

REVIEW OF COASTAL BRITISH COLUMBIA LOG EXPORTS

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Abstract

The issue of log exports has been a topic of debate for decades in the Province of BC. With rising numbers of exports and decreasing manufacturing facilities on the coast of BC a squeeze for fibre supply is occurring. Currently the provincial government has jurisdiction over crown lands, and the exports from those lands. The economic downturn is pushing manufacturing on the coast to the brink, the average price for log to yield to the mill is \$75, and the price willing to pay at manufacturing facilities is \$50-60. The export logs are valued on average \$80-120 and are able to support the domestic harvesting and manufacturing by selling a portion of logs at a loss.

Keywords: Policy, Economics, British Columbia, Harvesting, Trade, Market, Coastal

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Background

The topic of log exports in British Columbia is one that is generating much debate; it has a strong political connection as it strikes a divide amongst labor groups, mills, loggers and the public. The province of British Columbia (BC) has a wealth of natural resources; forests are one of the provinces largest and most abundant resources, accounting for 55 million hectares, almost 60% of the provincial land base. Forestry has been a major player in BC's economy since the province was first colonized and as of 2009 was contributing 4.1% of the provinces GDP (Ministry of Forests, Mines and Lands, 2010). The forest sector is just as diverse as the province's various different ecosystems. Through generations BC has been building a large and competitive forest industry, as of recent, the industry is facing some of the most difficult and challenging times on record. Coastal BC has been especially hard hit during the last decade with the decline in foreign markets (Edgington, 2004) coupled with the American Housing collapse, the rapid increase in the Canadian dollar and the reduced price of lumber (J.Bourton, 2010). These unfortunate events have led to a general decline in manufacturing facilities on the Coast of British Columbia, with many mills shutting their doors permanently (Niquidet, 2007).

While BC's industry has been going through some of the toughest economic times on record, some portions of the industry are experiencing minor growth. Log exports are one of the few growing forestry sectors within the last decade. Log exports are a sensitive topic, one which has divided many political debates. Policies have been in place in BC limiting exports for over 100 years (Shinn, 1993). The policies in place are meant to act as an incentive for BC to keep its mill manufacturing sector well stocked with domestic log supply (Shinn, 1993). Recent legislation within the province has been directed at maintaining manufacturing of locally harvested timber within local communities (Provincial Government of British Columbia, 1996).

A major component of the debate is that when un-milled logs are being shipped out of the province that the manufacturing jobs are being exported as well. Many Unions, independent sawmills and conservation and environmental groups are opposed to log exports from BC (Dumont & Wright, 2006). While private landowners, major licensees and first nations are in favour of the export process (Dumont & Wright, 2006). This sector has been closely monitored by the Ministry of Forests, Lands and Natural Resource Operations as there are many parties involved who are highly invested and demand full disclosure. This issue is highly politicized and is generating many discussions around policy, the current

economic situation, and how BC can best mitigate the issues surrounding exports and the process involved.

Due to the complexity of the interior, proximity to markets, lower milling and production costs, exports are primarily derived from BC's coast and the Northern Interior which has close proximity to markets (Dumont & Wright, 2006). BC's Coastal forest industry has a long history with log exports dating back to initial log export control policies in 1865 (Dumont & Wright, 2006).

This essay will explore in depth the issues surrounding coastal provincial log exports, current trends while exploring potential solutions to mitigate downsides of the process.

Exports

General

Due to the complexity of land tenures and legislation within the province, there are different trends from log exports depending on the ownership of the land. Predominantly, log exports have been sourced from private lands and aboriginal treaty lands (Dumont & Wright, 2006). Provincial and Federal jurisdiction have control over log exports. Federal jurisdiction of log exports differs from provincial, as aboriginal treaty lands and private land granted before 1906 (federal) do not have restrictions on species and grades of logs. For all logs exported, both Federal and provincial, advertisements must be made to local manufacturing facilities (Dumont & Wright, 2006).

Stats

As of 2011 log exports are on an increasing percentage of the provinces total exports, they have increased from a share of the total export value of 3.8% in 2005 to 5.8% in 2011 (Shu, 2011). In the same time span the total forest products exports value decreased from \$14.1 billion in 2005 to \$9.95 billion in 2011 (Shu, 2011). This increase in log exports can be attributed to the rise of Asian markets with China's increasing demand for wood products leading the increased exports. This level of increase is promising as there are inputs into the revenue system within the province. The government gains from the export levy as well as the numerous logging jobs which have been maintained throughout BC and especially in coastal BC.

