

Get government out of forests, report says

Victoria's first objective should be meeting and exceeding industry's cost of capital, author says

BY GORDON HAMILTON
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A controversial report on the future of the B.C. forest industry calls on the government to put investors ahead of any other interest in the province's forests if the industry is to recover.

The Business Council of B.C. report says Victoria's current way of managing forest land is outdated and a hindrance to investment. It has to go, replaced by a system that gives tenancy rights to forest companies.

Victoria's first objective on Crown forests should be meeting and exceeding the industry's cost of capital, report author Peter Woodbridge said.

Woodbridge wrote the report for the Business Council's Outlook 2020 summit, the third of four economic summits exploring British Columbia's future as a small open economy in a global marketplace.

The summit takes place in Vancouver Oct. 20 and is co-chaired by David Emerson and Carole Taylor.

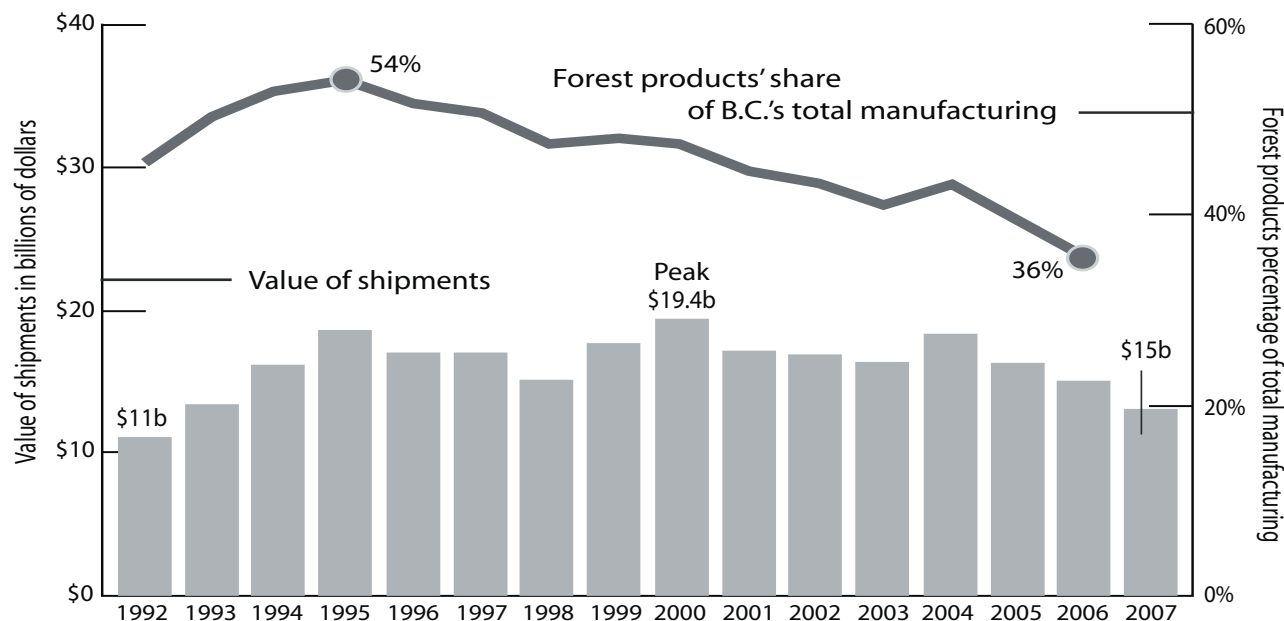
Land reform that places the interests of capital first is the sole recommendation Woodbridge makes in his 101-page report. Companies would essentially be tenants with the right to make leasehold improvements on the land. It's the key to developing a smaller, well-capitalized industry that could grow from current revenues of \$16 billion to \$24 billion by 2020.

If government continues to "muddle through," making some changes to the current tenure system but not really transforming it, revenues would level off at \$17 billion. Doing nothing, he said, would result in more mill closures and the industry declining to \$10 billion in revenues.

An environment that puts investors first would lead to a return of capital, which he says fled during the 1990s when environmental interests were paramount. The result would be a vibrant industry using a broader range of

A long, steady decline

The overall contribution that forest products makes to B.C.'s manufacturing output has been dropping dramatically for well over a decade. The dollar value of those products peaked in 2000, and has declined even further since the last year shown in this graphic, possibly into the single-digit billions.



forest products. He said there is no better sector than forestry to develop bioenergy potential and to manage carbon by sequestering greenhouse gases by growing trees.

The report drew an immediate reaction from the province's environmental movement, which sees its recommendations as an attempt to solve economic problems by degrading the environment further.

"That sounds very Jurassic to me, maybe Triassic. I am not sure which dinosaur period to put this one in," said ForestEthics' Valerie Langer.

Langer said she is speaking for a number of environmental groups all concerned about the possibility of forest companies receiving more rights over the land without first addressing the forest's role in biodiversity and climate change.

Langer said environmental groups — and their broader public memberships — would use whatever influence they can muster to oppose any system that puts financial interests first.

Woodbridge said he is not talking about all forest lands but those that the industry of the future — which he says will be smaller but more focused on value — considers to be the best growing sites. They are mostly located close to existing plants and have already been harvested once.

Just as environmental and land-use issues dominated the last decade, the next decade needs to place the focus in the forests on financial returns, he said.

Woodbridge calls for a completely new tenure system, presumably with the cooperation of first nations, that would provide the kind of security that investors are looking for. Regulations

such as log export restrictions and federal restrictions on consolidation would have to go.

Forestry is a capital-intensive industry and capital requires security, he said. Capital needs a 10-per-cent return while the industry here provides over time only four per cent, he said. Further, he said, the lumber sector has fallen into the trap of seeking greater market share in the commodity lumber business. Mills race with each other to be the lowest-cost producer of boards for the U.S. housing market. It has been a successful model, but by pursuing only market share, Woodbridge said, the industry has lost the ability to extract greater wealth from the province's timber. Unless it changes, it is doomed to fall into decline.