Is Forestry in British Columbia Heading for a Crisis?

John Innes
Faculty of Forestry
University of British Columbia
All is rosy…

The official line is:

• BC leads the world in forest management practices
• Forestry is absolutely not a ‘sunset industry’
• The American complaint about Canadian softwood lumber is completely unjustified
BUILDING A STRONGER FOREST ECONOMY

GLOBAL EXPORTS, SUSTAINABLE FOREST MANAGEMENT AND EFFICIENT MANUFACTURING HAVE MADE BC ONE OF THE LARGEST WOOD PRODUCT PRODUCING REGIONS IN THE WORLD.

$833 MILLION
DIRECT BC PUBLIC REVENUE GENERATED BY FORESTS IN 2015/16

36%
OF TOTAL EXPORTS - WORTH $12.9 BILLION

60,000+
PEOPLE
DIRECTLY EMPLOYED

7,000+
BUSINESSES
SUPPORTED

BC COMMODITY EXPORTS

FOREST PRODUCTS
AGRICULTURE PRODUCTS
FISH PRODUCTS
METALLIC MINERAL PRODUCTS
FABRICATED METAL PRODUCTS
ENERGY PRODUCTS
MACHINERY AND EQUIPMENT
ALL OTHER

12,877
2,794
1,307
4,422
4,090
5,657
4,821
3,095

256 MILLION SEEDLINGS PLANTED IN BC IN 2015

ANNUAL AREA HARVESTED

TOTAL AREA OF B.C.
55 MILLION HECTACTES

FORESTED LAND BASE
50 MILLION HECTACTES

LAND AVAILABLE FOR TIMBER HARVESTING
32 MILLION HECTACTES

ANNUAL AREA HARVESTED
ABOUT 200,000 HECTACTES

BUILDING UP WITH WOOD

ADVANCES IN WOOD PRODUCT AND BUILDING SYSTEMS IN BC ARE CREATING OPPORTUNITIES FOR LARGER STRUCTURES

DIVERSIFYING MARKETS

TOP EXPORT DESTINATIONS FOR ALL FOREST PRODUCTS BY REGION (VALUE, 2015)

USA $6.1 BILLION
62% IN 2003
48% IN 2015

62% IN 2003
46% IN 2015

ASIA £1 BILLION

FOREST CERTIFICATION

BC SSELLS OVER 90% OF ITS FOREST PRODUCTS TO INTERNATIONAL MARKETS

FOREST CERTIFICATION

CANADA 166
BC 52
USA 47
RUSSIA 41
SWEDEN 23
FINLAND 19
BELARUS 16
POLAND 14
AUSTRALIA 12
BRAZIL 9
NORWAY 10
GERMANY 8

BC HAS MORE CERTIFIED FORESTS THAN ANY OTHER JURISDICTION IN THE WORLD, EXCEPT FOR CANADA AS A WHOLE. MILLIONS OF HECTACTES CERTIFIED.
I’m a lumberjack and I’m Okay
Canada has the highest area of certified forest anywhere, and much of this is in BC

Canadian Certification in the Global Context
2015 Year-end

*Double counting of areas certified to more than one standard has been removed from this figure.

Source: www.certificationcanada.org as of Dec 31/15
Canada’s Vision 2020

“By 2020, the Canadian forest products industry will power Canada’s new economy by being green, innovative, and open to the world. It is a place to grow and prosper”.

- Generate an additional $20 billion in economic activity from new innovations and new markets
- Deliver a further 35% improvement in the sector’s environmental footprint
- Renew the workforce with at least 60,000 new recruits including women, Aboriginals and new Canadians
Forestry in B.C. and Canada contributes 2.5% and 1.25% to GDP, respectively (5% in Finland, 4% in New Zealand). In some Finnish regions, forestry contributes >10% to GDP.
Illegal Logging

Globally, a huge concern is illegal logging. Various attempts have been made to halt it – most have failed, often because of corruption at the highest levels of government.

Some countries are now banning the import of illegally-logged wood – the Lacey Act amendment in the USA, the EU Timber Regulation, and the Australian Illegal Logging Prohibition Act.

