

A report for the
British Columbia Minister
of Forests and Range

Generating More Wealth from British Columbia's Timber: **A Review of British Columbia's Log Export Policies**

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December 2006

Letter of Submittal

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December 5, 2006

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Dear Mr. Minister:

Re: Review of Log Export Policy

We respectfully submit for your consideration the final report on our review of log export policy in British Columbia.

Thank you for the opportunity to review and make recommendations regarding this important element of public forest policy.

Sincerely,

W.E. Dumont RPF

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Bill Dumont

Don Wright

December 2006

1 Introduction

The issue of log exports from British Columbia is one that can generate a lot of public attention, passion and interest. Virtually all stakeholders and First Nations have views on the topic. For more than a century, the British Columbia government has restricted log exports in favour of converting logs into forest products in our own manufacturing sector. The federal government, which has the constitutional responsibility for international trade, also restricts and controls log exports.

In May 2006, the British Columbia Minister of Forests and Range committed in a public forum to conducting an external review of log export policy. In August 2006, he appointed a two-person team to review most aspects of British Columbia's log export policy. Initially the emphasis was on the coastal region, but later the Minister requested that issues in the southern interior be considered as well. The terms of reference and news release are in Appendix A.

The last external review of log export policy was completed in 1983 by a three-person team. Since that time major changes have occurred in forest policy and in most aspects of the forest sector. These changes mean that a fresh look at the policies and procedures that affect the export of logs from British Columbia is warranted.

We took on this project knowing full well that the issues surrounding log exports in British Columbia are complex and controversial. Were there a simple "answer" that had broad support from all key stakeholders and the general public, there would have been no need for the Minister to ask for a review of log export policy.

In writing this report we have endeavoured to explain how we thought through this complexity and controversy. We outline how we gathered the relevant information, analyzed the issues and came to the recommendations for the Minister's consideration.

- Section 2 summarizes how we went about our review.
- Section 3 is a brief summary of what we heard from the main stakeholders and First Nations.
- Section 4 provides some analysis of log exports in a global, a Canadian and a British Columbia context.
- Section 5 explains the history of log export policy in British Columbia.
- Section 6 presents an analysis of the economics of the forest industries of the coast, the northern transition zone, and the southern interior.
- Section 7 provides the analytical basis for our recommendations—we review the basic economics of log prices, log supply and log exports, and the multiple issues that are relevant to deliberations on British Columbia log export policy.
- Section 8 contains our recommendations.
- Section 9 provides our concluding thoughts. Various support materials are provided in the Appendices.

We have tried to demonstrate the connection between our analysis and our recommendations. In the analysis section we indicate where particular facts, situations, and impacts point to the need for specific treatment in log export policy. In the recommendations section we refer to the findings in our analysis section.

We believe strongly that it is important to understand the complexity of the issues surrounding log exports, and to situate our recommendations within the context of this complexity. In our opinion, one of the reasons why debate on log export policy in British Columbia often generates more heat than light is that stakeholders—whether on the side of the “pro” or “anti” log export divide—often do not move beyond the “sound bite” stage of debate. For this reason, we have decided not to provide an executive summary with this report—we hope the reader will read through the entire report to appreciate the context and analysis for our recommendations.

If, however, the reader cannot read the whole report, we recommend starting out with the summary conclusions in Section 7.15 and then reading the recommendations in Section 8. The recommendations section refers back to the context and analysis earlier in the report, and the reader can trace back for a better understanding of how we arrived at our recommendations.

One explanatory note should be added before proceeding with the main part of the report. This report reads primarily as a review of log export policy on the British Columbia coast and the northern transition zone, with some material about the southern interior “added on”. There are two reasons for this. First, the vast majority of British Columbia's log exports come from the coast, and most of the public debate on the issue is focused there. Second, we decided upon a particular “division of labour” with respect to the southern interior. Don Wright felt that, because he does consulting work for a company that operates in the southern interior, it would be better if he excused himself from the consultations with southern interior stakeholders and from authoring any recommendations that were interior-specific. Accordingly, Bill Dumont authored the southern interior-specific sections, while all other sections were written collaboratively.

2 Review Process

Following our appointment in mid August 2006 we prepared an information letter and series of questions for stakeholders and First Nations to consider during our meetings with them. Appendix A contains a copy of the letter and questions.

We scheduled a series of private meetings in communities spanning the coast, from southern Vancouver Island to the Queen Charlotte Islands/Haida Gwaii and the Terrace/Prince Rupert areas. We also arranged numerous opportunities for meetings in the Lower Mainland and Victoria.

Subsequent to a further request from the Minister, a series of meetings were arranged for stakeholders and First Nations in the Kootenays and other parts of the southern interior.

Meetings were conducted in a variety of venues including offices of the various respondents, and some were conducted by teleconference. The meetings were conducted in private in order to elicit a frank and open discussion of the issues and concerns of participants.

We had expected to complete our meetings in a month or less. However, the review generated a high level of interest and the result was that we met with a total of 346 people in 97 separate meetings, which took us from early September to mid November. Appendix B lists the participants.

We also invited those who participated in meetings, and any others who wished to make written submissions to do so. During the 2-month period allowed for making written submissions we received 98 briefs, emails and letters totalling 658 pages. We asked some groups to provide us with additional follow-up information or ideas. Appendix C lists the written briefs and submissions received.

During the review period we also met with a number of British Columbia Ministry of Forests and Range staff to obtain data, information and analyses for the project. As well we engaged some professional assistance to help us with background information and further analysis.

We benefited significantly from hearing the often passionate and well-informed views of those we met with in conducting our review. The input we received was invaluable in formulating our response to the dramatic changes in overall forest policy, and to the major structural changes and serious economic situation on the coast.

A brief summary of the main input from stakeholders and First Nations is provided in Section 3.

3 Summary of What We Heard

During our broad and detailed consultation with stakeholders and meetings with First Nations we heard a wide spectrum of views on log export policy. It is not possible to capture or summarize the results of all the 97 meetings and the 658 pages of written submissions we received. Instead, we have attempted to identify the common positions of the various sectors and interests we heard from during our review.

Current Log Export Controls

A brief description of the current log export controls may be helpful to assist the reader in understanding some of the comments in this part of the report. A more complete description and discussion of the detailed processes involved for export of logs from British Columbia and Canada appears later in our report, and we refer the reader to Appendix E for schematics of the current export processes and associated compliance provisions.

Existing regulations for provincial Crown land and private land granted after 1906 prohibit the export of yellow-cedar and western redcedar logs, and of high grades of logs (above H grade) of all other species. As well, exporters of logs from provincial land must pay a "fee-in-lieu of manufacture" for their export logs. For federal lands (private lands granted pre-1906, including Indian reserves but excluding federal lands in Tree Farm Licences) there are no restrictions regarding species and grades of logs that can be exported. Logs exported from federal land represent about 65% of British Columbia's total log exports.

For both provincial and federal lands, the general rule is that any logs to be exported must be advertised for a period of time for purchase by a domestic mill (the so-called "surplus test"). The price offered by the buyer must be a "fair" domestic log price. The workings of the system are such that an offer from a domestic mill only "blocks" those logs from ever being exported. The producer is not required to sell those logs to the "blocker", nor is the blocker required to purchase those logs.

There are exemptions to the surplus test for provincial Crown land and post-1906 private land where the provincial cabinet has approved, through an order-in-council, an exemption for geographic areas and species, mostly in marginal species or high cost harvesting areas. The purpose of these orders-in-council is to stimulate harvesting.

Softwood Lumber Dispute and Current Circumstances in the Domestic Log Market

In reading through this summary of views on log export policy, it is important to keep in mind the effect of the softwood lumber dispute with the United States on British Columbia's domestic log market. As will be made clear in Section 7 below, the effect of barriers to the export of our lumber to the United States has been to depress domestic log prices. So when, for example, we recount how log sellers complain about the low domestic price for logs, it is essential to keep in mind that a primary cause of that is not British Columbia's log export restrictions, but rather the barriers to the export of our lumber. And when reference is made to the higher prices that are sometimes available in the export market, it is largely a function of the same effect.

Log Producers and Sellers

Private Landowners

The private landowners we met with expressed strong concerns about the constraints (noted above) on their ability to export logs, and about their ability to access the higher export prices which normally exist in the marketplace. They also argued that British Columbia is the only province that imposes such export restrictions, and these restrictions are an unfair burden on their private property rights. Many of the small land holders believe the provisions of the surplus test and the ability of local mills to block the approval process for their export proposals are intimidating, and that these factors force their logs into a sometimes lower valued domestic market.

We heard from interior log producers about sawmills that block the producers' exports even when that sawmill does not utilize the grades or species in question. The blocking provisions do not require the blocker or the proposed exporter to consummate a sale of logs.

Large landowners complained of having to provide domestic mills with alternate logs to keep domestic buyers from blocking their proposed exports. They also argued that they would provide substantial log volumes for the domestic market without the surplus test because many species and grades do not have export premiums.

One large private land log producer, Timberwest Forest Corp., has launched legal action against the controls imposed by the federal government (notice 102) to have it declared illegal. The judgement in this case is currently pending.

Most log producers and exporters stated a preference for selling their logs domestically, if the domestic log prices are close enough to the export price after deducting the extra costs of producing for the export market. They believe buyers in a healthy coastal forest sector can match the export prices if the playing field is level relative to tariffs or fees applied to British Columbia's lumber.

Market Loggers—Crown/Woodlot Tenure Holders

All market loggers (log producers who have no milling capacity) want the ability to access the highest value markets for their products whether or not it involves selling into the export market. They complained that the current rules force them to accept lower domestic prices for many species and grades. As well, the export processes require them to bear additional costs to meet current export regulations, which they may not recover if those logs are blocked from export.

Many BC Timber Sales sale holders, tenure holders and exporters from the more expensive-to-harvest areas on the coast, where western hemlock and balsam (Abies. species) stands are prevalent (referred to as hembal), argued that current blanket export provisions and/or higher fees in lieu do not permit adequate levels of export, or their margins are so slim they cannot afford anything but nominal fees in lieu.

First Nations

For the most part First Nations are new entrants to the market logging business. We heard from a large number of new forest tenure holders who expressed sig-

nificant concern over their ability to be successful in the market logging business without liberal and unconstrained access to the export log market. They believe this access to the export log market is necessary because of the start-up costs associated with new harvesting operations, and the fact that most of the coastal operating areas available to First Nations have a high proportion of hemlock species. Many asked for specific export provisions to support their operations.

Major Licences

In general, the three remaining major coastal manufacturers/tenure holders support freer trade in all forest products as a step to securing a regional exemption for the lumber export tax for the coast. They believe, however, that as long as the coast is subject to the Softwood Lumber Agreement, the fee-in-lieu and the surplus test must be strengthened, at least as it applies to Crown logs. There was a split as to whether this should also apply to logs from private land. Major licences in the southern interior are diverse in their positions—some support and others oppose exports or any changes to the existing controls.

Log Buyers/Users

Pulp and Paper Companies

We heard from all of the coastal pulpmill sector participants and one southern interior pulp company. They generally support log exports if the policy leads to an increase in the supply of logs for the domestic market. The undercut¹ situation on the coast over the past decade has been damaging to their interests and they are supportive of actions that would get more harvesting activity underway. They are concerned over the long-term loss of sawmilling capacity on the coast and resulting reduction in sawmill residuals for their fibre supply. Some are securing marginal supplies of fibre from American sawmills.

Independent Sawmills

With a few exceptions, the independent sawmills want to retain the existing surplus test system and constrain log exports further. Some want to modify the surplus test system to give them increased ability to block exports. They are concerned about the concentration of coastal tenure that has occurred recently. With fewer log suppliers now, they believe the consequences of blocking exports can be more damaging to their interests than previously. They wish to see indefinite prohibitions on export of all western redcedar and yellow-cedar logs from both private and public lands.

The Rotary (Veneer) Sector

There are four coastal veneer producers (one is just over the Cascades in the southern interior, but it purchases a large amount of coastal logs) that have seen significant expansion and increased consumption of coastal logs over the past decade. In contrast to the shrinking lumber sector, they are one of the few bright elements of the coastal forest industry. They hold minimal forest tenure. They are significant purchasers of logs from private land that would otherwise be exported. Generally, they favour retention of the existing surplus test provisions.

¹ Undercut: allowable annual cut less recorded timber harvest.

Organized Labour

With the exception of the longshoremen, all of the labour union representatives we heard from—provincial, harvesting, sawmilling, and pulp and paper—are opposed to log exports and wanted them further constrained or eliminated. Most view log exports as a cause of much of the decline in coastal sawmilling, and they believe continued exporting will result in further mill closures. They do not differentiate between exports from Crown land and those from private land. They believe that restricting log exports will eventually lead to new investments in the sawmill sector. For the most part they support at least levelling the playing field with the United States in regard to the export tax issue.

Conservation and Environmental Groups

Environmental non-government organizations believe the current structure of the industry is flawed and new tenures and approaches are necessary. They argued that the log market is not sufficiently open. They believe that timber pricing reforms are needed, and that significant additions to the value-added sector are critical. They are opposed to log exports in principle and want to see significant penalties imposed on log exporters.

Communities

Most community representatives are aware of and concerned about the effects of log exports on local employment in their communities. This is an issue in several Vancouver Island communities such as Port Alberni where log supply for local mills is a concern. They believe the removal of mill appurtenance provisions and the deletion of private land from Tree Farm Licences have accelerated log exports. Many communities favoured further restrictions or bans on log exports.

If the community already has one of the new Community Forest Licences, or is applying for one, the community was supportive of more liberal log exports to make their operations more profitable.

Potential Sawmill Investors

We met with several independent interests who indicated they were considering investing and developing new sawmill capacity on the coast to utilize some of the species and grades of logs currently being exported to the United States. They do not object to log exports, but believe there is a necessity for a level playing field in respect to export taxes and/or access to the United States market so they can compete fairly with American producers. Some also said that a strong signal from government—such as a short-term non-replaceable forest licence as a timber volume inducement to facilitate the new investment—would be helpful.

Other Issues

Many stakeholders feel that log export policy is only one element of a coastal revitalization strategy, and that all aspects of a coastal strategy have to be developed in concert with each of the other elements. It was also stated by many that log export policy, even if liberalized, cannot overcome all the costly elements of harvesting or the poor stand economics that affect parts of the coast and interior forests.

4 Global Log Trade Relative to Canada and British Columbia

It is useful to place British Columbia's log exports in the broader context of the global log trade. Three points are clear:

1. today's global log trade is large, and growing—particularly for coniferous species,
2. most industrially mature nations export logs, and
3. the volume of logs exported from industrialized nations moves up and down over time—reflecting global and local economic changes as well as regional forest industry-related events.

Some of the tables discussed in this section appear in Appendix F.

4.1 Global Log Exports

In 1990, global exports of industrial roundwood amounted to 73 million tonnes.² Since then exports have grown to 129 million tonnes (**Table F-1**), an increase of 77%.³

The log trade in tropical hardwoods has increased slightly over the last decade, which is in part an outcome of global environmental pressure on industrial tropical hardwood-producing nations to decrease their annual harvests and clamp down on illegal harvesting. However, while the rate of tropical hardwood exports has increased slightly, the temperate hardwood log trade has increased substantially. Temperate hardwoods from the northern hemisphere have substituted for the tropical hardwoods in many instances, though much of this trade is in the so-called low-density hardwoods (e.g., aspen), which is utilized mostly for pulpwood.

On the other hand, global exports of coniferous roundwood have expanded rapidly over the past 10 years, largely due to the improving economies of the developed and developing countries that do not have sufficient forest resources to meet the requirements of their domestic needs (e.g., China, Japan, South Korea, and Spain). The growth in the global movement of industrial roundwood between—in terms of fibre—the “have” and the “have not” countries is expected to continue over the short and medium terms.

Reference to **Table F-1**, derived from FAO statistics, reveals some very interesting trends over the last 15 years. Among the continents, log exports have declined significantly from Asia and North/Central America and have remained much the same for Africa and South America. Large increases have been observed for Europe and Oceania.

For the purpose of example, eight countries with generally well-developed economies have been selected and their log exports are shown in the second section of **Table F-1**. Most of these economies export significant volumes of roundwood (**Figure 1**).

² Although the conversion is not exact, and varies from species to species, 1 tonne is roughly equivalent to 1 m³.

³ FAO Statistics and the 2006 edition of the “Wood Markets Report” (Vol. I) are the data sources for this section.

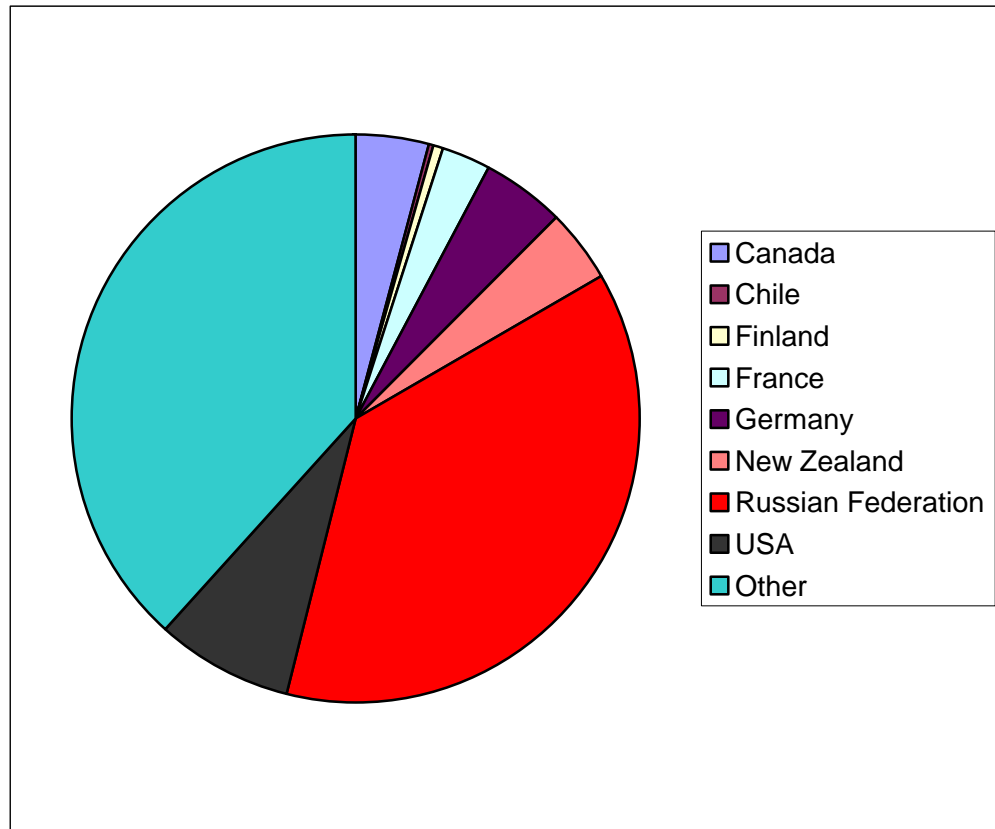


Figure 1. Proportion of 2005 global log exports, by country. Source: FAOStat.

Since 1990, exports from the United States have declined significantly (55%), as have exports from Chile, which was once a major exporter of logs to Asia. The primary reason for the decline of United States exports (largely to Japan) has been the resurgence of the domestic forest industry owing to the ability of the Pacific Northwest industry to re-tool to use second-growth softwoods successfully.

Exports from Finland, France and Germany have been more or less constant over the 15 years—France and Germany have each exported more than British Columbia over this time period.

By 2005, the Russian Federation became by far the world's largest log exporter; the United States is a distant second, Germany is in third place, New Zealand is in fourth, and Canada is fifth. However, from 1995 to 2005, Canada experienced the greatest increase of the listed countries (438%); Russia was second at 261%, and France was third at 150%. On the other hand, by 2005, Chile's log exports had reduced to 16% of their 1995 level.

Among the continents, Europe and North America are the largest log exporters. (Russia is deemed a European country despite the fact that most of the logs exported are harvested from land east of the Ural Mountains.) Within Europe—in addition to Russia—Belarus, Belgium, the Czech Republic, Estonia, France, Germany, Latvia, Lithuania, Portugal, Sweden, Switzerland and the Ukraine each

exported over 1 million tonnes of logs in 2005. Even the United Kingdom exported just under 800,000 m³.

A final measure of log export activity is the volume of log exports as a percentage of harvest. Among the continents, Oceania had the highest percentage of exports to harvest in 2005, due largely to New Zealand; Europe had the second highest (due to Russia), and Africa was in third place. The Americas exported less than 3% of their harvested volumes.

Of the listed countries, Russia and New Zealand exported the highest percentage of their total production, at 34.4% and 26.6% respectively in 2005. At 2.6% Canada exported less of its total harvest than either France or Germany at 11.9% each, while the United States exported a similar amount at 2.3%.

A discussion of the exceptional percentage of the total harvest that is exported by New Zealand and Russia is useful. New Zealand has seen a remarkable increase in plantation forestry over the past 30 years—significant areas have been planted, primarily to Radiata pine. These plantations grow mature timber relatively quickly—between 15 and 30 years, and harvest levels are rising rapidly. While three-quarters of the New Zealand harvest gets processed locally, the rate of increase in harvest levels has outstripped the increase in processing capacity, which, in combination with the demand for logs in key Asian countries, has resulted in the relatively large export percentage.

Russia experienced a significant collapse in industry after the fall of communism. In the forest sector, harvest levels and manufacturing fell dramatically. Harvest levels began to rebuild in the middle 1990s, but this was not matched by an increase in domestic processing. There are a number of factors behind this. Perhaps most significant is that much of the pre-fall-of-communism processing capacity was inefficient and not viable in a market-based economy. Other important factors were poor infrastructure, uneven rule of law (it is estimated that up to 20% of the harvesting in Russia is illegal), and the proximity of the Russian Far East to China, which as is noted below, has increased its log imports dramatically.

Investment in Russian wood processing facilities has now begun to increase significantly, and there are strong indications that the Russian government will support this trend through changes in law, legal enforcement, tenure arrangements, infrastructure improvements and other policy changes. If there is substantial follow through on these intentions, it is likely that Russian log exports, as a percentage of total harvest will go down over time.

As is the case with most other raw materials, China has recently become the world's largest importer of coniferous roundwood—mostly from Russia. Over the last 10 years, the rate of growth of China's industrial roundwood imports has been exceptional. From 6.1 million tonnes in 1995, imports have grown so rapidly that in 2005 they stood at 27.6 million m³. China's industrial roundwood imports in 2005 were equal to 21.5% of the total global imports of industrial roundwood—up from 10 years earlier, when China accounted for only 6.4% of the total.

Three factors have affected China's growing appetite for wood fibre:

1. Strong economic growth in China has supported an expansion of new housing starts and consequent demand for wood. A rising disposable in-

come permits many home buyers to purchase larger homes than previously.

2. Over-harvesting of China's domestic forests over the last 40 years has forced the Chinese government to severely restrict domestic harvesting.
3. China's finished wood products manufacturing sector, for both export and domestic markets (e.g., furniture, flooring, moulding, doors, cabinets, etc.), has grown rapidly. It should be noted that the growth in China's wood manufacturing sector has been at the expense of a number of other countries that have seen their wood products sectors diminish.

Non-coniferous tropical hardwood exports from Asia will continue to decrease—in part due to some increased primary manufacturing facilities in the source countries, but primarily in response to a largely European-driven boycott pressure to have Asian countries adopt tougher standards on harvesting, and particularly to address illegal harvesting. Harvest levels in Asia have also dropped significantly as timber supply declined due to past over-harvesting, which was well in excess of sustainable levels. As an example, in 1990 Malaysia was the world's largest non-coniferous log exporter at 17.8 million m³. Exports have since dropped to 5.1 million m³ (2005).

4.2 Canada's Log Exports and Imports

Five major points to note regarding Canada's export log trade are:

1. Canada's log exports are predominately from British Columbia because the forests of most of the rest of Canada are not unique within the continent nor the world, and because of the proximity of the province to relatively inexpensive marine transportation.
2. Canada's log imports are primarily from the United States into Quebec. Canada has been a net importer of logs over the past 10 years by a 2:1 ratio, though British Columbia has not been a substantial importer.
3. The log trade between Canadian provinces is minor.
4. The vast majority of Canada's log exports are to Pacific Rim countries.
5. The vast majority of Canada's log imports are from the State of Maine.

Canada's log export trade is clearly dominated by British Columbia; this has been the case for most of the time since World War II. The reason for this is that the west coast of Canada and the U.S. Pacific Northwest contains forests unique in North America. The rest of the forest lands in North America (aside from the dense hardwood forests of the central and southern areas of the continent) are very uniform and do not generate species of unique properties. On the other hand, the major unique species of the west coast of Canada and the Pacific Northwest—i.e., Douglas-fir, Sitka spruce, western hemlock, western redcedar, and yellow-cedar—convey specific properties unlike the other more common North American timber species.

The log trade within Canada (i.e., between provinces) is very limited and is usually for wood in the round uses (e.g., large logs for demonstration or decorative purposes) or for manufactured roundwood products (outlined in Section 3) such as house logs, fence posts and rails for the prairie provinces, etc.

Tables F-2 and F-3 summarize Statistics Canada log export data for the 10-year period 1996 to 2005 in two ways:

1. **Table F-2** aggregates the Statistics Canada data, which as presented, is stratified into a large number of species groupings. For the sake of expediency, this table aggregates the data into four generalized log types (i.e., coniferous pulpwood, coniferous sawlogs, deciduous pulpwood and deciduous sawlogs).

A notable portion of the value of Ontario's exports are the dense hardwoods from the southern part of the province (maple, oak, birch and beech).

2. **Table F-3** outlines the destination of the log exports from the various provinces. For the sake of simplicity, and to keep the table a reasonable size, log exports of less than 1,000 m³ in aggregate to any destination from any single province have been omitted.

In the case of all provinces, the largest aggregate importer over the 10-year period is the United States. However, the table ignores trans-shipments which are an important feature of British Columbia's trade with Japan.⁴

Most people in British Columbia are surprised when they consider the fact that, as a whole, Canada is a net importer of logs. However, unlike the growth of log exports, the expansion of import volumes has been relatively "flat" across Canada over the last 10 years. British Columbia does not play a large role in this trade and is in fourth place among the provinces.

Tables F-4 and F-5 outline the log import volumes by province; they are similar in outline to Tables F-2 and F-3 and also employ Statistics Canada data. Imports from countries other than the United States are minor. **Figure 2** shows the trend in logs exported from British Columbia.

- **Table F-4** outlines the log import trade by log type. Over the 10-year period shown, British Columbia accounted for only 7.4% of the imports.
- The primary feature of **Table F-5** is the very large volumes imported by Quebec manufacturers from the United States—these logs are mostly sawlogs imported by sawmills located close to the United States border. The trade is not growing, but from 1996 to 2005 Quebec imported almost twice the volume that British Columbia exported.⁵

New Brunswick mills along the western boundary between New Brunswick and Maine are involved in a similar traffic.

⁴ The United States is the next port of call for many vessels leaving British Columbia. Large volumes of logs are towed to the United States in booms, and the logs are subsequently exported to Japan or elsewhere. It has been estimated that, during the fiscal year 2004/05, 12% of British Columbia's total export volume was trans-shipped through the United States.

⁵ These so called "border mills" enjoyed special treatment under the Lumber IV litigation and will enjoy special treatment under the current Softwood Lumber Agreements because they mill United States logs almost exclusively.

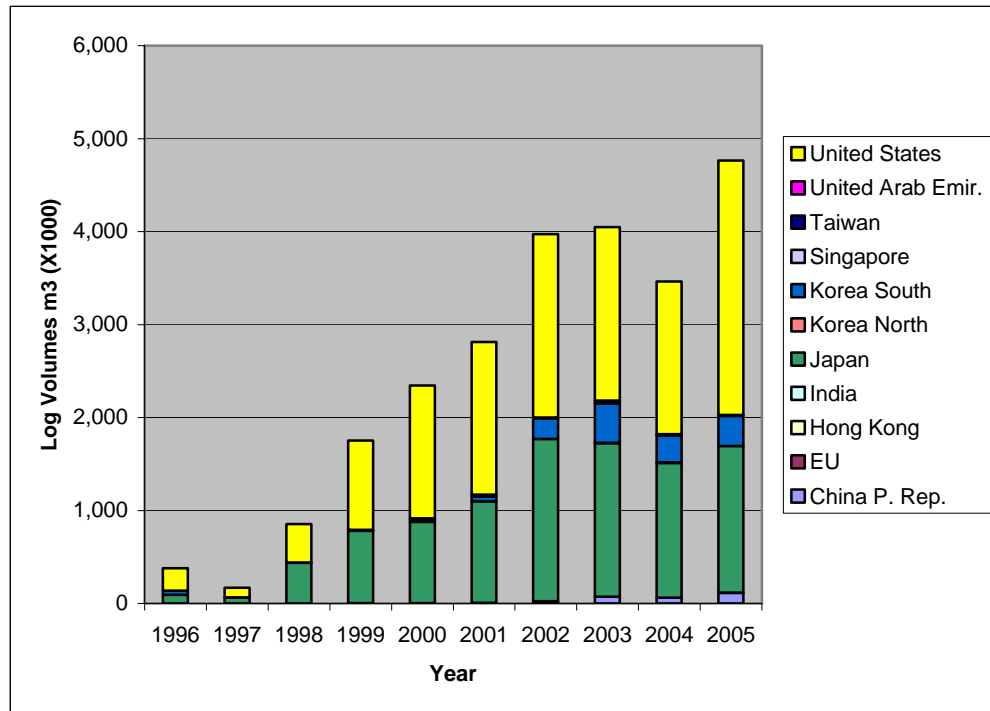


Figure 2. Volume of logs exported from British Columbia to major destination countries, 1996 to 2005. Source: Statistics Canada.

4.3 British Columbia's Log Exports

The statistics employed within the previous sub-sections have been derived from FAO and Statistics Canada; those used in this sub-section are obtained from the Ministry of Forests' Export Management (EMS) and Harvest Database (HBS) systems.

The sources of FAO and Statistics Canada data are different from those of the EMS data. EMS data are more reliable when focusing on log exports from British Columbia specifically.

