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## Wood Waste and Log Exports on the BC Coast

By Ben Parfitt



British Columbia's forest industry remains a vital part of the provincial economy. But there are signs that all is not well. Numerous opportunities to generate jobs from forest resources are routinely squandered. Absent much-needed provincial forest policy reforms, the situation is poised to get worse.

This short paper addresses two of the more troubling trends plaguing the coastal industry – rising log exports and mounting wood waste. Both have significant implications for forestry workers and rural communities, especially on the coast. In the past two years roughly one in three logs from coastal forestlands failed to be run through provincial mills. They were either exported out of the province to US or overseas mills, or left to rot on the ground at numerous logging sites. The cost of not turning those logs into lumber and other wood products here in BC was the loss of an estimated 5,872 jobs in 2005 and 5,756 jobs in 2006.

In the absence of provincial forest policies that:

- restrict the ability of companies to export raw logs,
- require companies to invest in new mills or upgrade existing ones, and
- penalize companies for unacceptable levels of wood waste,

British Columbians can expect ever-diminishing returns from their forest resources. A series of policy recommendations aimed at reversing current trends anchors the report.

## Rising Raw Log Exports

Raw log exports from public and private forestlands in coastal BC have been a longstanding concern. Since 2000 when annual log exports stood at 2.68 million cubic metres, out-of-province raw log shipments have risen more than 75 per cent to 4.7 million cubic metres (see table). The increase alone amounts to 57,714 highway truckloads of raw logs, enough wood to keep two sizeable sawmills supplied for a whole year.

A primary reason for the exports is that the bulk of BC's private forestlands are located on the coast, and in particular on Vancouver Island. Companies logging private lands have higher profit margins than their counterparts logging public forestlands because they pay no stumpage or timber-cutting fees to the province.

Coastal exports are also rising because big private forestland owners like TimberWest Forest have deliberately divested themselves of manufacturing facilities in order to become almost exclusively market loggers and exporters. TimberWest set records for exports in 2005, selling 1.7 million cubic metres of logs from its coastal BC holdings to buyers in the US, Japan and other Asian markets.<sup>1</sup> In the first nine months of 2006, the company distributed \$76.3 million in cash to its shareholders, in part because of a "richer sales mix" or higher percentage of valuable logs sold on export markets.<sup>2</sup>

There is mounting concern that log exports from *public* forestlands could follow a similar upward trend. In March 2006, for example, the provincial government signed an Order-in-Council that gave the green light to increased log exports from BC's mid coast. Based on recent logging rates, the approval paved the way for up to 350,000 cubic metres in additional logs to be sold to out-of-country buyers.<sup>3</sup>

Further public and private land log exports may also occur because of the sharp decline in the number of wood processing facilities in BC and, in particular, on the coast. A recent survey by the United Steelworkers Union found that, since 2000, 38 wood processing facilities in BC have ceased operation. The latest mill closure occurred in February 2007 and involved Western Forest Products' New Westminster sawmill. The cessation of production at that site cost 284 workers their jobs.<sup>4</sup>

BC forest policies once required companies that logged public forestlands to own and operate mills in exchange for their access to Crown timber. But the province dropped those requirements in 2003. Its scrapping of so-called appurtenancy clauses paved the way for further log exports. By law, companies wishing to export logs from BC must first notify prospective domestic buyers that such logs are available for purchase. If the logs are not purchased they are then deemed "surplus" to domestic needs, and may then be exported. Clearly, the fewer number of domestic mills there are, the more likely it is that companies can meet the surplus test and therefore export. It becomes a self-fulfilling prophecy.

Compounding problems, the province agreed in negotiations with US trade officials prior to the Canada-US Softwood Lumber Agreement of 2006 to exclude raw logs from the list of products covered by the agreement. Significantly, the softwood dispute was also the underlying reason behind BC's earlier decision to scrap appurtenancy and other "social contract" provisions from its forest policies.<sup>5</sup> The exclusion of raw logs from the SLA creates further incentives to export raw logs because once certain export thresholds are reached under the agreement, BC mills producing softwood lumber products, which *are* covered under the SLA, pay export taxes of up to 15 per cent. No such punitive taxes apply to raw logs. If you were a company shareholder far removed from the impacts your decisions had on the lives of working people, which scenario do you think you would support?