Europe is helping supplier nations through its Forest Law Enforcement, Governance and Trade platform.
Illegally logged wood, Williams Lake?
This decision has raised the question of whether logging done on what has been believed to be “crown” land is legal.

UN Declaration of the Rights of Indigenous Peoples, Article 28: *Indigenous peoples have the right to redress, by means that can include restitution or, when this is not possible, just, fair and equitable compensation, for the lands, territories and resources which they have traditionally owned or otherwise occupied or used, and which have been confiscated, taken, occupied, used or damaged without their free, prior and informed consent.*

Tsilhqot’in Decision: *the issuance of timber licences on Aboriginal title land is a direct transfer of Aboriginal property rights to a third party and will plainly be a meaningful diminution in the Aboriginal group’s ownership right amounting to an infringement that must be justified in cases where it is done without Aboriginal consent.*
Affirmation of the Nemiah Declaration

SCHEDULE A
Nemiah Declaration

Let it be known that:

Within the Nemiah Aboriginal Wilderness Preserve:

1. There shall be no commercial logging. Only local cutting of trees for our own needs. i.e. firewood, housing, fencing, native uses, etc.
2. There shall be no mining or mining explorations.
3. There shall be no commercial road building.
4. All terrain vehicles and skidoos shall only be permitted for trapping purposes.
5. There shall be no flooding or dam construction on Chilko, Taseko, and Tatlayoko Lakes.
Illegal logging

- Allegations are being made that timber harvested from traditional and unceded territories of First Nations without their consent constitutes illegal logging.
- On December 14, 2016, the Specific Claims Tribunal ruled that Canada had ‘failed completely’ in its duty to consult over a logging license, and awarded the Huu-ay-aht First Nation $13.9 million for logging undertaken in their territory between 1942 and 1969. The decision may still be challenged by Canada in Federal Court.
Deforestation

Deforestation is a major concern globally. Canada experiences deforestation: in 2012 it amounted to 48,500 ha. In comparison to countries such as Brazil, Indonesia and Malaysia, this amount is insignificant.
Sour gas pipeline, Fort St. John
Forest degradation

From the perspective of carbon emissions, forest degradation has been recognized as being important. It is also extremely important in relation to impacts on environmental services, including biodiversity conservation.

What constitutes degradation is disputed. Most definitions imply that it is a long-term reduction in the capacity of a forest to provide services. Consequently, fragmentation would normally be considered a form of degradation, as would conversion of old-growth to secondary forest. “Falldown” is a manifestation of forest degradation.
• Forest degradation in Canada leads the world*
• Between 2000 and 2013, 21% of the area of forest that was degraded globally occurred in Canada
• The oil and gas industry is largely responsible, both directly and indirectly

*Based on World Resources Institute figures
Add another black mark to Canada’s environmental image around the world: The country now leads the planet in the degradation of untouched forests, according to a study from Forest Watch.

Some 8 per cent of the world’s virgin forests were degraded between 2000 and 2013, according to the study. That’s 104 million acres, or an area about three times the size of Germany, Forest Watch said.

“That means human activities disturbed 20,000 hectares of pristine forest every day for the past 13 years,” the group said.
Canada’s Forest Landscapes

• The government and industry argue that conversion of near-pristine forest to managed forest (with roads and other infrastructure) is sustainable forest management, and not deforestation or degradation.

• Most other organizations, including those responsible for carbon accounting, do not have the same view.

Wildfire in BC

- 2016 was a “below average: year in BC. 1050 fires burnt ca. 100,000 ha, with fire suppression costs being ca. $122 million
- Overall, fire seasons are getting longer, and the fires are getting more intense
- Many communities are at risk: the Filmon report in 2004, which followed the 2003 Kelowna fire, identified areas at highest risk
- By mid-2016, only 4-10% of these areas had been treated. Those sites treated earliest will have already returned to a high risk status.
- Treatment involves removing fuel – the same material that is in short supply for pellet plants, biomass plants and pulpmills
- A major factor is cost: $9000 per hectare.
In 2014, 136,000 ha of the Timber Harvesting Land Base were burned, amounting to 24 million m$^3$, or 30% of the provincial Annual Allowable Cut. Only about 3 million m$^3$ of this will be salvaged. The losses were valued at over $1 billion
Mountain Pine Beetle in BC

