

# Down the Value Chain:

## The Politics and Economics of Raw Log Exports

By Dale Marshall  
November 20, 2002

*Raw log exports already represent 800 foregone jobs for BC. A recent provincial government Order-in-Council could increase that number to 1,500. The justification for increased log exports—that the timber being harvested exceeds BC's milling capacity—is unsupported by the facts, particularly in the face of mill closures due to the softwood duty.*

FOR MOST OF THE 1990s, APPROXIMATELY half a million cubic metres of raw logs were exported every year from British Columbia (Figure 1), never exceeding 1% of the provincial cut. Since 1997, this volume has increased almost six-fold, to 2.9 million cubic metres and almost 4% of harvested timber.<sup>1</sup> A recent Order-in-Council by the BC government may substantially increase this total.

At a time when Coastal communities are being hit hard by mill closures, the continued and increased export of raw logs represents the export of jobs from BC. Our forest industry already creates fewer jobs per volume of wood than in eastern Canada, the U.S., and Scandinavia. By increasing raw log exports, BC is moving in the wrong direction—creating even fewer jobs and even less prosperity for the province, particularly forest-dependent communities. But unlike the softwood lumber dispute, the BC government can act unilaterally to resolve this employment and economic development problem.

### Raw logs leave the province

Over the last few years, raw log exports from private land have driven the upward trend in raw logs leaving BC.

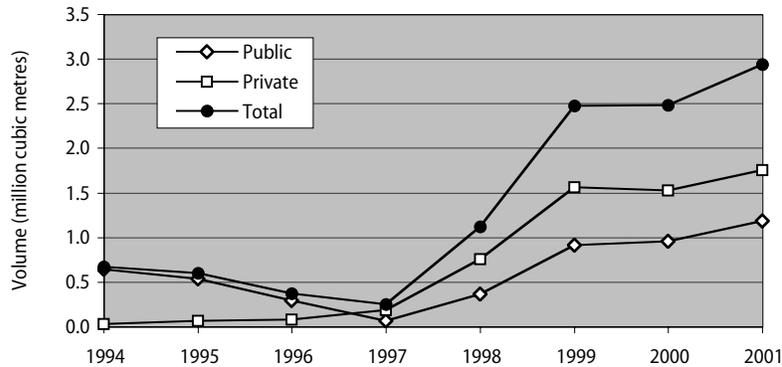
Exports from First Nations reserves have dropped dramatically over the same period (although they have never made up a significant proportion of exports). Until 1997, trees cut and exported from private land made up an almost insignificant proportion of total harvested timber. That year, however, Asian economies crashed and so did commodity prices for dimensional lumber and pulp. Some forest companies were able to remain profitable because they produced higher-valued forest products, like MacMillan Bloedel's packaging and panel board divisions (much of it outside BC), Pacifica Papers, and Fletcher Challenge.<sup>2</sup> Other companies increased their export of raw logs off private land. TimberWest, for example, now derives 80% of its sales revenue from the sale of logs, mostly from private land.<sup>3</sup>

The volume of trees cut and exported from *public* land has also increased since 1997, to 1.2 million cubic metres in 2001. This total, though smaller than exports from private land, is the highest in at least the last decade.

An important aspect of these exports is their source: Coastal British Columbia. Virtually all log exports originate on the Coast. Eleven per cent of Coastal timber is exported unprocessed.<sup>4</sup>

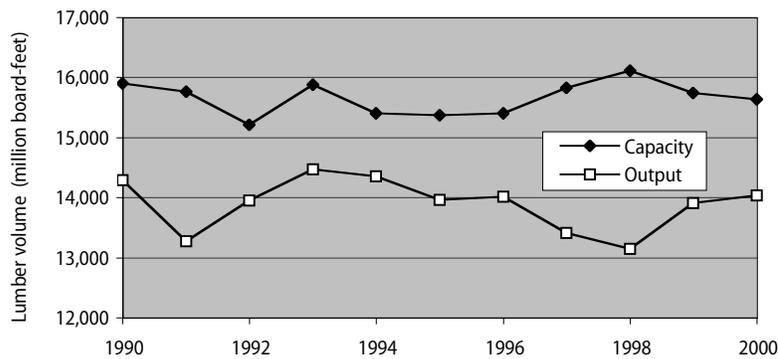


Figure 1: Raw Log Exports in BC (1994-2000)



Source: BC Ministry of Forest, 1995-2002.

