

# Submission to the Interior Forest Sector Renewal Engagement

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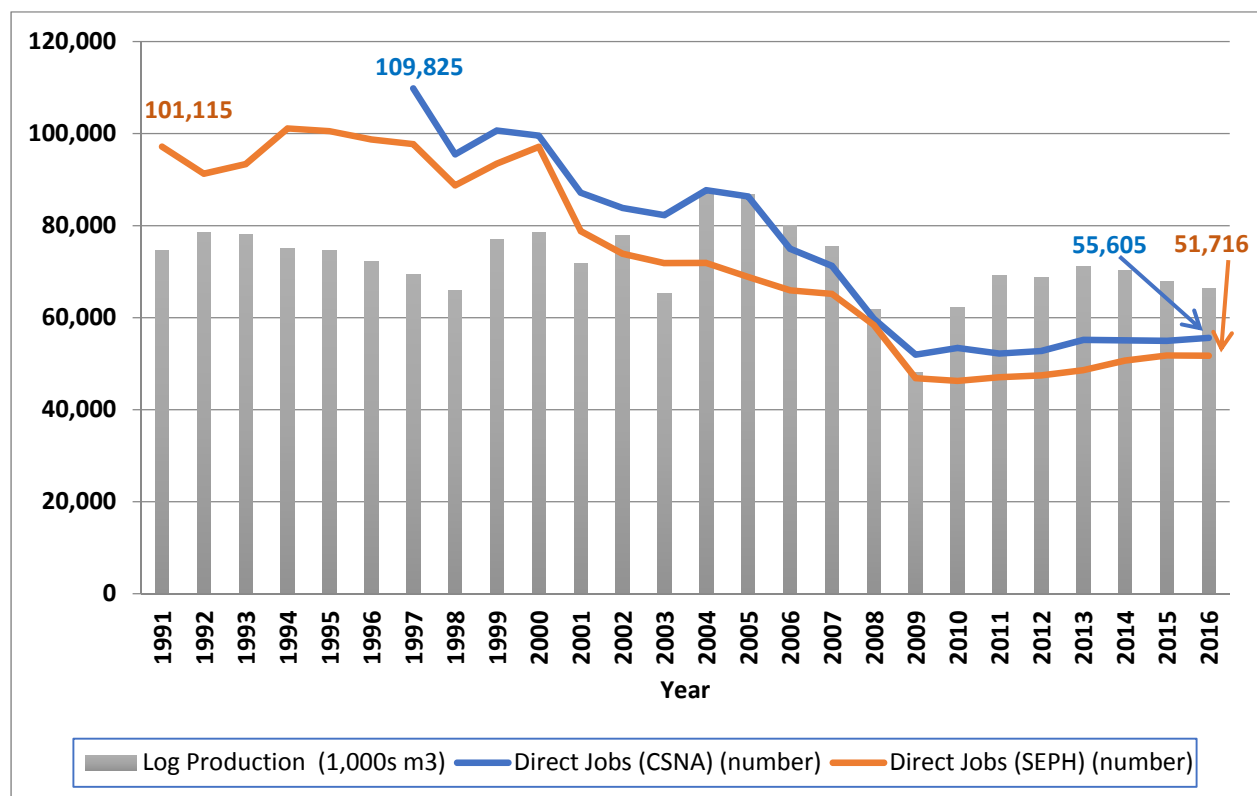
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## INTRODUCTION

### The Trend

Up until recently, the timber harvest in BC (including harvest from private lands) has typically remained between 62.0 million and 85.0 million m<sup>3</sup> per year from 1991 to 2016 – however, total employment in the forest sector has declined significantly (See Figure 1).<sup>1</sup>

Figure 1: British Columbia's Forest Sector Labor Force and Provincial Harvest, 1991 to 2016



Source: Canadian Forest Service (2019). Note: Forest Sector labour force is presented using the Canadian Systems of National Accounts (CSNA) data and Survey of Employment, Payroll and Hours (SEPH)

<sup>1</sup> The peak harvest year from all lands (public and private) in BC reached a high in 2004 when the harvest was 87.0 million m<sup>3</sup> and in 2005 when the harvest was 86.9 million m<sup>3</sup>, the low was in 2009 when the harvest was only 48.0 million m<sup>3</sup>.

Overall, employment has been cut in half between the mid-1990s and 2016, largely as a result of technological upgrades and the move by major licensees to focus on concentrating the harvest into super mills (mills processing over 1 million cubic metres annually). This coupled with the long-anticipated decline in the harvest, will almost certainly result in a continued decline in employment in the processing sector. It is very possible that the status quo scenario will see a further 50% jobs removed from the industry bringing the number to 25,000 in a short number of years – based on 2019 we are well on our way. Further, this decline in forestry employment will continue to remove additional rural communities from the forest economy as manufacturing capacity and logging contractor capacity concentrates in fewer communities. Already there are entire regions of the BC interior that are no longer involved in the forest sector. This is a far cry from when forestry was the dominant rural basic sector activity throughout the interior of British Columbia.

