

# Establishment of the Creston Log Sort Yard: Case Study

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Randy Sunderman<sup>1</sup>

## Abstract

In British Columbia, forest-dependent communities have identified log sort yards as one means of diversifying and bolstering the viability of smaller wood-manufacturing businesses, and of bridging the gap between wood suppliers and wood users. In southeastern British Columbia, community stakeholders formed the Creston log sort yard in 1999, and operated the yard until it was privatized in 2002. This case study summarizes Creston's experience by discussing conditions that contributed to the formation, growth, and eventual privatization of the log sort yard. The author presents insights on the viability of such a venture for the benefit of other communities that may be interested in establishing a log sort yard as a strategy for improving the local forestry economy.

## Contact Information

1 Principal, Peak Solutions Consulting, 666 Braemar Drive, Kamloops, British Columbia, Canada, V1S 1H9.  
E-mail: [sunderman@shaw.ca](mailto:sunderman@shaw.ca)



## British Columbia's Changing Forest Sector: Effects on Secondary Wood Manufacturing

The forestry sector in British Columbia is facing many challenges as it undergoes numerous fundamental structural changes. For example, changes in forest tenure, consolidation of mills, and reductions in allowable annual cut limit the ability of forestry communities to maintain local taxes, employment, and overall participation levels in the local forest sector. Closure of primary processing facilities has negatively affected a growing number of communities such as Lumby, Merritt, Gold River, New Hazelton, and Golden. Forests around these communities now contribute less to local economies because the logs are transported elsewhere for processing.

Many of these changes are directly affecting the business of secondary wood manufacturing. Although the province has been actively encouraging growth and diversification in the secondary wood-manufacturing sector, and while licensees often sell wood to secondary wood manufacturers, the smaller manufacturers nevertheless find it difficult to obtain a consistent supply, volume, and quality of wood. Compounding the problem is the fact that when markets for dimensional lumber are

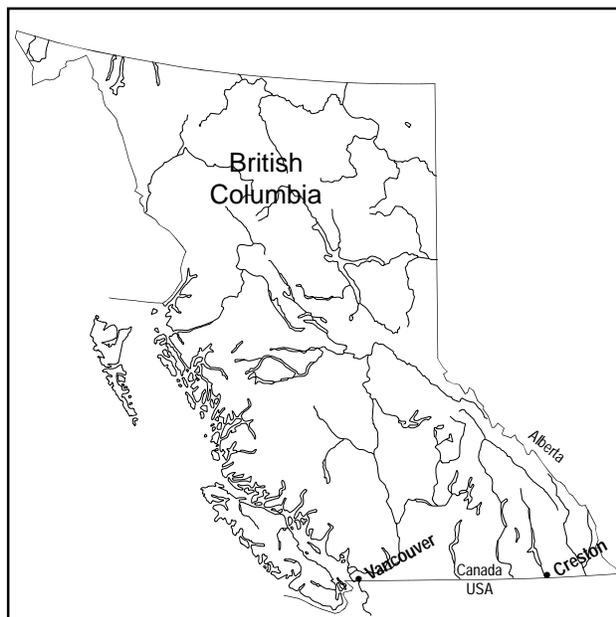


FIGURE 1. The town of Creston is in southeastern British Columbia.

good, licensees are more interested in trading timber volumes than selling, which often leaves secondary wood manufacturers without a firm supply. In a 1999 survey of the provincial value-added wood sector, wood supply was the second-most-often-cited constraint to capacity expansion after market access (Wilson 2001).

Efforts to diversify and bolster the viability of smaller wood-manufacturing businesses, and to bridge the gap between wood suppliers and wood users, have taken many different forms. These include using fibre facilitators, log brokers, log sort yards, and a fibre-credit program. Given that the number of log sort yards in British Columbia has grown in recent years, it appears that the forest sector has identified sort yards as one of the more successful mechanisms for matching buyers and sellers of wood fibre.

One of these sort yards, the Creston log sort yard, was formed by community interests in Creston in southeastern British Columbia (Figure 1) in 1999. This case study summarizes Creston's experience as a way of sharing information with other communities that may be interested in pursuing a similar solution.

### Formation of the Creston Valley Forest Corporation

The closure of a sawmill in 1991—which resulted in locally harvested wood being taken to other areas for processing—spurred community stakeholders to consider ways of regaining the economic benefits of local timber-harvesting activities.

In 1997, representatives from the Town of Creston, the Central Kootenay Regional District, the East Kootenay Environmental Society, the Lower Kootenay Indian Band, and the Creston and Area Economic Development Society came together to form the Creston Valley Forest Corporation (CVFC). This entity was awarded a 15-year, non-replaceable, volume-based Forest License with an allowable annual cut of 15 000 m<sup>3</sup>, which became the Creston Community Forest. The Creston Community Forest is centered on Arrow Creek, which is a major water source for the town, agricultural users, and the Columbia Brewing Company.

