

# **LOG EXPORT CRISIS IN BRITISH COLUMBIA:**

## **A TIME TO ACT**

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# LOG EXPORT CRISIS IN BC: A TIME TO ACT

## INTRODUCTION

*“We are not in favour of raw log exports... We don't want to export logs and export jobs along with them.”*

*Gordon  
Campbell, 2001*

British Columbia has a proud history of maintaining a social contract in the forest sector that tied local resources to local communities and local jobs. For more than 100 years the government of British Columbia and Canada have taken legislative action to ensure that the economic benefits of our natural resources would stay in the province and the country. This policy of adding value in Canada prior to export reflects a common understanding that the creation of jobs and a viable tax/royalty base was critical to the prosperity of the country. Furthermore, these policies contributed to renewed capital investment in British Columbia's value-added forest sector and created thousands of jobs across the province.

When it comes to the forest industry, the social contract between local communities and local resources has always been clear. Timber Forest Licenses were tied to local area mills through appurtenancy clauses. Legislation was passed banning the exports of raw logs to ensure maximum benefit for the Canadian people. Industry invested in local mills and hired local workers to add value to local resources.

Today, the industry is entering another period of internal restructuring. This period, particularly on the coast, has been characterized by the closure of mills, the loss of jobs and the break-up of once integrated forestry companies. At the same time, there has been a lack of investments in the value-added sector which would have resulted in greater utilization of wood and reflect the second growth nature of the resources being harvested today.

Compounding this transition period has been the relaxing of forest policy on several fronts which has opened the door for a dramatic increase in log exports.

Crown and Private lands are now being logged by companies that have an economic growth strategy based on the shutting down of domestic processing and exporting increasing amounts of their annual cut in the form of raw logs.

This paper examines the history and extent of raw log exports, the governmental framework for this, the nature of corporate restructuring and the consequences for employment and community well-being.

We also make recommendations for governments to reverse the exporting of logs to protect jobs and communities.

## **HISTORY**

From the very earliest days the provincial government has worked to ensure the economic interests of the province were paramount in the cutting and processing of timber. The **Land Act** of 1888 required that when timber rights were granted they were done so at levels equal to the established domestic milling capacity of the company involved. Private timber lands were exempt at this time and a log export tax was established.

The first move to restrict log exports occurred in 1891 when the provincial government of the day passed legislation, which made it unlawful to export logs from Crown Land out of the province. Even at this time a distinction was made between Crown lands and private timberland granted by the Crown to corporations. Taxes were imposed on those lands to discourage exports and those taxes were rescinded if the wood was processed in Canada.

In 1906, the restriction of log exports was recast into the **Timber Manufacture Act** and additional language was added into the **Forest Act** of 1912:

*“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-exemption record, shall be used in this province or be manufactured in this Province into boards, deal, joists, lath shingles, or other sawn lumber....”*

This policy was also enforced when tenure was granted to forest firms, who had to demonstrate domestic capacity prior to receiving the right to cut timber.

The first real break with this policy occurred during the First World War when government legislation allowed for exemptions and for the export of raw logs where a tax was paid. In 1918, the log export advisory committee was established to ensure the needs of British Columbia came before any raw log exports.

In 1927, T.D. Pattullo, Minister of Lands stated, “There is no intention of permitting even a semblance of logging for export.”

This policy became the backbone of a log export policy for Crown Land and land granted after 1906 and remained the basic policy until the Second World War.

At that time, the federal government stepped onto the scene with an initial restriction on douglas fir and then all logs in 1942. Before this, there were no restrictions on private lands and lands granted prior to 1906.

Following the war, the blanket restrictions were lifted, but both federal and provincial governments, through successive reviews in the next 50 years, continued a policy which restricted the export of unprocessed logs. While procedures have been changed, the intent until most recently, has been to ensure that the logs exported were real surplus and logging companies were required, through a series of policies including appurtenancy, to maintain capacity within British Columbia.

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*Timber Manufacturing Act 1912*

Federal and provincial regulations to control exports were finally harmonized in the late 1960s and regulations and controls regarding surpluses were applied equally to all private and public lands.