Currently the demand from Asian markets are driving the export market, with increasing export prices for logs rising the overall value from the volume exported (Figure 1). China's demand for forest products

have been steadily increasing since the early 1990's when their original forests were depleted (Xlufang , E., & A., 2004). China is a driving force behind the growing export market for BC's logs, since late 2009 volume exported to China has been steadily increasing (figure 2). The growth in demand and value shown in figure 1 and Figure 2 are short term figures, which have the illusion of having an upward trend but over the long term the log exports are remaining fairly static in volume and value. This short term increase has replaced the demand from the United States which has historically made up the majority of the coastal export market (Edgington, 2004).

Currently the three predominant purchasers of log exports are China, South Korea and Japan (figure 2). On Average Douglas-Fir is the leading export species, followed by Hemlock, these figures are dependent on markets and log availability (Competitiveness Branch, Ministry of Forests, Lands, and Natural Resource Operations, 2010).

Trends in log exports show that the temporary increase is partially due to suppressed domestic markets but fits the historical cycle of the 10 year average of around 300,000m³ (BC Stats and MFLNRO, 2011). Currently as of 2010 coastal exported volumes were on the rise, of the 16,372,354m³ cut 23.8% was exported for a yearly total of 3,866,795m³ (Competitiveness Branch, Ministry of Forests, Lands, and Natural Resource Operations, 2010). The current increase is quite a large compared to the ten year average and has raised some concerns.

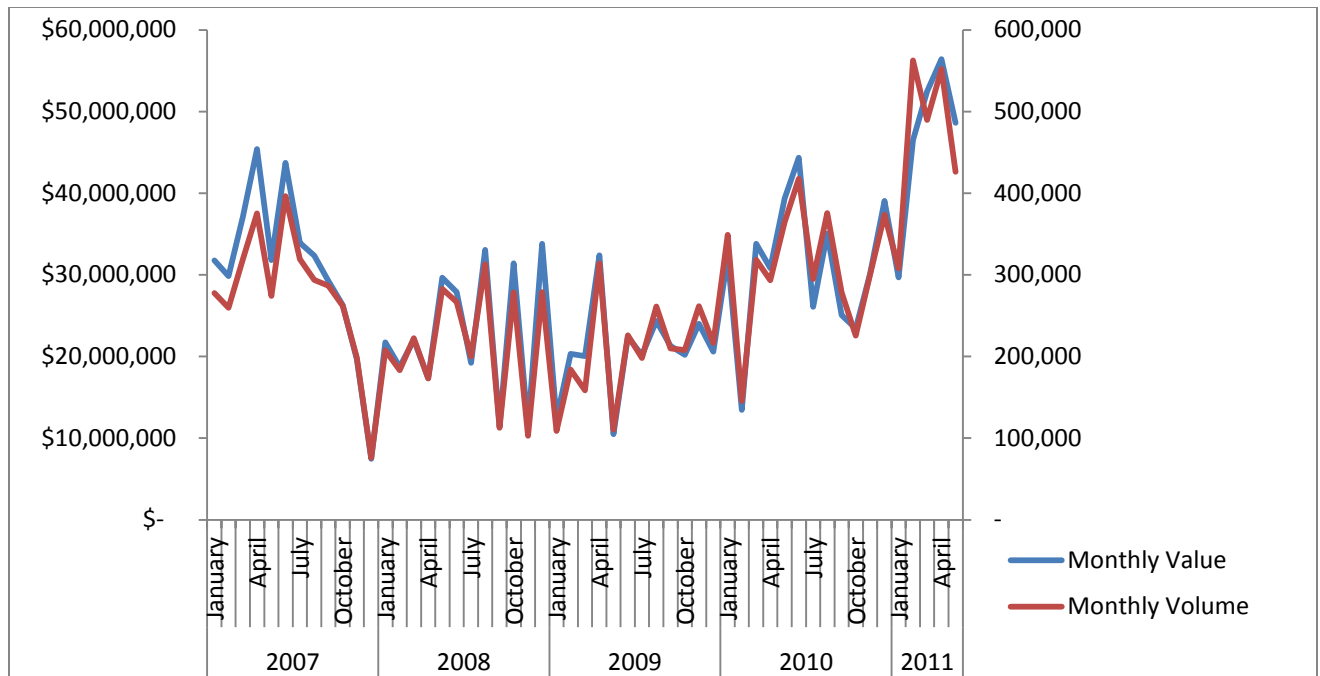


Figure 1 Shows Monthly trends in Volume Exported (m3) and Value Exported \$ (Data Source: BC Stats and MFLNR)