The six major points discussed in this section may be summarized as follows:

1. By far, the major volume of British Columbia's exports are from the coast.
2. The majority of log exports from British Columbia are harvested from private forest land on the coast, under federal export jurisdiction.
3. British Columbia's log export volumes have risen significantly since 1996.
4. Since Japan's major recession in 1997, most of British Columbia's log exports have been to the United States, though a significant volume of logs are trans-shipped through the United States to Japan and elsewhere.
5. Despite the overall growth in volume in recent years, the volume exported remains less than 6% of the provincial harvest.
6. The growth in export volumes on the coast forms a very close inverse relationship to the domestic price of hemlock logs.

4.3.1 Production of Export Logs within British Columbia

Log exports from British Columbia are largely coastal in origin. As pointed out in Section 4.2, this is largely due to the uniqueness of the coastal forest in North America, but also due to the proximity to water transportation—by ship to Asia, and by boom and barge to the United States. Aside from specialty items (e.g., dry house logs) or peculiar market conditions, export logs are infrequently transported more than 200 km by truck.

4.3.2 Volume of Logs Exported from British Columbia

Table F-6, which is based on EMS data, shows the volume of logs exported from each of British Columbia's forest regions, export permit type, and destination, relative to the provincial timber harvest, for the fiscal year ending March 31, 2006. The table shows the preponderance of logs exported from the Coast Forest Region (91.5%), relative to the Southern Interior Forest Region (2.6%) and the Northern Interior Forest Region (5.9%). The Coast Forest Region has been responsible for a minimum of 87% of log export volumes since the first logs were exported from British Columbia during the 1880s.

Figure 3 depicts the boundaries of British Columbia's forest regions, the so-called Cascade Summit line—which traditionally divided the coast from the interior (and is now the current eastern boundary of the Coast Forest Region), and the extent of the northern transition zone, which is discussed below.

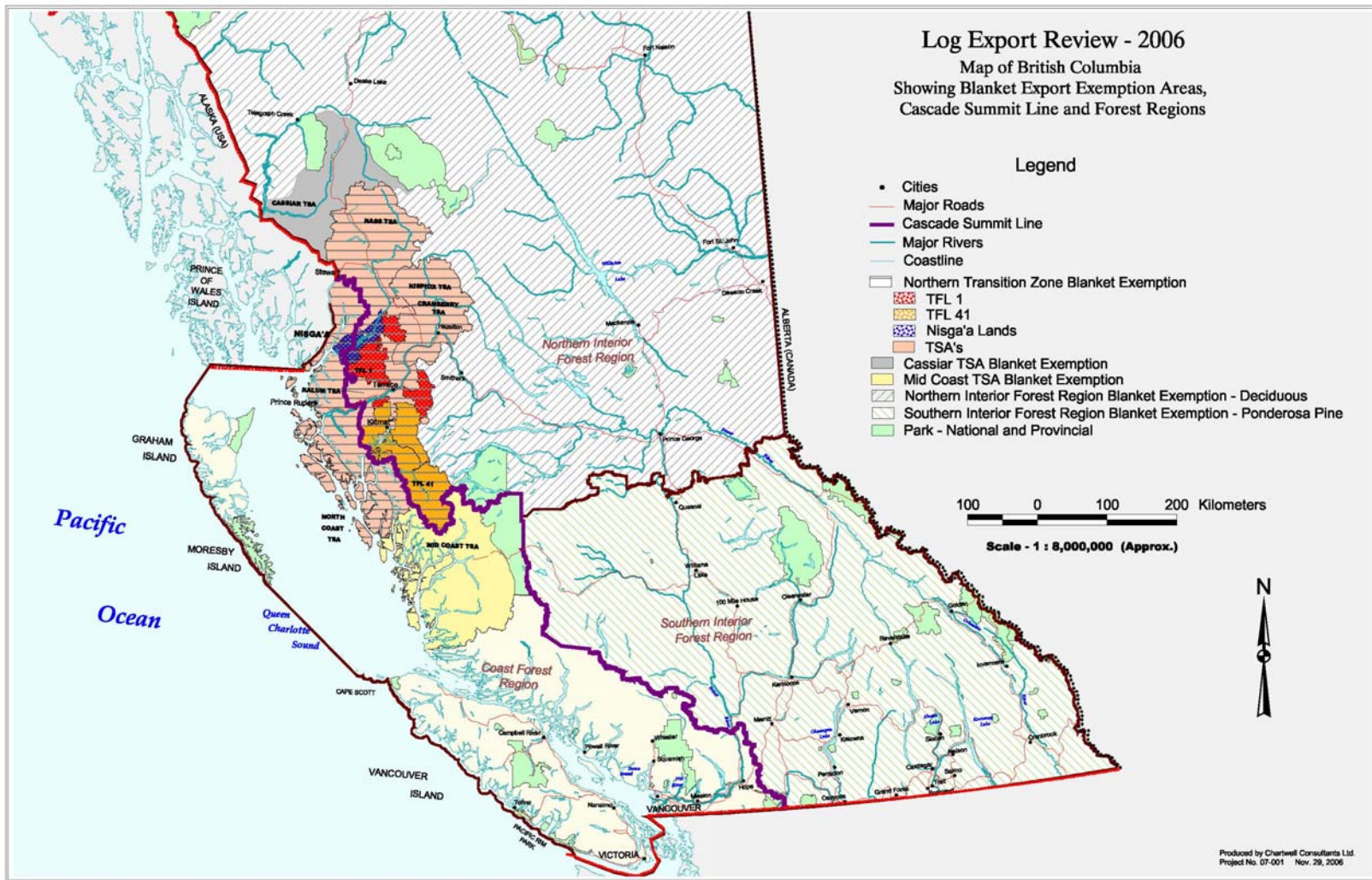


Figure 3. Map of blanket exemption areas in British Columbia.

Definitions of the Log Export Exemption Types Employed within Figure 3

Federal Surplus & Native

An export permit granted under the Federal Export Control Act and pursuant to the regulation Notice to Exporters No. 102. The term "Federal Surplus & Native" applies to logs produced within British Columbia from land not under the authority of the British Columbia *Forest Act*—i.e., from private forest land that the Crown granted prior to March 12, 1906 (collectively known as old Crown granted land) or from Indian reserves. Logs destined for the export market from old Crown granted land must pass a surplus test by advertising prior to export, but do not attract a fee-in-lieu of manufacture. Logs from Indian reserves do not require advertising, but must have approval from the Band Council and Indian and Northern Affairs.

Provincial Harvested Surplus

An export exemption granted pursuant the British Columbia *Forest Act* under section 128(3)(a). Such logs originate from Crown land within British Columbia, or from private forested land that the Crown granted after March 12, 1906 (collectively known as Provincial private lands). Logs destined for the export market from these lands must pass a surplus test and are subject to payment of a fee-in-lieu of manufacture.

Provincial Standing Economic

An export exemption granted pursuant to the British Columbia *Forest Act* under section 128(3)(b) and an Order-In-Council where a Crown land or provincial private land timber mark is granted an export exemption for economic reasons and the timber is standing at the time of the creation of the order-in-council. These exemptions were referred to earlier as standing greens.

The most recent exemptions of this type were issued under the direction of the Job Protection Commissioner. A fee-in-lieu of manufacture is required, but may be at a lower rate than logs exported under the Provincial Harvested Surplus criteria.

The volumes from the earlier standing greens (1987 to 1990) were moved into the Provincial blanket designation within **Figure 3** because the earlier blanket exemptions were usually granted based on the economic exemption criteria.

Provincial Standing Surplus

An exemption process identical to the Provincial Harvested Surplus criteria, but reserved for logs originating from the British Columbia interior. This variant is necessitated by the short time period between falling and movement of logs to market typical in the interior relative to the coast. Requires surplus test advertising and the payment of a fee-in-lieu.

Provincial Blanket Exemption

A standing export order available to any Crown or provincial private timber mark within the boundaries of a geographic area—typically a Timber Supply Area. Blanket exemptions have been issued for all three exemption possibilities listed within section 128 of the British Columbia *Forest Act*.

Blanket exemptions are activated by an order-in-council which typically sets out the duration of the exemption, the geographic area, the species and grades covered by the exemption, the maximum percentage of harvested volume that may be exported under one timber mark, and the fee-in-lieu rate.

As of the end of November 2006, there are five active blanket exemption orders-in-council for log exports: the so-called Northwest Order-in-Council covering much of the northern transition zone (TFLs 1 and 41 and the Nass, Kalum, Kispiox and Cranberry TSAs) and the North Coast Forest District, the Cassiar Order-in-Council covering the Iskut Supply Block of the Cassiar TSA, the Mid Coast Order-in-Council, the southern interior blanket covering all of the southern interior Forest Region permitting the export of ponderosa pine, and the northern interior blanket permitting the export of deciduous species from the Northern Interior Forest Region, including the TSAs within the northern transition zone.

While the preponderance of export volumes are from the coast, relatively large volumes come from the western portion of the Northern Interior Forest Region. This area is referred to as the "northern transition zone". It is dominated by poor quality hemlock stands. As outlined within Section 5, due to the defective logs, a long-term blanket export exemption was placed on this area, commencing in the mid 1980s, in an effort to promote some level of forest industry activity. The northern transition zone traditionally included the North Kalum (now Nass) TSA. An early expansion added the Kispiox, Kalum and Cranberry TSAs, and TFLs 1 and 41. The Iskut Supply Block of the Cassiar TSA and the Nisga'a settlement land were added a few years ago, and the North Coast TSA has been incorporated during the last year (though the North Coast TSA remains administratively outside of the Northern Interior Forest Region, and did not contribute any export blanket volumes during fiscal 2005/06). The northern transition zone accounted for 5.9% of the export volumes during the last fiscal year, while the remainder of the Northern Interior Forest Region accounted for only 0.4%.

With respect to the relationship of harvest to export volumes, based on volumes scaled and reported by HBS for the year ending March 31, 2006, approximately 21.2% of the coastal harvest was exported during the last fiscal year; 0.4% of the Southern Interior Forest Region's harvest, and 0.9% of the Northern Interior Forest Region's harvest. About 13.3% of the northern transition zone's harvest was exported, but only 0.1% of the Northern Interior Forest Region's remaining harvest was exported.

The percentage of the harvest from the coast exported is the highest level since the World War II. **Table F-6** also shows a larger percentage (62.7%) of the total volume exported to the United States than in recent years.

Table F-6 also shows the volume breakdown by export permit type. Of note is the fact that almost 62% of the volume exported from all forest regions came from land that the Crown granted prior to March 12, 1906, and hence are under federal export jurisdiction. Though advertising is required, there is no fee-in-lieu payable with respect to these exports. Out of 31 exporters, the two largest exporters and their related entities accounted for over 90% of the exports from federal land.

Indian reserves, which are also under federal jurisdiction, do not require either advertising or the payment of a fee-in-lieu, but accounted for a very minor export volume during the last fiscal year.

Provincial surplus export exemptions (so-called advertised surplus) accounted for the second highest export volumes—about 36.7% from all regions. Of 84 exporters, the top two exporters and their related companies shipped about 42% of the surplus volume.

Provincial blanket exemptions accounted for only 1.8% of the total volume, all of which was from the northern transition zone. There were only two exporters who availed themselves of these blanket exemptions. It should also be noted that more than twice the volume from the northern transition zone area was exported as surplus than as blanket.

Log exports from Forest Regions, by grade and species

Table F-7 depicts the species and grade distributions and permit type for the Coast Forest Region during the last fiscal year.

In terms of species and source combined, Douglas-fir from old Crown granted land comprised the greatest share of log exports. Provincial surplus hembal comprised the second greatest. Fir under the surplus exemption was third.

Western redcedar is permitted to be advertised under the federal surplus criteria (though not normally under the Provincial surplus test). A relatively small percentage of total log export volumes was of this species, almost all of it from federal and Indian reserves.

Two blanket exemptions cover the interior that do not receive any use. The Southern Interior Forest Region is covered by a blanket exemption for ponderosa pine, and in the Northern Interior Forest Region a similar exemption applies to deciduous species. Only 3,500 m³ of ponderosa pine was exported from the Southern Interior Forest Region under surplus, and another 1,400 m³ was exported from Indian reserves. About 6,300 m³ of cottonwood and 50 m³ of aspen were exported from the Northern Interior Forest Region. A larger volume of deciduous was exported from the Coast Forest Region than from the interior despite the deciduous blanket covering the north.

A final comment is that despite the large volumes of lodgepole pine available throughout the interior—because of the AAC uplifts owing to the mountain pine beetle—very low volumes are exported as logs, either internationally or to other provinces. Only 30,000 m³ were exported—almost all of it under surplus criteria.

Historical scope of logs exported from British Columbia

Of all the tables and charts contained within this section, **Figure 4** best lays out the recent pattern of log exports from British Columbia. The bar graph begins when the coast industry was struggling with the problems of the 1980s, and covers the unprecedented log price “spike” of 1993 to 1996 when the coastal industry last made significant profits, the subsequent sharp decline because of the decline in the Japanese market for hembal, the first Softwood Lumber Agreement, the duties since 2001, and the appreciation of the Canadian dollar since 2003.

As outlined in the Section 5, the late 1980s and early 1990s were the first period of the blanket exemptions—log exports were used to successfully bolster economically depressed areas of the province and to assist small market loggers.

Log exports were progressively restricted starting in 1991, and the blanket exemptions were gradually terminated. Commencing in 1993, the coast experienced an unprecedented demand for logs. Pulplog prices, for example, rose as high as \$110/m³ (from an average of \$42/m³).⁶ The pressure to export logs largely disappeared.

As conditions deteriorated after 1996, export volumes grew significantly, largely under the federal surplus criteria. Log exports from Provincially regulated land, however, have also increased.

⁶ All dollar figures are expressed in Canadian currency unless otherwise stated.

Figure 4 combines the forgoing with a line plot of the average annual domestic selling prices of hembal grade H logs. Grade H is a common component of both export and domestic standard log sorts and its price can be taken to be representative of the general demand for hembal. And, given the importance of hembal to the coastal timber inventory, this log price is a good proxy for the overall health of the coast industry. For the purpose of this graph, the Ministry of Forests' prices have been stated in 2005 Canadian dollars, using the British Columbia Consumer Price Index Inflation.

The linkage between coastal domestic log prices and British Columbia's total export log volumes is very apparent from this graph. The relationship is almost a true direct inverse. The log price spike of 1993 to 1997 reduced the need to export to an absolute minimum. After 1997, initially market loggers, and then major licencees, looked to export to enhance the reduced margins associated with domestic manufacture.

Absent from this graph is the harvest level for the coast. It more or less parallels the price line from 1992 onward. The large undercuts on Crown land of the northern coast and the northern transition zone are addressed in a later section of this report.

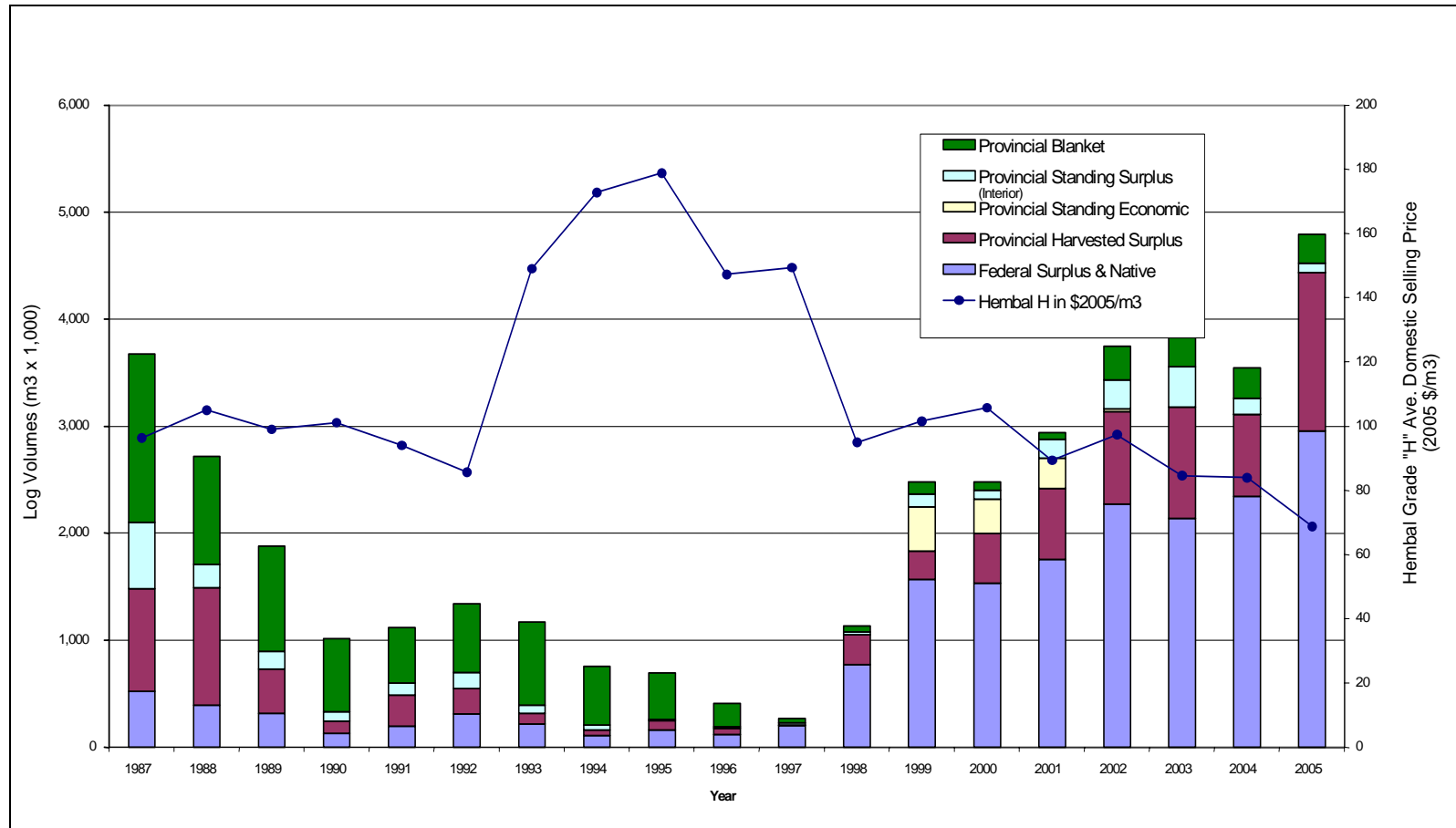


Figure 4. Volume of logs exported from British Columbia under various export permit types, 1987 to 2005 (Source: EMS); and average, annual domestic selling prices of hembal Grade H in 2005 Canadian dollars, as per the British Columbia Consumer Price Index Inflatior (Source: Ministry of Forests Coastal Log Prices).

5 History of British Columbia's Log Export Policy

This section is a review of the history of log export control policies in British Columbia and focuses on four time periods, highlighting the significant policy changes within each:

1. The establishment of log export control policies (1865–1939).
2. World War II export controls (1940–1946).
3. Post-war policy changes (1947–1969).
4. The advent of exemptions for other than surplus criteria (1970–1990).

A detailed listing of contemplated policy changes and their manifestations is listed in the chronology in Appendix D.

The control of log exports in British Columbia is somewhat unique in Canada. At the same time, it should be kept in mind that the relative importance of the forest industry to the provincial economy is higher in British Columbia than in the rest of Canada.

5.1 Establishment of Log Export Control Policies, 1865 to 1939

As a colony and through to the late 1970s, British Columbia had to depend very heavily on its forest resources to provide employment for the waves of migration arriving initially from Great Britain and the United States and from the rest of the world following World War I. As early as 1865 British Columbia adopted the policy invoked in other provinces and Great Britain colonies of alienating Crown timber, but not the land the trees were growing on in order to convey simple timber cutting authority (as opposed to timber removal for settlement) for the fledgling forest industry. This was done through long-term timber leases and other associated tenure forms. These old tenures, in their various forms, are referred to collectively as old temporary tenures (OTT).

The Province also granted land for settlement by various methods and under various conditions and restrictions such as pre-emption. These are referred to as Crown grants, Crown granted land or private land.

The British North America Act (now the Constitution Act) conveys the rights and responsibilities for the forest resources to the provinces. The federal government is responsible for issues external to the Federation such as international trade. Formerly a Crown colony of Great Britain, British Columbia became a province of Canada in 1871.

The history of provincial policy restricting the exports of logs commenced in 1891 when the Province limited the export of logs from Timber Licences, Pulp Leases and Licences commonly referred to as OTTs. This event was coincident with the appearance of the steam tug on the coast. In 1888 a special "tax" had been imposed on logs from OTTs which was refundable if the logs were consumed within the province, but the 1891 *Land Act Amendment* banned export unconditionally, and is therefore the starting point of British Columbia's log export control policies.

The unconditional prohibition was modified in the 1901 *Land Act Amendment* to permit some log exports, and is the first example of what became the almost constant modification of export control policy. The Province first tried to control the export of timber from Crown granted land in the 1903 Land Act Amendment by imposing a refundable tax on

logs produced from land that the Crown granted prior 1887. It was forced to abandon this export control methodology as a result of a court case in 1929.

The 1906 *Timber Manufacture Act* extended the 1891 Land Act Amendments pertaining to the absolute prohibition of log export to all land Crown granted after 1906. Due to its specific intent and title, this legislation is often referred to (incorrectly) as the start of log export controls in British Columbia. Aside from the above noted “export tax” on Crown grants which terminated in 1929, the Province has recognized its inability to control log exports from land that the Crown granted prior to March 12, 1906.

The forgoing is merely an abbreviation of events between 1865 to 1906. The issues of forest tenure, land alienation and log export policies were, even then, consuming a good portion of the Legislature's time and that of the colonial administration before it. An order-in-council was invoked on December 24, 1907, which led to successive provincial administrations becoming involved in the responsibilities of forest policy and management to an even greater extent than the period prior to 1907.

Order-in-Council 901/07 was the Province's response to a period of intense “timber staking” (i.e., creating new OTTs), partially as a result of very high British Columbia timber demand driven by the San Francisco earthquake of April, 1906, and the pressures put on the Government to end this activity.

The 1909 Amendment to the *Timber Manufacture Act* allowed the Crown to exempt log export controls from Crown grants and OTTs. Like many other relaxations on export control since, it was brought in to generate some economic activity from harvesting in the face of poor lumber markets. However, the general policy of attempting to enhance provincial economic development and job creation through export restrictions received broad general support and such restrictions were embedded in the Province's first *Forest Act* in 1912:

Section 100—All timber cut on Crown lands or Crown lands granted since the twelfth day of March, 1906, or on Crown lands which shall hereafter be granted, or on lands held under pre-emption record, shall be used in this Province, or be manufactured in this Province into boards, joists, lath, shingles, or other sawn lumber, except as hereafter provided.

The exceptions to the no-export rule were then (and now) seen as a relief or “safety valve”. An amendment to the *Forest Act* in 1916, invoked the formalized concept of volumes of log surplus to the needs of provincial manufacturers for the first time. In response to the outbreak of World War I and the inability of the province's lumber exporters to send ships as readily to the Great Britain, and the decline of new home construction in Canada, the lieutenant Governor in Council approved the first “blanket” export exemption order-in-council for all logs cut in the province in 1914. The exemption was conditional on a timber tax being enacted in addition to royalties due as specified in the 1914 *Timber Royalty Act* and was codified in the 1916 *Forest Act Amendment* as follows:

Section 103b. Notwithstanding anything in this Act contained, the Lieutenant-Governor in Council may, during the continuance of the present War, permit the export from the province of unmanufactured timber upon such terms and conditions as he sees fit.

The 1916 Amendment also for the first time incorporated a clause which permitted export for a reason other than immediate surplus. This new clause had relevance largely to the southern interior whose forest industry was then becoming established:

Section 103a. The Lieutenant-Governor in Council may, upon such terms and conditions as he may impose, permit the export of unmanufactured timber from areas adjacent to the boundaries of the Province in cases where it is proved to his satisfaction that such timber cannot, owing to topographical reasons, be profitably manufactured within the Province.

An order-in-council was issued in 1918 at the end of the War rescinding the 1914 blanket exemption. Commencing in March, 1918, however, the log export issue was made the responsibility of the first Log Export Advisory Committee (LEAC) made up of a wide array of manufacturers, loggers, exporters, labour and government representatives who would advise the Forest Branch at various times with respect to surplus logs on the coast and whether or not some logs harvested from those lands covered by section 100 of the *Forest Act* could be exported. Surplus was initially conservatively interpreted by LEAC to be physical log surplus at the time of the export applications, however, by the 1930s LEAC had adopted the policy of three refusals—to receive an export application an export applicant had to show proof that boomed logs had been offered to and rejected by three mills.

Then, as now, logs from lands that the Crown granted before March 12, 1906, did not require provincial LEAC's approval and could be exported without reference to LEAC upon payment of a small export tax (which ended in 1929, as noted above).

During the 1930s, there were no procedural or legislative changes in log export policy. There is some evidence that exporting was allowed beyond strict surplus during the depression years to create harvesting employment during periods of low lumber demand. The passage of the War Measures Act in July of 1940 brought a halt to all log export activity.

5.2 World War II Export Controls, 1940 to 1946

In his 1945 Royal Commission report Chief Justice Sloan spent a considerable amount of space describing the large volumes of logs exported from the province during the 1930s, mostly from pre-1906 Crown granted land. The Justice comments on this:

Matters of international trade and commerce, such as exports, are assigned exclusively to the Dominion Parliament, and this Province has no jurisdiction to enact any statutory provision forbidding the export of goods from this Province. This Province can, however, impose terms and conditions upon purchasers of Crown timber. In some instances it has, in its contracts, imposed terms preventing the export of logs cut there under unless by consent of the Lieutenant-Governor in Council. In others—for example, Crown grants prior to April, 1887—the Crown did not insert therein any provisions restrictive of export. In consequence, the Government of this Province, not having any contractual restrictive control over the log production from such areas, and not having the legislative power to prohibit or restrict export by statute, cannot interfere with the export of logs from these areas within this classification. That control, then, lies solely within the competence of the Federal Government.

And,

It has sometimes been said that the areas from which the Provincial Government is powerless to prevent the export of logs have an "export privilege". This is a misnomer. It is not a "privilege". The right to export arises from an absence of either contractual or legislative jurisdiction to regulate this activity.

The Commissioner concluded that prior to World War II, LEAC had been largely successful in controlling the growth rate of log exports from lands over which the Province had jurisdiction, contrasted with exports from old Crown grants which were uncontrolled:

I must emphasize the fact that Crown grantees of areas over which no export control is exercisable by the Province do not enjoy any affirmative rights of export. They are in that preferred position simply because of the constitutional division of legislative authority in Canada which vests control over exports in the Dominion Government. The Dominion Government now exercises that control because of the exigencies of the war years. I see no valid reason why, if the public interest so demands, the extension of the control principle should not continue to be exercised by the Dominion authority in the post-war period of transition to a planned system of Forest Management.

British Columbia's log exporters had developed some trade with Japan in Douglas-fir during the years immediately following the end of World War I and largely as an outgrowth of the trade that had developed between Japan and the U.S. Pacific Northwest. The federal Government in July, 1940, used the *War Measures Act* to prohibit the export of unmanufactured Douglas-fir, more as an issue of reserving logs of this species for domestic manufacture to meet the exigencies of domestic wartime requirements, than from any sense that somehow the export of fir logs would assist a possible enemy in some strategic or tactical fashion. This was extended to all true fir in December 1940, and to all species in 1942. The passage of these measures brought the federal government into the field of log exports for the first time.

5.3 Post-War Policy Changes, 1947 to 1969

In 1945 the federal government took the concept of wartime export controls and applied them into the *National Emergency Transition Power Act*. This legislation continued the restrictive listing language of the *War measures Act*. Implementation of federal control was via the federal Timber Control Authority. In 1947 the provisions for controlling log export were applied to permanent legislation in the form of the *Export and Import Permits Act*. This act gave the Minister of Industry, Trade and Commerce authority to issue export permits for items on an export control list to control exports of items of actual and potential strategic importance. Logs were on that list.

Despite this legislation, logs from land not restricted by the Province continued to provide most of the export volume. Federal export permits were not subject to restrictive review other than total quota volumes. Quotas were increased following the War.

In 1969, the federal Minister of Industry, Trade and Commerce drafted a policy around this legislation that controlled log exports in the same manner as did the Province. A committee similar to the Province's LEAC was commissioned to give expert advice to the federal Minister and effectively harmonized the federal and provincial processes. The exception was logs from Indian reserves which remain unrestricted to this day.

Procedural changes by LEAC moved from three letters of refusal to refusal by mills actually using the species and log sort of the boom proposed for export (1960), and the logs had to be available to mills for 60 days before export application. This "exposure period" was reduced to 30 days in 1969.

The post-war period was, for the most part a boom period for the coastal forest industry—a sellers' lumber market often regarded wistfully today by historical authors knowledgeable of that time and place. Lumber shipments to Japan, the United States, Europe and the rest of Canada bounded from one high to another. The building boom in British Columbia, particularly in the Lower Mainland also consumed its share. With unprecedented domestic demand, log exports were not a front-page issue.

5.4 Advent of Export Exemptions Other Than the Surplus Criteria, 1970 to 1990

The export tax or fee-in-lieu of manufacture had been a nominal amount since the early 20th century. In the mid 1950s when cubic scaling (as opposed to board foot scaling) became commonplace the fee-in-lieu had been set at \$.50/cunit. This was raised to \$2/cunit in October 1973. It was further raised in February 1974 to between \$2/cunit and \$40/cunit, depending on species, with the average fee being \$10/cunit.⁷

In 1975 LEAC amended the basis of proof of surplus from three refusals to advertisement in appropriate newspapers over a 2-week period. Federal procedures followed this change. At this time federal LEAC began to meet separately from provincial LEAC, though the individuals on both committees remained largely the same.

5.4.1 Pearse Report of 1976 and the New *Forest Act* of 1978

In 1975 Dr. Peter Pearse was appointed to conduct a Royal Commission on Forest Resources. His report was released in 1976.

Dr. Pearse had quite a lot to say regarding log export policies. His key recommendation was to move away from an administrative process of log export control based on LEAC to an economic approach utilizing the fee-in-lieu of manufacture based on the difference between export and domestic prices for logs. The structure of the permitting process was to be maintained, but the role of LEAC was to be reduced to that of a general advisor rather than one that would rule on each export application.

