
Are Log Export Restrictions on Private Forestland Good Public Policy?

An analysis of the situation in British Columbia

by

David Haley, Ph.D., RPF
Professor, Faculty of Forestry
University of British Columbia

Vancouver, British Columbia, December 2002

Report commissioned
by the Private Forest
Landowners Association

www.pfla.bc.ca



Contents

List of Figures	ii
Highlights	iii
Executive Summary	iv
Introduction	1
General Context and Purpose of Study	1
Organization of Paper	1
The Facts	2
Profile of the Private Land Forestry Sector in British Columbia	2
Administration of Private Forestland	3
<i>Assessment Act</i>	3
<i>Private Land Forest Practices Regulation</i>	3
Log Export Restrictions on Private Land	3
<i>History</i>	3
<i>Federal/provincial jurisdiction over log exports</i>	4
<i>Federal regulations controlling log exports from British Columbia</i>	4
<i>Differences between federal and provincial regulations</i>	5
<i>Additional compliance costs faced by private forestland owners</i>	6
Characteristics of Log Exports from Private Lands	7
<i>Volume</i>	7
<i>Species</i>	7
<i>Markets</i>	7
<i>Domestic/export price differentials</i>	7
Analysis	8
Efficiency	8
<i>Benefits</i>	8
<i>Costs</i>	9
<i>Net benefits</i>	9
Equity	9
<i>Who bears the costs and who benefits from current regulations controlling exports of logs from private forestland in British Columbia?</i>	9
<i>How would the costs and benefits of removing restrictions on log exports from private land be distributed among various segments of British Columbia society?</i>	10
<i>The impact on employment of lifting federal log export restrictions on private land</i>	10
<i>Discrimination by the Canadian government against private forestland owners in British Columbia</i>	11
Policy	12
<i>Strengthening title to private forestland</i>	12
<i>Diversification of the province's tenure system</i>	12
<i>The softwood lumber trade dispute</i>	13
<i>Promoting increased efficiency in the forest products processing sector</i>	13
<i>Facilitating improved environmental protection</i>	14
Conclusions	15

List of Figures

Figure 1.	Forestland Ownership in British Columbia	2
2.	Productive Private Forestland as a Percentage of Total Productive Forestland by Province	2
3.	Log Exports from British Columbia: 1992-2001	7
4.	Benefits and Costs to the British Columbia Economy of Providing Unrestricted Access to Japanese and United States Log Markets to Private Forestland Owners (1997)	10
5.	Canadian Log Imports and Exports: 1991-2001	14
6.	British Columbia Log Imports and Exports: 1991-2001	14
7.	British Columbia Net Log Exports: 1991-2001	14

Highlights

- There are approximately 2.1 million hectares of private forestland in British Columbia (4.1% of the productive forestland base) held by more than 20,000 landowners.
- Private forestlands contribute about 11% of the total provincial harvest; their long-term sustainable timber harvest is, conservatively, 7.3 million m³ per annum and they currently provide direct employment for about 9000 people.
- Private forestlands are a source of innovative management practices; they attract more investment in timber management than public lands and provide a supply of logs to competitive, regional timber markets.
- Log exports from provincial Crown land in Canada are controlled by the provinces. Log exports from federal land, Indian reserves and private land are controlled by the federal government.
- British Columbia is the only province in Canada where the Government of Canada chooses to exercise its authority to control the export of logs from private land.
- British Columbia is the only jurisdiction among industrialized western countries where private forestland owners are not free to sell logs – their final product – into the market of their choice, either domestic or foreign.
- Canada is a net importer of logs. Between 1991 and 2001, for every cubic metre of logs exported, 4 cubic metres were imported. In three of the last seven years British Columbia was a net importer of logs.
- Federal policies that restrict exports of logs from private land in British Columbia impose high costs on British Columbia's landowners that are not borne by their counterparts in other parts of the country.
- Policies that restrict log exports from private forestland create more costs for British Columbia than benefits. They reduce private forestland owners' revenues and land values and, in so doing, reduce federal and provincial income taxes, provincial sales taxes, GST, and provincial and municipal property taxes. By depressing domestic log prices they very significantly reduce the returns to British Columbians from the sale of trees on public land.
- Log export restrictions transfer wealth from timber owners, both the Crown and private sector, to private forest products manufacturing companies, which enjoy lower raw material costs than they would experience in the absence of such restrictions.
- If federal log export restrictions on private forestland are lifted:
 - Incentives will be created to invest more in timber production on private forestlands. More capital, both domestic and foreign, will flow into British Columbia's timber growing sector, resulting in increased employment and timber supplies.
 - Domestic log prices will move closer to international market levels, encouraging the wood processing industry to be more innovative, efficient and globally competitive.
 - Total employment in the forest sector may increase over the longer term as forestland, both private and public, is more intensively managed and a more efficient, globally competitive wood processing industry creates more full-time, well-paying jobs.
 - Greater employment stability will be brought to the forest sector as log exports help maintain jobs during cyclical downturns in forest products markets.
 - "Value added" wood processing in British Columbia will be stimulated as globally determined log prices encourage firms to economize on the use of wood by using logs to produce those products that maximize their net value.
 - Log export policies in British Columbia will be brought in line with those in other Canadian provinces and the United States. A major irritant in the US/Canada softwood lumber trade dispute will thus be removed, increasing the probability of a solution that will benefit all Canadians.
 - Environmental quality and standards of forest management will be enhanced as higher log prices, by increasing the net revenues of timber growers, both private and public, stimulate more investment in silviculture, reforestation and environmental protection.
 - Improved silvicultural management of private lands will lead to increased productivity, higher allowable harvests and an enhanced flow of logs to competitive, regional log markets.
- Log export restrictions on private forestland in British Columbia is poor public policy. It is inefficient, inequitable and is not founded on legitimate economic, social or environmental arguments.
- The Government of Canada should eliminate restrictions on the export of logs from private forestland in British Columbia. To do so requires no legislative amendments. A simple administrative decision would ensure that British Columbia's private forestland owners are treated identically to their counterparts in other provinces.

Executive Summary

Purpose of Study

British Columbia is the only province in Canada where the federal government exercises its constitutional and statutory authority to control the export of logs from private forestlands. This policy discriminates against private forestland owners in British Columbia by significantly reducing their net incomes, the returns they realize on investments in timber production and the market value of their lands. The purpose of this paper is to analyze this situation in terms of its economic efficiency, equity or fairness, and policy implications.

The Facts

- There are approximately 2.1 million hectares of private forestland in British Columbia held by more than 20,000 owners ranging from large corporations to small firms and individuals. Although private land comprises only 4.1% of the total provincial forestland base, it plays a significant role in British Columbia's economy.
- Only in Newfoundland and Saskatchewan do productive private forestlands comprise a smaller proportion of the provincial forestland base than in British Columbia.
- Control over log exports from Canada is shared by provincial and federal governments. Generally, log exports from provincial Crown land are dealt with by the provinces while those from federal land, Indian reserves and private land are administered under federal statutes. All provinces, except Saskatchewan, control log exports from provincially owned land. However, only in British Columbia does the federal government choose to exercise its authority to restrict log exports from private lands.
- In British Columbia, all logs produced from Crown land, from private land granted after March 12, 1906, and from all private land within tree farm licence areas must be manufactured in British Columbia unless the landowner receives an exemption. Logs from private lands that do not come under provincial jurisdiction must receive a federal permit before they can leave the country. In essence, log exports from all private land in British Columbia are restricted.

- Canada is a net importer of logs. Between 1991 and 2001, Canada's log exports amounted to 17.3 million m³ compared to imports of 69.7 million m³. *In three of the last seven years British Columbia was a net importer of logs.*
- In order to obtain a federal log export permit, it must be demonstrated that the logs in question are surplus to the needs of the province. To accomplish this, the timber concerned is advertised by the British Columbia Ministry of Forests. Export applications and offers received are then reviewed by the Federal Timber Export Advisory Committee (FTEAC). If an offer is received that, in the opinion of the committee, is at fair market value, a recommendation is made to the Department of Foreign Affairs and International Trade that a permit to export be withheld. Before logs are advertised on the Coast, they must be harvested, scaled and sorted to conform to conventional domestic log marketing practices. In the Interior, applications to export can be made for standing timber. Application requirements and the considerable delays in processing and issuing permits give rise to considerable compliance costs that reduce private landowners' effectiveness in marketing logs internationally and create additional barriers to trade.
- Between 1992 and 2001, the volume of logs exported from British Columbia amounted to only 3% of the total provincial harvest. Exports from private lands coming exclusively under federal jurisdiction accounted for 33% of total log exports.
- For certain species and grades of log, international prices are considerably higher than domestic prices. For example, current prices for coastal hemlock logs in the Japanese market, net of additional handling costs, are 65% above domestic prices. Hemlock logs from the southeastern Interior fetch a price at mills in the United States that is 100% above the delivered price at domestic mills within a similar hauling distance.

Analysis

Efficiency

- Policies that restrict log exports from private land create more costs for British Columbians than benefits. Forest landowners receive lower revenues from the sale of logs, their returns on investment in timber production are reduced and the market price of their land is depressed. By lowering domestic log prices, restrictions on log exports reduce the revenue flowing to British Columbians from stumpage sales on public forestland and also returns to those who harvest timber on public land and sell their logs in domestic markets. The people of British Columbia forgo further revenues in the form of income taxes, sales taxes and property taxes on private forestland. The benefits of log export restrictions on private land accrue to the timber products processing sector, which enjoys lower raw material costs than it would experience in the absence of such restrictions.
- A recent analysis showed that in 1997 log export restrictions on private land cost British Columbia at least \$295 million dollars over the short run in forgone net benefits. Losses in the provincial government's stumpage revenues alone were estimated at \$173 million: a significant amount of income for a government striving to maintain public services while holding budgetary deficits in check.

