

Midterm Timber Supply and BC's Wood Products Industry

A Summary of International WOOD MARKETS Group Inc. Report



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WHILE A MASSIVE MPB SALVAGE PROGRAM has been underway for much of the last 10 years, eroding log quality, poorer conversion economics and shorter shelf-life of the dead timber will all result in a much smaller BC industry in the near future. As a result, sawmill and plywood mill closures with significant and direct consequences are expected for rural BC communities.

Here are four topics that directly relate to the midterm timber crisis and how they will affect the wood products industry in BC.

BC lumber production will fall significantly by the end of the decade.

- The MPB sawlog harvest will drive BC lumber production in relation to North America demand and the economics or positioning of other regional supply sources.
- BC lumber production will peak in the next three to five years.
- New processing technology, higher by-product prices (from chips, wood pellets, bio-energy, etc.) or higher lumber prices could extend the shelf-life of the dead timber and lumber production incrementally during the forecast period.
- The best case scenario for BC lumber production at the end of the decade is about nine billion board feet (bf)—this compares to pre-beetle levels of about 10.5 billion bf and peak levels of almost 15 billion bf in 2005.
- With stronger US demand coupled with reduced lumber output forecast, higher prices are expected that should allow the remaining sawmills to be very profitable over the next decade!!

Net Outcome: The BC lumber industry will see a permanent downsizing by 2020 but a lumber 'supply gap' that should lift prices in North America, will significantly benefit the remainder of the BC lumber industry.

Without the implementation of pro-active mitigation strategies, the sawlog timber harvest will drop by almost 20 million m3 from 2005 to 2018.

- 70+% of the pine trees in the BC Interior are forecast to be killed by the MPB and this will lead to reductions in both the AAC and sawlog availability.

- Sawmills and veneer plants can only use sawlogs and with the forecast 35+% decline in the available sawlog supply in the BC Interior (2005 base), or about 20 million m3 of sawlogs by 2018, mill closures are inevitable.
- Dead trees that do not make sawlog grades could have other uses (wood chips for pulp, wood pellets, biomass energy, etc.), but these uses depend on the economics of harvesting and processing, commodity prices and government support related to green energy.

Net Outcome: The base case forecast is for the BC Interior sawlog harvest to decline by approximately 35% by about 2018 from that seen in 2005. The harvest of biomass material could increase dramatically if new businesses can be established.

Without improvements in the midterm timber supply forecasts or higher end-product prices, 16 BC sawmills could eventually close.

- In the Interior, there are 77 major sawmills and 13 veneer mills included in the forecast that were in operation in 2005. The average sawmill produces about 200 million bf (in the model, this varies from 15 to 600 million bf).
- Since 2005, 12 BC Interior mills (lumber & plywood) have already closed and are assumed to remain so through the forecast planning horizon.
- 16 additional mills are projected to close by about 2018 (where three are currently not operating and are assumed to restart and then permanently close again) due to log shortages. This means that another 13 mills operating today could permanently close by about 2018.
- The mills forecast to close represent the equivalent of 3.5 billion bf of lumber (and veneer) production (an average of 225 million bf per mill) and a total of 11 million m3 of sawlog consumption annually.

Net Outcome: Based on the assumptions in the base case analysis, about 16 BC sawmills are forecast to close by about 2018. However, BC's efficient sawmilling industry and infrastructure will remain intact and that could limit even more mill closures after 2018.

The economics of MPB 'shelf-life' are a major variable to determining the future of harvesting MPB logs in BC.

- MPB shelf-life varies by the type of growing site, tree diameter when killed and the moisture content of the site. The report assumes a different shelf-life by area based on these variables, and in some cases allows for the shelf-life of dead timber to be extended beyond 20 years by assuming a 20% sawlog recovery in individual stands of trees (which normally would be uneconomic).
- The most critical variable to the longevity of MPB shelf-life is the economics of harvesting and cost of processing the logs. As a result, commodity forest product prices, including residual products, are a key variable to any harvest projections—this is identified and modeled in the report in great detail for sawlogs (the most valuable log in the forest).

Net Outcome: The timing or the shelf-life of dead MPB timber is tied to industry economics and commodity prices (as well as new uses for the fibre) that are unpredictable and are only indirectly related to the overall AAC projections.

Final Thoughts

International WOOD MARKETS Group Inc concludes that the reality of reduced sawlog harvests and lumber production was accepted long ago by the BC industry and most have a clear and well developed strategy to deal with the changes. They are optimistic that evolving global timber supply disruptions bode well for the BC lumber industry in the next decade. Those sawmills that remain after the MPB shakeout are expected to do very well as product prices in North America improve over the coming decade.

International WOOD MARKETS Group Inc. was unable to write an original article for BC Forest Professional. However, they encouraged us to create an article based on two comprehensive press releases they published last spring regarding their report, "BC Interior – Mountain Pine Beetle Attack: Impact & Outlook on BC Timber Availability & Wood Products Production."