1976-78 were relatively good years for the coastal forest industry, and there was not much appetite to change log export policies. However, the new *Forest Act* which followed Dr. Pearse's review in 1978 contained some of his recommendations on log exports, including language in the log export sections to allow export permits for unharvested timber (i.e., criteria other than surplus and adjacency to provincial boundaries). Three criteria for log export were enunciated within the new legislation:

1. the timber or wood residue (chips and hog fuel) will be surplus to requirements of the timber processing facilities in the province (much as it was before the new Act), or
2. the timber or wood residue cannot be processed economically in the vicinity of the land from which it was cut or produced, and cannot be transported economi-

⁷ A cunit is roughly equal to 2.8 m³.

cally to a processing facility located elsewhere in the province (a logical extension of the timber adjacent to boundaries exemption), or

3. the exemption would prevent the waste of, or improve the utilization of timber cut from Crown land (then largely contemplated for the interior decadent cedar hemlock stands).

Dr. Pearse's concept of using economics (specifically the fee-in-lieu) to control log exports instead of the existing LEAC administrative system was not incorporated within the new legislation.

At least one other aspect of Dr. Pearse's recommendations was not enacted in legislation or policy. The Royal Commissioner had recommended that the fee-in-lieu be based on the difference between the export and domestic prices log prices. The Province continued to base the fee-in-lieu on the 3-month average domestic price as determined by the Ministry's ongoing survey of coastal log prices. At this time a flat fee-in-lieu of \$3.50/m³ was assessed exports from the interior. The fee-in-lieu on the coast was raised to 20% of the average domestic price in August 1981.

5.4.2 Trebett Log Export Review 1983

Some thought had been devoted to the Commissioner's recommendation that economics rather than administrative policies be used as the basis for export control. The recommendation had appeal, but the Province had a problem—the federal export control legislation did not contemplate an economic solution. The federal government could not charge a fee-in-lieu without a change in legislation. This decision was apparent, at least from the Province's perspective, as a result of the 1929 court action.

In March 1983, partially as a result of the first major coastal forest industry recession since the 1930s (a time very different from Dr. Pearse's report and in some ways similar to the current coastal situation), the Minister of Forests appointed a special Log Export Policy Committee

to investigate and review matters pertaining to the export of unmanufactured logs and to report on:

1. the extent that the export from British Columbia of unmanufactured logs is affecting the log supply of the domestic manufacturing industry, the overseas markets of British Columbia manufactured timber products and the employment opportunities of British Columbians;
2. with respect to Manufacture in the Province, as legislated in Part 12 of the *Forest Act*, the effectiveness of existing policy in encouraging a vigorous, efficient and world competitive timber processing industry in the Province;
3. whether the procedures followed in the processing of applications for exemption to export unmanufactured logs ensure that the exemption conditions of Section 136 of the *Forest Act* are met; and
4. the terms of reference, structure and operation of the Log Export Advisory Committee.

Four months later the Trebett Committee, (the most recent prior to the current Log Export Review) concluded:

1. Restrictions on log exports tend to favour domestic mills, at the expense of market loggers, timber owners and provincial Crown stumpage revenue.
2. Log exports always have the potential for affecting log supplies to domestic mills. During 1982, however, markets for many finished products were so weak that prevailing log prices were lower than the costs of producing them. In these instances log exports did not deprive domestic mills of log supplies in the short term because, in the absence of export markets, much logging would not have occurred at all. However, in the long term, exports of high quality species will constrain future milling opportunities for them.
3. It is doubtful that log exports adversely affect overseas markets for British Columbia's finished forest products. The province's contributions to offshore log markets is small in relation to the contributions made by other suppliers. Further restrictions on log exports would not necessarily lead to greater sales of finished products, as export log customers can readily obtain the logs elsewhere. Increased log exports will not necessarily lead to reduced sales of finished products.
4. Log export restrictions always have the potential for reducing unemployment in logging. They do not reduce employment in milling during severely depressed markets when mills are unable to cover their operating costs, and these circumstances prevailed for many old and inefficient operations in 1982. Log exports actually increased over-all employment in 1982, because without exports, unemployment in logging would have been higher. However, log exports have the potential for reducing employment in milling during normal markets where the financial returns for exporting logs exceed those in milling.
5. Some exports will be necessary as a safety valve for short-term log surpluses, to dispose of logs that cannot be supplied economically to domestic mills, and to prevent waste or improve timber utilization.
6. Recently some forest companies have contrived surpluses of logs by producing them specifically for the export market in volumes that were too large to be absorbed by domestic mills. A weakness in Government export procedures has permitted this to occur.
7. The log export provisions of the *Forest Act* are generally sound.
8. The Provincial Log Export Advisory Committee (LEAC) is too large and representation on it is weighted too heavily in favour of integrated companies.
9. Some features of Government log export administration are cumbersome and cause unnecessary delays in log exports.
10. Current administrative procedures for low-value hardwood logs have the potential for impeding the removal of these species.
11. The method for calculating the fee charged by the Province is illogical.

The Committee came up with 47 recommendations, summarized below:

1. Retention of the present log export provisions of the *Forest Act*, with minor amendments.
2. Reducing the size of LEAC from 17 to 9 members, and restructuring it to provide more balanced representation.
3. Streamlining Ministry of Forests log export procedures.

4. Tightening log export administration, to prevent companies from contriving domestic log surpluses and obtaining permission to export beyond acceptable levels.
5. Use of log exports on a limited scale in extremely depressed markets to prevent the collapse of isolated communities.
6. A review of Ministry of Forests minimum standards for log manufacture and their enforcement.
7. Changes to export procedures for hardwood logs, to ensure that removal of these species is not hindered.
8. Modifications to the Province's log export fee, to return to the Crown up to half of premiums received from log export.

Of the foregoing list, number 5—use of log exports to prevent the collapse of distressed communities which became the so-called “area-based” or “blanket” export exemptions, became the most important Committee recommendation, both in terms of what was accomplished and the time spent by the Cabinet and the Forests Minister on the export issue.

5.4.3 The Evolution of Economic and Area Exemptions

In November 1984 the Minister of Forests invoked a more specific interpretation of the two new export criteria and announced that the surplus criteria would be phased out. The elements of this policy amendment were:

- So-called standing green exemptions would be issued for a percentage of hemlock-balsam (hembal) stands only upon demonstration that the stands could not be harvested economically without the price premium of export logs.
- The logs must come from remote, decadent and uneconomically harvestable pre-designated areas.
- Logs must be harvested as part of other operations and have no specific within-province use.

This policy first became manifested in the form of an order-in-council permitting export from hembal stands (over 60% hembal) on market logging tenures (then Timber Sale Licence Majors and Forest Licences not appurtenant to a manufacturing facility plus small business Timber Sale Licences) within the Soo TSA.

A period of confusion followed the Minister's November 1984 announcement. The phase-out of the surplus criteria was not to be effective until December 31, 1985, to give industry time to adjust, but this deadline was extended to March 1986. From March to September 1986, the only criteria for exemption were the Area and Economic exemptions.

At this time it was announced that a new committee called the Timber Export Advisory Committee (TEAC) was established to advise the Minister on economic applications and more generally on export issues—LEAC (and its operating method) were to be phased out. Both committees worked simultaneously for 2 or 3 months—LEAC advised on surplus applications and TEAC advised the minister on Standing Green applications. Finally, TEAC was reformed to combine representation and function of the old LEAC and reviewed both surplus and economic applications—functions which it does to this day. Economic timber exemption applications are now referred to Cabinet after review by

TEAC, surplus applications are not (see Appendix E log export permitting flow process schematic diagrams).

The surplus process was changed by moving the onus for advertising from the export applicant to the Ministry. From July of 1986 onward, in lieu of the applicant placing advertisements in approved local papers for a 2-week period, the Ministry would conduct the advertising process for all of the province's applicants—creating a one stop shop for the domestic buyers. Exporters tended to favour the process since potential buyers could no longer claim they had not seen the advertisements.

The confusion of the years 1984 through 1986 was exacerbated by the almost simultaneous restriction of the surplus criteria, a number of months of rapid growth in the use of the standing (Standing Green) timber economic criteria represented by large numbers of applications, followed by a period where the Minister declined to approve or bring these applications forward to Cabinet; and at the same time the Cabinet approved large areas of the province for area (blanket) exemptions. An attempt has been made within the chronology in Appendix D to document the rapid and sometimes conflicting policy changes made at this time.

The first of the blanket area exemptions was granted in June 1985, covering what was then the North Kalum (now Nass) Timber Supply Area (TSA). This order-in-council, for the first of the TSAs within the northern transition zone area of the province, allowed 100% export of logs produced within the TSA boundaries for a special fee-in-lieu of \$1.00/m³ of export volume. This (perpetual) order-in-council is still in place in 2006 and the same conditions prevail.

By the middle of 1986, a large number of economic (Standing Green) exemption applications were piling up on the Minister's desk from all types of licencees within the Mid Coast, North Coast and Queen Charlotte TSAs. This issue was addressed expeditiously by including the three TSAs within an area-based exemption similar to the North Kalum. Initially no volume limits were put into place, nor were there any restrictions on high grade logs or species. The initial fee-in-lieu was 15% of the 3-month average domestic selling price.

Over time, as the orders-in-council were renewed from year to year, a number of restrictions began to appear—species and high grade restrictions, maximum export percentages and increased fees in lieu. In tracking these changes, one theme becomes apparent—small licencees and market loggers were favoured over export from the major licencees. Usually this was conveyed in the form of delayed restrictions for the smaller licencees. There was some similar favouritism shown for all exporters within the blanket areas over surplus criteria exporters. In February 1991 an order-in-council extending the export exemption to this area was extended for a 2-year term. This was the last exemption for that area until very recently.

The northern transition zone was again the subject of an expanded blanket area exemption in 1990. This time, in addition to the Nass, the so-called Northern Area was defined on a map and covered the North Coast TSA (already covered at the time by the Mid Coast, QCI blanket), the Nass TSA (already covered by its own blanket) plus the Kalum, Kispiox and Cranberry TSAs. Like the situation with the Mid Coast—QCI blankets, restrictions have gradually increased over time, though not nearly as dramatically as they did on the Mid Coast-QCI. This Area exemption has been extended through successive orders-in-council year by year and is still in place in 2006.

Two more recent area-based export exemptions should be mentioned:

In 2000 a 10-year order-in-council, permitting export of all timber and wood chips from the Iskut / Boundary Timber Supply Block of the Cassiar TSA, was issued. In form it is very like the Area exemption for the Nass TSA. The exporters from both areas ship their volumes primarily through Stewart.

In March of 2006 an order-in-council was again granted for the Mid Coast TSA. The stated purpose this time is to support a proposed new dry land log sort north of Bella Bella and to be operated by the Heiltsuk First Nation. All Mid Coast licensees may use the order-in-council, which permits up to 35% of the harvested volumes to be exported.

5.4.4 Other Policy Changes, 1983 to 2004

The chronology within Appendix D documents other changes in export policy. Two major issues, which arose over the last 15 years, are also discussed in detail below.

Export Fee-in-Lieu of Manufacture

The Trebett Committee did not support Dr. Pearse's key recommendation for control of exports through economic rather than administrative means—through the application of the fee-in-lieu of manufacture on British Columbia's export volumes. Though various forest ministers rejected this idea immediately after Dr. Pearse released his report in 1976, this approach was put into place during the late 1980s and 1990s.

In the late 1970s the fee was set at 15% of the domestic 3-month average selling price for each species and grade of logs within an export boom. This was increased to 20% in 1981 and to 30% in 1985. In August 1987, through a notice to exporters, the fee-in-lieu was increased to 30% of the difference between the invoiced export price and the 3-month average domestic price, thus attempting to capture a portion of the so-called export price "lift" in accordance with Dr. Pearse's thinking. This was increased to 40% for harvested surplus applications in 1988, but excluded economic exemptions. The fee was again increased to 100% of the difference in 1989 for harvested surplus applications and remained thus until August 2004.

A Notice to Exporters dated August 20, 2004, nominally reduced the fee to 15% of the domestic log price for all grades of Douglas-fir, 10% of the domestic price for logs of other species grade J and higher, and 5% of the domestic price for grades U, X and Y for all species other than Douglas-fir. While this new fee structure was nominally a reduction, in fact it was effectively an increase – the 100% tax on the difference between domestic and export prices was largely avoided through a variety of invoicing practices.

The Manufactured Forest Products Regulation

The term "manufactured forest products" becomes an issue only because some legitimate manufactured forest products are very "log like" in their appearance—poles, posts, piles, fence rails, grape stakes and some house logs are examples. Almost since Provincial export controls commenced in 1881, the Province has tried to differentiate logs (as a controllable commodity) from these roundwood manufactured products (which could be approved for export outside of the export control policy structure).

The definition of manufactured forest products had been written into the *Forest Act* since 1912, with the consequent problem that every time a new product or process developed, the *Forest Act* of the day would have to be amended. In November 2003, the Manufactured Forest Products regulation came into effect, which drew the definitions of these products

(and the problem) out of the *Forest Act* and placed it within a regulation, which could be more easily amended.

Federal Export Control Changes

In June, 1986, the Department of Industry, Trade and Commerce issued Serial Notice No. 23 under the Export and Import Permits Act. The notice laid out the process for export exemption within British Columbia under the Act. Surplus was to be the only method employed to obtain an export permit.

At about the same time that Notice 23 was introduced, the federal Crown took the opportunity to prohibit the export of all cedar from old Crown granted land in response to a 35% tariff the United States had placed on cedar shakes and shingles.

In 1996, K.F. Evans Ltd., a smaller exporter, applied directly to the Minister of Foreign affairs for an export exemption for a boom of logs from Crown granted land rather than submitting the application to TEAC as required under Notice 23. The Minister declined to allow export of this boom and Evans brought the case before the federal Court of Canada. Evans claimed that TEAC was a Provincial body rather than being responsible to the federal Minister. The Court accepted the Plaintiff's argument that the process was flawed and that by delegating his decision-making authority to TEAC, the Minister had abdicated his responsibility—or at least fettered his discretion.

In part due to the K.F. Evans case and in part due to an internal review, in 1998 Notice 23 was re-written as Notice 102, which re-established the federal export surplus procedure under a new federal TEAC (FTEAC), now fully independent of its Provincial counterpart. (The current federal and the two Provincial permitting processes are illustrated in Appendix E.)

On July 31, 2001, TimberWest Forest Corp. initiated an action against The Minister of Foreign Affairs, The Attorney General of Canada and Her Majesty The Queen in the Right of Canada (amended a year later to only the latter). The action seeks a decision by the Court “that the Notice to Exporters Serial No. 102 is ultra vires and of no force or effect” and “that the Export and Import Permits Act does not authorize the establishment of a unique legislative and administrative scheme applicable to the export of logs from privately owned land in British Columbia.”

This action is broader in scope than the K.F. Evans case. This case was heard in federal Court in Ottawa during the months May to August 2006. A decision is still pending (i.e., as of December 4, 2006).

5.5 Conclusions

In looking back over the past more than 100 years of log export policy, one overriding theme emerges. Log export policy has been changed repeatedly in response to economic circumstances. When the demand for British Columbia (primarily coastal) processed forest products is relatively healthy, there is relatively little perceived need to allow log exports. When the demand for British Columbia processed products is not as healthy—whether that be because of depressed conditions in our major markets, interruptions because of war, or barriers to the export of our processed products—the perceived need for log exports increases. British Columbia's log export policy changes when the global context for British Columbia's forest industry changes.

6 British Columbia's Current Situation

6.1 Coast and Northern Transition Zone

The problems facing the coast and the northern transition zone are well documented elsewhere.⁸ The major factors contributing to the industry's problems in these areas are:

- The collapse of the Japanese green hemlock markets for coastal forest products.
- The barriers to accessing the United States market since 1996.
- Timber harvesting and milling costs that are among the highest in the world.
- The uneven transition from old-growth harvesting to second-growth harvesting.
- The rapid appreciation of the Canadian dollar since 2003.

The first of these factors—the collapse of the Japanese hemlock market—requires special attention. As discussed elsewhere in this report, hembal species make up approximately 60% of the timber inventory on the coast. In 1995, before the Japanese market turned down, the coast industry exported 50% of its lumber to Japan. **Figure 5** shows what has happened to the Canadian dollar price for the benchmark product in the Japanese market since that year. It has fallen by approximately \$500/thousand board feet. This is equivalent to a withdrawal of more than \$800 million out of the annual revenues of the coastal industry. It should really be no mystery why the coastal industry has struggled since the middle 1990s.

These lower Japanese lumber prices have been the major contributor to lower hembal log prices (the right hand vertical axis in **Figure 5**).

There have been many consequences of the coastal industry's decline:

- Closure of more than 25 coastal sawmills in the past decade.
- An average return on investment over the past 10 years that is far below the cost of capital.
- Harvesting and milling operations conducted on a part-time basis.
- Approximately 35 million m³ of AAC, mostly in hembal stands, has gone unharvested since 1997 because it has been uneconomic to harvest.
- A significant increase in log exports from Crown and private lands.
- Increasing fibre supply challenges for pulpmills due to pulplog shortages and lack of sawmill residuals.

⁸ See, for example, Peter H. Pearse's *Ready for Change: Crisis and Opportunity in the Coast Forest Industry, Report to the Minister of Forests, November 2001*; and the 2006 *Report of the Wood Products Advisory Committee to the BC Competition Council*.

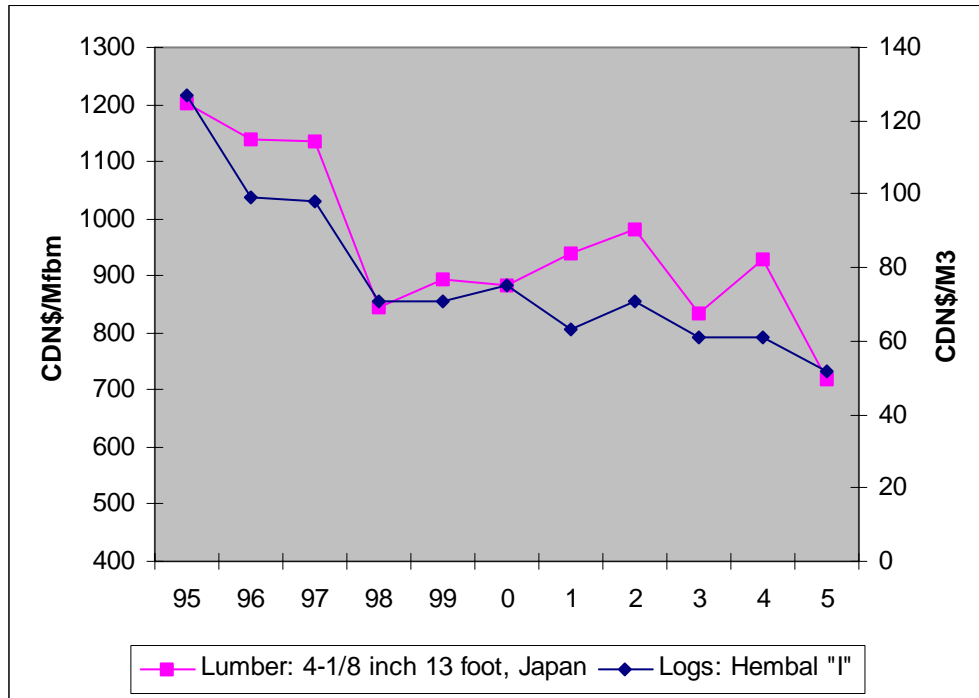


Figure 5. Price of hemlock lumber and hemlock logs, 1995 to 2005. Sources: Random Lengths, Ministry of Forests and Range, Bank of Canada.

All of these factors have resulted in a depressive effect on the prices of logs in the domestic market and have made log exports, in some cases, the only option to continue some level of timber harvesting and maintain harvesting employment in many areas of the coast and the northern transition zone.

The increase in coastal log exports is symptomatic of the poor health of the coastal forest industry and not the cause of it. Government has, for the most part, maintained log export restrictions that require logs considered for export to be made available at domestic prices to the local sawmill sector.

As well, all high –grades of logs for all species, and western redcedar and yellow-cedar from provincial land, have continued to be restricted from export. Even with those export restrictions in place, the specialty sectors that depend on these species and grades—particularly those exporting manufactured forest products to the United States—have not flourished, primarily due to tariffs and quota restrictions.

The one bright light in the coastal sector is the so-called rotary sector, which produces veneer (mostly Douglas-fir) for a wide range of secondary forest products. This sector, which includes three coastal operators and one just over the Cascades in the southern interior that purchases a significant number of coastal logs, has doubled its consumption of coastal logs in the past decade and has been re-investing and purchasing logs competitively that otherwise would likely have been exported. A major factor with this successful component is that its product, and those made from veneer, face no tariffs or quotas for shipment to the United States.

As we move geographically up the coast, and particularly north of Vancouver Island, the situation deteriorates with respect to timber harvesting viability due to high transportation and harvesting costs. The already high harvesting costs common to this region are forecast to increase under new constraints that will be applied to meet the objectives of ecosystem-based management, which is discussed later in our report.

The worst situation on the coast and the northern transition zone is faced by loggers and tenure holders in the latter area near Terrace. As well as losing the pulpmill in Prince Rupert and having only two remaining, relatively low-volume sawmills and a pulpmill in Kitimat, the timber profile is of lower quality than in many parts of the central and north coast. There are no major log customers for most of the current tenures in the area.

The high costs of transporting logs south to the Vancouver log market where there may be some customers are more prohibitive. Most stumpage rates in the area are already at minimums and log exports are the only current opportunity to maintain a semblance of the harvesting industry. We met with one tenure holder and log exporter who has had rights to export up to 100% of his licence volume, yet even with these significant concessions he is only harvesting 11% of his AAC. Log export policy cannot solve all the economic woes faced by tenure holders.

6.2 Southern Interior

The situation in the southern interior, where most of the very limited interior log exports (excluding the northern transition zone in the Terrace region) are from, is very different from the coast.

British Columbia's interior forest sector is a globally competitive industry with costs in the first quartile. This segment of British Columbia's forest industry accounts for 85% of British Columbia's timber revenues and has seen a number of investments to maintain its competitiveness.

One consequence of the health of the sector is the low level of log exports from the region. Log exports, other than specialty items such as house logs, are not economically feasible from most of the interior region.

In the southern interior, the forest districts adjacent to the U.S. border include the Cascades, Okanagan, Arrow Boundary, Kootenay Lake and Rocky Mountain. These districts are for the most part within a 200-km haul distance from a number of U.S. Inland sawmills that can cut parts of the timber profile being harvested in British Columbia.

The total AAC and available volume from private land of these border districts was approximately 10 million m³ (9.1 Crown, .9 private) in 2003. The milling capacity in that year was about 11.7 million m³ with the result that log exports are limited (with a few exceptions) because of healthy domestic demand.

The species makeup in the southern interior stands of timber varies considerably but there are some referred to as off species which most British Columbia sawmills do not cut on a regular basis because of limited log supply, drying problems or other issues. These problem species include western hemlock, grand fir, ponderosa pine, and cottonwood. The current domestic log prices for these species are in many cases below the cost of production. Some of these species make up a larger proportion of the forests on the U.S. side of the border. It has been more economic, therefore, for U.S. mills to build programs around them. This, in combination with the restricted access for British Colum-

bia lumber shipments to the United States, means these species can attract significantly higher value in the export log market from U.S. sawmills near the border.

Several more recent challenges related to the mountain pine beetle attack on lodgepole pine are plaguing the southern interior. This current beetle attack is affecting the whole sector, which is shifting harvest to this species, and for which there is not sufficient milling capacity. We heard from many local ranchers who are being forced to log their dead lodgepole pine, for which there is currently a poor market; they therefore see a need to improve access to the export markets.

7 Analysis

7.1 Log Pricing in a Competitive Market

How are log prices determined in a competitive market?

With very few exceptions, logs are not the final product to be sold, rather they are inputs that are processed into a manufactured product, which may in turn be further processed into another product. So, for example, sawlogs are processed into lumber, while pulplogs are turned into wood chips that will be further processed into pulp or newsprint.

The demand for logs is said to be a “derived demand” because demand for them is derived from the demand for the product that will be produced from them. In well-functioning log markets log sellers attempt to achieve the highest possible price for their logs, while manufacturers attempt to purchase the furnish for their mills at the lowest price possible.⁹ If log prices are “low” relative to the profits that the typical manufacturer can make by processing them, manufacturers will try to purchase more logs, which will result in the price of the logs being “bid up”. If, on the other hand, the typical manufacturer is losing money, manufacturers will reduce their purchases of logs, which will result in falling log prices. Over time this market process results in log prices tending to the level where the typical manufacturer will earn just enough profit to justify maintaining its investment in the industry.

A simple example is useful here. Suppose lumber sells for \$500/thousand board feet. It takes 4 m³ of logs to produce that thousand board feet. The cost of manufacturing, including an adequate return on investment, is \$250/thousand board feet, and the residual wood chips resulting from manufacturing the thousand board feet can be sold to a pulp-mill for \$50. In this case, the manufacturer's total revenue from processing 4 m³ is \$550. Its total costs, net of logs, are \$250. And the manufacturer would be willing to pay up to \$300 for the 4 m³ of logs, or \$75/m³.

If the market price for logs is less than \$75/m³, the typical manufacturer would be making more profit than is necessary to cover its cost of capital, and will have an incentive to expand production. New entrants will be attracted into the sector, thus increasing the demand for logs. If, on the other hand, the market price for logs is greater than \$75/m³, the typical manufacturer will not earn adequate returns. Companies will reduce their log purchases and some companies may actually close mills or leave the sector entirely. So, there will be a tendency for log prices to move to \$75/m³.

It is important to emphasize that the process just outlined happens on average over the business cycle. Furthermore, “shocks”—e.g., major changes in the housing markets in Japan or the United States, significant changes in exchange rates, etc.—will constantly be moving the “equilibrium” market price for logs around. But the key point remains—a functioning log market will push log prices to the level at which the typical manufacturer

⁹ On the British Columbia coast approximately 50% of the timber harvest is in the hands of parties that are primarily in the business of selling their logs into some kind of log market before they become input to some manufacturing process. In addition, a portion of the harvest that is in the hands of companies that are primarily in the business of manufacturing is not efficiently used in the facilities owned by the particular company—because of species, grade or size—so that a portion of the other approximately 50% has to go through a log market as well.

earns, on average, a sufficient return on capital to maintain that capital in the business, after deducting all costs.

This basic point is central to the analysis below, and is usefully summarized in an equation:

$$\begin{aligned} \text{Market price for logs} &= \text{revenue generated from processing those logs} \\ &\quad - \text{costs, including a return on capital, of processing those logs.} \end{aligned}$$

The majority of logs end up in sawmills, so it is useful to take this general equation and make it slightly more specific for sawlogs:

$$\begin{aligned} \text{Sawlog price/m}^3 &= (\text{lumber price/Mfbm} + \text{chip revenue/Mfbm} \\ &\quad - \text{manufacturing costs/Mfbm}) \times \text{LRF} \end{aligned}$$

where m^3 = cubic metre, Mfbm = thousand board foot of lumber, and LRF = lumber recovery factor: the board feet of lumber produced per metre of logs \div 1000.

Examining the equation shows that if the price of lumber goes up (down), then the market price of logs will go up (down), according to the following equation:

$$\text{Change in log price/m}^3 = (\text{change in lumber price/Mfbm}) \times \text{LRF.}$$

If, on the other hand, manufacturing costs go up (down), then log prices will go down (up) according to the following equation:

$$\text{Change in log price/m}^3 = (\text{change in manufacturing costs/Mfbm}) \times \text{LRF.}$$

A final point that is important for the discussion below is to underline the fact that the relevant lumber price is the "mill net" to the manufacturer—i.e., the price the customer pays for it less any costs of sales, marketing, and transportation, and any duties or taxes that must be paid by the manufacturer.

7.2 Log Exports

Why are logs exported?

Why are foreigners willing/able to pay more for logs than are domestic purchasers?

If logs sellers wish to export logs, it is because the price that can be received for those logs in the foreign markets, net of transportation costs, is higher than in the domestic market. This can, in some sense, be considered "abnormal". In "normal" circumstances there is a strong economic incentive to process logs in a sawmill as close to the point of harvest as possible. Relative to the cost of transporting lumber, log transport is expensive. That is because the lumber that is extracted from the log is only a portion (generally about half) of the total content in the log, and if the lumber is kiln dried it is significantly lighter. So, for example, in the British Columbia interior, the vast majority of the logs harvested are processed in sawmills located within 200 kilometres of the point of harvest. This economic incentive is weaker on the British Columbia coast because water transportation is generally cheaper than land transportation, but the basic difference in the cost of transporting logs and transporting the finished product remains.

It is important to understand the potential sources of an “abnormal situation”—i.e., foreigners willing and able to pay more for logs than are domestic purchasers.¹⁰ There are at least five major reasons why foreigners may be willing and able to pay more for our logs.

1. Exceptional Log Sales/Values

Some logs, which make up a very small percentage of the overall profile, may be particularly valuable to foreigners, and thus foreigners are willing to pay more for the logs than a domestic manufacturer would. An example would be “temple wood”, which is timber used to adorn religious sites in Asia. Another exceptional product would be house logs, telephone/power poles, and extreme, completely clear, high grades of any species to be used for face purposes. Some parts of a coastal Sitka spruce log are used for musical sounding boards.

By definition, such values are exceptional, and are not relevant to the majority of the timber profile.

2. Foreign Barriers to Forest Products Exports

Recall the explanation above about how log prices are determined in a well-functioning market, in particular that the market price of sawlogs is derived from the mill net received by the manufacturer. Now suppose the natural market for British Columbia lumber is in another country. If free trade in lumber exists, the price of British Columbia logs will be derived from the price of lumber in that country, less the costs of manufacturing in British Columbia and the costs of transporting the lumber from British Columbia to that country. It is important to note here that in this free trade scenario log prices in British Columbia would not normally be the same as in the other country.¹¹

Now, suppose instead that the lumber importing country has some barrier—e.g., import duties—to British Columbia's lumber. Then the mill nets received by British Columbia's manufacturers will be reduced by the amount of the duties. This will result in a lower market price for logs in the domestic market.

