Alberta's forest industry: Its present

by Bill Doskoch

One of the nice things about forests is the fact they can produce multiple benefits for a society in perpetuity.

Forest products, fish and wildlife, recreation, grazing and water are some of the benefits we draw from our forests.

However, in the rush to financially enrich ourselves by utilizing our resources, we have ignored the need to protect and re-invest in our forest resources to insure our source of perpetual benefits remains as such.

As a nation, we have lacked the political will, at both the provincial and federal levels, to insist our forests be properly managed or to provide sufficient funding to allow the job to be done.

Resource mismanagement and the failure of the mill owners to re-invest their profits has resulted in the spectre of chronic wood shortages and the possible collapse of our nation's number-one industry.

However, in the midst of this gloomy picture, there is a relatively bright spot. That spot is Alberta.

The remainder of this article will describe how Alberta has managed to avoid some of the woes currently besetting the forest industry, its advantages, its short and long term problems (particularly those of the sawmilling sector) and its future prospects.

Resource Management

So why isn't Alberta facing chronic wood shortages?

The Deputy Minister for Renewable Resources, Fred McDougall, feels it's because "We've made some excellent resource management decisions."

One of those decisions was to use the promise of long term security of land base and wood supply in exchange for large scale capital investment in processing facilities.

The kicker was the individual companies had to assume the responsibility of managing the land and forest resource on a sustainable basis within ground rules negotiated with the government.

Such contracts are called "forest management agreements" (FMAs) and are issued for a period of 20 years. Their renewal is conditional upon the company's fulfillment of the terms of the agreement.

The first one was signed with St. Regis (Alberta) Ltd. in 1954. Ever since then, FMAs have provided a cornerstone for large scale forest development in the province.

Although FMAs were fine for controlling large scale development, the province required a method to control the activities of the hundreds of smaller operators.

Their solution was the timber quota agreement.

Quotas provide a volume of timber over a twenty year period, but it does not guarantee a land base. The quota holder must pay for reforestation; however, if his mill is below a certain size (8 million board feet) he can opt to pay the government to do it. In the case where the operator chooses to do it, the seedlings are provided at no charge, providing the operator supplies the seed.

These two polices, along with stringent reforestation standards, which McDougall claims "Work because they are enforced," have given Alberta one of the best reforestation records in the country.

This record has also been possible because we are blessed with the Pine Ridge Tree Nursery, which McDougall boasts "is the finest on the continent."

He is not far wrong.

The facility was constructed in 1980 at a cost of $12 million.

It contains state-of-the-art equipment for seed extraction, grading, and storage. It is currently capable of producing 20 million container (greenhouse)-grown seedlings and 16 million bare root seedlings.

It also resulted in the town of Smoky Lake, which is near its location, being selected as the "forestry capital of Canada" in 1982.

One important advantage that Alberta has enjoyed was the windfall of petroleum revenues the government received in the late seventies which made capital available for such projects.

But, enough of positive things, it is now time to speak of the various ills that presently handicap the industry.

Short term concerns

According to all sources, the industry's most serious short term problem is the state of overcapacity and the resulting lower prices in relation to world-wide demand.

Thus, despite record levels of production in the province, almost no one is generating a profit.

The inability of saw mills to sell their chips (a key by-product) to pulp companies, again because of oversupply, has reduced cash flows for some mills.

Although our currency is weak in comparison to the U.S. dollar, it is high in comparison to European and Japanese currencies, thus rendering our products uncompetitive in those markets.

What can be done in the short term for lumber producers?

Not much, according to both McDougal and Arden Rytz, director of the Alberta Forest Products Association.

"The only real cure is a general world economic recovery coupled with a strong U.S. recovery," says McDougall, adding " the key is becoming extremely efficient so you can survive these low prices."

Rytz said the smallest mills usually shut down when the going gets tough; however, most medium and large sawmills are able to keep operating.

Why this is a disadvantage will be discussed later.

Both McDougall and Rytz seemed to feel the most inefficient mills would be weeded out and this would eventually help bring supply back in sync with demand.

Long term concerns

There are several structural problems affecting the sawmilling industry. The most serious are ones relating to management, production and marketing.

According to Richard Anderson, Director of the Forest Industries Section of the Department of Economic Development, some of our smaller mills are operating on technology that is up to 50 years old.

He compared this with Quebec where a government sponsored sawmill modernization program has been underway for the past 12 years. "No mill there is operating with technology more than ten years old," declares Anderson.

The business management skills of some smaller owners, concerned Anderson.

He related the story of one hapless mill owner who spent over $78,000 rebuilding a logging truck only to wind up scrapping it be cause his modifications did not allow him to carry a sufficient load. "He would've been better off to take that money and throw a big party for his employees," said Anderson.

Anderson felt mill owners must either develop better business management and planning skills or start hiring people who have them; otherwise, they will have to suffer the consequences.

The first of those consequences is no profits. This is the "Catch 22" of the current situation: profits allow you the capital to modernize; however, if you don't modernize it becomes more and more difficult to remain profitable.

Almost all mills currently operating are doing so in a break even situation or are only covering their variable costs.

"This is known as dying a slow death," said Anderson.

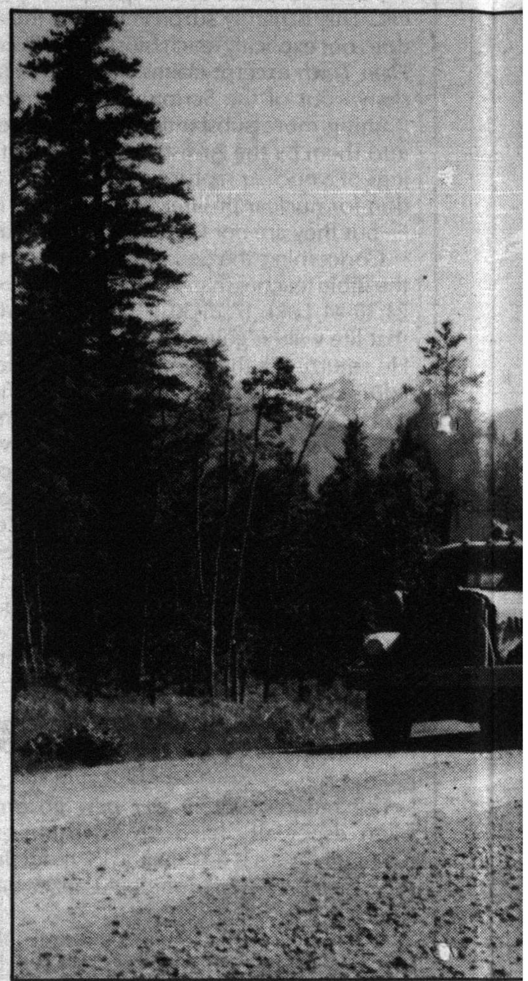
One problem is that most mills attempt to adapt to the situation by producing more at the same cost so they can minimize costs and increase cash flow. The problem is when everyone does it, an over-supply situation occurs, driving prices down even further. To complete this bizarre scenario, no one wants to be the first to shut down because a shutdown means an easing of the over-supply problem and an increase in price as a result.

Think of it as mill owner's roulette.

This ties in to the next problem, which is marketing.

Alberta currently exports over 70 per cent of its lumber production to the United States. Canada currently supplies 35 per cent of the lumber needs of the U.S. market, which is up from our historical market share of 19-24 per cent.

"The attitude in this industry is that if they can't sell in the U.S. or western Canada, they can't sell



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