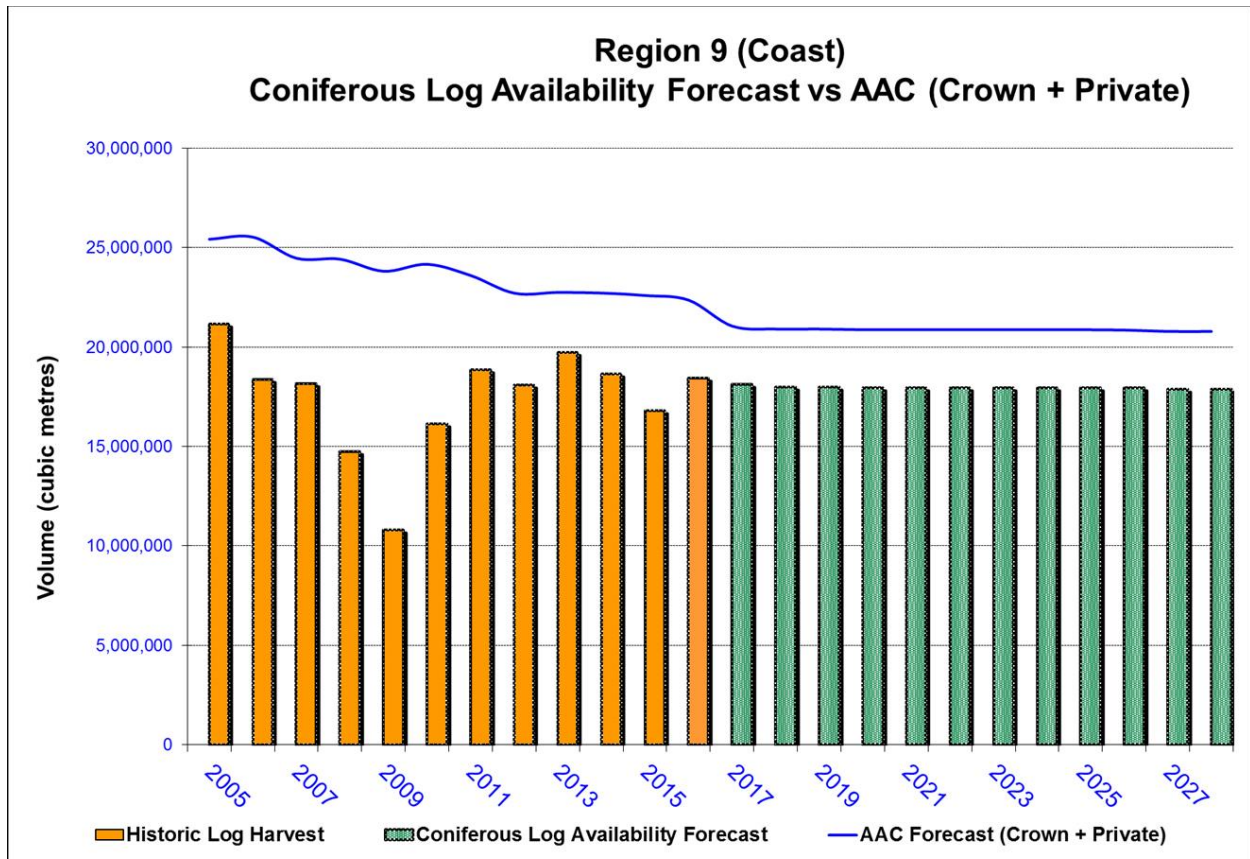


BC Chamber Policy Resolution Submission from Squamish Chamber of Commerce:
NEED FOR BALANCED POLICIES TO ADDRESS UNDERHARVEST OF COASTAL AAC

While much of the British Columbia Interior faces reduced available timber harvests due mainly to the effects of the mountain pine beetle epidemic, the Coast region continues to experience a persistent underharvest of Allowable Annual Cut (AAC).