Equity

- Lifting log export restrictions on private forestland in British Columbia would not create serious equity problems. The benefits of abolishing these restrictions would be distributed broadly among private forestland owners, the British Columbia government, and operators logging Crown timber and selling logs in domestic markets. Short-term costs would be borne by firms manufacturing forest products. However, over the longer term, as domestic log prices rose towards international levels, this would stimulate greater efficiency in wood products manufacturing in ways that would benefit both the industry and the province.

- Removing federal export restrictions on logs from private lands might temporarily decrease employment in the forest products manufacturing sector. However, employment in logging would rise substantially, and new and expanded employment opportunities would emerge in processing logs for export (bucking, trimming, sorting), transportation to quayside, loading, marketing and managing private forestland. Over time, as the manufacturing sector adjusts to world market log prices, it will become more efficient, innovative and globally competitive. Higher raw material prices will provide strong incentives to produce the greatest value from each log processed, and the resulting structural changes will likely increase the number of people employed per thousand cubic metres of logs harvested. The result of all these adjustments on employment are difficult to forecast but the available evidence, including the situation in other jurisdictions where log export restrictions are absent, suggests that the net result of lifting log export restrictions on private land could be more full-time, well-paying jobs in the forest sector rather than fewer.
- Log exports perform a valuable social and economic function by cushioning the impact on the labour force of cyclical downturns in markets for manufactured forest products and bringing greater employment stability to the notoriously cyclical commodity-based forest products industry. When the processing sector faces economic downturns and mills reduce output or close down, log exports ensure that a significant portion of the workforce remains employed and continues to contribute to provincial and local economies.
- The most significant inequity associated with log export controls is that imposed on private forest landowners in British Columbia by the Government of Canada.
 - British Columbia is the only province in Canada where the federal government wields its constitutional and statutory authority to restrict the export of logs from private land.
 - Furthermore, British Columbia is the only jurisdiction among industrialized western nations where private forestland owners are not free to sell logs – their final product – into the markets of their choice.

Policy implications

- Removal of federal log export restrictions would create incentives to invest in timber production on private lands and increase the flow of capital into British Columbia's timber growing sector from both domestic and international sources. This would result in more jobs and increased supplies of industrial wood in the future.
- Practically the only elements of diversity in British Columbia's forest tenure system are those forestlands held by private owners. The role of private lands as a counterbalance to British Columbia's highly concentrated and uniform Crown forest tenure system is invaluable. Private owners, who manage their lands to achieve a broad spectrum of management objectives using a range of traditional and innovative techniques, add variety and resilience to an otherwise homogenous, bureaucratically run system. Removal of log export restrictions on private forestlands would greatly strengthen the private forestry sector and ensure that private lands achieve their full potential within the provincial economy.
- Eliminating federal log export restrictions on private land in British Columbia would bring log export policies in Canada in line with those in the United States and, in so doing, would remove a major irritant in the Canada/US softwood lumber trade dispute, thus increasing the probability of a solution that would benefit all Canadians.
- Removal of private log export restrictions would move domestic log prices closer to those prevailing in international markets. Rising domestic prices would provide manufacturers with incentives to economize on the use of wood by seeking and introducing innovative technology and ensuring that logs were sorted and used to produce those products that maximize their net value. The net result, over the longer term, would be a more efficient, resilient industry better equipped to compete in global markets.
- The view that lifting log export controls on private land would impede the growth of the "value added" wood products industry is unfounded. Experience suggests that rising wood costs provide incentives to get the highest value from each log. In other words, allowing private log exports is more likely to stimulate the growth of the "value added" sector than hinder it.
- There is no evidence to suggest that lifting federal log export restrictions on private forestland will have negative environmental consequences. On the contrary, increased returns to private timber growing could improve forest management and stewardship and could well enhance the quality of forest environments. Most of British Columbia's forestlands come under federal and provincial regulatory regimes designed to protect forest ecosystems and ensure the sustained production of both timber and non-timber forest products. The owners of all private lands classed as Managed Forest Land under the *Assessment Act* must comply with the *Private Land Forest Practices Regulation*, which sets out specific forest practices standards relating to soil conservation, fish habitat, water quality, critical wildlife habitat and reforestation. Performance is monitored by means of third party independent audits, and non-compliance attracts substantial penalties. British Columbia's environmental protection legislation and regulations, for both public and private lands, are more rigorous and stringently enforced than in any other Canadian province, where private log exports are not constrained by either federal or provincial governments.

Conclusions

- This review and analysis of federally imposed export restrictions on private forestland in British Columbia leads inescapably to the conclusion that they should be removed. The policy is inefficient, inequitable and has serious negative consequences for the structure, efficiency and competitiveness of the forest products manufacturing sector. Its reversal would benefit a majority of Canadians and correct a blatant and unwarranted inequity.
- Removal of restrictions on the export of logs from private land in British Columbia requires no legislative amendments. The federal government simply has to make an administrative decision that, under the *Export and Import Permit Act*, treatment of private forestland owners in British Columbia will be identical to the treatment received by their counterparts in other provinces.

Are Log Export Restrictions on Private Forestland Good Public Policy?

An analysis of the situation in British Columbia

by David Haley, Ph.D., RPF

Introduction

General Context and Purpose of Study

Although forests in British Columbia are predominantly publicly owned (Figure 1), privately owned forestlands play a very significant role in the province's economy. Private forests are not only an important source of industrial timber, revenue and jobs, but introduce diversity of management objectives and practices to an otherwise monolithic, centrally administered system. Private forestland attracts more investment in intensive timber management than public land,¹ it is a source of innovative management practices and it provides a supply of logs to competitive regional markets – the expansion of which has become an important objective of public policy.

The economic health and resilience of British Columbia's forest sector, which remains the province's principal engine of economic prosperity, would clearly be best served by public policies that encourage owners

Excerpt from Royal Commission Report

The official rationale for restrictions on exports of logs and pulp chips appears to be the promotion of domestic secondary manufacturing, an aim that undoubtedly has wide support. However, my evidence and analysis of this issue lead me to the inescapable conclusion that, whatever the benefits of increased manufacturing in the province, encouragement of it by means of restrictions on exports of logs and chips reflects a misunderstanding of the full impacts of such policies in the context of the provincial economy.

Report of the Royal Commission on Forest Resources.
Peter H. Pearse, Commissioner. (1976)

to manage their lands efficiently and maintain their productivity over the long term. Regulation of private land to protect forest environments and ensure the sustained production of public goods and services, such as high-quality water, wildlife habitat and erosion control, are now widely recognized as sound public policy. However, regulations that control the production and marketing of private goods, beyond the demands of necessary environmental protection, are counterproductive measures that undermine market incentives for efficient, socially responsible forest management and weaken the economy. Restrictions on the export of logs produced on private land in British Columbia, the focus of this study, is an important example of such a policy.

In this paper it will be shown that log export restrictions on private forestland in British Columbia are ill conceived. They reflect the objectives of special interest groups promoted at the public's expense, and are not founded on legitimate economic, ethical or environmental arguments. The costs of log export restrictions to the provincial economy far exceed their economic benefits. They unfairly discriminate against private forestland owners, help promote inefficiency in the forest products manufacturing sector and, rather than contributing to the maintenance of environmental quality, are likely to result in accelerated environmental degradation.

Organization of Paper

The paper will be presented in three sections: Facts, Analysis and Conclusions.

The first section will describe British Columbia's private forestland base, the administration of this land, the regulation of log exports and the characteristics of the trade in logs from private land.

In the second section, the implications of log export controls on private forestland in British Columbia will be analyzed from efficiency, equity and public policy perspectives.

The concluding section will draw together the evidence presented in sections one and two in order to address the question posed by the title of the paper – are log export restrictions on private forestland in British Columbia good public policy? Based on this discussion, recommendations for policy amendments will be made.

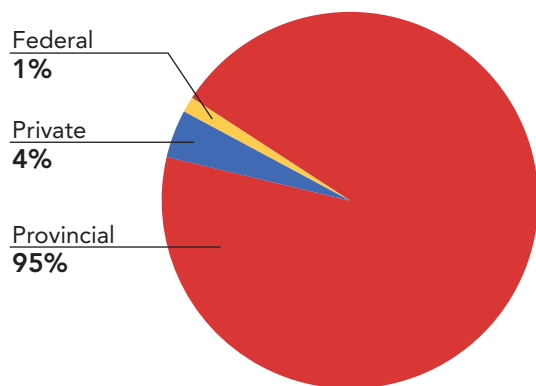
¹ See Zhang, D. 1996. "Forest Tenures and Land Value in British Columbia," *Journal of Forest Economics* 2(1).

The Facts

Profile of the Private Land Forestry Sector in British Columbia

Ninety-six percent of Canada’s forests are publicly owned. British Columbia follows the national pattern of forestland ownership, with 4% owned privately and 96% publicly. Only 1% of public forestland, including Indian reserves, comes under federal ownership (Figure 1).

