

PART IV

COMPETITIVENESS

B.C. FOREST INDUSTRY'S COMPETITIVENESS AND COSTS

Since 1993 the B.C. forest industry has undergone significant increases in wood costs compared to other regions. Harvesting costs have soared by 60 per cent on the coast and 74 per cent in the interior. Cost increases associated with the Forest Practices Code amount to \$19.63/m³ on the coast and \$8.41/m³ in the interior. In addition, the industry was burdened with the introduction of the "super stumpage" in 1994 with increases of \$17.02/m³ on the coast and \$18.03/m³ in the interior. Also B.C. forest companies have been stalled by administrative delays preventing them from capitalizing on marketing opportunities.

In 1997, B.C. forest companies were also impacted by the slump in Asian markets, the U.S. softwood lumber quota issue and the oversupply of lumber. Other issues such as market access, native land claims, and the low level of capital investment in new plants in the last five years, have contributed to the erosion of B.C.'s forest industry's ability to be competitive in world markets.

REGIONAL COMPARISON OF DELIVERED WOOD COSTS

Market Pulp (Cdn.\$)

Year	U.S. South	Sweden Finland	Eastern Canada	B.C. Interior	B.C. Coast	U.S. West
1992	510	534	539	576	606	707
1993	511	526	566	607	623	778
1994	516	579	569	651	669	709
1995	543	688	635	857	909	808
1996	578	632	648	743	814	744
1997	617	567	625	639	750	625

Source: Resource Information Systems Inc.

TOTAL DELIVERED WOOD COSTS FOR SOFTWOOD LUMBER MILLS

Market Pulp (\$Cdn.m³)

Year	B.C. Interior	Ontario	Quebec	U.S. West Coast	U.S. Inland	U.S. SYP*
1990	73	87	78	83	53	65
1991	70	81	78	83	56	67
1992	72	85	79	85	78	67
1993	79	80	81	108	76	70
1994	111	97	92	100	86	74
1995	128	94	93	104	87	80
1996	126	99	98	93	80	75
1997	135	109	111	91	76	80

*Southern Yellow Pine

OCCUPATIONAL HEALTH AND SAFETY

Annual payments made by the B.C. forest industry to the Workers' Compensation Board (WCB) have grown from \$110 million in 1988 to \$214 million in 1997, up 94 per cent over 10 years. Days lost to injuries totalled 404,716 in 1988 accounting for 23,811 claims. In 1997, days lost to injuries had declined to 378,233 and the number of claims had also declined to 19,198.

Injury claim costs in 1997 totalled \$145.7 million compared to \$134.6 million in 1996. Injuries by industry sector in 1997 showed logging accounted for the largest portion of injuries at 52.3 per cent of total forest industry. Sawmilling was 31.5 per cent of total, pulp and paper was 8.4 per cent of total, plywood was 5.6 per cent of total and shake and shingle was 2.1 per cent.

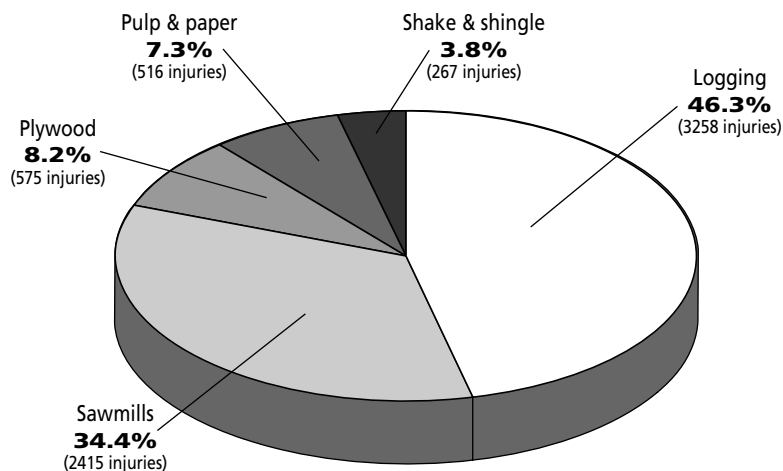
The number of days lost to injury in 1997 totalled 378,233 compared to 343,382 in 1996. Wages lost in 1997 amounted to \$55.5 million compared to \$46.1 million in 1996.