Figure 2: Milling capacity and output of BC mills (1990-2000)



Source: BC Ministry of Forests. 2001.

## How could this happen?

What allows companies to simply export unprocessed timber with no consideration of local economic conditions?

The provincial government has no jurisdiction over the use of timber cut on private land. However, according to BC's *Forest Act*, timber cut on *public* land must be processed in British Columbia.<sup>5</sup> The Minister of Forests may allow exemptions to this rule under one of three conditions: the timber exceeds BC's milling capacity; the timber cannot be processed economically in BC; or the

exemption would "prevent the waste" of the timber.<sup>6</sup> A fee may have to be paid to the government in lieu of the employment creation that would otherwise occur by processing the logs within the province.

The use of these exemptions has allowed raw log exports from Crown land to increase since 1997, to over a million cubic metres in 1999-2001, double the 1994-1997 average (Figure 1). In 2000, the former BC government was still newly approving large volumes of log exports for Interfor, West Fraser Timber, and other forest companies.

Future increases in log exports are likely. The BC government, in February 2002, passed an Order-in-Council that allowed up to 35% of timber harvested in three mid-Coast districts (North Coast, Kalum, and Kispiox) to be exported without processing for three years.<sup>7</sup> This could total an additional 2.7 million cubic metres of logs leaving the province. The exemption was premised on the first condition of Section 128 of the *Forest Act*: that this volume of timber exceeds the province's milling capacity.

Incidentally, federal legislation governs the export of raw logs from private land.<sup>8</sup> This legislation also requires a determination—this time by the Exports Control Division of the Department of Foreign Affairs and International Trade—that those logs are surplus to domestic needs before an export license is granted. This process has clearly not stemmed the flow of logs from private land either.

## BC's milling capacity

The justification for increased log exports—that the timber being harvested exceeds BC's milling capacity—is unsupported by the facts, particularly in the face of mill closures due to the softwood duty. BC is exporting jobs to the U.S. (and Asia) at a time when U.S. duties are already killing BC forest jobs.

Ministry of Forests documents show that, throughout the last decade, milling capacity in BC has exceeded actual output by an average of 13%<sup>9</sup> (Figure 2), though provincial averages smooth over differences between companies, with some having enough fibre supply and others not. Based on the average lumber recovery factor (the amount of lumber produced per unit volume of timber), this represents an over-capacity of between 7 and 8 million cubic metres of wood. This discrepancy could be explained by mill shutdowns for maintenance, except that mill capacity calculations take this into account by using a 48-week year.

Labour disputes and low commodity prices can also shut down mills, but these factors do not fully account for low mill production. For example, between 1997 and 1999—not a great period for either labour relations or commodity prices—these two factors only accounted for 10% of pulp mill shutdowns.<sup>10</sup> During that same period, mill capacity exceeded production by 18%. In any case, economic factors were not the cited reason for the Order-in-Council.

The final reason for mill production trailing well below capacity is BC forest companies' lack of access to

fibre. In fact, there is substantial evidence that mills *would* have fewer shutdowns if they had access to more logs. The province's allowable annual cut (AAC) decreased from a high of 90 million cubic metres in the late 1980s to 70 million cubic metres in 2000. Over the last three years, even as mills all over BC were closing permanently, companies were complaining about lack of fibre. Weyerhaeuser indicated that it does not have enough timber for all its divisions.<sup>11</sup> Its Island Phoenix division has been closed more often than it has been open over the last few years. Western Pulp's Squamish mill and Ladysmith division have both been shut down for over six months since April 2001 because of a shortage of fibre. Rick Doman of Doman Industries has stated that another 2 million cubic metres of wood would be needed to keep his sawmills fully operating.<sup>12</sup> Clearly, a stunning mismanagement of forest resources is at work when needed fiber is exported abroad for processing.

