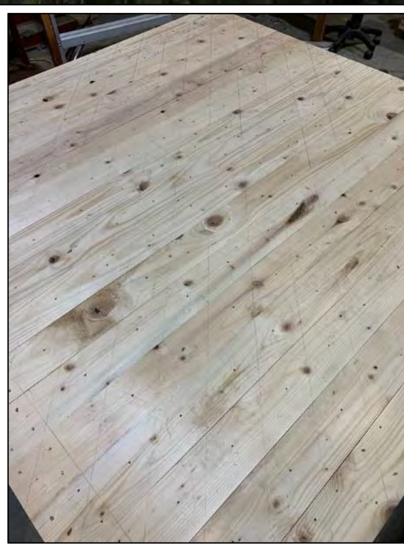
# Interior Forest Sector Renewal

# Policy and Program Engagement Discussion Paper



**Summer 2019**

BRITISH COLUMBIA

Ministry of
Forests, Lands, Natural
Resource Operations
and Rural Development

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## Minister's Message

Forest products are the backbone of British Columbia's economy, with lumber, pulp and paper, panel, bioenergy and other wood-based products representing 32 percent of our Province's exports in 2018. Much of our standard of living relies on forest products exports, and on the sophisticated, modern, high-tech forest products manufacturing facilities that anchor vibrant forestry communities and provide good jobs for tens of thousands of workers distributed across B.C. The forest industry also provides billions of dollars per year in domestically-purchased services and supplies such as financial services, transportation, technology and equipment services, electricity, seedlings and numerous other inputs. Around the world, sustainably sourced structural and appearance wood products from B.C. sequester carbon and contribute to a cleaner, greener built environment.

Today the B.C. interior forest industry is at a crossroads, facing the competitiveness challenges of cyclical pricing and demand conditions, the longstanding softwood lumber trade dispute with the United States and the fibre supply consequences of the devastating Mountain Pine Beetle (MPB) epidemic and subsequent severe wildfire seasons of 2017 and 2018.

In the early stages of responding to the MPB epidemic, the Allowable Annual Cut (AAC) in beetle-impacted areas of the B.C. Interior was temporarily increased to accelerate salvage harvesting, and production capacity scaled up as well to recover value from beetle-killed timber before it degraded or burnt. As the salvage harvesting effort is now coming to an end, the AAC must go back down, and our production capacity must be reduced (or "rationalized") to match available timber supply.

While it was always known that mill closures would be an eventual consequence of the MPB epidemic, the policy and transition planning work that should have been done to prepare for impacts was neglected. As a result, we are grappling today with the process of rethinking B.C.'s policy approach to doing business from a reduced timber supply – while simultaneously reconfiguring our relationship with Indigenous communities, helping to transition workers and their families, and charting a new future for resilient forestry communities and competitive forest companies.

This letter introduces my Ministry's consultation process on the B.C. Interior forest policy reforms that will drive the next generations of success, within B.C.'s internationally recognized sustainable forest management framework. I encourage you to join the dialogue and provide your ideas on opportunities to benefit our forest products economy, support reconciliation with Indigenous communities, ensure a sustainable, competitive future for our forest products industry and support communities and families for generations into the future.

Doug Donaldson
Minister of Forests, Lands, Natural Resource Operations and Rural Development

## Introduction

B.C.'s Interior forest sector is part of our history and central to our future. The first B.C. interior cutting rights were issued in 1912 to supply temporary mills that would export lumber to the fast-growing Prairie region. Forest companies began establishing permanent facilities in the 1950s. Over the intervening 70 years, B.C. Interior forest resources have supported the growth global-scale companies that produce high-quality lumber, pulp, specialty paper and bioenergy products for markets around the world and that have provided good jobs for generations of workers in harvesting and manufacturing operations.

Today, B.C. represents more than half of Canada's total softwood lumber production. In 2018, forest products represented 32 per cent of B.C.'s total exports, valued at $14.89 billion. In 2018, the interior forest sector contributed approximately 57% of B.C.'s total forest gross domestic product, employment and output value. Forestry represented direct employment of 33,125 people distributed across 96 communities.

The forest products industry is capital-intensive, involving high-cost, technologically-advanced harvesting equipment and high-volume, high-tech, increasing automated manufacturing facilities. Competitiveness is highly sensitive to costs – including fibre costs, labour costs and the unit costs of production.

## Interior Forest Sector Renewal

The focus of the interior forest sector renewal process is on establishing how the forest policy regime for the B.C. Interior can support:

- A globally competitive forest sector;
- Resilient communities and workforce;
- Reconciliation with Indigenous communities; and,
- Sustainable forest management.

