

**Submission to the Interior Forestry Revitalization Initiative
October 2019**

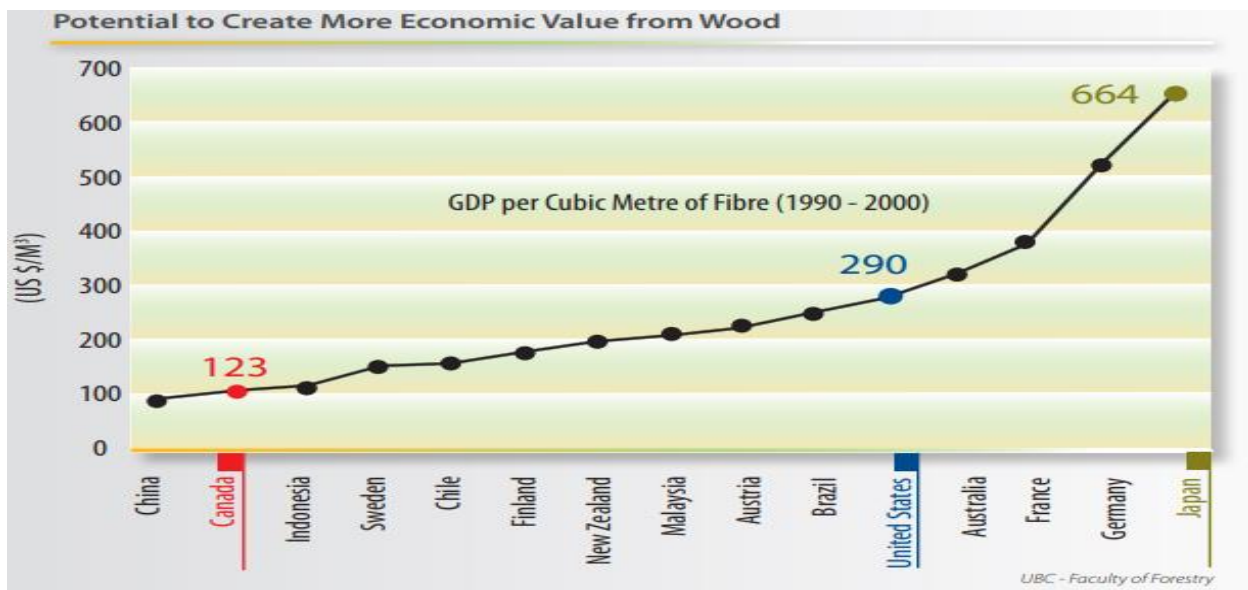
Submitted by: The BC Rural Centre

The BC Rural Centre is a non-partisan, non-profit rural development organization. Our mandate is to provide rural development information and tools that will help rural BC indigenous and non-indigenous communities succeed. This submission is made in response to the Province's invitation for input to the Interior Forestry Revitalization Initiative.

Introduction:

“Our goal is to collaborate with industry and key stakeholders to confront long standing challenges and facilitate a forest sector transformation that generates jobs and prosperity – a transformation based on extracting maximum value, rather than maximum volume.” Premier John Horgan, April 1, 2019.

Any identification of the ways to achieve the objectives that have been set by the Province for the Interior Forestry Revitalization must start with an understanding of the major systemic drivers causing the malaise that now exists in the interior forest sector. The BC Rural Centre; the three former regional Beetle Action Coalitions; the Healthy Forests Healthy Communities initiative; and wide variety of other organizations and individuals have for many years documented the fact that BC's forest sector has been providing increasingly diminishing total returns from the use of BC's public forest resources.



From: *“Generating More Value from Our Forests: A Vision and Action Plan for Further Manufacturing”*
Province of BC March 2009

The BC Rural Centre agrees with the Premier that it is critical that new provincial policies be developed and implemented that will increase the total return and benefits that British Columbians receive from the use of our publically owned forest lands and resources. The BC Rural Centre would urge the Province to reach back and incorporate in the Revitalization initiative the extensive, relevant analysis, strategy making and recommendations that were prepared by the Omineca, Cariboo-Chilcotin and Southern Interior Beetle Action Coalitions beginning in 2005 and for many years

after. That work was funded by the Province to help prepare for the circumstances now faced by the interior forest sector and should be a part of solution-finding going forward.