In 1982 Forest Minister Tom Waterland reiterated the provincial government's policy when he denied an export application for 400,000 cubic metres.

*"It is the intent of our legislation to encourage a vigorous wood processing industry here in BC. This will not be achieved by permitting... export of large volumes of un-manufactured logs. The Forest Act provides for export of timber that is in excess of our own industrial needs, but this can't be determined until the timber has been cut, sorted, boomed and offered for sale on the Vancouver log market..."*

During the downturn of the mid-1980s, the provincial government loosened control over the export of timber from lands "deemed uneconomical," but tied the export of logs with domestic production, thus buying the argument of some companies that unless they were allowed to export they could not financially operate the domestic side of the business. As the industry fortunes turned around, the exports declined and actions by the province in 1987, 1988 and 1989 all reconfirmed the commitment to domestic processing. With each move the province raised the taxes on exported logs until the tax of 100 percent of the difference between export and domestic prices was put in place.

During the 1990s, the export of unprocessed logs remained low and primarily from private lands. This trend started to shift upwards in the late 1990s when the bottom fell out of the market in Japan. Shifting exports to the US market was not an option for coastal firms because of the softwood lumber deal.

During the run-up to the 2001 provincial election, then opposition leader Gordon Campbell reiterated what had been 100 years of provincial and to a lesser extent, federal government policy to stop raw log exports.

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*Tom Waterland,  
Minister of  
Forests 1982*

*“We’re not in favour of raw log exports. We believe that if we get the industry healthy and our regulatory codes healthy that we will be able to secure those logs and use them in the most effective way in the Province of British Columbia. We don’t want to export logs and export jobs along with them.”*

*Gordon Campbell, CBC DayBreak  
November 6, 2000*

Campbell went further when he spoke the same year to the Truck Loggers Association (TLA), a group which supports log exports. He told the association, according to news reports, that his party opposes log exports.

With statements like these, it is understandable that British Columbians believed in 2001 that they were electing a government that would continue a 100 years of forest policy initiatives that saw local resources tied to local communities and local jobs.

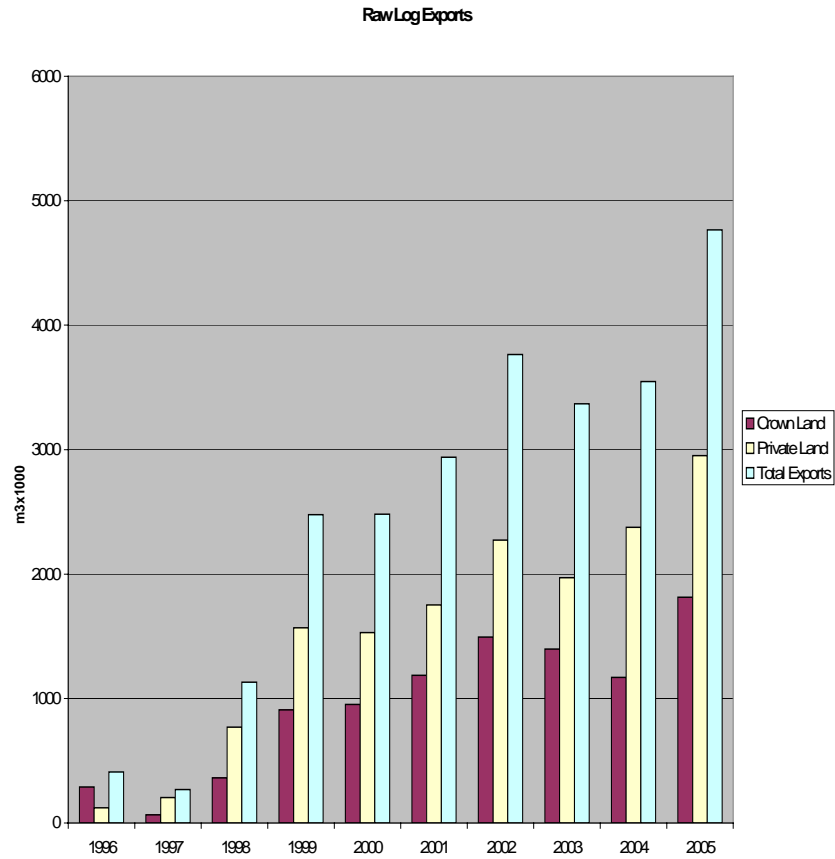
However, what was promised is not what was delivered. British Columbians were about to see a major restructuring of a forest industry that saw a growth in raw log exports leaving the province as local citizens stood on the roadside as the logging trucks rolled out of town.