Take the example in Section 7.1 and suppose the duty on exports of British Columbia lumber is 25%. The mill nets received by our manufacturers would be reduced by \$100/Mfbm.¹² The pricing of British Columbia logs would be \$25/m³ lower than if free trade existed, and \$25/m³ plus the difference due to lumber transportation costs and other market factors lower than in the other country. A key point here is that it is the

¹⁰ It is also important to note that much of the apparent “premium” for logs in the export market is in fact not really a premium. Export logs are generally of higher average quality than the average log in the domestic market. There are also extra costs involved in preparing logs for the export market, so a higher average price is needed to compensate for this. Our discussion here focuses on like-to-like comparisons net of extra costs.

¹¹ The freight cost disadvantage can be quite substantial for regions that are a long way from the foreign market. So, for example, the British Columbia interior has, on average, a significant freight cost disadvantage compared to the Inland region of the United States. This will mean that even for comparable products, the British Columbia interior will naturally have lower log prices than the United States Inland region. If there are factors that elevate manufacturing costs, such as prevailing wage rates, business taxes, costs associated with being further from important North American suppliers for key inputs, etc., then the log prices in the British Columbia will be naturally that much lower. Finally, the local supply/demand balance for logs can lead to differences in log prices, over and above the transportation and manufacturing cost differences.

¹² The duty is levied on the price at the border. Assuming for simplicity that the foreign price of lumber remains unchanged, then our price of lumber has to fall low enough so that: Domestic Price(1.25) = Foreign Price. In our simple example, this would mean the domestic price has to fall to \$400.

foreign barriers to the export of our lumber, not the restrictions on the export of logs, which cause the reduction in our log prices.

Another point to note is that the change in log prices is proportionately greater than the change in lumber prices—in our example log prices fall by 33.3% while lumber prices fall by only 20%. Over short periods of time, the manufacturer may absorb some of the reduction in mill nets in lower profit margins; but this cannot persist over any length of time if capital is to stay in the industry. Accordingly, after a period of adjustment, all of the change in mill net will flow back to the value of the log. Because log costs are only a portion of the value of the lumber, this results in a “magnification effect”. I.e., the percentage change in log prices will be larger than the percentage change in lumber prices.¹³

In the face of the duties on lumber, if there were no log export restrictions then a large portion of our coast sawlogs would flow to the other country. The extent of this would depend on two factors. The first is the magnitude of the duties on our lumber—the higher the duty, the larger the portion of British Columbia logs that would flow to the other country. The second is the cost of transporting logs – the lower the cost, the larger the portion of British Columbia logs that would flow to the other country. In the context of United States duties on British Columbia lumber this would generally mean a relatively large portion of the logs from the coast, while in the interior only a small volume of logs from a narrow strip close to border would be affected.

3. Foreign Subsidies of Log Processing

A similar result would occur if the foreign country provided subsidies for the processing of logs. The log prices in the foreign country would be raised by an amount equivalent to the effective subsidy per cubic metre. If our logs were freely exportable, and if the foreign subsidy were high enough, a portion of our logs would flow to that country. The higher the subsidy and the lower the costs of transporting logs, the greater will be the flow of logs.

Again, it is important to underline that it would be the foreign country's action that would cause these results.

4. Uncompetitive Manufacturing Costs

Another possible source of a difference in log prices, and therefore an incentive to export logs, would be uncompetitive domestic manufacturing costs. If log exports are prohibited, then our price for logs will tend to be lower by the manufacturing cost disadvantage per cubic metre plus the difference arising from lumber transportation costs and from other market factors that affect log prices.

Unlike in the scenarios where the distortion is caused primarily by foreign barriers or subsidies, it is not as automatic that an absence of log export restrictions would lead to a large portion of our logs flowing to the other country. If the source of the higher costs is inefficiency, then the principal result of eliminating log export restrictions may be to spur the necessary actions—e.g., rationalization, re-investment, productivity improvement—to revitalize the industry and lower costs.

¹³ The general formula for this “magnification effect” is: % change in log price = % change in lumber price/p, where p represents delivered logs costs divided by the lumber mill net. In our example p was .6. This is very close to the average value in both British Columbia's coast and interior industries. If there is an export tax on our lumber, and there is a desire to have an equivalent export tax on our logs, the formula would be: % tax on logs = % tax on lumber/p.

5. Transportation Costs Associated with Remote Harvesting Locations

While the costs of transporting logs, taken in isolation, generally favour processing them close to where they are harvested, there is an exception to this when it comes to logs from remote locations. Cost-competitive manufacturing requires ready access to specialized suppliers and service providers that are generally lacking in remote locations, and processing will generally be done elsewhere. Depending on where the ultimate market for the processed product is, triangular transportation costs may favour a foreign processor.

Consider the example of logs harvested in the Queen Charlotte Islands/north coast area. If the ultimate market is Asia, the total transportation costs of first barging these logs down to Howe Sound and then shipping the lumber over to Asia can be greater than the costs of shipping the logs directly to Asia for manufacture there. In this case, even if manufacturing costs are the same in British Columbia as in Asia, the Asian manufacturer can afford to pay more for British Columbia's logs than the British Columbia manufacturer can.

7.3 Effects of Relaxing or Tightening Restrictions on Log Exports

The reason why we took the time to work through all of the cases in the previous subsection is that, in analyzing the effects of relaxing (or tightening) log export restrictions, and what may or may not be good policy, what gives foreign manufacturers the ability to pay more for our logs than domestic manufacturers can make a great deal of difference.

This subsection is written from the perspective of what the effects of *relaxing* log export restrictions would be. This is for simplicity and brevity only. The effects of *tightening* log export restrictions would be the exact opposite of what is described here.

At the outset of this analysis, however, it is useful to repeat what we described above as "normal". If none of the reasons for higher foreign log prices—exceptional log values, foreign barriers to the export of our manufacturers, foreign subsidies for processing, uncompetitive manufacturing costs or triangular transportation cost differences—exist, then log export restrictions are essentially irrelevant. The vast majority of logs would be processed domestically whether or not log export restrictions are in place.

7.3.1 Harvest Levels

If one or more of the reasons for higher export prices listed above exists, then relaxing log export restrictions would lead to higher harvest levels in the parts of the province where logs can be economically transported to other countries. The reason for this is straightforward. Where harvesting costs are high, and the value of the logs that would result are relatively low (e.g., hemlock and balsam logs on most of the coast), it may not be possible to recover harvesting costs based on lower domestic prices. In this case the harvesting would not happen. If, however, higher prices are available from the export market, then some of these "uneconomic" stands will become economic, and the harvest level will rise.

7.3.2 Domestic Log Processing: Volume of Logs Processed Domestically

The popular view is that relaxing log export restrictions will lead to less processing of logs in British Columbia. The reality is that it is a whole lot more complicated than that.

If one or more of the reasons for higher export prices listed above exists and log export restrictions are relaxed, two things happen. One is that total harvest levels increase. The

second is that log exports increase. The change in the volume of logs available for domestic processing is the difference between these two.

It is possible, at one extreme, for the increase in harvest volumes to be accompanied by relatively little increase in log exports. In this case the supply of logs available for domestic processing would increase.

It is possible, at the other extreme, for a relatively large share of the harvest to be exported. Such a scenario might occur if the foreign country has in place a significant tariff on the import of our lumber and if the costs of transporting logs to the foreign country are relatively low. In this case the supply of logs available for domestic processing would unambiguously decrease.

Where we would end up between these extremes depends on the cause of the higher foreign log prices. If the higher foreign log prices are caused by foreign barriers to our processed product, or to foreign subsidies to their processors, then it is likely that relaxation of log export restrictions would lead to a large expansion of log exports and a reduction of the supply of logs for domestic processing.

If, on the other hand, the higher foreign log prices are primarily a result of our manufacturers being inefficient, then, as discussed above, relaxing log export restrictions is likely to spur the domestic industry to get competitive. To the extent that there are no domestic barriers to this happening, there need be little increase in log exports, and the supply of logs for domestic processing will, on balance, increase.

7.4 Effects of Log Exports on Employment

Do log exports lead to more or fewer jobs?

The popular view is that the “export of logs is the export of jobs”. Again, the reality is much more complicated.

Table 1 represents the various effects at work. If one or more of the reasons for higher export prices listed above exist and log export restrictions are relaxed, harvest levels would unambiguously rise. This will lead to an increase in harvesting jobs. Jobs in processing will tend to rise because of the increase in harvest level, but decrease because of the increase in log exports. On the other hand, jobs in preparing the logs for export—sorting, loading on ships, etc.—will rise with an increase in log exports. It is not possible to say anything definitive about the net effect.

Table 1. Effects of relaxation of log export restrictions on employment.

Changes in log supply	Effect on log supply for domestic processing	Effect on harvesting employment	Effect on processing employment	Effect on export preparation employment	Effect on total employment
Increase in harvest	+	+	+	0	+
Increase in log exports	-	0	-	+	?
Net effect	?	+	?	+	?

While it is not possible to say anything definitive about the general effect of relaxing log export restrictions on employment, two points are worth noting. First of all, on the British Columbia coast and in the northern transition zone, the increase in harvesting jobs will tend to be in forest-based and forest-dependent communities, for which the increase in employment will be particularly important.

Second, an increase in log exports is more likely to lead to a net increase in employment if the increase in log exports is focused on logs from stands that would not have been harvested without the higher prices from the export market. This is a point we will return to in our recommendations.

7.5 Small Public Tenures and Private Land Holders

Since the last external log export policy review in 1983 there has been a dramatic increase in the number of small replaceable Crown tenures, primarily woodlots. In March 1983 there were 76 woodlot licences. As of March 2006, there were 824 woodlots with a combined AAC of 2.4 million m³ covering 550,000 ha. None of these tenures are appurtenant to any domestic sawmills. The increase in woodlots, and other changes reviewed below have profoundly affected the number of market loggers in British Columbia.

By “small tenure” we generally refer to any area-based or volume-based tenure with an annual harvest of less than 10,000 m³ of logs. Included in small tenures are the 824 Woodlot Licences, most of the 284 private managed forests, about 25 coastal non-replaceable and replaceable Forest Licences and Timber Sale Licences. Many woodlots include the private land of the woodlot licensee. In addition, there are an estimated 20,000 private landowners who have some degree of commercial forest cover on their lands and produce logs on an intermittent basis.

The Forestry Revitalization Plan of 2003 proposed an additional 900,000 m³ of AAC for new or expanded woodlots and 300,000 m³ for Community Forest Licences (CFLs). The CFLs will likely exceed the 300,000 m³ target due to strong demand and availability of other volume sources. The rapid expansion of small private and community-owned tenures is a good indicator of the success of government policy in attracting new entrants into the forest management and log production businesses. These current volume targets and positive policies ensure there will continue to be dramatic increases in the number of small tenure holders.

We also note here the significant increase, both actual and potential, in the participation of First Nations in the harvesting business, discussed in more detail in Section 7.6.

However, this significant increase in the number of small tenure holders has come during a period of significant changes that have worked to reduce the domestic market price for logs—the countervailing and anti-dumping duties levied by the United States (now to be replaced by the export taxes in the Softwood Lumber Agreement), the ongoing shift away from green hemlock in the Japanese market, the rapid appreciation of the Canadian dollar since 2003, the increase in interior AACs to deal with the mountain pine beetle crisis, and poor prices in pulp and paper markets.

These forces have been exacerbated in the northern transition zone of the Terrace–Prince Rupert area where one pulp mill and most of the sawmills have been shut down, which is symptomatic of the broader forces at work.

This has all had a depressive effect on domestic log prices that has negatively affected returns for market loggers just as the number of those market loggers has increased significantly.

The challenges of dealing with low domestic log prices are especially difficult for small tenure holders and private landowners. Small tenure holders face particular impediments in their operations that are distinct from those of major tenure holders, primarily because of their scale, overhead costs and limited financial and management capacity.

Furthermore, most small tenure holders are unable to facilitate or manage the existing log export surplus test process in that they cannot respond to "blocking" by potential log buyers through provision of alternate log supplies. This option is available and used extensively by the large forest landowners and other large log producers to "unblock" export booms within the surplus test process.

We met with a number of small owners and tenure holders who reviewed their issues and concerns around the current log export policies and processes. Their statements can be summarized as follows:

- Small private landowners and small tenure holders believe better access to the export market would enhance their viability.
- The only revenue source that most small tenure holders have is log sales, whereas tenure holders with mills can capture other revenues from manufacturing.
- Small operators find the risk of blocking booms or batches of export logs intimidating.
- Lower returns negatively affect small tenure holders' and private landowners' abilities to cover their silviculture costs.
- The complexity of the surplus test and bidding process forces small holders to use brokers rather than manage the exports themselves and fully capture any increase in value after the additional costs of exporting are factored in.
- The exporting process for logs, and its current timelines, put log quality in jeopardy and results in significant risk to small holders. Booms of export logs on the coast need to be held for some time during the advertising/bidding process.
- Small holders are more willing to protect non-timber values (wildlife, scenic, recreation, etc.) on their lands and invest more in silviculture if they have access to higher log prices. It is in the public interest that private and small tenure holders do an acceptable level of forest management to ensure future timber supply and high environmental standards.

There has been some recognition by the British Columbia government in the past two decades that small log producers on provincially regulated land should receive more beneficial consideration in log export policy than larger producers. In 1985, small business Timber Sales were granted standing export rights in most areas of the coast. Major licencees were only granted this right in the northern Timber Supply Areas.

Area-based exemptions for exports have been modified at various times to permit a higher percentage of export for small producers, and lower fees in lieu were granted to small business operators. However, there has been no special consideration given to

federally regulated small private landowners in the log export process, and the existing surplus test process has remained in place for those log sources.

We believe the particular challenges of small tenures and small private landowners warrant due consideration in developing log export policy. We will return to this in our recommendations.

7.6 First Nations' Forestry Issues and Challenges

At the time of the 1983 log export policy review there were very few First Nations forestry tenures or operations in the province, and their presence in the forest sector was minimal and mostly in the form of employees.

There are approximately 120,000 First Nations people in British Columbia, representing about 4% of the total population. They are members of 199 bands that are spread across the province. About 49% live on Indian reserves.

The courts have held that First Nations' aboriginal title and rights in respect of land and resource use are recognized and affirmed under Section 35 of the Constitution Act, 1982. Recent legal decisions have determined that an obligation on the Crown exists to consult and, where appropriate, to seek to accommodate potential aboriginal rights and title when making forest management decisions. Those decisions affect every Crown timber holder in the province.

Government's response to court decisions was to offer access to economic benefits through negotiated agreements with individual First Nations as Interim Measures Agreements. In February 2003, the British Columbia government announced its intention to pursue two initiatives with First Nations—revenue sharing, and creating greater opportunities to participate in the forest sector through access to timber on a non-competitive basis. In those areas where there are range interests within a First Nation's traditional territory, the British Columbia government is also able to direct award (non-competitive) range opportunities (grazing permits and hay cutting permits).

In exchange for these economic benefits, these agreements contain provisions that promote a stable operating environment for the forest and range sector. These agreements were initially known as Forest and Range Agreements (FRAs). Subsequently, under a further government initiative called "New Relationship" these agreements were amended and are now known as Forest and Range Opportunity Agreements (FROs). The provisions of the FROs are not the same as those of the FRAs. The FROs have different language with respect to consultation and certainty than do the FRAs.

For the most part the tenures to be issued under the FRAs/FROs are to be non-replaceable forest licences with a term of 5 years. While the licences are non-replaceable the agreements are renewable. Some FRAs have included woodlot licences as the economic opportunity when these are available for disposition to a First Nation. Woodlots are replaceable tenures but the agreements involving these include a clause that they be recognized as on-going accommodation even after the normal 5-year agreement expires.

The British Columbia government intends that replaceable forest tenure for First Nations will generally be provided at the time of treaty as further incentives for First Nations to engage in the treaty-making process. Recent treaty negotiations and draft treaties have included ownership of treaty settlement land (as Crown granted fee simple land) and access to replaceable forest tenures at the time of treaty.

For treaty purposes the replaceable tenures are expected to be subject to provincial controls on log exports. In the case of the Nisga'a treaty settlement land, it is subject to the same log exports policies as those applicable to Provincial Crown tenures and lands. Existing Indian reserves are not subject to any log export restrictions but require approval from the Band and a federal export permit.

In terms of new treaties contemplated by government, the treaty settlement land apparently will permit the export of logs without restriction. This provision is in the Lheidl T'enneh final agreement. This anomaly between the Nisga'a treaty settlement land and treaty settlement land proposed in new treaties should be reviewed by government.

Amendments have also been made to the *Forest Act* to permit direct award of forest tenures to implement or further an agreement between a First Nation and the government respecting treaty-related measures, interim measures or economic measures. These direct awards have also been used to address the urgent issue of harvesting of lodgepole pine beetle attack stands in the interior and as incentives for harvesting trials for ecosystem-based management in the central coast region.

As part of the Forestry Revitalization program in 2003, timber for the First Nations agreements was to come from the AAC takeback sourced from all major licences. The total takeback volume intended for First Nations FRAs was about 3 million m³. On a per capita basis the allocation would be approximately 30 m³ annually. In addition, undercuts, AAC uplifts, new apportionments and temporary AAC opportunities (e.g., beetle kill and fire kill stands) could be sourced as further allocations in FRAs where available but were capped at an additional 24 m³ per capita annually.

The total targeted volume for First Nations is 8% of provincial AAC, or about 5.6 million m³, to be eventually allocated or secured by most of the 199 Indian bands in the province. With respect to revenue sharing the funding allocations under the FRAs/FROs are expected to total \$50 million annually or about \$500 per capita.

This dramatic policy change will create a further large increase in the number of market loggers in British Columbia. The dispersal of these new tenures around the province, the fact they are non-replaceable licences and generally small,¹⁴ makes it unlikely that many First Nations will want to construct manufacturing plants specifically to serve their new forest tenures. As well, licences with an annual harvest of this average amount or smaller are going to have particular challenges due to the relatively small scale of operations.

FRA/FRO Agreements and direct awards have now been signed by more than 116 First Nations and involve in excess of 22 million m³ of potential timber harvest through non-replaceable forest tenures and woodlot licences. Most of the licences have not been issued at this point in time but we did hear from many First Nations during our review that they want log export policies to recognize their significant challenges as new licencees and entrants in the forest sector.

Very few First Nations-owned harvesting operations have commenced operations on their FRA/FRO licences. We expect as many First Nations get their operations underway and realize the challenges of producing and selling into the domestic log market there will be more pressure on government to facilitate log exports for these new market loggers.

¹⁴ The average band size in British Columbia is 603 people, with the resulting mean average FRA/FRO licence size in the range of 18,000 m³ to 33,000 m³ annually.

It is important to the provincial (and particularly the coastal) log supply that the allocation of timber to First Nations is harvested on a timely basis; otherwise it will merely exacerbate the serious undercut situation on the coast.

There are no restrictions on First Nations groups or business interests in bidding on BC Timber Sales opportunities. While not common now, it is possible that the more successful First Nations forestry operations would become active bidders in on competitive, short-term timber sales.

Views and issues of First Nations we met with included the following:

- Log export policy should incorporate export allocations for First Nations commensurate with the importance of forestry to their economic well being.
- As log producers and sellers without broad export market access, First Nations are restricted to domestic markets. In many cases, local log prices do not cover harvesting costs.
- Government should fund a *First Nations forest marketing agency* to assist in promoting access to international log markets as it has done with the marketing support for major licencees for manufactured forest products.
- There is a significant capacity challenge (lack of business skills, trained labour, management skills) in First Nations communities to get into the forest sector.
- First Nations lack access to sufficient capital for start up of new harvesting operations. To minimize capital and risk (at least initially) the engagement of contractors is usually required, which results in a lower financial return to the Band since the contractors consume part of the margin from harvesting.
- Some First Nations' experiences with past forest-based joint ventures have not been positive. They do not want to repeat these experiences with their new forestry licences.
- First Nations have to compete for decent operating areas on a land base that is already heavily harvested and where good opportunities are limited.
- The non-replaceable licences in the FRA/FRO agreements do not lend themselves to long-term planning and financial security.
- Due to the nature and sensitivity of traditional territories, First Nations need to have the operating areas for their new licences within their traditional territories. Depending on past harvesting history the opportunities for a viable operating area may be quite limited.
- On the central coast, where many stumpage rates are at minimums already, the \$6/m³ typical export fee-in-lieu is too high to allow operations to be financially viable.
- Most of the new First Nations licence volumes are relatively small and tenure holders face significant challenges to make them a viable operation, particularly in remote coastal areas.
- Export fees-in-lieu should be returned to First Nations to assist them in their new endeavours.

- There should be a 30% allowable export level for new tenure holders.

We believe that many of the issues raised by First Nations during our meetings with them are better addressed under other forest policy “umbrellas”. We do underline, however, how important it is that the significant expansion of First Nations into the forestry business be broadly successful. To the extent that well-tailored log export policy can contribute to this, it is important that this be pursued. We will return to this in our recommendations.

7.7 Viability of Northern Coastal Tenures and Hembal Stands

Since the collapse of the Japanese market of hemlock lumber in 1997, harvesting operators in the mid coast, Queen Charlotte Islands (Haida Gwaii), north coast, and Terrace areas have been unable to harvest stands with 60% or greater hembal component to serve the domestic market and return a profit. Virtually the entire coastal undercut of 35 million m³ that has accrued since 1997 has occurred in hembal stand types.

Hembal stands are not just found in these northern coastal and inland/transition areas. They are predominant in most parts of the coast and present challenges to most tenure holders and private landowners because of depressed domestic log prices. While we focus in this section on the northerly districts because of their higher cost issues, our recommendations will need to recognize how broad the challenges are for addressing the profitable harvest and manufacture of these two species.

The only significant harvesting that occurred in these areas was done by licensees who were able to focus on western redcedar and other stands containing higher value species such as Douglas-fir and yellow-cedar. The result has been a significantly unbalanced harvest of western redcedar and the few mid-coast Douglas-fir stands.

During our meetings with the Heiltsuk First Nation from Bella Bella our attention was drawn to the situation summarized within **Table 2**, where the species distribution from the standing timber inventory is contrasted with the harvest scale summary for the two-year period ending August 31, 2006.

Table 3 illustrates similar data for more northerly and inland TSAs for the period 2003 to 2005.

Table 2. Species distribution from the standing timber inventory and the harvest scale summary: Mid Coast TSA, 01 September 2004 to 31 August 2006.

Species	Inventory (%)	Harvest (%)
Redcedar	24	65
Hemlock/balsam	65	18
Fir	5	11
Spruce	5	4
Yellow-cedar	1	2
	100	100

Table 3. Species distribution from the standing timber inventory and the harvest scale summary: northern coastal and transition TSAs, 2003 to 2005.

TSA	Category	Species						% of AAC harvested
		Balsam (%)	Hemlock (%)	Cedar (%)	Spruce (%)	Pine (%)	Other (%)	
Queen Charlotte	Inventory	0	44	37	17	1	1	
	Harvest	0	34	39	18	1	8	98
North Coast	Inventory	6	43	39	2	9	1	
	Harvest	15	17	52	11	0	5	72
Kalum	Inventory	8	75	1	6	5	5	
	Harvest	24	52	12	8	3	1	54
Nass	Inventory	20	70	2	3	5	0	
	Harvest	43	53	0	3	1	0	20

The poor level of AAC performance in the past two years in the Kalum and Nass TSAs is explained by the more than 80% of the TSA inventory being in hembal species.

The foregoing is not a recent concern, but rather has been ongoing in many northern coastal tenures for the past decade or more in an attempt to maintain profitable harvesting operations over the short term. The long-term forest management implications are obvious: the continued decline in average stand values and the increasing dominance of low-value, old-growth hembal stands.

Another major issue continues to be the non-harvest of pulp-grade logs in the area north of Cape Caution. While demand by the recently re-opened Port Alice pulpmill for hembal pulplogs has resulted in some minor increases in recovery of pulplogs, the poor utilization of the lower grades remains a serious matter. Some input we received suggested, once the container port is in operation in Prince Rupert, there may be some log export market opportunities by using empty, return-voyage shipping containers to transport low grades of logs.

There are other major impediments to profitable timber harvesting in the area north of Cape Caution. Compared to Vancouver Island where the timber-harvesting land base is more than 30% of the total land area, the central and north coast are less than 10% harvestable with resulting higher access costs per cubic metre. In Section 7.8 we review the other cost drivers related to implementation of the recent land-use decision in these areas.

Due to lack of sheltered water, log transportation from points north of Cape Caution southward must be made by more costly log barges rather than towing log booms. A comparison is provided in the last Coastal Comparative Value Pricing stumpage appraisal manual (CAM) effective April 1, 2002. The towing cost from Seymour Inlet (the appraisal point of origin immediately south of Cape Caution) to Howe Sound is \$3.54/m³.

The point of origin immediately north of Cape Caution (Security Bay on Boswell Inlet) has a barging cost allowance of \$6.77/m³—a cost differential of \$3.23/m³ for a distance difference of only 55 km. It is a fact that the cost of towing in an empty log barge and loading it is more costly than making a boom and bringing in a tug to tow it.

Most harvesting north of Cape Caution is remote with associated high camp costs. The same CAM can be used to document these cost differences between (for example) a mid coast camp operation and a commuter harvesting operation on south Vancouver Island. An isolated cutting authority (defined as one that is not accessible—access by air or water only) conveys a camp allowance of \$15.55/m³. On the other hand, an accessible cutting authority yields an allowance of \$9.57/m³—a difference of almost \$6.00/m³ to operate an isolated camp. In addition, frequent moves are required for the smaller operating areas, which are common on the mid coast.

Both the current and past coastal stumpage systems recognize the differential harvesting cost structures encountered on the coast; however, as operations become more marginal, stumpage costs play a reduced role in the viability of a harvesting operation. An operation on minimum stumpage (\$0.25/m³) is not assisted in any way by incremental cost recognition.

We heard from several mid coast operators and First Nations that the viability of their timber harvesting is negatively affected by the current higher export fee-in-lieu as of August 2004 as compared to more northerly districts (an average of \$6/m³ versus \$1). Stumpages are already mostly at minimums. The margins for timber harvesting operations generally are so slim that even small changes in costs can make them uneconomic.

The Heiltsuk Coastal Forest Products Company presented us with several cost analyses showing average harvesting costs of \$95/m³. Current domestic selling prices for these analyses showed \$135/m³ for western redcedar and \$59 for hembal species. Even when averaging down, positive margins are impossible with access only to the domestic log markets for hembal. The lower domestic prices are the result of two of the reasons discussed in Section 7.2: triangular transportation costs from remote locations and the depressive effect of restricted access to the U.S. lumber market.

In spite of a series of blanket orders-in-council that were to facilitate harvesting and export of lower grades of hembal species from this region to Asia, there continues to be a targeting of western redcedar stands for harvesting.

7.8 Ecosystem-Based Forest Management

Since the early 1990s the Province has progressively completed a series of multi-stakeholders and First Nations processes to resolve land uses on the provincial land base. The prescriptions and final plans have led to a broad zoning process in areas where plans have been completed and accepted by government. In some cases these plans have led to a much more restrictive level of constraint on timber harvesting and forest management in favour of environmental and social values with a consequent increase in timber harvesting costs.

The central coast land and resource management planning process (CCLRMP) began in 1996. In April 2001, an interim agreement led to the creation of a completion table that reached consensus in December 2003 and presented recommendations to First Nations and the British Columbia government in May 2004.

The north coast LRMP process began in February 2002 and reached consensus in June 2004 with recommendations to the Province and First Nations in February 2005.

A key recommendation from the tables and the government-to-government discussions was the adoption of a new approach to planning and resource management referred to as Ecosystem-based Management (EBM). EBM is defined by the process as *"an adaptive approach to managing human activities that seeks to ensure the coexistence of healthy, full functioning ecosystems and human communities"*. Ecosystem-based Forest Management (EBFM) is a suite of different landscape and stand level constraints on forestry and timber harvesting activities.

There are also discussions underway in the Queen Charlotte Islands/Haida Gwaii (QCI) with the Haida First Nation related to the Island's Land and Resources Planning process that involve a definition for EBM and its application to parts or all of the QCI. If and when fully implemented EBM could affect more than 20% of the coastal AAC.

EBFM is expected to result in a significantly higher level of timber harvesting costs, primarily due to constraints that would result in higher costs due to a reduced timber harvesting land base, and increased road, engineering, planning and management costs per cubic metre harvested. There would also be cost impacts from stand level constraints as well. The only other location where application of this type of forestry planning and constraint model has been applied is in Clayoquot Sound on western Vancouver Island. The current specified operation cost additive for Clayoquot Sound harvesting in the coast appraisal manual is \$13.31/m³.

It will be many years before the concepts of EBFM are fully developed and implemented in the central and north coast areas and the Queen Charlotte Islands, but preliminary analysis suggests the harvesting cost premium will be at least 10%. Several trials are at the planning stage to determine further actual cost premiums.

As we have reviewed in Sections 6 and 7.7, areas with predominant hemlock stands on the coast have particular challenges to be economically viable for harvesting without access to higher value export markets. Almost all the coastal undercut is from tenures and areas dominated by these species.

Detailed analyses¹⁵ on the central and north coast to determine the effects of EBFM on the available timber supply indicated that the AAC could fall from 3.7 million m³ to a range of 2.2 to 2.7 million m³; harvesting and management cost increases ranging from \$1.08 to \$22.75/m³ or a weighted average of \$5.58/m³ could be expected. Based on the Clayoquot experience the cost premium for EBM is likely going to be much higher than that initial estimate.

The current timber harvesting opportunity in much of the central, north coast and northern transition zone tenures dominated by hemlock stands is not financially viable with access to only domestic log prices. The reasons for the low domestic log prices are the same as noted in the previous sub-section: triangular transportation costs from remote locations and the depressive effect of restricted access to the U.S. lumber market. It will be essential that EBFM operations have liberal access to the higher margin export log markets as harvesting incentives. Otherwise it is likely there will be little application of

¹⁵ Operability Analysis of Standing Timber Inventory in Mid and North Coast LRMP Areas at mid-cycle prices—all species and grades. Analysis for CCLRMP by Glenn Farenholtz, Ministry of Sustainable Resource Management, and Charles Rowan, Ministry of Forests. 2004. 20 pp.

EBFM in the region and hence even less utilization of the AAC than is currently occurring.

