Boardroom

Attendance: refer to attached sheet

6:00 pm: Meeting called to order
Quorum noted

Safety Review
Facilitator noted fire exits and first aid attendants in case of emergency. Meeting place in case of emergency was noted.

Code of Conduct
Code of Conduct for Community Advisory Group was reviewed.

Welcome and Introductions
Group introduced themselves to Rick Jeffery.

Review and Acceptance of Agenda
Agenda was accepted

Correspondence
Copies of recent correspondence was provided and reviewed

- Letters to PRPAWS
- Emails to FNs
- Thank you to Nancy and Alex Hollmann

Review and Acceptance of Minutes
Minutes reviewed and accepted by email prior to meeting.

Additions to Agenda
Ken Mackenzie extended invitation for a couple of CAG members to attend the WFP safety meeting. One member was able to accept.

Jane Cameron was invited to be a member of the CSA Sustainable Forest Management Technical Committee. It is a group of 30 people from across Canada. Seven people are from BC. This is the group that writes the standard. She will be representing environment and general interest on the committee.

Operational Information Map Review
Company Update
WFP is in the process of amending their FSP to add Tsain-Ko Forestry Development Corp. as a party to the FSP. This company is associated with the Sechelt Indian band and will be harvesting an 18,000 cubic metre one time harvest they were given during the take back over 10 years ago.

Current Activities

Harvesting

LL-017, LL-026, LL-029, ST-024 (snow), ST-038 (snow), ST-235, ST-255 (snow), UL-815 (snow), WL-950 (snow)

Road Construction

BT-664, FH-035, ST-327, ST-329, TM-186, UL-827 (snow), UL-890 (snow), WL-345

Engineering

GI-117, UL-919

What's New on the Map

New Blocks

None

New Roads

None

Cutting Permit Approved Areas

ST-235, ST-272

There are no new blocks or roads planned along the Sunshine Coast Trail in January.

Logging Complete

UL-812

Road Construction Complete

UL-807

Engineered Blocks

FH-035, ST-329, WL-914, UL-820

Engineered Roads

FH-035, ST-329, WL-914, UL-820

Guest Speaker – Rick Jeffery, President and CEO, Coast Forest Products Association

The Coast Forest Products Association is the association for the forest industry on the coast of BC. Their primary responsibility is to work with their 20 members. Western Forest Products is a member. Most of the big forest companies including pulp and paper companies are members. They do not represent the contractors as they are represented by the truck loggers association, which Rick used to be the president of. As the trade association for their members, the Coast Forest Products Association has two main areas of interest. One is on the public policy front. They are the industry lobby group. They look after regulatory issues and government relation issues. The other mandate of the Association is to look after marketing opportunities offshore. They coordinate amongst their members to develop markets and ensure access to offshore markets like Japan, China, Korea and the UK. The organization relies on its members to assist in delivering services to their membership by providing their expertise.

The members help identify what issues are important, why they are important, and find out what the solution steps are to deal with the issues.

Rick was asked to talk about the challenges and opportunities that the forest industry on the coast is facing. The immediate challenge is the provincial election which is taking place in three months. This creates what Rick refers to as 'silly season'. He has experienced six elections during his career and the lead up is always the same. The government in advance of the election is looking for all kinds of opportunities to point out how great they are. The opposition parties spend a lot of time trying to find cracks in what they are saying or pointing out alternative views. This creates a lot of activity at the political level that translates into the senior bureaucracy trying to deliver things for the government. They are in the middle of this period now. The Truck Loggers convention is on January 17 – 19 and it is tradition that the Premier show up and make announcements. The Association is now working with the government to see what announcements they can make. On the other side, the bureaucracy is looking at the things they don't agree with or don't want to do and they consider that the other side may not want these things done, so they slow things down. So, the day to day activities in terms of policies that the Association is working on become more difficult to work on. They end up trying to speed these things up and slow other things down.

