



▲ TW Silviculture Forester Al Waters is both a resource and a mentor.

## Turning over a new leaf

As the Company's lead person responsible for "growing more trees faster," Al Waters is both a resource and a mentor for operational foresters.

"TimberWest has an excellent land base and very talented and dedicated employees," Waters said. "Working together we will rise to the challenge of enhancing timber production from private forestlands."

Waters, who has an extensive background in forestry at both the corporate and government levels, joined TW at the beginning of the year to head up its enhanced silviculture program. Previously, he worked for the BC Ministry of Forests, where he managed the woodlot licence program for the province. Waters' focus for 2003 is analyzing opportunities and conducting operational research trials for high-return silviculture practices on the company's private lands.

Areas Waters has identified for improvement include fertilization, initial seedling growth in the nursery and plantations, herbicide use, commercial thinning and exploring opportunities to grow short rotations of red alder. He has established some fertilization trials on private lands at TimberWest's Nanaimo Lakes and Oyster River operations aimed at addressing nutrient deficiencies found in some of the plantations. A customized blend of fertilizer has been applied to approximately 1,200 trees in the trial plots. In Oyster River, Waters and Forester Bill Grutzmacher will also be testing the combined effects of fertilizer and vegetation control on planted seedlings.

TW Forest Hydrologist Bob Willington reviews fertilization plans prior to finalization of treatment sites to ensure commitments to community watersheds are being met.

## Detailed inventory system is part of continuous improvement

**D**ata from TimberWest's new forest inventory initiative will improve the company's ability to make long-term harvesting calculations.

"This project is part of TW's focus on continuous improvement," said Inventory Forester Jim McPhalen. "Getting better information on our private timberlands will enhance planning."

While TimberWest leads BC Coastal forest companies in the percentage of its harvest that comes from second-growth stands, it has not reached the levels found in the US Pacific Northwest (PNW).

"When we started benchmarking TW against companies south of the border, we determined that the BC Coast has a lot to learn from the PNW in terms of silviculture and high-yield second-growth forestry," said Hamish Kerr, Vice-President, Strategic Planning and Forest Policy. "The inventory project is a leap toward catching up."

As TW increasingly moves into second-growth harvesting, it needs to focus more on silviculture investments. While old-growth stands are relatively static, second-growth stands are dynamic and need to be measured on the ground to check against growth modelling and to determine what the company's silviculture investments have bought.

"Timberland management is a much more important function than it used to be, now that we're dealing with more than 60 percent second growth," said Kerr. "We also need to consider a greater range of values than ever before with our watershed management program, riparian management zones, wildlife habitat and protected viewscapes. It's a more complicated business."

TimberWest has contracted Jim Arney, PhD, an expert in growth and yield modelling, to advise on upgrades to the company's inventory data and models. Arney developed the Forest Projection System (FPS), a computer model for estimating future growth and stand yields from inventory data, which is used extensively on industrial, state and tribal timberlands in the US Pacific Northwest. FPS

will be calibrated for TimberWest's land base and give TW an improved way of managing inventory data.

The new inventory system features extensive sampling, and inventory data forms the basis for TW's sustainable harvest calculations. Each stand will be cruised to determine exact yield measurements, such as species, age, height and stand density. The company's previous inventory system was based on averages.

"Once we have this detailed information, we'll be able to lay out 20-, 30- and 40-year harvest plans, which is difficult to do when we're working with averages," said Kerr. "This will allow us to better invest our silviculture dollars and develop improved long-term harvesting plans. Once we're finished we'll be able to say where we could be harvesting a few decades from now. This will give planners a better tool to make these decisions."

In March, timber cruisers started taking tree measurements just north of Nanaimo. They will continue cruising until mid-November.



▲ Inventory data is used to create computer-generated forest cover maps (above right) that identify stands of different species, ages and heights. A similar area (left) is classified by stand productivity.

## US and Canada talk softwood but no solution is in sight

Canada and the US have been talking about ways to resolve the softwood lumber dispute which currently sees countervailing duties and anti-dumping penalties being applied to Canadian lumber exported to the US.