Our view is that this model of forest management for this region of coastal British Columbia is of global interest. There is limited opportunity for tenure holders to make their operations financially viable, in large part due to the timber profile in the LRMP planning areas. The area where EBFM is to be applied will also see a relatively large number of new First Nations licencees entering the forest sector. We believe the export log market with a nominal fee-in-lieu is the only opportunity for viable operations. It seems reasonable that the higher valued global log market provide the necessary pricing to ensure its successful implementation. We will return to this in our recommendations.

7.9 Private Land

In many ways the issue of log exports from private land was the most controversial of the issues that stakeholders discussed with us in our consultations. We take some care in commenting on the private land issue. Our report is at the request of the provincial Minister of Forests. The provincial Minister can make suggestions to the federal Minister of International Trade, but the ultimate jurisdiction for the regulation of most private land log exports rests with the federal Minister. Accordingly, any recommendations on this matter should be understood as advice on what the provincial Minister should suggest to the federal Minister.

On the coast exports from private land account for the largest proportion—approximately 2/3—of total log exports. Most of these exports are subject to the surplus test administered by the federal government, but are not subject to the fee-in-lieu-of-manufacture that is applied to provincially regulated land.¹⁶

The range of opinions we heard ranged from the position that no logs, public or private, should be exportable at one end, to the position that logs from all categories of private land should be freely exportable at the other end.

The general argument that we received from private landowners is that, as these lands are private property, their owners were entitled to the maximum return possible from their land, and, therefore, all log export restrictions should be eliminated. To maintain log export restrictions was, in their opinion, tantamount to “expropriation without compensation”. Their argument was, in essence, a “rights-based” one and, in their view, private property rights should be essentially absolute and unconstrained.

We think this argument misconstrues what private property rights convey in a liberal democracy. In a liberal democracy there are many different types of property rights, some relatively narrowly defined and with relatively little security, others more broadly defined and with greater security. But property rights are never “absolute” and free of constraints, either actual or potential, that can be put on them through the democratic process. In particular, property usually comes with some kind of zoning, and the market price of the property will reflect that zoning.

Any land that was alienated from the Crown since 1906 came with an explicit condition attached to it—log exports from that land would be subject to provincial regulation and taxes. The price of that land in any ensuing transaction would have reflected that condition. Similarly, log exports from other private land have been subject to federal regulation

¹⁶ Log exports off Indian Reserves are completely free of log export restrictions. Private land alienated from the Crown after 1906 remains subject to the provincially administered surplus test and to the fee-in-lieu.

since World War II. The vast majority of private land subject to federal regulation has changed hands, in some cases many times, since that time. So, again, the price paid for that land would have reflected that. Accordingly, we do not find the expropriation-without-compensation-argument compelling.

Now, having said all of this, it is important to acknowledge that democracies make changes in policies, regulations and laws that result in higher property values. Staying with our zoning analogy, it is common in many municipalities to allow the rezoning of land, and this generally results in the property affected becoming more valuable. The criterion for doing this is important—it is generally based on the premise that there will be an overall benefit to the community from doing so.

To anticipate our recommendations, we believe that, under the right circumstances, there could be an overall benefit to British Columbia from relaxing the restrictions on private land log exports. The key condition here is: *under the right circumstances*.

7.10 Log Exports and the 2006 Softwood Lumber Agreement

Midway through our review the Softwood Lumber Agreement (SLA), 2006 came into effect. The term of this Agreement is 7 years, though it may be terminated by either party after 2 years (18 months plus a 6-month notice period), or it could be extended to 9 years by mutual agreement. There are some key provisions that are very relevant to log export policy.

The Softwood Lumber Agreement provides for regions to choose one of two options—“Option A” which will impose an export tax, the rate of which will depend on the level of North American lumber prices, or “Option B” which will impose lower export taxes, but will also subject the region to volume restrictions. The British Columbia government has chosen Option A for both the British Columbia interior and the British Columbia coast. The export tax will be collected by the federal government and remitted to the appropriate Province.

Under Option A the rate of the basic export tax will be 0-5-10-15%, depending on lumber prices, with the higher rates applying at lower lumber prices and visa versa.

In addition to the basic tax rate, there is a “surge” provision for the tax rate to be 50% higher (i.e., 0-7.5-15-22.5%) if a region's shipments exceed a defined share of the U.S. market in any particular month. The key condition here is that British Columbia companies will not know until after the month is over whether or not the surge provision is applied.

Article X(4) of the Agreement states:

The Parties may agree to additional exclusions from the SLA 2006 for Softwood Lumber Products produced from U.S-origin logs or logs originating on private land in Canada.

Finally, Article XII(1) of the Agreement states:

Within 3 months after the Effective Date, the Parties shall establish a Working Group on Regional Exemptions. The Working Group shall develop substantive criteria and procedures for establishing if and when a Region uses market-determined timber pricing and forest management systems and therefore that its exports of Softwood Lumber Products to the United States qualify for exemption from Export Measures in Articles VII through IX and

Article X(2). The Parties shall make best efforts to incorporate the results of the Working Group's work into an addendum to the SLA 2006 within 18 months after the Effective Date.

The Softwood Lumber Agreement 2006 will be a fundamental factor in the operating environment for British Columbia industry. Accordingly, it is necessary to consider its implications for log export policy.

The U.S. Coalition for Fair Lumber Imports has alleged for close to 25 years, through 4 rounds of litigation, that Canadian lumber producers are subsidized, principally because Canadian provincial governments do not charge "full market price" for the timber harvested on Crown land. In any litigation that has been completed—"Lumber I" in the early 1980s and "Lumber III" in the early 1990s—the Coalition for Fair Lumber Imports has lost its case. In the most recent round—"Lumber IV"—it is clear that the Coalition for Fair Lumber Imports was going to lose again. This is the principal reason why the vast majority (slightly more than 80%) of the deposits was returned to Canadian companies.

The Softwood Lumber Agreement is "without prejudice" with respect to the trade law issues involved in this long-running dispute. In particular, Canada does not accept that Provinces subsidize their softwood lumber industries, nor does the United States accept that they do not. It should be clear, however, that if the Coalition for Fair Lumber Imports did not continue to allege that Canadian lumber was subsidized there would be no Softwood Lumber Agreement 2006. The purpose of the export tax, in the Coalition for Fair Lumber Imports' view, is to offset these alleged subsidies. As these alleged subsidies flow primarily, in the Coalition for Fair Lumber Imports' view, from the "under pricing" of provincial Crown timber, logs from Crown land exported to the United States would "benefit" from the same alleged subsidies. This is a key point to which we will return in our recommendations.

The surge provision, whereby British Columbia companies would find out only after the fact whether they would have to pay the surge surcharge has been labelled "retrospective" treatment. This treatment is a particularly punitive application because it imposes a significant uncertainty on British Columbia companies—they will not know the costs of serving their U.S. customers at the time they make their sales to those customers. British Columbia argued against this treatment and proposed instead a "prospective" treatment. Under the prospective treatment the surge surcharge would be put on shipments in the following month. The United States insisted on maintaining the surge provision in the retrospective form. This will need to be taken into account in our recommendations below.

The inclusion of Article X(4) is significant to the British Columbia coast industry. Harvest from private land has accounted for a growing share of the total harvest of the coast. Currently they account for between $\frac{1}{4}$ and $\frac{1}{3}$ of the total coast harvest. In the negotiations of the Softwood Lumber Agreement, the coast industry proposed that, in return for an exemption from any taxes or quota on lumber produced from private land logs, it would support the revocation of federal Notice 102, which restricts log exports from federally regulated land. In other words, the coast industry proposed that there be free trade in private land logs and in the lumber made from those logs.

The Coalition for Fair Lumber Imports was not prepared, at the time of negotiations, to accept this proposal. Our observation is that they are rather naked of principles if they maintain such a position. Their historical argument is that the Canadian subsidies flow from the alleged "under pricing" of Crown timber. This does not apply to private timber. If private logs were free to flow to the highest bidder on either side of the border, there

could be no argument that British Columbia manufacturers were given an "unfair advantage" in competing to produce lumber from those logs. The Coalition for Fair Lumber Imports has said repeatedly over the years that they are willing to compete freely with Canadian lumber producers so long as there was a "level playing field". What could be more level than what the coast industry proposed?

The willingness of the United States to agree, under Article X(4) of the Softwood Lumber Agreement, to an exclusion for lumber produced from British Columbia coast private land logs, in exchange for the removal of Notice 102 as it applies to the British Columbia coast, will be an early test of the good faith with which the United States brings to administration of the Agreement.

In the absence of such an agreement, elimination of the federally administered surplus test on private land logs would have a predictable effect. Private forest lands in British Columbia are disproportionately located on Vancouver Island and in southeast British Columbia. Log transportation costs from these locations to U.S. mills are relatively low. U.S. producers would have a significant advantage in processing British Columbia private land logs whenever the lumber export tax was in place. More significantly in the long run, however, is that, in the face of this artificial advantage, investors choosing between investing in a new efficient mill in British Columbia or the United States to process these logs will by necessity opt for the U.S. location. In a very short period of time a very large portion of British Columbia private logs would be processed in U.S. mills. It is our opinion that this would not be in the overall interests of British Columbians.

Finally, we comment on Article XII(1). There are differing views within Canada about how genuine will be the "best efforts" spoken to in this Article. If, however, they are genuine, we observe that British Columbia is well positioned to obtain such an exemption. We return to this in our recommendations.

7.11 Operation of the Surplus Test and Export Procedures

We heard two principal complaints about the way the current surplus test works. The first concerns the uncertainty that is felt to surround the current blocking process. The second concerns the non-productive costs imposed on potential exporters by the surplus test process.

The first concern arises from the fact that log purchasers can "block" an export, but that neither log seller nor the log purchaser can compel the other party to effect a transaction for the advertised logs at the domestic market price. We heard from sellers that this allowed purchasers to, in the sellers' opinion, abuse the intent by making "offers" on logs which they were not really interested in order to "coerce" the seller into making other logs available. Many sellers told of how vulnerable they felt to such action because the logs were already cut for an export customer and sitting in the water.

Many purchasers, on the other hand, told us that even if they make an offer on logs that TEAC or FTEAC deemed to be valid, the seller is not obligated to sell the logs to the purchaser. Rather, there was a sense that any purchaser that did this would be punished by the seller who would then refuse to sell the purchaser any logs.

To the extent this bi-lateral coerciveness is in play, it is clear that small operators, on either the selling or the buying side, would be more vulnerable than bigger operators. We heard small private land operators say they do not even bother trying to run logs through the surplus test because they cannot manage the risk of being blocked. On the other

hand, we also heard from small log processors who said they do not dare try to block log exports.

The non-productive costs imposed on the exporters arise from the requirements and the timing of the surplus test. On the coast exporters must make the booms of logs available for potential domestic purchasers to examine. Logs can sit in the water for many weeks while the various stages of the surplus test and export permitting process happen. This ties up significant capital, makes it more difficult to respond to changes in market demand in a timely manner, and can also lead to deterioration in the quality of the logs as they sit in the water.

7.12 Issues Around Consolidation

Many of the stakeholders we met with raised issues of concern about the consolidation of Western Forest Products, Cascadia Forest Products and Canfor's coastal tenure. There were also concerns raised about the fact that Western and Island Timberlands have the same controlling shareholder. Many of the concerns raised were outside our terms of reference. In terms of log export policy there seemed to be two somewhat contradictory fears about Western's intentions.

One fear raised by a number of independent sawmills was that Western would make it difficult for other companies to obtain sufficient furnish by processing more of the logs from Western's own tenures in its mills, and purchasing more open market wood for processing in those own mills.

A competing fear was that Western would "contrive" a surplus by closing down a number of its mills creating a "surplus" of logs and a pretext for exporting significant volumes of logs, either by itself or for Island Timberlands. Obviously this and the previous fear cannot both be correct.

We find the second fear to be unlikely to happen. As far as the connection between Western and Island Timberlands we point out that, while they have the same controlling shareholder, the other shareholders in both companies are distinct. Under corporate law, the directors of the two companies have a fiduciary obligation to protect the interests of each set of minority shareholders and, accordingly, if Western did anything that was not in its financial interests it would be at odds with this obligation. In particular, if Western were to close mills in order to "contrive" a surplus for Island Timberlands benefit, such action would be at odds with the duty to Western's shareholders.

With respect to Western's intentions, our conclusion is that it is trying to re-establish on the coast a successful business that integrates harvesting and manufacturing. It has concluded that a successful manufacturing business will require a much higher level of capital utilization and thus is working through a rationalization of its assets,¹⁷ and is planning to put more volume through the mills that it can efficiently run. On the other hand, the diversity of the timber profile in its tenures is so great that it will not be possible for all of the harvest from Western's tenures to be efficiently milled by them, so they will be selling logs into the domestic log market.

As far as the independent sawmills are concerned then, Western is likely to be both a supplier of, and a competitor for logs that those independents want to process in their mills. Strong domestic competition for logs should help stimulate the coast industry to regain its competitive edge. And, in our opinion, many of the independent sawmills can

¹⁷ For example, its recent decision to close its New Westminster mill and reopen its Saltair mill.

more than hold their own in competing so long as there is an adequate supply of logs available in the open market.

In our opinion the real cause for the current difficulties in log supply that the independents are concerned about are principally caused, not by the Western consolidation, but by the fact that there is currently an inadequate supply of logs in the domestic coast log market for all processors. In the most recent 12-month period, the total Crown harvest on the coast was approximately 3 million m³ less than in the previous 12-month period. There are two principal reasons for this. By far the most important is the economics of coastal hembal. One of our recommendations is directed at precisely that problem. The other reason may be administrative. Not all of the 20% of AAC which was taken from major licences in the 2003 Forest Revitalization Plan has been reallocated and re-licensed to various new entrants. To the extent that the Ministry of Forests, working with all the affected interests, can achieve this in the near future this part of the problem will be addressed.¹⁸

7.13 Forest-Based Communities in Transition

For a variety of reasons—some having to do with economics, some having to do with the political and social choices British Columbians have made—harvest levels on the British Columbia coast are unlikely, even if the recommendations in this report are adopted, to go back up to the levels of the past. If the timber that is harvested on the British Columbia coast is to be processed here, international competitive realities mean that processing will have to be done with significantly higher levels of productivity and fewer workers than was the case in the past. The average size of an efficient sawmill is significantly larger than it was in the past which means, in combination with the lower harvest levels, there will be significantly fewer primary mills than previously.

None of this will be in aid of “excess profits” for corporations. The coast forest industry has not been earning its cost of capital over the past 10 years. If that does not improve—i.e., if the rationalization and productivity improvement necessary to make the coast industry competitive is not allowed to happen, the ultimate level of pain for workers and communities will be even higher in the long run.

Having said this, a turnaround in the fortunes of the British Columbia coastal forest industry is achievable. An interesting case study is the U.S. Pacific Northwest industry. In the aftermath of significant restrictions on harvesting on public land in the 1980s and early 1990s, many had written off this region's industry. Mill after mill closed, and total lumber production fell by more than a third between 1987 and 1993. But then the industry retooled and rebuilt, with the construction of many modern, efficient mills focused on second-growth logs, and total lumber production almost doubled between 1993 and 2005.¹⁹

We strongly believe that a similar renaissance on the British Columbia coast is achievable. In order for this to happen, it will be necessary to create a level playing field between our mills and the mills on the U.S. coast. But, just as importantly, it will be necessary that all sectors in the British Columbia coast forest industry—companies, labour,

¹⁸ A third reason, which is hopefully temporary, is the weather. The 2006 summer harvesting season was unusually constrained by fire concerns, and the recent heavy rains and then very cold weather have shut down harvesting in many parts of the coast.

¹⁹ Because of the effects of the first Softwood Lumber Agreement, and the duties levied on our lumber exports since 2001, as explained in Section 7.10, some of this increase was based on processing British Columbia logs. We estimate that approximately 5% of United States west coast production is based on British Columbia logs. Even without the British Columbia logs, the turnaround of the United States west coast industry would have been remarkable.

communities and the provincial government—play a role in re-establishing the competitiveness of the industry.

We met with representatives of workers and communities that are affected by all of this. Both their pain and their passion for maintaining or re-establishing the vitality of their communities were palpable. We believe that they are entitled to the tools that will allow them to pursue this vitality.

To some extent those tools will be created by the residents in those communities who are determined to recreate a prosperous future for their community. To some extent those tools will be created with assistance from senior levels of governments—we note, for example, the Minister of Forests has directed that the Ministry provide funding for the development of an economic development strategy for Port Alberni. We expect the tools will be created with assistance from major companies currently operating in those communities who understand that their “social licence to operate” requires a contribution to a healthy community.

Forest policy has an important role to play in creating those tools. It needs to ensure that the forest resource is stewarded properly, and that other values, such as water quality, are adequately protected. Just as important, in our view, is that forest policy needs to enable a globally competitive forest industry. That means creating a level playing field for companies operating in British Columbia relative to competitors in other countries. But it does not mean, in our opinion, shielding British Columbia processors from fair competition, either from elsewhere in British Columbia or elsewhere in the world. We believe, to the contrary, communities will be best served over time if the companies operating in them are constantly pressured to operate more efficiently, to develop new products, and to be constantly vigilant about changing developments in the world economy.

As this all relates to log export policy, our recommendations below will be directed at creating that level playing field. They will not be directed at shielding any business or community from fair competition.

7.14 Pulp and Paper Sector

We met with the representatives of all the coastal pulp and paper sector. A competitive pulp and paper sector is a necessary component of a competitive coast forest industry. It is vital to a competitive solid wood sector because it provides a market for the residual wood chips produced in sawmills and veneer mills. It is vital to a competitive harvesting sector because a large percentage of the harvest on the coast is pulp wood.

Similarly, without a competitive sawmill sector, the pulp and paper sector will not have an accessible source of relatively low cost residual fibre. If the economics of harvesting the profile on the coast are not attractive, insufficient pulplogs will be available for the pulp and paper sector.

The pulp and paper sector has an interest in a log export policy that enhances the economics of harvesting and provides the basis for as much of the harvested fibre as possible being processed on the coast.

7.15 Summary: Conclusions from Our Analysis

We took our time in Sections 6 and 7 to analyze all of the major issues that need to be factored into log export policy. We will draw on the analysis as we outline our recom-

mendations later in the report. It is useful first, however, to draw together the major conclusions we have drawn from the analysis.

1. Log exports are primarily a symptom, not a cause, of the economic problems facing the coast industry. The pressure to export logs, and the level of log exports, have historically risen and fallen with the fortunes of the coast forest industry. When the markets for lumber and pulp and paper products are strong, when access to the major markets is relatively open, and when the coast industry is generally competitive, there is little pressure to export logs, and log export levels are relatively low. Otherwise, the pressure to export logs and the level of log exports are relatively high.

Log export levels were relatively high in the 1980s, reflecting the challenges that the forest industry faced for most of that decade. Log exports in the first half of the 1990s fell to very low levels, coincident with a strong Japanese market and relatively open access to the U.S. market. Since 1996 the pressure to export logs has increased and export levels have gone up because the Japanese market for hemlock has weakened significantly, and because access to the U.S. market has been restricted—first through the Softwood Lumber Agreement in 1996, then through the countervailing and anti-dumping duties of Lumber IV—and because the general cost competitiveness of the coast industry has weakened.

The distinction between log exports as a symptom rather than a cause is an important one. A mistaken diagnosis of log exports as the cause of the industry's problems would lead to prescriptions that are unhelpful, if not outright damaging.

2. In the absence of foreign protectionism there is little economic justification for log export restrictions.

In the absence of foreign protectionism, the vast majority of logs will be processed within British Columbia with or without log export restrictions. The principal difference would be that the processing sector is more likely to be efficient and competitive if there were no log export restrictions. Without log export restrictions a small portion of logs would be exported because either there is some exceptional value that foreigners are willing to pay for, or because the total costs of serving an overseas market with logs harvested from a remote location would be lower.

3. If access to major markets for our processed products is restricted, the log export regime should be appropriately calibrated.

Neither completely free log exports nor a complete prohibition of log exports will maximize employment and wealth in this situation. If log exports were completely free in the light of restrictions on our exports of processed products, British Columbia would lose employment and tax revenue generated from local manufacture. If, on the other hand, log exports were completely prohibited, the harvest levels and the supply of logs for domestic manufacture would be lower than it could be. A wealth-maximizing log export policy will be carefully tailored to the external situation the Province is facing.

4. The key issue in the Coast Forest Region and in the northern transition zone of the Interior Forest Region is the economics of hemlock and balsam.

Hembaal makes up 60% or more of the timber inventory in these areas. A very large share of that inventory is uneconomic to harvest under current conditions. Unless some way is found to make the hembaal resource more valuable, it is inevitable that the AAC in these areas will be reduced significantly, and harvesting activity in large parts of the coast and northern transition zone will cease.

8 Recommendations

8.1 Principles and Objectives

Before developing our recommendations, we spent considerable time discussing and developing the principles and objectives that would drive our recommendations for log export policy in British Columbia. We believe log export policy in British Columbia should support:

- Re-establishing a globally competitive coast manufacturing sector, and maintaining the competitiveness of the interior manufacturing sector.
- Establishing a level playing field with competitors in the U.S. Pacific Northwest.
- Harvesting the full inventory profile on which the AAC is based.
- A diversified forest sector, with a wide range in sizes of companies and ownerships of tenure and land.
- The success of new forest tenures, i.e., those arising from Forest and Range Agreements, Community Forest Licences, Woodlot Licences and BC Timber Sales.
- Sustainable forest management on Crown and private lands.
- The success of ecosystem-based forest management where it is part of a negotiated, consensus-based land-use plan.
- A fair return on timber to the public of British Columbia in order to support health care, education and other public services.
- A fair return to private forest landowners.
- Fair transition measures for any significant changes to existing policies.

8.2 Creating the Level Playing Field

8.2.1 Changes in the Fee-in-Lieu of Manufacture

In the discussion in Section 7 we spent considerable time going over the implications of foreign barriers to the export of our processed products. In particular, it was shown that those foreign barriers to our exports would depress the domestic price of logs. If there were no restrictions on log exports, logs that could be transported at a cost less than the amount by which the domestic price for logs has been depressed would flow to other countries.

The government should take steps to ensure that trade in lumber and logs be as fair as possible under the Softwood Lumber Agreement. For the next 7 to 9 years, British Columbia's lumber exports to the United States will be subject to export taxes under the Softwood Lumber Agreement 2006, at rates up to 22.5%. In order to provide our lumber manufacturers with a level playing field relative to their U.S. competitors *to process British Columbia logs*, the fee-in-lieu on Crown softwood logs should be adjusted to reflect this reality.

The relationship between the export tax on lumber and the fee-in-lieu on exported logs, as a percentage of the domestic log price should be:²⁰

$$\% \text{ fee-in-lieu} = \% \text{ export tax on lumber} \div 0.6.$$

For example, if the export tax on lumber is 15%, then the fee-in-lieu should be 25% of the domestic log price. If the domestic log price is \$60/m³, the fee-in-lieu would be \$15/m³.

Two complications to implementing this basic formula arise from the provisions of the Softwood Lumber Agreement.

First of all, as described above in Section 7.10, the “surge” provision, whereby the export tax on lumber can be 50% higher than the basic tax, is done on a retrospective basis—i.e., British Columbia's manufacturers will not know until after they have purchased their logs, processed them into lumber, and sold and shipped that lumber, what export tax rate they will be liable to pay. As pointed out in that section, British Columbia argued against this, as it imposes an unfair degree of uncertainty on our manufacturers. In our opinion the creation of a level playing field for our manufacturers in light of this retrospective treatment requires the fee-in-lieu to be established as if the surge provision applies.

The second complication is that the Softwood Lumber Agreement's lumber export tax will be reset every month based on the Random Lengths Composite Framing Lumber Index (RLCI) in the previous month. Lumber prices can be quite volatile. If British Columbia were to reset the fee-in-lieu every month based on the lumber export tax applicable to that month, then it is possible that British Columbia could have quite extreme changes in the fee-in-lieu from month to month—it could go from 0% to 37.5%, or vice versa. This would not be healthy because the magnitudes would be very destabilizing to the log market, and make it difficult for companies to plan in an orderly and efficient way.

In light of this potential volatility, it is our recommendation that the fee-in-lieu for any month should be based on a 6-month moving average. In this way the month-to-month variation would be limited, while the level playing field would be maintained on average over the business cycle.

The assurance that the level playing field would be maintained through the 7 to 9 years of the Softwood Lumber Agreement would be an important part of creating a stable platform on which companies can make decisions to invest in British Columbia manufacturing facilities. At the same time, the fee-in-lieu is not so high as to undercut the need for British Columbia manufacturers to be fully cost competitive.

The Softwood Lumber Agreement has been in place only since October 12, 2006. There is not a 6-month history of the export tax to average. The Random Lengths Composite Framing Lumber Index has, however, been at a level consistent with the maximum lumber tax since July 2006. Accordingly, the indicated fee-in-lieu percentage if our recommendation were implemented immediately would be 37.5%. This compares with current fee-in-lieu percentages of 5 to 15% on the coast, and \$1/m³ in the interior. Such an increase would significantly decrease the incentive to export logs covered by the provincial fee-in-lieu. With the exceptions and transition measures outlined below, we believe this is consistent with the overriding objective of creating the level playing field, which in turn will

²⁰ See Footnote 13 in Section 7.2 for an explanation of this equation.

provide the basis for revitalizing the coast manufacturing sector and maintaining the competitiveness of the interior manufacturing sector.

As far as the United States is concerned, we would merely be ensuring equivalent terms for the trade in lumber and logs.

Transition Provisions

This recommendation would result, at least initially, in a very significant increase in the fee-in-lieu. Mindful of our principle of providing for fair transition for any significant changes, some consideration of those parties that might be unfairly affected is required.

The bids made on BC Timber Sales auctions up to this point in time may have, directly or indirectly, reflected the effects of the current fee-in-lieu schedules. Similarly, other market loggers operating on Crown licences of one form or another may have business plans and programs based upon the old fee-in-lieu schedules. To move in one step to a dramatically different fee-in-lieu structure would, in our opinion, be unfair.

Our recommendation to deal with this issue is to phase in the new fee-in-lieu as follows. Logs from BC Timber Sales' sales bid before the new fee-in-lieu formula is brought into effect should continue to be subject to the fee-in-lieu that applies to the particular sale right now (e.g., the basic fee-in-lieu schedule or the nominal fee-in-lieu for the order-in-council areas). Logs from other permits should continue to be subject to the fee-in-lieu that currently applies right now until April 1 of next year.

It is our belief that, once the new fee-in-lieu formula is fully in place, it will do an adequate job of establishing a level playing field for our manufacturers and licencees. Consequently, there will be little need for the ongoing administration of the surplus test for Crown softwood logs. Until the transition period is completed, however, we recommend maintenance of the surplus test on these logs.

Recommendation 1—Fee-in-Lieu of Manufacture

The fee-in-lieu for exports of softwood logs from Crown land should be developed from the following schedule:

Random Lengths Composite Index	Base tax on lumber exports to the U.S. (%)	"Surge" tax on lumber exports to the U.S. (%)	Fee-in-lieu on softwood log exports (%)
<315	15	22.5	37.5
315 to <335	10	15	25
335 to <355	5	7.5	12.5
>355	0	0	0

The fee-in-lieu should be reset monthly, based on the average of the previous 6 months. The new fee-in-lieu should be phased in, in order to be fair to market loggers who may have developed plans based on the existing fee-in-lieu structure.

8.2.2 Pursuing Free Trade in Coast Private Land Logs and Lumber

In Section 7.10 we reviewed the proposal that the coast forest industry made during negotiations of the Softwood Lumber Agreement 2006 to support the elimination of the surplus test on private land logs on the coast in exchange for an exemption from export taxes/quotas for lumber made from such logs. The U.S. Coalition for Fair Lumber Imports was not prepared to accept this at the time negotiations were being brought to a close, but the U.S. government did indicate a willingness to have further discussions subsequent to the coming into force of the Agreement, for which Article X(4) is a place marker.

It is our conclusion that such an agreement would provide a net benefit to British Columbia. The quid pro quo of free access to the U.S. market for lumber produced from the private land logs would provide a level playing field for coast manufacturers to process these logs in British Columbia. Given the size of the harvest on coast private land—approximately 6 million m³/year—this would provide a sizeable platform for existing companies, or new entrants to the coast industry, to build or re-build mills to efficiently process the predominantly second-growth profile. This in turn would situate the industry well as the Crown harvest turns increasingly to the second-growth profile.

On balance then, we believe that this opportunity is a suitable basis for the “rezoning” of private land on the coast to allow logs to be freely exportable. But we want to be clear—this would only be in the context of an agreement for symmetrical treatment of lumber produced from private logs. Freeing up log exports from coast private land without an exemption for lumber processed from those logs in British Columbia would result, in relatively short order, in an even larger portion of those logs being processed in the United States than is currently the case. We do not believe that would be in the overall interest of British Columbia.

The consultations with the southern interior industry did not indicate the same consensus on the processing side that a deal on private land logs and lumber would be desirable. At this point in time, then, discussion with the United States should focus on the coast.

As most of the private land on the coast is federally regulated, this agreement would have to be done jointly with the federal government. Furthermore, it should be recognized that the ultimate authority to alter the regulation of log exports from federally regulated land rests with the federal government.

Recommendation 2—Pursuing Free Trade in Logs and Lumber Derived from Coast Private Land

British Columbia should request that the federal government join it in pursuing an agreement with the United States for an exemption from the Softwood Lumber Agreement 2006 for lumber produced from private land logs on the British Columbia coast in exchange for allowing logs from those lands to be freely exportable.

8.3 Measures for Particular Species and Grades

8.3.1 Measures to Stimulate the Harvesting of Hemlock and Balsam

As discussed in Section 6.1, the coast problem is largely a problem of hemlock and balsam species. These species account for approximately 60% of the timber inventory on the coast.

The current market price for hembal sawlogs is \$35–60/m³ lower than for the equivalent Douglas-fir sawlog, and \$65–105/m³ lower than for the equivalent redcedar sawlog. For this reason, most hembal stands are uneconomic to harvest, even at minimal stumpage, given the high harvesting costs on the British Columbia coast.

Similar situations exist in the southern interior “wet belt” and the northwest interior “northern transition zone”, with the added disadvantage that the average log quality is significantly lower in those two areas than on the coast.

