



## Forest exports: Old and second-growth opportunities

**By Darryl Anderson**  
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Over \$10 billion in British Columbia wood and pulp and paper products were sent to export markets in 2012, according to BC Stats. Together wood (20 per cent) and pulp and paper (13 per cent) commodities were more valuable than B.C.'s energy exports (25 per cent).

B.C.'s forest products sector has been in the throes of structural change. The unprecedented downturn in demand due to the 2008 North American financial crisis quickened the pace of the rationalization of production capacity. Yet, the globalization of the industry resulted in the emergence of new market opportunities. The most striking example is China's rise as both a major consumer and importer of forest products. These forces have not only transformed B.C.'s forest products producers but have also had a knock-on effect on coastal shipping, logistics, marine terminal and international shipping practices used by the industry. In this article we take a snapshot of marine



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and port-related developments and probe to see what forest industry logistics and distribution challenges may lie on the horizon.

### **Market context**

The UNECE/FAO *Forest Products Annual Market Review 2011-2012* reported that when American requirements for softwood fell in 2008 and 2009, many sawmills reduced their operating rates, and log consumption in Canada declined to its lowest level in 25 years. By 2011, the U.S. housing construction sector was only 30 per cent of the 2005 peak level of over two million starts. While U.S. demand has begun to increase, it still has not achieved the levels of 2007. However, Canadian exports of sawn wood and logs to China have risen sharply,

benefiting the forest industry in western Canada.

The most optimistic scenario for B.C. forest producers will see the re-emergence of their traditional old-growth market in the United States with a simultaneous robust lumber demand in the new-growth markets in Asia. "Strong market demand, reduced production capacity and a decline in fibre supply leading to higher lumber and log prices has been referred to as the forest products super-cycle," stated Paul Quinn, Paper and Forest Products Analyst for RBC Capital Markets. The key indicator to watch for the possible start of such a super-cycle is when U.S. housing starts are on a sustained trend to 1.4 to 1.6 million per year. While not predicting the exact timing of the forest products super-cycle, Quinn



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nevertheless remained bullish on the future of B.C. lumber producers.

## Forest products production

The B.C. forest industry consists of two distinct regional sectors due to different tree species predominating in each region. The Coastal and Interior segments of the industry have diverged in regards to markets, capital investment, market performance and export logistics practices.

High fibre costs and a high percentage of hemlock in the fibre basket were important contributors to the Coastal industries downward trend in Annual Allowable Cut since the early 1990s. BC Maritime Employers Association data indicates that, from 2001 to 2009, New Westminster and Vancouver areas were the dominant locations for logs and breakbulk lumber exports. Yet by 2010, the tonnage figures for the ports on Vancouver Island had spiked dramatically to become strong competitors to the Lower Mainland marine terminals.

Tony Marra, General Manager, Marketing and Business Optimization for Western Forest Products (WFP) stated that since 2008 “there was a shift away from North American markets to China but most recently the Asian markets have been flat with North America up”. As a result, WFP’s gross revenue increased eight per cent to \$925.4 million in 2012. David McCormick, Director, Public Relations

and Business Development for the Port Alberni Port Authority, confirmed the strong growth of logs and lumber on Vancouver Island noting that “shipping continues to increase from their terminals as it has every year since 2009”.

## Rail and logistics service

Northern Interior forest products producers have two export gateway options: the Lower Mainland and Prince Rupert. Thus, Interior forest products producers remain heavily dependent on rail transportation for both Asian and North American export markets. Historically, forest product sector rail service issues have included the availability of car supply, service reliability, aggressive rail freight rates, and surcharges due to rising fuel costs. When U.S. housing starts topped one million in March (on a seasonally adjusted rate) it prompted a run on rail cars. Lumber producers, oriented strand board, plywood and even pulp inventories were negatively impacted by the rail car shortage. RBC’s Quinn observed: “In the first quarter of 2013, the level of railway service and the supply of centre beam cars were inadequate to meet the level of demand.”

Forest products producers such as Tolko in the Okanagan have had their own recent railway issues with which to contend. In early July, a receiver was appointed for Kelowna Pacific Railway, suspending the company’s operations

between Kelowna and the Canadian National Railway yards in Kamloops.

On June 26, 2013 the Honourable Denis Lebel, then Minister of Transport, Infrastructure and Communities, announced that the *Fair Rail Freight Service* legislation was now law. Railways in Canada are now required to offer a service agreement if the shipper requests one. In the event that rail companies and shippers cannot reach an agreement through commercial negotiations, shippers can use the new arbitration process created by the legislation to establish the terms of service. It remains to be seen if this new legislation will be of benefit to B.C. forest products producers but David Lindsay, President & CEO Forest Products Association of Canada, stated that “ensuring a fair and balanced relationship between shippers and the railways will help the forest products industry retain and create jobs for the benefit of the entire Canadian economy”.

The fall 2007 opening of the Maher Terminals Holding Corp. Fairview container terminal in Prince Rupert proved to be a very timely gateway alternative for northern Interior forest product producers. As a key supply chain partner, Quickload Logistics is the only professional, fully equipped logistics service provider in Prince Rupert to expertly handle forest products destined for Asia.