In this brief submission, the BC Rural Centre will discuss the most fundamental, underlying policy issues which stand in the way of achieving the Province's objectives for the Revitalization initiative, with high-level policy recommendations to overcome those obstacles.

Policy Issues and The Way Forward

Government Vision and Mission Have Real-world Consequences on Forest Sector Competitiveness:

In 1979, the provincial legislature passed the *Ministry of Forests and Range Act* which exists to this day. Among other things, the Act legislates the purposes (vision and mission) for which the Ministry of Forests and Range (now the Ministry of Forests, Lands, Natural Resource Operations and Rural Development (FLNRORD) exists. Particularly relevant to the subjects of this submission, the legislature decreed that one purpose of the ministry, among others, is to “Encourage a vigorous, efficient and world competitive timber processing industry” (emphasis added).

The 1979 *Forest Act* provides a definition of the type of facilities that make up the timber processing industry as those that process ‘timber, wood residue or both’. The 1979 context for those terms was essentially commodity lumber mills that consumed raw logs (felled timber), and pulp mills that predominantly process wood chips. At that time there did not exist a value added wood manufacturing sector as we know it now, much of which does not even process logs, using lumber inputs instead.

The real-world impact of the described part of the ministry vision/mission has been, since 1979, to cause the ministry to bring an almost singular focus of its considerable resources on those policies that support a global competitiveness of the commodity lumber and pulp segments of the forest sector. Ministry policy interest in segments of the wood product manufacturing sector, such as value added wood, has ebbed and flowed, not in small part because the *Ministry of Forests and Range Act* (the legislature's expression of its will for the ministry's activities) does not require the ministry to maintain a focus on the competitiveness of those sector segments – it is optional for the ministry to do so based on policy only, policy which we have seen come and go. Given that forest policy choices always require a balancing of interests, the current *Ministry of Forests and Range Act*, in effect, calls on the ministry to tip the balance of interests in favor of commodity lumber and pulp producers. **While that direction of the legislature may have been appropriate in 1979 and for some years after, for the last several decades it has not served the broader public interest well.**

Recommended Action Going Forward:

The provincial government should repeal that section of the *Ministry of Forests and Range Act* which defines the purposes of the ministry, and replace it with a vision and mission that ensures that our public forest lands and resources are used in a manner that brings the maximum social, environmental and economic benefit to the people of BC.

Forest Tenure and Its Consequences:

Along with the 1979 *Ministry of Forests and Range Act*, the legislature passed the 1979 *Forest Act*. The Act transformed the forest tenure system in myriad of ways. Most profoundly for the interior of BC, the Act enabled the holders of temporary forest tenures to convert those rights into replaceable forest licenses. One policy objective of replaceable forest licenses was to increase the certainty of the investment climate for lumber manufacturers based on guaranteed access to Crown timber. That policy objective was certainly consistent with the ministry mission to “encourage a vigorous, efficient world competitive timber processing industry”, but all these years later we understand the downside of replaceable forest licenses issued to large commodity lumber producers. Aspects of the downside include:

