



Mackenzie making a comeback

The town of Mackenzie, B.C. is well along the comeback trail, with a \$40 million upgrade to the Canfor sawmill now underway, and a \$79 million sawmill co-gen plant in the offing for Conifex.

By Jim Stirling

Mackenzie, British Columbia: Canada's forestry capital. Well, perhaps not quite. Not yet. But the forestry sector in the natural resource-rich town of 4,500 people in north central B.C. is poised for resurgence.

By any yardstick, Mackenzie has experienced a remarkable turnaround in fortune. The U.S. lumber market collapse close coupled with a prolonged recession triggered mill closures, logging curtailments and an exodus of forestry industry workers. Home and business "For Sale" signs sprouted like spring flowers. Mackenzie hunkered down to weather a storm not of its making.

Just how precipitous the downward spiral was is reflected in a harvest and stumpage summary collated by the staff at the Ministry of Forests, Lands & Natural Resource Operations in Mackenzie. In the year 2000, the volume harvested was slightly less than the Mackenzie TSA's AAC of nearly three million cubic metres and stumpage paid was around \$83.7 million. By 2006, from a slightly increased AAC, the volume harvested was still a healthy 2.5 million cubic metres contributing stumpage of approximately \$67.9 million. But in 2010, from an identical TSA AAC, the volume harvested plummeted to a mere 960,000 cubic metres raising about \$2.7 million in stumpage, reveals Dave Francis, district manager for the Ministry's Omineca Regional Operations in Mackenzie. The volumes harvested were still lower in 2008 and 2009 but the \$/cubic metre was higher. In 2012, from the same AAC volumes, the harvest recovered to 2.4 million cubic metres contributing \$6.5 million in stumpage, said Francis.

The main reason for the turnaround is the remarkable surge in lumber demand from China. The patient development of wood use promotion in China by the forest industry and the provincial and federal governments coincided with a rapidly expanding urban middle class demanding housing. More than 2.2 billion board feet of B.C. lumber was sold to China in 2012.

And although far from robust, the U.S. housing market is now awakening and looking toward Canada for lumber. On top of that, it's estimated 140 sawmills in the U.S. and Canada have closed in the last five years.

The Northern Development Initiative Trust shares optimism in Mackenzie's future. "Not only are the sawmills and a pulp mill back up and running, but Mackenzie is also enjoying the spinoffs of a major new copper-gold mine nearby—Thompson Creek's \$1.4 billion Mt. Milligan," reported the trust, a regionally operated economic development corporation. "This new economic activity is driving job creation, local business growth, housing development and renewed pride."

There's further evidence the tide has finally turned for the wood product manufacturing survivors. Significantly, the investment sentiment is changing in forest products' favour as noted by Patricia Mohr, vice president of economics and a commodities market specialist at Scotiabank.



“Of the 32 commodities in the Scotiabank commodity price index, the ones I think will have the biggest price increases from December of this year (2012) to December of next year are lumber and oriented strand board,” she predicted.

But as always in B.C.’s forest sector, there are concerns and issues. A key concern is the impact of the mountain pine beetle epidemic on future timber supply. The Mackenzie TSA is better off in that regard compared with other regions to the south, reckons the forest ministry’s Dave Francis. He says results of a new analysis of the Mackenzie timber supply was expected in late spring, updating the most recent analysis from 2001. That indicated about 44 per cent of the region’s timber supply was in pine, with 38 per cent spruce, a conservative 14 per cent balsam and four per cent deciduous.

“These are net area, by leading percentages,” noted Francis. The beetle has devastated hundreds of thousands of hectares in the TSA. The new timber analysis will provide a clearer picture but Francis estimates a pine mortality from the beetle of 68 per cent since the epidemic began in the region during 2004.

Local forest licencees and their contractors have been targeting pine salvage. Even when the industry was picking itself up off the recessionary floor, about 1.5 million cubic metres of beetle infested pine were salvaged and scaled in the TSA in 2011.

The Mackenzie TSA is huge, encompassing about 6.4 million hectares, more than three million of which was deemed productive forest land.

The conclusion is that despite the ravages of the beetle, the Mackenzie TSA has a significant wood basket to support and sustain a diversifying forest industry. And that’s why Mackenzie’s forest companies are investing in the future. On the solid wood side, that’s Canfor Corporation and Conifex Inc. In January 2013, Canfor, which is celebrating its 75th birthday this year, announced a series of improvements and upgrades for its Mackenzie division sawmill. The capital improvements, valued at \$40 million, will be in the sawmill, planer and dry kilns. The improvements are designed to increase productivity and lumber recovery. “Our fibre supply in Mackenzie region is strong and this announcement reflects confidence in our ability to operate an internationally competitive mill in this community,” said Don Kayne, Canfor president and CEO. The update is scheduled for completion in November 2013.

Conifex operates the other major sawmill complex in Mackenzie and also has a major improvement project in the offing. The company is constructing an electricity co-generation plant using its sawdust, shavings and hog fuel co-products as the furnish. The estimated budget was \$79 million (including \$7 million contingency) in May, 2012. But the project was curtailed in November, 2012 pending project financing restructuring.

“While it’s disappointing to have to reduce expenditures on the project over the next few months, we concluded that it was important for us to have the best possible financing in place to ensure that an optimal value is realized for Conifex and its shareholders over the 20 year term of our energy purchase agreement with BC Hydro,” said Ken Shields, Conifex CEO. “We remain optimistic that we will identify the appropriate financing for the bioenergy project that will make sense for Conifex.”



Other forest industry operations in Mackenzie include the Mackenzie Fibre Management Corporation, which among other functions is a log broker; East Fraser Fibre with a finger jointing plant and chipping capability; and Ospika Lathe and precut, a specialty mill converting low grade lumber.

Mackenzie has other advantages, contributing to its further forest industry development. First class road and rail infrastructure is in place. CN is investing millions of dollars upgrading its rail line to the Port of Prince Rupert, helping support economic lumber shipments to Asian markets. There's a well established forest industry supply and service capability in Mackenzie and Prince George, about 190 kilometres to the south.

Augmenting the skills cluster are forest industry training and research centres like the College of New Caledonia and the University of Northern British Columbia. Combine all the factors and it spells sustainable optimism for Mackenzie's forest industry.

The town of Mackenzie and its forest industry facilities have a number of positive factors contributing to further development. First class road and rail infrastructure is in place, and CN is investing millions of dollars upgrading its rail line to the Port of Prince Rupert, helping support economic lumber shipments to Asian markets.