Can BC Afford Cheap Logs?

Private Forest Landowners Association
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PRIVATE FOREST LANDOWNERS ASSOCIATION

Introduction

- Log prices in BC are lower than in other jurisdictions as a direct result of government intervention.
- Low log prices have a significant negative impact on the management of BC forest land.
- Is this really ‘good’ public policy?

What Does Government Intervention Accomplish?

LOG EXPORT RESTRICTIONS ENABLE DOMESTIC LOG BUYERS TO FULLY CONTROL & MANIPULATE THE PRICE OF OUR FINAL PRODUCT.

- Subsidy?

Log Price Comparisons

	Domestic Price / m3		Difference	
Species	**BC Coast**	**Washington State**	**$**	**%**
Douglas Fir	$58	$94	$36	61.4%
Hemlock	$43	$81	$38	87.9%
Red Alder	$45	$75	$30	66.7%

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Forest Management Challenges

- Viability of operations
- Jobs & Communities
- Reduced Government Revenues
- Undercut of AAC
- Lurch management
- Reduced profits, grim prospects
- Limited management options……

Forest Management Challenges….

- Reduced confidence
- Reduced investment
- Reduced recruitment & training
- Loss of skilled workers to other sectors

…Just imagine how increased log values could impact forest management….

Log Export Myth:

“Workers and communities don’t benefit”

Facts:

- Timber harvesting & haulage
- Forest protection & forest management
- Replanting & silviculture
- Dumping, sorting, towing, scaling etc
- Property taxes
- "stumpage" to owner*

Where the money from log sales goes

**(includes cost of land, ownership costs, insurance, overhead, interest)*

Standing Sales (Stumpage) Comparisons

Region	Market	$ / m3 Standing
Washington State DNR	Domestic USA	$24.20
BC Coast Private Land	Asia	$23.00
BC Coast Private Land	Domestic BC	$0.00

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What Does Government Market Intervention Accomplish?

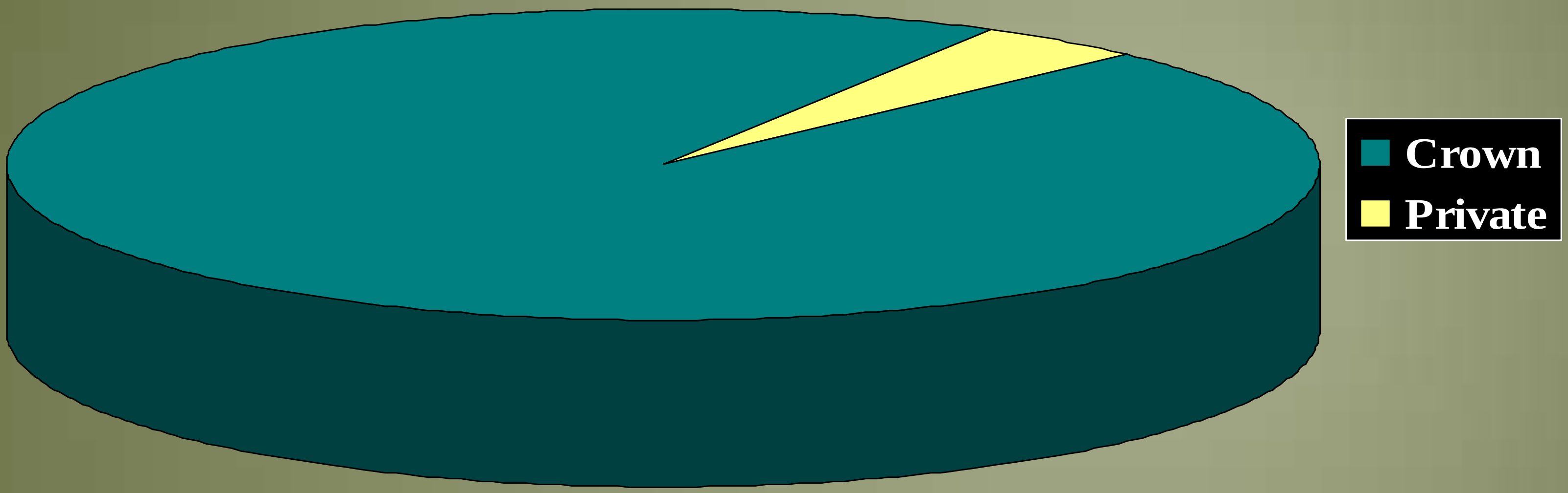
- 1. Reduces competition for fibre. (Tenure system)
- 2. Low stumpage rates for Crown timber.
- 3. Isolation from meaningful competition. (Log Export Restrictions)

= Artificially Low Log Prices

Export Restrictions Restrict Forestry

- Have not protected mills (60? closures since 2001)
- Massive public land undercut (> 30mm m3 / year)
- Domestic log market manipulated, artificially low and dysfunctional (why are international prices higher?)
- No-bid BCTS sales (domestic market lower than logging costs)
- Community, First Nations, Woodlot agreements floundering (lack of viable markets)
- Depressed revenue from public forests (MoFR ministry costs exceed public land revenue)

Provincial Land Base



Crown land:
91 million ha.
95% of BC forest land
90% harvest

Private Land:
4 million ha.
5% of BC forest land
10% of BC timber harvest

Why are private logs exported?

- Domestic markets unviable, or have disappeared
- Landowners invest decades to grow trees. Better prices allow for greater reinvestment in land and environment
- Like any business, we need to diversify markets and get best price for products
- Thousands of forestry jobs depend on ability to export
  - some forest stands only become economical to harvest if there is the ability to sell some logs for a price premium from international sales

Log Export Regulations

Federal Government Treats BC Differently

- Private log exports unrestricted in other provinces

<u>But in BC Notice 102 applies</u>:

- Logs must be advertized, offered domestically
- Logs may be purchased at (lower) domestic prices
- Only if there is no BC buyer can logs be exported
- Delays & process add cost, lower value, deter buyers.