- The worst year of observed red-attack, at a provincial scale, was 2005 with approximately 140 million m$^3$ attacked.
- Approximately 731 million m$^3$ (54%) of B.C.'s merchantable pine volume has likely been killed (red- and grey-attack), which includes approximately 1 million m$^3$ observed as red-attack in summer 2015.
- The annual volume of mature merchantable red-attack pine on the THLB is projected to remain below 1 million m$^3$. 
Red attack, Barkerville, BC
Grey attack, Quesnel, BC
Logs can only be harvested for a limited time
Blue-stain on lumber at Quesnel
Much of the impacted area is being replanted ... with lodgepole pine
Other Bark Beetles in BC

- Western pine beetle – attacking Ponderosa Pine in southern BC
- Spruce beetle – attacking White Spruce in northern BC
- Douglas-fir beetle – attacking Douglas-firs
- Western cedar borer – attacking western red-cedar
White spruce killed by the western spruce beetle, Haines Junction, YK
Spruce beetle in BC

• About 210,000 hectares of forest were affected by the spruce beetle in the Omineca region in 2016, up from 156,000 hectares in 2015 and 7600 ha in 2013. Over 137,000 hectares have been damaged in Prince George in 2016.

• Provincial reaction: “the rise of this pest over the past year is not as concerning as mountain pine beetle”

• In 2016, $1 million was devoted to strategies to control the outbreak
Drought impacts

- In California, the current drought is believed to have killed more than 100 million trees
- 2015 drought in BC killed urban trees, but had limited effects in the forest
Endangered species

• A big concern associated with deforestation and forest degradation is the loss of forest-dependent species.
• Many vertebrates in BC are now threatened by loss of habitat
Spotted owl – ca. 14 left in BC

Photo: http://oregonforests.org/blog/walk-woods-searching-elusive-spotted-owl
Vancouver Island Marmot habitat
Mountain Caribou herds in BC are under threat, and the South Selkirk faces imminent extirpation.
Population decline of woodland caribou sub-populations
“In British Columbia, all Mountain and Boreal Caribou herds and 15 of 31 Northern Caribou herds are listed as threatened. Threats to Caribou may vary based on ecotype; however, human activities associated with resource extraction are the ultimate threats to caribou in British Columbia.”

BC Ministry of Environment 2015
Governance

Globally, poor governance remains a major concern within the forestry debate. This includes corruption, but extends to failures to recognize Aboriginal rights and title, inadequate laws, inadequate enforcement of laws, inadequate monitoring of compliance, inadequate information gathering, and incompetence.
Governance:
First, understand the state of the resource

Report prepared for Association of BC Forest Professionals by Ian Moss indicated:

- ca. 41.9% of the province is represented by inventories completed prior to 1990
- ca. 29.9% of the province is represented by inventories completed prior to 1980

“Without a full inventory, it becomes difficult to determine if we are really sustainable and if our AACs are at appropriate levels” Dwight Yochim (former Executive Director of Truck Loggers’ Association)
Second, be sure the rules are being followed

According to the Forest Practices Board, there were ca. 5000 inspections of forest and range activities in the year ending March 2012. This constituted 58% of all inspections.

It represents a reduction of two thirds on the number of forest and range inspections done three years earlier.

Only 2800 inspections were of harvesting and roads – two activities known to pose significant risks for other resource values.
Third, rectify problems

The Forest Practices Board has recommended that the Government gives district managers authority over forest operations. District managers should be able to delay issuing or refuse a permit if:

- There is a significant risk to public health or safety
- There is clearly significant risk to forest resources or values
- There is likely to be a contravention of legislation
- The interests of another tenure holder have not been adequately addressed.
Fourth, Penalize infractions

The Forest Practices Board has reviewed penalty determinations made between April 2009 and March 2014

- 91% of the penalties were less than 10% of the maximum authorized penalties
- 79% were less than $5000
- Determination letters are not published