The goals and objectives of the Creston Community Forest included:

- using an ecosystem-based philosophy of forest stewardship;
- encouraging public participation;
- protecting water quality and quantity, and timing of flow;



- providing local employment;
- encouraging secondary wood manufacturing;
- encouraging education and training;
- pursuing Forest Stewardship Council certification; and
- pursuing ecologically oriented ways of dealing with forest health problems.

To ensure these goals and objectives would be achieved, the community also established the Creston Valley Forest Corporation log sort yard, located 18 km east of Creston, for handling the logs harvested from the Community Forest.

### Establishment of the Creston Log Sort Yard

As the planning for the Community Forest progressed, the community's attention also focused on deriving the maximum local value from the harvested wood. The community wanted to ensure that not only the wood from the Community Forest but also the wood originating from the Small Business Forest Enterprise Program, local woodlots, and private land would contribute to maximizing the benefits for all.

The idea of a local log sort yard was not new when Creston began exploring the idea. Privately operated log sort yards and the British Columbia Ministry of Forest's Vernon log sort yard were already well established. As well, there had even been other community-owned log sort yards set up. However, the Creston log sort yard was among the first to have no major licensee on its board of directors and to have the community's goals and objectives drive the operation.

Stakeholders felt that the community approach to developing and operating the sort yard was important for meeting the objective of handling locally harvested wood. The community's original objectives for the Creston log sort yard included:

- providing a log-marketing option for the Creston Valley Forest Corporation that recognizes community concerns;
- encouraging the development of local secondary wood manufacturing;
- complementing the existing BC Ministry of Forests Small Business Forest Enterprise Program to make it responsive to community interests; and

- assisting local primary producers by providing a timber disposition option that *may* reduce the flow of timber from the Kootenay Lake Timber Supply Area (KLSTA) to external processors or customers.

As well, because the Creston log sort yard would be both buying and selling wood, it needed to ensure that it would provide benefits to both log sellers and log buyers.

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#### Advantages of Locating a Log Sort Yard in Creston<sup>1</sup>

Locating a log sort yard in the Creston Valley did have some local advantages.

First, the Creston Valley is centrally located between the East and West Kootenay regions and it is immediately adjacent to Canada/United States border (Figure 1). Transportation links through the area are excellent. Creston is located on Highway 3, and it is served by the east-west Crowsnest rail line and by the Union Pacific Railroad's southbound reload area at Eastport (Kingsgate).

Second, the Creston Valley has a diverse fibre supply including:

- speciality species such as white pine, western redcedar, ponderosa pine, and larch;
- key commodity species like Douglas-fir, spruce, and lodgepole pine;
- a range of deciduous species (i.e., birch, poplar, and cottonwood); and
- other species such as balsam, grand fir, hemlock, whitebark pine, and alpine larch.

Third, recent changes to the allocation of timber in the Creston area suggested there would be fibre available for participation in the local log sort market system. These changes included:

<sup>1</sup> Boyden 1999.



- the award of a community forest tenure to the Creston Valley Forest Corporation;
- an increase in the number of local woodlots in the Woodlot Licence Program;
- some changes to the Small Business Forest Enterprise Program that allow some timber volume to be sold through a bid/proposal process; and
- the closure of two Crestbrook Forest Industrial Ltd.'s mills, one in Creston and one in Cranbrook.

Finally, recent and historical local events suggested that an alternative timber disposition system would be warranted in the Creston Valley. This conclusion came from several observations including:

- Over 50% of the wood originating within the Kootenay Lake Timber Supply Area is transported to manufacturing facilities outside of the area (Boyden 1999).
- Local mills have less combined volume under tenure than other major licensees in the region.
- Major licensees have been unsuccessful in obtaining wood through the Small Business Forest Enterprise Program.
- Local loggers have been unsuccessful in obtaining wood through the Small Business Forest Enterprise Program.
- Relative to the timber supply, there is an overall over-capacity of manufacturing in the Nelson Forest Region, but an under-capacity in the Kootenay Lake Forest District.
- The so-called "Kootenay Mix" (i.e., large number of commercial species) has been problematic for local producers because harvesting and handling multiple species is expensive.

#### Issues Constraining Community Objectives<sup>2</sup>

Several additional factors have come into play since the Creston log sort yard began operation in 1999. These factors affected the overall objectives and operations of the venture.

First, Canada's ongoing dispute with the United States regarding the export of softwood lumber has constrained the sale of wood products to traditional American customers.

Second, the high cost of planning and operations for the Creston Valley Forest Corporation resulted in the log sort yard having to charge more money for its logs than the local processing companies were willing to pay.

Third, world lumber prices have been low in recent years and this has affected log markets in British Columbia, which have been weak since the Creston Valley Forest Corporation commenced operations. Figure 2 highlights the change in log costs and log revenues at the Vernon log sort yard between 1993 and 1999. While overall costs have increased by just over 20% since 1993, log prices have declined by 60% since 1995. Log prices have generally not improved since 1999. It was at this challenging period of the business cycle that the Creston log sort yard began to conduct operations.