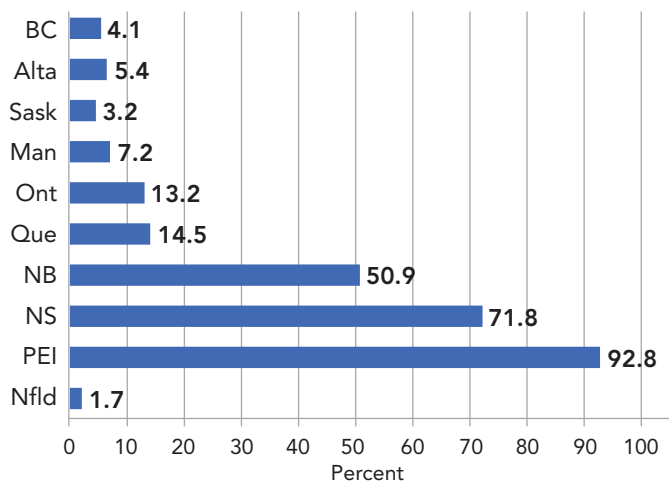
Figure 1. Forestland Ownership in British Columbia



Source: Canadian Council of Resource Ministers: National Forestry Database

Productive forestland in British Columbia is 95.1% provincially owned, 4.1% private and less than 1% federal. Only in Newfoundland and Saskatchewan are productive private forestlands a lesser proportion of the total provincial forestland base than in British Columbia (Figure 2).

Figure 2. Productive Private Forestland as a Percentage of Total Productive Forestland by Province



Source: Canadian Council of Resource Ministers: National Forestry Database

There are approximately 2.1 million hectares of private forestland in British Columbia held by more than 20,000 owners. Ownerships range from just a few hectares in the smallest family and individual holdings to several hundred thousand hectares in the larger corporate holdings. The contributions of these lands to the provincial economy significantly exceed their proportional representation in the provincial forestland base. Between 1992 and 2001, timber from private lands accounted for almost 11% of the total provincial harvest. On the Coast during this period, approximately 24% of timber harvested originated from private holdings and in the Interior 6%. The Private Forest Landowners Association (PFLA) has estimated, conservatively, that the long-term sustainable timber harvest from private forestlands in the province is about 7.3 million m³ per annum, or about 10% of the current annual allowable cut (AAC) from provincial Crown lands.

Specific management objectives vary among private forestland owners, and core values and objectives are widespread. In 1994, a study by Baskerville found these core values to include the protection of private property rights and values and landowners’ freedom to manage.² The management objectives of most private forestland owners in British Columbia, as in other jurisdictions, are to cover land carrying charges and production costs and, ideally, generate sufficient revenues to provide acceptable rates of return to capital investments. To achieve these goals, the most successful strategy is to invest in the establishment and tending of commercially valuable tree crops, and harvest such crops at intervals that maximize their net worth given growing site characteristics, market conditions and specific management objectives. Like all forestland, private holdings generate many other values, such as non-timber botanical products, fish, wildlife, recreational opportunities and high-quality water.

The final, finished products of forestland owners’ substantial and risky long-term capital investments in land and trees are logs. Consequently, their financial returns and, ultimately, the viability of their enterprises depend upon the prices they can obtain for their logs in the markets that are available to them.

Managing private forestlands and tending and harvesting the timber they produce provide substantial employment opportunities and support a broad range of suppliers and services, often in remote rural areas of the

² Baskerville, G.L. 1994. *Forest Practices Code and Land Reserve Forest Act*. Report prepared by Dr. Gordon L. Baskerville for the British Columbia Ministry of Forests.

province where opportunities are otherwise limited. It has been estimated that about 9,000 people are employed directly in the private land forestry sector and that total employment attributable to the sector could be in excess of 24,000.

Administration of Private Forestland

Since the 1950s, successive governments in British Columbia have viewed the regulation of private forestlands as an important component of public policy. The objectives have been to protect the land base and ensure that it produces sustainable timber harvests over the long term.

Today, two important statutes regulate the use and management of private forestlands in the province – the *Assessment Act* and the *Private Land Forest Practices Regulation*.

Assessment Act

Under the British Columbia *Assessment Act*, forestland is defined as land that has its highest and best use in the production and harvesting of timber. For taxation purposes forestland is classified as “Managed Forest Land” or “Unmanaged Forest Land.”

Managed Forest Land refers to privately owned forestland that is being used for the commercial production and harvesting of timber. To be eligible for this classification the owner must, first, successfully apply to have the land put into the Forest Land Reserve (see below) and have made an acceptable written commitment to manage the land. Unmanaged Forest Land is simply forestland that has not been assigned “Managed” status.

The valuation of both managed and unmanaged forestland is similar. The value of the land itself is appraised with no consideration for the trees on the land. The basis for valuation of the land is its potential for growing and harvesting trees taking into account soil productivity, location, topography, accessibility and area. Only when the trees are harvested is their assessed value added to the value of the land. Managed Forest Land is taxed at a lower rate on its assessed value than Unmanaged Forest Land.

Approximately 45% of British Columbia’s private forestland is classified as “Managed” for property assessment and taxation purposes. Three percent is Unmanaged Forest Land and the balance is in forested residential land and forested farmland categories

Private Land Forest Practices Regulation

The *Private Land Forest Practices Regulation* under the *Forest Land Reserve Act* was introduced in 2000.

This regulation applies principally to private land that is classified as Managed Forest Land under the *Assessment Act*. Landowners are required to grow and harvest a commercial crop of trees and the right to do so without restriction by local government regulation is protected under this statute. The regulation sets out specific forest practices standards, that can be varied in appropriate circumstances, relating to soil conservation, fish habitat, water quality, critical wildlife habitat and reforestation. Performance is monitored by means of third party independent audits, and non-compliance attracts substantial penalties. The regulation is currently administered by the Agricultural Land Commission (formerly Land Reserve Commission). As a result of the provincial government’s core services review, government concluded that the *Forest Land Reserve Act* would be phased out and the administration of the *Private Land Forest Practices Regulation* would be transferred to a new agency sometime in 2003.

Log Export Restrictions on Private Land

History

Log export controls have a long history in British Columbia, dating back to 1901 when legislation was introduced to restrict the export of unmanufactured timber from Crown lands. On March 12, 1906, this approach was extended to timber cut from all private lands that were Crown granted subsequent to that date. These measures were incorporated under Part 10 of the first *Forest Act* in 1912 – where they remain to this day.

Until the Second World War, logs produced from private lands granted on, or prior to, March 12, 1906, were freely exported from the province. During the war, the federal government, in the interests of national security, required exporters of unmanufactured logs, from all classes of forestland, to obtain a permit under the *War Measures Act*. After the war, authority for federal control over log exports passed to the *Export and Import Permit Act*, however, until 1969 permits were issued without restriction. In that year, the federal authorities began to restrict log exports from private land in British Columbia that did not come under provincial authority. The reasons for this change in direction are not clear, especially since similar changes were not made in other provinces, where logs produced

Provincial Log Export Requirements

Excerpts from British Columbia *Forest Act*

Section 127 Unless exempted under this Part, timber that is harvested from Crown Land, from land granted by the government after March 12, 1906 or from land granted by the government on or before March 12, 1906 in a tree farm licence area, and wood residue produced from timber, must be

- (a) used in British Columbia; or
- (b) manufactured in British Columbia.

Section 128 (1) The Lieutenant Governor in Council may exempt from section 127

- (a) a species or kind of wood residue and may limit the volume of a species of timber or kind of wood residue to which the exemption applies for a period or successive period of time, and
- (b) a volume of timber, whether or not harvested, or a volume of wood residue, on receiving an application in a form required by the minister.

Section 128 (3) An exemption must not be given under this section unless the Lieutenant Governor in Council or the minister, as the case may be, is satisfied that

- (a) the timber or wood residue will be surplus to the requirements of timber processing facilities in British Columbia,
- (b) the timber or wood residue cannot be processed economically in the vicinity of the land from which it is cut or produced, and cannot be transported economically to a processing facility located elsewhere in British Columbia,
- (c) the exemption would prevent the waste of or improve the utilization of timber cut from Crown land.

from private land remained unrestricted – a situation that persists to the present day. In 1998, the Canadian Department of Foreign Affairs and International Trade issued Notice to Exporters No. 102, which is specifically directed at log exports from British Columbia. This document, that is currently in force, harmonizes provincial and federal procedures for obtaining log export permits.

Federal/provincial jurisdiction over log exports

Control over the export of unmanufactured timber products from the Canadian provinces is shared by provincial and federal governments. Generally speaking,

all logs exported from Canada require federal export permits for all destinations. In practical terms, control over log exports from provincial Crown lands is dealt with provincially while log exports from federal Crown land, Indian reserves and private land are dealt with under federal statutes.

All provinces, with the exception of Saskatchewan, have legislation controlling exports of unmanufactured forest products from provincial Crown land. But only British Columbia controls such exports from private land. In each province with log export controls, provisions are made for ministerial exemptions.

The federal government does not exercise its authority to restrict log exports anywhere except for those private lands in British Columbia that do not come under provincial jurisdiction. This does not reflect the unique national importance of private forestland in British Columbia. The province has less than 9% of Canada's productive private forestland and in all other provinces, except Newfoundland and Saskatchewan, private forestland comprises a higher proportion of the total productive forestland base (Figure 2).

The British Columbia *Forest Act* (see sidebar) provides that timber, including wood residue, produced from Crown land, from private land granted after March 12, 1906, and from all private land within tree farm licence areas must be manufactured in British Columbia unless it receives an exemption. Timber from private lands Crown granted on or before March 12, 1906, except such lands within tree farm licences, must receive a federal permit before it can leave the country. In essence log exports from all private land in British Columbia are restricted.

Federal regulations controlling log exports from British Columbia

In order to obtain a federal log export permit, it must be demonstrated that the timber is surplus to the needs of the province. This criterion is identical to one of the grounds for exemption provided for under section 128 (3) of the British Columbia *Forest Act* and, in fact, federal authorities rely upon the province to implement the necessary inspection, enforcement and advertising procedures. Before permission to advertise logs is granted on the Coast they must be harvested, scaled, sorted, and boomed or decked to conform to conventional domestic log marketing practices. Booms or parcels containing more than 15 thousand m³ will not be accepted for export consideration. In the Interior, export

permit applications are usually for standing timber, however, exporters can, by choice, apply for permits for felled, scaled and sorted logs.