This is not to imply that more forests should be cut in BC. Rather, we need to acknowledge ecological realities by cutting fewer trees, while ensuring that the highest value is added to them. Exporting unprocessed logs while mills sit idle is the antithesis of making the most of BC wood.

The anecdotal evidence of overcapacity is confirmed and strengthened by analyses of the entire Coastal forest industry. Mark Bishop, a forestry analyst with Goepel McDermid Inc., stated in November 2000, "We have too many mills on the Coast and I could see three mills closing in the next eight months."<sup>13</sup> He was agreeing with a report released by R.E. Taylor and Associates, which concluded that BC had a milling *overcapacity* problem.<sup>14</sup> One year later, after mills did shut down, resource economist Peter Pearse wrote that "substantial excess capacity" on the Coast<sup>15</sup> meant that eight to sixteen sawmills would have to be closed permanently.<sup>16</sup> Three months after Pearse released his report, the BC government passed the Order-in-Council allowing raw log exports.

## Exporting jobs and sustainability

The BC forest industry, based on employment and timber figures for 1997-1999, creates approximately 790 processing jobs per million cubic metres of timber.<sup>17</sup> This does not include jobs in logging, silviculture, and government, which are all assumed to be unaffected by raw log exports. Employment/volume ratios on the Coast—where most exports originate—would likely be higher than this figure since Coastal forest operations produce more value-added products, which require greater labour inputs.<sup>18</sup>

Using the 790 jobs/million cubic meters ratio, in 2001 BC forfeited more than 800 full-time forestry jobs by exporting over a million cubic metres of timber from Crown land (Figure 3). With the latest Order-in-Council allowing increased raw log exports, the volume of logs leaving BC could go up by another 900,000 cubic metres annually, representing 700 more full-time jobs. If BC were to use this wood to increase its value-added production—to a level comparable to Sweden, for example—this volume of raw timber could produce twice that level of employment.<sup>19</sup> While this certainly could not be accomplished overnight, it can eventually be reached through smart and creative policies that encourage this kind of activity by forest companies operating here.

Instead of creating at least 700 jobs for three years in BC's forest industry—bringing \$144 million in wages and benefits to the region<sup>20</sup>—a mere \$2.7 million at most will enter government coffers from a \$1 per cubic metre fee on exported timber. This comes at a time when the mid-Coast has been hit hard economically. The Department of Fisheries and Oceans cut the Pacific salmon fleet in half between 1996 and 2000.<sup>21</sup> The Asian economic crisis reduced demand for lumber, and shipments to Japan subsequently tumbled 23% in 1997.<sup>22</sup> This mostly affected the Coastal forest companies since they were more reliant on the Asian market than BC interior companies. To make matters worse, the Coastal forest industry could not turn to the U.S. as an export market, since the Canada-U.S. Softwood Lumber Agreement gave the Coastal industry only small lumber export quotas before imposing tariffs.

Consequently, 11 large Coastal mills closed permanently between 1997 and 2001<sup>23</sup>, while log exports increased tenfold. Most amazingly, some of these mill closures have occurred within the three forest districts affected by the latest Order-in-Council, hitting communities like Prince Rupert, Terrace, Smithers, and others.

Allowing the export of unprocessed timber represents the export of sustainability as well. Countries receiving BC's unprocessed logs include the U.S., which has already cut a majority of its old-growth forests, and Japan, where logging in remaining forests is minimal and tightly controlled.

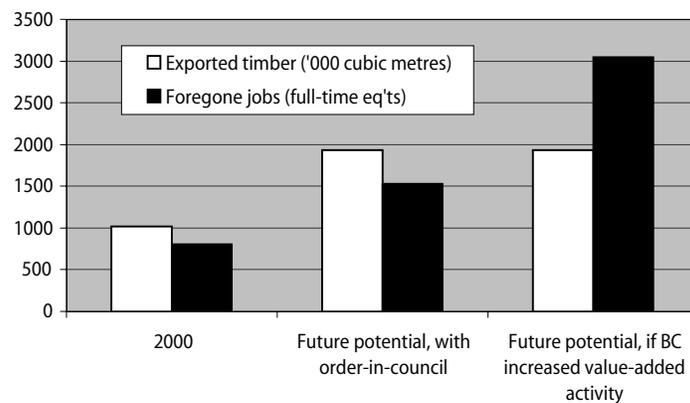
Therefore, BC is not only cutting its own forests with little economic return, it is also letting other countries off the hook for past destructive practices.