The current penalty system does not remove the economic benefit gained from the contravention
Government Regulations

Forest Practices Board (2014):

- “the full suite of government objectives has not been established, leaving, in some areas, a vacuum in government policy”
- “Plans required by FRPA have limited usefulness for planning purposes or as a mechanism for public engagement”
- “There is still no common understanding about what ‘professional reliance’ is and what should be expected from it”
- “Effectiveness evaluations are being carried out, but the results are not being used to improve regulation”
- “Government needs to re-invigorate land-use planning and establish consistent environmental protection legislation that applies to all users of the land”
Governance

• A key aspect of good governance is the provision of adequate and up-to-date information

• The Ministry website is seriously outdated, and many links (e.g., to “Forest Industry snapshot”) don’t work
The Annual Allowable Cut

- The forest industry is based on having an adequate fibre supply
- We’ve known that current levels of harvest will have to be reduced as we move from old growth harvesting to second growth
- The mountain pine beetle epidemic resulted in a rise in AAC, but now it will have to fall to a point lower than before the MPB
- Wildfires have increased and will continue to increase this problem
- For example, in Prince George, the current AAC of 12.5 million m$^3$ is expected to drop to 6.2 million m$^3$ in 2020.

Products – Logs – Total harvest volume (66.4 million m³) was down 6.6% from 2013, and up 36% from 2009. The Interior accounted for 71% of the harvest, and the Coast for 29%. The last few years of harvest are close to pre-beetle harvest uplift, pre-housing boom harvest levels.
Allowable annual cut decreased for Merritt area

By Michael Portalbo on March 31, 2016

B.C.'s chief forester has immediately decreased the allowable annual cut in the Merritt timber supply area (TSA) from 2.4 million cubic metres down to 1.5 million.

By March of 2021 it will decrease to 1.2 million cubic metres.
Merritt mill closure latest in series of Interior setbacks going back 15 years

By Cam Fortems - September 24, 2016  
1061  11

The Tolko mill in Merritt will close in December. The company cited a reduction in the annual allowable cut as a result of the completion of the pine beetle harvest. Allen Douglas.KTW
What now for Merritt’s biomass power plant?

December 19, 2016
Written by Tamar Atik, woodbusiness.ca

Dec. 19, 2016 – When the Tolko sawmill in Merritt, B.C., officially closed its doors on Dec. 16, one big question remained. Where will the fibre for Merritt’s biomass power plant come from?

The $235-million power plant, which is being built by Spanish energy firm Iberdrola, had 95 per cent of its construction phase complete as of Dec. 9.

Fengate Capital Management and Veolia are the developers and equity investors of the biomass plant. The Merritt plant is one of two green energy projects in B.C., as part of the Merritt Green Energy Limited Partnership (Merritt Green Energy). The other is in Fort St. James, B.C.
Figure 1. The Component Parts of an Average Sawlog

- Lumber or Veneer: 47%
- Wood-Chips for Pulp: 33%
- Sawdust: 7%
- Shavings: 8%
- HOG (Bark): 5%
Connections

- BC’s forest sector is highly inter-connected
- Sawmills earn income by selling their waste streams to pulpmills, and now to pellet mills and biomass plants
- Pulpmills are dependent on the presence of waste streams from sawmills, processing up to 50% of the total volume of timber harvested in BC
- The loss of coastal pulpmills means that sawmill waste from as far as Grand Forks is being transported to coastal pulpmills
Long-term forecast for excess biomass availability
Self-loading Chipper
Managing the forest

• 95% of the land in British Columbia is owned by the Crown and managed by the government in the interests of the people

• Forest management has been delegated to forest professionals, governed by the 2003 Foresters’ Act

• Their activities are largely determined by the 2002 Forest and Range Practices Act
A key step in good management is the development of a forest management plan. In BC, these are “Forest Stewardship Plans”

The Forest Practices Board looked at these in 2006, and noted significant deficiencies.

