The forest industry continues to be an important contributor to the province’s economy. In 2013, total economic output for the sector was $31.4 billion. Total Gross Domestic Product (GDP) from the sector was $12.4 billion of which $5.8 billion was direct GDP.

Forest industry employment in 2013 was 145,800 British Columbians which is approximately 24% of direct manufacturing employment in British Columbia. In 2014, the sector generated 60,700 direct jobs. The forest industry in B.C. also consists of more than 7,000 businesses – 83% of these companies employ less than 20 employees. There are also approximately 250 primary and 1,525 secondary manufacturing facilities, the largest manufacturing sector in B.C. There are 4,737 forest management businesses; primarily small independent contractors and family-owned businesses.

The forest industry contributed approximately $2.5 billion to federal ($934 million), provincial ($1.4 billion) and municipal ($150 million) government revenues. Approximately 40% of B.C.’s regional economies are forest dependent – directly involved in harvesting and processing of forest products.

The B.C. government is to be commended for its new investment in a forest health program that will effectively rehabilitate mountain pine beetle stands (and have the additional benefit of mitigating community interface fire risks). This investment, as the owner of the resource, will provide for a multi-generational (80-100 years) fibre supply in the forest industry.

The B.C. government is also to be commended for implementing changes to dead pine pricing that more accurately reflects the economic value of the decaying resource. A reasonable stumpage rate for dead and decaying pine stands will improve utilization of the last remaining stands and extend the operability of existing Interior mills. By accelerating the conversion of these stands to healthy forests, the medium and long term harvest levels can be increased while managing the declining harvest levels in the short term.

The B.C. government is to be further commended for its efforts to develop and nurture an industry and market for non-saw log volume and residual fibre under new policies developed by the Forest Fibre Working Group. Continued monitoring of this policy is important to ensure that: a) it delivers on its intended outcomes, and b) there are no unintended outcomes. Policies that encourage alternative wood products, biomass for energy generation and supplying the pulp and paper industry, and any other policies that encourage alternative uses for timber that cannot be converted to lumber, are all policies that are in the best interests of the owner of the resource and the primary manufacturing industry.

Challenges

- The forest industry continues to be challenged by the world-wide economic recession that reduced U.S. housing starts and resulted in lower lumber prices. Changing demographics indicate that the U.S. housing market has shifted away from traditional single to multi-family housing. Housing starts may never return to historic levels.

- Demand in offshore markets, such as China, has decreased substantially. The value of wood product exports to Mainland China was down 18% in 2015, most noticeably in log, lumber and value-added wood products. In the short run, at least, dependence has shifted back to the U.S. market.
FORESTS, LANDS AND NATURAL RESOURCE OPERATIONS

- The harvest of dead pine timber is coming to an end since it has become increasingly uneconomic to harvest and manufacture it into lumber. Timber shortages are upon us while at the same time U.S. southern yellow pine timber is expected to increase. Non-saw log harvest and residual volume availability has increased in magnitude while utilization remains relatively low.

- The mountain pine beetle infestation temporarily increased annual allowable cuts in an effort to maximize the economic value in the dead and decaying forest stands. The economic effect when allowable cuts are reduced will be harvesting and sawmill capacity rationalization as the industry adjusts to new, lower forest inventories.

- The 2006 Softwood Lumber Agreement terminated in October, 2015. The forest industry is in a “standstill” period where no new trade action can be initiated until October 2016.

- Recently a native pest to British Columbia forests, the spruce bark beetle has taken over 156,000 hectares of timber in the Omineca region of northern B.C. This is the largest outbreak since the 1980’s. No different than the mountain pine beetle infestation, the spruce beetles appear to be connected to warmer weather patterns. Unlike pine, the spruce tree has a longer life cycle to reach maturity and a much shorter shelf life than pine after it dies, which could further exacerbate this threat. As a start, the Chamber recognizes the Ministry of Forests, Lands and Natural Resource Operations recent commitment of $1 million to address this issue.

Opportunities

- The Tsilhqot’in Decision of the Supreme Court of Canada that not only declared Aboriginal title, but further defined how Aboriginal rights and title will be decided, adds complexity and uncertainty to operations. However, even with increased costs, the opportunity exists for companies to develop and maintain strong relationships with First Nations to succeed through these investments. Also, by collaboratively working with First Nations, industry and governments have an opportunity to access timber at the same time as achieving economic equity.

- The B.C. forest industry is a world leader in sustainable forest management with more land certified to internationally-recognized sustainability standards than any other jurisdiction in the world. Its products are an attractive export product on the world market. With the combined uncertainty of the expiration of the current softwood lumber agreement and the introduction of the Trans Pacific Partnership, the continued development of future markets is extremely important and should form the backbone of a future forest economy.

- New 9 and 10 axel truck configurations and LEAN log handling procedures (on the Coast) will reduce delivered log costs. New wood products, such as cross-laminated timber, have increased the demand for lumber and, in turn, created possibilities for 6-plus story wood-framed buildings.
B.C.’s forest industry is the largest bioenergy producer in North America. The use of wood residuals to generate energy minimizes wood waste and increases the economic yield from B.C.’s forests. This accounted for 65% of Canada’s wood pellet capacity and production.

The B.C. forest industry is the economic backbone of many B.C. communities. A vital part of B.C.’s economy, it is increasingly more important in central and northern B.C. In 2014, the forest sector saw exports in commodity wood products reach $12.4 billion which represents approximately 35% of the total of all exports in B.C. While this is an impressive number, the overall trend of exports has still not recovered to the levels of exports seen in 2005.

