

MANAGEMENT AND ALLOCATION OF THE
FOREST RESOURCES IN BRITISH COLUMBIA
By Rachel Hodgetts, Agricultural Economist

As the U.S. industry countervailing duty and antidumping cases against Canadian softwood lumber continue, many people on both sides of the border wonder about the basis for the U.S. complaints. In order to better understand the case, we are providing an overview of how wood product companies obtain logs for lumber production in British Columbia. You will see that the Canadian system is quite different from that in the United States, and the reader should note that each province has its own system.

The most basic difference is that unlike in the United States, where most forestland is owned and sold privately, in Canada the provinces are largely responsible for management of forests and in many provinces long term leases are provided for timber supply. While most U.S. timberland is privately owned (71 percent), most of Canada's forests (94 percent) are publicly owned with 71 percent owned by provinces and 23 percent owned by the Federal Government. Most of the 6 percent of remaining privately held forestland is found east of Manitoba, primarily in the Maritime provinces.

British Columbia is the province holding the most valuable timberland. It is about 64 percent forested and has 149 million acres (60.3 million hectares) of forestland, 94 percent of which is publicly owned and managed by the provincial government through the Ministry of Forests.

In British Columbia there are two main factors involved in the sale of any timber; deciding who gets it, and determining how much they should pay. The right to cut is

provided via a series of tenure arrangements. A timber tenure is a contract between a company and the government which grants the right to harvest a specified volume of timber. There are many different types of timber tenures. The current system for allocating these tenures was established in the 1979 Forest Act. This established Timber Supply Areas and mandated that allowable annual cuts be set for each by the province's chief forester. British Columbia has 37 different timber supply areas. The allowable annual cut is apportioned through various types of timber licenses, which include tree farm licenses, replaceable forest licenses, timber sale licenses, woodlot licenses and pulpwood agreements. In 1980, the Small Business Forest Enterprise Program was introduced, which secures timber for small businesses and uses a competitive bidding process. Many licenses are replaceable every five years. This gives the license holders the opportunity to maintain the same area, but also gives the Province a chance to alter the contract periodically.

Tenures grant either exclusive or non-exclusive rights within the specified areas. For larger areas, such as with tree farm licenses and forest licenses, a cutting permit must be granted by a district forest manager before any cutting is permitted. The district manager must first ascertain that all Forest Practices Code requirements have been fulfilled.

This Code stipulates the responsibilities that go along with each type of license. Generally, the longer the term of the license, the more the owner is obligated to do. These responsibilities include such activities as writing forest development plans, holding public hearings, road building, and reforestation. The Forest Act has many regulations about where wood can be

processed, how licenses can be transferred, and at what rate license holders may harvest. In addition to annual rent, companies must pay for timber that they harvest according to government mandated "stumpage fees."

STUMPAGE FEES

Stumpage fees are the rates users must pay for harvesting timber, and are given as a certain dollar amount per cubic meter. The stumpage rates are determined by a somewhat complicated procedure set up by the Forest Act, and are based on selling prices, estimated operating costs, and various indexes. First, a target rate is established. This is taken from a composite index that incorporates the price of lumber and chips. Next, a stumpage rate is set for each cutting authority, according to the estimated value of the timber. This rate is equal to the base rate for the region plus the difference between the cutting authority value index and the mean value index for the area. There is a prescribed minimum rate (currently \$0.25/m³). When the calculated stumpage rate is below the prescribed minimum, then the minimum rate is used. Once the stumpage price is determined for a stand, the entire volume of timber on that stand is sold for the same price, regardless of variations. The rates are adjusted at the start of each calendar year and revised quarterly. Stumpage rates were reduced across the board in 1998 due to increased costs associated with the Forest Practices Code. Some areas licensed under the Small Business Forest Enterprise Program, such as in Vernon, have implemented a market based pricing system.