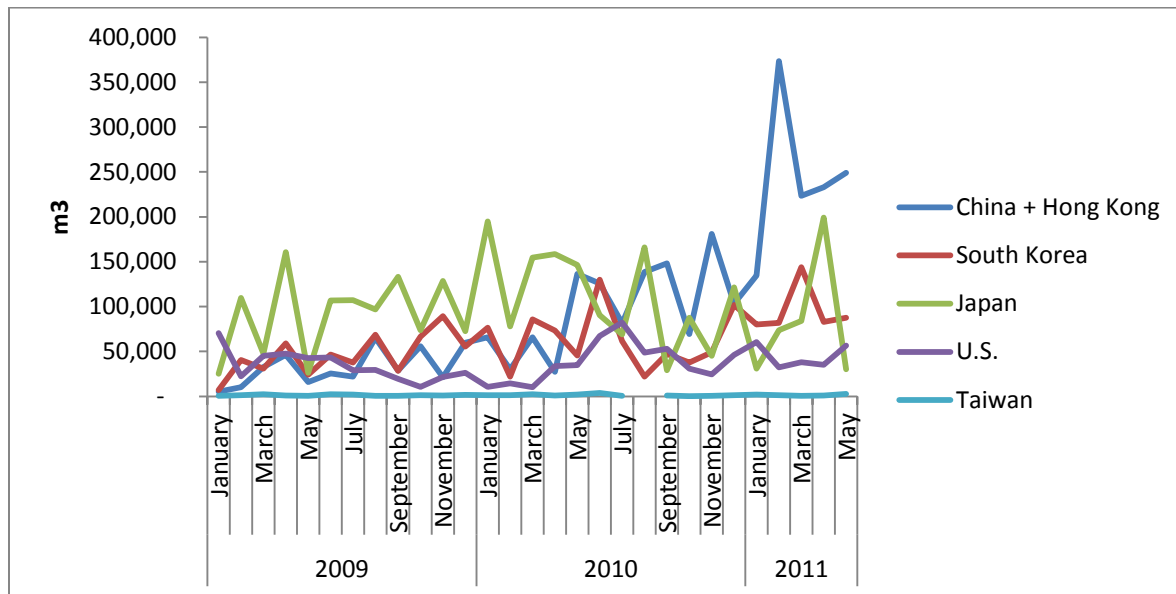


Figure 2 Shows Monthly Volume (m3) of Exports per destination Country since 2009 (Data Source: BC Stats and MFLNR)

Market Conditions

Current market conditions are unfavorable for commodity goods, with a relatively strong currency, high labour costs and high logging costs the coastal industry has many impediments to taking advantage of the commodity market (Pearse, 2001). As of 2011, the commodity price of lumber was \$260/MFBM (Wikinvest). As an approximation manufacturing costs, including an adequate return on investment, are \$250/MFBM (Dumont & Wright, 2006) (Lewis, 2012). This valuation is close to being a break even scenario. Currently domestic prices are controlled by the major issues plaguing the industry: high operating costs and less productive aging mills (Ministry of Forests and Range, 2007). Due to the current issues with diminishing market conditions, there has been a decrease in the manufacturing facilities on the Coast and the decrease will continue as market conditions continue (Pearse, 2001). The diminishing Coastal manufacturing facilities are having a high impact on how dynamic the industry can rebound from market conditions (Wood Markets Group Inc., 2007).

Currently the export market is fetching a higher value than the domestic market (Lewis, 2012). Estimates for domestic prices range from \$50-60 for log purchase at domestic facilities, the costs of a log to yield to the domestic market is valued around \$75 (Dumont & Wright, 2006) (Lewis, 2012). Export markets are very enticing at the moment as foreign markets are purchasing logs at an average cost of upwards of \$110 (Lewis, 2012). Exports are also enticing for exceptional specialty log as they reach a higher price but are not abundant (Dumont & Wright, 2006). In reality market conditions are the driving force behind exports, as the price of lumber increases manufacturing of domestic products becomes the more enticing scenario, whereas on the open market when conditions in the domestic market are unfavorable, we look to exports.

Opposition

The Issue of log exports has been a heated topic during the early parts of 2012, due to the increase in log exports in 2011 and the continued subdued economic situation.

As it stands there is a divide amongst opinions regarding log exports, one stance is strongly opposed and the other is in favour of developing exports. There has been criticism of the exporting of logs, stating that they are running domestic out of a fibre supply, and that solutions include a high investment into coastal sawmills in order to compete on the global market (Parfit, 2012). Another argument made is that excessive log waste is left at logging sites, reducing the amount of logs domestic sawmills have to use (Parfit, 2012). The criticism is backed by many union groups and sawmill manufacturers along the Coast.