In 1996, the provincial government announced the establishment of a royal commission to examine the workers' compensation system, including governance. The government also provided the principles that are to guide the WCB into the next century: accident prevention, no-fault compensation, collective employer liability, industry funding, universal coverage, and administration adjudication. The final report and recommendations to government are due September 30, 1998.

FOREST INDUSTRY WORKER INJURY STATISTICS

Years	Payment to WCB (Millions \$)	Claim Costs (Millions \$)	Number of Claims	Days Lost to Injuries	Wages Lost (Millions \$)
1988	\$110	\$94	23,811	404,716	\$52
1989	\$119	\$91	22,154	398,257	\$50
1990	\$87	\$104	22,494	385,449	\$52
1991	\$107	\$102	20,090	381,216	\$57
1992	\$106	\$116	19,602	414,172	\$58
1993	\$134	\$134	19,012	425,299	\$59
1994	\$153	\$142	20,302	444,126	\$60
1995	\$199	\$118	20,420	407,127	\$49
1996	\$237	\$135	19,395	343,382	\$46
1997	\$214	\$146	19,198	378,233	\$56

INJURIES BY INDUSTRY SECTOR



B.C. FOREST INDUSTRY RETURN ON ASSETS

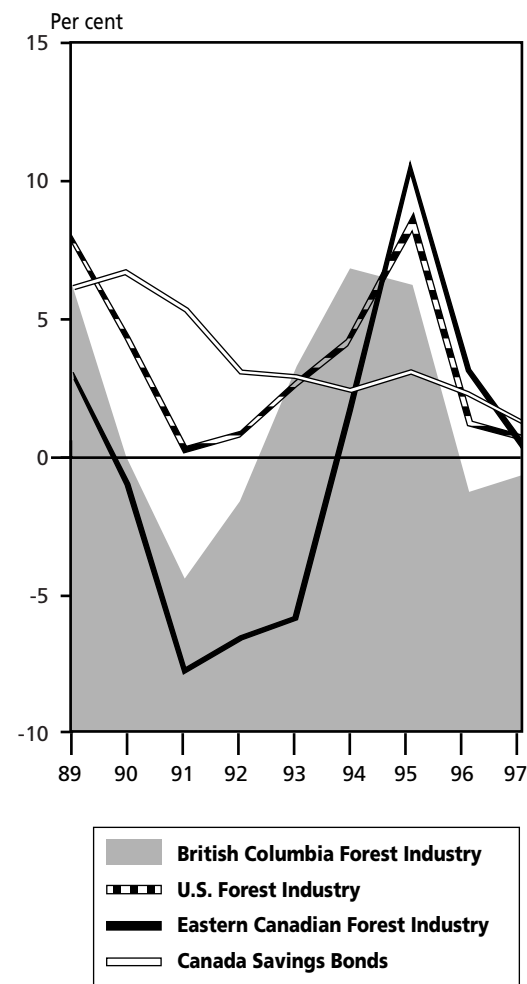
During the early 90's, the B.C. forest industry experienced three consecutive years of financial losses. In 1993 and 1994 the industry's net earnings had rebounded. By 1996 the forest industry suffered net losses of \$290 million, followed in 1997 by net losses of \$132 million.

In 1997, return on assets in the B.C. forest industry compared to other jurisdictions (after tax) was reported as Eastern Canada at 0.5 per cent, U.S. at 0.8 per cent, B.C. at -0.6 per cent and Canadian Savings Bonds at 1.4 per cent.

