

## Five Reasons Why BC Needs More Private Land\*

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Good afternoon. Thank you for inviting me to the third annual general meeting of the BC Private Forest Landowners Association.

Today I will give “a Half-Letterman” – the top five reasons why BC needs more private forestland. I will focus on the reasons why, and not the problems of how. We can discuss those problems in the Q&A, along with innovative solutions – for example, annex the State of Washington, or better still, the State of Maine where over 96% of the forest land is in private hands.

Now to the reasons.

Reason #5: BC needs more private forest land in order to have a world competitive forest sector.

With production far in excess of domestic demand, BC necessarily and inevitably operates as part of a global market for forest products. The world's forest sector operates largely on the basis of markets. BC's “command and control” approach to forestry and the forest industry is incompatible with the economic system prevailing in the vast majority of our trading partners. BC's approach is therefore unlikely to be successful over the long term. Some examples:

- While Corporate executives and Boards of Directors of BC firms spend much of their time on how to deal with the government, their counterparts in New Zealand or Chile are focused on creating wealth – creating wealth through better ways to manage their forests, through better ways to produce the products that consumers want, and through better ways to market those products to consumers.
- Companies such as Aracruz in Brazil have found enormous profit in combining *forestry* strategies with *processing* and *marketing* strategies. They did this first with eucalypt pulps and now with eucalypt lumber. The vast overburden of public

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ownership in BC makes it impossible for firms here to take advantage of such integrated strategies.

- Ownership patterns of forest land in BC provide little political support for the forest sector. Since decision-making is located in Victoria--distant from all our forests--our ownership patterns probably even create opposition to the sector. In contrast, Finns say “every one in Finland either owns forest land or know someone who owns forest land.” With such widespread personal interest in forestry, democratic governments simply cannot enact poor forest policy.

#### **Reason#4: BC needs more private forest land to be able to increase sustainable employment**

“Jobs, jobs, jobs” as Glen Clark puts it, are, in fact, the reason we have a forest sector, or, for that matter, any sector of the economy. But subsidized jobs for unproductive labour cannot long endure.

Everyone in BC seems to agree that the current tenure system should be reformed; the disagreements begin only once you try to find consensus around the specifics of desirable changes. The problem, I think, is a co-dependency among government, labour, communities and licensees all relying on uncollected timber rents as a narcotic to ease the pain of the competitive market place. But the rents are now gone. Mostly they have been dissipated through such policies as log-export restrictions, appurtenancy, and the Forest Practice Code. In addition, the provincial government takes an increasingly large share to feed its deficit habit. In the absence of unallocated timber rents, there is no source of funds to subsidize uneconomic practices, so the system is beginning to collapse on itself.

Timber rents have been--and could once again be--a powerful source of investment capital. Capital investment increases labour productivity and makes the high wages we have--or at least once had in BC economically sustainable. Privatization would help crystallize this source of capital, and, if done properly, would make at least some of it available for employment-creating capital investment.

Further, private landowners face not stumpage payments when they log. In the absence of this tax on logging, timber owners can economically operate far deeper into economic recessions than can licensees dependent on Crown timber. This, of course, helps stabilize employment.

#### **Reason #3: BC needs more private forest land to achieve better management of BC's magnificent forest estate.**

To paraphrase the gospel according to Pearse, “Canadians’ passion for public ownership of forest land has not been matched with a proclivity to provide adequate public resources for their management”

Excellent forest management requires capital, technical expertise, and site-specific prescriptions. Public forest management has difficulty providing any of these.

**TECHNICAL EXPERTISE**--Silvicultural practices associated with timber production in BC lag those in virtually every country with which we compete. We now have first-generation improved seed sources for most of our commercially important species, where the US South and New Zealand are now on their third generation of tree improvement. One company in New Zealand is seeking to map the entire genome of *Pinus radiata*, and to patent the useful genes they find (they claim to have found three that collectively confer a 10% increase in growth). Canada--a country perhaps more dependent on plants than any other in the world--has no such program. These same genes exist in Canadian trees, we just do not know their function or how to deploy them. One day we could easily find ourselves in the unhappy circumstance of having to pay license fees to a foreign country for genetic material we have growing in our forest but just don't understand. One of the world's leading forest biotechnology firms--Pacific Biotechnologies--is located in Victoria. Their customer base is mainly with the large private forest landowners in the United States and New Zealand, with virtually no connection with the public forest management agencies of Canada. I could go on, but I think you get the point.

**SITE-SPECIFIC PRESCRIPTIONS:** Gordon Baskerville likens forest management to building a house. You, the owners, know what you want from the house--how many people it can sleep, how many people can sit in the dining room, how many cars in the garage, ...An architect designs the house within the constraints of the building code.

In forestry, the Forest Practice Code takes the place of the building code, and the forester the role of the architect. The one difference is there is no owner to articulate a clear, manageable objective for the forest. As a result, site-specific prescriptions--the basic building blocks of forest management--literally have no purpose. For this reason, Gordon says--justifiably in my mind--that there is no *forest* management in BC, just a string of stand management practices that may or may not add to a coherent overall design. I cannot envisage a private landowner exercising such poor stewardship. Land markets guarantee that such owners do not long own their land.

