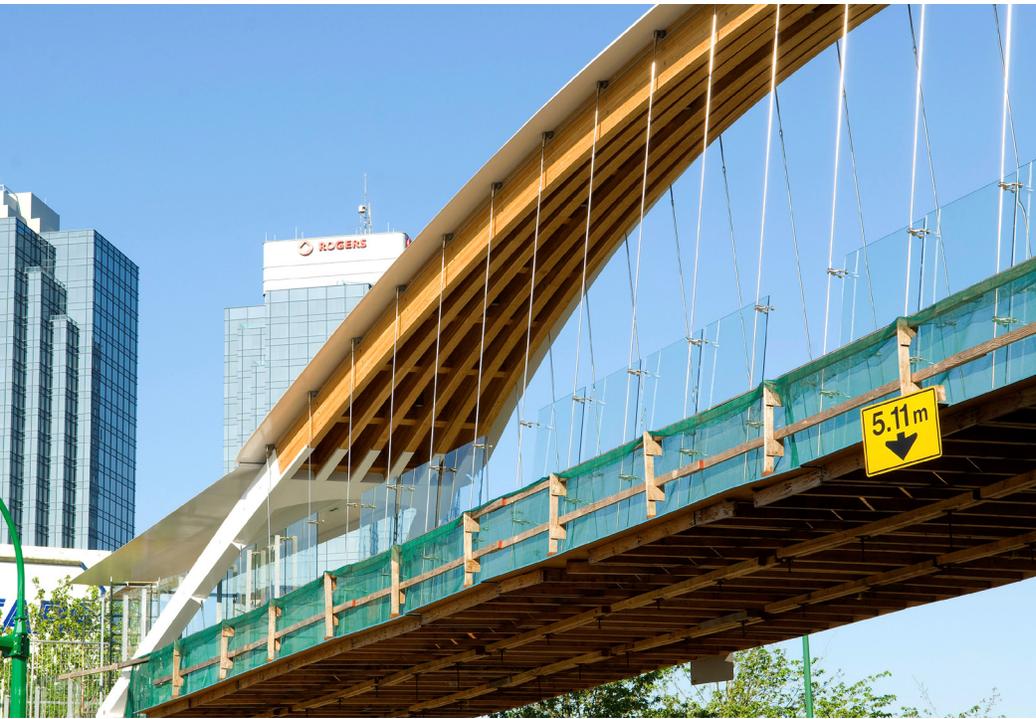




**BRITISH COLUMBIA FOREST
SECTOR COMPETITIVENESS:
Value Added Sector Action Plan**



INTRODUCTION

The British Columbia (B.C.) forest sector provides well-paying jobs for thousands of British Columbians, many of them in rural communities, and contributes taxes for important services across the province. As an integrated sector, it is made up of many interconnected and interdependent sub-sectors so it can make the most efficient use of all the fibre harvested.



One of these is the value-added or secondary wood manufacturing sub-sector. The value-added sub-sector includes innovative and entrepreneurial companies across the province, and is an important element of B.C.'s diverse forest sector. In 2012, it provided close to 12,500 full-time jobs with estimated sales of \$2.8 billion.

The importance of B.C.'s value-added sub-sector goes beyond mill size or annual sales. Value-added companies are entrepreneurial, innovative and diversified, with operations in communities of all sizes across the province. They manufacture a

diverse range of specialty products that maximize the value of B.C.'s forest resource.

In 2015, as part of a process B.C. government and senior forest industry representatives undertook to identify ways to maintain B.C.'s overall forest sector competitiveness, a collaborative review was completed to explore opportunities to rebuild and improve the value-added sub-sector and position it for the future.

The value-added review involved three B.C. government ministries – International Trade (MIT); Jobs, Tourism and Skills Training (JTST); and Forests, Lands and Natural Resource Operations (FLNRO) – two industry associations (BC Wood and the Independent Wood Processors Association of BC), and Forestry Innovation Investment (FII) and FPIInnovations.

This plan is the result of the value-added review. It identifies actions being taken by government and industry to support a diversified and competitive value-added sub-sector, one that maximizes the value of B.C.'s sustainably harvested forests to yield well-paying jobs and deliver other benefits for communities across the province.

B.C.'S VALUE-ADDED SECTOR

B.C.'s value-added companies manufacture specialty products such as finger-jointed lumber, decking, siding, plywood, OSB (oriented strand board) and veneer; cabinets and components; household, commercial and outdoor furniture; windows and doors; architectural millwork; log homes and packaged homes; pallets, boxes, poles and posts; musical instruments; shakes and shingles, and wood crafts.