Impact of Notice 102

Private forestry operations:

- Unable to diversify markets, provide consistent supply to customers, get best prices home or abroad
- Forced to sell logs to domestic mills below value
- Logs must be scaled for the domestic market and left in the water for weeks while the N. 102 process is followed; the wood is susceptible to damage

Customers

- Deterred from buying logs from BC
- Discount accordingly

UNDERCUT

=

LOG SURPLUS

Log Export Myth:

“BC mills close because there is a shortage of timber”

Facts:

- Huge surplus of timber in BC
- BC is consistently in an undercut position in terms of what it is allowed to harvest on public lands
- Since 1998, the coastal undercut has accumulated to over 3 year’s worth of AAC
- BC undercut by >30 million m3 in 2009
- Competitive sawmills survive.

Private Log Exports vs. BC Public Land AAC

(in millions of cubic metres, 2008)

Log Export Myth:

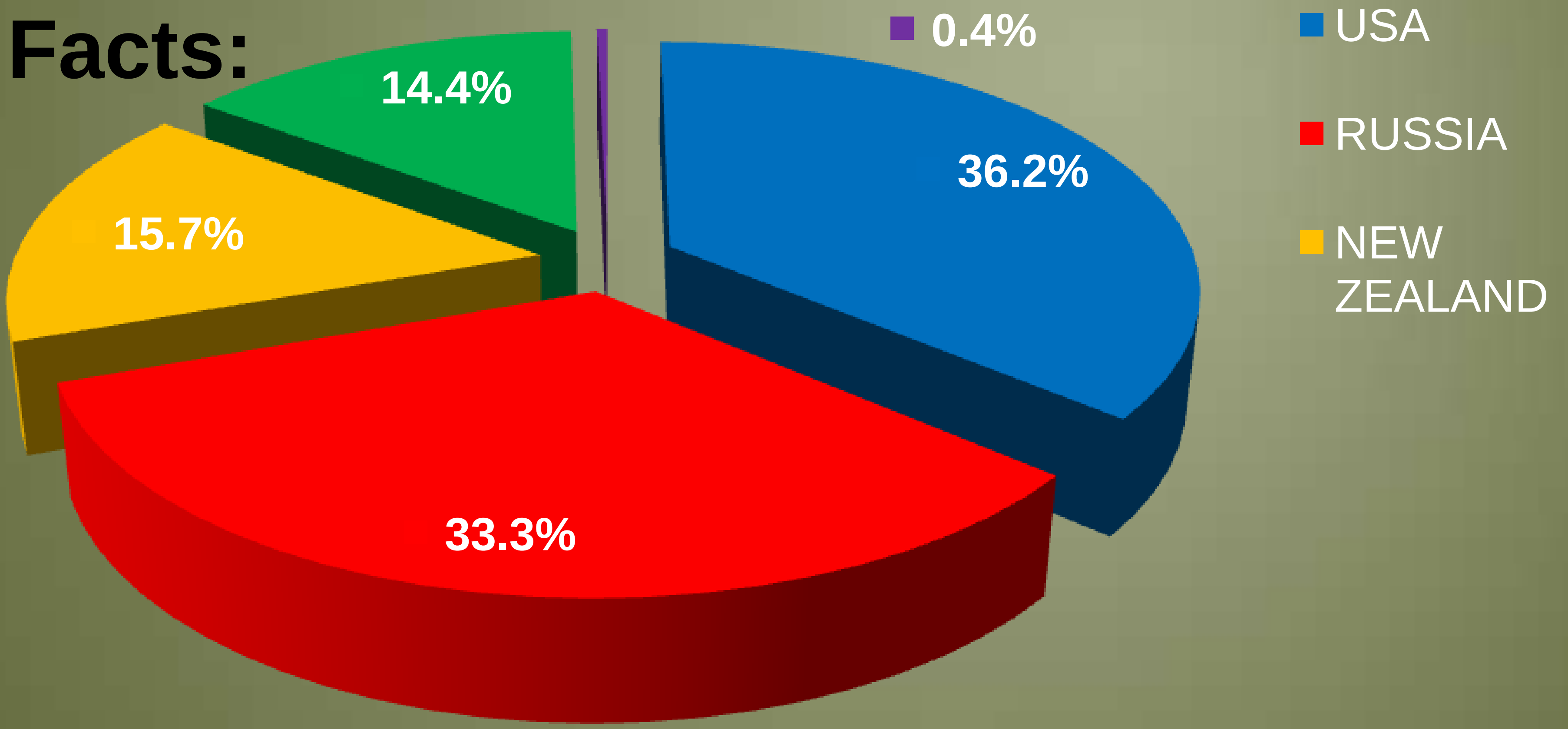
“Exporting a log is exporting a job”

- Facts:
  - Competitive log processors survive
  - Log exports keep tree planters, nurseries, forest management crews, loggers, truckers and log handlers working
  - Most stable jobs on the BC coast over the past ten years have been on private land
  - Domestic log market has collapsed - export opportunities are a lifeline to operations
  - Without export log markets many stands would be uneconomical to log

Log Export Myth:

“Export restrictions will force customers to buy lumber, not logs ”

Facts:



Japan Log Imports 2008, by Source

Other Countries, Other Commodities

- Coal, Wheat, Oil – Canada
- Logs – Russia, Europe, USA, New Zealand
- Rice - Vietnam