

BRITISH COLUMBIA'S COASTAL FOREST SECTOR - CHALLENGES AHEAD¹

Bill Dumont²

Good morning. I am pleased to be here today in such good company, especially with our American friends and a very important sector of the forest industry. Nursemeymen (people, nurseryers, growers?) are essential to our sustainable forestry program and play a critical role in sustaining one of the world's great forestry jurisdictions.

When your president, Ev Van Eerden, approached me several months ago to speak at your meeting today it brought to mind a similar presentation in the fall of 1989 when I also addressed your association. I was a practicing field forester then, rather than the bureaucrat I now am as Chief Forester for WFP. Some of you may well recall my politically incorrect slide presentation urging your nursery industry to provide more excitement in a field foresters life through surprises in the planting box. Of course I was a field oriented person, had a beard and looked something like Grizzly Adams.

Today I've been asked to speak on the future of your industry as you relate to the current and future state of the forest industry. My comments will focus primarily on coastal B.C. because that is where my company, Western Forest Products, operates on 850,000 hectares of productive forest land.

I'm also going to talk about the Greenpeace boycott campaign in the European market and review two recent major announcements by B.C. coastal companies, speak a little about treaties and provide a few comments on your industry and its future. Today, my thoughts are really about the challenges we face as we approach the millennium.

Those of you who know me won't be surprised that I'll express some strong opinions in this area from my experience as an operations forester over the last 25 years. But as James Conant once remarked "Behold the turtle, he makes progress only when he sticks his neck out".

First, let's remind ourselves how important the forest sector is to the B.C. economy and review how dismal things are at the current time. Before I do that I want to be very clear that I believe the coastal industry will recover with our special knowledge and abilities here in B.C. Already we are seeing

some slight improvement in pricing and high log and product inventories are slowly coming down.

As Jack Munro, Chairman of the B.C. Forest Alliance, reminds us constantly, there is no number two in British Columbia. While tourism and other sectors have expanded significantly in terms of economic importance B.C.'s forest sector is still the dominant generator of economic wealth in the province and is critical to the survival of over 100 rural communities.

In 1997, the forest industry in B.C. logged 69 million m³, of which 22 million m³ was cut on the coast. That's the equivalent of 14 billion board feet of timber. That sustained more than 290,000 jobs and almost \$5 billion in personal employment income. More than half the B.C. exports are forest based and we still supply up to 1/3 of the world's export softwood market.

The government take was \$88 per cubic metre while personal income was \$170/m³. Sales value of the coastal harvest were \$6.2 billion of which \$2.2 billion went to government. Industry losses were \$170 million on the coast last year. Losses will be worse in 1998.

Certainly the Asian financial crisis is part of the problem but there are other factors gnawing at profits and employment in our sector. The Asian problem is very serious. B.C. ships more than a third of its exports to Asia, mostly forest products. Their problems are depressing global commodity prices and will cost B.C. at least 1 percent of its GDP growth this and next year. However, in the long term, our strength in the Asian market is positive.

After outpacing the rest of Canada during 1991 to 1994, B.C. has now significantly lagged in economic growth in the past four years. In fact, the usual "basket case" of Canada, Newfoundland, has been replaced by B.C. in the bottom of the GDP growth heap.

One of our leading economic think tanks, the Fraser Institute, recently asked international investment managers of pension funds and other blocks of funds totaling \$200 billion, what they thought of the economic and social

¹Dumont, B. 1999. British Columbia's coastal forest sector—challenges ahead. In: Landis, T.D.; Barnett, J.P., tech. coords. National proceedings: forest and conservation nursery associations—1998. Gen. Tech. Rep. SRS-25. Asheville, NC: U.S. Department of Agriculture, Forest Service, Southern Research Station: 83-86.

²Western Forest Products Ltd., 2300 - 1111 W Georgia Street, Vancouver, BC V6E 4M3, Canada TEL: 604/665-6200; FAX 604/665-6268.

policies in the ten Canadian provinces. Once again, B.C. came out dead last with fully 49 percent saying they had a negative attitude towards the province and only 3 percent indicated a positive outlook.