The next item Rick covered was markets. He spoke of how many of us have probably heard that the forest industry is going into a period of great prosperity called a 'super cycle'. Rick doesn't believe that this extreme state is likely to happen, but he does say that lumber prices are on the rise world wide.

US housing starts are now in a steady state and there should run about 1.5 million starts. Since the 2006 sub-prime mortgage meltdown and the 2008 recession housing starts in the US have been running in the 500,000 per year range. They have been steadily creeping up over the last couple of years and projections are they will make it to 800,000 this year. Projections are for them to go to 1 million and keep climbing. Rick says they are not sure what the sustainability of this recovery is. They do know that household formation in the US, which is a precursor to home purchases, has been frustrated and stagnated for the past five years. Kids have been staying at home longer, not getting married and starting new households, so there is pent up demand which should translate into housing starts. The reason that we did not come out of the depressed housing market very quickly is because there was a large surplus of new and used homes on the market that were badly impaired because the value of the homes was less than the financing on them. Those numbers are starting to drop off significantly and housing prices are starting to rebound, so investing in a home is now seen as an investment not a liability. The US economy is doing a little better so there is higher consumer confidence. All of these things are pointing to continued growth in the US housing market. As the US housing market goes, so does the price of lumber. Across the world, US lumber prices are essentially the benchmark. So they see good signs in the US and they hope this recovery is sustainable. The anomaly on the coast is that they don't actually make much dimension lumber and very little coastal dimension lumber sells into the States. There are two reasons for this. One is that the coast has a preponderance of hemlock which is not the preferred building material by home builders in the States. They like SPF, yellow pine, and Douglas fir. Hemlock is a little more difficult to work with. The second reason is that the coast is a very high cost producer. The coast needs to throw $500 per 1000 board feet into the sales realization to pay for logging, wages, and all of the other things that drive the cost structure and dimension lumber doesn't return $500 per 1000. Although it is a component of the group's sales and product portfolio, it is not the primary driver. They will not be big players in the US dimension market, however as the US housing recovery comes up there will be an impact on the Coast's sales realization. In summary, the States economy is improving, it may be sustainable, prices and volumes are rising, housing starts are up. Even more importantly, not only is the housing market improving, the commercial and non-residential markets are also rising. The US is the coast's biggest cedar market and the increase in renovations,