Forest companies in the B.C. Interior are adapting to numerous shifts impacting their access to and cost of fibre. Reduced harvest levels in the wake of the MPB are driving rationalization of lumber manufacturing capacity, and forest companies are closing their least-competitive or most fibre-compromised mills. Indigenous interests in tenure holdings and manufacturing are increasingly a part of the reconciliation agenda, prompting government and companies to examine ways to increase Indigenous participation in the forest sector, while supporting broader economic, environmental and social objectives.

Lumber prices in the U.S. have fallen from highs of $US 600+ / mfbm (thousand board feet) in late 2018 to as low as US$ 306 in early 2019, having since rebounded and hover between the high $US 300 to low $US 400 range. At higher lumber prices, forest companies were willing to compete aggressively for incremental fibre sold through the B.C. Timber Sales (BCTS) program. BCTS sales provide a market pricing benchmark used in stumpage calculations, translates into higher stumpage rates through the Market Pricing System – a necessary part of access to B.C.'s access to U.S. lumber markets. While this system cannot be adjusted without consequences in our trade relationship with the U.S., the high log costs resulting from earlier competition for fibre are a challenge for the industry.

In addition, B.C. faces ongoing impacts resulting from the softwood lumber trade dispute with the U.S., including countervailing duties presently applied on B.C. lumber and some other forest products. While B.C. is confident that this trade action and the related import tariffs will be overturned by an international trade panel as has been the case in the past, in the interim, companies are required to post bonds on lumber imports that adversely affect companies cash flows.

With all of this in mind, this consultation process is seeking policy and program ideas that will enhance the competitiveness of the B.C. interior forest sector, deepen the resilience of our communities and our workforce, identify opportunities for greater Indigenous engagement in the forest products industry, and continue to support the success of B.C.'s economy while providing reliable, high-paying, increasingly high-tech jobs well into the future.

## Industry and Communities in Transition

### Forest Tenure and Fibre Supply

The *Forest Act* governs the disposition of timber harvesting rights through forest tenures. There are over a dozen forms of tenure, most focused on timber harvesting but also associated activities like road building, each with their own specific administrative requirements.

In general terms, forest tenure is the right to access fibre, and often sought out to secure investment, provide operating certainty through fibre flow and community benefits through employment, taxation and in some cases, revenue-sharing.

Different types of tenure serve different needs. For example, communities often participate in the forest sector through Community Forest Agreements; Indigenous Nations may hold tenure in the form of First Nations Woodland Licences, but also other forms like forest licences and Tree Farm Licences. Larger forest companies, whether privately or publicly owned, often hold one or more forest licences or Tree Farm Licences, which are volume-based and area-based, respectively.