History

Log Exports from BC have been on the political debate since the early 1960's, when exports to the Japanese market rose quickly and brought the issue to the forefront of the industry (Hamilton, 1970). Since the beginning debate has been sparked as we are dealing with a raw commodity which originates from public lands and thus should benefit the public manufacturing sector (Hamilton, 1970). Although exports didn't generate as much interest the concept of encouraging local manufacturing has been prevalent in BC policy since the late 1800's (Davies, 1977). Between 1865 and 1939 was the establishment of export control policies, dealing with different acts and regulations, it was during this time that the first log export advisory committee (LEAC) was established in 1918 (Dumont & Wright, 2006). It was in the War Measures Act in 1940 which stopped all log export activity, imposed by the federal government (Davies, 1977). Post war, log exports were not an issue as the post war boom was well underway with milling of lumber on the coast being eaten up by domestic and foreign markets (Dumont & Wright, 2006). It was until the 1950's when the fee in-lieu had been set at \$0.50/cunit¹. The fee-in-lieu was eventually raised between \$2/cunit and \$40/cunit depending on species in 1974 (Dumont & Wright, 2006). In 1975 the Pearse commission was established, Dr. Pearse was in charge of a royal commission on forest resources (Pearse, 2001). Pearse's report made important recommendations for log exports:

- Move away from established LEAC system
- Implement economic fee-in-lieu: a difference between domestic and export values
- Structure of permitting process remain the same

In 1978 the new *Forest Act* was initiated, with some of the recommendations from Dr. Pearse's review, the major missing feature of the new act was the economic fee-in-lieu (Dumont & Wright, 2006). Log exports continued to be utilized but once again markets were in favour and exports were not a major concern. It wasn't until 1982 when market conditions became unfavorable, and a new review was established. The new review, the Trebett Committee, was appointed by the Minister of Forests to investigate exports on the coast of BC. Some of the major findings included:

- Restrictions favour domestic mills
- During 1982 markets were weak, log prices were lower than costs of production
- During weak markets log exports do not deprive mills of log supplies in short term
- During weak markets log exports of high quality species will constrain future milling

- Further restrictions on log exports would not necessarily lead to more sale in finished products

The single largest recommendation from the Trebett review was that of using log exports on a limited scale in extremely depressed markets to prevent the collapse of isolated communities (Dumont & Wright, 2006). After a few years of minor changes to the system, it was determined by the Minister of Forests in 1984 that some changes needed to be made and in 1986 the Timber Export Advisory Committee was established and the LEAC was eliminated (Dumont & Wright, 2006). Post 1986 numerous changes have occurred within the government system, mainly to do with the fee-in-lieu regulations and amount paid, the ranges of the fee -in-lieu varied from 15-100% of the domestic versus the export price (Dumont & Wright, 2006). As seen, the process of log exports is very tightly connected to market conditions and provincial policy and regulations. The provincial government is pivotal in maintaining the industry standards for log exports. The recent pressure may and probably will result in a newly created review, such as the ones which have occurred in the past during times of high pressure.

¹ A cunit is roughly equal to 2.8m³

Government Involvement

As seen in the history and market conditions, government involvement is very high within the subject of log exports. As with any part of the forest sector in the province, difficulties arise from having publicly owned lands and managed timber; the government must establish policies to maintain proper forest management along with maintaining a healthy and diverse forest sector. In terms of log exports the provincial government along with the federal government has control over the regulations, extent of exports, applications, prices of fees for export along with the forest stewardship on the land base and with establishing the Annual Allowable Cut in the province.

Application

As per Ministry regulations, in order to export timber, one must submit the government application for Exemption to Export Unmanufactured Timber Products of an FS4168 (appendix A). The application must be completed in the region in which the timber was harvested (Minsitry of Forests,Lands and Natural Resource Operations, 2011).The application process commences once logs are harvested and put into

booms for market sale (Lewis, 2012). Once the application has been completed, the proposed timber is advertised on the Ministry's bi-weekly advertising list (figure 3). If there is no offer made on the advertised list, then the exemption process begins with the Timber Export Advisory Committee (TEAC) making a review of the submission (Minsitry of Forests,Lands and Natural Resource Operations, 2011). In operational practices, the entire application process takes on average 2 months (Lewis, 2012).