## Growing Wood Waste: Take the Best, Leave the Rest

In addition to a surge in the number of raw logs exported from coastal BC, an analysis of data maintained by BC's Ministry of Forests shows that high numbers of usable logs are being left behind at logging sites.

Usable or "merchantable" logs left behind following logging are those logs that the government and forest companies agree could be turned into lumber and other wood products or chipped for use in pulp and paper products. By law, companies are required to disclose how many such logs are left behind. They then make nominal stumpage payments to the province in lieu of not taking the logs.

Members of the public can access information on how many usable logs are wasted through a database known as the Harvest Billing System, provided they know what to look for. Database searches reveal how many usable logs are left behind on public lands, but not on private lands. That is because companies logging private lands are not required to submit information on the number of logs they leave behind. Nor are they required to pay stumpage fees on that waste wood. They must, however, report the total number of logs they harvest and stamp with private timber marks.

Absent a comprehensive government survey of waste levels on private lands, an estimate must suffice. Following conversations with various forest industry workers who expressed the opinion that wood waste levels are as high or higher on private lands as on public lands, the approach taken in this paper was to conservatively assume that waste levels would be roughly equal on private and public lands. When the estimated amount of usable waste on private lands was then added to the usable waste on public lands, it showed that in each of the last seven years nearly 2 million cubic metres of usable logs on average were left on the ground rather than milled. That is enough wood to have kept two sizeable sawmills running for the entire seven-year timeframe covered in this report. In 2005, the number of usable logs left on the ground was an incredible 3.63 million cubic metres, enough material to fill the beds of 103,826 highway logging trucks.

The information in the following table shows both wood waste levels and log export levels. The wood waste figures show a dramatic ramp-up in the number of usable logs being left behind in the bush rather than milled beginning three years ago. This reflects changes introduced by the provincial government under the Forest Revitalization Act, which allowed for the present "take or pay" system.

Year (February to January)	Waste Logs	Log Exports	Exports/Waste	Jobs Lost
	(millions of cubic metres)			
2000/2001	1.3	2.7	4.0	3,160
2001/2002	1.5	2.3	3.9	3,047
2002/2003	1.3	3.3	4.6	3,631
2003/2004	0.4	3.8	4.2	3,282
2004/2005	1.7	3.2	5.0	3,962
2005/2006	3.6	3.8	7.4	5,872
2006/2007	2.6	4.7	7.3	5,756

Sources: Figures on waste logs come from the Harvest Billing System database maintained by BC's Ministry of Forests. Members of the public can access the database at: <http://www.for.gov.bc.ca/hva/hbs/index.htm>. Because research for this report commenced in March, the most recent 12-month period was used as a starting point, hence the February to January timeframes. December to January figures would vary only slightly from those presented here. Information on log exports comes from Ministry of Forests annual reports. Job loss figures are the author's estimate based on Statistic Canada's 2006 *Labour Force Survey*.

## Jobs Foregone: What Do We Lose by Not Processing Logs Here in BC?

In each of the past two years nearly one in every three logs felled in BC's coastal forests failed to be run through local mills. The consequences for working people and communities were, predictably, not good.

Using forest industry employment figures and logging data from the Ministry of Forests one can calculate the number of manufacturing jobs generated per unit of wood.

That ratio can then be applied to the total number of logs either exported or left on the ground in each of the past seven years. When that is done, the lost employment opportunities associated with logs coming from coastal forests but not run through BC mills is 4,101 jobs per year. The last two years, in particular, are especially bad in terms of foregone jobs, averaging more than 5,800 per year.

Why are so many logs not being processed locally? Part of the answer has already been provided – namely, that logs from private forestlands are not subject to the same rules as those from public lands and therefore are more profitable to log and place on export markets. As well, present policies encourage companies

to close mills because there are no penalties when processing facilities are shut down. And we now have the added, and some would say perverse situation, in which BC companies are penalized under the SLA for selling lumber into the US but not penalized if they ship raw logs south of the 49th parallel.