While Alberta and Ontario vie for the top economic freedom spot among the provinces, B.C. has slowly, deliberately fallen as a direct result of changes in government policy. The economic freedom index uses factors such as tax rates, spending, ownership of business by government, regulatory spending, trade restrictions, etc. These worrisome trends need to be a major wake-up call for our province because without significant change our problems will continue to mount up.

B.C. labour productivity representing percent change and real output per person has been decreasing since the start of this decade with only a slight improvement in 1997.

Coming back to the forest industry specifically, the most revealing negative data are for logging in the first half of this year and the two previous years. From January to June 1996, B.C. logging totaled 32 million cubic metres and \$818 million in stumpage payments. For the same period in 1997, production fell to 29 million m³ with stumpage of \$908 million. This year, production was only 27 million m³ but industry paid \$850 million in stumpage. The significant drop was in logging on the coast – 33 percent. This very serious reduction has caused government to finally announce a few tough measures to reduce their costs.

Note that in spite of a significant reduction in volume cut on the coast, stumpage revenue per cubic metre remains high at \$28.50/m³ or \$142/FBM. Government continues to take more than a fair share of the pie.

The declining commodity prices combined with record stumpage and high logging costs on the coast are very troubling. American objections to stumpage relief were expected and also represent further worries.

How will all this doom and gloom affect your sector? Obviously, reduced harvest levels mean fewer seedlings needed and a reduction in planting. However, the data don't indicate a dramatic reduction yet. In fact, 1996 was the largest tree planting year ever in B.C. with over 259 million trees planted on public lands. It declined in 1997 to 234 million and I expect a significant drop in 1998 in planting and sowing.

Because B.C.'s foresters have been very prompt in regenerating logging areas due to regulation and a concern for maintaining productivity, it is expected that there will be some significant seedling turnbacks in the spring of 1999. Industry and your sector must sit down together and resolve this issue as soon as possible.

I recently completed four trips, including trade missions, to Europe to deal with another significant Greenpeace attack on the B.C. forest sector in our market. While Greenpeace cloaks its campaign as anti-clearcut and opposes logging on the Central Coast, they really have an agenda to stop all

old growth, primary forest logging in B.C. The primary forest moniker can also mean natural second growth is in their sights for preservation as well. The attack is continuing and expanding in the United States. Other ENGOs are also involved in the US and are having some effect and are a serious, though manageable, market threat.

The campaign is interesting in that it continually metamorphoses from attacks on WFP, Interfor, MB and gets species specific against western red cedar and western hemlock. Our industry now has a senior action group addressing this and other market access issues. I have found our customers to be loyal and supportive in the face of very intimidating tactics. B.C. needs the higher value, sophisticated European market to support our higher environmental standards.

Because of historic developments and the nature of our resource, we have few alternatives to harvesting in primary forest. Primary forests still cover well over half of our operable forest lands. Of the 94 million hectares of land in B.C., 60 million is forested and 23 million are currently in the working forest.

The coastal rainforest, which coincides roughly with the western hemlock biogeoclimatic zone, covers about 10.6 million hectares.

More than 54 percent of this rainforest is in a mature, old growth condition and 31 percent are forests less than 120 years old. But most importantly, almost a million hectares of the temperate rainforest are protected from development of any kind. This level of protection exceeds most other jurisdictions in the world. As well, new land use planning processes are underway that will result in further significant protection of old growth. A significant and costly B.C. strategy to protect biological diversity in the working forest is dismissed by Greenpeace even though no other jurisdiction is doing as much to address maintenance of biological diversity in its forests.

The Central Coast region, the current target area of Greenpeace's campaign for preservation, also has a low amount of operable timber. The region covers nearly 5 million hectares with 18 percent presently protected from logging in existing parks and deferrals. Less than 10 percent of the central coast area is available for timber harvesting and forest management. In other words, 90 percent of the central coast is not part of any forest development proposal and will remain as intact wilderness. Yet, forest companies working in the region continue to be attacked and vilified in a rather dirty boycott campaign.

