

Death of a Co-op

*the Quesnel Hardwood Co-operative**

BY STEVE HILBERT

The Quesnel Hardwood Co-operative (QHC), a group of independent small business logging contractors, sawmillers, and forest industry members, joined together in 1999 to utilize Quesnel's neglected hardwood resource in order to create and sustain jobs in the forest industry, to employ local youth, and to help stabilize the local economy.

Using their existing equipment for logging, hauling, and milling, the QHC integrated supply and sales to create a larger forest enterprise to compete in the marketplace. The QHC developed an action plan to add value to the hardwood lumber produced by doing more local processing.

While not ultimately successful as a single entity, the QHC stimulated individual members to develop or expand businesses and stimulated the valuation and utilization of the birch hardwood resource.

An Untapped Resource

A sign on the highway coming into Quesnel, B.C. boasts of a billion dollar investment in the forest industry. Quesnel has two pulp mills, a medium-density fibreboard plant, a plywood mill, four large and highly mechanized sawmills, and a host of supporting enterprises. Commodity Forestry is the name of the game, but several relatively small value-added fibre processors have established operations in the community using and upgrading by-products of the larger mills.

A generation ago it was possible, and very common, for young men to leave school around age 16 and go to work in the forest industry, in the mills, and in the bush. These jobs paid well, were physically demanding, and developed an involved set of skills. The aging of this workforce combined with the mechanization of the forest industry has led to a situation where a growing number of trained, motivated, and productive workers are chronically under-employed.

For many of these workers, the various re-training programs supported by government are simply not an option. They want to finish their working careers in the forest industry, doing the jobs that they know, but the fibre supply of spruce, pine, and fir (SPF) has been committed to the existing system.

In the Quesnel Forest District, however, there has been an untapped hardwood Annual Allowable Cut, mostly birch and aspen, of about 40,000 cubic metres (m³) per year. During World War II, this birch was harvested to

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make propellers for Allied fighter planes. The major licencees of today consider it a nuisance. They cannot process it economically. What gets caught up in their SPF harvesting operations has been waste that generally is burned in the bush. Burning unmarketable timber is expensive and environmentally unsound, facts that are recognized by the industry, the Ministry of Forests, and the public.

One of these underemployed forest workers attempted to get a loan to purchase and operate a small sawmill to utilize some of the birch trees being burned in logging and land clearing operations. He was not able to get the loan because the local business development centre had already supported other similar business plans with no record of success.

So he was referred to me in my role as a forest community development co-ordinator for the Cariboo Economic Action Forum, a non-government development association under contract to the crown corporation Forest Renewal BC.

Designing a Co-operative Business

The forest worker, an independent contractor possessing some under-used logging equipment, knew of others in Quesnel in the same situation. We decided to find out if there was a way for these workers to work together to achieve individual goals.

In November of 1998 the forest worker made a few phone calls and turned out 20 people for an informal meeting. Fallers, machine operators, truckers, sawmillers, craftsmen, and forest industry managers were all very interested in the possibilities of an entity that could compete in the marketplace. There were 500 years of forest industry experience collected around that table. Many of those present had established their own small businesses dealing with some facet of the industry.

All were motivated to try to do something with the birch resource.

This first meeting examined the pros and cons



of partnerships, forming a new business, or forming a co-operative. After much discussion the group decided to organize a co-operative of their existing businesses. Membership was set at a \$50 share per individual member with membership being limited to small businesses and individuals working in the Quesnel forest industry. Large companies were not to be allowed.

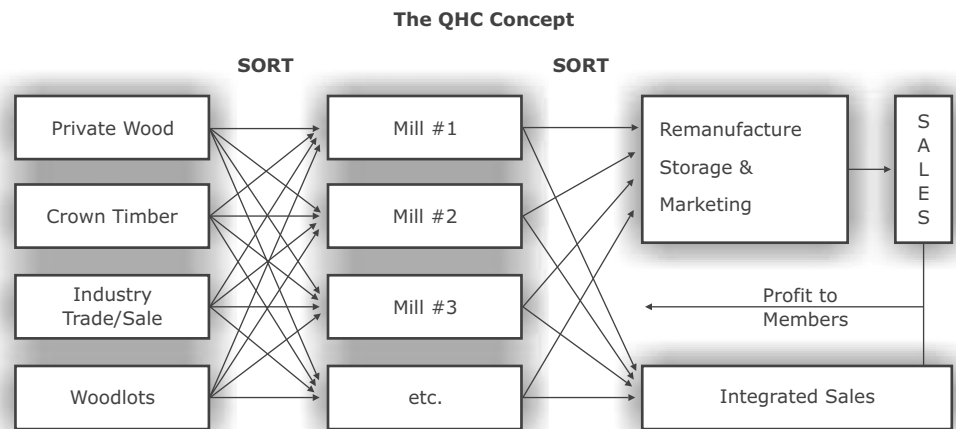
In later formative meetings the number of participants doubled. Many women were active in the QHC, as they were in the family businesses that made up the co-op. They strongly supported the vision and steered the group back on track whenever it appeared the operation was deviating from the goals.

