

BC Coastal Forest Sector Hem-Fir Initiative

PROGRAM: Harvesting and Conversion Program

PROJECT #: H.03

PROJECT TITLE: Best Practices and Technologies in South America with Recommendations for the BC Coastal Forestry Industry

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Abstract

In 2004 Canada’s forest products sector was the most profitable in the world. Today, Canadian forest products companies are in trouble. Even if the industry’s average return on investment was acceptable to investors -- which it clearly is not -- the community instability and regional economic disruption is not good economic policy. It is easy to blame lumber markets, exchange rates, and international trade policies. But to do so would ignore the fundamentals: 1) the commodity lumber market is highly cyclical, and 2) there is a long-term overcapacity of commodity lumber production in the world. Now, given those basic facts, how do we build a more competitive and sustainable forest sector?

When it comes to forestry, Latin America is the current Land of Opportunity. First, there is an abundance of low cost, highly productive land. The availability of cheap land is decreasing somewhat but Uruguay is the newest player, and we will see dramatic future increases from this country. Second, tree growth rates are nothing short of fantastic. The return on investment is the highest in the world. We are *just* starting to see harvests from the second generation of trees bred for local conditions. Third, inexpensive labour makes it affordable to practice intensive silviculture, build factories, and produce product more cheaply. Fourth, gentle topography, good climate, and good roads make supply lines short and manageable. Fifth, forestry in South America is aforestation – not deforestation. This basic fact makes a huge difference and is perhaps the most misunderstood thing about South American plantation forestry.

These natural competitive advantages are hard enough to beat; yet there is more. Added to their natural strengths is an organizational strength that takes everything to the next level. There is a can-do attitude and a youthful vigour to their production facilities. Logs and product are carefully sorted all through the supply chain to achieve value uplift, and managers know that they cannot be successful without this uplift. Logs are typically sorted by diameter class and length at the mill. This allows sawmills to operate faster with less expensive and less complicated technology. It also allows far more flexibility in the product line. Secondary manufacturing is integrated into the sawmilling industry, and different products and product lines are seamlessly inserted in and out of the process. Product is typically pulled through the mill to meet orders, instead of pushed on the market. Finally, supply chain optimization software to aid decision making of where and when to harvest is typical.

Some of Latin America's advantages cannot be duplicated in BC, while others can. The rate of return on intensively managed forest plantations in the US Pacific Northwest is half of that achieved in Brazil. Nonetheless, much can be learned from South America -- and must be learned if we are to compete. First, our forests must be managed in such a way to give us a true competitive advantage in fibre supply. Currently we are too focused on a single market. We must begin to think in terms of *growing future resources*, instead of just replanting cutover areas to satisfy regulations. Secondly, our supply chains are hopelessly long and complicated, and much too inflexible to achieve market oriented production. In BC, it seems that forestry and manufacturing operate as two separate businesses. In Latin America, product orders often work their way back to the forest. Our mills are exceedingly complex and expensive; yet many cut just four product dimensions from logs of all sizes and qualities mixed together. Instead of a smaller, lower cost, and more specialized sawmills we have supermills that do everything the same.

We talk of getting the right log to the right mill, but if you only have one kind of mill, that's where it goes. In Latin America, secondary manufacturing is part of the process. They get value uplift on low quality timber whereas we don't get it from high quality timber. That is perhaps the most pressing issue in BC, and one that means we have to come up with a new way of doing business. It isn't that we can't get the value out of the wood. We just can't get it out efficiently. And that is because we have been obsessively focused on volume recovery for way too long.

From a forest policy point of view, another big difference between Latin America and BC is that communities in Latin America are by and large more economically diverse and less dependent on the forest sector. If we learn nothing else from this latest forest sector recession, we should learn that these communities must diversify in order to survive. The commodity forest sector can be a healthy contributing factor to a community. If the commodity forest sector is the primary economic driver in a community, then it is unhealthy.

Keywords: Latin America, forestry, silviculture, manufacturing, technology, planning, sawmills, remanufacturing, value added

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