

Industry gets cut down to half-size

Canadian decline follows U.S. slump

Gordon Hamilton, Vancouver Sun March 17, 2010

The recession has cut the Canadian lumber industry down to little more than half its peak size, according to a report by the International Wood Markets Group.

In its annual report on the top 20 North American lumber producers, Vancouver-based Wood Markets states that Canadian lumber production is down 45 per cent to 19.4 billion board feet from its 2004 peak of 35.1 billion board feet.

Much of that decline was in the last year, when production fell by 21 per cent in the East and 17 per cent in the West, the report states.

"Indefinitely curtailed was the buzzword for 2009," states the report.

The Canadian lumber decline follows the decline in U.S. housing starts, which peaked at two million in 2006 and are now at 575,000.

The five-year-long drop in lumber supply has eliminated some companies completely and led to the emergence of three British Columbia-based super powers in the Canadian industry: West Fraser Timber, Canfor Corp. and Tolko Industries. The three are now the largest forest companies in the country. West Fraser is the largest in North America.

"There's been a re-alignment," said John Allan, president of the Council of Forest Industries, which represents Interior companies, in an interview. "You are seeing the emergence of Canadian-owned companies in the U.S. forest industry and you are seeing the survival of the fittest in Canada."

Of the top 20 Canadian firms, 13 are in the West. West Fraser and Canfor, which have operations in the U.S. South, are also on the U.S. top 20 list.

"These top 20 firms have survived and they are likely to prosper from the upturn when it occurs," Allan said.

He said the growth of B.C. companies is largely an unexpected outcome of the Canada-U.S. softwood lumber dispute during the first five years of the decade. In order to decrease the anti-dumping duties being charged by the U.S., Canadian companies had to lower their unit costs. In B.C. lower unit costs were achieved by investing in new equipment, which proved an advantage when prices dropped off the cliff in 2007. By then, B.C. companies were extremely cost-efficient. Lumber prices have rallied in 2010 but Allan said he does not expect to see a strong bounce back until 2013, when the impact of pine beetle-killed wood begins to limit the North American lumber supply.

The surviving companies should prosper then but Allan does not foresee a matching uptick in employment. It could be a jobless recovery if it is driven by the decline in production from B.C.

"Frankly, I can't see us adding any new sawmills," he said. "There might be some shifts added."

The decline in lumber production has cost an estimated 30,000 jobs, according to Statistics Canada data. Employment in the Canadian wood products sector peaked at 126,687 jobs in 2007 but had fallen to 90,948 jobs by the end of 2009. A third of those job losses, 9,898, were in B.C., where employment peaked at 34,701 people in 2007 but had fallen to 24,899 by the end of 2009.