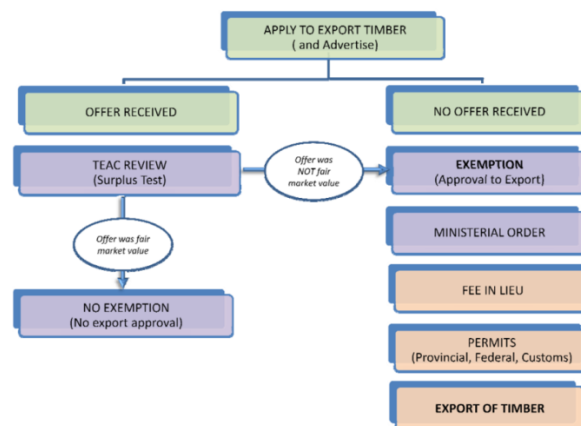


Figure 3- Flow Chart showing steps required for export (MFLNR)

TEAC Review

The Timber Export Advisory Council (TEAC) is in charge of the surplus test, this test occurs if there is an offer made on the application for exported timber (Minsitry of Forests,Lands and Natural Resource Operations, 2011). The TEAC is a panel of 9 producers, generally composed of mill operators, who determine if the offer for the export timber is either fair or unfair market value, unfair market value receive the exemption (Minsitry of Forests,Lands and Natural Resource Operations, 2011).

Blockages

Blockages occur during the application for export when an offer is made on the application. The blockage occurs as the purchaser will make an offer but not actually purchase the logs. Currently there is no database regarding the blockages and who is blocking (Lewis, 2012).By not actually purchasing the logs, this leaves the exporter to deal with the logs as they are tied up in the application process (Dumont & Wright, 2006). The blocked logs require another application for export in order for the seller to attempt to export. The process of re-application can take upwards of a couple of months, but that does not guarantee the seller it will have advantageous markets for export (Lewis, 2012).

Recent events have proved that blockages can go both ways; the minister of forests has the final say in regards to the process. In recent news the government over turned the TEAC committee's recommendations to approve local purchases of logs in favour of sending the logs to Asian mills (Hunter, 2012).

Exemption

Legislation directs log exports in the BC, as stated exports of logs occur due to the "surplus" ruling by the TEAC committee. Only logs deemed surplus can receive the exemption and thus become exported.

Under the *Forest Act*, Section 127 states

"Unless exempted under this Part, timber that is harvested from Crown land (public), from land granted by the government after March 12, 1906 or from land granted by the government before March 12, 1906 (private land)... must be

- (a) Used in British Columbia, or
- (b) Manufactured in British Columbia into wood products to the extent of manufacture specified by regulation." (Provincial Government of British Columbia, 1996)

However under Section 128 of the *Forest Act*, the Lieutenant Governor in Council (Minister) may exempt from section 127 (Provincial Government of British Columbia, 1996). A summary of the criteria for exemption:

- Permits of volumes up to 15,000m³
- The wood is surplus to domestic requirements; this is the TEAC review (figure 3). It must be advertised in a by-weekly export list provided by the Ministry.
- The logs cannot be manufactured locally
- Logs would be wasted if not exported

(Provincial Government of British Columbia, 1996)

If no offer is made on the application for timber then the exemption is granted, likewise the exemption is granted once the TEAC has reviewed the offer and deemed the offer unfair (Minsitry of Forests,Lands and Natural Resource Operations, 2011).

Permitting

Once the exemption for export has been approved, a permit for export must be filled. The timber must be scaled and is ready for transport prior to permitting. The Permit, FS38, contains the details of:

- Purchaser
- Transport method
- Destination country
- Information regarding timber

(Minsitry of Forests,Lands and Natural Resource Operations, 2011)

The levy system (fee in Lieu)

All unmanufactured timber exported under provincial jurisdiction is charged a fee in lieu. Currently on the Coast, for the coniferous timber, the fee is calculated as a percentage of the domestic value based upon species, grade and along with whether the timber is second or old growth. The Log value is calculated based upon the three month average of domestic log prices (Minsitry of Forests,Lands and Natural Resource Operations, 2011).

The system breaks down being fairly simple: using the ministry's breakdown of the 3 month average, find the log price, for example \$58.06(Costal Price) (Ministry of Forests, Lands,Mines and Natural Resource Operations, 2012). Once the log price is determined, the next step is to calculate the value based on age characteristic (i.e. second growth or old growth) this will give us the conversion factor which is used against the log price, for example a second growth conversion factor of 0.92. After the conversion rate and the log price have been calculated we then determine the fee rate, which is determined by species and from grades of species, for example for domestic Douglas-fir the fee is 15% of the log price (Minsitry of Forests,Lands and Natural Resource Operations, 2011). See Appendix for breakdown of calculation.

