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MEETING THE COASTAL CHALLENGES – "HEAD-ON"

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The Coast Forest and Lumber Association (CFLA) is the "regional" industry advocate and regulatory issues manager for 39 companies involved in timber harvesting and/or the manufacturing of lumber products within the bounds of the British Columbia Coast.

In the Province of BC, the forest industry is characterized as 2 distinct and different regional industries – the Coast and the Interior. The Coast is unique and separated from the Interior not only geographically and the climate differentiation, but by the following characteristics which directly impact the cost and revenue differences:

- higher-valued species,
- ages and grade characteristics of trees,
- product lines and marketplaces
- geography and land form characteristics
- lack of roaded area and transportation distances
- growing site and biogeoclimatic variations

Membership product lines include log products, Japanese building components, structural dimension products for 2X4 housing in Japan and North America, decorative or appearance-grade products, value-added and secondary products, and treated building materials.

The species harvested and utilized include Douglas fir, Western hemlock, Western red cedar, Yellow cedar, and Sitka spruce. Those companies associated with value-adding and/or treating will also utilize other species such as spruce-pine-fir (SPF) from the Interior geographic region of the Province.

The Coast industry is over 40% reliant upon the international marketplace and focuses its product lines towards high-valued and highly specialized applications. Less than 11% of the production is focused on 2X4-2X6 style of dimensional products for the U.S. market. The large volumes produced in the coast manufacturing centers define the products as commodities, but the product specialization and exacting specifications take them into niche markets.

The Coast Forest Industry – Since 1993

The CFLA was formed at the request of the Coastal forest companies in late 1993 with final incorporation under the BC Societies Act in June 1994.

Prior to the formation of the CFLA, the Coast industry was represented as one industry of many through the Council of Forest Industries. Being the provincial voice of all the forest industry, COFI was unable to be the champion or advocate of specific issues of any one group or particular product lines.

Since then the issues facing the Coast have continued to grow and the CFLA has been engaged on many fronts in meeting those challenges:

- In the last 10 years costs have increased and allowable harvest levels have declined,
- The BC regulatory burden has resulted in Coastal fibre being the highest-cost in the global marketplace,
- Japanese marketplace has entered into a recession and new competing entrants have eroded the Coast market share,
- The US marketplace has become increasingly constrained and unaffordable with the latest imposition of 27% lumber duties,
- Sawmill capacity on the Coast is too high requiring closure of a number of mills and a re-tooling of the old facilities that will be left,
- Marketplace messaging about the environmental sustainability of BC Coastal forests is required to avoid marketplace interference by environmental groups,
- Promotion of BC Coast forest products and species is required on the basis of their technical attributes as we are one supplier of many in the global marketplace.

Coastal Re-Structuring

In the past, the Coastal industry had been a leader in providing solid wood products to the global marketplace. As noted above, the Coast has found itself in the midst of a marketplace restructuring caused by unforeseen and uncontrollable circumstances. The combined and cumulative impacts of the various global events and BC forest policies have resulted in a dearth of impacts that have reduced the global competitiveness of Coastal forest companies in the marketplace.

Through the CFLA, the Coastal companies have developed a long-term plan to regain their competitiveness:

- Addressing the trade file implications of the US marketplace duties,
- Reducing the BC regulatory burden through consultation with the BC resource ministries,
- Developing a new Coast stumpage formula that is reflective of the marketplace,

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- Rationalizing Coast sawmills and developing a re-investment plan for the remaining mills,
- Working with stakeholders to develop workplace efficiencies,
- Engaging the Environmental groups constructively in solutions to issues,
- Implementing Research and Technology partnerships with governments on solid wood components,
- Promoting Coast product lines in both traditional and emerging markets,
- Environmental marketplace messaging of BC forest sustainability.

Marketplace Promotion of Coastal Products

In Japan the CFLA launched a lumber promotion program in 1997, and in its 5 year Phase 1 program, was successful in arresting the free-fall of Hemlock lumber market share through the following initiatives:

- Separation and differentiation of Canadian (BC Coast) Hemlock from the U.S. Hemlock lumber,
- Establishment of a name (Canada Tsuga) and brand (stylized house) for Canadian Hemlock lumber that is now readily identified in Japan by all end-users of Canada Tsuga,
- Initiation of research testing of Hemlock technical properties in Japanese building components,
- Development and launch of a new Hemlock product line in October 2001 that is graded and grade-stamped as E 120, and approved by the Japanese government agencies, which identifies this product as being one of the strongest in the Japan marketplace.

In mid-2002 the CFLA initiated Phase 2 of the Japan lumber promotion strategy which will have a targeted marketing focus and will employ a multi-level integration of promotional techniques. Specialized staffs in Japan are currently in the process of recruiting and setting up the appropriate office and in-market programs to deliver this program.

This specific model of lumber promotion may serve as the building block in developing similar programs in new and emerging markets that are currently under study. The objective of market diversification in areas such as China, Taiwan, India and Korea may not be readily attainable but they will play a role in the Coastal industry economic health and global competitiveness over the next 5 to 10 years and beyond.

The Coast Forest Industry – 5 Years from Now

Adapting to the level of changes required will not come quickly and many of the initiatives discussed previously will be accretive over the next 3 to 5 years. Re-structuring and driving costs out of the system are the key building blocks in returning the Coast forest industry to being healthy and competitive in the global marketplace.

The willingness of the Coastal forest companies to accept change, and build for the future, is going to result in an industry that will be:

- environmentally sustainable from an approved working forest,
- globally cost competitive,
- producing 2.9 billion board feet of specialty products
- made up of 25 – 28 mills that will be a combination of a new and re-tooled facilities
- Increasingly diversified in the global marketplace.

In order to develop its long-term marketing strategy the following strategic components will be explored, developed and implemented throughout the next 5 years:

- market intelligence research in new and emerging markets,
- continued research and innovation of Coast species and lumber specialty products and associated technologies,

- strengthened and targeted lumber promotion programs in key markets as well as new and emerging markets.

The marketplace direction at the end of the 5th year will be different than today, but will only be a start of a long-term strategic shift in marketplace re-direction of Coastal products:

- Japan market share will be re-gained,
- US market reliance will be reduced,
- European marketplace volumes will not change, but increased acceptance of Coastal species will positively impact costs,
- Increased shipments of both appearance and construction grades into emerging markets of China, India and Taiwan will be starting to strengthen,
- Continued emphasis on Coast species being the most suitable species for added-value products in overseas markets with less emphasis on US market-direction reliance.

Darwin has a saying that is most applicable to the Coast forest industry:

" It is not the strongest of the species that survives, nor the most intelligent; It is the one that is most adaptable to change."

The Coast industry will adapt to the changes of today, … for tomorrow.