In January, US Department of Commerce (DOC) Under-Secretary Grant Aldonas released a detailed "road map" to show what would be required for countervailing duties to be removed. The US and Canadian governments then met in Washington to try to reach a long-term resolution of the trade dispute based on "changed circumstances." Under US trade law, the DOC can act unilaterally to reduce or remove countervailing duties if it finds circumstances have changed since the duties were imposed.

This road map stipulated that Canada must abandon its current stumpage system and sell "at least a significant portion of its logs at public auction, or through other competitive means" and end all log export restrictions.

"We are hopeful that a resolution will be reached because it is in the best interest of everyone, including Canadian producers and American customers," said Virginia Aulin, Vice-President of Public Affairs. "We also hope that the discriminatory federal government surplus test on private land logs will be removed as part of a softwood lumber settlement. Forcing private forest landowners to sell logs to domestic sawmills at prices lower than the international price transfers the value from the tree grower to the processor, provides some sawmills with an unfair

competitive advantage and restricts competition. It impairs the value of private timberlands in coastal BC and depresses pricing on Crown logs as well."

Contrary to initial expectations on both sides of the border, the duties have served to reduce the pricing of both lumber and log products in the US. This has affected prices TimberWest receives for the logs it sells to the US. The impact on Elk Falls Lumbermill has not been significant because Elk Falls sells largely to Asia. However, when a solution is reached, access to the US market will be beneficial.

The parties also discussed an interim agreement that would see a border tax collected in Canada until such time as a changed circumstances ruling was possible.

No agreement had been reached at press time.

The world market is a fascinating place as you watch the fibre shift. You try to take advantage of changes and envision what the implications of those changes are in other markets...

# The fibre market game

## GLOBAL PERSPECTIVE: Outfoxing the competition

**F**or John Burch, manoeuvring through world fibre markets is like playing a giant game of chess.

"The world market is a fascinating place as you watch the fibre shift.

You try to take advantage of changes and envision what the implications of those changes are in other markets," said Burch, TW's Director, Marketing and Transportation for Lumber Manufacturing. "The whole thing is a game of strategy."

And the goal is to outfox the competition by obtaining the best market share. For TW, that means finding markets that can give the most value for each log, whether it's manufactured into lumber at Elk Falls Lumbermill or exported as raw material.

▼ **BRATSK, RUSSIA** — Logs are being loaded onto a rail car headed for China, which is an expanding market for wood products.

**Coping with the new "Wild West"**  
In the global fibre market, the biggest moves from competitors these days are by Russia and Europe. And one of the key strategic positions everyone has their eye on is China.

"China has lots of potential, and by far our biggest competitor there is Russia. It has the lion's share of the import market for softwood, selling red pine, spruce and larch," said John Kelvin, Vice-President of Log Marketing and Sales, who recently visited Russia and China.

In 1997 there were virtually no logs moving from Russia into China. Today that number is 14 to 15 million m<sup>3</sup> per year. "They increased their sales to China by six million m<sup>3</sup> year-over-year at price levels we can't compete with," Kelvin said.

Not only that, with Russia in the infancy of capitalism, a "Wild West" atmosphere prevails, with few government or ethical restrictions guiding market practices. "We don't want to emulate them, but we have to understand what they are capable of," noted Kelvin.

**China: A prize and a wild card**  
China stands as the big prize in today's fibre game largely due to its restrictions on tree harvesting to prevent flooding and its rapidly growing middle class.

During his visit, Kelvin determined that while opportunities there are limited in the near future, they look attractive long-range. "Demand for homes constructed from wood instead of concrete and steel will increase," he said. "More than five million people in China have annual incomes over \$200,000, and access to the Internet and cable TV is increasing rapidly, so they're starting to see and want western-style products."

But China is also a wild card in the marketplace. It's such a huge market it is actually absorbing some of the fibre Russia had been previously selling to Japan, opening some new opportunities in Japan for TimberWest.

At the same time, China's labour cost advantage enables it to mill imported wood and resell the product to Japan, Europe and North America, particularly for furniture.

**The big move from Europe**

As forests in Europe mature to harvesting age, forest companies there are also selling more fibre in Japan. European sales to Japan have gone from zero in 1992 to volumes equal to BC exports to Japan today. "Europe is currently big competition for us in Japan. But with the euro gaining value against the yen and the US dollar, Canadian suppliers like TW are gaining an advantage," noted Burch.