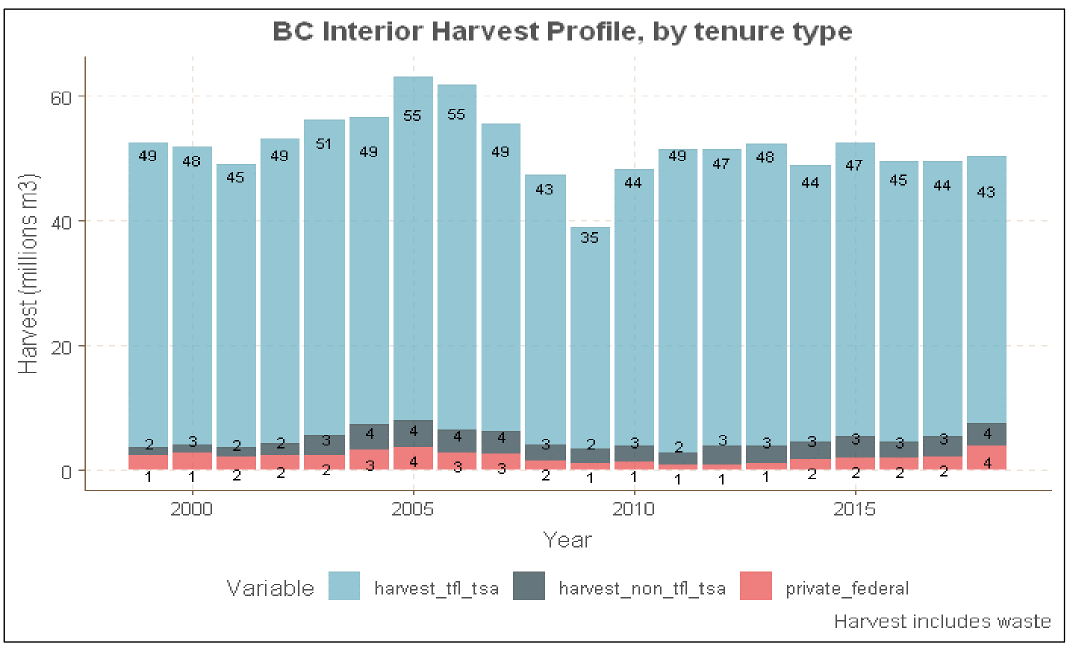


Figure 1: B.C. Interior Timber Harvest Volumes by Licence Groups and Year: 1999-2018

Concentration of forest tenures in the hands of a few large operators can be detrimental to supporting community resiliency and diversity within the Interior forest sector. Bill 22, the

Forest Amendment Act[1], received Royal Assent by the Legislature on May 30, 2019 was developed to ensure the interests of Indigenous Nations, communities, labour and forest resource sustainability can all be considered by government through what is called a 'public interest test[2],' when a tenure holder seeks to transfer a tenure or change who controls it.

**What do you think? Questions for discussion:**

- With declining harvest levels and fully allocated AACs, what approach should government take to diversifying tenure?
- Forest tenure allocation and AAC decisions are based on utilization standards suitable for producing saw log dimension material. Should forest tenures and AACs consider standards based on utilizing more biomass? What would be the benefits and drawbacks of determining and allocating AACs based on greater utilization?
- Indigenous Nations seek to manage timber and non-timber resources within their traditional territories. Through Treaties and Reconciliation Agreements, Indigenous Nations are owning and managing tenure more than ever before. How can the Province, communities and industry further advance reconciliation together through policy, programs and partnerships?

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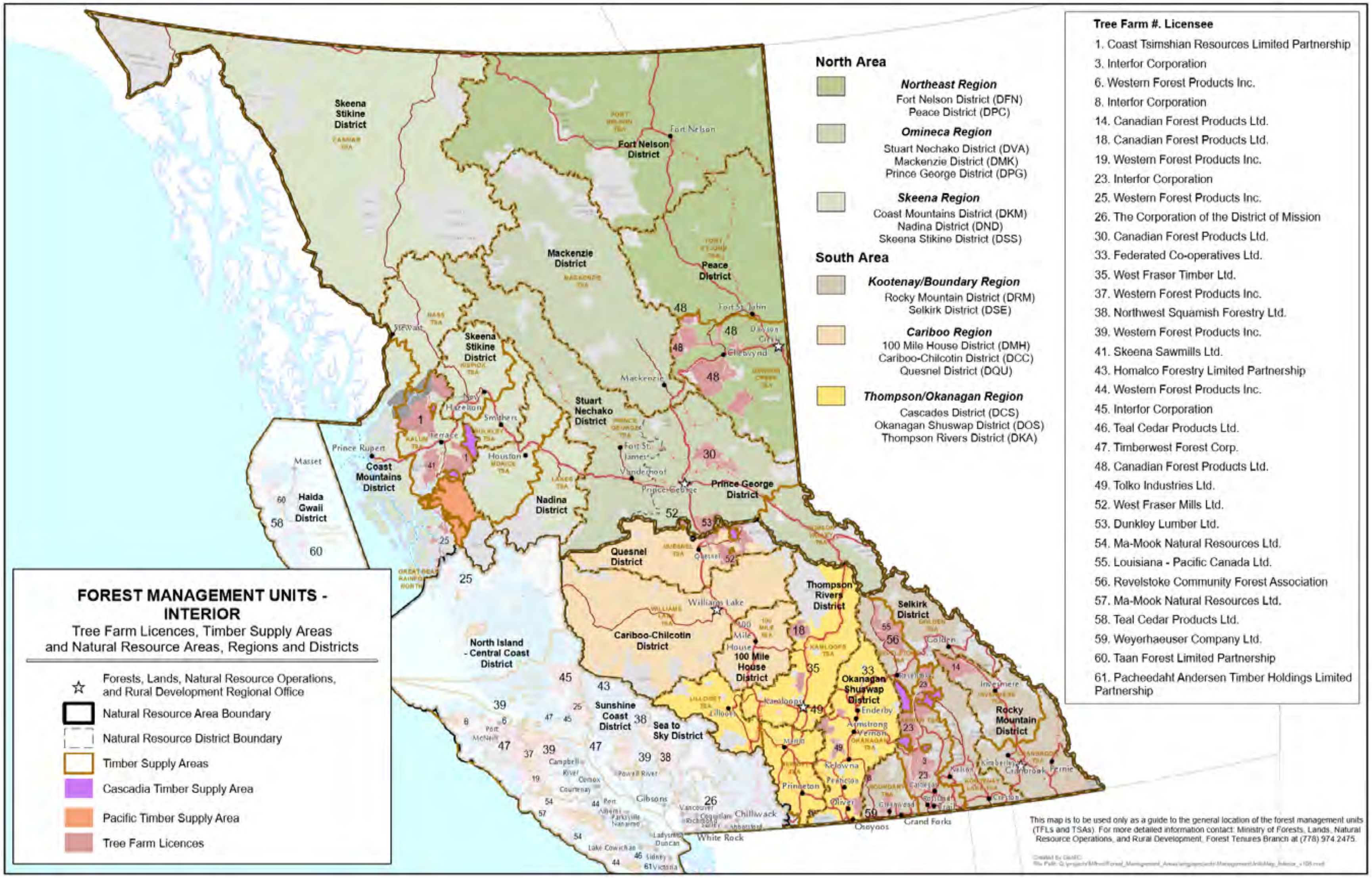
[1] Bill 22, the Forest Amendment Act, is available at: https://www.leg.bc.ca/parliamentary-business/legislation-debates-proceedings/41st-parliament/4th-session/bills/progress-of-bills