It shouldn't be missed by anyone that we are attacked just because B.C. has such huge reserves of old growth forest after 150 years of development in this province. This is, in my mind, testament to strong and responsible conservation commitment and concern for sustainable forest management.

Our company and its predecessors have been in existence since 1857 and mature timber still covers more than half of our forest land. While the public perception is there is little

old growth left in B.C., the reality is the majority of our population looks out at mountains which are still cloaked in old growth timber. We expect to be harvesting in these older forests for at least half a century.

While conservation of old growth will increasingly be a priority of our forest management in coastal B.C., there continues to be good opportunity to harvest quality forests to meet world demand for specialized timber. In coastal B.C. we harvest for solid wood products with raw materials for pulp mills being a by-product of logging and sawmills.

Recently some significant new commitments were made by two coastal forest companies. Our company has announced we are seeking Forest Stewardship Council certification of our forest management. This dramatic move, the first by a forestry company in western Canada and one of the largest single applications for certification in the world, was made after careful study of the Mexico-based Forest Stewardship Council, its aims and objectives and principles.

In response to market demand and customer interest, WFP engaged SGS UK to undertake a Qualifor accreditation. A draft check list for the audit has been developed using B.C. specialists and the international set of FSC principles and criteria. We expect the audit to proceed this fall. While there will be significant challenges in securing forest certification, we believe we will be successful.

Third party verification of sustainable forest management is a worldwide trend and will accelerate in the next decade. While this is not a consumer driven issue, there is a concern by buyers of forest products that customers will eventually increasingly demand products from forests that are verified sustainable. We expect there will be a slight premium for certified products but in the end this will become a requirement of the market rather than something which gives us a market advantage. We are also proceeding with ISO 14001 and the CSA SFM certification. We welcome certification as a validation of our management on a fair and reasonable basis in comparison with other jurisdictions. We believe it will lead to higher public confidence in our forestry programs.

One concern to you in the FSC certification process is the denigration of the role of plantations as socially and ecologically acceptable methods of regeneration in natural forests. There is and will continue to be some shift to greater natural regeneration reliance in B.C.'s forests, but the demands of the Forest Practices Code and concern for prompt reforestation will continue to keep demand for quality seedlings high, even with new and innovative harvesting being proposed. Under FSC rules exotic species must be minimized as is the use of genetically manipulated seedlings.

As part of the establishment of environmental management programs under ISO 14000 certification, you may also expect the forest industry to request nursery stock suppliers establish a similar EMAS system in your operations.

The other dramatic forestry announcement in B.C. in the past few months was from MacMillan Bloedel, Canada's largest forest firm. They announced an end to clearcutting within the next five years, moving to a variable retention harvest system in a combination of three land zones of varying logging intensity.

While I don't intend to go into details on MB's new approach, you should clearly understand each company must develop its own business strategy. MB decided to change its forestry practices after a review of their declining AAC and a belief they had lost the social licence to clearcut in old growth. They made a direction change based on their own unique mix of private and public lands and second growth forests.

As part of the MB plan to operate differently at both the stand and landscape level, a Timber zone will be established and managed intensively for fibre. This zone will cover 65 percent of their lands and natural regeneration reliance will continue to be about 25 percent of the logged area, little change from the current situation.

In the Old Growth zone, which will have a high biodiversity conservation emphasis, natural regeneration is the norm and planting is expected to be minimal. However, this zone is restricted to 7 percent of the old growth and 3 percent of second growth areas that MB manages.

Part of MB's strategy for maintaining forest health is to retain sufficient quantity of superior seed trees and conduct fill planting with quality stock for maintenance of tree species diversity and genetic quality. These bode well for seedling demand.

In discussions with MB on the impact of their forest plan on seedling demand, it's clear that they do not expect a dramatic reduction in planting. Along with the forest practice changes, MB also closed its own seedling nursery. Many of you will now benefit from being new suppliers for MB.

