



Log Exports: Growing Our Economy

A Report by the Truck Loggers Association

Prepared for Forestry 523

TLA
THE TRUCK LOGGERS
ASSOCIATION
Our strength is in our roots.



Cover Photo: Bear Creek Contracting Ltd. [Online]. Accessed: November 12, 2012. Available: <http://bearcreekcontracting.ca/services/conventional-logging/>

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1. Executive Summary

The Truck Loggers Association (TLA) represents the independent logging contractors working in British Columbia's coastal forest industry, acting as a unified voice for over 400 member organizations [1]. The goal of the TLA is to support its members and forestry dependent communities by developing meaningful relationships between stakeholders, fostering economic growth, and promoting sustainable forest management practices [1]. This dedication arises from an understanding that a healthy forest creates jobs and economic growth [1]. The TLA supports the use of an Order in Council that promotes log exports as a means to create jobs, economic growth, and a sustainable forest industry.



2. Background and Purpose

In recent years, the coastal forest industry has been plagued with job losses and economic hardship. Although many argue that log exports have contributed to this economic recession, the TLA has identified that the root of the problem lies in poor domestic log prices which have resulted in an inability to harvest the full coastal Allowable Annual Cut (AAC) – a quota which has not been fully harvested since 1992 [2]. Logs that cost up to \$150/m³ to harvest are only purchased domestically for \$70/m³, leading to an undercut of lower grade timber in high cost operating areas [2]. Companies have since been selling logs in foreign markets where they can fetch a premium nearly double the domestic value. The volume of logs exported out of BC to Asia (particularly China) has increased dramatically in recent years – it has been estimated that since 2011 the amount of exported logs increased by 53% [3]. This dramatic increase has caused concern for some stakeholders who believe the province is ‘exporting jobs’ from the domestic manufacturing sector. Others argue that log exports have provided the only source of income for forestry dependent communities during a time of economic disparity.

The TLA believes that a fair resolution to the log export debate can only be achieved through the utilization of log exports as a mechanism to promote job creation, economic growth, and sustainable forest management while considering the values of all stakeholders involved.

3. Evaluative Criteria and Scope

As a supporter of coastal resource communities, the TLA considers local employment, economic growth, investment in the forestry sector, and sustainable forest management as the most valuable criteria when evaluating potential solutions to the log export debate. The TLA is invested in the long-term sustainability of the coastal forest industry and therefore has assessed the following alternatives based on their predicted effects on the TLA’s values.

4. Assessment of Alternatives

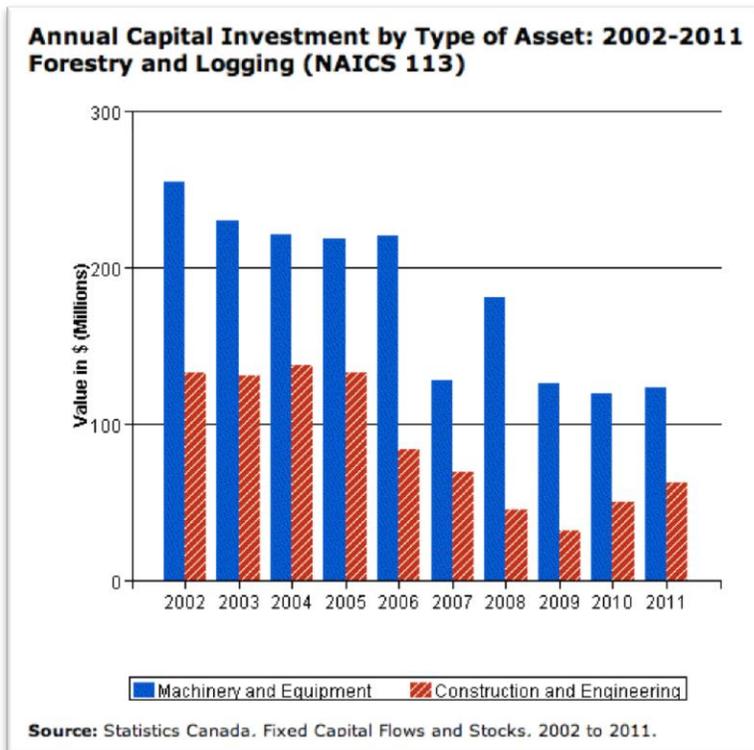
4.1 Continue Current Export Policy

Current policy allows for logs that are surplus to domestic demand to be exported. These logs must be advertised and available for purchase by a domestic mill before they are deemed surplus. There are restrictions on yellow-cedar and western red-cedar as well as high grade logs of all other species. Exporters from provincial lands must pay a 'fee-in-lieu' of domestic manufacture [4].

