

Quarterly Update: B.C. Mill Status Report

Q4'2011: October to December 2011

Attached is the latest copy of the mill status report, which provides a current list of re-opened and closed timber processing facilities in the province. For the latest available list of active mills, please refer to the Ministry's "Major Primary Timber Processing Facilities in B.C." report available at: <http://www.for.gov.bc.ca/het/fibre.htm#major-facilities>.

Overview

Q4 has seen upgrades and shift additions by a small number of companies along with permanent and temporary closures by a similarly small number of other companies. Overall it has been a quiet quarter with little net change. This reflects very limited, near-future, prospects for recovery in the US housing market and, more recently, the increased risks of a decline in the growth rate of Asian lumber demands and a double-dip global recession.

Mill Closures:

- **At least three permanent closures** occurred:
 - Cheslatta Forest Products announced the permanent closure of their mill in Ootsa Lake in late October. The mill ceased operation in October 2008 although the planer mill operated sporadically in 2009 and 2010.
 - Canfor announced the permanent closure of its Rustad sawmill in Prince George and its Tackama plywood plant in Fort Nelson. The first was closed indefinitely in 2009 and the second in 2008. As a consequence severance payments will be made to 146 employees of the Rustad plant and 199 at the Tackama plant. Canfor cited the high investment costs that would have been required to bring these plants to globally competitive standards and pointed to the previously announced program of capital investments totalling \$300 million over three years that it is making in a number of other mills.
- **At least three temporary closures and two shift reductions** occurred during the quarter.
 - Pacific Bioenergy's Kitwanga lumber mill closed indefinitely and unexpectedly in late October due to a softening of Chinese demand and resulting lower lumber prices. This affected 45 workers and underlines the fragile economics of small mill operation in more isolated areas. The company subsequently filed for bankruptcy protection in early December.
 - Tolko reduced operations at its Hefley Creek plywood plant from four to three shifts at the end of October affecting approximately 30 workers and reducing production by 4.6 million m² (50 million ft²) of plywood. Tolko cited a shortage and higher prices of peeler quality logs, along with poor plywood markets, for the decision.

- Canfor's Polar mill closed for six days on November 20 because of a fire.
- Paper Excellence in Mackenzie took a maintenance shutdown in October 2011 but this was extended to five weeks due to major unexpected maintenance and repair issues.
- Sigurdson Forest Products in Williams Lake lost a shift when it shut down briefly in late December due to a compressor fire.

Mill Openings and Output Expansions:

- **One mill output expansion** was announced:

Canfor added a second shift at its Vavenby sawmill on December 5 and will add a second shift at the planer mill on the same site on January 9. This will add around 50 employees bringing the total staff numbers to 145 from the 96 employed when the mill restarted in September.

- **Other companies continue to assess options for shuttered mills** while eyeing the continuing malaise in the US housing market, the reduced Chinese growth forecasts and risks of recession.

Mill Acquisitions and Disposals

- Canfor announced at the end of November that it had reached a deal with Tembec to purchase Elko & Canal Flats mills for \$60 million including working capital along with 1.1 million cubic metres of timber in the form of Crown licences. The transaction will include a long-term agreement to provide residual fiber supply for Tembec's Skookumchuck mill. Approximately 455 employees are included in the transaction. The Elko and Canal Flats sawmills employ some 165 people on each site. The remaining employees include 33 forest management workers and roughly 90 staff located in Cranbrook head office and associated Tembec field sites. The transfer is expected to be completed late in the first quarter of 2012.
- Conifex struck a deal in mid November to acquire the commodity lumber operations of Welco Lumber Corp. and the transportation and logistics business of its Navcor subsidiary for at least \$1.6 million.

Mill Investments:

- Western Forest Products announced plans in late October to invest \$200 million over the next two to three years in upgrading its sawmills and timberland operations on Vancouver Island.
- Catalyst shut down a boiler on November 5 at its Port Alberni pulp and paper mill to complete an 18 day, \$4.7 million upgrade partially funded by the Federal Government's

Pulp and Paper Green Transformation Program. The investment in a new steam economizer and ancillary equipment will lead to improvements in energy efficiency, reductions in costs and reductions in emissions.

- Interfor announced plans for a \$24 million investment in the Grand Forks and Castlegar sawmills, slated to begin early 2012 that will provide a more stable job environment. \$19 million will be invested in Grand Forks for "a significant upgrade to our sawmill, with a new small log line installed in 2012 up until early 2013"; and, \$5 million in Castlegar for "high-return projects that will focus on increasing productivity and value extraction at the mill."
- Coast Tsimshian announced plans in mid November to open a \$40million mill in Terrace to cut specialty-sized wood and to make pellets with what's left over.
- On Nov. 8, Biomass Secure Power Inc. (BSP) of Abbotsford announced that it wants to build its first pellet plant in the Cowichan Lake area bringing as many as 35 jobs with it.

CONTACT: This report is prepared by Jim Johnston and Judith Elkins of the Competitiveness & Innovation Branch. Please let Jim know of **any** requested changes (corrections, updates, etc.) at 250-387-8374 or Jim.Johnston@gov.bc.ca. Please inform Judith if you wish to be added or deleted from this distribution list (Judith.Elkins@gov.bc.ca).

SOURCES: To prepare this report, Jim and Judith review company news releases and media reports, and supplement this information with information provided by various analyst reports and government contacts. Note that this list may not be completely comprehensive, as we might miss some smaller closures and don't always catch all shift changes.