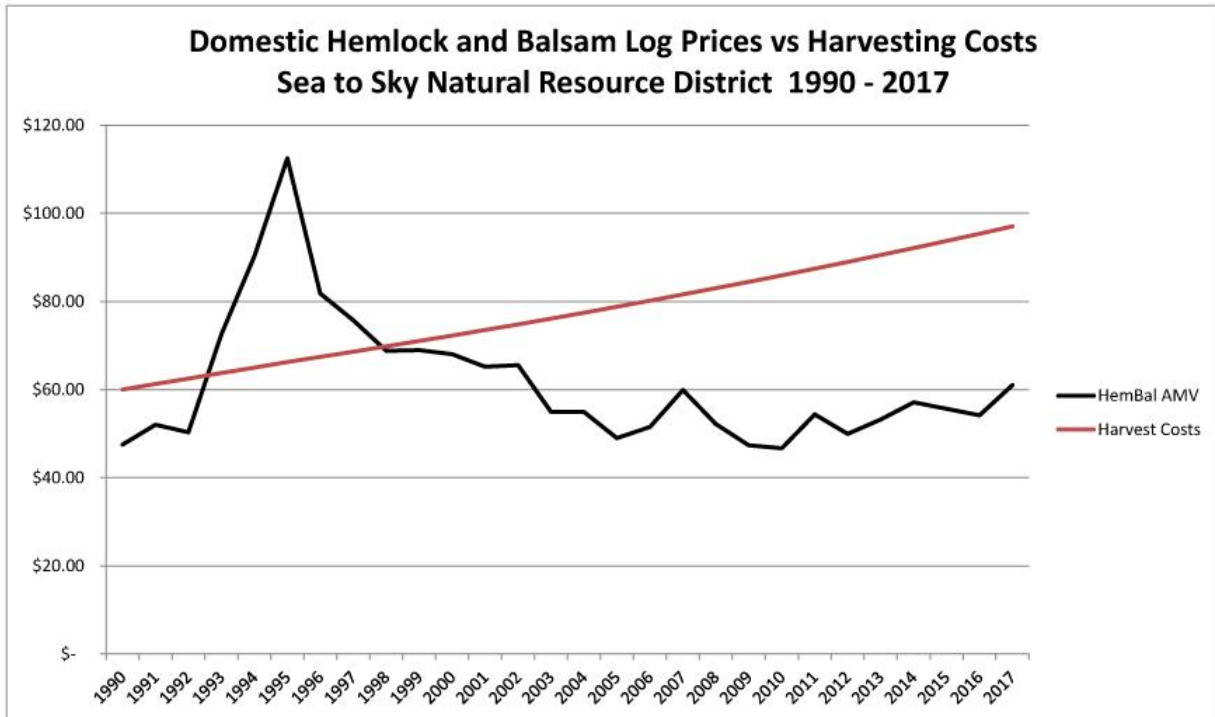


Source: BC Fibre Model. MDT Ltd.

The core issue behind this underharvest is the poor economics of operating in mature Hemlock-Balsam (HemBal) stands, which make up a large portion of the Coastal Timber Harvesting Land Base.

These stands are not being fully utilized to the benefit of British Columbia for many complex reasons, including: low quality timber, high development costs, costly transportation (e.g., barging from upper Coast, long trucking distances to tidewater in some areas), considerable seasonal restrictions on harvesting, management for many non-timber values such as wildlife and tourism, and low domestic log prices.

This ongoing underharvest of the AAC has had significant impacts on forestry businesses and other stakeholders. Machinery is sold off to other jurisdictions, skilled people leave the forest industry, companies go out of business, infrastructure such as forestry roads and crossings deteriorate due to insufficient maintenance and repairs, or roads are seasonally deactivated as less expensive means of meeting obligations – frustrating other forest users.



HemBal AMV compiled from Vancouver Log Market monthly reports. Logging costs rise at a rate close to CPI increases. (1.75% used for illustration purposes.)

Source: Squamish & District Forestry Association

The Coastal underharvest is also an underlying cause of tensions that arise within the industry – between forestry operators and mills, and between mills including remanufacturers and pulp mills over supply of logs and fibre. The solution is to create a larger pie, through a balanced set of policies addressing the economics of forest operations.

The harvest of the full AAC would generate considerable additional employment and economic activity in forestry communities as well as potential revenues to the Province. It would also stimulate reinvestment in the industry and its infrastructure.