The net effect of log exports on British Columbian jobs is complex and uncertain [4]. It has been suggested that since 2000, a time when log exports emerged as a viable economic option, the forestry sector lost 1,720 jobs in wood manufacturing and 19,400 jobs in forest harvesting [5]. This trend in job losses, however, cannot simply be attributed to the increased export of BC logs. In a time of economic recession within the BC Forestry sector, log exports kept the industry alive and continue to provide jobs for BC forestry dependent communities [6]. With BC log export policy in its current state, it has been projected that employment in the forestry sector will grow faster than the predicted provincial average for all other industries between now and 2017 [7]. Unless changes are made to improve current export policy, this growth will be limited by an inability to harvest the BC coast's full AAC. Under-harvesting the AAC has resulted in 6,000 forest harvesting jobs being eliminated each year since 2005 [2].

If the status quo were to be maintained, in the short term, the GDP would continue to follow the current increasing trend [8]. In 2011, according to the BC Liberal Party, forest product exports exceeded \$9.9 billion [9] and 40% of logs harvested were shipped to China [10].





While other groups such as organized labour may argue that ‘exporting logs is exporting jobs’, the reality is that with increased revenue from log exports, companies can invest more in their mills [11]. Furthermore, as markets improve, an increase in manufacturing jobs is likely to follow [11]. The trend in Canada has been for reduced annual capital investments. From 2002 to 2011, annual investment in the forestry and logging sector decreased 7.8%

annually [12]. In BC, the coast forest industry has not been earning its cost of capital over the last 10 years [4].

The current economic climate creates a situation where companies are forced to log only the highest value stands and leave the uneconomic stands, specifically stands with high components of hemlock and balsam (hembal). Nearly 60% of the forest inventory is hembal, which in the current economic conditions is uneconomic to harvest, even with minimal stumpage [4]. The full AAC has not been harvested since 1992, and the focus on higher value stands has created an imbalance in the timber profile, wherein the proportion of uneconomic and un-harvested hembal will continue to increase under the current system [2]. Proper forest management would ensure that the long-term viability of the coastal forest industry is not compromised today by reactive management and poor utilization of the timber resource.

Without efficient harvest operations there would be no timber to supply milling operations, not to mention the opportunities created by logging road infrastructure for recreation, hunting and fishing, as well as tourism.

4.2 Ban Log Exports

Banning log exports would negatively impact all of the evaluative criteria identified by the TLA. With no revenue generated by exports to subsidize harvesting, the harvestable timber profile would decrease substantially to only what domestic mills could pay; resulting in most stands not being harvested. It has been argued that log exports reduce the supply of timber available for domestic mills; however, the coastal mills do not have the capacity to process the entire coastal AAC [2]. The current AAC is 24 million m³, while the capacity of coastal mill is only 16 million m³ [2]. If the entire AAC were to be harvested, there would be surplus of 8 million m³ [2]. A ban on log exports would mean that this surplus could not be sold to foreign markets, resulting in lost revenue, wasted timber, and economic inefficiency.

It has been argued that a ban in log exports would create local jobs in mills and wood processing facilities; however the net effect of a log export ban on jobs is unknown – making it a risky alternative [4]. Eliminating log exports could have detrimental effects for those employed in harvesting, wood processing, and as longshoremen. Exported logs receive a premium, an economic driver making it feasible to harvest marginal stands [2]. Without log exports and access to high value international markets, forest harvesting operations would not have the capacity to support the harvesting of marginal stands [2]. This would reduce the available timber for local mills and result in massive job cuts [2]. It has been estimated that two employees are required in the forest harvesting sector in order to supply the amount of timber required to employ one millworker [2]. Job losses in forest harvesting and the processing sector are likely to be further compromised by a log export ban [2].