- The holding of replaceable forest licenses by commodity lumber producers means that the lumber producer need not compete for that proportion of their mill timber requirements on the open market. This fact requires the government to price that timber with some form of administered timber pricing policy. These systems are all expensive to maintain, both for the government and the tenure holder.
- Administered pricing systems for softwood lumber always have, and always will, attract protectionist actions by the United States. These actions have periodically created hardship for the government, industry, workers and communities. Today is one of those times.
- Lumber producers that hold replaceable forest licenses enjoy 100% control over the final mill destination of the timber within their tenure(s) and the timber they purchase from market loggers that hold temporary tenures, such as BC Timber Sales tenures. Within that wood basket, there are varying amounts of logs that are suitable for manufacture into products of much higher value than commodity lumber, which would create more jobs, community resilience and moderate the economic impact of low points in the lumber price cycle. **While it is in the interest of the provincial government and communities for logs to flow to their highest and best use, it is not necessarily in the interest of the replaceable tenure holder/commodity lumber producer to facilitate that flow.** As a result, the logs flow to lumber manufacture (and marginally to plywood), and some of the value of the logs to the timber owner (the public) is lost.
- The granting of replaceable tenure rights to one segment of the wood product manufacturing sector (lumber producers) means that other segments, for example value added wood enterprises, will not enjoy the same replaceable tenure rights. Replaceable tenure rights clearly convey a competitive advantage to their holders as evidenced by the considerable financial sums it takes to purchase such tenures from a holder. New potential entrants to the wood manufacturing sector are faced with uncertainty about access to raw material, both in the form of logs or sawn timber, no matter how innovative their business model may be or how much benefit for communities may result if those entrepreneurs should be successful. **Without secure access to raw material these potential new entrants to the forest sector cannot risk their own capital and cannot borrow capital. These issues, rooted in tenure policy, have caused a major reduction in the scale of value added wood enterprise in the interior of BC since the mid-1990's and has the effect of stifling innovation and diversification in the forest sector that new entrants could otherwise bring.** To be clear, the issue here is the absence of a level competitive playing field between those wood product manufacturers that hold replaceable tenure and those that don't.
- Under the *status quo*, 100% of the value of publicly owned timber in replaceable forests licenses is divided between the tenure holder, who extracts value at any point in can in the value chain, and the government in the form of stumpage and annual tenure rents. The *status quo* does not provide any special claim to some of that value by communities in close proximity to the timber harvested. In fact, benefits to communities from local forest resources in the form of jobs and industrial tax base has shrunken dramatically since the mid-1990's as the commodity lumber sector has consolidated and updated technology to eliminate costs, including labour costs.
- Beyond the issues described above, the government has granted the right and obligation for replaceable forest license holders to plan the management of timber resources where forest license operations land on the ground. Driven by a cost-minimization business strategy, replaceable forest license holders are incentivized to plan to meet the minimum legal standards for timber and non-timber resource management. This outcome runs directly counter to a purpose and function of the FLNRORD ministry stated *in the Ministry of Forests and Range Act "to encourage maximum productivity of the forest and range resources in British Columbia"*. **The planning rights and obligations of replaceable forest license holders place local communities and stakeholders (those that truly have a vested interest in maximizing the productivity of their local forest and range resources) outside of the direct decision-making process for the management of these resources, often to their dissatisfaction.**

Recommended Action Going Forward:

Although it is difficult and controversial, the provincial government must gather the courage to revisit and reform the replaceable forest license tenure policy changes inherent in the 1979 *Forest Act*; and policies developed as part of the 2003 Forest Revitalization Plan. The goals of such reform should include:

1. A predictable and orderly transition from the replaceable forest licenses held by large lumber producers to timber rights being held by locally managed entities - independent of large lumber manufacturers.
2. Significantly increase the number and volume of timber rights controlled by local indigenous and non-indigenous communities (e.g. First Nations Woodland Licenses and Community Forest Licenses) and Woodlots.
3. Empowerment of the locally managed entities with a far greater ability to ensure that 'the right log flows to the right mill' in a balance considered appropriate by those communities. This ability in the hands of local communities will improve the ability of wood product manufacturers to enter or exit the sector in given locations based on their ability to profit while meeting the social, economic and environmental objectives of the locally managed entity. It would also attenuate the negative impacts on communities of investment decisions of major lumber producers that choose to concentrate their mill capacity in fewer communities. It would enable local communities to determine whether they will:
 - a. Continue to sell some or all of their subject timber to a large consolidated mill owner; or
 - b. Use the timber resource in their control to attract new investment in wood product manufacturing capacity in proximity to their communities.

Marketing of timber by locally managed entities, at arms-length from lumber manufacturers who are the perennial target of U.S. protectionism, would be a powerful antidote to that protectionism and the resulting need for an administered timber pricing system.