Whether in the form of logs or standing trees, the timber is advertised in a bi-weekly list published by the British Columbia Ministry of Forests. After expiration of the advertising period, applications and offers received are reviewed by the Federal Timber Export Advisory Committee (FTEAC), which meets every 4-6 weeks and comprises an *ex officio* recording secretary from the British Columbia Ministry of Forests, a representative of the federal Export and Import Controls Bureau and six private members with experience in the British Columbia forest industry and drawn from throughout the province. Apart from the presence of the federal official, the composition of FTEAC is identical to that of the provincial Timber Export Advisory Committee (TEAC), which considers export permit applications for Crown timber. Generally, if no offers are received, a recommendation that an export permit be granted is made to the Department of Foreign Affairs and International Trade. If an offer is received from persons who own or operate a log processing facility and is considered to be at fair market value, based on the committee's perception of prevailing market conditions, the recommendation of the committee is that a permit to export be withheld.

Applicants are not obliged to sell a parcel of logs to the bidder at the bid price and, in most cases, they don't. When an application to export logs from a standing forest is rejected, harvesting does not usually proceed.

Applications to export logs from Indian reserves are not subject to the domestic surplus criterion and, in most cases, permits are granted after the application formalities have been completed.

Differences between federal and provincial regulations

In some ways, federal log export regulations are more stringent than those administered by the province.

Under provincial statutes, not all export applications are subjected to the "surplus" criterion. In fact, in 2001 only about half the logs exported from provincial Crown land had to meet this test.

Section 128 (3) of the British Columbia *Forest Act* (see sidebar page 4), in addition to providing exemptions for timber that is surplus to domestic requirements, allows exemptions to be made for timber that "cannot be processed economically in the vicinity of the land from which it is cut or produced, and cannot be

Orders-in-Council

Examples of individual exemptions (2002) for log exports

Order-in-Council 149

CRB Logging Co. Ltd. to export hemlock and balsam timber for a one-year period.

Order-in-Council 152

McMahon Logging Ltd. to export timber excluding cedar and cypress for a one-year period.

Order-in-Council 154

Squamish Mills Ltd. to export hemlock and balsam timber for a one-year period.

transported economically to a processing facility located elsewhere in British Columbia" or in cases where exemption "would prevent the waste of or improve the utilization of timber cut from Crown land." Such exemptions, unlike those made on "surplus" grounds, require an Order-in-Council (OIC) to be issued. They may take the form of exemptions granted to individual operators or be what the Ministry of Forests refers to as a "blanket exemption."

Exemptions granted to individual operators are very common and generally provide a named company or individual with permission to export logs of certain species of timber for a specific time period, frequently one year (see sidebar this page).

Blanket exemptions are more general in nature and designed to address regional objectives. They usually specify the volume, species and grades of timber eligible for export from within a geographical area of the province but are not specific to named applicants. For example, in 2001 an OIC provided a three-year exemption from log export restrictions for 35% of the volume harvested, with the exception of cedar and cypress, from all land subject to provincial log export regulations within three Forest Districts in the Prince Rupert Forest Region.

Logs exported from provincial Crown land are subject to a fee in lieu of manufacture in the province based upon the difference between the export market value and the domestic value. For those exports that must meet the surplus criterion this fee is 100% for coniferous sawlogs. However, for logs that are exported under the authority of OICs based on economic and/or

utilization criteria, the fee in lieu is set on a case by case basis and may be as low as one dollar per cubic metre.

An important advantage log exporters on provincial Crown land have over private landowners on the Coast is that under individual or blanket OIC exemptions, export applications are made for “standing green” timber. That is, export exemptions are approved before the trees are harvested. In the Interior, almost all export permit applications for logs from both Crown land and private land are for standing timber, including those that must meet the “surplus” criterion. A “standing green” export permit provides the permittee with a substantial cost advantage, since, unlike exporters who receive a permit for harvested logs, they do not have to re-sort and regrade the logs to meet the requirements of their international customers.

The “surplus” criterion, by its very nature, also facilitates the troublesome practice of “blocking.” This takes place when a wood processor who does not “need” the logs being advertised nevertheless puts in a bid for them simply to prevent, or block, their export. This practice is said to be particularly pervasive in the Interior. When logs are advertised for export as “standing green,” the bidder is unlikely to be required to take delivery at the bid price since, in most cases, in the absence of an export permit, the stand in question is simply not harvested. Under these circumstances, frivolous bids bear no consequences and are difficult to detect. The motive for “blocking” exports, of course, is to ensure that the domestic price of logs remains depressed. In the southern Interior, many mills rely heavily on market logs to feed their plants. In some areas, such as the Kootenays, where about 25% of the wood used is purchased on the open market, a high proportion of the log market is supplied by private landowners. Thus, if exports reduce the market supply, the resulting price increases have a substantial impact on local processors’ raw material costs. Blocking even occurs where the volume of timber harvested from Crown land falls well below the annual allowable cut in the region concerned, simply because it is more profitable to maintain a supply of low-cost private wood than assume the higher costs of accessing Crown timber.

Additional compliance costs faced by private forestland owners

In addition to the explicit costs of applying for a federal log export permit, private forestland owners face a number of additional expenses arising from the procedures used

to administer permit applications. These added costs of complying with the federal regulations reduce private landowners’ effectiveness in marketing logs internationally and create additional barriers to international trade.

First, as is the case with most purchasers of commodities, log buyers in Japan and the United States seek continuity of supply. If exporters are able to enter into medium-term supply contracts it allows them to hedge against market fluctuations and receive higher average prices for their product. While selling on the “spot” market may result in acceptable terms and prices when markets are good, the “spot” suppliers are the first to suffer price decreases and be forced out of the market when market downturns occur. To further aggravate this problem, operators exporting logs from Crown land under either individual or blanket OICs have certainty that necessary export permits will be supplied and can, therefore, enter into contractual supply arrangements, giving them a distinct advantage over private forestland owners.

Next, federal regulations require that all logs advertised be sorted to domestic market specifications in terms of diameter and quality. This prevents private landowners from putting together particular sorts of logs for specific customers in the most cost-effective manner. For example, if a customer wanted hemlock logs with a range of 8" to 18" top diameter, such a sort would be disqualified for export since the domestic criterion for a gang saw log sort is 8" to 14" top diameter and for a standard saw log sort is 15" minimum top diameter. The only solution in this example, of which there are many, would be to make two sorts, advertise them separately and, if export permits are issued, put them together for shipping. Of course, if only one parcel is approved for export, then customer specifications cannot be met and a new customer, possibly in a different market, would have to be found. Such situations, which are common, add considerably to exporters’ costs.

Finally, time delays associated with the export application process are in the order of six weeks to two months. This ties up large amounts of working capital and adds substantially to log handling costs. On the Coast, the longer the period that booms of logs remain in salt water, the greater the chance of serious degrade caused by teredo, a marine borer. Thus, logs waiting for permission to export must be towed to safe freshwater storage – usually in an estuary where the wood is dry at low tide. Not only is the added towing

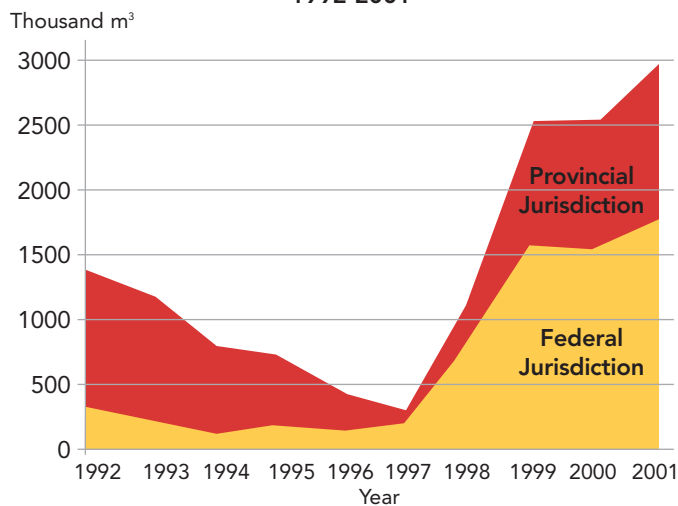
cost substantial, but additional towing plus the time delay significantly increase the risk of log deterioration and loss. In the Interior, where logs awaiting export are decked in dryland sorts, delay means that in the summer the logs lose moisture and, hence, have reduced weights and value when weigh-scaled.

Characteristics of Log Exports from Private Lands

Volume

Over the ten-year period 1992 to 2001, the total volume of logs exported from British Columbia to all destinations amounted to 3% of the total provincial harvest. Exports from private land Crown granted prior to March 12, 1906, that is, timber coming exclusively under federal jurisdiction, accounted for 33%, about one-third, of total exports. As can be seen in Figure 3, volumes of logs exported annually varied substantially during this period, reflecting conditions prevailing in domestic markets. In 1997, total exports dropped to a low of 269 thousand m³ (0.3% of the total provincial harvest) but in 2001 were 2938 thousand m³ (3.3% of the total provincial harvest). Since 1997 the proportion of log exports falling under federal jurisdiction has increased and in 2001 stood at 60% of total provincial exports.

Figure 3. Log Exports from British Columbia: 1992-2001



Source: BC Ministry of Forests

Species

A wide variety of species are exported from British Columbia as logs. This mix is dominated by western hemlock, which accounts for more than 65% of total log exports, followed by Douglas-fir, about 20%. The balance includes mainly western red cedar, spruce and hardwoods. A majority of logs exported from private

land on the Coast are second-growth Douglas-fir of smaller diameter that would typically be manufactured into construction grade dimension lumber.