## **THE PRESENT SITUATION**

Provincial government data reports that raw log exports between 1996 and 2005 increased by 1,000 percent - reaching 4.7 million cubic metres. In real terms, the government reports that more than six percent of the annual cut was exported in 2005 compared to less than one percent in 1996. In more dramatic terms this represents 125,000 logging trucks worth of timber.

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*Using the 2005 export figures, the number of jobs lost in the forest industry reached 3,300*



This trend happened despite a strong commitment from the Liberal Party to get tough on log exports.

The dramatic growth in exports of raw logs has had serious short-term and long-term consequences for an industry already facing some difficult challenges, especially on the coast of British Columbia. Using the 2005 export figures, the number of jobs lost in the forest industry reached 3,300. In direct income to workers, the export of jobs from British Columbia costs \$250 million annually in lost earnings to workers living in forest communities. Using traditional economic models, for every job created in the direct resource industry, an additional 2.5 jobs are created in suppliers and the service sector. That amounts to a loss of an additional \$625 million from the British Columbian economy.

On Vancouver Island, where nearly 15 percent of the logs harvested is exported, local forest company owner Rick Doman stated that the exports of logs from British Columbia in 2003 were enough to “run 10 sawmills in coastal BC.” He added:

“We’ll be creating forest jobs in other countries and losing jobs here where workers actually get fair wages. They call it restructuring of Coastal BC but I call it the destruction of Coastal BC.”

While some argue the exports are trees that are not economical to harvest or process, the facts speak otherwise. In 2005, the majority of logs exported were douglas fir (55 percent), hemlock (25 percent) and cedar (7 percent), not low-value species.

Ironically, the biggest market for all these logs in 2005 appears to be the United States (58 percent), where finished products faced stiff tariff charges and yet our raw logs faced no such charges for obvious reasons. Forest companies could get around the US embargo by simply shipping the raw logs across the border. Asian countries were next in line with 33 percent of the exports headed across the Pacific.

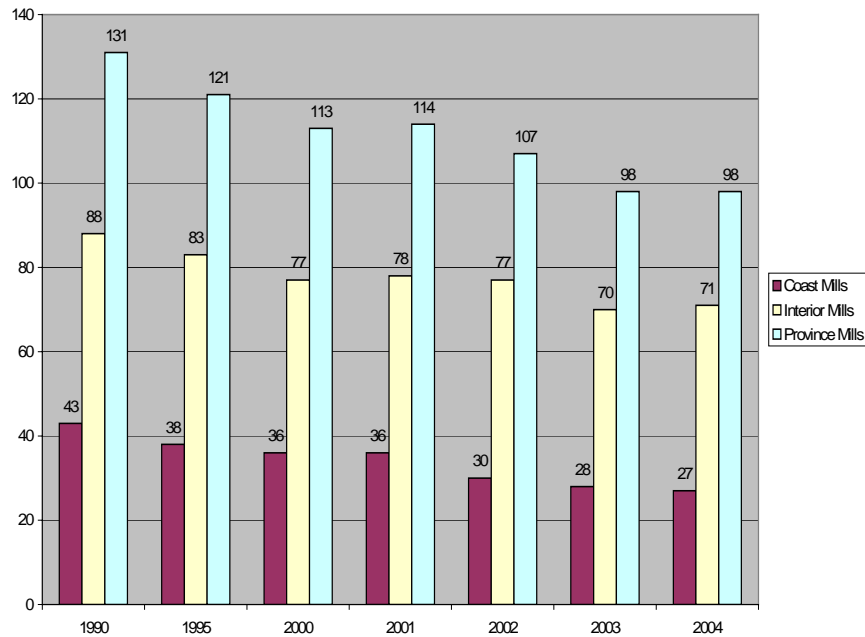
The increase in raw log exports also coincides with a dramatic period of closures and layoffs, particularly in coastal communities. From 1997 to 2004, 27 mills closed with 13,000 jobs lost (from 100,000 to 87,000).

