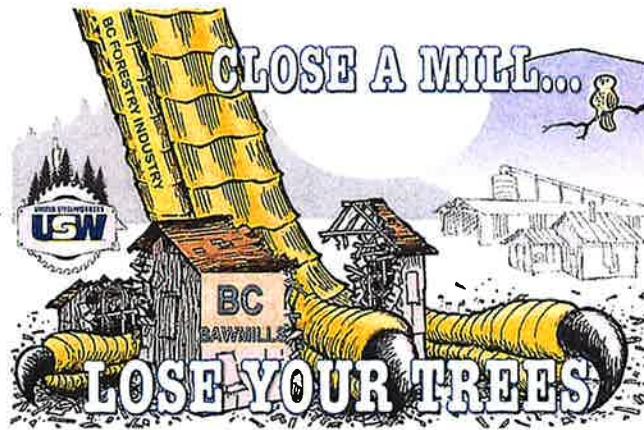


Forestry Workers Being Used as Pawns by the Forestry Industry



Every good chess player knows about sacrificing their pawns. A player sacrifices a pawn to get a kingside space advantage, to destroy or damage the opposing king's pawn cover, or to keep the opposing king in the center. Unless the opponent manages to fend off the attack, he is likely to lose. The king in this analogy is the NDP government, the opponent is the Forestry Industry, and the pawns, unfortunately, are the forestry workers of BC, their families, their communities.

Daily headlines cite high log prices and dwindling timber supply as driving the crisis in British Columbia's forestry industry which has devastated communities and kneecapped the provincial economy. Forest Companies have announced shutdowns or curtailments in more than two dozen mills in the province. Statistics say more than 6000 workers have been affected so far.

What's not being discussed openly is the Forestry Industry's rebellion to the NDP government's Coast Forest Sector Revitalization Initiative. After exhaustive consultation with industry and a demonstrable reluctance of Industry to address the problems themselves in a meaningful way, the government moved ahead with some aggressive solutions to address the significant de-regulation of the Forestry Industry implemented by the previous government.

It was the previous government that opened the doors to raw log exports with hardly a whimper from the Forestry Industry at that time. BC exported 5.1 million cubic meters (m³) of unprocessed timber in 2018, compared with 2.5 million m³ in 2009. As an illustration one cubic metre roughly equals one city telephone pole. To put that in perspective: a standard logging truck can hold around 40 cubic metres of timber. A standard single-family home contains about 37 cubic metres of wood. So, in 2018, B.C. exported enough wood to fill 127,500 logging trucks or build over 137,837 homes. If lined up end to end, those trucks would stretch from Vancouver to Thunder Bay, Ontario. If inhabited by four people each, those homes would house more people than all of Vancouver.

Yes, raw log exports have created a significant problem for the survival of mills in BC.

The **Industry rebellion** started with the provincial government's announcement that it will be making a series of legislative, regulatory and policy changes over the next two years. It commenced with Bill 22 in May of this year. The legislation now requires what's called a "public interest" test for any transfer of cutting rights. So, before the big lumber companies get to trade tenure between themselves the government has to be assured that there is an economic

benefit to communities, First Nations and workers and not just to corporations and their shareholders.

This legislation has stalled the tenure transfer of \$60 million of timber between Canfor and Interfor and they are not happy about it.

The NDP followed up with more rules that further riled the industry. The new rules included changes to waste policy and are designed to get some of the approximately two million cubic metres of wood waste on the coast to pulp and paper producers and the bio-products sector. Holders of licenses are required to cut all of the block and not just pick the high value trees. The holder of the license must bring all of the fibre at least to the road, and if the lower value wood is not utilized it will be left for operators under the Small Scale Salvage program. The new rules provided for the charging of triple stumpage on any wood left behind that is deemed to be economically usable. The days of huge slash piles left behind after the high value sawlogs are trucked out had come to a crashing end. This made the Forestry Industry mad.