Markets

The main destinations for British Columbian logs are the United States and Japan, with limited shipments to Korea, China and Taiwan. The United States is the major market for Douglas-fir. Both Japan and the United States import substantial volumes of western hemlock. Exports of hardwoods are almost entirely to the United States and mainly originate from the Interior. Japan provides the most attractive log prices but also has the highest quality requirements. The major market for lower quality logs is the United States. In recent years, shipments to the United States have grown relative to Japan. This trend reflects a stagnant Japanese economy, mounting timber shortages in the United States Pacific Northwest, and an increasing proportion of lower quality, exportable logs in British Columbia.

Domestic/export price differentials

Domestic/export log price differentials vary considerably from month to month and year to year with market conditions. For example, over the period 1991 to 2000, the average price for hemlock-balsam logs in the United States market was approximately 62% higher than their price on the Vancouver log market, however, price premiums ranged from a high of 120% in 1999 to as low as 5% in mid 1995.

Currently (fall 2002), Douglas-fir second-growth sawlogs (8"-14" top diameter) sell for \$85/m³ on the British Columbia Coast and \$95/m³ in the United States market, net of transportation and handling costs.

Hemlock in the West Kootenays, which realizes only \$50/m³ delivered to local mills, commands a delivered price of \$100/m³ to mills in the United States within a similar hauling distance. Similarly, lodgepole pine that realizes \$57/m³ at local mills will fetch \$110/m³ at mills in the United States. For some Kootenay landowners, mills in the United States not only offer much higher prices but have locational advantages over their Canadian counterparts.

On the Coast, the 20% to 30% of hemlock logs that come up to the required quality standards realize about \$140/m³, net of additional handling and scaling costs, in the Japanese market compared to \$85/m³ in the local Vancouver market. A large old-growth western red cedar sawlog currently commands a price of about

\$195/m³ in the domestic market compared to \$250/m³, net of additional handling costs, in Taiwan.

Analysis

In this section, the implications of log export controls on private forestland in British Columbia will be analyzed from efficiency, equity and public policy perspectives. The results of these analyses will be used to draw inferences concerning the impacts of eliminating controls on the export of private logs.

Efficiency

Efficiency is concerned with the net benefits, that is, benefits less costs, accruing to a society as a result of an economic activity or, as in the case of this study, a change in public policy. If the net benefits of implementing a policy change – removing controls on log exports, for example – are positive there is said to be a gain in efficiency and members of the society concerned are better off. Conversely, negative net benefits are indicative of a decline in social well-being. Efficiency is concerned with the aggregate well-being of society; it is not concerned with how the benefits and costs of an economic activity or policy change are distributed among societal members.

The major benefit to the British Columbia economy of removing log export restrictions on private land would be an increase in the value of logs harvested from both private and public lands. The costs of such a policy change would include the incremental expenditures associated with increased timber harvests on public and private lands and increased costs of manufacturing forest products as a result of higher domestic log prices.

The Effect of Sales Barriers on Log Prices

Certain species and grades of logs often fetch considerably higher prices in foreign markets. Artificial barriers to such sales have the same effect of lowering the return on our forest resources as the barriers foreign governments put on imports of Canadian forest products.

Peter H. Pearse (2001) in *Ready for Change: Crisis and Opportunity in the Coast Forest Industry*

Benefits

As pointed out in an earlier section of this report, certain species and grades of logs are more highly priced in international markets than in domestic markets. Allowing private landowners to take advantage of these price premiums would increase the overall value of their log shipments. However, an increase in log exports from British Columbia would, itself, have an impact on international log prices. The factors affecting the magnitude of these adjustments are complex.

If British Columbia's log exports – say, to Japan – increased, then this increased supply in the Japanese market would cause log prices there to decline. The extent of this decline would depend upon a number of complex interactions. Initially, the fall in prices would depend on the sensitivity of consumer demand in the Japanese log market to changes in market price. If consumer demand is insensitive to price changes, that is, the price elasticity of demand is low, then an increased supply will lower the market price further than if consumer demand is more sensitive to price changes.

As Japanese log prices decline in response to increased log imports, the supply of domestic logs to the Japanese market would decrease as some stands of trees became uneconomic to log at the lower prices and fewer logs could be profitably recovered and transported to market. The actual decline in the log supply would depend upon the sensitivity of the Japanese domestic supply of logs to price changes – that is, the price elasticity of log supply. The decrease in supply would create upward pressure on market prices, offsetting, to some extent, the price decreases experienced as a result of increased imports. The net effect of these Japanese market adjustments would determine the log prices available to British Columbia exporters.

In British Columbia, decreased log supplies due to increased exports from private land would raise domestic log prices, the actual impact being dependent upon the shift in domestic supply and the price elasticity of the demand for logs in the British Columbia market. As domestic prices increased, more logs would be delivered to the market from both public and private lands as previously sub-marginal stands became operable and smaller sized logs could be profitably recovered. For example, experience suggests that, on average, when a stand is felled for export only about one-third of the volume meets export specifications; the balance is supplied to domestic markets. Such stands could not be harvested given current domestic cost structures and log prices and, consequently,

in the absence of log exports would not be harvested at all. The actual increase in the volume made available and the resulting price change would depend upon the price sensitivity of British Columbia's log supply.

Adjustments in log prices following the removal of log export restrictions would provide benefits to British Columbia's economy in two ways. First, log exports from private land would generate more revenue than would have been the case had they been sold domestically. This incremental benefit would be equal to the additional volume exported multiplied by its export value less its value in domestic markets *prior to the removal of export controls*. Second, since domestic log prices would rise following the lifting of log export controls on private land, revenues received for *all logs* sold domestically, from both public and private lands, would increase. Consequently, stumpage prices for all Crown timber sold within the area affected by increased log exports would rise.

Costs

The costs to British Columbia's economy of lifting log export restrictions on private land are of two types. First, there are the costs of harvesting and transporting to market the additional timber volumes that would be produced in response to domestic log price increases following the removal of log export restrictions.

Second, higher domestic log prices would increase the costs of manufacturing lumber and chips and, consequently, reduce shipments of these products. The resulting reduction in net revenues to the manufacturing sector is a cost to the provincial economy. It should be pointed out, however, that economists regard this cost as a short-run phenomenon. Over the long term, much of the labour and capital displaced from the forest products manufacturing sector as a result of log price increases will be productively employed elsewhere in the economy, thus offsetting the cost of reduced forest products production.

Net benefits

The net benefits to the provincial economy of removing log export restrictions on private land can be found by subtracting costs from benefits. Although estimating

these values empirically is challenging, two studies in recent years have undertaken this difficult task. Margolick and Uhler³ used 1983 data to examine the economic impact on British Columbia of removing all log export restrictions on public and private land. Uhler⁴ used 1997 data to examine the economic impacts of unrestricted access to international log markets to British Columbia's private landowners. Both studies showed a positive net benefit, that is, an increase in economic efficiency, of lifting restrictions on log exports. However, Uhler's results for 1997 are the most relevant to this analysis.

Uhler estimated that if owners of private forestland, Crown granted on or before March 12, 1906, had had unrestricted access to the Japanese and United States log markets in 1997, the net gain to the provincial economy would have been \$295 million. That is, there would have been a substantial gain in economic efficiency (Figure 4).

Equity

Efficiency is concerned with the net benefits to the economy as a whole of an economic activity or public policy. Equity, or fairness, is concerned with the distribution, or incidence, of benefits and costs. Several equity questions will be addressed: who bears the costs and who benefits from current regulations controlling exports of logs from private forestland? who would gain and who would lose if log export restrictions on private forestland were lifted? and, finally, how do federal log export restrictions discriminate against private forestland owners in British Columbia?

Who bears the costs and who benefits from current regulations controlling exports of logs from private forestland in British Columbia?

Log export restrictions on private forestland constrain the marketing opportunities available to private land owners. Since export markets offer higher prices for certain species and grades of logs, landowners' cash flows, rates of return on their investments in timber production, and the value of the capital assets represented by their lands and timber inventories are all reduced. Furthermore, the province collects less stumpage revenue

³ Margolick, Michael and Russell S. Uhler. 1992. "The Economic Impact on British Columbia of Removing Log Export Restrictions," *Journal of Business Administration* 20(1&2):273-296.

⁴ Uhler, Russell S. 2000. "The Economic Impact on British Columbia of Providing Unrestricted Access to International Markets to British Columbia's Private Forestland Owners." Paper prepared for the Private Forest Landowners Association (unpublished), 46 pp.

for Crown timber than it would if exports of private timber were not restricted.

On the other hand, since log export restrictions increase the supply and, thus, reduce the prices of logs in domestic markets, firms manufacturing forest products pay less for their principal raw material than they would in the absence of export restrictions.

Thus, there is a transfer of wealth from timber owners, both the Crown and the private sector, to forest products manufacturing companies. In other words, manufacturers receive a subsidy at the expense of timber growers.

How would the costs and benefits of removing restrictions on log exports from private land be distributed among various segments of British Columbia society?

Freedom to sell logs into those markets offering the highest prices would significantly increase net returns to those private forestland owners coming under federal jurisdiction. For 1997, Uhler estimated this increase to be \$163 million per annum for coastal landowners, assuming exports would be shipped to Japan and the United States Pacific Northwest. For the same year, net returns to Interior forestland owners shipping to the United States were estimated to increase by \$5.6 million.

Private owners holding forestlands Crown granted after March 12, 1906, that are regulated by the province and those operators logging Crown lands would also benefit from the removal of federal regulations because domestic log prices would rise in response to reduced supply and higher log prices would increase the area

that could be logged profitably. Uhler estimated that the increase in revenue to post-1906 landowners and operators logging Crown land on the Coast would have been \$14.6 million and \$19 million, respectively, in 1997

Higher values for logs harvested from Crown land result in higher returns to the provincial government in the form of increased stumpage payments. The magnitude of this increase is difficult to estimate and depends on the method used to determine stumpage values. Uhler's estimate for 1997 was \$173 million.