In the meantime, other Pacific Rim markets such as South Korea, with its rebounding economy, and Taiwan also show potential for expanding sales. In Europe, wood markets for home construction in France, Belgium and Morocco look promising. In addition, Elk Falls Lumbermill is looking at railway tie markets in the US and Japan.

"We're exploring and looking at diversifying into other markets all the time," said Burch.

## TimberWest delivers the real goods to customers

**D**elivering exactly what TW customers need is key to beating the competition and finding the best market share. So last fall TimberWest representatives visited customers around the world to assess their expectations.

"We wanted to know exactly what they value," said Hamish Kerr, Vice-President of Strategic Planning and Forest Policy. "And we asked ourselves whether we could do some things better, which would benefit both our company and our customers."

It was no surprise to learn that Notice 102, which restricts log exports, is recognized by customers as well as TW as a major impediment on several fronts. It often hampers reliability of supply, plus the company must sort logs to domestic specifications, something international customers don't necessarily want.

Notwithstanding the restrictions of Notice 102, the company is building on its strengths by focusing on high-value log markets in the Pacific Rim, where customers appreciate TW's commitment to international markets and its diverse fibre basket, which allows them to do "one-stop shopping."

Customers also made it clear that they value log sorts tailored to fit their specific needs, so TW is working hard to deliver. "We sort our logs at six separate locations, so we're improving communication and making sure we're consistently providing customers with the log lengths and surface characteristics, such as knot structures, they're looking for," said John Kelvin, Vice-President, Log Marketing and Sales. For instance, some customers can't use larger logs, so their sorts are now restricted to logs 12 to 19 inches in diameter.

On the lumber side, TW learned there was one big way to gain market share. Its \$10-million investment in lumber-drying kilns and other new technology for Elk Falls Lumbermill is the big-bang answer to supplying customers with desirable value-added products, such as traditional zairai (hemlock) lumber for Japan. But more subtle strategies are also at play.

The company is forming true partnerships with existing customers in Japan to increase sales there. "We are aligning ourselves through improved communication and more focused single-chain distribution, combining their resources and ours," said John Burch, TW's Director, Marketing and Transportation for Lumber Manufacturing. "It's an advantage to everyone if we're all on the same page."

## Proud new look for the Elk

When you produce a number 1 product, you definitely want people to ask for it by name. So TimberWest has launched a branding strategy that will help Elk Falls Lumbermill's products gain market recognition wherever they are sold.

"We want people to ask for the Elk product, as opposed to using the generic name," said John Burch, Director of Marketing and Transportation. "The Elk logo will mean a number 1 product."

But to create a brand name, you must first have a distinctive look. So starting in April, lumber wrap for the mill will sport a smart new logo created by Chip 'n' saw Operator Rod Saunders, a 21-year Elk Falls employee who also happens to be an accomplished self-taught artist.

Saunders took one of his drawings of an elk and added lines of motion to reflect the mill's slogan, "The Elk is on the move." By incorporating a waterfall, to represent nearby Elk Falls, along with TW's corporate logo, the new design captures all aspects of the mill's identity.

The branding campaign will also include advertising in trade journals and in targeted markets to reinforce the message that Elk products are the ones to request.



## Stellar performance for TW in a tough year

In a year clouded by a challenging economic climate topped by the US softwood lumber dispute, TimberWest chalked up a record financial performance.

Net sales for 2002 reached \$464.9 million, slightly ahead of 2001 sales of \$461.9 million. Operating earnings hit a record \$99.3 million, compared to \$87.2 million for 2001.

"Our results show that our Operations Excellence strategy is working," said CEO Paul McElligott.

"We've made solid progress in achieving permanent cost reductions. But more important is the outstanding way everyone in the company has pulled together to achieve these results."

The company was also able to strengthen its balance sheet during 2002. In January TW raised \$143.8 million to pay down its debt by issuing Stapled Units, improving the company's debt-to-capitalization ratio to 20 percent, down from 32 percent in 2001.

**TimberWest vs. Timberland Peer Group**  
TimberWest's five-year performance has been excellent compared to our peers. The numbers here illustrate average annual returns.