Since 1990, the Canadian Forest Service, through its Industry, Trade and Economics Research Group, has surveyed secondary wood manufacturers in B.C. and compared their performance. The sixth survey, for the year 2012¹, found that the value-added sub-sector was dramatically impacted by the global economic downturn and its ongoing effects on the U.S. housing market.

It reported that in 2012, B.C. had 589 value-added businesses, with 12,417 full-time employees and an estimated \$2.8 billion in annual sales. Employment was down 16% from 2006, and sales were down 11%. In 2012, companies with fewer than 50 employees made up 58% of the sub-sector; in 2006 they made up 88%.

The 2012 survey also found that:

- 70% of employment was in B.C.'s coast region (including Vancouver-Fraser Valley); 21% in the southern interior and 8% in the northern interior.
- 35% of the mills and 20% of the jobs were in communities with fewer than 50,000 residents – and many were in communities with fewer than 10,000 residents.
- 10% of the mills sold more than \$15 million annually; 55% sold \$1.1 million to \$15 million; the rest sold less than \$1.1 million.
- Estimated capacity utilization was down to 66% from approximately 73% in 2006, which means there is room for production growth without added cost.
- Most companies relied on B.C. for more than half of their sales. Other important markets were the U.S. (18%), the Pacific Rim (9%) and Europe (10%). Reliance on the domestic market breaks past trends where the U.S. played a much larger role.
- Millwork accounts for 24% of companies; engineered wood products 23% and remanufacturing 18%.

¹ *Secondary Manufacturing of Solid Wood Products in British Columbia 2012: Structure, Economic Contribution, and Changes since 1990*. Bogdanski, Bryan E.S. and Alec McBeath. Canadian Forest Service. 2015.
<http://cfs.nrcan.gc.ca/pubwarehouse/pdfs/35951.pdf>

EXPORT TRENDS FOR VALUE-ADDED SUB-SECTOR

Table 1 shows the magnitude and lasting nature of the global downturn on B.C.'s value-added sub-sector. The value of exports reached its peak in 2005. Then, as the U.S. economy began to slow due to the economic downturn and the contraction of U.S. housing starts, it steadily declined until 2010. By 2013 there had been some recovery but the value was still far below the high point in 2005.

Table 1 – Value of B.C. Exports of Value Added Wood Products – Millions of CAN\$

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Moulding	24.1	23.8	26.3	19.5	10.3	4.7	4.4	3.7	4.5	5.1
Siding	77.5	67.5	56.5	58.7	70.1	38.4	37.1	36.1	40.4	46.4
Flooring	3.1	2.8	2.2	0.8	0.6	0.4	0.2	0.1	0.2	0.0
Other Wood	43.4	59.4	54.7	42.5	29.4	22.6	21.9	22.3	23.5	26.5
Windows	14.4	16.9	14.5	12.3	12.0	9.3	8.6	6.7	8.6	8.4
Doors	68.5	77.8	64.9	50.5	42.0	24.8	18.1	14.6	17.6	19.8
Shake & Shingles	241.0	235.2	252.9	270.1	202.9	134.3	124.2	132.8	146.0	163.1
Lam Beams &	28.4	22.9	14.8	17.1	9.5	8.0	8.5	8.2	3.9	4.5
Prefab Partitions	7.6	11.9	11.7	8.2	7.3	3.0	2.4	1.8	4.7	6.6
Roof Trusses	19.2	14.3	18.3	7.5	1.3	2.5	0.5	0.5	0.8	0.9
Other Building	158.1	166.1	145.8	102.4	62.9	54.0	49.6	48.2	57.0	69.1
Wooden Seats	21.0	20.3	17.3	14.4	11.8	7.0	6.8	6.1	5.7	6.8
Office Furniture	3.7	4.2	4.3	4.4	5.7	4.3	1.1	1.5	1.5	2.5
Kitchen Furniture	56.1	57.2	58.3	45.7	26.4	15.1	9.7	8.7	10.3	13.7
Bedroom and	57.3	72.1	62.2	48.0	35.7	25.5	34.8	37.5	41.0	43.9
Total	823.5	852.3	804.6	701.9	527.9	353.9	328.0	329.0	365.6	417.3

Source: FPInnovations

Unlike the commodity lumber sector, which increased sales to China, the value-added sub-sector remained linked to Japan and the U.S., which both experienced weakness in housing sectors from 2009 to 2013. Table 2 shows how this loss of export markets affected growth – with importance of markets becoming the biggest constraint to growth by 2012.