(and there is a lot from sawing hardwood) for firewood sales, craft use, within the QHC, and for craft sales.

The QHC operation was planned to be labour-intensive and to provide many entry-level jobs and training opportunities for new workers as well as to sustain the livelihoods of the founding members.

Establishment, Support, Funding, & Finances

The first actions of the co-operative were to formally incorporate, seek funding for a business plan, seek a timber supply from the Ministry of Forests, and



Members designed the QHC to add value to the wood product at four points:

- Sorting and shipping hardwood logs to various mills in the optimum profile for those mills. The loggers and the truckers in the co-op would perform this task.
- Training and working together (the more experienced sharing their knowledge with the newer operators), the QHC millers would produce a greater volume of standard product, which could be marketed through integrated sales.
- Once the co-op was up and running, a collective value-added processing facility was to be built where product from the local mills could be remanufactured into such high-end products as flooring and panelling and marketed outside the Cariboo.
- Other co-op members would collect waste wood from the milling processes

combine the output of several member sawmills to send full loads of rough green birch lumber to Vancouver.

Regular meetings were held beginning in December 1999. It was a measure of the enthusiasm and confidence of the group that members attended conscientiously in spite of a general unfamiliarity with business meeting process and fractiousness between individual members.

Agency support was very strong in this formative stage. The provincial and federal governments were at that time very proactive in community economic development. The Cariboo Economic Action Forum had forged a coalition of regional interests to promote economic initiatives. Levels of expectation were high for this type of enterprise. Community Futures in Quesnel had recently established the Wood Enterprise Centre whose prime mandate was to

support local value-added wood industry development. The then Minister of Forests, who lived in the North Cariboo riding, was very interested in the potential of the QHC. The Mayor of Quesnel was another booster.

In some ways the QHC was too successful in its campaign for recognition and funding from these agencies. Over two years the QHC received almost \$140,000 in grants from various bodies for incorporation expenses, member training, business plan development, office space, staffing support, and marketing. There were inevitably differences of opinion on how effectively this money was spent. The individual members lost some of their sense of ownership of the co-op and the viewpoint was often expressed that it was up to government to make the co-op work.

Public awareness of the QHC was very high and so was public scrutiny. The co-op developed under the microscope of local interest.

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Early Successes

Prior to the formation of the QHC, small mills that were cutting birch timber were selling their wood to a broker. He would send a truck around the north to pick up small lots (averaging 1500 board foot measure, or bfm) from a number of mills. He would then haul the birch to Vancouver to be dried and planed for resale. The broker paid \$550 to \$600 per 1000 bfm and re-sold it for \$1200.

Eliminating the middleman was one of the prime goals of the QHC. Not yet having drying and planer facilities available in Quesnel, the QHC was able to negotiate a better deal for full loads of lumber picked up from member mills by the existing broker who was seeking a more uniform and reliable supply.

The QHC obtained a direct sale of 2000 m³ of crown timber from the Ministry of Forests, at \$.25 per m³ in stumpage. The Quesnel Forest District Office undertook a re-inventory of hardwood in the Quesnel area to determine what was indeed available to the developing industry, and the QHC lobbied strongly as a community-based entity for a volume-based licence in hardwood.

Individual members of the co-op invested in their own operations. One built a 40,000 bfm drying facility at his sawmill, which proved in practice to be able to dry green birch to 18% in ten days. Another constructed a portable planer to be hauled from mill to mill. Some members started up or added to their mills or moved their portable mills on to the sites of other active mills.

The QHC had the support of the major forest industry, which looked to the new entity for help to get rid of their hardwood waste wood problem in the bush. The question was how best to do it.

The QHC preferred to go in to the licensee softwood operating sites and harvest hardwood itself in order not to damage the wood too much. The major licencees, for contracting, Workers Compensation, and various operational reasons, wanted to deliver the wood to some of the more assessable sawmills or to a sort yard in town for a set price. This would be good for those larger sawmills in the co-op but would not create work for member loggers and truckers, nor provide wood to some of the smaller co-op mills.

The value of birch is greatly affected by how the wood is processed. With the help of the Wood Enterprise Centre, the QHC brought in a professional grader from Vancouver Island to train members in the proper grading of birch lumber.

The Wood Enterprise Centre offered courses in the proper drying of birch to prevent warping and checking. Quesnel's new Nazko School was built with a gym floor of birch processed by QHC members.