	1998	1999	2000	2001	2002	Average
TimberWest	-3%	18%	26%	30%	1%	14%
Timberland Peer Group*	-11%	8%	-19%	-14%	-5%	-8%

\* Timberland Peer Group includes Crown Pacific Partners, LP; Deltic Timber Corporation; Fletcher Challenge Forests; Plum Creek Timber Company Inc.; Pope Resources, LP; Rayonier Inc.; US Timberlands Company, LP; and Weyerhaeuser Company.

## New law increases aboriginal participation in forest economy

The provincial government has awarded the Ditidaht and Pacheedaht First Nations on Vancouver Island timber that TW failed to harvest in the mid-1990s, when the forest industry was in a great deal of flux.

In the first major resource allocation under a new law aimed at increasing aboriginal participation in the forest economy, 300,000 m<sup>3</sup> from TW's TFL 46 was awarded to the two bands. The area stretches from Lake Cowichan to the west coast of Vancouver Island.

"These bands now have an opportunity to work directly in the forest industry, and we're hoping to work with them through this agreement," said Steve Lorimer, Manager, First Nations and Community Relations. Discussions are currently underway between TW and the two bands to assess what role the company might play in the 10-year agreement.

In 1993-97, BC's forest industry was hit with many new factors. Changes incurred by the introduction of the Forest Practices Code made it difficult for the Forests Ministry to issue permits in a timely manner.

In addition, environmental pressures ran high, and a portion of TFL 46 was set aside to form part of the



▲ This map marks locations in TFL 46 where the BC government awarded timber opportunities to First Nations on Vancouver Island. It is anticipated that the government will be doing more of this in the future.

Walbran/Carmanah Park.

"If you add up all those factors you can understand why we were undercut," Lorimer said. "So the government exercised its right to take back some of that timber and allocate it to First Nations."

The program also awarded First Nations 265,000 m<sup>3</sup> from Weyerhaeuser's TFL 44 in the Port Alberni/Clayoquot Sound region.

## Constant awareness earns re-certification

Constant awareness of environmental values on the part of everyone at Elk Falls Lumbermill has paid off: the mill has been re-certified to ISO 14001 standards.

"We've increased our productivity and operating levels, which means there could be more potential for environmental risks with new hires and more operating time for equipment," said Ed Verynck, General Manager, Manufacturing. "But the feedback I received was that the auditors were very impressed with the way things

were done and the crew's level of environmental awareness."

Demonstrating continual improvement is a big part of ISO 14001, so projects like upgrading the wharf adjacent to a fish-bearing stream near the mill and improving the mill's anti-sap stain treatment process also helped obtain the re-certification.

ISO 14001 certification, which TW has earned throughout its operations, focuses on environmental management systems.

## Shifting currencies hit the bottom line

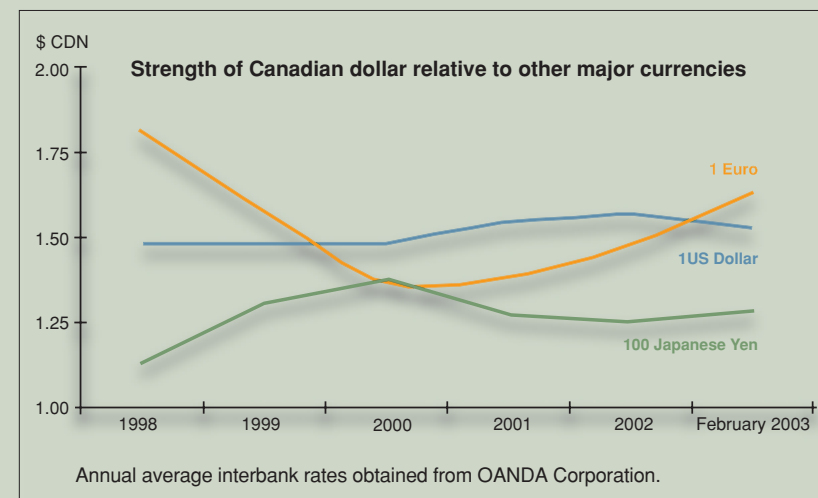
**T**he increasing value of the Canadian dollar is great news for travellers and importers, but not such good news for companies like TimberWest, which rely on export markets for a significant portion of its sales.