Besides the loss of direct and indirect jobs in British Columbia, the export of logs also affects an already struggling pulp and paper industry. The pulp and paper mills rely on a steady supply of chips from sawmills to maintain production levels and keep costs reasonable. The export of raw logs means those chips are no longer available.

*“We’ll be creating forest jobs in other countries and losing jobs here where workers actually get fair wages. They call it restructuring of Coastal BC but I call it the destruction of Coastal BC.”*

*Rick Doman  
Doman Lumber  
Vancouver  
Island*

**Mills In BC  
Medium and Large Size**



The question that has to be answered is how did we get to a point in such a relatively short period where the number of raw log exports have increased by 1,000 percent? The answers lay in changes in both provincial forest policy and legislation along with restructuring in the forest sector.

## **CHANGES TO PROVINCIAL FOREST POLICY**

Despite promises to get tough on raw log exports, the changes to forest policies and legislation have created the conditions and climate that have allowed for the acceleration of raw log exports from British Columbia.

One of the first steps taken by this government was to commission a report by Peter Pearse in 2001 to write a report on coast forestry. In the report, Pearse recommended the removal of impediments to forest company profits. He argued for a viable log market that included removal of export restrictions that are “a major irritant in lumber trade relations with the United States.”

In 2003, the provincial government introduced **Bill 28 – The Forest Revitalization Act**. The appurtenancy clause was removed from tenure requirements. Appurtenancy clauses were conditions placed on the Tree Farm Licence (TFL) that tied the trees to a local mill in the area. This was an important part in assuring the social contract with forest communities was in place.

Furthermore, the **Bill** also relaxed other tenure provisions and allowed companies will be able to transfer licences without government agreement, and to consolidate, subdivide, and transfer Annual Allowable Cut (AAC) via tenures. The **Forest Land Reserve Act** was rescinded, and no new integrated resource management areas will be established.

The government also removed the requirement that should a license be sold to another company, up to five percent of the trees would revert to the government. This would be returned if the company showed it was maintaining jobs. Now, major companies are being sold, mills closed and nothing remains to lever continued job creation in British Columbian communities.

The impediments to forest company profits were removed and the government went to work to allow for the growth in raw log exports.

Crown land exports soared when the government agreed companies could export 35 percent of the North Coast cut while local mills shut down.

In March 2006, the provincial government timber license holders in the Mid-Coast Timber supply areas were permitted to export up to 35 percent of their annual harvest – or the equivalent of an additional 350,000 cubic metres of timber a year.

These policy changes have also led to industry re-organization that has resulted in the creation of major forest companies who have, or are, in the process of completely abandoning the manufacturing side of the industry in favour of cutting trees and selling logs to primarily foreign buyers. This is a fundamental shift, which is being played out on Vancouver Island.

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## **INDUSTRY RESTRUCTURING**

Before a Royal Commission in 1956, H.R. MacMillan warned that British Columbia would rue the day when “the forest industry here consists chiefly of a very few companies holding most of the good timber.” His concern is now today’s reality.

Since its inception in 1919, the largest and most integrated forest company in British Columbia was MacMillan Bloedel. With operations both on the Coast and in the Interior, this forest giant led the industry. The company was sold to US-based Weyerhaeuser in 1999, which immediately began accelerating the export of logs from private lands to its home base in the United States. The ownership was short-lived however, and during a corporate restructuring in 2005 driven by the US head office, the firm was sold again, this time to Brascan, a huge investment firm based in Ontario.

Prior to the sale, the Liberal government agreed to remove a major section of the private lands from the Tree Farm License. This effectively removed the trees from provincial regulation for Allowable Annual Cut and for export controls. This was a major economic boost to Weyerhaeuser prior to the sale. Current media estimates put the value of the decision at \$200 million. The decision was despite advice to the contrary from forestry officials who understood that not only would it create a huge payout to the company, but the public would lose control of how that timber was used to benefit British Columbia.