repairs, and new homes is good for cedar sales. The difficulty is cedar supply as the coast doesn't have a lot of cedar trees. As US prices come up so will prices all around the world.
The second biggest market for the coast is Japan. On the coast Japan is important for two reasons. The first reason is that it is our biggest hemlock market. They primarily focus on the post and beam housing market in Japan. The average price for the coastal products in Japan is $700. The composite was $380 today in the States, cedar products in the States run around $1200/1000 average. $700 in Japan is a good price. With the collapse of the US housing markets the mills in the US Pacific Northwest have been down. The land owners who own the trees have been exporting their Douglas fir logs into Japan. Hemlock competes against Douglas fir in Japan, Japanese people prefer Douglas fir over hemlock, so this makes selling hemlock into Japan very difficult. Another upside of the US recovery is that the raw Douglas fir logs are being processed at home now. This creates an opportunity for the BC coast to sell hemlock. Japan is getting a new consumption tax to deal with their economic issues. It has affected home building because the tax applies to new homes much like our HST. There has been a bump in consumption prior to the tax coming in and when the tax is in place and increases over time it is likely the positive housing starts will plateau and fall off. There is an opportunity to take advantage of the demand caused by this imminent tax.
China is the place where we send product that we cannot sell in the US or Japan. It is tough to make money there. You can't get $500/1000 in China. Because they are voracious customers it has created supply shortages and raised prices. Through 2012 a couple of things affected the Chinese market. First of all, they are very export dependent and they are trying to shift their economy to be more domestically driven. To accomplish this they are moving Chinese people out of the countryside and into the cities to the tune of 50 million people per year for the next 30 years. This drives 8 million housing starts per year. 3% of the wood that the coast sends to China gets used in wood frame construction and the rest is used in concrete forming, scaffold construction, or manufactured into other products. They are using mostly low grade wood. Because China is still very export dependent their economy has slowed down with the rest of the world economies. In addition, house prices have escalated dramatically due to real estate speculation. The government has introduced a number of financial reforms all aimed at curbing speculation on the housing market to try and drive the price of housing down so that the 50 million people migrating to the cities each year can afford housing. This put the breaks on market housing and then the government filled the gap with social housing. Housing starts did fall which affected the wood market. They are now seeing a reversal of that trend and 2013 should be a better year in China and for the BC coast timber markets.
The market in Europe is badly impaired by the European Union's woes. The really high end markets in places like Belgium and Italy are really tough right now. They've lost their presence in Australia and once you have lost your presence it is hard to get your market share back. That concludes the solid wood side. It is all positive, 2013 -14 should be relatively good.
China has become a very instrumental player in the pulp and paper world because they are the marginal buyer. They are interesting because they are sharp traders. On the pulp side the Chinese buy and build inventories and push the prices up. A year and a half ago the price of pulp went to $1000 per tones then they stopped buying because the price was now too high and they had filled to capacity. Almost over night the price of pulp dove from $1000 to $600. Over the last year and a half the stockpile decreases and they start buying and now the prices are starting to come back up. With the economic recovery in the States, the demand for paper is increasing. The bane of the coastal pulp and paper industry is that it is way to heavily weighted to newsprint and directory paper. They have to change their product mix. The trend is in the right direction and everyone is hoping that the US recovery is sustained and that Japan and China continue to improve.

The one big complex challenge on the coast is that they are under capitalized. They have an industry that is facing tremendous change in the marketplace and on the land base. Profitability has been very illusive and without profitability it is hard to invest in the business. At this point in time the industry is under capitalized; they need to attract capital and investment. They need to figure out what to do on the market side and on the product side to make themselves profitable to attract investment so they can make the changes for the new markets. In this respect, Western Forest Products has been a star. They have a $200 million dollar reinvestment plan, they have already employed about $60 million of that and turned the company around and have had around 9 quarters of positive EBITDA. At the centre of the supply chain of this industry are the sawmills. As the sawmills go, so does the rest of the industry. Rick tends to focus on sawmills as the acid test for the industry. The BC coast forest industry is not like most other forest jurisdictions in the world. They tend to be cost based. The interior industry is all about getting very low cost logs to a dimension mill. They don't even sort the spruce, pine and fir, they just plow it in front of the mill, shoot it through the mill as fast as they can and get the per unit cost down as low as they can. We don't have that option on the coast because we have very high costs. The coast is a margin player. The margin comes from two components; one is revenue and the other is costs. Every day their job is to look for ways to increase the value of their product and look for ways to reduce their costs. The $500 that Rick spoke of earlier is the break even point and any money after that becomes profit. On the revenue side the opportunities are that they have old growth fibre and the hemlock products they have tended to be very high value products. They have a constant focus on the revenue side around markets and products. They are engaged with government on multiple levels. They are researching and developing new products and developing new markets. India is a possible new market They are a hardwood market. The primary species of wood they use are teak and meranti which are generally from old growth forests. They don't like the second growth teak from Costa Rica because it doesn't have the same characteristics as the old growth. The old growth supplies are rapidly diminishing due to logging plus there is great pressure to preserve the remaining forests. They use the teak and meranti for furniture, doors, door jambs, shutters, and interior decorations. They do not and never will build homes out of wood. There is no chance that they will ever change due to climate and culture. In China, there is a good possibility for growth and there are many niches in the market where wood frame construction will work. They are spending the time and effort to convince and teach the Chinese how to use wood where appropriate because the 3% of coastal wood used for home construction could be increased to 15 or 20%. If this were to happen, the market would be bigger than the States or Japan. This opportunity does not exist in India. They will not build with wood there. There is lots of opportunity for red cedar, Douglas fir and hemlock in the Indian furniture and interiors markets and the metric sizing used on the coast is also used in India. The impediment is that coastal products are softwoods which they don't know anything about. These woods are susceptible to rot and termites. The Association is doing research on how to get around these issues so that they can go into the Indian market with products that would meet the customer's needs.

