Logging & Sawmilling Journal

Time to compensate logging contractors on what it costs to run a business in 2016—not in 2008

By Tony Kryzanowski

There is a lot of pain being felt among individual Canadian logging and log haul contractors these days (see the Spotlight story on page 4 of this issue) and while it would be easy to blame the big, bad forest companies exclusively, the pain is coming from a lot of different directions.

A great deal of uncertainly currently exists in the forest products world, with softwood lumber prices having gone in exactly the opposite direction as market forecasters expected, the thirst for lumber in China has diminished, and the recent American decision to place a massive tariff on supercalendered paper for some Canadian producers.

The cost for everything seems to keep going up for the average logging and log haul contractor—the most painful being the cost of replacing equipment. Given the exchange differential between the Canadian and American dollar, some contractors are reporting as much as a 30 per cent increase in the cost of equipment.

While I hesitate to use the word crisis, it's hard to find another word to describe what some contractors face in the short to medium term with equipment replacement. The response is painfully clear. Contractors will have to absorb that cost, extend the life of existing equipment, look for 'lightly used' replacements—or turn off the lights and quit the business entirely if the exchange rate differential sucks out the last few percentage points of profit from the business.

What I'm hearing from many long term, well established loggers these days is: "It used to be fun and profitable." Now? Not so much.

Personally, I can't envision a situation where over the next decade large contractors will be able to afford to continue to operate at the same level. Maybe the answer is for logging contractors to take on less volume with less iron and fewer employees, but operate more efficiently. Maybe that has been a long time in coming. For years, the trend has been to encourage trusted and efficient contractors to take on more volume so that forest companies have fewer contractors to have to deal with. In theory, this hasn't been a bad approach because it rewards good contractors with the potential for more profit.

However, human nature being what it is, abuse can find its way into this relationship. By abuse, I mean asking these contractors to take rate reductions when times are tough, but hesitating or outright refusing to raise rates back to current conditions when times are better. It's the big box store model—promise a supplier big volumes to the point where they can't afford to work for anyone else, and when they become totally dependent upon you, then you start squeezing them on price.

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What has made this situation worse for contractors is the evolution toward dominance of the entire industry by a smaller group of companies. In other words, some areas have become so dominated by single large forest companies that contractors have nowhere else to turn if they are squeezed.

While this situation is difficult for contractors, as business practices go, it's hard to fault the majors for trying to create good value for their shareholders, with fibre costs notorious for being their biggest business expense. But here's where some really nasty negotiating tactics sometimes raise their head: when forest companies actually penalize contractors when they take steps to become more efficient, by reducing their rates. That crosses the line. If forest companies want to avoid having to negotiate with organized contractor associations that have full control over whether logs show up in their mill yards in future, they had better put a stop to this heinous practice.

Is there room for contractors to operate more efficiently? Yes. Are there situations where contractors are working as efficiently as they can, but still face abuse from their forest company clients? Unfortunately, yes.

While I hesitate to take sides, the fact is that the Truck Loggers Association in B.C. has got it right, as noted in the Spotlight story. The current situation of fewer forest companies controlling a greater share of the industry is creating an adversarial situation among loggers, log haul contractors, and companies.

Where I am not seeing as much confrontation is in situations where wood product businesses are still owned by individual entrepreneurs or groups of private shareholders. Predictably, these owners tend to have a better feel for what logging contractors are experiencing in the trenches, and seem more beholding to their suppliers.

Suffice to say, given the current trend of how many contractors are leaving or retiring from the industry, and how few young people are filling the gaps, forest companies best think long and hard before squeezing contractors any further. Contractors did their part during the downturn and took the rate cuts. Now it's time to provide them with the opportunity for a reasonable return on their investment with rates that reflect today's costs—not what it cost to run a logging business in 2008.