The following policy measures and issues will be considered for addressing the Coastal underharvest of AAC:

New Product and Market Development

Investment programs targeting product development and new markets for our underutilized grades and species should be enhanced.

Cross-laminated timber (CLT) has become a feature story in government agency communications around the future of wood products and green building applications. It should be noted that this product innovation began in the 1980s and 90s with R&D programs in Germany and Austria specifically addressing lower grade timber with poor markets.

In developing foreign markets for our underutilized Hemlock-Balsam, roundwood export has an important role in building exposure to these species and maintaining their presence in supply chains (e.g., in Japan).

Reducing Uncertainty and Delays in Approvals

Permitting can be a long and complex process for Coastal licensees and not least for BC Timber Sales harvest block development.

Much delay has come from the need for government to navigate First Nations rights and title, and expectations delivered from recent court decisions. New Provincial Government commitments that may facilitate progress in land and resource use negotiations and ongoing, evolving partnerships between First Nations communities and industry should help to reduce delays in plan and permit approvals.

Insufficient Ministry of Forests, Lands, Natural Resources and Rural Development staffing is also a significant cause for delays in approvals in certain districts.

Commitment to higher level plans – on the part of all stakeholders – is also important for an efficient permitting process.

Alleviating Uncertainty in Access to International Log Markets

In the current and foreseeable economic climate, the only apparent way to add sufficient value to the mature HemBal stands is to improve access to international log markets, which frequently pay significantly more than domestic log prices.

There are several existing policies in place to limit log exports and provide advantages to domestic log purchasers. (1) These policies include:

- Restrictions on the export of Red Cedar, Yellow Cedar and high grade logs.
- A variable “Fee in Lieu of Manufacture” (export tax) is levied on exported Crown timber to compensate for the loss of tax revenues that would accrue from manufacturing the logs domestically.
- A Surplus Test where logs must be advertised for sale to domestic purchasers at domestic log prices before they can be exported.

However, these domestic log prices are frequently neither competitive by international standards nor sufficient to enable licensees to rationalize the risk of investing in the development and harvesting of problematic mature HemBal stands.

The Surplus Test procedures expose forest operators, in particular, to significant risk from “blocking” actions of domestic log buyers and from the timelines involved. (2)

There is currently no restriction on sawmilling companies with underharvested AAC on their own forest tenures blocking export applications from forest operators without mills. This aspect of the Surplus Test process is a major irritant and reflects incoherent public interest objectives.

Some Orders in Council (OIC) which provide exemptions to the Surplus Test have provided some regions of the Coast with the certainty of export that they require to increase their harvest levels. The current Surplus Test process, as it applies to the rest of the Coast, does not provide enough certainty to maximize harvest levels and hence economic activity and domestic log supply.

The system of OIC exemptions could be applied within a scheme of economic zones that would recognize more accurately and fairly the conditions and handicaps that exist for forest operators in various parts of the Coast region. OICs applied within such a scheme would allow more dependable export of surplus timber from mature HemBal stands.

It must be emphasized that access to international log markets is particularly critical for smaller non-integrated firms, First Nations, community forests and woodlots – who do not enjoy the economies of scale or broader product range of larger firms or the ability to recover forestry costs from the sale of finished products. They sell only logs, and their businesses are dependent on competitive log markets.

Employment Goal in Provincial Forest Policy

It is sometimes proposed that earlier appurtenancy rules that dictated that timber cut within certain geographical areas was committed to specific mills should be reinstated. It is also frequently proposed that there should be further restrictions on log exports.

Neither of these policy directions would address underlying problems facing the Coastal manufacturing industry or the persistent underharvest of AAC.

This is illustrated by the fact that there are forest companies in the Coast region with both harvesting rights and sawmills that cannot economically harvest all of their AAC to support their own mills. These companies can have access to more forest tenure than their mills consume in a year, but product prices determine that harvesting costs are more than they can pay for a log landed at the mill. Their own tenures go unharvested while they rely on producers who export logs to provide them with logs at less than the full cost of logging.

A key objective behind calls for reintroducing appurtenancy and further restricting log export is to preserve mill jobs. The intent is to support manufacturing; but the effect would be to reduce the value of our timber resources, by impeding higher value recovery and thereby forest management and harvesting activity levels.