B.C. FOREST INDUSTRY RETURN ON ASSETS: 1997

U.S.	0.8%
Eastern Canada	0.5%
Canada Savings Bonds	1.4%
B.C.	-0.6%

B.C. FOREST INDUSTRY RETURN ON ASSETS: 1988 - 1997



Source: Price Waterhouse

GOVERNMENT REVENUES FROM THE B.C. FOREST INDUSTRY, INDUSTRY EARNINGS

The B.C. forest industry contributes substantial revenues to all levels of governments.

In 1997 the B.C. provincial and municipal governments received payments of \$2.3 billion, slightly higher than \$2.27 in 1996. However, over an eleven-year period, significant increases were realized as contributions rose from \$596 million in 1986 to \$2.3 billion today.

Stumpage, royalties and rents totalled \$1.8 billion in 1997 up from \$1.7 billion in 1996 reflecting the third year of stumpage rates under the Forest Renewal Plan. Overall stumpage, royalties and rents have more than trebled from \$574 million in 1991 to \$1.8 billion in 1997. Logging taxes declined significantly from \$62 million in 1995 to \$6 million in 1997.

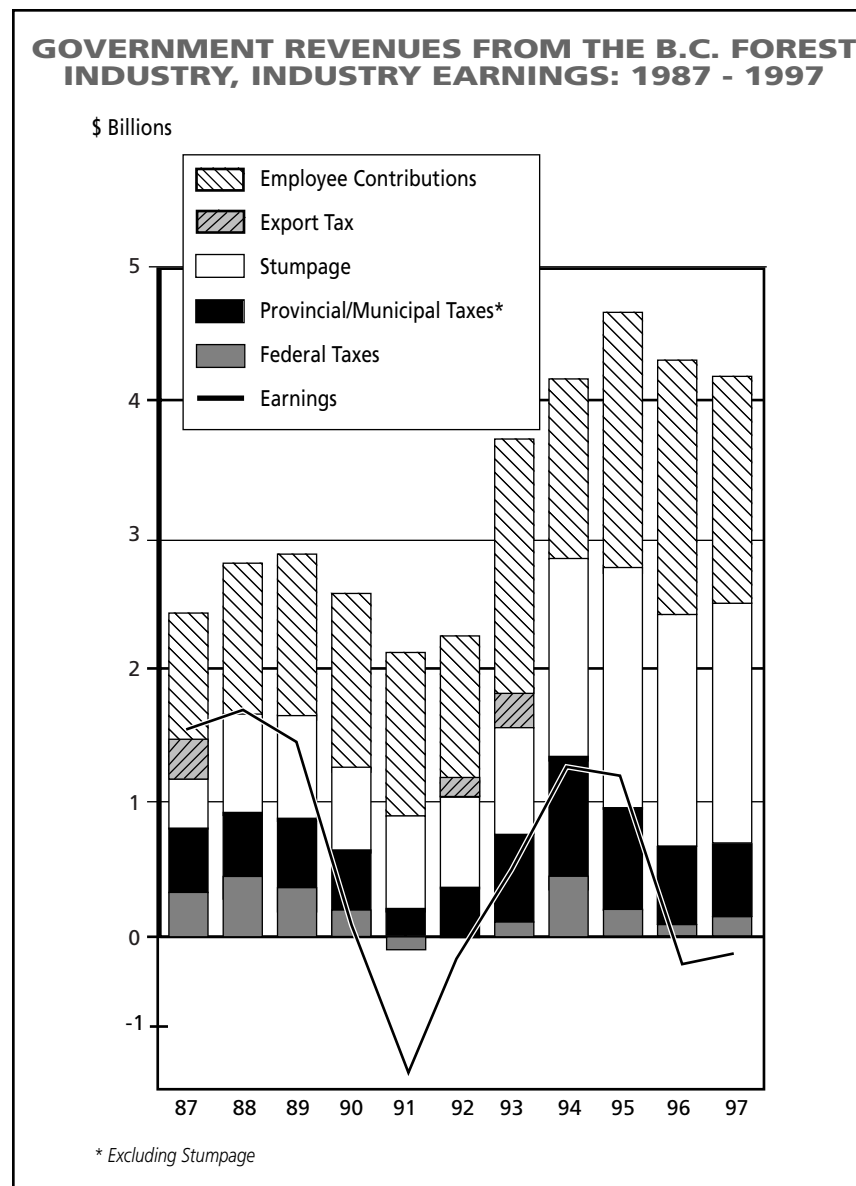
Direct employee income tax payments declined 8% to \$1.7 billion in 1997 compared to \$1.9 billion in 1996.