Because QHC member mills at this time were unable to process economically anything smaller than a 7-inch top, a market was sought for cants made of these small tops. Forest Renewal BC funded the processing costs for a container-load of cants to a consortium of sawmills in India. Cants were collected at one of the QHC member mills and the members worked together to pressure wash the wood (an export requirement) and hand-load the shipping container. The Indian mills paid for the shipping and showed an interest in receiving more shipments from the co-operative.

Although no further efforts were made to ship more wood, a lot was learned about the export of wood with this test market, knowledge that may be of future use.

Other areas of the B.C. north heard of the QHC and came to visit the operations and attend meetings. A First Nations group from the Smithers area and a group of small business persons from the Horsefly area took the idea back to their own communities.

Problems & Responses

On the plus side, birch and aspen are cheap to obtain. The stumpage is low and often on clearing private land the birch is removed as a service. Hardwood is relatively fast growing and a new crop will grow without intensive silviculture. Some areas around Quesnel contain extensive stands of mature birch at the end of a 30-50 year rotation.

However, much of the local hardwood is intermixed with softwood stands. A select harvest for birch that does not impact the softwood stand is a more expensive operation. But birch taken as a necessary by-cut of a softwood harvest is not harvested with the same care as a marketable log. Birch does not grow as uniformly as do the conifers. It cannot be mechanically harvested and processed on the landing. There would have to be a financial incentive for softwood harvesters to adjust their operations.

It takes on average 4 m³ of spruce, pine, or fir to produce 1000 bfm of lumber. For birch the average is 7 m³/1000 bfm. Dried and planed birch lumber, depending on grade and market, sold for between \$1200 and \$1600/1000 bfm. The QHC was especially interested in the potential of value-added processing, where products such as tongue and groove flooring could fetch up to \$5000/bfm.

At the time of the formation of the QHC, local millers were selling rough green birch for \$550 to \$600/1000 bfm. Shipping is based on weight and green birch is almost twice as heavy as kiln-dried birch (18% moisture). Birch dried at a cost of \$80/1000 bfm could make up that expense in reduced shipping costs by doubling the volume per load.

The QHC began by co-ordinating the harvest of various timber sources and trucking this wood to member mills. Millers shared their expertise to produce a more uniform and quality product for bulk shipment to the coast for further processing. It was agreed that the QHC would take \$3 per m³ for timber sources obtained, that millers would pay \$35 per m³ for timber delivered, and that mills would pay 10% of sales into new markets to the QHC for developing those markets.

This scenario would provide some operating funds to the co-op, supply wood to its member mills, and create employment for other members in the harvest and hauling of logs. This was considered by all to be a conservative way to build experience and credibility for the QHC while it researched a business plan to finance ways and means to develop its own value-added manufacturing facilities.

The flaws in this scenario became evident early on. Cash flow was a primary problem. The time between incurring harvesting expenses and receiving sales returns was over two months. Based on processing 4000 m³ in that time with \$20/m³ needed to cover up-front costs, the co-op needed a cushion of \$80,000.

No individual small business member or worker had the wherewithal to sustain that kind of outlay. Attempts to establish lines of credit in the short term were not



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sufficient to maintain the flow. The fact that production costs must not exceed sale price was sometimes overlooked as each link in the production chain argued over the numbers for their specific activity.

Operational problems occurred. Spotty delivery to mills caused temporary closures. Mistakes in milling lowered the value of the product. Delays in pick-up caused further deterioration to the product due to prolonged exposure to weather. Financial issues were late payments, disagreements over the amounts, and unrecoverable out-lays for work not done satisfactorily.

A major issue with selling logs and timber out of region is that the receiver determines the grade and pays accordingly. Unless the shipper can certify the grade of the product shipped, there is no recourse when the cheque comes back short. The QHC was not a big enough player to counter these events.

Members who had made investments had those costs to recover and were not prepared to put their own business interests on the line for the good of the co-op. Any value-added returns on investment stayed in the hands of the individual

investor with no real direct benefit to the co-operative.

Many efforts were made to finance the cash flow gap from production to sales. The policy of the local credit union is not to extend lines of credit for one year after opening an account. Any long-term arrangement was dependent on the completion of a business plan. In the meantime, personal loans, a small loan from the business development centre, and advances from member sawmills on future delivery were used as means to keep the flow of wood lurching along.

From long practice major mills had policies of requiring pre-payment or immediate payment for timber delivered to smaller mills. They were willing to provide wood to the QHC on that basis. Individual QHC members had little or no reserves so any delays in payment for goods or services rendered to the co-op had drastic personal effect.