Brascan moved quickly to divide off the company. Creating two firms, the first known as Island Timberlands has control over the cutting of trees and has no operating plants on Vancouver Island. The company acquired 225,000 acres of private lands (recently removed from provincial control) and Crown Lands with an annual cut rate of 3.6 million cubic metres. This company simply sells trees to the highest bidder and makes no economic commitment to speak of.

Since the decision to separate the companies, the export of logs has increased dramatically with the company claiming the bottom line is the only determining factor to be considered. The viability of

the manufacturing sector is no longer a concern or a consideration in the operation of the company. The company's financial report predicts the decision by the government to remove the land from public control will lead to increased exports.

"This increase (cut) resulted from the recent removal of about 215,000 acres from under the more onerous regulatory regime associated with TFL's and the inability to export while under such regime, which discouraged the harvest until now."

The future of this company is heavily orientated to log exports. The mills previously under the control of Weyerhaeuser are now under the control of Western Forest Products. They are already scaling back the operations of the mill in Port Alberni (while exports from the Alberni valley soared and have closed the Phoenix mill in Nanaimo.)

The company is openly musing that more mill closures are underway.

TimberWest is another example of this dramatic shift to the export of logs and away from manufacturing. A long-time integrated forest company on Vancouver Island, the company has been moving in the past few years to close its entire manufacturing sector and increase massive log exports.

In 2005, the company's income came primarily from the log sales. In its 2006 first quarter report, TimberWest declares that it generated over \$50 million in revenue by exporting 422,000 cubic metres of logs to Asia and the United States. That works out to \$119 per cubic metre. In comparison, TimberWest generated \$35 million by selling 467,000 cubic metres to the domestic market. That works out to only \$76 per cubic metre.

As mills are closing and layoffs continue in British Columbia, how is it that companies are allowed to export, claiming more than six percent of the annual cut is surplus to our needs? This argument becomes most ludicrous in Port Alberni where the last remaining sawmill has had its shifts reduced, production curtailed for months, while hundreds of truckloads of logs leave the valley every month headed for the export market.

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## **WHAT BRITISH COLUMBIANS THINK**

Two recent public opinion polls leave little doubt what British Columbians think about the export of raw logs. The first conducted by StratCom in early May found that two out of every three British Columbians said that log exports were bad for the BC economy. Only 28 percent found that exports were good for the economy (see appendix.)

A second poll by the same company of 400 Port Alberni residents found that a very strong majority, not only opposed the export of raw logs, but 50 percent worried that they would have to leave the community if nothing was done.

Residents also viewed **Forest Act** changes introduced by the provincial Liberal government as beneficial to forest companies (73 percent). The residents also said that the provincial and federal governments should act to stop the export (75.4 percent). Residents were also asked if there was no domestic market for logs should the companies be allowed to export the logs to create logging jobs. They rejected that by a majority of 69 percent.

Public opinion clearly indicates that, overall, British Columbians understand the negative consequences of log exports and this opinion gets stronger where communities are directly feeling the effects.

A mandate from the public to both levels of government to act on this issue is clear from the public opinion polling.

## **RECOMMENDATIONS FOR ACTION**

1. A moratorium be placed on the closure of any mills in British Columbia until a full comprehensive plan for a revitalized manufacturing sector be created.
2. The cabinet cease to issue any permits for log exports and place a moratorium on exports from all Crown lands.
3. The government reverse its earlier decision to allow Weyerhaeuser to remove their private lands from Tree Farm License (TFL).
4. The government ensure full public consultation on any future proposal to remove land from any TFL.
5. The government increase the export tax on raw logs from private lands to ensure there is no economic incentive to export, instead of local processing.
6. The provincial government re-introduce measures that will once again make clear the connection between companies logging British Columbia trees and their commitment to manufacturing capacity in the province.
7. The federal government retain legislation restricting raw log exports and align federal and provincial forest policies.
8. The federal and provincial governments vigorously oppose the legal challenge to federal legislation restricting raw log exports, which would further erode rights to protect Canadian jobs.

# APPENDIX