In fact, government's share of the increased revenues following the removal of restrictions on log exports from private lands would be considerably more than the additional amounts collected in stumpage. Both levels of government, provincial and federal, would share in the increased revenues accruing to private landowners and loggers operating on public lands through income and capital gains taxes. Other sources of public revenue would include increased GST and provincial sales taxes and increased provincial property taxes on all private forestland, both pre- and post-1906.

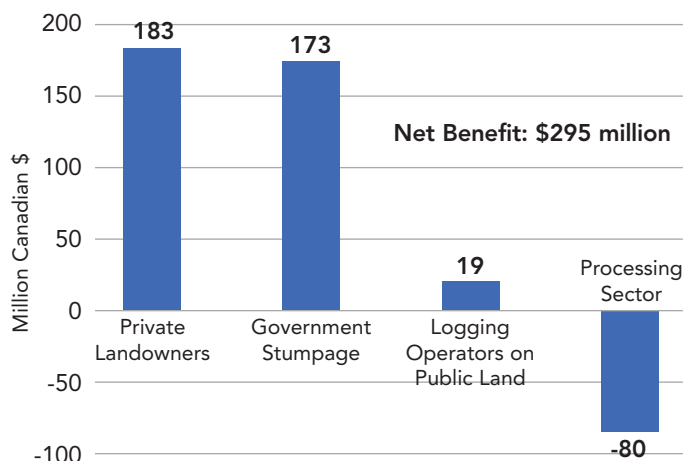
In summary, the total benefits of lifting federal restrictions on log exports from private land in British Columbia amounted to \$375.2 million in 1997, of which \$183.2 million (49%) accrued to private forestland owners, \$173 million (46%) to the provincial government and \$19 million (5%) to operators logging public lands (Figure 4).

The cost of removing federal restrictions on log exports would be borne by the forest products processing sector as increased raw material costs reduced net revenues and caused production to decline. Uhler estimated this net loss for 1997 at \$80 million – about 21% of the gains experienced by other sectors of the economy or a benefit/cost ratio of 4.69. Government tax revenues would also decline as a result of reduced net revenues in the manufacturing sector. However, this amount would be much less than the positive impact on public revenues of lifting federal log export restrictions.

The impact on employment of lifting federal log export restrictions on private land

An important equity issue accompanying any change in public policy is its impact on employment. If the number of people employed declines as a result of the change, then this may represent a shift in economic benefits from labour to capital, resource owners and government. A decline in employment in one sector of the economy that is wholly or partially offset by an increase in employment

Figure 4. Benefits and Costs to the British Columbia Economy of Providing Unrestricted Access to Japanese and United States Log Markets to Private Forestland Owners (1997)



Source: Russell S. Uhler, unpublished paper, 2000

in other sectors suggests a redistribution of wealth from one group of workers to another. Of course, if labour is mobile the displaced workers may simply move to those sectors now offering higher employment.

Removing federal export restrictions on logs from private lands might temporarily decrease employment in the forest products manufacturing sector. However, employment in logging would rise substantially since many stands that are rendered inoperable by export restrictions would be harvested if a portion of the volume recovered could be exported. Also, increased domestic log prices would allow many currently sub-marginal stands yielding no exportable logs to be profitably harvested. Furthermore, new and expanded employment opportunities would emerge in processing logs for export (bucking, trimming, sorting), transportation to quayside, loading, marketing and managing private forestland.

Over time, as the manufacturing sector adjusts to world market log prices, it will become more efficient, innovative and globally competitive. Higher raw material prices will provide strong incentives to produce the greatest value from each log processed, and the resulting structural changes will likely increase the number of people employed per thousand cubic metres of logs harvested. The result of all these adjustments on employment are difficult to forecast but the available evidence, including the situation in other jurisdictions where log export restrictions are absent, suggests that the net result of lifting log export restrictions on private land could be more full-time, well-paying jobs in the forest sector rather than fewer.

It should also be noted that log exports help to cushion the impact on the labour force and local communities of cyclical downturns in markets for manufactured forest products. As prices for wood and pulp and paper products fall, the domestic demand for logs decreases and export markets may become more attractive. Log production is maintained as mills reduce output or close down and a significant portion of the workforce remains employed and continues to contribute to local economies. Current conditions in the coastal forest sector provide a good illustration of this phenomenon. If the substantial volume of logs currently being exported from the Coast was reduced, domestic processing would not increase and unemployment would be much more severe.

Discrimination by the Canadian government against private forestland owners in British Columbia

British Columbia is the only jurisdiction in Canada where the federal government chooses to exercise its constitutional, statutory authority to control the export of logs. Also, while other provincial governments control log exports from Crown land, only in British Columbia does a provincial government exercise such controls over private timber. This is not indicative of the importance of private forestland in British Columbia's productive forestland base compared to other Canadian provinces. In fact, British Columbia has a lower proportion of its forestlands in private ownership than every other province except Newfoundland and Saskatchewan (Figure 2). The 4.1% of British Columbia's productive forestland base in private hands is very modest compared to Nova Scotia (72%), New Brunswick (51%), Quebec (15%) and Ontario (13%). British Columbia has less than 9% of Canada's 24 million hectares of productive private forestland.

In the Maritime provinces, where private land is a very significant proportion of the forest resource base, private owners are free to export logs, as indeed many do. Yet these provinces would not appear to have suffered economically from such policies and continue to maintain viable, competitive forest products manufacturing sectors. Likewise, private forest owners who control a significant part of the forestland base in southern Ontario and Quebec are not constrained in seeking the highest value markets for their products. The federal government clearly discriminates against private forestland owners in British Columbia, reducing their net incomes and significantly lowering the value of their assets.

It is also important to note that in other timber producing countries such as the United States, Sweden, Finland and New Zealand, with which British Columbia competes in global forest products markets, the majority of industrial forestland is privately owned, yet there are no controls over log exports from private holdings. In recent years both Sweden and Finland have increased their log exports very substantially yet they have dynamic and highly competitive forest products industries.

Policy

The elimination of log export restrictions on privately owned forestland has a number of important implications for public forest policy. These include the beneficial impacts of strengthening private forestland title; advancing the diversification of the province's tenure system; removing an important source of contention in the softwood trade dispute with the United States; promoting increased efficiency in the forest products processing sector; and facilitating environmental protection.

Strengthening title to private forestland

Log export restrictions, by limiting marketing opportunities, seriously undermine title to private forestlands. Title holders' options are constrained in many ways, cash flows are reduced, land values are significantly depressed and disincentives to invest in improvements are created. Private forest landowners are in the business of growing wood – logs are their final product. In British Columbia, even on the better sites, rates of return to investments in reforestation and silvicultural operations designed to increase the values of forest stands are both modest and risky. Reducing the market value of logs by controlling exports lowers these rates of return even further, reducing landowners' incentives to invest, depressing employment and lowering production. Furthermore, capital flows into British Columbia's forest sector are reduced as potential investors in forestland, including major institutional investors, are discouraged by intrusive regulations and the prospect of low returns.

Removal of federal log export restrictions would create incentives to invest in timber production and increase the flow of capital into British Columbia's timber growing sector from both domestic and international sources.

Diversification of the province's tenure system

For many years, forest policy analysts in British Columbia have recognized the many economic and social benefits to the province of a more diverse forest tenure system. Pearse, in his Royal Commission report of 1976, recognized the importance of a diverse system of Crown tenures to the efficiency and competitiveness of the forest sector. Pearse's views on diversification were echoed by the Forest Resources Commission (the Peel Commission) in 1991, which proposed tenure reforms that would have granted licences to as much as one-third of managed Crown forestland to individuals, small

companies, cooperatives, communities and First Nations bands. However, these pleas failed to sway the province's policy makers and in 2000/2001 two major tenures – tree farm licences and forest licences – which are almost entirely held by relatively large integrated forest products companies, accounted for 81% of the province's allocated AAC. Woodlot licences, the only form of tenure designed to encourage small-scale, sustainable forest management by individual citizens and small firms on Crown land, accounted for only 1.7% of the AAC and community forest agreements less than one-tenth of one percent.

Practically the only elements of diversity in British Columbia's forest tenure system are those forestlands held by private owners. While private forestlands are relatively modest in area, they make significant contributions to the provincial economy in terms of jobs, investment, timber supplies and public revenues.

The role of private lands as a counterbalance to British Columbia's highly concentrated and uniform Crown forest tenure system is invaluable. Private forestland ownership in British Columbia is relatively stable, with the majority of owners holding land for extended periods of time, sometimes multiple generations. Perpetual, fee simple land title makes investments in infrastructure, silviculture and the improvement of growing capacity more attractive than is the case on temporary and highly restrictive Crown forest tenures. Private owners, who manage their lands to achieve a

Limited Opportunity for Small-scale Forestry

I have already remarked on the conspicuous trend towards larger and fewer enterprises in the forest industry of the province and the concomitant consolidation of rights to timber. ---- This situation stands in marked contrast to that observed in many other major wood producing jurisdictions. In Scandinavia, a large and vigorous industry depends substantially upon tens of thousands of small forest holdings; and the same is true of many other western countries. ---- The scope for small-scale forestry (in British Columbia) is now limited to operations on modest parcels of Crown-granted land, and on Crown land licensed as Farm Wood-lots. ---- There are several explanations for the absence of small-scale forestry in the province, having to do with patterns of land ownership and deficiencies in public programmes.

Report of the Royal Commission on Forest Resources.
Peter H. Pearse, Commissioner. (1976)

broad spectrum of management objectives using a variety of traditional and innovative techniques, add variety and resilience to an otherwise homogenous, bureaucratically run system.