A board of directors governed the QHC. At one point a volunteer management committee met weekly to try to handle the co-op's day-to-day affairs. Funding was obtained to hire a short-term professional manager to get the QHC on a business-like

(large) Aspen, birch stands, (inset) Nazko Valley Elementary School gym. Photo credits: Linda Bartsch; Wood Enterprise Centre, Quesnel, B.C.

footing. The person hired by unanimous agreement of the hiring committee was a local Ministry of Forests staff member with a thorough grounding in the local forest industry.

The new manager began to try some ways to smooth out the flow of timber to the member mills. Some QHC members saw these arrangements as counter to the interests of co-op members involved with the harvest of timber. The manager also worked out the beginnings of a deal with a major forest company in the south Cariboo to jointly apply for a large hardwood tenure in the Quesnel area. This tenure would have given long-term access to quality sawlogs to member mills in Quesnel. The logs not presently utilized by the local mills would have provided a long-term supply of birch chips to a major mill making oriented strand board. Other QHC members saw this initiative as a sell-out of our local resource.

The various factions developing in the QHC hardened their positions around issues like these. Meanwhile, artisans and craftsmen found their interests neglected and others were getting tired of the constant wrangling in and out of meetings. They voted with their feet and dropped away from the co-op.

The spotty operational record of the QHC was having its effect on local credibility. As in-fighting became more public, community support for the co-op declined. The reputations of some members suffered by association with the QHC. Alternatively, the QHC suffered by its association with some individual members. When the co-op was unable to rise to its early and optimistic expectations the highly supportive attitude in the community turned to one of scepticism.

Break-Up

Professional co-operative development consultants were brought in to help the members deal with the organization's problems.

As a multi-stakeholder entity, the QHC was a mixture of three different types of co-op. It was a consumer co-op for the member mills, a workers' co-op for loggers, and had the potential to be a producer-marketing co-op for value-added hardwood products. The consultants

noted that splitting the QHC into two entities that might continue to work together was not only practicable but inevitable.

Several attempts to re-structure the QHC were made but they only had the effect of changing which faction had the upper hand at any given time.

More and more conflicts of interest were alleged as the QHC faltered. Some members were called for using information obtained through the co-op on markets and wood supply for the benefit of their individual businesses. An undercurrent of secrecy developed with side-deals, alliances, and boycotts pitting member against member.

The vision of the co-operative that had first brought the members together had become fractured. The membership by nature was made up of independent, determined, and entrepreneurial people. Disagreements over issues were often accompanied by clashes in personality.

The QHC's actual break-up occurred over a vote on whether or not to enter into the joint venture with the major forest company. The motion passed, but there was so much frustration at the meeting that many supporters of the motion tendered their resignations.

Today, many people that were part of this process are still involved in the local birch industry. Casual contact indicates that many see their involvement as a learning experience that they are applying in their present endeavours. Others may walk through the door opened by a group such as the QHC. It identified, enabled, and made public an untapped resource – an opportunity for others to act on later.

Small birch mills are operating throughout the Cariboo, and the resource is being utilized more than it was prior to the co-op. For many, birch is just one of the woods they cut depending on market and opportunity. (Right now pine timber infested with the mountain pine beetle is the most assessable supply for small mills that can find a specialty market.)

Need vs. Readiness for Change

It is still difficult for me to reflect with objectivity on the experience of the co-op. Through the benefit of hindsight it is

obvious where a different action or decision could have changed the course of the QHC.

There is a First Nations saying that can apply to the practice of community economic development: "If you want to change a child, start with his grandmother." The need for change is only one of the enabling factors in making a change.

QHC members devoted an incredible amount of time, effort, and anguish to the cause. They bought into the idea of a co-operative without any real appreciation of the roles and responsibilities entailed by membership, however.

Most were coming from a culture of free enterprise wherein business entrepreneurship is seen as the realm of a lone pioneer making it on the strength of personal attributes. Yet in an enterprise like the QHC, a chain of value must be respected. Everyone must benefit from start to finish. No one sector can reap a disproportionate share without the whole system collapsing.

As an "outsider" who was nevertheless a player in the QHC's growth and struggle, I wonder if my efforts to hold the group together – by obtaining funding, training, and presiding over meetings – may in fact have hindered its learning process. Unintentionally, I may have held members back from taking full ownership of their undertaking.

The QHC dived immediately into making something of the opportunity before it, and at a moment when diverse resources were focussed on just such a development opportunity. Thus, the time for strengthening the other factors vital for change was lost. Without this outside pressure on top of the already strong motivation of the members, the QHC might have more slowly built a firmer foundation of measured growth with strong member involvement.



STEVE HILBERT, a former woodlot owner, Band manager, and economic development officer, now works as an independent consultant to B.C. First Nations that are attempting to regain authority over child custody. Contact him at Steveh@quesnelbc.com.