In 2015-2016, they followed up their initial report finding “no improvements” and noting that most FSPs “contained unclear and unmeasurable commitments”

The 2016 government response has been to instruct district managers to do a much better job
In 2005, the Forest Practices Board published the special report, *Access Management in British Columbia: Issues and Opportunities*, which concluded that, with respect to access management in BC there was:

- no comprehensive inventory of resource roads;
- very limited opportunities for public involvement in access management planning; and
- a confusing patchwork of administrative responsibilities and legal requirements for road construction, use, maintenance, and deactivation.

In April 2015, it reported: “There has been little progress on these issues in the intervening 10 years.”
There are currently 600,000 km of resource roads in British Columbia – enough to drive from Vancouver to Halifax and back. 50 times.

About 10,000 km are added each year

About half are not being maintained by anyone, many of which are de-activated

Government’s map of roads is substantially out of date for much of the province, although an update program is underway

A Natural Resource Roads Act is currently under discussion (and has been for more than 10 years)
Poor Practices?
Social license

“The B.C. auditor general, the B.C. ombudsperson and the Forest Practices Board have all written reports within the last two years on the failures associated with the practice of relying on professionals employed by resource companies to manage the province’s forests”.

Business in Vancouver 2014
“In the Board’s opinion, a failure to meet government objectives for visual quality arose due to the licensee’s reliance on unsound professional assessments and refusal to engage in dialogue with government officials and forest professionals who expressed concerns on several occasions”

“Even though staff of the Ministry of Forests, Lands and Natural Resource Operations and Queen Charlotte City both raised concerns about the potential impacts of the logging before it took place, the company would not discuss the concerns nor reconsider the accuracy of the assessments before it proceeded to log. The report also criticizes government for failing to take enforcement action against the licensee for not meeting legal requirements to protect visual quality.”

BCTS cutblock visible from the Hope landslide scenic area, considered by the Forest Practices Board to be a significant non-compliance
Social license

• We have tended to believe that certification confers social license

• Generally, there has been a failure to recognize that the voting public is increasingly located in cities

• The urban public is divorced from the resource-based economy: understanding how the urban public thinks and sees the world is important as it will determine future governments
In April 2016, the Association of Vancouver Island and Coastal Communities voted in favour of halting the harvesting of old growth trees, stating that old growth has more value left standing.

In May 2016, the BC Chamber of Commerce endorsed “support for the increased protection of old-growth forests in areas of the province where they have or can likely have a greater net economic value to communities if they are left standing.”

The move was endorsed by the Union of BC Municipalities in September 2016.
“Decisions regarding natural-resource development are being made without fully understanding the implications for the environment and the well-being of British Columbians”

“For FLNRO and other natural resource ministries and agencies to effectively manage cumulative effects, government needs to provide them with clear direction and the responsibility to do so”

“For the assessment framework to succeed though, more needs to be done. Government must clarify how its social, economic and environmental expectations apply to managing Crown land. Government must then determine how the assessment framework will be used to support decisions.”

May 26, 2015
Forest Research

Research is important to ensure that management decisions are informed by the relevant science, that potential risks are minimized, that no ‘surprises’ occur, that the maximum value is obtained from forests and forest lands, that social licence is maintained, etc.

British Columbia maintains active research by a small group within MoFLNRO, and has been sponsoring forest genomics research in the Ministry and universities. It also contributes to proprietary industrial R&D at FPInnovations.
Labour

• While the provincial government makes a lot of noise about the competitiveness of BC, a major drawback to investment in forestry is the very high cost of labour

• Greater automation has occurred in mills; greater automation in the forest (driverless trucks, remotely operated harvesters) is likely

• Labour issues are seen as a significant hindrance to inward investment

• A repeated complaint from the forest sector is that the government is focused on new jobs, rather than maintaining existing jobs
471 forestry professional will be required in BC between 2012 and 2022, about double the number currently being trained. The problem will be even greater for other jobs, and is being created by the ageing workforce (not new opportunities).
Undergraduate enrolment at UBC by program (2006/16)
New programs

• New programs are required if young people are going to be attracted in the sector
• Need to demonstrate that forestry has changed dramatically
• A new program on “Geomatics and Environmental Management” has been with the BC Ministry of Advanced Education since November 2015. Development of further new programs has been put on hold.
Moving on...