The forest industry may argue that, given the situation with the U.S. over softwood lumber, the decision is between raw log exports and no forestry at all. But raw logs were exported in significant quantities before this latest dispute. Increased log exports moves us in the wrong direction. Instead of alleviating the pressure coming from the U.S. by strategically encouraging more value-added production in forest products, the BC government is content with creating even fewer jobs with our valuable forest assets.

## Solutions

Like the guy who asks his doctor, "What should I do? It hurts when I do this," the solution to the export of logs and jobs is simple: don't do this. BC's *Forest Act* is clear in allowing the export of unprocessed timber only under three prescribed conditions, none of which are met in this case. If anything, BC should be striving to do more with its valuable wood, not less. And given that the vast majority of BC's forests are owned by all British Columbians, the government should be ensuring that sufficient economic and social gains return to the province in exchange for allowing companies access to these forests. (It would be significantly more difficult for the province to influence federal legislation governing raw log exports from private land.)

Figure 3: Exporting Raw Logs and Jobs



Sources: PricewaterhouseCoopers. 2000; BC Ministry of Finance. 2002; Pearse. 2001; and Sierra Legal Defence Fund. 1998.

The BC government can also change the stumpage system to give forest companies greater incentives to produce more value-added products with the wood they cut. One suggestion to accomplish this is by charging a tax (in lieu of stumpage) that is applied after the wood is processed, with the tax percentage being lower the more the wood has been processed.<sup>24</sup> It is important, given the current softwood dispute with the U.S., that timber revenue collected by the BC government not decrease. In fact, the minimum charge for timber needs to increase significantly from the current 25 cents per cubic metre of wood.

With many BC forest companies reluctant to invest in value-added wood products, the provincial government should also be diversifying forest tenure holders in BC. This would involve creating community forest tenures and using some forested land to resolve First Nations treaty negotiations.<sup>25</sup> These smaller-scale, community-based operations can have advantages over those of multinational companies, namely: retention of social and economic benefits at the local level; a greater desire for producing higher-valued forest products; and more consideration for ecological values.

There is the distinct possibility that, at some point in the future, BC may be urged through its membership in free trade agreements to remove these export restrictions. Despite the fact that banning raw log exports is allowed under the North American Free Trade Agreement (NAFTA)<sup>26</sup>, Canada's federal government has challenged the U.S.'s log export constraints under the World Trade



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Organization (WTO). Japan has also threatened to challenge the U.S.'s restrictions using WTO mechanisms<sup>27</sup>, and may challenge BC's. However, nothing to date restricts BC from banning all raw log exports.

## Conclusion

The bottom line is that raw log exports represent 800 foregone jobs for BC. The provincial government's Order-in-Council could increase that number to 1,500. BC should be moving up the value chain, not down. There are smarter, more creative policy options available that would allow British Columbians to harness greater economic returns from forestry conducted on our public land.