Other markets with opportunities include non-residential buildings in North America. These would include institutions and commercial buildings. They are working with architects, municipal officials, fire officials and other such individuals trying to demonstrate how wood can fit into that non-residential market. They are also focusing in on the mid-rise market. Two years ago BC adopted a 6 floor building code. That was partly because the industry convinced the government that these buildings could be built well and safely out of wood. This enables them to show BC examples to the China market as 65% to 75% of China's housing market is 6 floor walk-ups. They are also using cross laminated timber to build tall buildings up to 20 floors high. There is one recently built at UBC.

They have had a lot of success recently with sound abatement fencing along highways. Concrete has traditionally been used for this purpose, but they have now created a hybrid system that uses the

concrete sills and posts in those systems and filling it with a panel made of 4x4s that don't make the Japanese grade. It is half as expensive as concrete, it is GHG friendly, it lasts just as long, and it has better sound abatement qualities. This is a $360 million dollar per year market in the western United States and the coast is trying to get their share of it. The technical preparations have taken place, and they have convinced the provincial government to build some sound abatement fencing along the South Fraser perimeter road and other places to demonstrate the product to the rest of the world.
Another product they have developed is a comb decking. This decking sheds water better and lasts longer.
Yet another new product is oil field matting used instead of building roads. There are hemlock highways built with 2x8s crisscrossing across Alberta and the Northwest Territories. It is a very lucrative market. WFP is very involved in this industry. These are the diversified markets that we are getting into. It is all being done with the existing infrastructure. When you look to the future the dilemma over capitalization occurs. The projects spoken of tonight are using traditional products. Capital investment will be required to move into new products. To raise capital you need to make a business case. Over the next 20 years the industry will continue to transform from old growth to second growth. Not only will the products be changing, but the material fed into the mills will be changing. Money, innovation and market development will be needed to accomplish these changes. The research and development resources that existed when MacMillan Bloedel was creating Parallam and I-Joists are no longer available. The Association has partnerships with the government in research and development. They combine their own investment money with money from federal government programs and money from the provincial Forest Innovations Investment Bureau. Part of Rick's lobbying job is to make sure the government continues to put money aside for market development and research and development. They are working on a project that makes soft woods act like hardwoods so that they can market BC coastal wood in the potentially massive Indian market.
Another serious issue on the coast is fibre supply. There is a declining AAC. This effects the Associations ability to make the case for investing money in a saw or pulp mill, or in new technology, or a new market. There is concern regarding the future of lands affected by treaty settlements. The Association is encouraging the government to transfer tenure with the land so that the fibre on the land will continue to be available and stumpage would be paid to First Nations instead of the provincial government. This would create more stability of fibre supply and make it easier to attract capital for investment.
There are two kinds of costs. There are woodlands costs and manufacturing costs. There has been really good progress in reducing manufacturing costs over the last 5 years with dedicated, focused, applied research. The best conversion costs of the coast are about $40/m3. This is still really high compared to the interior which is about $25. In China the conversion cost is about $13/m3. This is due to a number of factors; wages, employment standards, environmental standards, property taxes, corporate taxes, property values and government subsidies. When you enter a Chinese or Indian sawmill there is not a piece of safety equipment in sight. Nobody has hard hats, high-vis vests, or steel toed boots. They are just running wood through a band saw and throwing it on a pile by hand. On top of that, the Chinese will pay more for a Chinese product than for a Western product, so they get a premium. This leaves a $30/m3 difference. The BC coast sawmills could probably bring their costs down a bit, but that involves capital investment essentially replacing people with capital and decreasing jobs.
You see a large volume of gang logs being shipped to China because of the $30 difference in conversion cost and the differential between shipping logs and lumber is zero. The Chinese can afford to pay $30 more, so for maximization of sales realization they need to sell logs and so they should. They should sell a full range of forest products from salal, mushrooms, lumber, logs, pulp and paper, nanocellulose

