A Pricing Strategy to Sustain the BC Silviculture Sector

The pricing levels resulting from contractor efforts to accommodate the last downturn in the forest industry are no longer appropriate. Major cost gaps have developed in six key business areas. The following costing breakdowns are based on information and industry average costs shared by firms representing more than 70% of the trees planted in the province. The consensus is that prices need to rise to ensure the BC silviculture sector remains sustainable and continues to meet the requirements of regulatory agencies, customers and the expectations of the workforce.

1. Safety Costs: *currently underfunded by an average of 4% of gross revenues*

The silviculture sector has led the forest industry in acceptance of the SAFE certification and safety systems audit. It continues to post steadily declining injury rates because of this and other ongoing commitments to a safer workplace. Yet the sector continues to pay disproportionately high claims costs along with a much higher than average rate of musculoskeletal injuries (MSI). For the sector to maintain and improve on its positive safety performance the following costs need to be addressed:

- Costs (wages and courses) of training and certifying a youthful and seasonal workforce to industry recognized standards; including driving, ATV operation, saw work, supervision, and first aid.
- Rising WCB rates (this is common for all sectors in BC); e.g. the planting base rate is headed to 3% over the next two years (currently at 2.52%).
- Communications and safety equipment; more is now required, particularly for emergency response and evacuation.
- Enhanced field management structures to reduce management fatigue and unsafe hours of work.

2. Recruitment and Retention to maintain a reliable workforce: *currently underfunded by an average of 5% of gross revenues*

Workers' wage rates today are worth half what they were in 2000, having declined steadily in real terms and with inflation. The average piece-work earnings reported by workers in the last two annual industry polls place tree planting on average among the lowest paid hourly rate workers in the Canadian resource sector including oil and gas, mining, and the BC harvest sector. Wage rates and management salaries need to increase in order to recruit and retain reliable workers and staff.

- One third of the workforce is in university, usually cycling through the sector in four years. Average tuition costs have doubled over the last decade. In combination with diminished earnings, this is making the sector less attractive to students.
- Silviculture sector supervisors are highly skilled personnel. Their key personal and management skills are sought after by other sectors offering attractive well-paid positions, often with far less demands. They are irreplaceable within silviculture's current structure.

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- As the workforce becomes less experienced production has declined. This leads to overall capacity declines and increased costs. Minimum wage top up for inexperienced workers is a factor now costing an average of .35% of gross revenues.

3. Camp costs and accommodation: ***currently underfunded by an average of 3.5% of gross revenues***

The BC silviculture sector remains the only sector among the resource industries charging camp costs, which directly impacts worker retention. At the same time, the $25 per day cost, which is prevented from rising by regulation, does not cover the full costs of feeding and keeping crews in camp or motels. The actual costs of crew accommodation are between $50 to $70/per person per day. Prices have to fully reflect this cost.

4. The shift from HST to GST: ***currently underfunded by 1.5% of gross revenues***

The recent return to provincial sales tax from the HST leaves contractors facing 7% additional costs on all non-wage related expenses.

5. Profits: ***currently underfunded or not acknowledged***

Profits in the silviculture sector are well below sound business practices for a service market characterized by a high level of risk and complexity. Profit margins are also below what owners could earn if they utilized their skills in other businesses, either as company owners or employees. Recently, a business analyst recommended average profits to contractors should be between 12% and 18% of gross revenues, given the nature of the industry and the offsetting business opportunity. (This figure should not be confused with what owners should be paying themselves as project managers. Profits should be calculated after management wages). In the recent downturn, contractors made efforts to accommodate their forest industry clients with reduced prices, and profits are now below 5%.

6. Fuel costs should be calculated through an acceptable fuel surcharge formula: ***currently underfunded or not acknowledged***

Fuel surcharge models are common in forestry and other resource industries and it is appropriate that they also be applied to silviculture.

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