## Notes

- <sup>1</sup> BC Ministry of Forests. 1995-2001. "Timber Exports by Jurisdiction." Victoria.
- <sup>2</sup> Wilson, Fred. 1999. "Cutting Costs: The Politics of Trees and Fees in BC." Canadian Centre for Policy Alternatives. Vancouver. p. 5.
- <sup>3</sup> Ibid, and TimberWest. 2002. "Fast Facts." Electronic database accessed on October 2, 2002 at [http://www.timberwest.com/compinfo\\_facts.cfm](http://www.timberwest.com/compinfo_facts.cfm)
- <sup>4</sup> Pearse, Peter H. 2001. "Ready for Change: Crisis and Opportunity in the Coast Forest Industry." A report to the BC Minister of Forests. Victoria. p. 18.
- <sup>5</sup> *BC Forest Act* (1999), s. 127.
- <sup>6</sup> *BC Forest Act* (1999), s. 128.
- <sup>7</sup> Government of British Columbia. 2002. "Order of the Lieutenant Governor in Council, No. 121." Victoria.
- <sup>8</sup> *Export and Import Permits Act* (1998), s. 2.0.
- <sup>9</sup> BC Ministry of Forests. 2001. "History of Lumber Recovery Factors (LRFs)." Victoria.
- <sup>10</sup> This was calculated from three publications: Price Waterhouse. 1998. "The Forest Industry in British Columbia, 1997." Vancouver. p. 10; PricewaterhouseCoopers. 1999. "The Forest Industry in British Columbia, 1998." Vancouver, p. 8; and PricewaterhouseCoopers. 2000. "The Forest Industry in British Columbia, 1999." Vancouver, p. 10-11. These are the last years for which industry-wide data is available.
- <sup>11</sup> Hamilton, Gordon. 2001. "Too much capacity' shuts two Weyco mills." *Vancouver Sun*. p. D1.
- <sup>12</sup> Hamilton, Gordon. 2002. "Victoria plans to take back timber: Major restructuring under discussion would see 20 per cent of coastal tenures given up." *Vancouver Sun*. p. B8.
- <sup>13</sup> DaSilva, David. 2000. "More closures and pink slips to hit coastal loggers." *Business in Vancouver*. (November 14-20). p. 6.
- <sup>14</sup> Taylor, Russel E. and van Leeuwen, Gerry. 2000. "Outlook for Hemlock Prices and Volumes in Japan and Western Red Cedar Prices and Volumes in the USA." R.E. Taylor and Associates Ltd. for Coast Forest & Lumber Association. Vancouver.
- <sup>15</sup> Pearse, p. 5.
- <sup>16</sup> Calculated by comparing future mill requirements (Pearse. 2001. p. 29-30) with existing mills (Pearse. 2001. p. 18).
- <sup>17</sup> Calculated from PricewaterhouseCoopers. 2000. p. 16; and BC Ministry of Finance. 2002. "2001 British Columbia Financial and Economic Review." Victoria. p. 95.
- <sup>18</sup> Pearse. 2001. p. 18.
- <sup>19</sup> Sierra Legal Defence Fund. 1998. "Profits or Plunder: Mismanagement of BC's Forests." Vancouver. p. 11.
- <sup>20</sup> Compensation and benefits calculated using the BC forest industry average, using data in PricewaterhouseCoopers. 2000. p. 17.
- <sup>21</sup> Gislason, G., E. Lam, and M. Mohan. 1996. "Fishing for Answers: Coastal Communities and the BC Salmon Fishery." BC Job Protection Commission. Victoria; and Department of Fisheries and Oceans. 2000. "Restructuring the Commercial Salmon Fleet." Pacific region, Fisheries and Oceans Canada. Vancouver. (January 26).
- <sup>22</sup> Price Waterhouse. 1998. p. 6.
- <sup>23</sup> Pearse. 2001. p. 19.
- <sup>24</sup> I.W.A. Canada. 2001. "There is a Better Way: I.W.A. Canada Response to BC Government Proposed Policy Changes." Vancouver. p. 8.
- <sup>25</sup> This and other suggestions were made in Marshall, Dale. 2001. "Re-Capturing the Wealth: Investment Solutions for Jobs and Environmental Sustainability in BC's Resource Sector." Canadian Centre for Policy Alternatives. Vancouver.
- <sup>26</sup> Appleton, Barry. 1994. *Navigating NAFTA: A concise user's guide to the North American Free Trade Agreement*. Carswell Thomson Professional Publishing. Toronto. p. 26.
- <sup>27</sup> Japan Ministry of Foreign Affairs. 1997. "The Government of Japan's Comments on the 1997 National Trade Estimates (NTE) Report." Electronic database accessed on October 3, 2002 at <http://www.mofa.go.jp/region/n-america/us/economy/date/415/>

## About the author

Dale Marshall a researcher with the Canadian Centre for Policy Alternatives. He holds a Master's degree in resource and environmental management from Simon Fraser University, a Bachelor's degree in environmental science and biology from the University of Western Ontario, and a Bachelor of Engineering from McGill University.

Dale staffs the Centre's resource economics project. The project seeks to develop collective, public and community solutions aimed at protecting employment and the environment.

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