Therefore, to continue to create and nurture the conditions required for a modern and globally competitive forest industry,

THE CHAMBER RECOMMENDS

That the Provincial Government:

1. Secure access to an economically viable fibre supply and identify the timber supply that will be available given First Nations and stewardship allocations:
   a. Commit to providing all remaining primary manufacturing facilities with the saw log volume required to maintain these facilities in the face of:
      i. a declining annual allowable cut;
      ii. decreasing provincial land base (mountain pine beetle, environmental and Aboriginal rights and title reserves); and
      iii. expiring non-replaceable forest licenses. Primary manufacturing facilities rely on a significant volume of timber auctioned by BC Timber Sales (BCTS), and purchases from other sources such as community forests and First Nations tenures. Harvests from all of these sources must be maintained at their respective Annual Allowable Cut (AAC) apportionments. A vibrant secondary manufacturing sector in value-added wood products, the pulp and paper industry and the emerging bio-products industry depends upon a productive primary manufacturing industry to provide raw materials and residual fibre.
   b. Early and aggressive action is required to control and contain the current and growing Spruce Beetle infestation to keep this infestation from turning into a similar situation as the mountain pine beetle outbreak.
   c. New fibre opportunities should be provided without undermining the rights of existing tenure holders. Policies should promote new opportunities, uses and investments without creating new rights and avoiding overlapping tenure rights on the same land base. It is important to integrate “use-it-or-lose-it” contract provisions on these new tenures to ensure the additional tenure opportunities meet their purpose in providing a secure supply of fibre and fibre pricing to primary and secondary manufacturers.
   d. Land use: Commit to ensuring access to timber to the full level of land use plans. Communicate to industry what level of AAC will be available for harvest so that business can plan its operations, then
support access to that timber supply. Timber supply projections are based on a land base that has not been curtailed by subsequent local decisions to place constraints on practicing forestry. Reviewing and revising local government staff decisions respecting access to fibre to fit with government targets for timber supply and revenues will significantly contribute towards ensuring an adequate timber supply. Ensuring there is a commercial forest land base for forestry purposes must become a priority at both the provincial and local government levels.

e. Sell BCTS apportionment volumes consistently: BCTS is an important supplier of timber to B.C.’s log markets and must continue to sell its apportionment over the business cycle to get the full forest profile into log markets.

2. Improve the integrity of the market-based timber pricing system (stumpage):
   a. BCTS must continue progress towards becoming a more reliable source of competitively priced fibre. BCTS auction wood is responsible for approximately 20% of the Crown timber in British Columbia, a significant supply for manufacturing facilities. The mandate of BCTS as a mechanism to get wood into the marketplace should not be entangled in government’s regulatory and policy roles.
   b. Resist and refuse demands that the forest industry pay to manage other forest resource users and values unless there is a direct cost recognition in the timber pricing system. This could include residual fibre deliveries, First Nations consultation, and range management costs, among others.
   c. Provide direct cost recognition in the timber pricing system for consultation with First Nations communities. The scope, level and cost of consultation has increased as First Nations communities increase their assertion of indigenous rights and title interests. Until agreement exists over indigenous strength of claim, and unless and until the Government of British Columbia effectively manages their obligation for consultation and accommodation, these costs will accrue to industry. Direct cost recognition will provide an important opportunity to improve industry competitiveness until the issue reaches an equilibrium and an appropriate cost variable can be determined.

3. Improve investment certainty:
   a. Use a competitive tax environment to encourage investment in, and transformation of, the B.C. forest industry: support policies and incentives for capital manufacturing investments that increase the use of innovation and process technology to modernize facilities. This also includes incentives for new market entrants, such as investment tax credits, employment incentives, support for new technologies and creating small business opportunities for facilities aimed at products made from non-saw log fibre and logging residue.
   b. Increase the scope of the current Provincial Sales Tax (PST) to include investments in non-harvesting heavy machinery within the definition of Logging Activities, when these assets are used primarily in logging operations. This would streamline the PST act in regards to logging operations and increase investment in road building and earth moving machinery.
   c. Encourage innovative secondary forest products industries through commercially based arrangements with primary producers. Where direct tenure opportunities are necessary, and they overlap existing tenures, ensure that forest management obligations and timber pricing arrangements are reasonably
and equitably apportioned between the new and existing tenure holders. Overlapping tenures only make sense when they access fibre for different products.

d. Support policies and incentives to support safety and environmental upgrades required under the BC Sawmill Code of Practice and other legislation; and support clarity and efficient administrative processes regarding permit applications and reporting requirements.

e. Eliminate market barriers that will prevent an efficient re-alignment and/or consolidation of forest industry assets (match supply to demand and logistics from tree to market). Industry rationalization is inevitable as the forest industry adjusts to decreased timber supply resulting from the mountain pine beetle infestation. Allowable annual cuts will decline in the short to medium term. Industry requires flexibility to organize effectively.

f. Continue investment in important infrastructure programs: improve road, rail, bridge and port structures.

g. Promote and fund labour force and skill training applicable to the forest industry to an equal level with other resource based sectors.

4. Market Access:

   a. Continue investments in off-shore and U.S. market development activities by organizations such as Forest Innovation Investment, as well as policies such as the wood first program. These initiatives provide necessary market diversification and will only strengthen our global competitive position.

   b. Continue working co-operatively with industry and the Government of Canada to address tariff and non-tariff barriers to the global export of B.C. forest products.

5. Continue to develop emerging forest sector markets internationally:

   a. Continue investments in off-shore and U.S. market development activities by organizations such as BC “WoodWorks!” programs and BC Forest Innovation Investment, as well as policies such as the wood first program. These developing markets are important bailiwicks in providing market diversification and opportunities when the U.S. market is challenged. Unfettered access to other markets for forest products will only strengthen our global competitive position.

   b. Ensure other emerging markets for B.C. forest sector products are developed such as Malaysia and Vietnam.