Unless there is some avenue to realize higher log values, most of these hembal stands will remain unharvested and unavailable for domestic processing. This will mean the loss of significant employment opportunities, in both harvesting and processing, as well as of government income taxes and other revenues.

Our recommendation is to use log exports to enhance the economics of those hembal stands, but in a tightly targeted way to ensure a net increase in the supply of logs available for domestic processing, and in a way that maintains a level playing field for our manufacturers relative to their competitors in the United States. Specifically, we propose to provide the right to export subject to a nominal fee-in-lieu to non-North American markets a portion of the hembal harvested from stands that would otherwise be uneconomic to harvest.

To date government policy has been to try to target these stands by “drawing lines on a map”—e.g., the standing green orders-in-council for the Northwest, North Coast and Mid Coast TSAs. There are several problems with this approach. First of all, low-value hembal stands are a problem throughout the coast and interior, and a lines-on-a-map approach cannot be done precisely enough to capture all of the problem stands. Conversely, there is a minority of hembal stands where harvesting and transportation costs are low enough that they would be economic to harvest without resort to export premiums, but a lines-on-the-map approach would allow some of these to have the benefit of relaxed exporting rules. Finally, the current order-in-council approach frequently allows the extraordinary export privilege to apply to non-hembal species (e.g., Douglas-fir and spruce) which are higher value and less in need of the premium.

The mechanism we recommend for determining which stands are eligible for this treatment is the Ministry of Forests' stumpage appraisal system. The stumpage system can calculate, for any particular cutblock, the estimated value of that stand. On the coast that value is used to directly calculate the stand's stumpage rate. In the interior, that value is used to calculate the average market price for the interior as a whole.

If the stand's value is estimated to be negative, the stumpage rate is set at the minimum—\$0.25/m³. If the indicated value is negative, the forest company will not normally harvest those stands—their costs of doing so would exceed their revenues. Our recommendation targets those negative-value stands.

- If the indicated value of the stand is negative \$10/m³ or less, the licensee would have the right to export to non-North American markets, at a nominal fee-in-lieu of \$1/m³, up to 50% of the hembal harvested from the stand;
- If the indicated value of the stand is \$0/m³ or greater, the licensee would be unable to export any of the hembal harvested from the stand at the nominal fee-in-lieu.
- At indicated values of between negative \$10/m³ and \$0/m³ the hembal that could be exported at the nominal fee-in-lieu would vary proportionately (e.g., at an indicated

value of negative \$5/m³, 25% of the hembal harvested could be exported at the nominal fee-in-lieu.)

By allowing log exports in this way, a proportion of what would otherwise be uneconomic stands can be made economic. The higher values that can be achieved by exporting, particularly from northern tenures, to Asian markets after all additional costs are deducted, can be in the \$10–25/m³ range. This difference in value is a function of a combination of some of the reasons detailed in Section 7.2., in particular the savings on triangular transportation costs from remote locations and the depressive effect on domestic sawlog prices arising from the restricted access to the U.S. lumber market. The provision to export up to half of the hembal in a stand could improve the economics of that stand by up to about \$12/m³.

The potential criticism of log exports under these circumstances—that they would export jobs—is wrong. If the stands are not economic to harvest based on domestic log prices alone, no logs would be harvested without the log exports. So the allowance for log exports with a nominal fee-in-lieu would create harvesting jobs. There are also jobs created in the preparation for export—e.g., sorting and cutting logs to export specifications, and loading the logs on to ships. Finally, the logs harvested but not exported are available for domestic processing, which creates incremental jobs in the manufacturing sector.

There are alternative proposals to enhance the harvesting of low-value stands, such as by allowing a more liberal set of rules on how two or more different cutblocks can be aggregated into a cutting permit, in which negative-value stands are averaged with positive-value stands. The proposal here is a superior approach to dealing with economics of low-value hembal stands because this proposal does not require the government to forgo stumpage revenue.

There will be an additional long-term benefit from allowing hembal logs to be exported. Old-growth hembal is a unique product. British Columbia is the only jurisdiction that harvests a significant quantity. It comes with an array of unique characteristics—some of them positive, some of them negative. In the 1980s and 1990s Japan was the major market for hembal lumber. This market was serviced both by British Columbia manufacturers and Japanese manufacturers processing logs imported from British Columbia. In the early to mid 1990s British Columbia exports of hembal logs to Japan were virtually eliminated. An unintended consequence of this is that there were no longer any Japanese manufacturers interested in maintaining the market for hembal lumber. This entailed both a loss of promotion of the product to customers and a loss of a lobby to defend its properties in regulatory revisions. This, it is argued, has contributed to the significant shrinkage of the Japanese market for hembal.

If, through the recommendation here, a significant and regular volume of hembal logs is exported to overseas manufacturers, there would be an ancillary benefit from a new tier of manufacturers that will have an interest in developing and maintaining markets for products based upon the unique characteristics of the coast's old-growth hembal. Some customers are also more willing to commit to a product that has more than one supplier.

Our conclusion with respect to this additional benefit of exporting hembal is at variance with a view that we heard from some respondents, i.e., that the market for hemlock lumber is essentially fixed, and therefore it is a “zero sum game”—what we export by way of logs will subtract from what we can export by way of lumber. We respectfully disagree. We believe that the strategic view is that hembal can gain a larger share of the market if

there are more producers promoting it. There is also some potential that these “new” or additional export logs might become of interest to China and countries other than Japan.

This recommendation frankly differentiates between North American and non-North American markets. Given the Coalition for Fair Lumber Imports' position that Canadian Crown timber is “subsidized”, and that the export taxes in the Softwood Lumber Agreement 2006 are intended to offset these alleged subsidies, we can see no justification for allowing U.S. competitors to our manufacturers to “benefit” from these alleged subsidies. Any hembal log exports to the United States should have the same equivalent tax as would the lumber produced from those logs. In this way, the trade in lumber and logs will be as fair as it can be under the Softwood Lumber Agreement.

The treatment of BC Timber Sales (BCTS) timber should be considered with this recommendation. It is important that BC Timber Sales' sales get treated symmetrically with the timber harvested by other licencees because of the role BC Timber Sales' sales in generating the data for the market-based stumpage systems. We recommend that a “shadow appraisal” be done on every BC Timber Sales' sale. Those that generate a negative value should come with the same ability to export a portion of the hembal harvested. Bidders should know this, before they bid. In using the resulting data for estimating the market-based stumpage system, the percentage of hembal that is exportable with the nominal fee-in-lieu would become a variable in the equation. In addition to maintaining symmetry for timber-pricing purposes, this should help reduce the number of BC Timber Sales auctions that receive no bids.

Finally, it should be understood that this recommendation should replace all the existing orders-in-council issued to promote harvesting on the coast and in the northern transition zone.

Recommendation 3—Measures to Stimulate the Harvesting of Hemlock and Balsam

Exports to non-North American markets, at a nominal \$1/m³ fee-in-lieu, should be allowed for a portion of the hembal harvested from stands that are evaluated as having negative values under the Ministry of Forests' stumpage appraisal system. If the value of the stand is negative \$10/m³ or less, licencees should be able to export up to 50% of the hembal harvested from the stand. This percentage should fall in a straight-line formula, so that it becomes zero when the stand value becomes positive.

8.3.2 Off Species in the Interior

Southern interior landowners and market loggers raised concerns about “off species”—ponderosa pine, grand fir, cottonwood and western hemlock. Southern interior mills do not have regular cutting programs around these species because of the low volumes in which they are harvested in British Columbia. On the other hand, because these species are relatively more plentiful on the U.S. side of the border, U.S. mills do have programs around these species. Because they are able to benefit from greater economies of scale, the U.S. mills can afford, it is argued, to pay more than British Columbia mills.

If this is true, then our proposal to change the fee-in-lieu on Crown wood to mirror the export tax on lumber should be a fair way of dealing with this. Once the new fee-in-lieu formula is fully in place, logs could be exported over that fee-in-lieu. If the difference in log prices between the southern interior and the United States is greater than the new fee-in-lieu, British Columbia market loggers would be able to capture

the difference. If, on the other hand, the difference in log prices is less than the new fee-in-lieu, the domestic sawmill is offering a more than fair price, and the logs should stay in British Columbia.

The domestic log price that will be established in the context of the new fee-in-lieu should be a fair domestic price to compare to offers on private logs that are put up through the surplus test.

8.3.3 Cedar, High Grades and Hardwoods

There are three issues that warrant specific consideration—the prohibition on the export of all grades of western redcedar and yellow-cedar logs from Crown land, the prohibition on the export of high grades of all species of logs from Crown land, and hardwood logs. Hardwood logs are currently subject to the surplus test, and in the case of provincially regulated land, are also subject to a \$1/m³ fee-in-lieu.

We do not believe there is an economic justification for the treatment of these species/grades. As softwood species, western redcedar, yellow-cedar, and, to a limited extent, high grades of all other softwood species, are all affected by the barriers to export lumber into the United States. But this would argue for a remedy along the lines of the tax-equivalent fee-in-lieu proposed under Recommendation 1, not for a complete prohibition. In the case of hardwood logs, there are no barriers to the export of processed hardwood products into the United States.

There are, however, two, essentially non-economic, considerations that we feel need to be taken into account. The first is the cultural significance of cedar. Western redcedar and yellow-cedar have particular significance to many First Nations in British Columbia. These species also have significance to all British Columbians—western redcedar is the provincial tree, and the appearance and qualities of cedar seem to have a hold on the popular imagination. This significance is particularly acute when it comes to high grades of cedar, which is also increasingly scarce.

The second consideration is one of transitional fairness. Companies have invested in plant and equipment, and workers have found employment processing these logs. Because of the longstanding restriction on exports of these logs, these businesses may not be well prepared to compete with manufacturers in other countries to process the logs. If there were to be a change in log export policy, the companies and workers should be given a chance to prepare for stronger competition.

Taking these considerations into account, we recommend the existing prohibitions on the export of non-high grades of western redcedar and yellow-cedar and on the export of high grades of all other species be phased out over a 5-year period, and we recommend that all restrictions on the export of hardwood logs be phased out over an equivalent period.

Such a phase-out is more likely to be successful if it is done gradually and steadily. We suggest, therefore, that the existing prohibition on the export of non-high grades of western redcedar and yellow-cedar and of high grades of all other species be converted to an extraordinary fee-in-lieu which would be in addition to the fees-in-lieu proposed in Recommendations 1 or 2, as applicable. In the first year it would be 50%, in the second year it would be 40%, and so on until it goes to zero after the end of the fifth year.

With respect to hardwood logs, we recommend maintaining the existing surplus test for 5 years with an understanding that the domestic price upon which the surplus test is based should progressively converge towards the export price over the 5 years.

With respect to high grades of western redcedar and yellow-cedar, we recommend that the prohibition on exports of these logs remain in place.

Recommendation 4—Western Redcedar and Yellow-Cedar,
High Grades of Other Species and Hardwoods

The prohibition on the export of non-high grades of western redcedar and yellow-cedar and of high grades of all other species should be replaced with an extraordinary fee-in-lieu, starting at 50%, to be phased out over 5 years. This fee-in-lieu would be in addition to the fee-in-lieu proposed in Recommendations 1, 3 or 6 as applicable. The surplus test for hardwood logs should be phased out over 5 years. The prohibition on the export of high grades of western redcedar and yellow-cedar should remain.

8.4 Improvements to the Operation of the Surplus Test

As our discussion in Section 7.11 outlined, the surplus test is hard to like. It creates uncertainty for both buyers and sellers and imposes non-productive costs on sellers. We believe that British Columbia would be better off if it no longer needed it. Ideally, it will be gone 5 years from now.

We have recommended that when the proposed fee-in-lieu on exports of softwood logs is fully in place the surplus test for those logs would be largely redundant. Furthermore, we are proposing that logs from private land be made freely exportable in exchange for an exemption from the Softwood Lumber Agreement for lumber made from those logs, which would mean that the surplus test would no longer be required for them.

There will, however, be a need to maintain the surplus test for at least the next 5 years, for a variety of reasons. On exports of Crown softwood logs, there will be a transition from the existing fee-in-lieu to the new fee-in-lieu formula, during which we are recommending the surplus test be maintained. Even after the new fee-in-lieu is in place, the Province may wish to maintain a surplus test process on Crown softwood logs for a period of time for monitoring and safeguard purposes. On the private land side, we recommend that an agreement on private land logs and lumber be pursued only for the coast at this time. Such an agreement may or may not happen; in any case, even if an agreement with the United States can be reached, it will take some time to put it into place. Finally, we recommend above that the surplus test on hardwood logs be maintained for the next 5 years.

Therefore, for now, our recommendations require that the surplus test be maintained, both on the provincially regulated and the federally regulated lands. As we heard repeatedly from respondents about some of the dysfunctional aspects of the surplus test, we needed to give consideration to whether there could be improvements in the way the surplus test worked.

Our recommendations will be about the operations of the surplus tests in general—i.e., they will not make an explicit distinction between the provincially administered and the federally administered tests. It should be repeated that the federal Minister has jurisdiction over the latter, and our recommendations in that area should be viewed as requests that the provincial Minister should, in our opinion, make of the federal Minister.

There are two parts to our recommendation for improving the operation of the surplus test. First of all, we propose that the surplus test be made more direct and transparent. When logs get put on the export list, they are to be considered for sale to domestic purchasers. Purchasers would have up to 5 business days to make an offer and must send an electronic copy of that offer to the Timber Export Advisory Committee (TEAC) or Federal Timber Export Advisory Committee (FTEAC) Secretariat. Sellers must respond to any offer within 5 business days. If there are no offers, logs will be deemed to be surplus. If the seller does not accept any offer to purchase, the offer(s) will be referred to TEAC or FTEAC for the same consideration as currently; i.e., whether or not offers are at a fair domestic price. If TEAC or FTEAC deem at least one of the offers to be at fair domestic market price, then the exporter must sell the logs to the purchaser who made the best offer. The purchaser must pay within 3 days. The logs purchased would be ineligible for export.

In this proposal we would leave room for the seller and purchaser to agree on an alternative boom or batch of logs of equivalent volume. If they do so the details of the alternative sale must be provided to the relevant Secretariat. It should be clear that this could only happen after TEAC or FTEAC has deemed the purchaser's initial offer to be a fair price, and the best of all offers made.

The second part of our recommendation with respect to the surplus test is that private landowners be given the opportunity, on an annual basis, to opt for a simplified surplus test. In 2005 approximately 50% of the harvest from private land made its way through the surplus test and was exported. There are non-productive costs to log sellers, and uncertainties to both sellers and buyers arising from the surplus test. As an alternative, private landowners could opt for a simplified surplus test whereby they would agree to sell 50% of their sawlogs, by volume, to domestic purchasers in exchange for the right to export an equivalent volume of sawlogs. The landowner would have to provide suitable documentation of sale of sawlogs to arms-length domestic purchasers before acquiring the approval to export the equivalent volume of sawlogs. The logs sold to domestic purchasers would not be eligible for export.

In addition to avoiding many of the non-productive costs and uncertainty of the current surplus test, this simplified surplus test would provide additional benefits to both landowners and domestic processors. For the landowners, it would reduce uncertainty and allow them to plan better. It would also provide the landowners with an incentive to cultivate reliable supply arrangements with domestic purchasers—because it is the sale of sawlogs to domestic purchasers that will “earn” them the equivalent volume of log exports. This reliable supply arrangement can reduce the uncertainties on the domestic processor side by providing them with a more stable investment platform.

We recommend that this simplified surplus test be available only for logs obtained from land classified as private managed forest land. Owners of these lands are committed to sustainable forestry, and incur costs that they would not incur if their land were not classified as private managed forest land. We believe it is appropriate to provide a reward/incentive for this class of land.

Recommendation 5—Operation of Surplus Tests

The provincially administered surplus test should be maintained for the next 5 years. The Province should request that the federal government maintain the federal-administered surplus test so long as lumber made from private logs is subject to the Softwood Lumber Agreement. The surplus test should be modified so that it is based on a clear offer to sell/offer to purchase on commercial terms plus the ability of the seller to offer an alternate set of logs. Owners of private managed forest land should have an option of a simplified surplus test in which they would provide 50% of the sawlogs harvested to arms-length domestic purchasers in exchange for the right to export an equivalent volume.

8.5 Measures for Small Crown Licence Holders, Small Private Landowners, and First Nations

8.5.1 Small Crown Licence Holders and Small Private Landowners

In Section 7.5 above we discussed the particular challenges facing small Crown licence holders and small private landowners. We suggested that their special circumstances warranted consideration.

With respect to the small Crown licence holders, we believe that the move away from the surplus test, as it currently operates, towards a system where the fee-in-lieu will be the primary tool for provincially regulated log exports should be of particular benefit to small licence holders. To the extent that small licencees have AAC high enough that they are subject to the basic market-based stumpage systems, they will also benefit from the provisions around hembal.

Crown licencees with an AAC of less than 5000 m³, however, operate off a stumpage schedule—i.e., they do not go through an appraisal process under which the value of the stand intended for harvest is calculated. The costs of performing such an appraisal on a “shadow” basis to determine eligibility for hembal exports to non-North American markets at a nominal fee-in-lieu would be prohibitive. Indeed, it is the high costs of such appraisal for small licencees which led to the adoption of the stumpage schedule. As an alternative, we recommend that small licencees be allowed to export up to 50% of the hembal harvested on these terms. The total volumes of log exports resulting will be quite small, but we believe it will provide a benefit to small licencees that will assist in dealing with their dis-economies of scale.

With respect to small private landowners, we believe the simplified surplus test recommended in Recommendation 5 will provide proportionately more benefit to them than to larger operators because the current surplus test is more onerous for the small operators. If, for whatever reason, the federal government decides to leave the surplus test to operate as it currently does, we recommend that the provincial government still support the proposal for small landowners—say those who harvest less than 5000 m³ in any particular year. We repeat, this simplified surplus test should be available only for logs obtained from land classified as private managed forest land, for the reasons given under Recommendation 5.

A second recommendation with respect to small private landowners concerns the category of post-1906 provincially regulated land. This represents a relatively small amount of land but is mostly held by small landowners. We proposed in Recommendation 2 that the British Columbia government pursue an agreement with the United States whereby

log exports from private land would be free of log export restrictions in exchange for an exemption under the Softwood Lumber Agreement for lumber made from private land logs. Post-1906 land should be included in any such agreement. Such an agreement may or may not be reached, however, and it will take some time to be settled. In the meantime, we recommend that post-1906 land continue to be subject to the provincially administered surplus test and a fee-in-lieu.

In Section 7.9 we laid out the reason why we do not believe the current regulatory regime for log exports is unfair to private landowners. The vast majority of this land was purchased with the knowledge that the land came with this regulatory regime. Given the order of magnitude of the potential increase in the fee-in-lieu proposed above, however, we do believe that it would impose an unfair burden on this category of landowner. Accordingly, we are recommending that the fee-in-lieu on post-1906 private land should be the lower of:

- i. the current fee-in-lieu schedule;
- ii. the proposed new fee-in-lieu formula for Crown softwood timber; or
- iii. a nominal \$1/m³ for up to 50% of the hemlock or balsam logs harvested if they are exported to non-North American markets.

Recommendation 6—Considerations for Small Crown Licences and Small Private Landowners

Crown licences with an AAC of less than 5000 m³ should be allowed to export to non-North American markets up to 50% of the hembal harvested at a nominal \$1/m³ fee-in-lieu. Small private landowners whose land is classified as private managed forest land should have the option of the simplified surplus test described in Recommendation 5 even if the federal government decides not to provide that option to larger landowners. Logs from private land subject to provincial regulation should have a separate fee-in-lieu schedule from that for exports of Crown logs.

8.5.2 First Nations and Other New Entrants

In Section 7.6 we suggested that it is in everybody's interest that First Nations have a reasonable prospect of being financially successful with the new licences they are taking up. We also stated that we believe that, for the most part, preferential treatment under log export policy was not the best way to achieve this.

Having said this, we want to stress how important some of the recommendations are to those prospects for success. As noted above, First Nations licences on the coast will, because of the timber profile on the coast, generally have high hembal content. The implementation of Recommendation 3 will be of particular value to such licences. Many First Nations licences will be on the small side, and accordingly the provision for small Crown licences in Recommendation 6 will be important to First Nations holding such licences.

Recommendations 3 and 6 will be similarly important to other new entrants into the forestry business, such as woodlots and community forests.

We believe the potential value of Recommendations 3 and 6 to the economics of the forestry businesses of First Nations and other new entrants should be given due consideration in determining whether or not to implement those Recommendations.

There is one other potential First Nations issue we think should be addressed. The Nisga'a Nation entered into a modern day treaty in 1999. In that treaty new Nisga'a land was to be treated, in essence, like provincially regulated private land when it came to log exports. We believe that, at the very least, it would be unfair to subject Nisga'a land to a more onerous regulatory regime than the one they are currently under. Consequently we believe that the treatment of provincially regulated private land recommended in Recommendation 6 is particularly important with respect to Nisga'a land. The provincial government may want to go further. We understood that new treaties negotiated with other First Nations may provide for free exportability of logs from any land designated as treaty settlement land. If this treatment finds its way into a ratified treaty, we think the government may want to review the treatment of Nisga'a land, and consider similar treatment.

Recommendation 7—Considerations for First Nations and other New Entrants

The potential value of Recommendations 3 and 6 to the economics of the forestry businesses of First Nations and other new entrants should be given due consideration in determining whether or not to implement those Recommendations. The log export policy treatment of Nisga'a land should be reviewed to ensure fair treatment.

8.6 Measures Directed at Medium-Term Improvements in Competitiveness

8.6.1 Ensuring a Fibre Base for the Next Generation of Lumber Mills on the Coast

One reason for the significant increase in log exports from the coast over the past 10 years is the dramatic shift in timber profile. Ten years ago there was relatively little second growth being harvested on the coast, but currently more than 40% of the harvest is second growth, and this will increase going forward. With a few exceptions, the sawmills on the coast were built to process old-growth logs and therefore are not efficient at processing second-growth logs. When the harvest of second-growth fibre increased, there were not a large number of mills that could process it efficiently. This, in combination with the first Softwood Lumber Agreement, and then the duties since 2001, made it very difficult for coast mills to compete for the second-growth logs, of which a disproportionate amount were from private land.²¹

Some companies have begun to invest in retooling for second growth. They have been hampered in going after this more aggressively, however, because of uncertainty about an adequate supply of second-growth logs at prices that would allow them to fairly compete against U.S. competitors in the face of the U.S. barriers to our lumber. It is a classic chicken/egg scenario. The lack of modern, efficient milling capacity creates a "surplus" of second-growth logs, but investors are reluctant to invest in the modern, efficient milling capacity without more certainty that they will be able to furnish those mills at an appropriate price.

This chicken/egg situation is one of the reasons we have emphasized the need for a level playing field. The tax-equivalent fee-in-lieu, an agreement with the United States on logs and lumber from private land, and the maintenance of the surplus test on private land until such an agreement is reached, are all directed primarily at providing a stable investment platform for the revitalization of the coast industry.

²¹ As pointed out above, the notable exception to this was the "rotary" or veneer sector. It is significant that this sector faced no export barriers to the United States.

There is an additional tool that the Ministry of Forests may be able to use in promoting the new generation of modern efficient mills on the coast. That tool is a “second-growth strategy”. Such a strategy would review the existing policies on optimal harvest age and identify where it makes sense to reduce this age to increase the second-growth portion of the Crown harvest. This review requires an analysis of forestry, environmental, economic, and administrative considerations. We understand that the Ministry of Forests is presently reviewing this set of issues. Our discussions suggest there is potential to make some changes in policy that make sense at this point in time.

There will be complex issues with respect to the AAC that is attributed to earlier harvest ages for second growth—would it be in addition to, or a substitute for AAC attributed to old growth? How should it be apportioned? And so on. Offering an opinion on such matters would be outside the terms of reference of our review.

We do, however, believe it appropriate to recommend that the Ministry be encouraged to proceed with the review as expeditiously as possible. The connection to log exports is straightforward. If we are able to create a critical mass of second-growth fibre, available on appropriate terms, we can provide a solid basis for the next generation of modern efficient mills that will put the coast industry in a position to be an efficient, competitive processor of second-growth fibre, which should lead to a reduction in log exports.

Recommendation 8—Fibre Base for the Next Generation of Mills on the Coast

The Ministry should proceed with its development of a coastal second-growth strategy as expeditiously as possible.

8.6.2 Log Exports and the Prospects for Free Trade in Lumber

Much of our analysis and two of our key recommendations are based on the notion that log export restraints, either through a fee-in-lieu or through a surplus test, are a legitimate response to a situation where our exports of processed products do not have free access to our major market. We also suggested that an agreement with the United States for the free trade in private land logs and lumber would be of net benefit to British Columbia.

As noted in Section 7.10, the Softwood Lumber Agreement 2006 provides for negotiations for regional exemptions. If such negotiations led to a reasonable set of terms for other conditions—e.g., acceptance of the market-based stumpage system, our tenure system, provisions to address First Nations rights, etc.—we believe it would be reasonable to negotiate bilateral free trade in logs of all categories as part of an agreement for a regional exemption for the coast or the interior. It should be noted that such a deal would require the United States to remove its restrictions on log exports from public land; and we emphasize, once again, that eliminating log export restrictions would be justified only if our major trading partner eliminates any restrictions on the export of our processed products into its market.

Our analysis tells us that, if there were free trade in both logs and lumber, British Columbia would have a globally competitive processing industry, the vast majority of British Columbia logs would be processed in British Columbia, and British Columbia would receive more benefits from its timber in terms of good jobs and in terms of government revenue than it currently does.

We say this recognizing that proceeding in this direction will entail a major social, political and, indeed, psychological shift for British Columbia after more than 100 years of restrictions on log exports. It may be useful, in this regard, to recall that the British Columbia wine industry was heavily protected prior to the Canada-United States Free Trade Agreement (since subsumed in the North American Free Trade Agreement). At the time there were all kinds of warnings that removal of this protection would result in the demise of our wine industry. The facts on the ground show quite a different story. Forced to compete with the rest of the North American wine industry, a new British Columbia wine industry emerged that has grown remarkably and has gone from strength to strength. More foreign competition has spurred this industry to create more value and has led to an increase in wealth generation for British Columbians.

Recommendation 9—Log Exports and Free Trade in Lumber

British Columbia should be prepared to negotiate bilateral free trade in logs with the United States if that were part of an acceptable agreement for free access to the United States for British Columbia lumber.

9 Concluding Comments

We would like to close by making a final observation on the society we live in. The issues surrounding log exports are of fundamental importance to all the people we met, and the implications of our recommendations could have profound significance on their livelihoods and communities. They argued their positions passionately and unreservedly. But in every single meeting we were treated with graciousness and respect, and the only weapon anybody tried to use on us was the power of his or her argument. As we compared this to what we see around much of the world, we were reminded that the most valuable resource in our society is not our timber, nor any other tangible resource. Rather, it is the intangible civility of our democracy. It was an honour to serve it in a small way by performing this review.

We went into this project knowing how polarized the positions about log exports in British Columbia are. We had no illusions that we could craft a set of recommendations that would leave everybody happy. In fact, we would be surprised if our recommendations receive an unconditional endorsement from any major forest stakeholder.

It is common in projects such as these to say that the set of recommendations form an “integrated whole” and that they should be implemented accordingly. We do not make that claim. While we believe the recommendations work together, they are each directed at different parts of the complex array of issues surrounding log export policy. Accordingly, we believe the Minister should feel free to deliberate on each one separately in determining whether or not he will follow our advice.

The challenge in making good public policy is to push beyond the pithy “sound bites” and find the durable basis for advancing the overall interests of our society. We sincerely believe that, if our recommendations are implemented, they will allow British Columbians to realize more wealth from their timber.

Appendix A Review of British Columbia's Log Export Policy:
Terms of Reference

BACKGROUND

2006FOR0101-
001048
Aug. 17, 2006

Ministry of Forests and Range

TERMS OF REFERENCE FOR LOG EXPORT REVIEW

Bill Dumont and Don Wright shall examine the rationale for log exports from Crown and private lands and the effect of log exports on the forest products industry, log markets, the logging industry, workers and communities.

They shall review current laws, regulations and policies that govern log exports in British Columbia and make recommendations to improve the current legal and administrative structure.

In undertaking this review, they shall meet and consult with interested parties, including the BC Federation of Labour; Coast Forest Products Association; Truck Loggers Association; United Steelworkers Union; Pulp, Paper and Woodworkers of Canada; Communications, Energy, and Paperworkers Union of Canada; licencees; logging companies; manufacturing companies; First Nations; interested communities; the Timber Export Advisory Committee and the provincial government.

A report will be provided to the Minister of Forests and Range by Nov. 15, 2006.

INFORMATION BULLETIN

For Immediate Re-
lease
2006FOR0101-
001048
Aug. 17, 2006

Ministry of Forests and Range

COLEMAN APPOINTS EXPERTS TO REVIEW LOG EXPORTS

VICTORIA – Former deputy forests minister Don Wright and professional forester Bill Dumont have been selected to lead a comprehensive review of the province's log export policy.

The review will examine the rationale for log exports from private and Crown lands and their effect on harvesting, log markets, workers, communities, and the forest products industry. Wright and Dumont will analyze current laws, regulations and policies governing log exports and will make recommendations to improve the existing legal and administrative structure. Their report will be submitted to Forests and Range Minister Rich Coleman by Nov. 15, 2006.

Wright previously served as British Columbia's deputy forests minister and assistant deputy minister. He has private sector experience as the former vice president of forestry, environment and corporate affairs for Weldwood of Canada. Wright holds a master's degree in natural resource economics and a PhD in economics.

Dumont is a Vancouver Island resident with 35 years of forestry experience. He served as chief forester for Western Forest Products, where he earned a reputation for sustainable forest management, consultation and working with First Nations. He is a recipient of the B.C. Environment Minister's Award and the Bill Young award for Excellence in Integrated Resource Management.

1 backgrounder(s) attached.

Media
contact:

Christine Lewis
Public Affairs Officer
Ministry of Forests and
Range
250 387-4592

By Electronic Mail

September 1, 2006

Dear Stakeholder,

Re: Review of British Columbia Log Export Policy

As you may be aware, the Minister of Forests and Range, the Honourable Rich Coleman, has asked the two of us to conduct a comprehensive review of British Columbia's log export policies. A copy of the announcement of the Review, and its terms of reference, are attached to this letter.