Property taxes at the municipal level totalled \$150 million in 1997, down from \$152 in 1996. Corporation capital taxes remained the same at \$45 million in 1997.

Payments to the federal government totalled \$108 million in 1997, up from \$91 million in 1996.

Over the past five years, total payments to the municipal and provincial governments have increased substantially from \$1.6 billion in 1993, to \$2.3 billion in 1997.

Total taxes, including the forest industry and employee taxes totalled \$4.2 billion in 1997, or 26 per cent of industry sales, and down from \$4.3 billion in 1996. Total industry sales in 1997 were \$16.2 billion, up from \$15.9 billion in 1996.



B.C. FOREST INDUSTRY CAPITAL EXPENDITURES

In 1997, the B.C. forest industry capital expenditures were \$1.2 billion compared to \$1.4 billion in 1996. Excluded from this total is the amount spent on repairs and maintenance.

Capital expenditures in the pulp and paper sector were to \$346 million in 1997, compared to \$422 million in 1996. Environmental expenditures in 1997 accounted for \$148 million of the total.

The lumber sector spent \$329 million in 1997, up 56 per cent from \$211 million in 1996. Most of the expenditures were in the Interior and went to mill expansions, modernization and value enhancement projects.

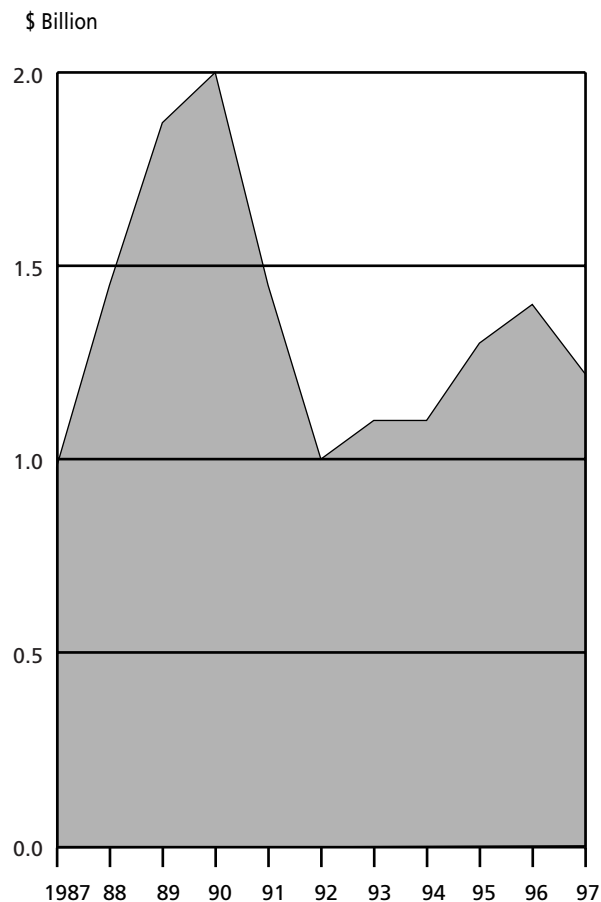
The plywood and veneer sector spent \$42 million in 1996 on capital projects. This was down from \$44 million spent in 1996.