AAC

Along with establishing stumpage for publicly owned timber, the province also establishes the Annual Allowable Cut (AAC). Within the ministry, the chief forester is in charge of determining the AAC within specified Timber Supply Areas, Tree Farm Licensees as well as setting policy and standards for forest practices (Ministry of Forests, Lands and Natural Resource Operations).

Currently on the Coast of BC the AAC is set at 23 million m³ (Girvan, 2011) (Lewis, 2012). Major portions of the AAC are not being harvested, history shows that lower value stands are being left behind high cost and low value (Dumont & Wright, 2006). Approximately 8 million m³ per year of lower value stands are being left behind due to the high cost and low value nature of these stands (Lewis, 2012).

Mills

Coastal mills in BC have been on the decline as of late, with many shutting down permanently. The recent struggles of the coastal industry can be attributed to the collapse of the Japanese hemlock market, the softwood lumber agreement since 1996, high harvesting and milling costs, lack of capital investment, the switch from harvesting old growth to second growth and the rise of the Canadian dollar (Dumont & Wright, 2006) (Pearse, 2001).

Many mills that do not have their own tenure are constantly in search for wood supply. Major licensees who hold 60% of coastal tenure also hold 40% of Coastal manufacturing (Dumont & Wright, 2006), leaving little room for competition on the manufacturing market. Coastal mills are paying on average \$50-60 for a log, with a development cost in coastal BC being \$75 per log (Dumont & Wright, 2006) (Lewis, 2012). By having such a gap between development costs and productive milling costs is cause for concern. This difference may cause some mills to reduce shifts until economically viable logs are attainable.

The Coastal AAC is currently set at 23 million m³, coastal manufacturing capabilities are 16 million m³ (Dumont & Wright, 2006), this suggests that there should not be a shortage of wood for domestic manufacturing. The reality is that domestic manufacturing can only pay so much for lumber, and if the price is too high the shortage occurs.

Jobs

Manufacturing is an essential addition to the forest sector, the forest sector in 2010 represented 4.1% of BC's GDP (Ministry of Forests, Mines and Lands, 2010). Of the provinces forest GDP, the wood manufacturing sector composed 50% of the \$6.1 billion industry (Ministry of Forests, Mines and Lands, 2010). The total labour income from forests equals \$6.75 billion; the wood manufacturing comprises 29% of that (Ministry of Forests, Mines and Lands, 2010). The wood products manufacturing is an important driver of the economy and should be taken into account.

The majority of jobs lost in the coastal BC manufacturing have predominantly been a cause of the downturn of market conditions, although it has been shown that increases in log exports can have a negative impact on harvesting (Dumont & Wright, 2006), with proper regulations and standards on log exports the majority of job losses can be negated.

Prices

Under the current economic conditions, in order for manufacturing facilities to break even, the general range of prices paid for logs is from \$50-60 for a coastal sawlog (Lewis, 2012) (Dumont & Wright, 2006). The domestic price for sawlogs are below the harvesting costs for delivery, currently export logs receive higher prices and subsidize the domestic manufacturing (Dumont & Wright, 2006). Prices for production from Coastal facilities are also high as seen in figure 4 (Wood Markets Group Inc., 2007).