4. Creating the policy conditions that enable the administered pricing system for timber to be discontinued for the timber in the new timber rights held by locally managed entities. The stumpage of the timber in question will be determined by what the local market will bear. Provide the freedom for the locally managed entities to retain the 'stumpage' value of the timber they sell with the requirement that the revenue be used to maximize the productivity of timber and non-timber resources in the local area, and to provide beneficial investments in local communities.
5. Enable a 'green field' review of the mission of BC Timber Sales. At present the *raison d'être* for BC Timber Sales is to support the market pricing of timber, primarily for the replaceable forest licenses and tree farm licenses. The reforms described above negate the need for this mission creating the opportunity to consider anew how the organization and the AAC allocation in its control, can best serve the public interest. The province should change the mission of BCTS to focus on strategically facilitating the expansion of a value-added wood sector in BC.

Innovation in Wood Products, Forest Practice and Timber Supply:

Cost minimization is the focus of innovation in the commodity lumber segment of the forest sector that holds replaceable forest licenses. This singular focus for innovation means that:

- Wood product innovation and diversification is avoided due to the focus on producing the same commodity lumber products at a lower price. As described earlier, the current policy framework which creates so much uncertainty of access to raw material discourages the entrance of new, innovative wood product manufacturers to the forest sector;

- The time horizon involved with capturing the future value of today's investment in timber growing is far longer than the holders of volume-based replaceable forest licenses, whose sole interest is in profiting from lumber production today, is willing to accept. This fact means that forest practice innovation will focus only on cost reduction, not maximization or optimization of forest and range resource productivity.
- The holders of replaceable forest licenses have little incentive to seek innovation in the possible ways to mitigate the timber supply impacts of the mountain pine beetle epidemic or otherwise improve timber supply. Capital is highly mobile. When faced with inadequate timber supplies, lumber manufacturers that hold replaceable forest licenses typically either 'right size' their milling operations to the smaller timber supply or close their facility and invest in other countries.

Recommended Action Going Forward:

1. The Interior Forestry Revitalization initiative should result in an entrenchment of a policy and a legislative design principle that requires forest policy to encourage and support innovation in wood product development that adds value/margin to the use of forest resources.
2. Our interior regions/communities are not homogeneous, therefore, the 'policies that work' cannot be homogeneous at a provincial scale. Adaptation of provincial-scale policy is far too slow to cope with the pace of change that occurs at a regional level. The Province should establish at a provincial scale policy goals and principles but enable policy variation at a regional scale to create the 'policies that work' at that regional scale.
3. As already discussed, the current tenure system does not encourage the maximization or optimization of forest and range resource productivity. If constituted thoughtfully, the previously mentioned locally managed entities, empowered to apply the benefits of area-based management to the maximization of forest and resource productivity in local forests, would set the conditions for the types of innovation desired.

Conclusions:

This submission presents what we believe to be several of the fundamental causes of the downward spiral in the condition of the interior forest sector. Making the policy changes necessary to change the trajectory of the interior forest sector will be no less challenging, and perhaps more challenging, than it was to bring in the policies that all these years later have become the problem. **To close observers, it has been clear for a very long time that the issues outlined in this submission have caused an increasing divergence between the public and community interest in forest and range resources and the private interest of lumber manufacturers in those same resources.**

Other jurisdictions - including other Canadian provinces - have found ways to increase the total value they receive from their forest lands and resources. We must do the same.

While this submission offers high-level policy directions and some more specific recommendations, there is a need to complete the far more detailed policy analysis necessary to move forward in the suggested directions. The BC Rural Centre believes that the necessary strategy and policy development must be led by the Provincial Government in collaboration with indigenous and non-indigenous communities; a wide variety of forest sector businesses and worker organizations; and representatives of the various other organizations with a strong interest in our provincial forest lands and resources.

It is our hope that the Province will find the courage to undertake that work as a result of the Interior Forestry Revitalization. Failure to do so, or choosing instead to pursue more minor change, will certainly result in growing hardship for the many communities and thousands of workers that depend on forest and range resources for their livelihood.