Table 2 - Ranking of Constraints to Growth of the Value-Added Sector in B.C.

Constraint	Ranking*		
	1999	2006	2012
Labour	4	1	2
Wood Supply	2	2	3
Markets	1	3	1
Finance	3	4	4

*1 is the greatest and 4 is the lowest

Source: CFS Survey of Secondary Wood Manufacturing in B.C., 2014

VALUE-ADDED SECTOR PERSPECTIVE

The organizations involved in the sub-sector review included the two largest industry associations in B.C., FII, FPIInnovations, and key ministries. Their representatives discussed common interests, and invited input from value-added companies and others with an interest in finding ways to improve the sub-sector.

This discussion identified a broad range of views – some that are widely accepted across the sub-sector and some where there was limited consensus.

Common interests

- B.C.'s value-added sub-sector has experienced a remarkably challenging period recently, but remains viable and is ready to rebuild.
- Domestic markets (B.C. and Canada) are important but they are too small to provide significant growth opportunities. Future growth depends on more export sales.
- The U.S. housing market slowdown has altered long-established distribution channels with the U.S. building supply wholesale network.
 - It is hard, especially for smaller companies, to keep pace with evolving distribution networks.
 - Government can help to re-establish connections and re-introduce B.C. products and companies to new wholesale operations in the U.S.
- FII can do more to better support the value-added sub-sector:
 - Its current emphasis on Asian market expansion in commodity grade products does not meet the needs of the value-added sector.
 - Its cost-sharing rules make it difficult for smaller value-added operations to participate in FII programs.
- The B.C. government should continue its support for building code and standards testing to help gain access into foreign markets for B.C. wood products.
- The sector's ability to maintain capacity and introduce new products and processes depends on access to skilled labour.
 - Current training and skills development programs do not meet the specific needs of the value-added sector.
- Value-added manufacturers do not hold replaceable Crown tenure and source input materials in the open market.
 - These break-down mills are often key suppliers of custom-cut lumber used by other B.C. value-added operations, and form a critical link in the sector value chain.
- Access to technology is a significant constraint for smaller companies that want to develop new products or improve production processes.
- A number of respondents expressed an interest in a Wood Secretariat, which could provide a single point of contact to improve access to relevant B.C. government ministries and programs.
 - The value-added sub-sector is primarily made up of small- to medium-sized companies, and it is hard for owners/managers running their businesses to find the time to connect and interact with government.



- A Wood Secretariat could increase industry awareness of government programs and support to assist the sub-sector, and help government ministries better understand the sub-sector's evolving challenges and needs.
- While it could assist in promoting the use of wood across all government agencies where it was practical and made economic sense, it would not monitor the *Wood First Act* or the use of wood in government construction.

Issues with limited consensus

- Some respondents expressed the need for a stand-alone value-added funding program structured to meet the needs of the sub-sector. They said programs that try to reflect the needs of both high-volume commodity products and high-value specialty products do not fully address the needs of the value-added sub-sector.
- FII's market program funding assessments should have a greater focus on short-term return on investment criteria.
- Negotiations leading to the 2006 Canada-U.S. Softwood Lumber Agreement resulted in B.C. policies that reduced fibre access and increased duties on higher-value products. This led to a significant decline in the number of value-added mills and sales for the sector.
- Access to venture capital for small and medium value-added companies is a potential bottleneck to growth even though the default rate for these companies is low.
 - Lenders are concerned about fibre access (logs and lumber) and have increased their risk assessment of loans.



B.C. SUPPORT FOR VALUE-ADDED SUB-SECTOR

B.C.'s forest sector competitiveness agenda – *Strong Past, Bright Future: A Competitiveness Agenda for British Columbia's Forest Sector* – identified ways the province is working with both primary and secondary manufacturing to maintain healthy forests, support a diverse, globally competitive industry, and strengthen communities and First Nations partners. Many of these activities support the value-added sub-sector.

Hosting conditions

Like all industry sectors, value-added manufacturing relies on underlying hosting conditions to remain an attractive location for investment – including access to raw materials, competitive taxation and energy rates, efficient transportation (roads, rails and ports), and skilled labour.

B.C. offers a competitive business environment conducive to attracting investment, including:

- One of North America's most competitive tax climates for businesses. B.C.'s general corporate income tax rate is 11%, among the lowest in Canada. Its combined federal-provincial tax rate is 26%, among the lowest in G7 countries.
- Competitive and reliable green electrical power, which provides businesses a significant opportunity to reduce operating costs.