In the past two years roughly one in three logs from coastal forestlands failed to be run through provincial mills, and were instead exported out of the province or left to rot on the ground. The cost of not turning those logs into lumber and other wood products here in BC was the loss of an estimated 5,872 jobs in 2005 and 5,756 jobs in 2006.

The province's decision to end requirements that companies own and operate mills in exchange for access to public timber also explains why more usable logs are left in the bush rather than processed. As more mills close, there is less ability to process logs locally. Equally important, as new investments fail to materialize the chances increase further that more logs will be left behind. This is particularly true when considering one particular wood species – hemlock. Hemlock is by far the most common tree species in coastal BC. It is an extremely moisture-laden wood that requires drying in kilns in order to extract its maximum sales value.

Hemlock logs are the most likely to be left behind in present-day logging operations in large measure because there is a paucity of domestic mills and kilns designed specifically to process and dry hemlock lumber. The end result is that more emphasis is placed on logging prime second-growth and third-growth Douglas fir forests, with much of that harvest destined for the export market, or to log remaining pockets of highly valuable old-growth cedar, spruce or fir, with some of those logs export bound or destined for processing in coastal BC's remaining mills.

Until such time as new investments are made in mills that can efficiently process and dry hemlock, there is every reason to believe that the wasting of usable logs on BC's coast will continue unabated. And the danger in allowing that to happen is that our coastal forests will continue to be overcut, because if we're not utilizing what we log then we're logging too much. Which means even deeper employment cuts and further economic upheaval in coastal communities in the months and years ahead.

# Charting a New Course: Proposed Forest Policy Changes

Staying the present course is a policy option, but not one that most British Columbians would support. How, then, to bring log exports under control and stop the wanton wasting of forest resources?

Bringing an end to log exports should be an overriding policy objective. But getting there will require both the efforts of the provincial government and the federal government, which has authority over private forestlands. In addressing the log export issue the province should:

1. Immediately impose high fees in lieu of domestic manufacturing on all logs destined for export markets so that there is the strongest possible incentive to process those logs here in the province.

This recommendation appears to be one that the province is embracing. In late May, Forests Minister Rich Coleman announced that logs exported from Crown lands will be subject to some form of an export tax. The tax will be equivalent to the 15 per cent tax currently levied on US-bound BC softwood lumber products once certain price or export thresholds as outlined in the Canada-US Softwood Lumber Agreement are reached.<sup>6</sup>

2. Ensure that there is a stringent and transparent process in place that truly allows domestic mills to bid on and buy logs prior to them being deemed “surplus” and exported.
3. Demand that the federal government impose the same requirements on companies logging private forestlands.
4. Declare a phased-in end to all log exports from BC.

To address the continued wasting of usable logs on the coast the province should:

1. Immediately impose tough new utilization standards that require companies to bring the trees that they do log into communities for processing.

Such standards must, however, ensure that sufficient amounts of woody debris are left on the ground to rot and return needed nutrients to the ground.

2. Require forest companies to make minimum levels of investment in new or existing milling facilities in exchange for continued access to publicly owned timber.

This recommendation may require some rethinking of the old concept of appurtenancy. New mills or expanded mills will only work if they are in the right location. And the right locations will be heavily influenced by present-day realities including the fact that the nature of the forest resource has changed (little old-growth remains) and power considerations. Hydro supplies are tight in places like Vancouver Island and new mills and lumber drying facilities in particular are extremely energy intensive.

3. Require companies to process the hemlock trees that they log or face reductions in logging quotas so that our forests are not being over-cut and our most prevalent coastal tree species wasted.

## NOTES

- 1 TimberWest 2006a.
- 2 TimberWest 2006b.
- 3 Province of British Columbia 2006.
- 4 Western Forest Products 2006.
- 5 Parfitt 2006.
- 6 Hamilton 2007.

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