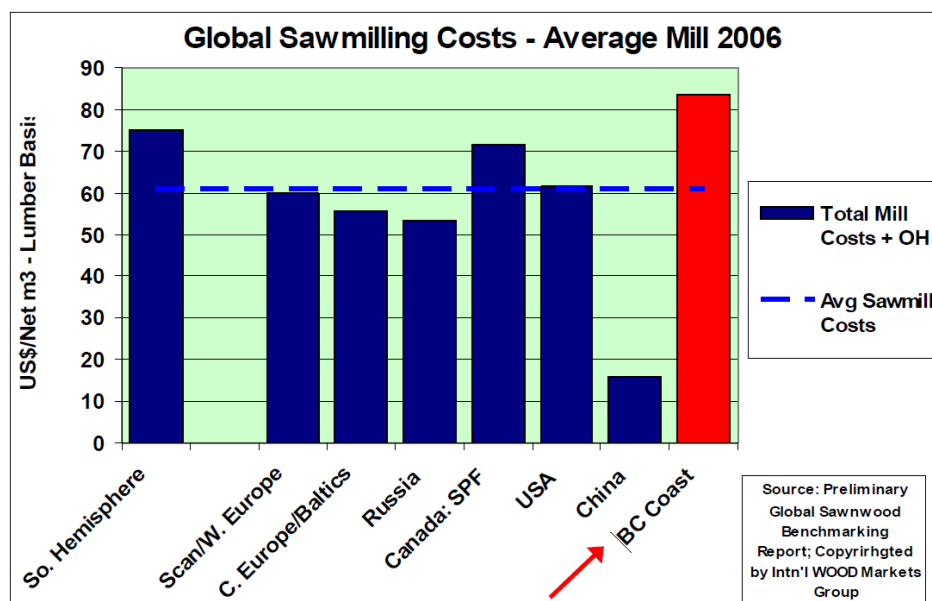


Figure 4 Global summary of Sawmilling costs

Logging

Harvesting is foundation for the industry, without logging neither exporting nor milling would occur, this fundamental process needs to occur in a cost effective and safe manner for a healthy industry.

Jobs

In terms of log exports, harvesting jobs have remained fairly constant throughout the downturn, with many small remote communities relying on harvesting as their main source of income (Dumont &

Wright, 2006). As seen in Figure 5 harvesting on the Coast has been on the decline since economic conditions have become unfavorable, with the effect of exports remaining relatively static. It has been shown that for every 1000m³ harvested, 0.28 harvesting jobs are created (Lewis, 2012), meaning if harvesting can increase from exports there stands to be gains from harvesting. Also that every direct job in harvesting created that 1.4 jobs are created in related fields in the province of BC (Margolick & Uhler, 1983).

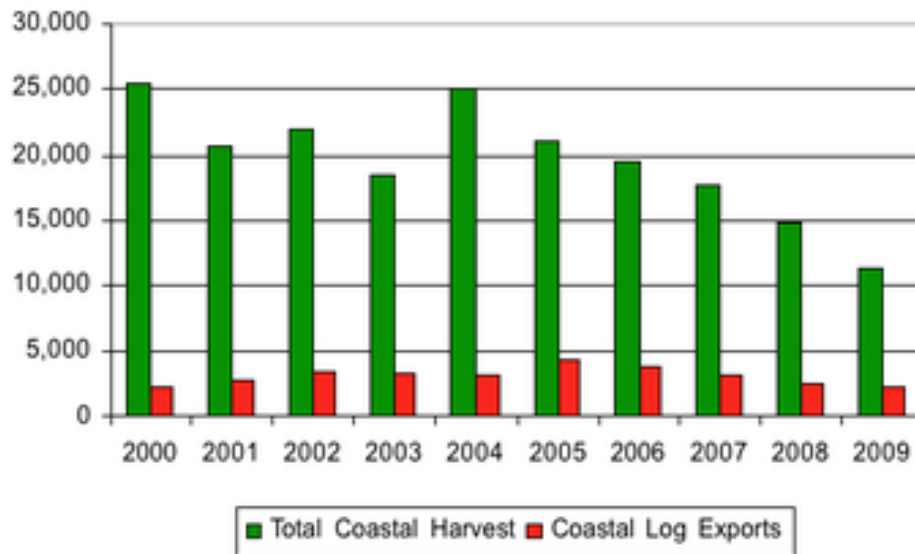


Figure 5 Total coastal harvest along with the coastal log exports (m3)

Timber Values

Market conditions are arguably the driving force behind logging operations, and the timber species being harvested.

Harvest Levels

On public land the harvest levels seen have been historically below the government set AAC (Ministry of Forests, Mines and Lands, 2010). While maintaining some harvesting employment, the current trend for employment in all sectors of forestry is on the downward trend (Girvan, 2011).

Relaxing or Tightening Restrictions

Imposing or lessening log restrictions have been toyed with in hope of finding solutions to the export dilemma. Either scenario would be having benefits and risks associated to opening or closing the log flow.

Imposing tighter restrictions would mean that a higher levy would be in place, resulting in higher revenues for the government in the short run, but a lower run level of net benefits to the economy (Margolick & Uhler, 1983).

Removal of log restrictions would decrease the entire coastal log prices, in the range of a 20% decrease in price (Margolick & Uhler, 1983). The decrease in log prices is due to the influx of logs on the market, potentially increasing the domestic log supply while maintaining export markets (Margolick & Uhler, 1983). Harvest level would increase in regions of the coast where they can be easily transported to the open market (Dumont & Wright, 2006).