In 2010 log exports contributed \$300 000 to GDP [13]. If log exports were lost, this revenue would not go directly to the domestic mills; the revenue would be lost in uneconomic

stands. Banning log exports would negatively affect GDP because the coast would have less economically viable stands and would cut a significantly lower portion of their AAC [2].

A ban on exports would result in little to no investment in the coastal forest industry. In consequence, there would be no capital expenditures, or investments in infrastructure maintenance. Forest management would also see a negative effect from a ban. With no income to allow flexibility in stand selection only the highest value stands would be logged, resulting in an exacerbation of the current unbalanced timber profile. Reduced profits would also result in less money available to spend on stand tending and silviculture [2].

4.3 Adapt Current Export Policy

The TLA proposes that policy reform enabling log exports and the harvesting of marginal stands be considered as a viable solution to the log export debate [2]. An Order in Council (OIC) that would make previously uneconomic stands profitable to harvest would meet the needs of both local and international markets [2]. This OIC would have four main attributes: increased export allowance, grade and species exceptions, a sliding scale for fees in lieu, and new qualifying stand specifications [2]. The main component of the OIC is an export allowance that would enable 'qualifying stands' that meet specific criteria (including species, age, and height) to bypass the surplus test and be sold directly to foreign markets for a premium [2]. The main benefits of the OIC include:

- Enabling harvest of AAC
- Allowing for harvest of stands that would otherwise be left
- Promoting investment in the 'Harvest Sector' (equipment and infrastructure)
- 'Revitalizing our forest growing stock' and promoting responsible forest management [2]

A policy that supports log exports and the harvesting of economically marginal stands would create jobs throughout the entire forest industry. By making it economic to harvest marginal stands, it has been estimated that 1,200 jobs will be created each year [2].



Furthermore, local mills will have the necessary volume to operate at full capacity while the surplus can be exported internationally to countries willing to pay a premium [2].

The OIC would further increase BC’s GDP. If the OIC were to be put in place, the extra revenue from marginal stands would mean that the coastal loggers would harvest an additional 2 million m³ annually [2]. This 2 million m³ would be split between log exports and domestic mills and would result in an additional \$680 million towards BC’s GDP [2].

5. Summary

The TLA has investigated these three policy alternatives, and proposes the following ‘decision matrix’ to guide policy makers. The TLA is certain that making the above changes to the OIC will have the most benefit across the spectrum of criteria. Banning log exports would jeopardize the coastal forest industry. While the current policy on log exports may have shielded the forest industry from collapse, it is also inhibiting future growth.

Table 1: Decision matrix for three policy alternatives.

Benefits/ Alternatives	Employment	Economic Benefits (GDP)	Investment in harvest sector	Forest Management
Changes to OIC	GOOD: increase harvest, hauling, shipping jobs	GOOD: more exports and increased income/revenue	GOOD: increased income/revenue translates to ability to make investments	GOOD: balance timber profile, maintain infrastructure
Status Quo	MEDIUM: continue current employment trend	MEDIUM: continues current trend of income/revenue	POOR: currently investment is low, would continue this trend	POOR: current policy forces logging of high value stands only
Ban Log Exports	POOR: loss of harvest, hauling, and shipping jobs	POOR: currently only way to make money on the coast, would eliminate this source of income	POOR: no income and therefore no ability to make investments	POOR: no income from industry will result in reduced (or no) forest management or infrastructure maintenance

5. Recommendations and Conclusion

As a voice for forest contractors along BC's coast and as a supporter of resource dependent communities, the TLA supports the use of log exports and an OIC in order to promote domestic jobs, economic growth, and sustainable forest management. While developing an OIC, the TLA has proposed that the following recommendations be considered:

- Forest stands be dealt with on a block-by-block basis (when determining export allowances)
- Future manufacturing (mill) capacity
- Creation of flexible and adaptive policies
- Multiple stakeholder values [2]

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