One thing that characterizes forestry in B.C. is change and adaptation to new challenges. Today that rate of change is even greater than many of us expect. It was only 1992 when I attended the World Environment Conference in Rio where conservation of biological diversity was promulgated as a noble goal for the world.

While most of the countries in the world are still talking about protecting biodiversity we are dealing with it practically on the ground. I'd like to take a few minutes to highlight some of the planning at a landscape level we are carrying out now in some parts of our tenures.

The Ingram Lake area is about 500 km north of Vancouver on the central Coast. We are building road right now after years of planning and consultation with First Nations. Operations are guided by a Total Resource Plan for this relatively undisturbed 14,000 hectare watershed. The TRP has many purposes and fits into B.C.'s planning hierarchy but it is not a requirement of the Forest Practices Code.

We inventory and assess all resource values and develop management strategies for each of 5 important resources. Less than 30 percent is operable forest with an equal amount of inoperable forest due to environmental and economic restrictions. The harvest plan and schedule identifies all roads and cut blocks for all the operable timber to be harvested over the next 40 – 60 years. Only 18 percent of the total forest will be harvested over the next 30 years.

The biodiversity analysis includes a careful assessment of the various stages of the forest over time. Of course we predicate the protection of species on the basis of their preferred habitat. This type of planning is world class and uses very sophisticated modeling supported by leading edge GIS systems and skilled planning foresters.

The forest industry operates mostly on crown land in B.C. and any policies that affect public lands will affect us. The recent Nisga'a treaty settlement and treaties in general will have an impact on our access to timber. However WFP and most of industry support the treaty process and the certainty it will bring to land use and ownership.

WFP operates in 30 traditional First Nations territories along the coast and we are working hard to maintain good relations with all Bands. Under existing legislation, policy and emerging local cases we and government must consult before development occurs. First Nations have the right to object but not approve our forestry programs.

We are proceeding with capacity building with Bands who wish to become involved in all aspects of forestry. We have a number of cooperative ventures and these will expand. We currently reserve up to 25 percent of our silvicultural contracting for First Nations contractors.

The Nisga'a agreement has a few shortcomings for industry, specifically the compensation issue related to licenses that will be canceled over the next decade. However, the main elements of the agreement make sense and do not cause us undue concern.

We can only dream, however, to see a few more clauses added which would comfort all of us in British Columbia. Giving up our current crop of local politicians would make a lot of us very happy.

More changes I foresee that will affect you in terms of stock needs related to the Forest Practices Code, quicker greenup including the use of vegetative propagules, cuttings and somatic specialty stock. There will be no reduction for improved genetic material. Currently a relatively high percentage of cut blocks on the coast are replanted with several species and I do not see any

reduction in that need as prescriptions become even more sophisticated than now. The last few years of sowing requests in the Vancouver Region show a high degree of stability in terms of species mixes with an emphasis on red cedar, Douglas fir and western hemlock.

The expectations of the forest industry have not changed in the past 20 years with respect to your performance. We need quality and we need it at a reasonable price. While planting costs continue to escalate, seedling costs have been reasonably stable and the efficiencies of large scale production are benefitting both of us.

I want to compliment all of you for the continued improvement in the quality of planting stock we are receiving today compared to a decade ago. It's clear that the quality control you put in place along with our careful stock assessments are really positive. I suspect some of these kudos must also go to your Association which provides an excellent forum for sharing ideas for improvement.

Before I finish, a few words of congratulations are in order to one of your long time members who is retiring this month. Seen here on one of many enjoyable fishing trips, Charlie Johnson has been a major player in your association and the reforestation industry across western Canada. Charlie and his company, Pacific Regeneration, developed the privatized B.C. Government nurseries into an efficient, effective organization, leading in seedling production in B.C. Earlier in his career with the government as a Professional Forester in charge of B.C. Silviculture, Charlie has left a legacy in making silviculture a government and public priority. We wish Charlie and Sue a well deserved retirement.