- UBC Forestry is a partner in the Chinese TanSat mission, launched on Dec 22, 2016 – a satellite that measures carbon dioxide at the Earth’s surface
- We will also partner in a further satellite aimed at measuring forest carbon
Investment

- Some investment has occurred in sawmills, particularly in the interior.
- Very little investment in pulpmills: in Europe, pulpmills have an expected life of 35 years. There are no pulpmills in BC less than 35 years old.
- BC has been slow to adopt new equipment, arguing that it is too sensitive, especially under coastal conditions.
- Very little investment in R&D, except for very applied problems (such as the optimum number of axles on a logging truck).
Södra’s new pulpmill in Värö, Sweden

Metsä Fibre’s new pulpmill in Äänekoski, Finland
Combined feller and processor, equipped with a winch for operations on steep slopes and minimum impact traction, at UBC’s research forest in Maple Ridge
Forwarder that can also act as a log loader
Fibre Supply

- The single biggest uncertainty for the forest sector is fibre supply
  - Natural disturbances, such as bark beetles
  - Wildfire
  - Climate change
- Uncertainty is leading major licensees to invest elsewhere
Tolko’s operations: Concentration in BC, but investment in Alberta, where the business of forestry is considered much easier.
West Fraser locations
Interfor Operations
Interfor

- BC: two sawmills on the Coast; two sawmills in the Kootenay region; and one sawmill in the Southern Interior region near Kamloops.

- In the US Pacific Northwest, the company operates two sawmills in Washington state and two in Oregon. It operates the Cedarprime remanufacturing plant in Sumas, Washington.

- In the US Southeast, the company operates seven sawmills in Georgia, one in South Carolina, and one in Arkansas.
TPP

- Believed to be good for the forest industry
- Would remove tariffs of up to 6% in Japan on lumber and up to 10% on plywood and veneer
- Malaysian tariffs as high as 40% on plywood and veneer and up 20% on joinery and carpenter’s products
- Vietnamese tariffs as high as 25% on newsprint and up to 24% on carton boxes and packing containers
- A variety of other tariffs exist for other products, such as OSB
- However, the BC forest industry has not been adept at moving into new markets, and unlike European companies such as Stora Enso, has minimal operational presence in Asia.
And now ... the SLA

- The last agreement ended in 2015, and a one-year period to negotiate a new agreement has expired.
- On November 25, 2016, the US Lumber Coalition petitioned the US Department of Commerce and the US International Trade Commission, asking for relief from “Canadian subsidies and dumping”
- The petition covers not only lumber, but also unassembled products like window frames (for the first time)
- The next U.S. trade representative is Robert Lighthizer – the lead counsel in many anti-dumping and countervailing duty cases
The view from south of the border

- Stumpage for harvesting on crown lands is set below fair value, and the means to test whether prices are at market level are inadequate.
- The US argues that when lumber prices go up, BC stumpage does not follow suit.
- Numerous other subsidies exist: Western Economic Diversification Program, Canada Wood Export Program, Value to Wood Program (expired 2011), BC’s Private Forest Property Tax Program.
- There is a discrepancy between domestic and export log prices (caused by log export controls).
- The best way to deal with these problems is to impose quota restrictions on lumber imports: 22-25% of market (from 31%). Represents 3.5 billion board feet (10% of Canadian production).
South of the border

• The mills in southeast of the USA are very efficient, and have the lowest delivered lumber costs in the USA. A 12.5% duty would put delivered costs on par with Canadian lumber.

