



## FOREST VIEW

## PETER WOODBRIDGE

## Bio-energy and value-added opportunities promise new revenue sources for B.C. lumber companies

(Part 2 of a two-part series; Part 1 appeared in BIV issue 1003; January 13-19)

**BC**'s commodity softwood lumber industry is world-scale and highly competitive, but it faces a tough future. There's far too much manufacturing capacity globally. Most experts agree – a double-whammy of reduced U.S. demand and deteriorating timber supply resulting from the pine beetle infestation will force the closure of dozens of B.C. Interior sawmills over the next two market cycles.

Growth in value-added wood products manufacturing capacity can help offset some of the commodity product decline. But sustainable growth requires two fundamentals working in its favour: markets and viable enterprises.

Looking beyond today's severe global market recession, value-added capacity growth is not market-limited. But viability among the province's many small, often cottage-industry scale, value-added wood products manufactur-

ing facilities is elusive. Now, bankruptcies are wiping out large parts of that capacity.

If the current pace of value-added capacity loss continues, it will be hard to entice these investments back into the province.

Many of the casualties are innovative young firms. They're at the forefront of what many believe is an impending breakout into a new era – manufacturing of technology-intensive, knowledge-based products that should be the hallmark of B.C.'s future wood products manufacturing industry.

This emerging opportunity is readily evident in one of B.C.'s key markets: the U.S. housing industry. Labour-intensive, frequently wasteful, site-built construction methods are giving way to off-site fabrication of components and engineered systems building. These are the structural products of the future and ones in which a larger value-added manufacturing industry in B.C. easily could become a global competitor.

For these investments to be

viable, they must meet the acid test for success in B.C.'s forest sector: large economies of scale and low unit costs. Without this, the province's remote location in global trade – thousands of kilometres from its major export markets – will smother the financial viability of even the most innovative producers.

B.C.'s sawmilling majors are the first to admit that their business model is not the right one for success in value-added manufacturing. Value-added requires a different mindset.

In the post-recession new-age economics of tomorrow, the lion's share of value-added manufacturing investment will locate close to consuming markets. Unless B.C. can carve out a piece of this pie, the province will be pushed further back into a commodity raw materials supply role.

How does this work back into B.C. government economic policies?

Recent initiatives by Forests Minister **Pat Bell** are part of what B.C. needs. He's helping create the pre-conditions for new manufacturing

investment using the leverage of B.C.'s beetle-killed pine timber.

Correctly, the initial focus is on big impact projects. That's why **BC Hydro** recently selected four larger proposals for forest-based biomass conversion to feed into the provincial grid. Three involve pulp mills.

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Bio-energy opportunities help solve the massive beetle-killed wood problem. For pulp mills, energy revenue can provide a reliable stream of supplementary income. That's good business for B.C.

B.C.'s value-added wood products manufacturing sector can also capitalize on this

opportunity via smaller community-based bio-energy projects. Unlike pulp mills, sawmills and value-added plants don't use, or generate, a significant amount of energy. So there aren't the same overwhelming process linkages.

But now, with improved access to forest biomass through **BC Timber Sales**, groups of value-added wood producers can develop small bio-energy projects and generate revenue sources independent of their mainstream business.

BC Hydro has developed targets (recently scaled-back) for sustainable independent power capacity from small business and alternative energy sources. It treads a delicate commercial path – not helped by wildly fluctuating global energy prices. There are calls for Hydro to be more ambitious – a **W.A.C. Bennett** type of vision.

There's plenty of scope remaining to leverage beetle-killed timber assets into viable small businesses. Recently announced Category 2 timber sales to small business are a partial step in the right direction. But, by themselves, they're not enough.

Most small-business managers don't have time to explore these strategic options. Revenue opportunities, such

as bio-energy projects, pass them by. B.C.'s value-added wood products sector also lacks a high-profile champion within government. The province should appoint one! A value-added sector advocate could help stabilize this vital industry and facilitate new investment without getting involved in social engineering.

The advocate could intercede – in cases of impending bankruptcies – to work with creditors and banks, co-ordinating whatever government resources can be mustered to keep them in operation. It's not a new idea. The **Job Protection Commission** did it until 2001.

Secondly – and this is new – the advocate could work with communities, First Nations, small business, government ministries and Hydro, bringing forward, to today, future commercial-grade small business bio-energy projects.

If B.C. wants to escape the yoke of being a hewer of wood, now's the time to support its fledgling value-added industry. ■

*Peter Woodbridge (www.woodbridgeassociates.com) is president of Woodbridge Associates Inc. His column appears monthly in Business in Vancouver.*

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