### How it happened

With hindsight we now know the original policy error was the granting of replaceable forest licenses as a result of Pearce Commission recommendations in 1977/78 (TFL's preceded Pearce). Prior to Pearce the government had slowly slipped into a situation where it had recognized 'quota positions' for forest companies that had grown in size and managed to win an ongoing series and significant number of timber sales under the pre-1978 Forest Act. The government allowed these companies to bundle the timber sales into 'timber sale harvesting licenses' (TSHL's) to which the 'quota position' was attached, providing an ongoing supply of cutting permits. Neither the quota positions or timber sale harvesting licenses were actually rooted in enabling legislation, they were just done by policy. Pearce said this lack of certainty of tenure was an impediment to investment and sector growth, hence the recommendation to convert the non-legal, informal quota positions into hard, legal replaceable forest licences with mill appurtenance clauses.

The ability to transfer the licenses gave them monetary value corresponding to the competitive advantage they convey in the market over those enterprises that do not hold such tenures. The alternative policy choice, the road not taken, was to adopt a policy that said *"the timber owner's interest (the public interest) lies in the owner retaining control over the growing, management and market competitive sale of the timber. Wood product manufacture is a separate business from timber management, and such manufacturers are free to open and close their factories as they see fit, but the timber resource remains in the control of its owner – no tenure for wood product manufacturers"*, (which was historically the American policy choice). Mill appurtenance was a band aid to protect some level of local benefit from local timber resources, if one accepts that precept that communities in proximity to the timber have a special ownership interest in it.

That band aid was ripped off in 2003 with the ironically named Forestry Revitalization Plan. We have now had for years those same companies that hold replaceable forest licences, which are essentially bulletproof access to Crown timber, taking their profits and investing them in the U.S., where they have no tenure and must access their timber supply on the open market from the timber owners that grow, manage and sell their timber on the open market to wood product manufacturers. Guess who made the better long-term policy choice from the point of view of the timber owner, BC or the U.S.?

## Way Forward

Before mapping a way forward, it is important to recognize four key issues:

- 1) Most participants in the forest industry are careful about how they address issues that may be perceived as uncomfortable to the position of the major licenses. This is because major licenses are now an oligopoly within the forest industry in British Columbia and a true monopoly at the regional level in most regions of the interior. This makes it difficult for local government officials, Indigenous leaders, logging contractors, silviculture contractors, wood lot owners, or small tenure holders, to speak publicly about their issues and concerns with the existing licensee-controlled system.
- 2) The value-added wood sector has seen its ability to access fibre in the interior of British Columbia erode to the point that they can no longer operate effectively. This has come through changes in programs that allowed tenure access for the value-added sector on a more equal footing with lumber manufacturers, changes that have removed value added producers from the discussion on fibre access.
- 3) BC has doubled down on using its forestry resources to produce commodity products, reinforcing the ongoing demand for cheaper and cheaper access to fibre in the province. For example, Madison's reports lumber values as of September 24, 2019, for western spruce/pine/fir (fir means balsam in this context) random length 2X4 at \$382/MBM (\$US). During the last recession the good mills were breaking even at about \$225/MBM, yet now one of the major rallying cries by industry is that BC has high delivered log costs and that is the issue needing addressing.
- 4) Issues and solutions to the ills of the forest industry have been discussed for the past two decades. There have been many studies and suggestions of the way forward. The problem is the province has not been willing to take the bold actions to implement the long-term changes that are required. This change means resourcing and sticking to a path that will achieve the desired goals. In addition, this means making decisions that may be resisted by major licensees in the commodity lumber sector, but which will benefit rural BC and the entire manufacturing sector in the long-term. The Provincial government needs to make a commitment to see change through this time. ***No more studies, pilot projects or underfunded temporary efforts.***

While the province's background document "Interior Forest Sector Renewal Policy and Program Engagement Discussion Paper" poses several questions, there are two priority questions that need to be considered in order to tackle the real issue of the health and wellbeing of the interior BC forest sector including:

- Forest Tenure and Fibre Supply; and,
- Manufacturing Capacity, Fibre Utilization and Wood Product Innovation.

### *Forest Tenure and Fibre Supply*

A strategic shift in government policy that sees the re-apportionment of Annual Allowable Cut is key to achieving the competitiveness and full utilization of the entire fibre basket in the interior of British Columbia. The current system that favours major licenses receiving access to not just the significant portion of that they control outright - but also the remaining fibre allocation resulting in nearly 100% of the fibre in some interior regions moving through the hands of a single licensee or, at best, a small number of licensees. This has led to many unintended externalities. Stories of green wood being cut

while mountain pine impacted wood was allowed to waste, or pulp logs and deciduous wood pushed into burn piles abound. Further, it is no secret that, to major licensees that are commodity lumber manufacturers, every log is a sawlog or pulp log, while others looking for a variety of fibre types have increasingly been shut out of the forest sector in the interior of British Columbia.

Moving forward, the Province needs to do all it can to create a competitive market-based log market system, where a variety of entrepreneurs and wood processors have a fair chance of competing for fibre from the interior wood profile. As mentioned above, at the same time we have seen the described barriers to more diversified investment in wood product manufacture under the current policy framework, in recent years we have seen BC-based lumber manufacturers and major licensees that have benefitted the most from the current policy framework ramp up their investments in wood manufacturing in the United States.