"Continued uncertainty in world markets over the possibility of war and the potential impact this may have on global economies have resulted in a general weakening of the US dollar relative to other major currencies," said Verlon Otto, Manager of Corporate Reporting.

Most notable to TW are the strengthening of the Canadian dollar, now at a two-and-a-half-year high, and the euro, up more than 20 percent in the past year relative to the US dollar.

"TimberWest's sales into export markets are in US dollars. As the Canadian dollar strengthens against the US dollar, our ability to pass along the difference in exchange rates to our customers is difficult, especially now with oversupply of forest products in global markets, reducing the company's overall return on sales," said John Burch, TW's Director of Marketing and Transportation for Lumber Manufacturing.

One bright note: the strengthening of the euro has resulted in European forest products becoming more expensive in the Japanese and US markets. "Fortunately for TimberWest, this bodes well for selling into these export markets as this gives us an opportunity to re-establish lost market share that's eroded over the last 10 years," Burch said.



▲ **DALIAN, CHINA** — Chinese sawmills are busy processing increasing volumes of red pine, spruce and larch logs imported from Russia.

▲ **HIROSHIMA, JAPAN** — John Kelvin (left) and Hamish Kerr (right) meet with a sawmill owner to discuss how TW can improve customer service.



## ELK FALLS: Leading by example

Forests Minister Mike de Jong was impressed by what he saw on a recent tour of Elk Falls Lumbermill. In fact, he plans to use the mill as an example of a business moving forward and competing in world markets when he speaks to people in other parts of BC.

"TimberWest's \$10-million capital investment in their Elk Falls mill demonstrates the kind of forward thinking that's needed to regain BC's place as the world's leading producer of sustainable forest products," he said.

"As I toured the mill, I couldn't help but notice three things about the management and staff — their pride in their work, their confidence to invest in BC, and their optimism for the future of the Coastal forest industry."

The Minister's visit came on the

heels of TW's announcement to invest in the mill for capital improvements. "Our investment was a good news announcement for forestry in BC — there hasn't been anything like it on the Coast recently," noted Steve Lorimer, Manager, First Nations and Community Relations.

Lorimer and other company representatives, including Elk Falls Manager Terry Hamilton, accompanied de Jong on his mill tour, pointing out recent changes and the future location of Elk's three new lumber-drying kilns.

"We discussed recent improvements in the operation which have resulted in considerably better margins. Now our overall goal is to compete for logs at international prices," said General Manager, Manufacturing, Ed Vervynck. "That really got the Minister's attention."



PHOTO: MARY ANN LEACH

▲ Forests Minister Mike de Jong (far left) and MLA Rod Visser (far right) learned about Elk Falls' plans to pay international prices for logs from TW's Terry Hamilton (middle left) and Ed Vervynck (middle right).



PHOTO: STEVE TELOSKEY

▲ Heather Griffiths (right) shows Faller Klaes Swanberg a simple stretch for the lower and mid-back to prevent injuries.

## NEW SAFETY PROGRAM: Helping to prevent injuries

Oyster River's Operations Superintendent Paul Berg is without pain for the first time in three years. Berg is one of almost 100 TW employees whom Athletic Therapist Heather Griffiths has helped since ErgoRisk's Mobile Athletic Therapy Program was introduced in November 2002.

Before Griffiths worked on Berg, he experienced headaches and chronic neck and shoulder pain for three years. She discovered he had a vertebra out of place, which was pinching a nerve, and treated it by working on his neck and giving him exercises to do regularly.

"It's proven to me that you don't have to live with pain," Berg said.

During Griffiths' weekly visits to the operations, she also works with employees to correct ergonomics and goes over easy exercises to help them stay limber throughout the day. She provides injury advice; stretching and strengthening programs; manual treatment; and evaluations of work sites to promote good posture and positioning during the day.

"The exercises I show employees are ones they can do at home or on the job — it doesn't matter if they're in the woods or in an office," Griffiths said.

Oyster River Faller Klaes Swanberg feels he's also benefitted from the program. "I feel great when I do those stretches in the morning to get warmed up," said Swanberg, who cycles and skis to stay in shape.