The government also applied a new, targeted fee-in-lieu of manufacturing for exported logs harvested from a coastal BC Timber Sales license, in an effort to make sure more logs are processed in B.C. and create jobs in the province. The fee is to be in effect for five years, as of July 31, 2019. The fee will be dependent on the economics of individual stands. Easily accessible stands of higher-value species will have a higher fee than remote stands with low-value species. The policy is expected to discourage exports of higher-value timber, making more of the supply available to domestic mills that have a more difficult time competing, and to encourage investment in value-added manufacturing. To be fair, from a forest industry perspective, they claim log exports are a tradeoff to maintain employment for loggers and contractors that would be lost if offshore shipments were banned outright.

Timber companies are now required to prove that logs slated for export are “excess” to lumber manufacturing needs before the province will grant them export permits. As a result, BC coast timber harvesters must now submit data to the government about their log export volumes. These changes also required increased reporting and surveillance over logging operations that until now were left to the companies’ own devices and honesty.

This is exactly what was needed to curtail raw log exports that have been contributing to critical shortages of fibre as compared to manufacturing capacity. This is what we the citizens of British Columbia begged for.

But now the Forestry Industry was enraged. Their response was simple. Close mills. Threaten the dismantling of the BC Forestry Industry. Use the naivety of BC citizens to rebel against the government and its policy.

Their narrative was also simple. Blame everything on persistently weak lumber prices, combined with rising operating costs that include high rates for stumpage, the provincial fees charged for timber-cutting rights, and new requirements for removing residual waste fibre from

forests. Make citizens believe logging has become uneconomical, that there is no profit in the Forestry Industry anymore. "The sky is falling". The government must undo their restrictive policies.



The reality is, yes lumber prices have fallen, but because of the cyclical nature of the industry not because of government policies. As the US housing market starts to grow (as predicted) so will lumber prices. This cycle has existed forever in the industry. What wasn't predicted was the skyrocketing lumber prices in the first 2 quarters of 2018. Companies like Interfor and Western Forest Products bragged in their respective annual financial reports about the record profits that had been realized by each company.

Not one company in BC complained or warned that these very high lumber prices were without question going to cause a spike in the stumpage fees following a lag period far after lumber prices surely plummeted. And that's exactly what happened. Lumber prices fell at the same time as stumpage fees rose to astronomical levels (as predicted).

Stumpage, the province's Crown timber fee, is adjusted quarterly in accordance with Part 7 of the BC Forestry Act. It is based on a complicated formula that considers timber volumes, species and grades and previous lumber prices all administered through a Harvest Billing System. The formula has been intact forever, and everyone in the Forestry Industry knows the system well, and they all knew that stumpage fees were due to spike. But rather than be honest with the public, the industry perpetuates a cry for the government to address the stumpage fees, knowing full well that this would undermine the entire countervailing case the US has ongoing with Canada in the softwood lumber litigation. Both resolution panels from the World Trade Organization and under the North American Free Trade Agreement had found that Canadian softwood lumber production is not subsidized, and therefore a victory shortly is anticipated.

The Forestry Industry is playing a dangerous game, knowing that if the government were tempted to subsidize the forestry industry by lowering stumpage fees these same companies would lose the hundreds of millions of dollars that is being held in trust by the US government that will be turned over once the dispute is resolved in favour of Canada as it is currently predicted.

Now, to be fair, BC stumpage rates need to be much more responsive to fluctuations in lumber prices and perhaps should be more weighted to lumber prices as in Alberta. In BC stumpage

rates are derived from billing rates from January to December or a year of rates. This functions as a slow reaction to lumber price fluctuations and a significant lag period before stumpage rates reflect the lumber market. This lag promotes a strategy of milling the timber at a rapid rate when lumber prices are high and stumpage rates low, until the inevitable change where lumber prices drop and stumpage rates are high. That's when a sawmill would prefer to curtail production, as they aren't making as much money. That is pretty much what is happening in BC right now. The Forestry Industry is attempting to leverage an inevitable downturn to pressure government into a system of forestry de-regulation that have enjoyed and thrived in for over a decade.

