The Health of the British Columbia Sawmill Industry
FRDA Report 060

In 1988, Woodbridge, Reed and Associates was contracted by Forestry Canada under the Canada-British Columbia Forest Resource Development Agreement to review and report on the health of the British Columbia sawmill industry. They were also asked to report on any impact that might be attributed to the imposition of the 15% export duty in 1987 and its subsequent replacement with higher stumpage and silviculture costs. This memo summarizes their findings which have also been released as FRDA Report 060.

The consultant chose to carry out an objective analysis of the industry using only published data. Four criteria were used to measure industry health:

1. financial position
2. capital expenditure
3. lumber prices, and
4. production volumes

FINANCIAL POSITION

The investigators reviewed publiclyquoted companies whose operations were limited to sawmills (Slocan and Primex) or whose sawmill operations were accounted separately in financial statements (Doman and International Forest Products - Interfor). The four companies showed good growth up to the end of the third quarter of 1987. In the fourth quarter, profits began to decline and, except for Doman and to a lesser extent Slocan, stayed down through 1988. The decline for Primex was attributed to raw material price fluctuations. Primex depended primarily on the Vancouver Log Market and log prices had risen to a level above that warranted by stumpage increases alone.

Interfor showed extraordinary profits in 1986 due to earlier tax losses but the overall trends were an increase in 1987 followed by a decline in 1988. The investigators note that Interfor deals primarily in the offshore export market and were, therefore, largely unaffected by the 15% export duty on lumber shipped to the U.S. However, the increased stumpage and silviculture cost undoubtedly influenced the 1988 results. The authors also note that although these companies are not necessarily representative of the industry, even their strong year of 1987 showed net earnings of less than 10% of total sales. They felt that this profit level could not be regarded as very comfortable.

CAPITAL EXPENDITURE

Information on capital expenditure and intentions for the next year are recorded by Statistics Canada on a regular basis. The investigators found that the industry had reduced spending radically in 1983 and remained at a low level through 1986. The amount spent in 1987 returned expenditures to earlier levels and the intentions for 1988 were considerably higher.

It was concluded that if the health of the industry was to be judged on the basis of capital expenditure, it had recovered well from an unhealthy period in the mid-1980's. Further analysis, however, and comparison with the sawmill industry in the rest of Canada showed that the British Columbia industry lags well behind the rest of the country; not an indicator of a healthy industry.

PRICES

A recent analysis by the Scotia Bank was used to demonstrate the significant problems faced by the sawmill industry. As shown in Figure 1, selected forest product prices were...
charted for the period 1972 to 1988. Whereas, up to 1979 there had been a reasonable relationship between the product prices, in the last ten years pulp and newsprint prices have risen while lumber prices have only fluctuated around a relatively stable trend. These minor price movements suggested that the industry was in considerable trouble, however, little of this information indicates any significant impact from the 15% export duty.

VOLUMES

On the basis of industry volume, the British Columbia sawmill industry appears to be growing. Volumes have risen steadily from approximately 10 billion fbm in 1982 to more than 15 billion fbm in 1988. However, when compared with industry growth across Canada, British Columbia lost a significant share of the market between 1978 and 1986 and had only begun to gain it once again.

CONCLUSIONS

The investigators conclude that although the British Columbia sawmill industry recovered in the mid-1980's from a disas-trous few years, its current state of health is one of decline. Increased wood cost and a strong Canadian dollar are the immediate concerns, but there is also fear that the North American and offshore markets may be depressed in the near future. There was not any objective evidence, based on the parameters analyzed, to indicate that the 15% export duty had a significant negative impact on the industry in 1987. Nevertheless, it is likely that the health of the industry in that year would have been better without the duty.

Copies of the 11-page report *The Health of the British Columbia Sawmill Industry* by Woodbridge, Reed and Associates are available while supplies last from:

*Forestry Canada*
*Pacific Forestry Centre*
*506 West Burnside Road*
*Victoria, B.C. V8Z 1M5*

Please quote FRDA report #060 when ordering.