Overall, it is not necessarily a requirement for business success that large wood manufacturers hold most or all of their raw material supply under replaceable forest tenure. We have instances in BC of very successful, large lumber producers that hold little replaceable forest tenure. Here in Kamloops, Domtar is such a market taker producer, creating significant employment locally with no tenure. These successes can also be found when one looks further afield to, for example, Finland or the United States. In reality, the holding of large, replaceable forest tenures (and associated timber pricing system) by companies that are also wood product manufacturers can be a liability. This situation in BC is a significant factor in the decades old softwood lumber dispute with the United States. There are a number of models that could be considered to create greater separation between the business of growing and selling timber and the business of wood product manufacture, models that could, over time, benefit both the owners of the timber resource and the owners of manufacturing capacity.

The BC Timber Sales (BCTS) program, and the share of the allowable annual cut in its control, is a major strategic asset of the government that has a key role to play in the extent to which future timber markets are competitive for a diversity of entrepreneurs that would invest in the sector. While the precursor program to BCTS established about 40 years ago (the Small Business Forest Enterprise Program) was established specifically as a source of competitive access to Crown timber for small entrepreneurs and small and large value added wood enterprises, the program has now devolved almost completely into a tool to support the pricing of tenure timber held by large, commodity lumber manufacturers. This shift in policy and mission focus for BCTS has been detrimental to diversity in the forest sector. As long as we must have an administered pricing system for replaceable tenures, there are alternatives to using BCTS for that purpose.

BC needs to think strategically on how it's reduced wood supply will be used to create wealth and reinvestment in British Columbians and rural interior communities. To this end we suggest:

- 1) Introduce legislation to enable increased allowable annual cut apportionment to community-based tenures that meet the objectives of the provincial government, Indigenous and non-Indigenous communities. This includes a budget for the critical upfront investment that will be necessary to support this legislation.
- 2) Actively support the development of more community forests that are partnerships between Indigenous and non-Indigenous communities. This includes identifying First Nations who may wish to discuss managing their volumes with existing CFA holders or communities currently seeking a CFA.

- 3) In executing 1 and 2 above, reconsider current practice that yields a large number of small AAC community forest agreements. Pay attention to the negative effect that fragmenting the timber harvesting land base can have on timber supply. Issue larger community forest agreements and explore policies that mitigate downward pressures on timber supply.
- 3) Revise the mission of BCTS so that it ensures a significant increase in the number of participants with access to fibre and creates a truly open, competitive log market.
- 4) Establish a long-term policy that gradually results in a separation of enterprises that grow, manage and sell timber on the open market and those enterprises that produce commodity lumber products. Such separation will create the space and certainty of access to raw material (timber and lumber inputs) necessary for private investment in diversifying the wood products manufacturing sector.
- 5) Ensure that the forest industry refocuses on added-value activities so the fibre harvested is fully processed with the right fibre going to the right processor.

#### *Manufacturing Capacity, Fibre Utilization and Wood Product Innovation*

The entire mindset of the way the province approaches forest products production needs to change. From the ministry vision in the *Ministry of Forests Act*, right through tenure policy and timber pricing, for far too long the policy orientation has been on encouraging commodity products at the expense of other wood product development. While commodity production will remain an important part of the forest sector (a large part of our wood basket is best suited to lumber manufacture) there is urgency to re-establish the full range of wood processors to ensure that all fibre from the lowest quality wood to the highest value logs are utilized in the wealth creating model and focused on developing wealth in communities and for the province. A desired approach would include:

- 1) Moving forward, the forest sector should take a **Value Chain Approach**. Effectively this means a strategic collaboration of organizations for the purpose of meeting market objectives over the long term and for the mutual benefit of all 'links of the chain'. Developing a value chain approach requires "a collaborative, rather than a competitive, approach in the forest sector and should be approached strategically and at a high level of influence." Specifically, an interconnected approach is needed focused on targeted goals with specific initiatives developed in collaboration including several strategic areas identified in the 2013 Southern Interior Beetle Action Coalition Value Added Report, with actions intended to:
  - Develop a common vision and understand Government's place in the wood value chain;
  - Understand and support conducive business conditions, financing and manufacturing;
  - Ensure access to raw material supply;
  - Foster research and technology development;
  - Support product development;
  - Support education and skills training; and,
  - Support marketing<sup>2</sup>

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<sup>2</sup> Southern Interior Beetle Action Coalition. 2013. Growing the BC Interior Value Added Wood Sector. Available at: <http://www.sibacs.com/wp-content/uploads/2013/08/SIBAC-Value-Added-Report-Summary-Report-Final-June-27-2013.pdf>. Accessed September 17, 2019.

If we continue to develop individual programs and tools, we will set ourselves up for the challenges in transition that we have experienced in the past. Change to the manufacturing profile and innovation in wood- processing will only be realized if we move collectively at the highest level and link together the programs, policies and tools that foster added-value to the full range of fibre available in the Interior British Columbia forest profile.