• The mills in the West and Northwest have the highest cost and are the least efficient, and closest to the biggest source of Canadian lumber (BC). They would do best if a quota on Canadian lumber was imposed.
The view from north of the border

- Independent NAFTA panels have already examined these claims and rejected them
- The US lumber producers are seeking to increase the price of lumber in the USA, and the easiest way to do this is by restricting Canadian supply, which accounts for 97% of US softwood imports. BC accounts for more than half of this
- The price disparity is partly due to the dollar exchange rate
- The best solution is an export tax
Straddling the border

- Interfor has 66% of its operations in the US, West Fraser has 40% and Canfor has 28%.
- Interfor could actually be a net beneficiary of duties, partly because of its US production and partly because it recently upgraded (i.e., reduced costs) of its three BC interior mills.
(Recent) past experience

• 1982 – US lumber industry unsuccessfully petitioned the Department of Commerce (DoC) to impose a countervailing duty

• 1986 – 2\textsuperscript{nd} petition. In lieu of a 15% duty imposed by DoC, a 15% export tax on lumber into the US. Could be reduced if provinces raised their stumpage

• 1996 – five year SLA, limiting Canadian exports to 14.7 billion board feet per year

• 2001 – no agreement, so another petition, leading to subsidy and anti-dumping rates of 18.79\% and 8.43\%, respectively. Added ca $500 per thousand board feet to costs, and put 18,000 people out of work
B.C. Forest Product Exports by Market

Data source: B.C. Stats extract from Statistics Canada data. Also available from Statistics Canada CIMTD.

Markets – The U.S. was the #1 export market by value, even after the U.S. housing market crashed. China became the #2 market in 2009 and has been a key driver of the forest sector’s recovery since 2009. Japan was #2 for many years until 2009 and is now #3.
The 14-month interim

- The US housing market is doing quite well, hitting a 9-year high in October with 1.32 million starts (long-term average is 1.5 million)
- With no duties or quotas, in the first 9 months of 2016, SPF imports from Canada increased by 30%
- 2016 was the best year for the BC industry since the recession
- After the November petition, Canadian SPF prices rose 5%. Prices are expected to increase by 15% during the first two quarters of 2017
- Higher prices and possibly lower quantities of Canadian lumber will support higher prices of Southern Yellow Pine and Douglas-fir (which BC companies are now significant producers of)
The future

• The higher prices for lumber will absorb some of the impact of whatever duties are imposed
• Smaller companies with limited financial resources most at risk
• High-valued product manufacturers will be less able to pass on the costs, and may be affected more
Next steps

• US International Trade Commission met last Friday – they determined that Canadian lumber is harming US producers and have advised the Dept of Commerce to investigate further. They will now start the process of imposing duties.

• Preliminary countervailing duties will likely be issued around February 21 and preliminary anti-dumping duties around May 4, unless the deadlines are extended. May be up to 40%.

• Affects the US$ 4.7 billion lumber trade to the USA

• Canada will respond by petitioning for appeals through NAFTA or the World Trade Organization
Pulp and Paper

• In 2016, BC’s Catalyst Paper company successfully fought off an 18.85% countervailing duty imposed on its supercalendered paper. It had been included in a complaint levelled against eastern Canadian producers.

• Despite winning, the duties and associated legal costs ran to $18 million.
Conclusions

• Forestry helped develop the province of British Columbia and remains the mainstay of many rural communities

• Forests were viewed initially as a limitless resource: this has gradually changed over time, and now the industry is facing a severe shortfall in fibre supply

• This shortfall has been caused by a combination of harvesting a finite quantity of old-growth and significant losses due to pests and wildfire

• An additional factor is the exclusion of forestry from some areas – such as 80% of the Great Bear Rainforest.

• As supply dwindles, mills will have to close down. If costs are increased, e.g. through duties on exports, additional mills will close

• These problems are occurring at a time when we are identifying more and more uses for wood, and wood is seen a fundamental material for the bioeconomy
DOOM  GLOOM
Is it really that bad?

- The BC forest sector is more than the lumber manufacturing sector, even if the big four companies do dominate discussions.
- Forests are now being recognized as more than a source of lumber: in BC, the direct GDP contribution of tourism is $7.1 billion and rising, compared to $5.8 billion for forestry.
- The Great Bear Rainforest represents a compromise between Aboriginal values, forestry, environmental values, and community needs. It has been rightly celebrated.
- BC is recognized as having an incredible pool of forestry expertise, which is playing an increasingly important role globally.
- If forestry is recognized as extending to the management of forested conservation areas, urban forests, carbon management, green buildings and products, and other areas, it has an exciting future that will attract increasing numbers of young people.
- The future for forests and forestry in BC is bright!