- A strategic location with easy, fast and reliable access to world markets. Ports in Vancouver and Prince Rupert provide the shortest sea route from North America to Asia. Canada's Pacific Gateway is an efficient, reliable network of marine and airports, rail lines and roads. B.C. forest products are shipped by truck to markets as far away as Maine, Virginia, New York, Florida and Texas.
- An open trading economy -- businesses in B.C. benefit from significant international trade agreements, including the North American Free Trade Agreement, Canada-Korea Free Trade Agreement and the Canada-European Free Trade Association. Canada is actively advancing free trade agreements with a number of other countries, including the Trans-Pacific Partnership.
- Strong industry support including collaborative trade associations and an extensive forest product research network that brings together government, industry and academic resources.



Promoting a wood culture in B.C.

B.C. is a world leader in promoting the use of wood. The Wood First program encourages a cultural shift to wood, promoting the use of value-added products. The program is delivered by Forestry Innovation Investment (FII), the B.C. government's market development agency. The *Wood First Act* requires consideration of wood as a primary building material in new provincially funded buildings.

Putting a Wood First lens on this spending is an effective way to generate demand for wood products, while promoting climate-friendly construction and supporting forest-dependent communities. To date, 53 B.C. communities have passed or endorsed resolutions or policies indicating their intent to adopt the principles of the Wood First Initiative.

Changes to the B.C. Building Code increased the maximum number of storeys for wood-frame buildings to six from four. By 2015, about 50 mid-rise wood-frame buildings had been built in the province. This has enabled the proliferation of building techniques that integrate wood alongside other building materials.

Forestry Innovation Investment

The B.C. government delivers support for Wood First and market development overseas through FII, a Crown agency governed by a Board of Directors and accountable to the B.C. Minister of International Trade. FII encourages expanded wood use in B.C. and beyond, as well as providing market research, and marketing of B.C. wood products in key international markets.

FII relies on a joint delivery model involving trade associations, research institutions and other government agencies. About half of its budget is used to fund, in whole or in part, initiatives that are designed and delivered by industry trade associations. These activities are typically co-funded by FII, industry and Natural Resources Canada through its Expanding Market Opportunities program.

FPInnovations

The B.C. government is a significant contributor to FPInnovations, one of the world's largest private, non-profit research centres working in forest research.

FPIInnovations has been critical in helping ensure B.C. and Canada’s wood products are accepted worldwide. It has five research and development laboratories, including one in Vancouver, and technology transfer offices across Canada. It also offers a business development component, working with potential customers and members to build strategic alliances and develop new products and services.

SUPPORT IN OTHER JURISDICTIONS FOR VALUE-ADDED SUB-SECTOR

A scan of policies and approaches in other jurisdictions found that B.C. remains in the forefront of implementing policies that promote the use of wood, wood products innovation and access to export markets, which is fundamental to the growth of a resilient value-added sector.



Table 4 shows the results of the comparison of policies adopted in Quebec and by state governments in Oregon, Washington and Georgia in four areas of support:

- Research – Government funding of wood science, wood manufacturing and forest management research initiatives that is available to the entire sector.
- Market development – Government programs and funding for market development designed to expand export market access for value-added and other manufactured wood products.
- International standards – Government funding of testing designed to establish the ability of domestic products to meet international building codes, phytosanitary and other market and safety standards.
- Develop a wood culture – Government policies and legislation designed to promote use of wood in residential, commercial and public buildings construction within their jurisdictions.

Table 4 – Jurisdictional Comparison of Initiatives in Support of the Value-Added Wood Sector

Areas of Support	British Columbia	Quebec	Oregon	Washington	Georgia
Research	Yes	Yes	Yes	Yes	Yes
Market Development	Yes	Yes	Yes	Yes	Yes
International Standards	Yes	Yes	Yes	Yes	Yes
Develop a Wood Culture	Yes	Yes	Yes	Yes	No

POTENTIAL AREAS OF INFLUENCE

The strengths of B.C.’s value-added sector include its broad diversity and ability to build business-to-business relationships across a wide range of companies and jurisdictions. This presents a challenge to developing a province-wide strategy. Government can support the sector by maintaining a positive investment climate and supporting market development that can benefit all industry segments.

It is also difficult to measure the contribution of B.C.’s value-added forest sector because there is no common definition of what it involves. The North American Industry Classification System (NAICS), which provides a common statistical framework, has no unique identifier for value-added (secondary) wood products.