**CAPITAL**--Growing trees is one of the most capital-intensive enterprises known. Many look to Forest Renewal BC as the source of the new capital needed for expanded investments in forest management. While Forest Renewal BC might be a useful organization for shepherding transition and change in the forest sector, it would be wrong to consider their investments as a *new* source of capital. With FRBC spending nearly \$400 million/yr, how can I possibly make such a claim? On 14 April 1994 when the government announced the new stumpage formula to support Forest Renewal, the stock prices of publicly traded BC forest products companies fell. The total decapitalization of the industry amounted to about \$2.5 billion--roughly the capitalized after-tax cost of the higher stumpage fees. By shifting the timber rent from companies to Forest Renewal, the government eliminated from the forest sector an amount of private capital roughly equal to the market capitalization of the province's largest forest products company, MacMillan

Bloedel. Hence, the capital investments made by Forest Renewal do not represent new capital to the sector, but rather a shift of capital from private investors to public ones.

Privatization can provide the needed capital. Daowei Zhang, a PHD student at UBC, recently studied the impact of tenure arrangements on private investment in silviculture. He examined private investments on forest licenses, tree farm licenses and private land. After holding constant such factors as distance from a mill, biogeoclimatic zone and site quality, he found that private investment in silviculture was 27.4% greater on tree farm licenses than on forest licenses, and on private land was 81% higher. Stronger property rights clearly lead to more private investment.

BC is such a peculiar case. We need capital investment in our forests. The public sector is not capable of providing this capital. Yet, through our tenure system we literally say to the private sector “we do not want you to make the investments that will create a sustainable forest sector for all of us.”

### **Reason#2: BC needs more private forest land to reduce the provincial government debt and deficit**

The good news is that literally billions of dollars of private capital are poised to help us out. At the moment, institutional investors have about \$US6-7 billion directly invested in timberland, with perhaps an equal amount in securitized instruments. With stock markets at all-time highs--and seemingly overvalued--interest in alternative investments is keen. Under reasonable conditions, a suitable fraction of these funds would flow to BC. What difference would it make?

I have estimated that a modest privatization program--2 million hectares on the Coast and 5 million hectares in the Interior--would net about \$12 billion (using as benchmark valuations, recent private land transactions on the BC Coast and in the US Interior). If the proceeds were used to pay down the provincial debt, the province's debt-service costs would fall by about \$720million. These gains would be partially offset by reductions in stumpage (about \$450 million, if stumpage falls in proportion to the share of the 'working forest' that is privatized), but might be augmented by annual ground rents and reductions in costs at the Ministry of Forests. The net effect would be an improvement in the province's deficit position by about \$300-\$350 million/yr--about enough to balance the provincial budget. Or maybe not! Who knows! But such a significant improvement would surely get the attention of the bond-rating agencies who have recently down-graded our public debt.

### **Reason #1: BC needs more private forest land to help save the last remnants of our unique old-growth forest.**

British Columbia harbours some of the most magnificent examples of temperate rainforests remaining in the world. We have an unparalleled opportunity to let these places evolve at their own pace, to provide the enjoyable solitude of true wilderness, to

retain untouched benchmarks of how forests evolve in the absence of trammeling by humans.

Like all human societies before us, our problem is that such places also succor our material welfare. In history, I can find literally no example of a society that voluntarily ceased exploiting its forests before they were depleted. Perhaps I am optimistic to think that we in BC can do something that no other humans on the face of the Earth have ever done before.

In large part, my optimism comes from the proven power of private ownership to grow more wood on a smaller, more compact and more economic land base. I have argued elsewhere that--by applying state-of-the-art management to about 17 million hectares (3 million on the Coast, 14 million in the Interior)--BC could sustainably grow about 100 million cubic metres of wood/year, far more than the current AAC. Such a policy would provide the opportunity to dedicate over 70 million hectares of land to non-industrial purposes. This would include about 35 million hectares of productive forest land, some 10-15 million hectares of other vegetated land, and the remainder in rocks and ice. Such an area--an area larger then France--would give over 3/4s the province a 'high biodiversity' emphasis rather than 10% now. Not even Greenpeace could complain about this plan.

The key to such a policy is excellent timber management on the lands dedicated to that purpose. And history has shown that private landowners are eminently well-qualified to provide such management. Hence, privatization of some of our land base is critical if we are to achieve the environmental objectives for BC supported by many both inside and outside the province.

## **Conclusions**

In conclusion, the top five reasons BC needs more private forest land are:

- To have a world competitive forest sector.
- To increase sustainable employment
- To achieve better management of BC's magnificent forest estate.
- To reduce the provincial government debt and deficit
- To help save the last remnants of our unique old-growth forest.

Speaking of Edinburgh in 1853, the Victorian writer, critic and artist John Ruskin commented: "It is chiefly by private, not by public, effort that your city must be adorned." Our forests in BC are much like his city in Scotland. To 'adorn' our forests--with good jobs, with healthy communities, and with vast areas of true wilderness--BC desperately needs more 'private effort'. Your organization is, of course, dedicated precisely to this aim. I wish you luck in your efforts.