## Keeping peace at Mesachie Lake

Keeping the peace — and quiet — that's what the residents of Mesachie Lake are looking forward to as TW keeps its South Island heavy equipment repair shop far from the community.

Last year, TW relocated its South Island offices from Gordon River to Mesachie Lake. An equipment shop site in town, previously occupied by Hayes Logging, was one of the options for relocating the South Island shop.

"The community had concerns about the noise and diesel fumes from that property for years, so when the rumours started flying that TW might take over the site, I phoned Steve [Lorimer] right away," said

Joe Allan, Director, Cowichan Valley Regional District. "Communication is the best option before commitments are solidified, and I know the company wants to be a good corporate neighbour."

Upon listening to the residents' concerns at a town hall meeting, Steve Lorimer, Manager, First Nations and Community Relations, advised the company that moving the shop to that location would create noise and other issues for neighbours.

After considering a variety of options, TW will be relocating its South Island shop in June to the former Honeymoon Bay Dryland Sort site — a satisfactory solution for all.

## We're listening

### HBO fallers put roof on bear den

When Jim Shaw peered curiously into a rotten old cedar stump, he wasn't expecting to meet the gaze of a black bear just three feet away. The Honeymoon Bay faller was working above Cowichan Lake when he decided to investigate a cedar stump with ferns piled up around it.

"He was looking at me like hey, what's going on?" said Shaw, who's worked as a faller for 30 years. "Then I realized that I was standing on top of him; he was under the root I was on."

Asked whether the bear, thought to be a couple years old and alone for the first time, made any noise, Shaw said, "I think it did, but I was running away pretty quickly, so I'm not sure."

Shaw and fellow faller Ken Esau returned a few minutes later, after watching to see whether the bear would emerge, and placed a piece of plywood on top of the two-foot-wide hollow stump.

"We thought he must get wet when it rains and snows," Shaw said. "He had the idea of getting a den all right, but he didn't have it down pat. We put a roof on his den for him so that it's darker and will keep him dry. He's having a good sleep now. Whenever we drive by, we make sure the roof's still on."

Engineer Dennis Cronin designed a buffer zone around the bear den and crews relocated away from it. He returned to figure out if cubs are also living in the stump, as they don't know whether the bear is a small juvenile male or a female.

"I sat there for five minutes listening for any cubs — they usually make whining and grunting noises," Cronin said. "I didn't hear anything, but I'll go back and check again."

The company has catalogued more than 140 bear dens on its lands.



## Vacuuming log bridge helps fish

Employees at TW's Oyster River Operation have a better appreciation of vacuuming, since witnessing how it can help Mother Nature.

When an old log bridge over the Quinsam River had to be replaced, Mark McLean, Production Supervisor in charge of road construction at Oyster River Operation, brought in a big industrial vacuum truck to suck up the gravel and debris from the bridge deck before the log stringers were removed.

The vacuum truck, supplied by Western Chemicals Ltd. in Campbell River, is powerful. Its suction can pick up six-inch-diameter rocks, making quick work of a job that used to entail manual shovelling.

"The Quinsam is extremely important for all fish stocks in the area, plus there's an important hatchery downstream from the site, so we didn't want any sediment in the river because of all these values," McLean said. Sediment can disrupt delicate aquatic ecosystems; if it settles on fish eggs it can prove fatal.

Throughout the bridge removal process, a professional environmental monitor continually drew water samples from the river to ensure no disturbances were created. "These procedures exemplify the care and attention our operations people take to ensure we are not negatively impacting water quality," says TW's Forest Hydrologist Bob Willington.

The vacuuming job proved so successful it has been extended. Every autumn McLean now contracts the truck to remove the gravel and sediment logging trucks track onto bridge decks throughout Oyster River Operation before winter rains wash it into waterways below.

As for the old bridge on the Quinsam, a new \$80,000 structure of concrete and steel now stands in its place.

## COMING IN APRIL...

To request a copy of TimberWest's 2002 Annual Report, please contact Frances Preissl at [preisslf@timberwest.com](mailto:preisslf@timberwest.com), or read the report online at [www.timberwest.com](http://www.timberwest.com).



*Neighbours* is produced by TimberWest's Corporate Affairs Department for community members and employees.

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## Comments...

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