and tourism. There is a full range of products in our forests and we should maximize the economic return. The system we have now isn't perfect, but it is attempting to take advantage of all forests assets. There is a little room for improvement on the sawmill side of costs. On the logging side there is no $10 magic bullet out there. There are savings of 5 cents here or 10 cents there that could be realized. The average logging cost on the coast is $65/m3 if you add heli logging and hoe chucking. It would be very difficult to bring the average cost down to $55. On the log handling side there could be some serious cost savings available with mechanization and technical applications. They are working on trying to find some cost saving in scaling. They are looking at scanner scalers, weigh scales on trucks, and any way to reduce how often the wood is handled. There is a bureaucracy in the government that is charged with anything to do with weights and measures. Dealing with them is really slow and painful. The provincial government is concerned that logs could go missing if there was a change in the method of measurement and they lose some revenue. Others are concerned about the loss of employment. So, there is resistance to change.
The regulatory environment is very complex and takes a lot of Rick and the Associations time. British Columbia's history, forest culture, and social license that they need to achieve in order to operate in the forests gives BC the most complex regulatory system anywhere in the world. BC's forest practices are unmatched, but there is a cost in achieving that goal. It is expensive and time consuming. They are always trying to streamline and make smarter regulations. Rick said that the conservative government has been getting hammered by changes to the fisheries and waters act. It is said that they are gutting these environmental protections in order to facilitate pipeline development. This story is no where near the truth. The changes to the fisheries act that they have brought in are all enabled by regulations, regulations that have yet to be written. If anybody says that the regulations are less than what they were before does not know what they are talking about, because the regulations have not yet been written. They have streamlined an act that was written in 1906 and made it consistent with environmental regulations across the world. In the regulation world which is complex and costly there is significant room for smart regulation which is what the government is trying to do with a number of regulations. Maybe there is some nefarious plot, but from where Rick sits they see streamlining not eroded regulations. What our society needs is smart delivery of standards. The other question regarding regulations is: who's going to do it? There are two prevailing views: one is hire the fox to look after the chicken coop and the other is hire more environmental conservation officers and more government people watching the industry. More policing will mean fewer hospitals because no one wants to pay more taxes. There is a third option. It is professional relliance where government sets the standards and the professionals will make sure the plans and activities meet the standards. This is what they are looking at to create a smart regulatory environment.

Comment: I don't think any pulp mill would have much of a chance to bring in new technology like nanocellulose considering how opposed much of the public is to big industry.

Rick said you are absolutely right. Crofton is a good example of that. The folks on Saltspring Island wanted to shut the pulp mill down because they have to look across the water at it and they could smell it. I think the pendulum is swinging back a bit since we went through 2008 and people are a little more tolerant when something produces a bunch of jobs and creates benefit to the community.

Comment: We should not be allowing so many logs to be exported. I am sure that it will initially be painful, but in the long run we would have more jobs created if the wood was processed here.

Rick said that he hears the 'we should do more secondary manufacturing' proposition daily. There is a commercially driven supply chain in British Columbia in which companies like Western Forest Products will work with secondary manufacturers on a contractual basis and it works. It is one of the things that drives the $500/m3 plus values that they need to get. Rick's personal feeling is that the value added opportunity for the coast is in the engineered wood products such as coasting that makes lumber more durable, in sound abatement products, and the other products spoken of earlier. It is not in cutting wood, selling it to someone to make a desk and then selling the desk. There are two routes you can go other than the traditional approach. One is become entirely mechanized and not use any people and the other is to send the wood to China. We can't compete with their cheap labour. We are better off going to higher value products at technologically advanced mills. Then we can create jobs for computer programmers and electrical engineers which are sustainable higher paying jobs.