Because of its important role in the structure of the provincial forest sector, private forestland deserves much more attention at the political level than its relatively small area might suggest. Log export restrictions prevent private forestlands from achieving their full potential within the provincial economy.

The softwood lumber trade dispute

Since 1982, Canada and the United States have been involved in a series of trade disputes. The United States case for the imposition of countervailing duties is twofold. First, it is claimed that methods of calculating stumpages for public timber in several Canadian provinces, including British Columbia, result in below market prices and provide a subsidy to lumber producers.

Second, log export restrictions on private land in British Columbia have been cited as further justification for the imposition of countervailing duties. The US Department of Commerce in its final determination of May 1992 set a countervailing duty rate of 6.51%, comprising 2.91% for stumpage programs in British Columbia, Alberta, Ontario and Quebec plus 3.6% for British Columbia's log export restrictions. In fact, this tariff was ultimately revoked and in 1996 the two countries entered into the five-year Softwood Lumber Agreement, which imposed a limit on the amount of Canadian lumber that could be shipped to the United States duty free, with a system of escalating fees to be paid on shipments above this volume.

Following the expiration of the Softwood Lumber Agreement in 2001, the US Coalition for Fair Lumber Imports launched a new countervailing duty petition plus an anti-dumping petition against Canadian softwood lumber. In April 2002, the US Department of Commerce brought down a final determination that imposed a countervailing duty of 18.79% plus anti-dumping levies against individual companies averaging 8.64%.

While, in September 2002, the World Trade Organization ruled in Canada's favour that the United States' preliminary subsidy determination in 2001 was flawed, the matter is far from being settled. Although the Canadian government continues to challenge the final US determination before the WTO and, together with the provinces and the industry, has initiated reviews by NAFTA, there is recognition on the part of many

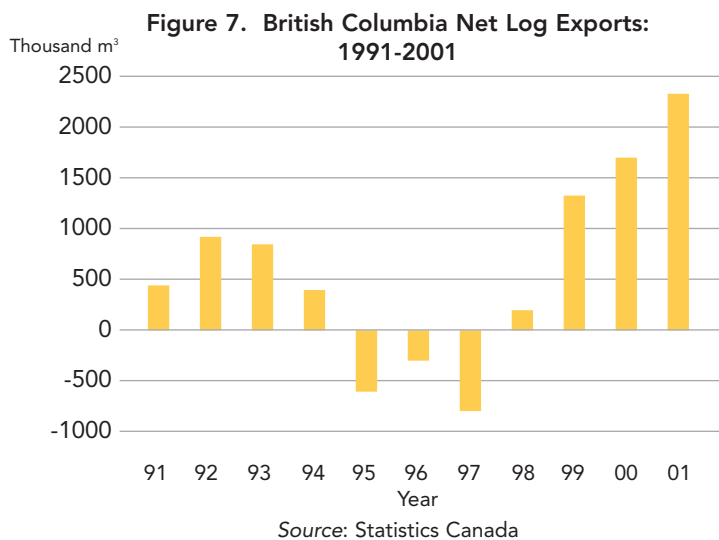
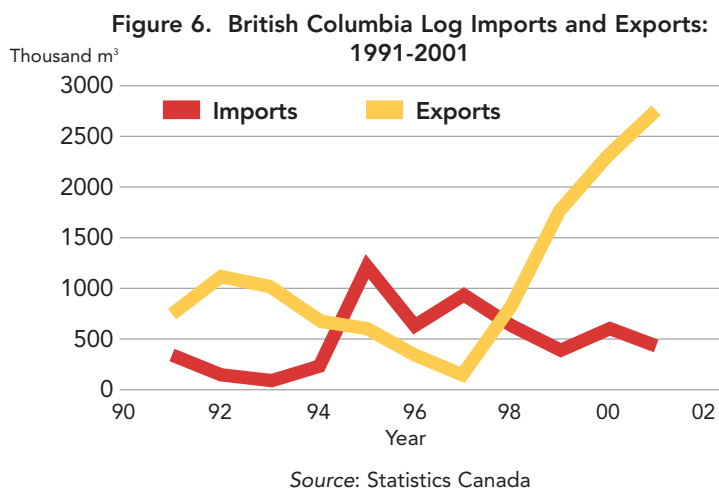
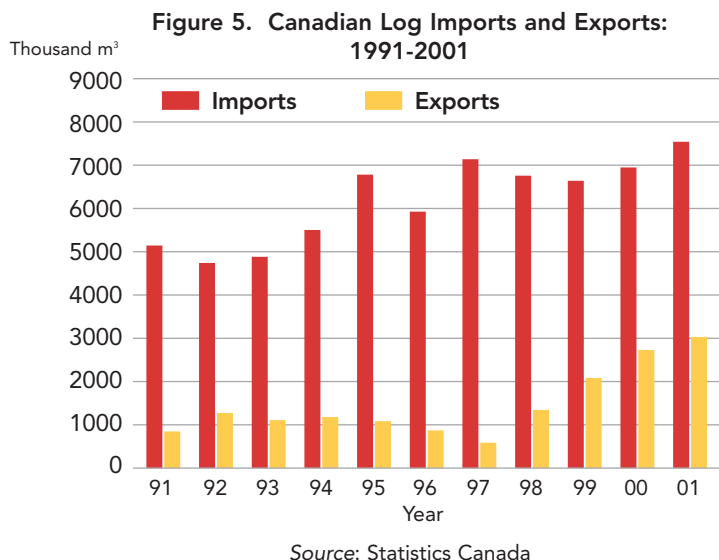
players, including the British Columbia government, that a final solution can only be found in policy changes that undermine the United States' reasons for claiming that lumber manufacturing in Canada is subsidized. To this end, in December 2001, the British Columbia government put before the Americans a negotiating position that called for sweeping policy changes in timber pricing and the forest tenure system and mandatory requirements such as cut control, utilization standards and mill appurtenance. No mention was made of log export restrictions on private land. Nevertheless, it would clearly be prudent, given the history of the softwood lumber dispute, for the Government of Canada to lift their export restrictions in British Columbia and bring log export policies in the province in line with those in other Canadian provinces and the United States.

Promoting increased efficiency in the forest products processing sector

It has been shown that lifting restrictions on log exports from private land in British Columbia would decrease the supply of logs entering domestic markets and, on the Coast, increase the price of all logs sold. While, initially, increased log prices would undoubtedly reduce the production of forest products, they would create incentives for greater efficiency in the processing sector. As log prices moved closer to those prevailing in international markets, manufacturers would have incentives to economize on the use of wood by seeking and introducing innovative technology and ensuring that logs were sorted and used to produce those products that maximize their net value. The net result, over the longer term, could well be higher, not lower, net returns from an industry better equipped to compete in global markets. If our competitors can survive and prosper in an unprotected environment in which international prices for wood prevail, why not British Columbia?

Canada is a trading nation; our economic success depends on the existence of free and open markets for our exports. Few countries have a greater stake in free trade within a global economy. In view of this, it seems unlikely that the Canadian government would want, unilaterally, to take any restrictive trade measures that might damage our reputation as a trading nation and attract retaliatory measures from our trading partners. Yet this is exactly what they are doing in placing restrictions on log exports from private land in British Columbia. The policy seems particularly unjustifiable

from a federal perspective when it is considered that Canada is a net importer of logs, not an exporter. Between 1991 and 2001, Canada's log exports amounted to 17.3 million m³ while imports for the same period



totalled 69.7 million m³ (Figure 5). That is a negative trade balance for the period of 52.4 million m³. Each year British Columbia imports substantial volumes of logs. Between 1991 and 2001, log exports averaged 1.1 million m³ per annum and imports 540 thousand m³ per annum (Figure 6). From 1995 to 1997 British Columbia's log imports exceeded exports by a considerable margin (Figures 6 and 7).

Facilitating improved environmental protection

The belief is strongly held among certain segments of British Columbia's population that any relaxation in log export restrictions will lead to increased logging and accelerated environmental degradation. However, this interpretation is seriously flawed.

It is true, as pointed out earlier, that removing log export restrictions on private land will result in some increased logging activity as it becomes economically feasible to log hitherto sub-marginal land. However, most of British Columbia's forestlands come under federal and provincial regulatory regimes designed to protect forest environments and ensure the sustained production of both timber and non-timber forest products. There is no reason to believe that the environmental impact of extended logging will be any more serious than current logging activities.

Federal regulations include the *Federal Fisheries Act*, and when the proposed *Species at Risk Act* is passed by the Canadian Parliament, it will protect designated wildlife and its habitat on all lands in the country regardless of ownership. At the provincial level, all forestlands – public and private – come under the jurisdiction of a number of statutes including the water, wildlife, waste management and pesticide use Acts. Forest practices on public land are regulated by the *Forest Practices Code of British Columbia Act*⁴ and its numerous regulations and guidelines that comprise the province's Forest Practices Code. The owners of all private lands classed as Managed Forest Land under the *Assessment Act* must, in addition to complying with the requirements of more than 30 federal and provincial Acts and regulations designed to protect forest environments, act in accordance with the terms of the *Private Land Forest Practices Regulation* described earlier in this report.

⁴ As this paper is being written, the provincial government is in the process of replacing the *Forest Practices Code of British Columbia Act* with the new *Forest and Range Practices Act*.

While some may argue that current environmental protection statutes and regulations for forestland do not go far enough, it should be pointed out that relaxing log export restrictions will improve the status quo in two ways.

First, private owners' net revenue streams from managing their forestlands will rise and increase economic incentives to practise "better" forest management including environmental protection, silviculture and reforestation. Also, small owners, particularly, will have less incentive to overcut marketable stands in order to finance ongoing operations or meet personal financial contingencies. Government stumpage revenues will also rise, creating a fiscal environment that will favour putting more public funds into the management and protection of the forest resource.