[2] The 'public interest test' is considered an all-encompassing term and does not denote any change to consultation obligations with Indigenous Nations.

Figure 2: Interior forest management units: Timber Supply Areas and Tree Farm Licences

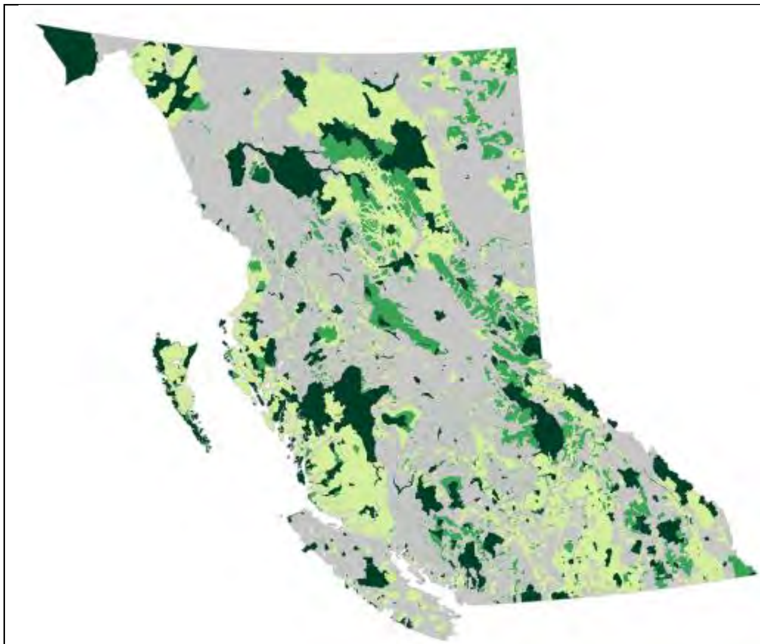


## Fibre and Sustainability of Timber and Non-Timber Values

The *Forest and Range Practices Act* (FRPA) governs the sustainable management of B.C.'s forest and range resources, including 11[3] identified resource values. The legislation was enacted in 2004 and defines resource values that the forest industry must address in their plans and practices. Initial improvements to the Act were made through Bill 21 in May 2019, and a public consultation on further changes to the Act has recently completed.

About 52% of B.C. is covered by a form of conservation designation, ranging from parks and protected areas to old growth management areas and wildlife habitat areas.

Figure 3: Current provincial land base contribution to conservation



52.3% of provincial lands contribute to conservation, including:

**Protected lands: 15.4%** - Resource exclusion areas that meet international standards

**Resource exclusion areas: 12.4%** - Exclude 1 or 2 resource uses while allowing others to occur

**Spatially managed areas: 24.5%** - Resource use allowed and managing for other values

The FRPA currently does not specifically address climate change (mitigation or adaption), ecosystem resilience or forest carbon. Recent reports from the Office of the Auditor General and the Abbott/Chapman Fire and Flood Review have highlighted the impact of climate change on our fibre supply through forest fires, floods, drought, forest pests and diseases.