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*Bird's eye view of Squamish Terminals where wood pulp volumes provide a steady source of activity.*

*Photo courtesy Squamish Terminals*

Kristina De Araujo, Director of Corporate Affairs for Quickload explained that “since 2008, we have continually invested in developing strong customer service-oriented staff, acquiring innovative equipment, and implementing programs that significantly enhance Quickload’s logistical services. In 2010, we purchased the C-Loader, the first of its kind in North America. This machine stuffs lumber packages into containers three times faster with less wear and tear on the customer’s product, our forklift and chassis fleet, as well as eliminating the need for a permanent structure-type loading dock”. Quickload has also purchased an inventory system to ensure quality control and accuracy. In 2013, the firm implemented EDI (electronic data interchange) capability for their clients and was preparing a truck reservation system.

## **Marine terminals operations**

Pacific Pilotage Authority statistics indicate that there at least 17 marine export locations that handle forest products, including 10 terminals or locations on Vancouver Island, two options on the North Coast and at least five facilities in the Lower Mainland/Squamish area. Many of these sites are located at mills at tidewater or at locations where direct waterside ship loading takes place and are highly dependent on the availability of breakbulk shipping services to access export markets.

Kim Stegemen-Lowe, Manager, Marketing and Administration for Squamish Terminals Ltd. informed *BC Shipping News* that their primary forest product export was wood pulp. Stegemen-Lowe

explained that “2011 was one of our strongest years and although our volumes are down in 2013 (primarily due to a mill closure in 2012) they remain steady”. She further observed that “as a breakbulk terminal, we were impacted by changes in our customers’ markets and competitive pressure from the container sector”.

## **Shipping services**

The emergence of new market opportunities in Asia and the need to take control of distribution and maritime logistics costs has driven the creation of a strategic partnership between Tolko, West Fraser Timber, Canfor and Western Forest Products to charter a breakbulk vessel to ship their product to China.

While the re-emergence of increased breakbulk shipping activity on B.C.’s coast has been welcome, the volatile demand for International Longshore and Warehouse Union labour on Vancouver Island has made it difficult in the short-run to maintain a sufficient local workforce to handle traffic peaks. This is resulting in vessel delays and higher costs for ship owners and terminal operators. The 2012 BCMEA Annual Report notes that for a “third year in a row, volumes on Vancouver Island continued at a high level not previously seen since the 1990s. These high volumes further challenged the labour supply, resulting in a third recruitment drive in as many years”. However, there were periods of extended congestion (for example, at Duke Point) that resulted in new procedures that provide for the travel of longshore gangs to Vancouver Island.

The introduction of a new short-sea shipping service offers the promise of potential benefits to Vancouver Island forest products producers. In August 2012, DP World introduced a new coastal container barge service that provides the ability to ship cargo between Vancouver Island and Vancouver. Initially, the service was limited to cargo being served by shipping lines calling at Centerm container terminal but the operators were planning on extending the service to other terminals. The new lift-on, lift-off capacity provides more efficient cargo transfer by eliminating the middle reloading step, allowing customers to directly receive their containers and ship them overseas.

## **Transportation issues and market outlook**

As part of the Asia-Pacific Gateway Initiative, on July 3, 2013 the federal government and the Nanaimo Port Authority announced that the Nanaimo Assembly Wharf would receive \$9.3 million in major renovations and upgrades. The capital investment is intended to improve the movement of international cargo in container cars on the 35-acre property. Phil Davies of Davies Transportation Consulting Inc. observed that prior to this announcement “there has been little to no significant investment in most coastal marine forest products terminal facilities, or B.C.’s short-line railways over the last 20 years and the efficiency of surface transportation operations is affected by infrastructure deficiencies and growing vessel size”.

Davies questioned whether the new BCMEA procedures would be effective

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in the face of a prolonged period of demand and suggested that consideration be given to industry/government cost sharing in incremental capital improvements to the existing infrastructure that supports forest products before the start of any industry super-cycle. For Interior producers, growth in export shipments may be constrained by a reduction in timber supply due to the Mountain Pine Beetle infestation.

When asked whether she foresees any export logistics and distribution

challenges ahead for Squamish Terminals due to increased demand, Stegemen-Lowe replied that "access to rail cars for our customers can be a challenge today as we compete for space with other cargoes. That will continue to be a challenge in future when demand for forest products increases." When asked the same question, McCormick from the Port Alberni Port Authority replied that the port "believes containerization provides tremendous opportunity for niche

lumber mills to expand their market... and is willing to look at investments to facilitate container shipping".

While two Vancouver Island port authorities look to containerization for growth opportunities, Quickload Logistics' De Araujo expressed concern regarding the shortage of empty containers to stuff for export. "Quickload has experienced this unfortunate circumstance a few times in the last few years, the most recent occurring only a few months ago and lasting four to six weeks. This significantly impacts our business, as well as our customers." While this situation was not confined to Prince Rupert, Araujo noted those on the farthest reaches of the supply chain will more than likely feel the brunt of that stress.

While export volumes of lumber to China have risen during the downturn in the U.S. housing market, resurgence in home building in the United States could divert production back into that market. While forest industry analysts suggested that B.C.'s presence in the Chinese market could remain at least at the current levels, they nevertheless concede that it is difficult to predict how changes in lumber prices and demand in their markets might affect their future marketing, export and transportation strategies. Slower GDP growth and financial deleveraging in China are two of the major economic risks. Export Development Canada's *Commodity Tracker* is forecasting a generally flat forest products price outlook over the next three months.

Those involved in the maritime logistics and surface transportation for B.C. forest products will need to remain nimble and adjust quickly to changes in either the direction, or volume of B.C. forest products exports. A review of some of the changes that have occurred suggest B.C.'s ports and marine terminals are up to the challenge but questions about our gateway's reliability will quickly arise in the future if forest products rail service issues and car supply are not addressed.

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