Discussion

The issue of log exports in BC is a complicated issue that incorporates a wide range of features ranging anywhere from government policy to a log sort on the coast of BC. There is no single correct answer, as there are many stakeholders in the discussion. The public perception of log exports is that they are shipping jobs away with every unprocessed log. It may appear that jobs are slowly disappearing from BC's coastal industry, but this is more of a transition from the boom days in the early 2000's to the current financial crisis that has crippled the global economy. The perception needs to change, public involvement into the discussion about log exports needs to occur.

The short sighted view of having a negative perception of exports is not helping the current situation, we need to have policy reform which streamlines, regulates, monitors, and improves the process of exporting logs in BC. Upon first view the situation is not positive, but when we look at the reality, without log exports in BC there would be no forest industry to speak of. Current markets are dictating the coastal industry; export markets are fetching a higher dollar for logs than our own domestic markets. High logging and high manufacturing costs put the coastal industry at a disadvantage compared to growing economies such as China, who do not have comparable labour wages or safety regulations as the coast is adhering to. Coastal milling operations have invested millions into upgrades in order to be competitive in the global market, this needs to continue. The fluctuating lumber market has

a high probability of returning to a point where domestic manufacturers will be competitive. When markets do return, mills will need to be ready to compete in order to maintain a strong forest sector. When strong markets return the need for exports will decrease, log exports have a very cyclical history that strongly correlates to unfavorable market conditions or foreign subsidies (Dumont & Wright, 2006).

An additional 8 million m³ could be added to the domestic wood supply, the majority of this is low value Hemlock. By incorporating more logs, the domestic log supply would become a non-issue. In the long term low value hemlock and Balsam stands on the coast will continually perpetuate, when higher value species could be planted after harvest (Lewis, 2012).

The process for exporting unmanufactured timber from the province lacks certainty, the process puts onus on the harvester. Putting the application post logging and boom, the harvester has a large investment into the logs without certainty of sale. The uncertainty in the process is difficult for many operators.

Domestic wood manufacturers are dealing with some of the most difficult operating conditions in BC's history. Manufacturers are unable to purchase logs at their desired price, making it difficult to maintain a constant wood supply at mills.

Recommendations

- Increase Public awareness into the Log Export sector: allowing full transparency (sellers, tree species, etc.)
- Allow a 30% of harvest cap on exports, majority of the remaining AAC that is un-harvested (8million m³) low value stands (Lewis, 2012)
- Ensure domestic manufacturers have a fair wood supply at a fair market price
- Increase certainty to the application process, allow for advertising prior to harvesting
- Move away from commodity based market shift more into value added sector

Conclusions

The politically sensitive issue of log exports for BC is clearly far more complex than one solution; it will require an integration of economic, environmental, and social modifications. The province of British Columbia is fortunate to have a wealth of resources, and the capability of utilizing them in accordance to benefit the province. BC has a strong history with exports, as with the nature of the forest sector,

exports have shown cyclical trend relationships with the economic situation. It has been shown that in the forest sector an evolution occurs during product shifts, i.e. from plywood production to engineered forest products. Change is inevitable and the exports of logs could be the transitional period to different markets and products.

Public debate has occurred before when the industry was in turmoil, log exports are an easy target for labour and political movements to shift responsibility for lost employment during difficult operating periods. Log exports have occurred for decades and are only an issue when markets are unfavorable, yet during adverse conditions exports support domestic markets and manufacturing. There is room for improvement with public perception of exports, yet the public is vital in overseeing export levels and government involvement.

Being a public resource, the public should demand better management of the forest sector, log exports are a conversation that has needed to occur for decades, and as aforementioned complete change is needed, not a partial solution to the issues.

It has shown that increasing levies on exports does not lead to improvement in the logging or the manufacturing sector in the short term. Removal of current restrictions leads to reduced log costs, increased logging revenues and potential for increased domestic log supply.

Domestic manufacturing is feeling the pinch during the transition, with log supply being the main issue. Ultimately markets are suppressed to the point where it is difficult to economically harvest, sort and boom logs to the mill in a cost effective manner as to please both the harvesting and milling operations. Integration of forest tenure holders and coastal manufacturers is central to the survival and prosperity of the industry. The arguments raised in debate demand for more investment and disagree with the current level of exports, but the situation is dominated by simple economics. Are we willing to run Coastal sawmills at a loss? Should we subsidize the situation in order to maintain local employment?

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Appendix

FS 418- Application for Exemption to Export Unmanufactured Timber

<http://www.for.gov.bc.ca/isb/forms/lib/stubs/fs418info.htm>

Here is a breakdown of the fee-in-lieu system:

$$\$58.06 \times 0.92 \times 0.15 = \$8.01$$