An important component of this review will be consultations with key parties with an interest in the issue. We have been asked to focus on the British Columbia coast, as that is where the issue of log exports is most significant. We are contacting you, as an interested party, to solicit your input.

We would be interested in receiving your input through a face-to-face meeting and/or a written submission. In order to facilitate meeting as many parties as possible, we are planning to travel extensively to coastal communities. Our schedule for meetings outside Vancouver and Victoria is as follows:

- Duncan – September 11;
- Port Alberni – September 13;
- Campbell River – September 14;
- Port Hardy – September 15
- Queen Charlotte Islands/Haida Gwaii – September 25
- Prince Rupert – September 26
- Terrace – September 27.

If you would like to meet with us in one of those communities on those days, please contact either one of us with the contact information below. If a meeting in Victoria or Vancouver is more convenient, that also can be arranged with either one of us.

In the interest of full and frank discussion, we will meet separately with each individual group that requests a meeting.

If you want to make a written submission as well, we would ask that you provide that to us no later than October 15. This will give us time to appropriately consider all input before we submit our final report to Minister Coleman on November 15. Electronic submission would be preferred, if that is possible. You should be aware that we intend to make copies of written submissions available to the Ministry of Forests and Range and these may, in turn be made available to the public through the provisions in British Columbia's freedom of information law.

As you will see from the terms of reference, the scope of our review is quite far ranging. We have included with this letter a list of questions that may stimulate thinking on the range of issues. We want to stress, however, that this is meant to be a "non-prejudicial" set of questions, and you are free in your presentation/submission to us to comment and advice on any aspects of British Columbia's log export policy you deem appropriate.

We look forward to your input.

Sincerely,

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Forestry Consultants
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V0R 1L0

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V8X 3V3

250 888 9821
don.wright@shaw.ca

Attachments

Cc: Honourable R. Coleman, Minister of Forests and Range

Log Export Policy Questions

1. What would be the impact of tightening the restrictions on the export of logs on:
 - the level of logging employment;
 - the level of manufacturing employment;
 - other employment;
 - the competitiveness of the forest industry;
 - the level of government revenues?
 2. What would be the impact of loosening the restrictions on the export of logs on:
 - the level of logging employment;
 - the level of manufacturing employment;
 - other employment;
 - the competitiveness of the forest industry;
 - the level of government revenues?
 3. Should the export of logs be completely eliminated? Why or why not?
 4. Should the export of logs be completely free of restrictions? Why or why not?
 5. Is the current regulatory approach to log exports sufficiently efficient, effective and transparent? If not, what changes or alternative approaches would you suggest?
 6. What criteria would you suggest be used to determine when and where log exports should be permitted?
 7. Are there some parts of the Coast, or some species or grades, for which log exports should be less restricted than others?
 8. Should a distinction be made between logs from Crown lands and logs from private lands? If so, how should that distinction get translated into log export policy?
 9. What are the implications of the proposed Canada-U.S. agreement on softwood lumber for log export policy?
- Are there any environmental protection implications for log export policy?

Appendix B Review of British Columbia's Log Export Policy: List of Meetings/Consultations, September to November 2006

Date of meeting	Location of meeting	Organization	Representative
Sept 25	Queen Charlotte City	Abfam Enterprises Ltd.	Jim Abbott
Sept. 14	Campbell River	Aboriginal Forest Industries Council (AFIC)	Earl Smith
Sept. 28	Vancouver	Aboriginal Forest Industries Council (AFIC)	Victor Godin, Earl Smith, David Walkem
Oct. 12		Ainsworth Lumber Co. Ltd.	Mike Kennedy
Sept. 26	Terrace	Alcan Forest Products LP	Jeff Brown, Sean Kenmuir
Sept. 26	Terrace	Alcan Forest Products LP	Dean Daly, Sean Kenmuir
Nov. 9	Castlegar	Alm Forest Timber Co. Erie Creek Forest Reserve Ltd. (Managed Forest No. 77 and 248)	Dave Karassowitsch
Sept. 14	Campbell River	Alm-Wood Contracting Ltd.	Justin Rigby, Rob Wood
Sept. 22	Vancouver	Association of British Columbia Forest Professionals (ABCFP)	Dwight Yochim
Oct. 4	Surrey	British Columbia Coastal Independent Sawmillers Group	David Gray, Lloyd Brown, Alec Clark, Bill Ireland, Ken Laven, Wynn Walker, Mike McKay, Ken Buckles, Todd Meeker
Sept. 7	Vancouver	British Columbia New Democratic Party (NDP)	Bob Simpson
Oct. 19	Richmond	BC Timber Sales (BCTS), Timber Sales Advisory Committee (TSAC)	Dave Petersen, Doug Wrean, Graham Archdekin, Mike Falkiner, Gio Alberti, Dave Bryden, Duncan Chisholm, Dennis Cook, Shane Garner, Paul Heit, Ken Houlden, Les Kiss, Bill Markvoort, Todd Roberts, Barry Simpson
Sept. 28	Vancouver	BC Wood Specialties Group	Brian Hawrysh
Nov. 9	Castlegar	Bear Spring Enterprises Ltd.	Marvin Work
Oct. 12	Vancouver	British Columbia Federation of Labour	Jim Sinclair, Lynn Bueckert
Sept. 8	Vancouver	Brookfield Asset Management / Island Timberlands LP	Reid Carter /Darshan Sihota/Hugh Sutcliffe
Sept. 14	Campbell River	Capacity Forest Management Ltd. Kitasoo Band Council Oweekeno Nation Nuxalk Nation Campbell River Indian Band Ehattesht First Nation Tlowitsis First Nation Homalco Indian Band	Corby Lamb, Rod Visser
Sept. 8	Vancouver	Catalyst Paper Corporation	Lyn Brown, Brian Nordman, Norm Kissick
Sept. 11	Duncan	Centurion Lumber Manufacturing (1983) Ltd.	Jerry Doman, Jim Chisholm
Oct. 11	Victoria	CIPA Lumber Co. Ltd.	Mike Kemp, Brian MacCormack
Sept. 13	Port Alberni	City of Port Alberni	Mayor Ken MacRae
Oct. 16	Vancouver	Coast Forest Products Association	Rick Jeffrey, Les Kiss
Sept. 7	Vancouver	Coast Forest Products Association (CFPA)	Rick Jeffrey

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Date of meeting	Location of meeting	Organization	Representative
Oct. 4	Vancouver	Coast Tsimshian Resources Ltd.	Dirk Brinkman, Cathy Craig
Oct. 5	Richmond	Coastal Community Network meeting	100 attendees
Sept. 29	Nanaimo	Coastland Wood Industries Ltd.	Barry Simpson, Hans De Visser
Oct. 16	Vancouver	CRB Logging Co. Ltd. Mt. Currie Indian Band Squamish First Nation N'Quatqua First Nation	Paul Turner, Steve Miles
Nov. 14	Creston	Creston Valley Forest Corporation	Dan Murphy
Sept. 13	Port Alberni	District of Ucluelet	Bill Irving
Nov. 13	Kamloops	Gerard Guichon Ranch Ltd.	Judy Guichon
Sept. 14	Campbell River	Hancock Forest Management	Ian Delisle
Sept. 22	Vancouver	Heiltsuk Nation/Heiltsuk Coastal Forest Products	Rina Gemeinhardt, Chief Bill Gladstone, John MacLaughlan, John Bolton, Dan Neuman
Nov.10	Creston	Hidden Valley Wood Fibre Ltd. Lower Kootenay Indian Band	Darcy Elliot, Curtis Wullum
Oct. 16	Vancouver	Howe Sound Pulp and Paper Limited Partnership	Dave Hargreaves, Kim Marshall, Jeff Carwithen, Chris Styan, Gordon Flue, Peter Woodbridge, Fred Fominoff
Sept. 13	Port Alberni	lisaak Forest Resources Ltd.	Derek Drake
Sept. 28	Vancouver	Independent Lumber Remanufacturers' Association (ILRA)	Russ Cameron, Steve Gendron, Craig Upper, Jim Fenton, Steve Power, Charles Anderson, Tom Pallan, Lloyd Brown, Bill Ireland, Doug Carl
Sept. 22	Vancouver	Independent Timber Marketing Association (ITMA)	Duncan Chisholm, Tony Kurucz, Karen Redden, Paul Mockler, Michael Wilson, John MacDonald, Pete Maddison
Oct. 16	Vancouver	In-SCHUCK-ch Nation	Dave Miller, Norm Leblanc, Allen Gabriel, Gerald Peters, Shannon Chapman
Nov. 9	Castlegar	Interior Lumber Manufacturers' Association (ILMA)	Jim Hackett, Mark Semeniuk, Ron Ozanne
Oct. 4	Vancouver	International Forest Products Limited (Interfor)	Duncan Davies, Brian Bustard, Tony Peiffer
Sept. 20	Victoria	Island Timberlands LP	Darshan Sihota, Bill Waugh, Richard Ringma, Alain Deggan
Sept. 11	Duncan	Jemico Enterprises Ltd.	Ray Carroll
Nov. 9	Castlegar	Juggernaut Development Inc.	Rick Biller
Sept. 27	Terrace	Lisims Forest Resources LP	Rod Moore, Dean Daly
Nov. 13	Kamloops	Lloyd Creek Ranch Ltd. and Devicks Ranch	Victor Piva, Paul Devick
Nov. 9	Castlegar	Marshall Forestry Services	Fred Marshall
Nov. 13	Kamloops	Napier Lake Ranch Ltd.— Woodlot Licence 314	Roy and Agnes Jackson
Sept. 8	Vancouver	Neucel Specialty Cellulose Ltd.	Brian Brown
Sept. 27	Terrace	Nisga'a Lisims Government	Collier Azak, Warren Fekete
Sept. 14	Campbell River	North Island Woodlot Association (NIWA)	Jerry Benner, John Marlow
Sept. 26	Terrace	Northwest Loggers' Association	Dave Martin, Trevor Jobb, Ken Houlden, Mo Takhar
Sept. 25	Queen Charlotte City	O'Brien and Fuerst Logging Ltd.	Randy O'Brien

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Date of meeting	Location of meeting	Organization	Representative
Oct. 13	Victoria	Oracle Resource Strategies Inc.	David Lewis
Sept. 28	Vancouver	Pacific International Log Trading Inc.	John Bertram
Sept. 14	Campbell River	Pallan Timber Products	Tom Pallan, Rod Visser
Oct. 13	Victoria	Personal	Dr. Peter Pearce
Oct. 13	Victoria	Personal	Dr. David Haley
Sept. 13	Port Alberni	Personal	Robert Gunn
Sept. 13	Port Alberni	Personal	Richard Berg
Nov. 10	Nelson	Pluto Darkwoods Corp.	Christian Schadendorf
Sept. 29	Nanaimo	Pope and Talbot, Inc.	Ken Taylor, Paul Sadler
Sept. 13	Port Alberni	Port Alberni and District Labour Council	Jack McLeman, Jack Curial
Oct. 11	Victoria	Port Alberni Port Authority International Longshoreman and Warehouseman's Union Local 508	Darryl Andersen, Bob Kannigiesser Brett Hartley
Oct. 6	Ladysmith	Private forest landowner	Don Avis
Sept. 11	Duncan	Private forest landowner	Maxine and Dave Haley
Sept. 11	Duncan	Private Forest Landowners Association (PFLA)	Rod Bealing, Dave Barker
Sept. 20	Victoria	Private Forest Landowners Association (PFLA)	Rod Bealing, John Phillips, Diane Medves, Jim Trebett
Oct. 4	Vancouver	Probyn Log Ltd.	Bill Markvoort, Jim Probyn, Peter Fograscher
Sept. 20	Victoria	Pulp and Paper Workers of Canada	Jim King, Arnold Berkov
Sept. 14	Campbell River	Richmond Plywood Corporation Ltd. (Richply)	Angus Allison
Sept. 26	Prince Rupert	Ridley Island Log Sort Inc.	Des Shearing
Oct. 12	Surrey	S&R Sawmills Ltd.	Chick Stewart, Ken Voight, Ray Chretien
Sept. 13	Port Alberni	Save Our Valley Alliance (SOVA)	Keith Wyton, Gail Morton, Rob Diotte, Jack McLeman, Dwight Reynolds, Rita Cajendis, Steve Dryborough
Sept. 20	Victoria	Sierra Club of Canada, British Columbia Chapter	Lisa Matteus, Robert Duncan
Sept. 13	Port Alberni	South Island Woodlot Assoc. (SIWA) and Greenmax Resources	Sean Flynn
Oct. 11	Victoria	Storey Creek Trading Ltd.	Bryan Mills, Alex Hartford, Dan Higgins
Oct. 12	Surrey	Teal-Jones Group	Tom and Dick Jones, Mike Friesen, Achim Fuchs, Berni Zimmermann, Hanif Karmally, April Choquette
Nov. 14	Cranbrook	Tembec Inc.	Dennis Rounsville
Oct. 16	Vancouver	Terminal Forest Products Ltd.	Dave Lasser, Robert Liden
Sept. 26	Terrace	Terrace, City of	Brian Downie
Sept. 27	Terrace	Timber Baron Forest Products	Lee Thompson
Sept. 8	Vancouver	Timber Export Advisory Committee Federal Timber Export Advisory Committee	Don Ruhl, Angus Allison, Jim Cross, Mo Takhar, David Walkem, Hans DeVisser, Ken Taylor, James Probyn, Thomas Pierre, John Cook, Judy Korecky
Oct. 16	Vancouver	TimberWest Forest Corp.	Paul McElligott, John Kelvin
Sept. 11	Duncan	Totangi Forestry Ltd.	Blair Robertson
Sept. 22	Vancouver	Truck Loggers' Association (TLA)	Jim Girvan, Stirling Angus, Angus Allison, Bill Maarkvort,

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Date of meeting	Location of meeting	Organization	Representative
			Jim Girvan, Mike Hamilton
Oct. 26	Parksville	Tseshah First Nation	Chief Les Sam, Steve Conway, Gordie Atkinson
Sept. 27	Terrace	United Steelworkers Local 1-2171	Rick Neuwirth, Les Watmough, Bob Deuck, Joe Maillia
Sept. 11	Duncan	United Steelworkers Local 1-80, Duncan	Bill Routley, Brian Butler, Carmen Rocco
Sept. 29	Nanaimo	United Steelworkers, Local 1-2171	Darrel Wong
Sept. 28	Vancouver	United Steelworkers, Western Canada	Norm Rivard, Kim Pollock, Doug Routley, Rick Wangler
Sept. 14	Campbell River	Vancouver Island Association of Wood Processors (VIAWP)	Ray Ostling, G. Cousineau, Geo Alberti
Sept. 8	Vancouver	West Coast Environmental Law Society Foundation	Jessica Clogg
Sept. 27	Terrace	West Fraser Timber Co.	Sonny Jay, Dan Smith
Sept. 11	Duncan	Western Forest Products Inc.	Reynold Hert, Duncan Kerr
Nov. 13	Kamloops	Westwood Fibre Ltd.	Marvin Kempston, Reiner Muentner
Nov. 9	Castlegar	Westwood Fibre Ltd.	Tracey Hilmarsen, Ron Osachoff
Sept. 11	Duncan	Youbou Timberless Society	Ken James, Roger Wiles, Chris Olson
Total		97 meetings	346 people

Appendix C Review of British Columbia's Log Export Policy: List of Written Submissions

Organization	Name	Pages
A&A Trading Ltd.	Paul Mockler, VP Finance	2
Aboriginal Forest Industries Council (AFIC)	Earl Smith, Chairman	5
Alcan Forest Products LP	Jeffrey Brown, Partner	12
Bella Coola Resource Society	Hans Granander RPF, Executive Director	7
British Columbia Community Forest Association	Robin Hood, President	3
British Columbia Federation of Labour	Jim Sinclair, President	24
British Columbia Forests Society	H.W. Drage, President	1
Brookfield Asset Management / Island Timberlands LP	Reid Carter	12
Campbell River, Courtenay and District Labour Council	J. Fitzpatrick, Secretary	3
Can International Enterprises Ltd.	Cliff Toane, President	2
CarlWood Lumber Limited	Bob Carl, President	3
Catalyst Paper Corporation	Russell Horner, President and CEO	7
Central Coast Regional District	Joy MacKay, Administrator	2
Coast Forest Products Association (CFPA)	Rick Jeffrey, President	12
Coast Tsimshian Resources Limited	Dirk Brinkman, Cathy Craig	12
Coastland Wood Industries Ltd.	Barry Simpson, CEO	2
Communications, Energy and Paperworkers Union of Canada—Western Region	Dave Coles, Vice President, Western Region	3
Council of Canadians, Port Alberni Chapter	Jack Thornburgh, Chair	1
CRB Logging Co. Ltd.	Steve Miles	3
Discovery Forestry, Woodlot License #1610	Ralph Kellerhals	4
Downie Timber Ltd.	Jack Heavenor	2
Federation of British Columbia Naturalists	Bev Ramey, President	2
Federation of British Columbia Woodlot Associations	Brent Petrick, President	3
Forest land owner	Dick Varney RPF	3
Gibsons, Town of	James Gordon	1
Greenmax Resources	Shawn Flynn RPF	3
Heiltsuk Coastal Forest Products	Bill Gladstone, President	18
Howe Sound Pulp and Paper Limited Partnership	Fred Fominoff, General Manager	17
Independent Lumber Remanufacturers Association	Russ Cameron, President	2
Independent Timber Marketing Association	Larry Wells, President	18
In-SHUCK-ch Council and Lizzie Bay Logging Ltd.	Gerard Peters and Norman LeBlanc	7
Interior Lumber Manufacturers' Association	Jim Hackett RPF, President	17
International Forest Products Limited	Duncan Davies, President	13
International Longshore and Warehouse Union, Local 508	Brett Hartley, President and Business Agent	2
Island Timberlands	Darshan Sihota, President	14
Jane Lake Holdings Ltd.	Don Avis RPF, Owner	6
Jemico Enterprises Ltd.	Ray Carroll, Manager	8
Juggernaut Development Inc.	Rick Biller RPF	2

Organization	Name	Pages
Kalum Ventures Limited	Joe Bevan, Owner	2
Kitasoo Band Council	Grant Scott RPF	1
Kitwanga Lumber Company	Mark Starlund, Mill Manager	1
Lakeside Pacific Forest Products Ltd.	Eric Tolmie, Owner	1
Lower Kootenay Indian Band	Curtis Wullum, Land And Resource Director	1
Marshall Forestry Services	Fred Marshall RPF	40
Nisga'a Lisims Government	Collier Azak, Director, Lands and Resources	2
O'Brien and Fuerst Logging Ltd.	Randy O'Brien	1
Pacific International Log Trading Inc.	J.G. Bertramm, President	4
Pacific Rainforest Adventure Tours Inc.	Gary Murdock	3
Personal	Ken Fowler	1
Personal	Dr. David Haley RPF	2
Personal	Les Watmough	4
Personal	Tracey Hilmarsen	1
Personal	Gail Morton	5
Personal	Rainer Muentner RPF	2
Personal	Robert Stacey	1
Personal	Rafe Sunshine	1
Personal	Dr. Peter Pearse	6
Personal	David Lewis RPF	9
Petitioners, all lower mainland addresses on the same form letters	Elaine Golds, Barbara Sherman, Caelan Griffiths, Mike Griffin, Christine Thurily, Donna Crosby, Rozanne Thomson, D. Gillespie, Niall Willis	9 form letters
Pluto Darkwoods Corp.	Christian Schadendorf, General Manager	3
Pope and Talbot, Inc.	Ken Taylor, Vice President Woodlands	6
Port Alberni Port Authority	Darryl Anderson, President and CEO	37
Port Alice, Village of	Larry Pepper, Mayor	1
Private forest land owner	Alex Hartford	2
Private Forest Land Owners Association	Rod Bealing, Forestry Manager	15
Private land owner	M.M. Haley	36
Private Managed Forest Land Council	Trevor Swan, Chair	1
Probyn Log Ltd.	Bill Markvoort, Manager Forestry and Timberlands	9
Pulp, Paper and Woodworkers of Canada, National Office	Arnold Bercov, Forest Resource Officer	3
Ridley Island Log Sort Inc.	Des Shearing, Owner	3
S&R Sawmills Ltd.	D.G. Stewart, President	5
Skeena Sawmills, Division of West Fraser Mills Ltd.	S. Jay RPF, Woods Manager	2
Storey Creek Trading Ltd.	Bryan Mills, President	3
Sunshine Coast Regional District	Sheane Reid, Planning Technician	1
Teal-Jones Group	Hanif Karmally, CFO	6
Terminal Forest Products Ltd.	Dave Lasser RPF, Woodlands Manager	25
Terrace, City of	Brian Downie RPF	3
TimberWest Forest Corp.	John Kelvin, VP Log Marketing and Sales	29
Truck Loggers' Association (TLA)	Jim Girvan , Executive Director	44
Tseshah First Nation	Les Sam, Chief Councilor	2
United Steelworkers, District 3	Stephen Hunt, District Director	18
Vancouver Island Association of Wood Processors (VIAWP)	Gio Alberti	4
West Coast Environmental Law Association	Jessica Clogg, Staff Counsel	20
Western Canada Wilderness Committee	Ken Wu	2

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Organization	Name	Pages
Westwood Fibre Ltd.	Rainer Muenster, VP Forestry	3
Woodlot Licensee	John Ross	1
Wuikinuxv First Nation	Corby Lamb	1
Youbou Timberless Society	Roger Wiles, Secretary	7
Yukon Department of Energy, Mines and Resources	Angus Robertson, Deputy Minister	1
Zeballos, Village of	Mayor and Council	2

Total	98 submissions	658 pages
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Appendix D Log Export Policy in British Columbia: A Chronology

Date	Title	Level of government	Comment
1865	Land Ordinance	Colonial	Introduced to British Columbia system of granting rights to cut timber without alienating land.
1867	The British North America Act	Federal	Legislation enacting the federation. Assigns management of resources to Provinces.
1871	B.C. joins Confederation	Federal / Colonial	
1884	Timber Act	Provincial	Enabled granting of timber licences and to set royalties.
1888	Land Act (amendments)	Provincial	Mills in proportion to land grants, first mention of tax on export logs.
1891	Land Act (amendments)	Provincial	Restricted all timber cut on Crown land to British Columbia use and manufacturing. (the first restriction on log export)
1901	Land Act	Provincial	Added possibility of specific exemption to export logs.
1903	Land Act (amendments)	Provincial	Imposed tax on non-royalty land, those Crown granted before 1887, refundable upon local use or manufacturing.
1906	Timber Manufacture Act	Provincial	Included 1901 restrictions and applied to private land Crown granted land after 1906.
1907, Dec.	Order-in-Council # 901	Provincial	Reserved all land not already alienated or under lease or licence to the Crown. Probably the most important piece of land legislation in British Columbia since it set the "tone" of Provincial land administration for the next 100 years. Determined that most land within British Columbia would remain vested with the Crown.
1909	Timber Manufacture Act (amendments)	Provincial	Provisions for exemptions to export logs added.
1910	Fulton Commission	Provincial	Calls for the creation of a Department of Forests, a province wide forest inventory, protection of forests from fire, that funds be put into forest management and that the "Commissioners thoroughly endorse the general principle adopted by the Government of prohibiting the export of logs".
1912	(First) <i>Forest Act</i>	Provincial	Enables British Columbia government to restrict timber cut on Crown land granted after 1906 to use in province unless exempted by Lieutenant Governor in Council.
1914	Timber Royalty Act	Provincial	Assigned royalties definitively to timber leases and licences and pulp leases and lands that were Crown granted after 1906. Royalties in place before this, but no consistent policy

Date	Title	Level of government	Comment
1916	<i>Forest Act</i> (amendments)	Provincial	Amendment gave Lieutenant Governor in Council authority to permit export of logs generally and permit the export of unmanufactured timber from areas adjacent to the boundaries of the province where it can be shown to be uneconomic due to topographical reasons. First move away from a strictly surplus criteria.
1918		Provincial	British Columbia government establishes Log Export Advisory Committee (LEAC) made up of manufacturers, loggers, exporters, labour, and Government. Committee reviews log export applications, and based on its knowledge, makes recommendations that are usually followed. Change over time to be three written refusals from domestic mills.
1924	Timber Royalty Act Amendment	Provincial	Annulment of Timber Royalty Act. Royalty now specified within <i>Forest Act</i> .
1929	Supreme Court of B.C.	Provincial	Practice of charging a royalty on lands that were Crown granted prior to 1887 and then granting a rebate for manufacture within the province found to be unconstitutional. (McDonald-Murphy Co. Ltd. vs. Crown)
1940, July	War Measures Act	Federal	Prohibited unmanufactured export of Douglas-fir and other "listed" items
1940, Dec	War Measures Act	Federal	Expanded prohibition to all true firs.
1942	War Measures Act	Federal	Prohibited export of all unmanufactured wood products unless specifically exempted.
1945	Report of the Commissioner (Sloan I)	Provincial	Chief Justice Sloan points out that (then) most log exports from British Columbia are from federal lands and that control of export from these lands is a federal matter since the Province "can not interfere with the export of logs from these areas within this classification". Sloan went on to state that the federal government had exercised log export control as a war measure and suggested that the control principle be continued "in the post-war period of transition to a planned system of Forest Management".
1947	Exports and Imports Permit Act	Federal	War control focus. Allows federal government to draft "Export Control" list
1969	Policy Amendment	Federal	Ministry of Industry, Trade and Commerce introduce restrictions on log exports from old Crown granted land similar to British Columbia's restrictions on logs from Crown tenures. (federal LEAC)
1969	Policy Amendment	Provincial	Chip Export Advisory Committee meets for the first time.
1973, Oct	Policy Amendment	Provincial	Export Tax raised to \$2/cunit from \$0.50/cunit.
1974, Feb	Policy Amendment	Provincial	Export Tax raised by species to between \$2 to \$40/cunit; average tax is \$10/cunit.
1975	Policy Amendment	Provincial	Surplus now means to advertise in Vancouver and local newspapers for 2 weeks without domestic offer to purchase
1976	Royal Commission on Forest Resources (Pearse)	Provincial	Dr. Pearse recommends a number of changes to export policy including the notion that the export tax be used to control log exports in lieu of the administrative system (LEAC).

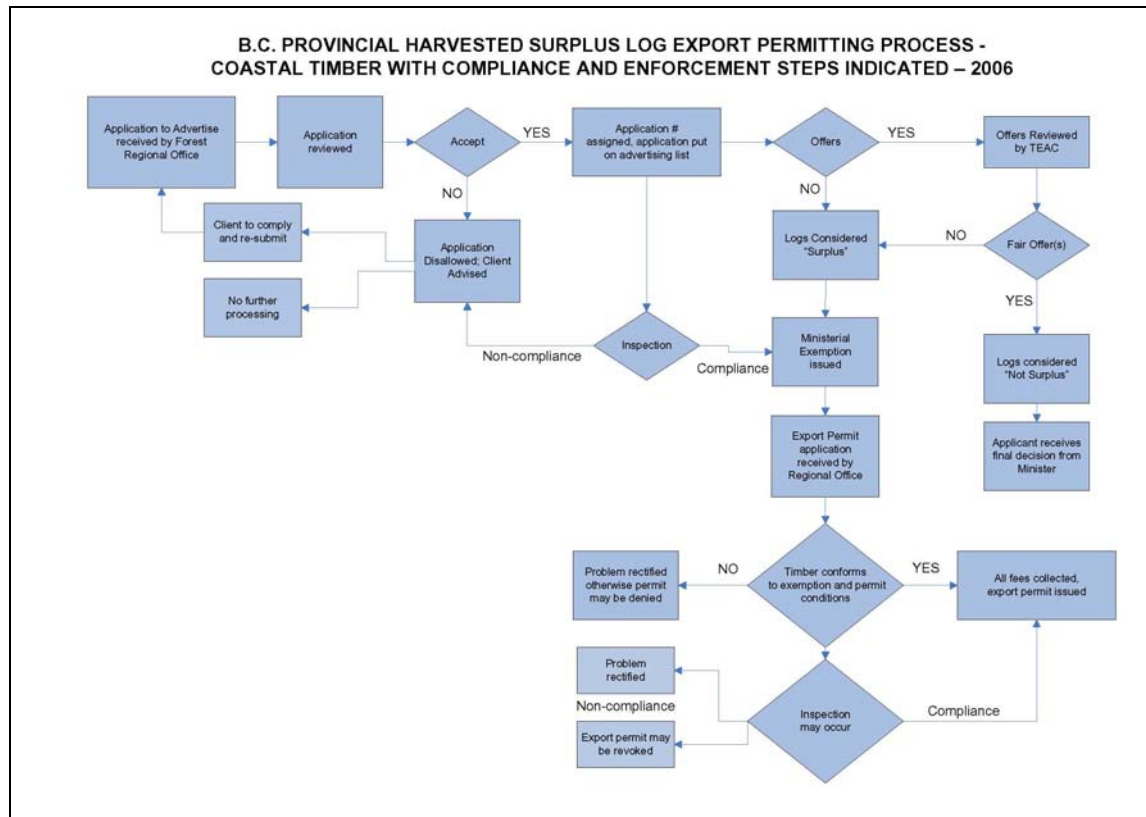
Date	Title	Level of government	Comment
1978	Ministry of Forests Act (New) Forests Act	Provincial	Major re-wording of legislation regarding forest management following the Pearse Royal Commission. Includes: - language in log export sections to write permits for unharvested timber (i.e., other criteria than surplus and adjacency to Provincial boundaries). Three criteria for export defined—surplus, cannot be processed and/or transported economically by or to a facility within British Columbia, and exemption would prevent the waste or improve the utilization of timber cut on Crown land. - Cabinet delegates some of its responsibility to the Minister (up to 15,000 m ³ of harvested timber).
1980	<i>Forest Act</i> (Amendment)	Provincial	Exemptions may be granted for up to 15,000 m ³ of harvested logs and an unspecified maximum volumes of unharvested logs meeting one of the three export criteria outlined above.
1980, Oct	Policy Amendment	Provincial	Standing Economic exemptions permitted for small private forest land holders
1981	Policy Amendment	Provincial	Fee-in-lieu raised to 20% effective August, 1981
1983	Special Log Export Policy Committee (Trebett Committee)	Provincial	Recommended retention of LEAC, but reduction in size to 9 members, streamlining administrative procedures, tightening administration to prevent “contrived domestic surpluses”, and use of export markets on limited scale to prevent the collapse of isolated communities. Recommended what became “Standing Economic” and “area-based” exemptions.
1984	Policy Amendment	Provincial	Minister announces the first formal policy changes invoking the two new unharvested timber criteria. Economic exemptions issued for a percentage of hembal stands upon demonstration that these stands were otherwise not economically harvestable.
1985, June	Policy Amendment	Provincial	Tightened policy regarding standing Economic exemptions. Also established Timber Export Advisory Committee to review standing economic exemption applications separate from LEAC—called TEAC. TEAC and LEAC combined into TEAC. The harvested surplus system was to cease at the end 1985. This policy was invoked to allow companies time to re-tool, modify operations and build new plants for value-added products.
1985, July	Order in Council	Provincial	Created log export exemptions within the so-called “Tidewater” area of British Columbia’s North Kalum (now Nass) TSA. Area-based exemption permits export of 100% of the timber within the TSA boundaries. Amended a number of times and still in force. Fee-in-lieu is \$1.00/m ³ .
1985		Provincial	Many standing Economic exemptions granted throughout much of the coast—on small business Timber Sale Licences all over and major licences cutting permits within the North Coast, Mid Coast and Queen Charlotte Island TSAs.
1986, June	Notice to Exporters, Serial No. 23 Under the Export and Import Permits Act	Federal	Lays out the process for export of logs from land under federal export jurisdiction within British Columbia. Surplus is determined as a result of reasonableness of an offer. Extenuating circumstance is also considered.