In Alberta stumpage fees (timber dues rates) applied are based on the current market prices of forest products. Therefore, they are very responsive to fluctuations in the lumber market. BC assigns stumpage considering species, while Alberta uses strictly harvest volumes. As an example, in 2018 when lumber prices were very high stumpage fees for Hemlock were \$5.22/m³. In Alberta stumpage fees were \$32.87/m³ in August 2018 but by November had dropped significantly to \$6.12/m³. Meanwhile stumpage rates didn't adjust in BC until some time in 2019 and soon had soared to \$13.62/m³ for the same Hemlock making it uneconomical to log or manufacture timber.

Species	BC Coast Area 2019	BC Coast Area 2018	Alberta	
			Total dues for sold volumes over 107,296 m ³	
Balsam	\$11.88/m ³	\$4.33/m ³	August 2018	\$32.87/m ³
Hemlock	\$13.62/m ³	\$5.22/m ³	Sep 2018	\$19.53/m ³
Cedar	\$24.00/m ³	\$12.52/m ³	Oct 2018	\$14.30/m ³
Cypress	\$16.42	\$5.63/m ³	Nov 2018	\$6.12/m ³
Douglas Fir	\$21.39	\$9.97/m ³	Aug 2019	\$8.27/m ³
Spruce	\$16.75	\$5.64/m ³		
Other <i>(unlisted coniferous species)</i>	\$16.85	\$7.60		

Managing stumpage fees is a particular challenge that requires a sensitive balancing act between, fees collected, market values, and sensitivity to our US softwood lumber litigation.



Experts agree that changes made and further contemplated by this government will fundamentally address growing concerns about forest management on the coast. We just need to be a bit patient and wait until things shift and then settle.

However, companies like Teal Jones continue to perpetuate artificial hysteria like; "Current high stumpage rates remain high relative to lumber prices, and harvesting costs have been adversely

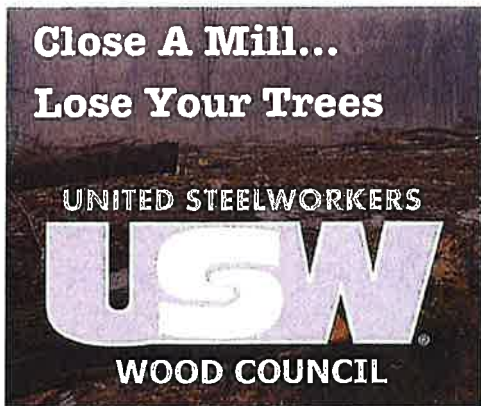
impacted by new regulations to bring out more residual waste fibre. These negative factors have made it impossible for the company to continue its forest licences economically."

The answer is simple. If a company claims that they cannot continue its forest licenses economically, then take away their licences. Award them to someone that can make a profit. And profit some other company will make.

Furthermore, if a Forest Company closes a mill in BC the government should quickly restrict all of their raw log exports, and take away a proportionate amount of their tenure. If you aren't going to manufacture our trees in BC you don't get to keep our trees. Close a mill...lose your trees.

This can be done, but it probably requires legislative amendments to the BC Forestry Act. In Section 54.69 under **Subsequent suspension or cancellation of rights** -the government could simply add:

(d) the holder announces a permanent closing of a mill or facility



In conclusion it is transparently clear that the Forestry Industry is using the market argument, the stumpage argument as a way to blame the NDP government, a way to bully the government into repatriating their free reign of the industry.

The Forestry Industry cannot be trusted with the stewardship of our trees. The Coast Forest Sector Revitalization Plan is crucial to the survival of the industry. It must be defended, it must proceed without delay.

If companies are not interested in doing business in this province, in a way that provides economic value to the citizens of BC, then we don't need them.

Close a mill...lose your trees!

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