Comment: The pulp and paper industry is dependent on the saw mill.

Rick said that is why he says the saw mill is the centre of the supply chain. A healthy saw mill produces the residuals for the pulp mills and they pay the loggers to log. They are also a good supply source for the remanners, the secondaries, and tertiaries. If the sawmills are profitable everybody else benefits.

Question: What about biomass?

Any time you want to create biomass, logs cannot have been in the water. If you look at the coastal industry without putting logs in the water there are all kinds of issues and high costs associated with changing the industry to keep logs out of the water. Economically it is not very viable here.

Question: Where are talks at about a protected working forest land base?

No where. The Liberals tried it in 2001 and there is no political appetite to go back to it.

Question: We see the Chinese capitalizing the Canadian oil fields. Is there a chance of that in the forest industry?

12% of Island Timberlands already is.

Question: How about more than that?

Neucel in Port Alice's biggest customer is Chinese. They started out providing a loan to Neucel to do some capital improvements in exchange for equity and then bought the whole company. Howe Sound is owned by Malaysians as is Mackenzie. The Chinese have a pattern of wanting the resources, so they buy the supply chain. We will see more and more of this. They still have to look at the business case for the acquisition. If there is no business case they won't buy it. Attracting money is the biggest challenge.

Rick said that labour was a big concern right now. It is difficult to find people that want to work in sawmills and the woodlands. Coast forests has a digital media program on twitter and online blogging aimed at 18 to 30 year olds to tell them that forestry is exciting and innovative, has a bright future and pays well.

Question: Is the government putting any money into training?

Rick said they have given Truck Loggers $450 thousand dollars for training. They also gave the Interior Loggers Association $500 thousand dollars for training truck drivers and skidder operators. WFP is running a training program right now that they funding 100% by themselves. The Association is trying to get the government to help out. They are targeting First Nations because one of the things that First Nations say they want from their integration is fair participation in society which is jobs.

Ken MacKenzie said that they are also targeting local people so that the local kids stay in the community.

Indicators – Review of indicator set and local values

Stuart handed out a table showing the old and new indicators from the last indicator review. He asked the group to look at the indicators and think about if there are any changes that need to be made.

Adjourned 9:00 pm

Action Items

Ongoing	***Who***	***Meeting***	**When**

Stillwater CSA Community Advisory Group
Western Forest Products
January 9th Attendance

Name	Position	Member Seat
PRESENT		
Jane Cameron – Chair	Primary	Member at large
Dave Hodgins	Alternate	Recreation
Doug Fuller	Primary	DFA Worker
Debbie Dee	Alternate	Local Governments
Colin Palmer	Primary	Local Governments
Bill Maitland	Primary	Local Business
Rory Maitland	Primary	Contractor
George Illes	Alternate	Environment
Ken Jackson	Primary	Recreation
Mark Hassett	Alternate	Contractor
Nancy Hollmann	Primary	Tourism
Read English	Alternate	Local Business
Barry Miller	Primary	Environment
8 Seats represented		
ABSENT MEMBERS		

Russ Parsons	Alternate	DFA Worker
Rob Stewart	Primary	Forest Dependent
Paul Goodwin	Alternate	Forest Dependent
Laura van Diemen	Alternate	Member at large
Andy Payne	Alternate	Member at large
Wayne Brewer	Alternate	Tourism
PRESENT		
Resource – others		
Mike Dunn	WFP	
Stuart Glen	WFP	
Ken McKenzie	WFP	
Rick Jeffery	Coast Forest Products Association	
Valerie Thompson	Facilitator/Secretary	