It is important to consider that an increasing majority of primary forest industry sector jobs in the Coast region today are in forestry operations. This is due to ever increasing automation in the mills, and to the growing role of support activities in forestry directly related to our high forest practices standards – with increased number of specialists (e.g., GIS mapping technicians, geologists, archaeologists) employed. (3)

The goals of provincial forest policy may need to be more clearly defined as to whether the priority is to create more jobs for British Columbians or to direct more logs to domestic manufacturers. Automation in manufacturing has rendered these goals somewhat divergent.

It is undeniable that log exports currently have a critical role in supporting employment activity in forest operations and a sustainable harvest of the full forest profile – and also in supporting the domestic manufacturing industry by making available more logs at a lower cost.

Summary Benefits of Balanced Policies Approach to Address Underharvest

The following list includes some of the significant potential benefits:

1. Improved development and maintenance of the access infrastructure [roads and crossings] that are used by a considerable number of non-industrial users such as recreationists and tourism operators.
2. The increased harvest of mature HemBal stands will result in more logs being available for the domestic log market.
3. The future productivity of the Timber Harvesting Land Base will be increased by reforesting existing low-value, mature stands with fast growing, second growth stands.
4. The present levels of timber utilization can be increased, as the increase in the average market values for the stands will allow more of the lower value pulp logs, and potentially biomass fibre, to be removed from the site and utilized by domestic manufacturers.
5. The increase in average market value and subsequent increase in harvesting activity will encourage an increase in capital investment and employment.
6. Provincial revenues will be increased through: a) Stumpage resulting from higher volumes and higher average log value; b) Fee-in-lieu on export logs; c) Income tax; d) Sales tax; e) Decreased social costs resulting from higher employment.

THE CHAMBER RECOMMENDS

That the longstanding underharvest of Coastal Crown timber Annual Allowable Cut be addressed by a balanced set of policy measures, including to:

1. Continue to work with all parties toward clarifying First Nations consultation responsibilities and addressing delays in cutting permit approvals faced by forest operators.
2. Add additional Ministry of Forests, Lands, Natural Resource Operations and Rural Development staff to deal with approvals.
3. Take into account the critical role of log exports in supporting employment activity in forest operations, sustainable harvest of the full forest profile, and in supporting the domestic manufacturing industry by delivering more logs than what would otherwise be delivered and at lower cost.
4. Alleviate uncertainties for forest operators inherent in the current Surplus Test and advertising procedures for log export applications, which have net effect of reducing harvesting activity and thus availability of logs also to domestic manufacturers.
5. Restrict sawmilling companies with underharvested AAC on their own forest tenures blocking export applications from forest operators without mills.
6. Consider the implementation of a scheme of Coastal economic zones defined according to forest operating conditions, for the potential application of incentive policies including Orders in Council exemptions from existing policies.
7. Continue restrictions on the export of Red Cedar, Yellow Cedar and high grade logs.
8. Increase investment in product and market development programs for underutilized timber resources.

Notes:

- (1) Province of British Columbia. *The Process for Exporting Unmanufactured Timber from British Columbia*. <https://www.for.gov.bc.ca/ftp/het/external/!publish/web/exports/the-export-process.pdf>
- (2) Discussed in Dumont, B., & Wright, D. (2006). *Generating More Wealth from British Columbia's Timber: A Review of British Columbia's Log Export Policies*. Victoria: Ministry of Forests and Range. See pp. 43, 54-55.
<https://www.for.gov.bc.ca/ftp/het/external/!publish/web/exports/generating-more-wealth.pdf>
- (3) See analysis of Coastal forest industry employment data and trends in Nelson, H. and Hotte, N. (2013) *Tired Iron: The State of the Harvesting Sector on the BC Coast*. Vancouver: Truck Loggers Association of B.C.
http://www.tla.ca/sites/default/files/news_policy/tired_iron_by_harry_nelson_lowres_fnl.pdf ;
and see also employment and economic benefits statistics in PricewaterhouseCoopers, Vancouver, B.C. (Sept. 2017) *British Columbia's Forest Industry and the BC Economy in 2016*.
<https://www.cofi.org/wp-content/uploads/BC-Forest-Report-FINAL-Sept-2017.pdf>