[3] Values include biodiversity, cultural heritage, riparian, timber, visual quality, wildlife, water quality, resource features, recreation, forage and associated plant communities and soils.

## Climate Change and Forest Carbon

In the context of B.C.'s interior forests, climate change is a significant challenge that is influencing the composition and structure of many different forest ecosystems – including the MPB epidemic and the adjustment in timber supply that we are experiencing today.

Reducing greenhouse gas emissions through the improved use of fibre is part of the Province's climate change strategy, known as CleanBC[4]. Rather than disposing of timber harvesting residuals through burning, we are seeking opportunities to reduce waste left in the woods, reduce the amount of slash that is burned and increase the extent to which residual fibre is recognized for its full product and environmental potential.

**What do you think? Questions for discussion:**

- What policy or program changes can we consider enhance climate-informed decision making—where we sequester more, emit less and store more carbon for longer in our forest products and where future climate conditions inform our decision making?
- Are there any gaps in guidance, tools or information that Province could develop, or support the forest industry, communities, or Indigenous Nations to climate change adaptation?
- What is working well now and what is missing in how communities and industry work with the Province to adapt to climate change?

[4] CleanBC Highlights available at:
https://blog.gov.bc.ca/app/uploads/sites/436/2019/02/CleanBC_Highlights_Report_Updated_Mar2019.pdf
CleanBC detailed strategy available at:
https://blog.gov.bc.ca/app/uploads/sites/436/2019/02/CleanBC_Full_Report_Updated_Mar2019.pdf

## Manufacturing Capacity and Fibre Utilization

B.C.'s Interior forest product manufacturing capacity has traditionally focussed on lumber and pulp, and this remains the case today to a large extent[5]. More than 80% of logs harvested in the Interior are first processed in a lumber mill. Lumber mill by-products – chips and sawdust – are used by pulp, paper and pellet producers. Other products include veneer, oriented strand board (OSB), other engineered wood products (e.g. cross-laminated timber), bioenergy, and specialty items like house logs, timbers, poles and posts. Currently, the Province collects information and tabulates log use based on more conventional products, as illustrated below.

Figure 4: Where do logs in the Interior end up?[6]

| | **B.C. Interior** | | | **Province** | | |
|---|---|---|---|---|---|---|
| | Number of Mills | Est. Volume Used (000m$^3$) | Percent | Number of Mills | Est. Volume Used (000m$^3$) | Percent |
| | | | | | | |
| Lumber Mills | 81 | 40,065 | 82.4% | 126 | 47,178 | 72.0% |
| Veneer/Oriented Strand Board (OSB) Mills | 12 | 4,625 | 9.5% | 17 | 6,799 | 10.4% |
| Pulp Mill Wood Rooms | 2 | 139 | 0.3% | 3 | 280 | 0.4% |
| Chip Mills | 11 | 2,355 | 4.8% | 21 | 3,953 | 6.0% |
| Shake and Shingle Mills | 5 | 36 | 0.1% | 36 | 598 | 0.9% |
| Other Mills | 35 | 363 | 0.7% | 46 | 450 | 0.7% |
| Log Exports | n/a | 1,014 | 2.1% | n/a | 6,257 | 9.6% |
| **TOTAL** | **146** | **48,597** | **100%** | **249** | **65,515** | **100%** |

**What do you think? Questions for discussion:**

- How can rural and Indigenous communities continue to secure economic benefits from our forests in the face of declining timber harvesting opportunities (i.e. AACs) and changing market demand for our conventional forest products?
- What role can policy and programs play to support manufacturing diversity? What role(s) can Indigenous communities play? Local governments? Labour? Forest sector stakeholders?

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[5] More information on the manufacturing capacity and details in B.C.'s forest sector is available here: https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/forestry/fibre-mills/2017_mill_list_report_final.pdf

[6] Values estimated from 2017 figures

- Communities want to be more informed and more involved in the resource sectors that they may rely on for employment, taxes and economic generation. What role should communities play in forest policy and fibre utilization?

## Wood Products Innovation

B.C.'s Interior forest sector traditionally has relied on high volume manufacturing of lumber, pulp and other wood products. With our timber harvesting land base fully allocated, companies are not able to grow revenues through expanded production. The path to earning higher revenues from manufacturing facilities and B.C. forest tenures is to increase the value of their products instead.

This means that into the future, while lumber and pulp products will still be a mainstay of the B.C. forest products industry, companies will manufacture more value-added products that can be sold at a price premium. Engineered wood products and mass timber panels will create additional value from lumber or other fibre inputs, while bioenergy products ranging from wood pellets to biofuels will create value streams from residual fibre.