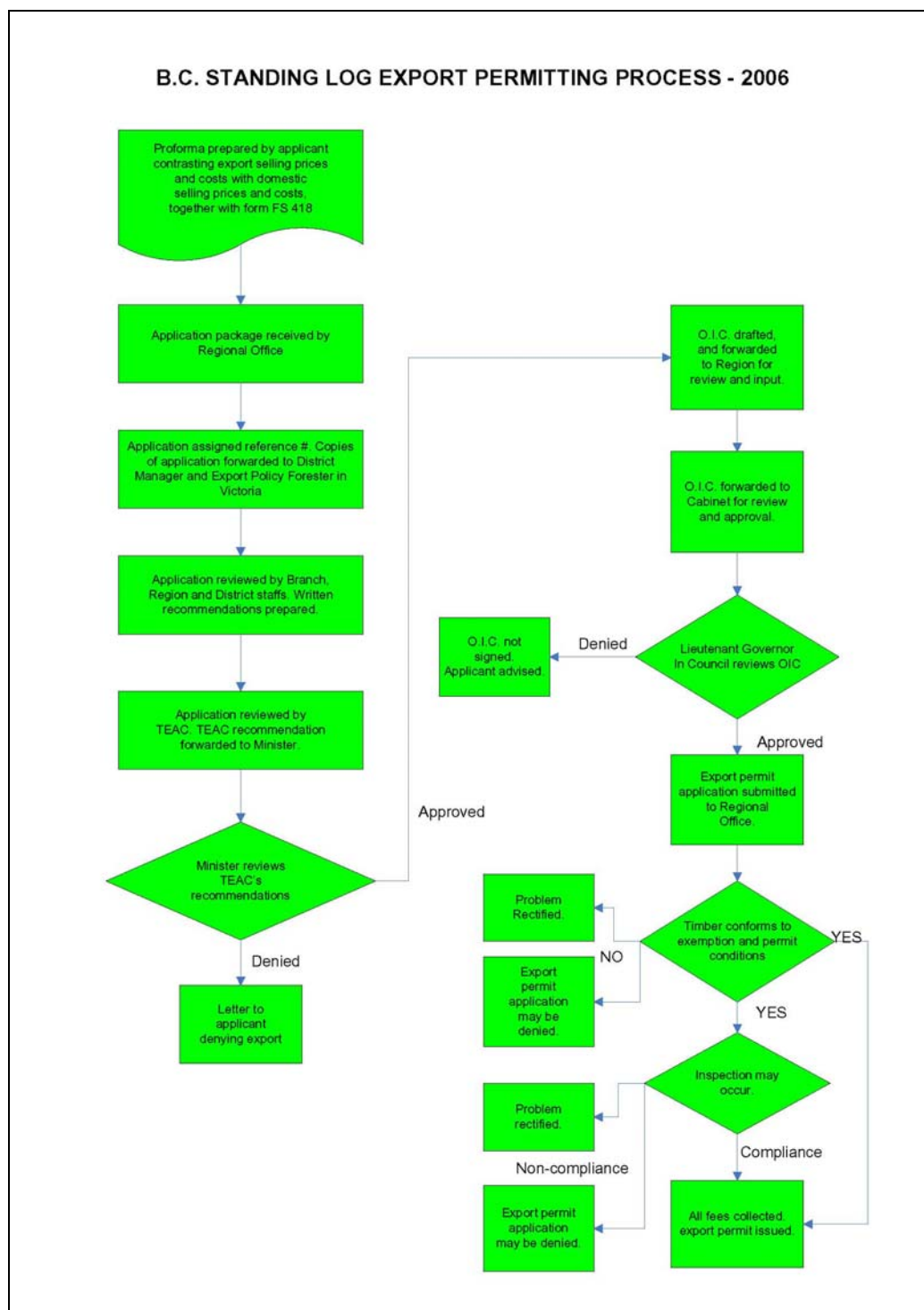
Date	Title	Level of government	Comment
1986, July	Policy	Federal	Prohibited export of all cedar from federal land due to a 35% tariff on Canadian cedar shingles imposed by the United States.
1986, July	Order in Council	Provincial	Created the first of the Mid Coast, North Coast and Queen Charlotte Island Area-based exemptions to apply on Provincial land harvested. No volume limits were put into place initially. Fee-in-lieu started at 15% of the 3-month average domestic selling price. Cedar and yellow-cedar and high grade fir and spruce excluded initially. High grade of all species excluded later. Terminated in 1992.
1986, July	Notice to Exporters	Provincial	A new Provincial Harvested Surplus procedure was enacted whereby the Ministry of Forests conducted the advertising instead of the exporter. Other procedural changes.
1986, July	Order in Council	Provincial	Ministerial oversight delegated downward.
1987, Aug	Notice to Exporters	Provincial	Fee-in-lieu on harvested surplus exemptions now 30% of the difference between export and domestic prices; 15% in the case of Standing Economic exemptions.
1987	Order in Council	Provincial	Minister extends the terms of the three coastal Area-based exemptions to 1988.
1988, June	Order in Council	Provincial	The 1988 extension of the Mid Coast, North Coast, Queen Charlotte Area-based exemption changed the terms allowing only 40% of the first 10,000 m ³ of harvested volume and 20% of the volume harvested over 10,000 m ³ on each timber mark, to a total of 10,000 m ³ .
1988	<i>Forest Act</i> Amendment	Provincial	Minor changes in log export. Fee-in-lieu increased on Provincial Harvested Surplus to 40% of the difference between export and domestic price. Fee-in-lieu on Economic exemptions unchanged.
1989	Policy Amendment	Provincial	Fee-in-lieu increased to 100% of the difference between the export and domestic price for Provincial Harvested Surplus. Excluded small business until the end of 1989.
1990	Order in Council	Provincial	The "Market Logger" order for the "Northern Area" (North Coast, Kalum, Nass, Kispiox and Cranberry TSAs) approved a maximum volume to 20,000m ³ and set the term at 2 years from February 1991. Replaced earlier 1990 Order-in-Council 817 when it expired. Cedar and yellow-cedar excluded, but high grades of other species permitted.
1996	Federal Court of Canada	Federal	K.F. Evans Ltd. applied directly to the Minister of Foreign Affairs for an export exemption rather than refer the application to TEAC, then a Provincial body. Minister declined to allow export of the logs covered by the application. Court accepted the argument that the process was flawed and that by delegating his decision to TEAC, the Minister had abdicated his decision-making responsibility, or at least fettered his discretion.
1998	Notice to Exporters, Serial No. 102 Under the Export and Import Permits Act	Federal	Federal export procedures to determine surplus re-written. These closely parallel the Provincial surplus exemption criteria. TEAC separated into TEAC (Provincial) and FTEAC (federal).
2000	Order in Council	Provincial	Permitted export for a 10-year term all timber and wood chips produced from the Iskut / Boundary Supply Block within the Cassiar TSA. Fee-in-lieu is \$1.00/m ³ .

Date	Title	Level of government	Comment
2001	Federal Court of Canada	Federal	TimberWest Forest Corp. initiates an action against the Government of Canada which seeks a decision by the Court "that the Notice to Exporters Serial No. 102 is <i>ultra vires</i> and of no force or effect" and "that the <i>Export and Import Permits Act</i> does not authorize the establishment of a unique legislative and administrative scheme applicable to the export of logs harvested from privately owned land in British Columbia. "
2003	Order in Council	Provincial	Permitted export from the North Coast, Kalum, Nass, Kispiox, Cranberry TSAs and Nisga'a treaty land for a 1-year term (extended) for 35% of the harvested volumes and a \$1.00 /m ³ fee-in-lieu.
2003, Nov	Regulation	Provincial	Manufactured Forest Products Regulation. Removed the definition of manufactured forest products from the <i>Forest Act</i> and placed in a regulation.
2004	Order in Council	Provincial	Fee-in-lieu on the coast changed to vary between 5% and 15% of the 3-month average log domestic selling prices for old-growth and second-growth timber.
2006, March	Order in Council	Provincial	Blanket exemption granted for the Mid Coast TSA in support for a proposed dry land log sort north of Bella Bella to be constructed and operated by the Heiltsuk First Nation. All Mid Coast licencees may use the exemption which permits up to 35% of the harvested volumes.
2006, Aug	Log Export Review Committee	Provincial	Minister appoints two experts to conduct a review of rationale for log exports and the impacts of log export regulation.

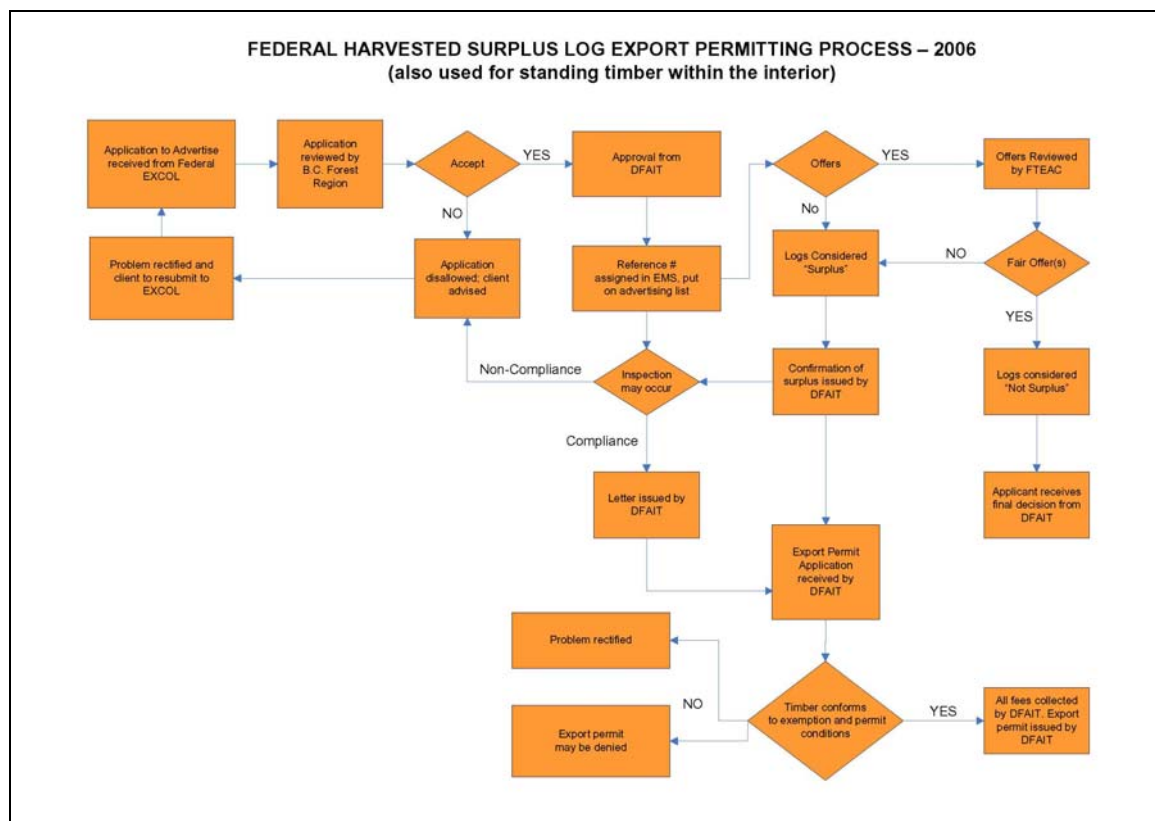
Appendix E Log Export Permitting Process: Provincial and Federal Lands

Provincial Land





Federal Land



Appendix F Log Export/Import Tables

Table F-1. Exports of industrial roundwood (coniferous & non-coniferous), by continent and selected countries, 1990 to 2005. Source: FAOSTAT.

	Year			
	1990	1995	2000	2005
Continent (tonnes x 1000)				
Africa	4,164	4,338	6,057	5,232
Asia	20,723	10,587	11,339	9,003
Europe	18,872	45,285	70,401	86,972
North & Central America	22,886	14,105	14,919	15,228
Oceania	3,054	9,258	9,033	9,339
South America	2,983	5,151	2,672	2,776
Total	72,682	88,724	114,420	128,550
Selected countries (tonnes x 1000)				
Canada	1,197	1,187	2,903	5,197
Chile	2,245	2,226	681	347
Finland	294	871	519	748
France	4,999	2,516	5,522	3,761
Germany	4,521	4,948	5,558	6,071
New Zealand	1,683	5,388	5,909	5,240
Russian Federation		18,374	30,835	48,000
USA	21,666	12,817	11,952	9,815
Exports as a percentage of world roundwood trade				
Continent (%)				
Africa	5.7	4.9	5.3	4.1
Asia	28.5	11.9	9.9	7.0
Europe	26.0	51.0	61.5	67.7
North & Central America	31.5	15.9	13.0	11.8
Oceania	4.2	10.4	7.9	7.3
South America	4.1	5.8	2.3	2.2
Total	100.0	100.0	100.0	100.0
Selected countries (%)				
Canada	1.6	1.3	2.5	4.0
Chile	3.1	2.5	0.6	0.3
Finland	0.4	1.0	0.5	0.6
France	6.9	2.8	4.8	2.9
Germany	6.2	5.6	4.9	4.7
New Zealand	2.3	6.1	5.2	4.1
Russian Federation		20.7	26.9	37.3
USA	29.8	14.4	10.4	7.6
Exports as a percentage of total harvest				
Continent (%)				
Africa	7.3	6.5	8.9	7.5
Asia	8.0	4.0	5.1	3.9
Europe	5.6	11.1	14.6	16.0
North & Central America	3.8	2.3	2.4	2.4
Oceania	9.4	22.5	19.3	19.4
South America	2.7	3.9	1.8	1.7
Total	5.2	5.9	7.2	7.6
Selected countries (%)				
Canada	0.8	0.6	1.5	2.6
Chile	15.6	8.9	2.8	1.2
Finland	0.7	1.9	1.0	1.6
France	14.3	7.5	12.7	11.9
Germany	5.6	13.4	10.9	11.9
New Zealand	14.1	32.0	30.6	26.6
Russian Federation		22.2	29.1	34.4
USA	5.1	3.1	2.8	2.3

Table F-2. Volumes of logs exported by the provinces, by major log type, 1996 to 2005. Source: Statistics Canada.

Province	Log type	Year			1996- 2005	%
		1996 (m ³)	2001 (m ³)	2005 (m ³)	Grand Total (m ³)	
Alberta		19,862	32,808	4,379	477,423	1.6
BC	Coniferous pulpwood	136,138	1,727	18,178	270,641	
	Coniferous sawlogs	235,294	2,783,295	4,711,285	24,065,933	
	Deciduous pulpwood	1,622		9,981	15,640	
	Deciduous sawlogs	4,483	28,194	27,475	210,407	
BC total		377,537	2,813,216	4,766,919	24,562,621	83.5
Manitoba		146	2,695	9,313	30,532	0.1
New Brunswick		171,639	23,757	7,002	647,414	2.2
Nova Scotia		40,447	2,592	3,392	173,603	0.6
NWT			705		1,907	0.0
Ontario	Coniferous pulpwood	24,025	19,825	29,387	211,719	
	Coniferous sawlogs	6,588	69,309	21,812	350,547	
	Deciduous pulpwood	162,229	6,493	203,016	775,762	
	Deciduous sawlogs	114,985	224,834	144,215	1,747,059	
Ontario total		307,827	320,461	398,430	3,085,087	10.5
PEI		276	7		5,574	0.0
Quebec		35,936	23,093	32,334	400,328	1.4
Saskatchewan		204	1,231	10,299	22,371	0.1
Yukon		30	1,163	71	2,139	0.0
Grand total		953,904	3,221,728	5,232,187	29,409,070	100.0
Percent		3.2	11.0	17.8	100.0	

Table F-3. Volumes of logs exported by the provinces, by destination country, 1996 to 2005. Source: Statistics Canada.

Province	Destination	Year			1996–2005	Percent
		1996 (m ³)	2001 (m ³)	2005 (m ³)	Grand Total (m ³)	
Alberta		19,862	32,808	4,292	476,453	1.6
BC	China P. Rep.		1,582	113,256	267,523	
	EU	337	2,887	1,534	13,056	
	Hong Kong		765	627	9,091	
	India				1,425	
	Japan	91,417	1,091,323	1,577,453	9,752,240	
	Korea North			1,946	8,020	
	Korea South	45,760	52,970	321,400	1,395,574	
	Singapore	1,000			1,000	
	Taiwan	431	21,058	11,447	83,508	
	United Arab Emir.				24,199	
	United States	238,592	1,642,395	2,738,046	13,003,698	
	BC Total	377,537	2,812,980	4,765,709	24,559,334	83.6
Manitoba		60	2,592	9,133	29,140	0.1
New Brunswick		171,639	23,757	5,970	645,831	2.2
Nova Scotia		40,401	2,592	3,392	173,180	0.6
NWT	United States		705		1,907	
NWT		0	705	0	1,907	0.0
Ontario	China P. Rep.		1,915	3,023	13,821	
	EU	821	5,056	1,255	28,849	
	Hong Kong	2,686	1,066	2,501	36,882	
	Indonesia	297	178		1,105	
	Japan	464	935	385	5,881	
	Switzerland				1,070	
	Taiwan	3,549	1,134	1,156	17,111	
	United States	299,832	309,395	389,601	2,976,088	
	Vietnam		356	163	1,778	
	Ontario total	307,649	320,035	398,084	3,082,585	10.5
PEI		276	7	0	5,552	0.0
Quebec		35,530	22,316	31,628	395,765	1.3
Saskatchewan		204	1,231	10,238	22,003	0.1
Yukon		30	1,163	71	2,139	0.0
Grand total		953,188	3,220,186	5,228,517	29,393,889	100.0
Percent		3.2	11.0	17.8	100.0	

Note: - volumes less than 1000 m³ in aggregate by destination removed; - ignores trans-shipment volumes

Table F-4. Volumes of logs imported by the provinces, by major log type, 1996 to 2005. Source: Statistics Canada.

Province	Log type	Year			1996 -2005	%
		1996 (m ³)	2001 (m ³)	2005 (m ³)	Grand total (m ³)	
Alberta		3,620	1,092	1,867	17,168	0.0
BC	Coniferous pulpwood	325,097	426,355	12,634	3,618,306	
	Coniferous sawlogs	304,473	41,936	24,649	920,204	
	Deciduous pulpwood	6,640	139	9,093	29,977	
	Deciduous sawlogs	4,448	2,462	335	52,202	
BC total		640,658	470,892	46,711	4,620,689	7.4
Manitoba		1,290	6,493	18,764	67,410	
New Brunswick	Coniferous pulpwood	197,755	3,247	292	277,051	
	Coniferous sawlogs	116,637	982,562	974,313	6,385,141	
	Deciduous pulpwood	15,178	5,832		33,853	
	Deciduous sawlogs	51,867	119,374	33,335	715,382	
New Brunswick total		381,437	1,111,015	1,007,940	7,411,427	11.8
Newfoundland					432	0.0
Nova Scotia			112	40	581	0.0
Ontario	Coniferous pulpwood	77,658	73,901	15,425	759,029	
	Coniferous sawlogs	220,507	171,355	136,508	1,941,172	
	Deciduous pulpwood	110,607	98,548	15,810	960,095	
	Deciduous sawlogs	153,785	303,390	209,255	2,587,739	
Ontario total		562,557	647,194	376,998	6,248,035	10.0
Quebec	Coniferous pulpwood	1,910,739	1,604,872	435,366	11,832,720	
	Coniferous sawlogs	1,456,796	1,878,334	2,913,627	21,862,784	
	Deciduous pulpwood	109,469	376,056	71,924	2,014,154	
	Deciduous sawlogs	534,782	821,177	1,114,975	8,669,972	
Quebec total		4,011,786	4,680,439	4,535,892	44,379,630	70.7
Saskatchewan		1,901	150	712	10,302	0.0
Yukon Total					61	0.0
Grand Total		5,603,249	6,917,387	5,988,924	62,755,735	100.0
Percent		8.9	11.0	9.5	100.0	

Table F-5. Volumes of logs imported by the provinces, by country of origin, 1996 to 2005. Source: Statistics Canada.

Province	Source	Year			1996-2005	%
		1996 (m ³)	2001 (m ³)	2005 (m ³)	Grand Total (m ³)	
Alberta		2,782	873	1,548	13,135	0.0
BC	Bolivia		455		2,195	
	Brazil	4	119	4,284	4,510	
	China P. Rep.	384	74	4	1,092	
	United States	638,918	469,696	41,573	4,545,623	
BC Total		639,306	470,344	45,861	4,553,420	7.3
Manitoba		829	5,192	18,244	62,524	0.1
New Brunswick		381,406	1,109,905	1,007,832	7,407,552	11.8
Ontario	Brazil	281	1,721	303	5,295	
	EU	205	3,190	234	8,313	
	Mexico	441		41	4,024	
	Myanmar				1,267	
	Thailand			1,620	2,676	
	Ukraine			856	1,019	
	United States	560,965	641,633	372,859	6,216,573	
Ontario total		561,892	646,544	375,913	6,239,167	10.0
Quebec	Argentina		6,682		14,607	
	Brazil		5,210	129	10,431	
	Cameroon			2,258	3,436	
	Chile		42		5,176	
	EU	5	346		2,729	
	South Africa		15,734		29,762	
	United States	4,011,080	4,651,251	4,532,465	44,304,981	
Quebec total		4,011,085	4,679,265	4,534,852	44,371,122	70.8
Saskatchewan		1,439	0	630	8,136	0.0
Grand total		5,598,739	6,912,123	5,984,880	62,655,056	100.0
Percent		8.9	11.0	9.6	100.0	

Note: - volumes in m³ - volumes less than 1000 m3 in aggregate by source removed; ignores re-imports

Table F-6. Volumes of logs exported from British Columbia, by forest region, jurisdiction, and destination, for the fiscal year April 1/05 to March 31/06 (ignores trans-shipments). Source: MOFR EMS data.

Forest Region	Permit type	USA (m ³)	Japan (m ³)	Korea (m ³)	China (m ³)	Taiwan (m ³)	Other (m ³)	Total (m ³)	Harvest (m ³)	%
Coast	Provincial									
	Surplus	967,414	454,518	110,419	23,469	916		1,556,736		
	Blanket							0		
	Standing	12						12		
	Total Provincial	967,426	454,518	110,419	23,469	916	0	1,556,748		
	Percent of Grand Total	19.2	9.0	2.2	0.5	0.0	0.0	30.8		
	Federal									
	Private	1,986,261	846,795	161,583	46,933	9,701		3,051,273		
	Native	8,229	669	3,977				12,875		
	Total Federal	1,994,490	847,464	165,560	46,933	9,701	0	3,064,148		
Percent of Grand Total	39.5	16.8	3.3	0.9	0.2	0.0	60.7			
Total coast	2,961,916	1,301,982	275,979	70,402	10,617	0	4,620,896	21,770,111	21.2	
Percent of Grand Total	58.7	25.8	5.5	1.4	0.2	0.0	91.5			
Southern Interior	Provincial									
	Surplus	96,142	5				66	96,213		
	Blanket							0		
	Standing	28						28		
	Total Provincial	96,170	5	0	0	0	66	96,241		
	Percent of Grand Total	1.9	0.0	0.0	0.0	0.0	0.0	1.9		
	Federal									
	Private	31,153						31,153		
	Native	1,480						1,480		
	Total Federal	32,633	0	0	0	0	0	32,633		
Percent of Grand Total	0.6	0.0	0.0	0.0	0.0	0.0	0.6			
Total Southern Interior	128,803	5	0	0	0	66	128,874	32,120,114	0.4	
Percent of Grand Total	2.6	0.0	0.0	0.0	0.0	0.0	2.6			
Northern Interior Non-transition zone	Provincial									
	Surplus	10,378	78	13	17			10,486		
	Blanket							0		
	Standing	7,603						7,603		
	Total Provincial	17,981	78	13	17	0	0	18,089		
	Percent of Grand Total	0.4	0.0	0.0	0.0	0.0	0.0	0.4		
	Federal									
	Private							0		
	Native							0		
	Total Federal	0	0	0	0	0	0	0		
Percent of Grand Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Total Non-transition	17,981	78	13	17	0	0	18,089	32,244,330	0.1	
Percent of Grand Total	0.4	0.0	0.0	0.0	0.0	0.0	0.4			
Northern transition zone	Provincial									
	Surplus	36,479	106,387	46,626	1,469			190,961		
	Blanket	17,295	28,855		42,623			88,773		
	Standing									
	Total Provincial	53,774	135,242	46,626	44,092	0	0	279,734		
	Percent of Grand Total	1.1	2.7	0.9	0.9	0.0	0.0	5.5		
	Federal									
	Private							0		
	Native							0		
	Total Federal	0	0	0	0	0	0	0		
Percent of Grand Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Total transition zone	53,774	135,320	46,639	44,109	0	0	279,842	2,104,165	13.3	
Percent of Grand Total	1.1	2.7	0.9	0.9	0.0	0.0	5.5			
Total Northern Interior	71,755	135,398	46,652	44,126	0	0	297,931	34,348,495	0.9	
Percent of Grand Total	1.4	2.7	0.9	0.9	0.0	0.0	5.9			
Grand Total	3,162,474	1,437,385	322,631	114,528	10,617	66	5,047,701	88,238,720	5.7	
Percent	62.7	28.5	6.4	2.3	0.2	0.0	100.0			

Table F-7. Volumes of logs exported from coastal British Columbia, by species and grade distribution (fiscal year April 1/05 to March 31/06), volumes in m³. Source: MOFR EMS Data

Jurisdiction/ Permit Type	Species	Coastal Grades (%)																Coastal Total m ³	% of Coastal Total	
		Blank	B	C	D	E	F	G	H	I	J	K	L	M	U	X	Y			Z
Federal	AL	98.7															1.3		1,264	0.0
	BA				0.9		3.5		33.6	8.7	51.6				1.6	0.0		0.0	147,159	3.2
	CE				0.3		0.3		20.8	18.8	49.0	0.0	0.1	0.0	10.5	0.1	0.0	0.0	235,734	5.1
	CY				0.6		0.8		23.7	7.6	58.6	0.0			8.2	0.4	0.0		55,893	1.2
	FI		0.4	3.3	0.3		0.4		12.9	17.2	56.8				8.5	0.2	0.1	0.0	2,176,171	47.1
	HE				0.2		0.4		18.4	16.6	59.8				4.2	0.4	0.0	0.0	432,125	9.4
	LO									12.2	60.5				24.2	3.1			130	0.0
	SP							0.8	20.2	36.0	37.5				5.4	0.1			2,218	0.0
	WH								14.3	45.6	33.1				5.7	0.8	0.4		580	0.0
Federal Total		0.0	0.3	2.3	0.3		0.6	0.0	15.5	16.6	56.4	0.0	0.0	0.0	7.7	0.2	0.1	0.0	3,051,274	66.0
Native	BA							12.7	33.2	53.4				0.6					1,165	0.0
	CE							11.6	30.4	45.2				12.8	0.0				7,136	0.2
	FI			1.9				11.9	19.7	65.7				0.9					4,044	0.1
	HE							11.0	12.8	72.4				3.7					104	0.0
	MA	100.0																	425	0.0
	WH										100.0								1	0.0
Native Total		3.3		0.6				11.4	26.1	51.1				7.5	0.0				12,875	0.3
Standing	FI							100.0											12	0.0
Standing Total								100.0											12	0.0
Surplus	BA				0.3		1.2		32.6	7.0	57.5			1.3	0.1	0.0			192,688	4.2
	CE	99.8														0.2			716	0.0
	CO	100.0														0.0			8,674	0.2
	CY	90.6						9.4											252	0.0
	FI	0.0		0.0	0.0		0.0		24.8	27.8	41.9			5.0	0.3	0.2			570,305	12.3
	HE				0.2		0.2		16.4	8.9	71.0			3.2	0.1	0.0	0.0		687,341	14.9
	LO							2.3	1.9	95.7				0.1					229	0.0
	SP				0.6	0.8	0.5	1.4	50.4	29.4	13.1			3.5	0.2	0.1			96,203	2.1
	WH								5.6	14.2	75.7			4.5	0.1				478	0.0
	YE								49.9	27.2	16.2			6.6					203	0.0
Surplus Total		0.6		0.0	0.1	0.1	0.3	0.1	23.5	16.8	54.7			3.6	0.2	0.1	0.0		1,557,090	33.7
Coastal Total		0.2	0.2	1.5	0.3	0.0	0.5	0.0	18.2	16.7	55.8	0.0	0.0	0.0	6.3	0.2	0.1	0.0	4,621,250	100.0