Any policy or program changes must avoid duplication or conflict with existing activities, and need to complement actions that support the primary sector. FII and FPIInnovations are both developing strategies designed to help promote the value-added sub-sector, and it is critical that government achieves the greatest leverage of program funding. Activities must also leverage Canadian government support that is available through Natural Resources Canada and Global Affairs Canada.



The jurisdictional review found that overall B.C.'s recent policy actions in support of secondary wood manufacturing reflect the highest level of support for the value-added sector adopted across North America. However, discussions with the key sector stakeholders have indicated that there are opportunities for improvement.

As recommended by the sector, government should apply a clear business lens to ensure that the highest return on its investment is achieved. When a business lens was applied to the list of options, six areas of influence were identified as having the greatest potential for success through leveraging existing programs.

Finally, any decision made by government must fully take into account the obligations established in existing international trade agreements and ensure that policy choices are consistent with the

language and intent in the agreements.

NEXT STEPS AND STATE OF RECOMMENDED ACTIONS

The organizations involved in the review identified six key themes with a number of actions that could strengthen the value-added sub-sector. A number of these actions have been completed, or are underway.

1. Improve access to the North American market for new value-added exporters
 - FII, BC Wood and FLNRO have established a pilot program to improve access to the North American market for new value-added exporters. The pilot will target non-commodity lumber value added products such as log and timber frame homes, pre-fabricated housing, cabinetry, millwork and finishing, and engineered wood products.
 - FII has secured \$200,000 in additional funding sources for this pilot program. It will contribute 80% of the cost, and industry will contribute the rest.
 - The program structure will be finalized in summer 2016, and then piloted for two years. If successful, it will be expanded.
 - FII will use data from the pilot to encourage Natural Resources Canada to include North American markets in the next round of its market development funding programs and share the cost of the pilot program.
 - The pilot program will complement existing export readiness programs offered by provincial or federal governments such as CanExport.

2. Develop skilled labour needed for value-added sector

- The Ministry of Jobs, Tourism and Skills Training (JTST) will pursue opportunities on an ongoing basis to address labour and training issues impacting the value-added sub-sector through B.C.'s Skills for Jobs Blueprint and Labour Market Partnerships.
- Sub-sector associations are working with JTST to identify opportunities for individual value-added firms to utilize the Canadian Job Grant program, an employer-driven, cost-sharing program that offsets up to two-thirds of the cost of training an employee to a maximum of \$10,000 per individual per fiscal year.

3. Improve access to research information

- FPIInnovations is working with BC Wood and FLNRO to explore opportunities to improve the value-added sub-sector's access to technical information on research and development within existing budgets.
- This will include the development of a technology transfer and business development program pilot.



4. Support open market access to competitive sale of timber in B.C.

- Most value-added operations do not hold replaceable Crown tenures such as Forest Licences or Tree Farm Licences. A critical source of logs is B.C. Timber Sales' (BCTS) Category 2 program. The review recommended that the B.C. government:
 1. Maintain the existing BC Timber Sales Category 2 program structure
 2. Require that BCTS, working with the Timber Sales Advisory Committee, periodically review the eligibility of Category 2 registrants, Other actions include:
 - i. removing the chipper debarker requirement for sawmills;
 - ii. BCTS Business Plan to clearly state Category 2 volume goals and accomplishments;
 - iii. retaining milling requirement with a minimum 50% equivalent volume;
 - iv. undertake consistent and effective monitoring and enforcement of milling requirements; and
 - v. updating conversion factors in the BCTS milling report.

5. Explore exemption for value-added products under a new Canada-U.S. Softwood Lumber Trade Agreement

- Value-added manufacturers buy their input material in the open market, and should be exempt from commodity lumber duties.
- The B.C. government will ask Canada to pursue an exemption from duties for value-added firms operating in B.C. and selling products in the U.S. when developing a new Canada-U.S. Softwood Lumber Trade Agreement.

6. Explore the development of a Wood Secretariat

- A working group with members from the value-added associations, government ministries, FII and FPI has been formed to develop a draft structure and terms of reference for a Wood Secretariat that will be finalized for Ministerial approval by fall 2016.

- The Wood Secretariat will provide a single point of contact between government and the value-added sector to discuss issues and share information. It will have government and industry co-chairs that will change annually, involve senior representatives and meet quarterly.

Pursuing actions to support and implement the above noted six recommendations will guide next steps in maximizing competitiveness and benefits for B.C.'s value-added sector. It demonstrates the Province's commitment, through its focus on forest sector competitiveness, to explore opportunities to rebuild and improve the value-added sub-sector, and position it for the future.



Ministry of
Forests, Lands and
Natural Resource Operations