Some B.C. forest companies are already increasing the value of dimension lumber by using it to make engineered products such as cross-laminated timber – panels of glued, layered lumber that are as strong as steel and that can be used safely in tall buildings, while sequestering carbon and contributing to a cleaner planet. Other companies are turning the wood waste that remains after harvesting and manufacturing into renewable energy and next-generation pulp products to supply fast-growing global demand. Still others are starting the work to produce renewable natural gas and bio-crude oils from wood waste, products that can reduce greenhouse gas intensity while also growing our economy.

Engineered wood products will be part of growing our economy, reducing the carbon footprint of the built environment and creating healthier buildings – providing a blueprint for the world to follow. This transition is a vital part of shifting B.C.'s forest sector to the next phase of its global competitiveness.

Government is acting – including through procurement processes that will engineered wood products in government building projects, and requirements that these projects incorporate full life cycle analysis, minimize greenhouse gas emissions, consider wood as the primary building material and include a description of the use of wood in the project business case. Announcements have been made about the use of mass timber construction in major capital projects – including the Royal B.C. Museum in Victoria and wherever possible in the new St. Paul's Hospital in Vancouver. These projects are just the start of a transition to using engineered wood products in B.C. capital projects, including schools, hospitals, housing developments and other buildings.

While a significant range of bio-products can be derived from wood, it is expected that companies will invest in the near-term, commercial product innovations that can generate revenue streams from value-added manufacturing or greater use of residual fibre supply.


Figure 5: Spectrum of bio-product opportunities

**What do you think? Questions for discussion:**

- What program, guidance or tools could we pursue to support culture change to use of viable, commercial engineered wood products and bio-products for construction, fuels and other purposes?
- Are there any gaps in guidance, tools or information available to support the forest industry, communities or Indigenous communities in investing in added-value manufacturing?
- What other policies could the Province consider to create short, medium- and longer-term shifts in sector structure, function and behavior to support further added-value production and bio-product business growth?

Timber Pricing and the Softwood Lumber Dispute

The softwood lumber dispute between Canada and the United States is one of the most enduring trade disputes between the two countries. The U.S. incorrectly alleges that Canadian lumber is unfairly subsidized and dumped into the U.S. market. We are currently in the fifth round of the trade litigation, also known as Lumber V, which was launched by the U.S. forest industry in November 2016. Currently, on average, Canadian lumber exporters are subject to a combined countervailing[7] and anti-dumping duty of 20.23% when shipping lumber to the U.S.

The U.S. remains B.C.'s largest softwood lumber export market. In 2018 B.C. lumber exports to the U.S. were $3.9 billion; 25.8 million cubic metres of lumber production originated from the Interior. The lengthy legal process is costly to Canadian firms and our economy. From April 28, 2017 to March 1, 2019, countervailing and anti-dumping duties collected through Lumber V by the U.S. on B.C. lumber shipments are estimated to be $1.2 billion. These duties are held in trust until all appeals are exhausted.