Capital employed was \$17.7 billion in 1997, compared to \$16.7 billion in 1996. The B.C. forest industry earned a return on capital employed of 1.4% in 1997, up from 0.0 in 1996; and during the past decade has earned an average of 5.0%. This compares with an industry after-tax cost of capital of 10 - 12%.

RETURN ON CAPITAL EARNED BY SECTOR

Lumber	5.2%
Plywood	3.0%
Market Pulp	(4.1)%
Newsprint	(1.7)%
Total	1.4%

B.C. FOREST INDUSTRY CAPITAL EXPENDITURES: 1987 - 1997



B.C. FOREST INDUSTRY NET EARNINGS

The start of the 90's witnessed three successive years of financial losses followed by three years of profit. In 1993 the industry's net earnings were \$520 million, soaring to \$1.4 billion in 1994 and dipping to \$1.3 billion in 1995. In 1996 earnings crashed primarily as a result of pulp prices and the year ended with a \$290 million loss for the industry as a whole, followed by net losses of \$132 million in 1997.

The weakest sector in 1997 was pulp and paper. Market pulp had net losses of \$284 million compared to losses of \$587 million in 1996. Attributing to this improvement, year-over-year, was lower chip costs. Market sales were basically unchanged at \$2.5 billion in 1997. Direct costs of producing pulp were \$554 per metric tonne, down 15 per cent from \$649 per tonne in 1996.

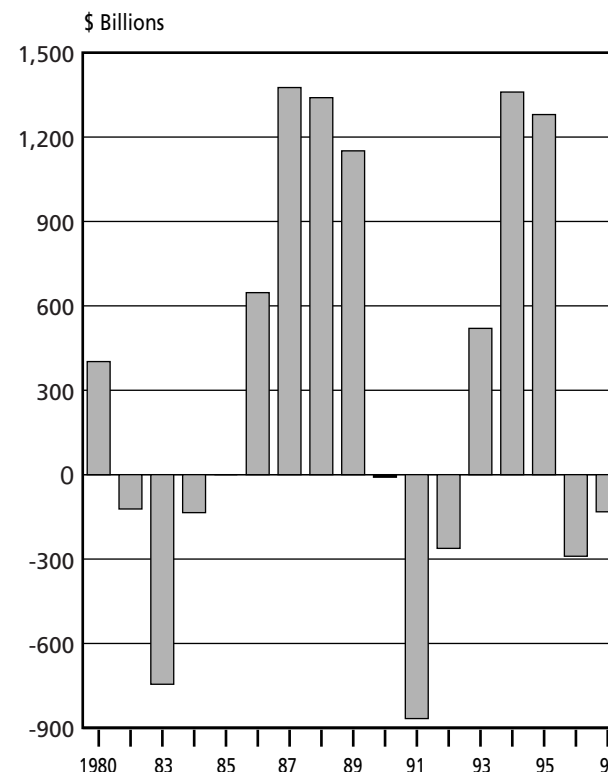
Newsprint suffered a net loss of \$65 million in 1997, compared to net earnings of \$90 million in 1996. Sales of newsprint were \$1.2 billion in 1997, down from \$1.5 billion in 1996. Newsprint manufacturing costs were \$450 per tonne in 1997, up from \$444 per tonne in 1996.

Lumber net earnings were \$259 million in 1997, down from \$392 in 1996. Lumber sales were \$7.9 billion in 1997, up from \$7.7 billion in 1996. By-product revenues, including wood chips, were \$588 million, compared to \$776 million in 1996.

Plywood and veneer net earnings were \$3 million in 1997, compared to net losses of \$2 million in 1996. Sales in this sector including by-products were \$801 million in 1997, up from \$780 million in 1996. The decline was primarily attributed to lower chips prices.

B.C. FOREST INDUSTRY NET EARNINGS: 1980-1997

B.C. OPERATIONS



1980-1984 based on Earnings after Tax, 1986-1997 based on Net Earnings