Fourth, the intermittent work undertaken at the Creston log sort yard—combined with a rumoured shutdown and the relocation of the log sort yard—created considerable uncertainty among prospective clients and others who hoped to benefit from the sort yard and the community tenure.

Finally, the Creston log sort yard received a sizable portion of its logs from the ponderosa pine and grand fir profile. These species do not yield the higher values of more specialized species. However, the cost of delivering

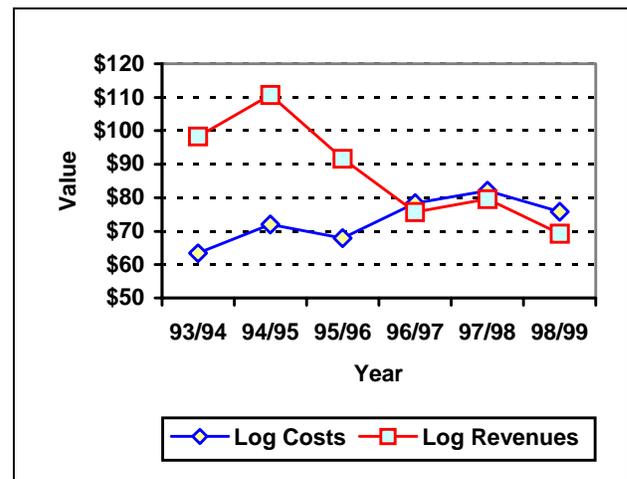


FIGURE 2. Costs and revenues for the Vernon log sort yard (BC Ministry of Forests 1999).

<sup>2</sup> Grand Fir Resources Ltd. 2002.



them and running them through the log sort yard is the same as for the higher value species. This constrained the overall viability of the operation.

### Viability of the Creston Log Sort Yard

As discussed earlier, the community felt that the Creston Valley Forest Corporation would be in the best position to undertake the development of the log sort yard. Therefore, the Creston log sort yard and the Community Forest were operated as an integrated business with the financial viability of one being inseparable from the other.

The development and planning of both the Community Forest and the log sort yard ensured that the Creston Valley Forest Corporation began its business life with a sizable debt. In its first “year”, the Creston Valley Forest Corporation operated from September 1999 to March 2000. During this period, only 8000 m<sup>3</sup> of wood were handled,<sup>3</sup> and the year ended with an operating loss and an increase in overall debt.

However, in the first full year of operation (fiscal 2000–01), a total of 26 000 m<sup>3</sup> moved through the log sort yard, and the Corporation showed a modest profit. This was in spite of continued poor lumber and log markets and high stumpage charges, and was in part due to selling logs to the United States.

In the third year (fiscal 2001–02), Creston Valley Forest Corporation saw 22 000 m<sup>3</sup> of wood go through the log sort yard, but overall the Corporation again lost money. The Creston Valley Forest Corporation’s board of directors decided that the direct operation of the community log sort yard should end and that the sort yard should be allowed to move to the private sector. Private log-sorting and log-peeling operations have taken the place of the original public log sort yard. However, the private sorting and peeling activities continue to create employment for 10 to 12 people.

Overall it appears that the Corporation will produce a profit in fiscal 2002–03 and will continue to pursue many of their original community objectives.

### Moving Toward Success

During the two and a half years of its operation, the Creston log sort yard yielded many insights for the board of the Creston Valley Forest Corporation. Among the more notable are:

- It is critical to have a positive and constructive working relationship with your banking partners. This is especially important during the uncertain start-up period, and when unforeseen events outside your control can easily affect the operation.
- Even community owned and operated log sort yards must have positive working relationships with the local licensees in order to realize trading opportunities and capitalize on emerging ventures.
- The board of directors must be prepared to adapt to changing conditions. For example, the Creston log sort yard had to sell logs to mills in the United States in order to achieve revenue goals, but this was done at the cost of forgoing the local economic development opportunities that the log sort yard was intended to foster.
- The log sort yard needs to demonstrate a sound, solid, and on-going track record in order to attract new secondary wood-manufacturing businesses.
- To help overcome the many unique challenges of operating a community forest and log sort yard, and to ensure key objectives are achieved, the BC Ministry of Forests and the community forest organization must exchange ideas.
- Finally, achieving goals and objectives requires considerable patience and effort. It must be acknowledged that there will be bumps in the road, but by being flexible and patient, stakeholders can eventually realize their goals.

Despite the initial challenges, the Creston Valley Forest Corporation continues to play a key role in developing the community’s secondary wood-manufacturing sector. With the now-privatized log sort yard continuing to create fibre access for local wood manufacturers, the Creston Valley Forest Corporation envisions establishing a cluster of small value-added wood businesses at the log sort yard.

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<sup>3</sup> In comparison, the Revelstoke log sort yard handles an average of 30 000 m<sup>3</sup>/y, and the Vernon log sort yard handles an average of 50 000 m<sup>3</sup>/y.



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