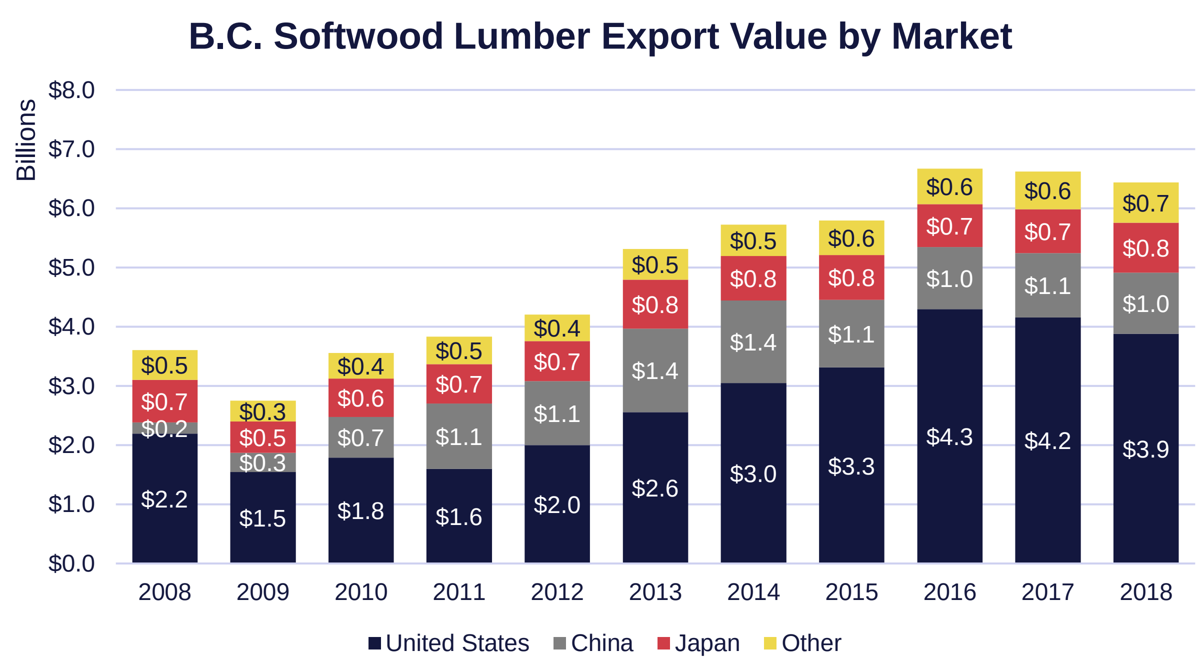


Figure 6: Values of softwood lumber for B.C.'s top markets[8]

Any changes in forest policy or introduction of new programs that could be construed as reducing the cost of lumber production are likely to be brought into this litigation and could result in higher duty rates in an administrative review to the forest industry.

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[7] Duties: the countervailing duty refers to an import duty imposed in recognition of a subsidized product; the antidumping duty refers to exported products being sold below what the domestic price would be

[8] B.C. Stats extract from Statistics Canada data. Also available from Statistics Canada CIMTD

## Reconciliation with Indigenous Nations

Reconciliation with Indigenous Nations is a priority for every government Ministry, which includes but is not necessarily limited to reviewing and revising programs, policies and our legislative framework to ensure Indigenous rights and interests are included.

From a forests and forest management perspective, government is seeking opportunities to meet Indigenous interests in greater participation in tenure holdings and forest products manufacturing.

One example of work we are partnering on is the development of a B.C. First Nations Forest Strategy. The Strategy has six goals which have been defined through engagement with Indigenous Nations in 2015, 2017 and 2018.

**The six goals of the B.C. First Nations Forest Strategy are:**

1. Shared governance and joint decision-making
2. A strong forest economy that supports meaningful sharing of revenues with First Nations
3. Legislation and policy development and reform
4. Tenure reform that recognizes UNDRIP and supports a healthy and strong forest sector
5. Collaborative stewardship and land use planning
6. Maximize First Nations involvement in the forest sector


Figure 7: Number of Indigenous Nations' held forest licences as a % of total Interior licences (not including Community Forest Agreements or First Nation Woodland Licences)

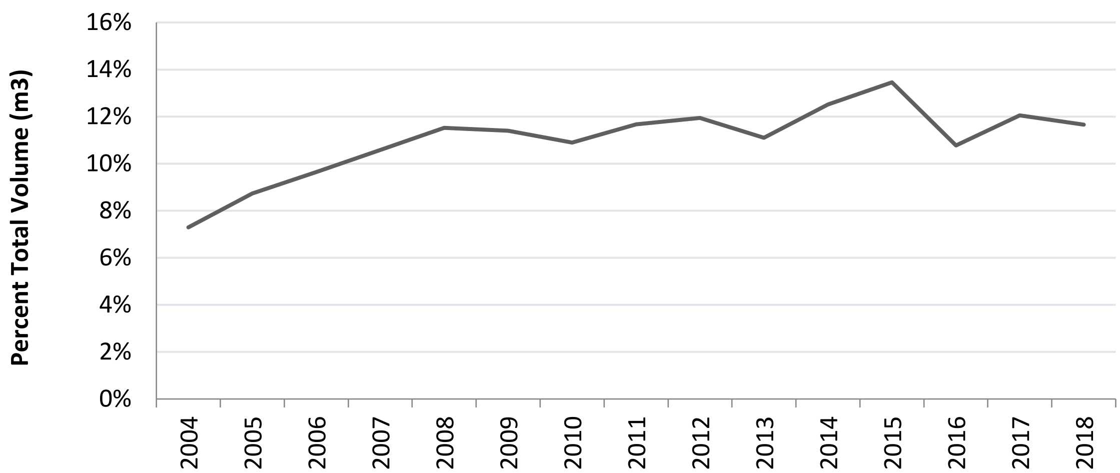


Figure 8: Number of Indigenous Nations' timber volume as a % of total Interior licence volume (not including Community Forest Agreements and First Nation Woodland Licences)

**What do you think? Questions for discussion:**

- What policy change could we consider to advance reconciliation with Indigenous Nations and Indigenous communities, in the context of forest management?
- What types of policy, programs, guidance or tools could be developed to support communities and forest sector stakeholders in advancing reconciliation?