Second, improved silvicultural management of private lands will lead to increased productivity and higher allowable harvests. Some of this increased wood supply will, no doubt, be exported, however, much will be sold on domestic markets, enhancing the provincial wood supply, increasing the volume of logs sold in competitive markets and, by taking the harvesting pressure off public lands, allowing more areas to be set aside to meet increasing demands for environmental protection and recreation.

Conclusions

The title of this paper poses the question "Are log export restrictions on private forestland good public policy?" On the basis of all the available evidence, the answer to this question must be "No they are not."

What are "good" public policies? A reasonable answer, which, I suspect, few would wish to dispute, is that "good" public policies increase the welfare, or well-being, of all members of society within the jurisdiction of the policy makers and are fair in that they don't unnecessarily discriminate against one group in society at the expense of others. In other words, a "good" policy must be able to successfully pass efficiency and equity tests. As has been demonstrated in this paper, the policy that restricts exports of logs from private forestland in British Columbia is neither efficient nor equitable.

Policies that restrict exports of logs from private land create more costs for society than benefits. They impose costs on private forestland owners by reducing the revenue they receive from the sale of logs – their final product. In so doing they reduce private forestland owners' returns on investment in reforestation and the

management of timber crops and significantly depress the market value of private forestland. By lowering domestic log prices, restrictions on log exports reduce the revenue flowing to British Columbians from stumpage sales on public forestland and also the returns to those who harvest timber on public land and sell their logs in domestic markets. The people of British Columbia forgo further revenues in the form of income taxes, sales taxes and provincial and municipal property taxes on private forestland. The benefits of log export restrictions on private land are reaped by the timber products processing sector, which enjoys lower raw material costs than it would experience in the absence of such restrictions.

Two studies have shown that the costs of restricting log exports from British Columbia greatly exceed the benefits. The first, by Margolick and Uhler, published in 1992 using 1983 data, examined the impact of lifting log export restrictions in British Columbia on both Crown and private land. The second, carried out by Uhler in 2000 using 1997 data, dealt solely with private forestland restrictions. Uhler's analysis showed that in 1997, log export restrictions on private land cost the province at least \$295 million dollars over the short run in forgone net benefits. Or, in other words, British Columbians were made worse off because federal regulations restricting log exports from private land were in place. Clearly, the policy is inefficient. Losses in the provincial government's stumpage revenues alone in 1997 were estimated at \$173 million – almost 13% of the stumpage actually collected during that year and a significant loss for any government striving to maintain public services while holding budgetary deficits in check.

Would lifting export restrictions on private forestland in British Columbia create serious equity problems? The evidence suggests that it would not. The benefits of abolishing these restrictions would accrue to private forestland owners, the British Columbia government and operators logging Crown timber and selling logs in domestic markets. The costs would be borne by firms manufacturing forest products. However, over the longer term, as domestic log prices rose towards international levels, this would stimulate greater efficiency in wood products manufacturing in ways that would benefit both the industry and the province. British Columbia manufacturers would move closer to having a resilient, globally competitive industry less protected by artificial trade barriers that significantly reduce raw material prices. Also, eliminating federal log

export restrictions on private land in British Columbia would bring log export policies in Canada in line with those in the United States and, in so doing, would remove a major irritant in the Canada/US softwood lumber trade dispute, thus increasing the probability of a solution that would benefit all Canadians.

Increasing exports of logs from the province has been opposed for decades by a broad spectrum of British Columbians. Much of this resistance stems from the belief that with log exports come reduced domestic, secondary manufacturing and fewer jobs in the forest sector. The popular slogan “exporting logs is exporting jobs” has a ring to it that seems to strike a chord with politicians and the general public alike.

It is true that removing log export restrictions on private land could result in some temporary job losses in the manufacturing sector. However, these losses would be offset, to a large degree, by increasing employment in harvesting on both Crown and private land, the log export business and the management of private land. Furthermore, over the longer term, when manufacturers have had time to adjust to the new reality of less protected raw material markets, a more efficient, innovative and globally competitive wood processing industry will emerge that will provide a sustainable source of full-time, highly paid employment. In the wake of all these adjustments, the net result of lifting log export restrictions on private land could be more jobs in the forest sector rather than fewer.

Log exports perform a valuable social and economic function by cushioning the impact on the labour force of cyclical downturns in markets for manufactured forest products. Log exports tend to increase when the domestic demand, and hence price, for logs declines and decrease when domestic processors, experiencing rising demand and prices for their products, bid log prices higher on domestic markets. In fact, as experience demonstrates (Figures 6 and 7) when the demand for British Columbia’s manufactured wood products is high, not only are log exports dramatically reduced but the province becomes a net importer of logs. For example, in 1995 and 1996, for every cubic metre of wood exported from British Columbia in log form, two cubic metres were imported (Figure 6). In 1997, the volume of logs imported exceeded exports by a factor of almost six to one and, it should be noted, these imports do not include logs that were shipped to British Columbia from other Canadian provinces, particularly Alberta.

Clearly, log exports bring greater employment

stability to the notoriously cyclical, commodity-based forest products industry. When the processing sector faces economic downturns and mills reduce output or close down, log exports ensure that a significant portion of the workforce remains employed and continues to contribute to provincial and local economies. Yet, when the economic fortunes of the processing sector improve, more logs become available as exports decline and domestic supply is bolstered by log imports. Currently, the “surplus” criterion used for the approval of log export permits from private land allows greater volumes to be exported when domestic demand is low and curtails exports as domestic demand rises. However, as we have seen, this regulatory system is inequitable, administratively cumbersome and imposes significant compliance and other costs on exporters. If log export restrictions on private land were lifted, relative domestic and export prices, driven by market forces, would continue to ensure that log exports fall with rising domestic demand and prices and rise as domestic prices decline. Market forces would provide employment stability in the forest sector more effectively than current regulations and at much lower cost, thus allowing log exports to generate more wealth for the provincial economy.

The most significant inequity associated with log export controls is that imposed on private forestland owners in British Columbia by the Government of Canada. British Columbia is the only province where the federal government wields its constitutional and statutory authority to restrict the export of logs. In fact, British Columbia is the only jurisdiction among industrialized western nations where private forestland owners are not free to sell logs – their final product – into the market of their choice. It is difficult to rationalize a policy under which small private forestland owners in British Columbia’s Gulf Islands or West Kootenays – citizens of Canada – are barred by federal regulations from exporting logs while their counterparts in areas such as rural Alberta, southern Ontario, the St. Lawrence valley or New Brunswick are free to ship to any market – domestic or international – that will provide them with the highest returns.

Other concerns that make British Columbians cautious about public policies that could increase log exports include the perceived environmental impact and the notion that there is a connection between the export of logs and the volume of wood available to produce further manufactured, or “value added,” wood products.

The first concern reflects mistrust, among certain segments of society, in the regulatory framework put in place by both provincial and federal governments to protect forest environments. This is an ongoing and fundamental difference of philosophy that has little to do with controlling exports from private forestland. Lifting these controls would do nothing to exacerbate the situation, and there is no reason to believe that the environmental impacts of more extensive logging on either private or public lands would differ from those of current logging activities. Both private and Crown forestlands are subject to a number of provincial and federal statutes and regulations designed to protect various environmental components, and owners of forests classified as Managed Forest Land under British Columbia's *Assessment Act* must comply with the *Private Land Forest Practices Regulation*. British Columbia's environmental protection legislation and regulations for both public and private lands are more rigorous and stringently enforced than in any of the other Canadian provinces, where private log exports are not constrained by either federal or provincial governments.

The argument that lifting log export controls on private land would impede the growth of the "value added" wood products industry is completely unfounded. For years, many groups in British Columbia have expressed concern that too much of the timber harvest is shipped as commodities – lumber, pulp, newsprint – and too little as more highly manufactured wood products such as mouldings, furniture components, siding, prefabricated housing and engineered wood. During the late 1980s and early '90s a number of privately and publicly sponsored studies addressed this problem. A consensus was reached that major constraints on further wood manufacturing included labour costs, proximity to markets, market access, scarcity of a skilled labour force, entrepreneurial inexperience and poor access to appropriate volumes and sorts of sawn wood that met desirable species, size and grade characteristics. Access to unmanufactured logs was rarely, if ever, mentioned as a serious issue.

During the 1990s the "value added" industry in the province grew rapidly, partly as a result of public policies designed to free the sector of the more important constraints, and partly because the rising cost of wood provided more incentive to get the highest value from each log. In other words, rising wood costs stimulated the "value added" sector rather than impeded it. Shipments of "value added" wood products from

British Columbia rose by 296% between 1990 and 1999 and in that year involved 744 firms, provided 20,000 full-time jobs and returned gross sales of \$4.68 billion. However, during this period the "value added" industry burgeoned throughout the country and shipments from Canada as a whole rose by 584%. In 1990, British Columbia was the leading exporter of "value added" wood products in Canada, accounting for 33% of the national total. By 1999, British Columbia had dropped to third position, with only 19% of national shipments, behind Quebec (33%) and Ontario (32%) – both provinces with considerable areas of private forestland and no restrictions on private exports.

This review and analysis of federally imposed export restrictions on private forestland in British Columbia leads inescapably to the conclusion that they should be removed. To do so is a political decision that can only benefit a majority of Canadians and correct a blatant and unwarranted inequity.

Removal of restrictions on the export of logs from private land in British Columbia requires no legislative amendments. The federal government simply has to make an administrative decision that, under the *Export and Import Permit Act*, it will treat private forestland owners in British Columbia identically to the way it treats their counterparts in other provinces.