OBJECTIONS TO THE SYSTEM

Many softwood lumber manufacturers in the United States argue that this system, as well as those in other provinces, results in stumpage rates that are set below the

market value, and so act as a subsidy for Canadian manufacturers. Some environmentalists have voiced concerns about the system, saying that companies practice "grade setting." This is a practice whereby a company scales a disproportionate amount of low value wood in the samples used by the government to set fees. The result is that high-quality wood is logged at artificially low prices. Other points of concern are the way in which long term tenures may restrict competition, and the effect that mandated minimum cutting requirements that are sometimes attached to tenure agreements may have on the market.

SUMMARY OF MOST SIGNIFICANT LEGISLATION IN FOREST RESOURCE MANAGEMENT

The Forest Act:

Established in 1949 and revised many times since then, the Act established the Canadian system for management and allocation of Crown timber.

Forest Renewal Plan:

A Crown corporation introduced in 1994. It is owned by the people of British Columbia and invests some of the money collected from forest use taxes and stumpage fees for direct investments in such activities as reforestation, pruning, fertilization, and environmental protection.

The Forest Practices Code of British Columbia:

Proclaimed on June 15, 1995, this code provides regulations on how forestland can be used and the responsibilities of users.

The stated intent is to ensure the "sustainable use of the forest British Columbia holds in trust for future generations." The Code also establishes enforcement and penalties, a Forest Practices Board, and a Forest Appeals Commission.

Various tenures exist within British Columbia and the other provinces. The tenure licenses below reflect those in place in British Columbia. The complexities and nuances of stumpage pricing from such tenures is important for a comparison of the systems used throughout North America.

TYPES OF TENURE LICENSES

TENURE	RIGHTS	RESPONSIBILITIES	
Tree Farm License (TFL)	Right to carry out forest management on a specific area of Crown land and almost exclusive rights to harvest from the license area, under cutting permits.	Licensee responsible for resource inventories, strategic and operational planning, road building and reforestation. Must maintain a manufacturing facility if required in original license.	25-year term, replaced every 5 years. Typically very large scale operations.
Forest License (FL)	Right to harvest an annual volume of timber within a timber supply authority, under cutting permits.	Licensee responsible for operational planning, road building and reforestation. Must maintain a manufacturing facility if required in original license.	Typically 15-year term, replaced every 5 years. Typically medium to large scale operations.
Timber Sale License (TSL)	Right to harvest timber from a specified area of Crown land within a timber supply authority or TFL area. Mostly Small Business Forest Enterprise Program (SBFEP).	Ministry of Forests is responsible for operational planning, road building and reforestation on timber supply authority sold under the SBFEP. Licensee must maintain manufacturing facility if required in original license.	Typically 6 months to 5-10 years, mostly non replaceable. Typically small to medium sized operations.

Woodlot License (WL)	Right to carry out forest management on specific area every five years (Maximum 400 hectare on coast, 600 hectare on interior) of Crown land and exclusive right to harvest an annual volume of timber from the license area, under cutting permits.	Licensee responsible for planning and road building. Must not own or operate a manufacturing facility.	15 year term and replaceable. Small (family focused) operations.
Pulpwood Agreement (PA)	Right to harvest up to a maximum annual volume within the TSA or TSLs, in the event that its holder cannot meet its fibre requirements privately	Licensee must have management plan. If harvest occurs, responsibilities are similar to FL. Licensee must maintain a manufacturing facility.	Up to 25 year terms; new contracts may or may not be replaceable. Potentially very large scale operations.
Timber License (TL)	Exclusive rights to harvest merchantable timber from a defined area of Crown land, under cutting permits.	Operating plan required. Licensee responsible for operational planning, road building and reforestation. Once forest is re-established, area reverts to Crown and becomes part of the timber supply authority or TFL.	Variable terms; not replaceable. Individual licenses are relatively small.
Miscellaneous	Rights vary	Very limited responsibilities	Short term; not replaceable. Very small scale.

Source: British Columbia Forest Service