## Overview of Engagement Processes

With so much happening in the B.C. Interior, there are several streams of consultation ranging from broad, industry-wide engagement to issue-specific or geographically focused discussions.

A guide to these processes and to who participates where is provided below:

1. ***Interior Forest Sector Renewal engagement (Forest Policy Initiative)***

This process includes broad engagement on the forest sector renewal and the B.C. interior forest policy framework, which will be carried out over the summer and early fall of 2019, and will provide opportunities for the forest products industry, Interior municipalities and Indigenous communities, labour, contractors and industry suppliers, the forestry research and academic community, other stakeholders and interested members of the public to offer suggestions and ideas on future success opportunities for the interior forest sector. The process will include meetings with invited stakeholders, opportunities to submit ideas, and an online public engagement process.

***This consultation will serve as the major vehicle for industry and public input into the future forest policy regime, leading to renewed forest policy anticipated for the spring of 2020. Except for those specifically included in other consultation processes outlined below, most input should be provided through the Interior Forest Sector Renewal engagement process.***

*EXAMPLE:* Communities, companies and academia have already started to work together on future models for success, such as the Forestry Think Tank in Quesnel. Ideas generated by parties collaborating on policy ideas are more likely to generate informed, thoughtful policy ideas. Their ideas will inform future policy deliberations. The Rural Dividend Program has contributed to launching the Forestry Think Tank.

2. ***Forest and Range Practices Act Consultations***

***Government has sought ideas for improving the FRPA through the release of a discussion paper, public online submissions and in-person conversations with Indigenous Nations and key stakeholders from late May to mid July.***

***Following initial changes in May 2019, the Ministry will advance further policy changes focused on forest stewardship based on this engagement in 2020 and 2021.***

### *3. Mill Closure Response and Community, Labour and Stakeholder Consultations*

With declining fibre availability as MPB salvage harvesting winds down, forest companies are beginning the process of aligning their lumber manufacturing capacity with the mid-term timber supply and are closing their least-competitive or most fibre-compromised mills. At the date of writing, permanent closures had been announced at the Tolko Quesnel, Canfor Vavenby and West Fraser Chasm facilities. Low lumber and OSB prices had also prompted indefinite and short-term curtailments across many communities.

The Ministry of Forests, Lands, Natural Resource Operations and Rural Development is leading the cross-government response to mill closures, including the coordination of transition supports for workers, contractors and communities. This includes extensive work with companies, impacted communities, service agencies, labour, other employers and Provincial and Federal agencies.

***This process is specifically available to those forest companies, municipalities, labour, Indigenous communities, contractor and supplier organizations and others directly impacted by mill closure or indefinite curtailment decisions.***

### *4. Timber Supply Area Coalition Process*

In April 2019 the Province introduced a Timber Supply Area competitiveness vision process – a platform for forest company CEOs, area Indigenous Chiefs, Mayors and Union leaders come together to develop positive and forward-looking approaches for future of the industry within their local area. By engaging those with a direct economic interest in forestry, these tables will be able to consider the mid-term timber supply, collaboratively manage constraints on the land base, seek best approaches to maintaining employment and community economic stability and address First Nations interests while contributing to a healthy B.C. economy. As the work proceeds, we anticipate that it will provide the basis for companies to invest in higher-value production, including engineered products.

***TSA Coalitions are voluntary engagements among senior management of organizations committed to the success of forestry within a Timber Supply Area. Where committed participation is offered from forest company CEOs, Mayors, Indigenous Chiefs and Presidents of Labour organizations, the TSA Coalition would receive Provincial facilitation and analytical support to assist the parties in working together to identify opportunities to maximize the mid-term timber supply, support competitiveness and establish new partnerships.***

## Engage on Interior Forest Sector Renewal

The ministry's regional and district staff will reach out to Indigenous Nations, local governments, industry, forest sector stakeholders and labour to join in local conversations.

**Feedback is welcome in written form through our online feedback form, or a written submission, at engage.gov.bc.ca/interiorforestrenewal until October 11, 2019.**

The feedback will be summarized in a 'What We Heard' report in late fall 2019 available to all parties who engaged in the process. Policy development will follow with final decisions expected in spring 2020.