



Backgrounder — Closure of Cowichan Lumbermill

- Cowichan Lumbermill is located at Youbou on Cowichan Lake.
- Sawmilling at Youbou first began in 1913 with the Medina Mill built by the Empire Lumber Company. The present mill was opened in 1929 by Industrial Timber Mills.
- Continued operations of the mill does not fit in with TimberWest's long-term strategy of focusing on its core private timberland investments.
- In the Fall of 1999, TimberWest made the decision to sell both the sawmill and Tree Farm Licence 46, a public tenure that currently supplies about a third of the logs being consumed by the mill.
- The assets put up for sale were:
 - Cowichan Lumbermill and the Mill site.
 - TFL 46 (including 2,700 hectares of private land).
 - Site of the HBO dryland sort.
- There was widespread initial interest in purchasing TFL 46 and the Cowichan Lumbermill.
- TimberWest received several unsolicited proposals regarding TFL 46 and the Cowichan Lumbermill in late 1999.
- TimberWest entered into Confidentiality Agreements with seven interested parties.
- Each party received confidential information upon which to determine their level of interest.
- Written proposals were received from three parties. None of these proposals included continued operations at the Cowichan Lumbermill.
- TimberWest entered exclusive negotiations with a third party for the sale of the sawmill and TFL 46. TimberWest selected this offer because of:
 - A sound and realistic business plan with financial backing.
 - A solid track record in British Columbia.
 - The highest level of stable employment opportunities with the least disruption. The proposal contemplated relocation to Nanaimo with the transfer of some equipment and a significant number of employees.

- The Ministry of Forests undertook an independent study “Youbou Sawmill - Analysis and Evaluation,” which was conducted by Peter Drake and Associates. This study was initiated as part of the Ministry’s Mill Closure Review Process.
- The Report found that:
 - TimberWest is making a sound corporate decision in deciding to close the operation.
 - Although the mill is reasonably efficient, it remains unprofitable.
 - Profitability is effectively negative when the cost of interest on full working capital requirements is assigned to the mill.
 - Collapse of the Softwood Lumber Agreement with resulting free access to the U.S. market will not lead to improved profitability given market outlook.
 - The mill is not currently well suited for the small logs which will be available in the future and will need substantial capital investment, which can’t be justified by past performance. The report suggested \$10-12 million in capital would be required.
 - A number of knowledgeable mill people and financial analysts have reviewed the situation at Youbou and have concluded that such a capital investment would not be viable.
- The proposal to purchase the assets was withdrawn in July after it did not receive support from the Union.
- TimberWest re-opened the sales process in July, putting the same assets on the market as previously offered. The company contacted those who previously submitted proposals advising them of this opportunity.
- One proposal was received and after careful examination of the proposal, TimberWest determined that the proposal was not acceptable because it did not meet TimberWest’s three criteria: financial and employment terms and fibre commitments.
- TimberWest’s senior management then reviewed a series of options for the Cowichan Lumbermill’s future with the Board of Directors.
- Management and the Board decided to close Cowichan Lumbermill.