

Log Exports in British Columbia

Overview:

BC's first forest tenures were granted in the late nineteenth century. Within twenty years following the distribution of these tenures, export restrictions were already created. The restrictions on log exports in British Columbia have fluctuated with changing markets, generally increasing exports when domestic markets are poor. Following the Pearse Committee in 1978, the current export strategy which evaluates export limitations was created to consider 3 criteria. First, a surplus in harvest levels must be present. Second, wood harvested domestically is not available for processing or transporting in BC. Finally, the amount of waste must be considered.

The Timber Export Advisory (TEA) Committee was established to examine and determine the domestic log market. The TEA Committee provides the Minister of Forests, Lands and Natural Resource Operations with market values and a potential surplus volume harvested. The Minister also utilizes a political advisory council; being the largest impediment to log exports in BC. In order to overcome differences in advisory determinations, the Fee in Lieu system with a sliding structure is used to ensure compensation of domestic producers. The objective in determining export volumes is to ensure local mills have a steady flow of fibre, while optimizing revenue from exporting wood internationally.

The current Fee in Lieu of Manufacturing Rates, as of March 1st, 2013 state that "under Part 10 of the *Foresters Act*, Section 129 (a) provides for fees to be paid to the government for timber exported under and exemption from the requirement to manufacture timber in British Columbia" (Knowles, 2013).

US Export Market:

This section explains a brief history of the Softwood Lumber Agreement (SLA).

Monthly Lumber Price	Option A: Export tax	Option B: Export tax + Volume Constraint
Over US \$355/thousand board feet	0%	0% + no volume restriction
US \$336 to US \$355/thousand board feet	5%	2.5% + provincial share of 34% of U.S. consumption
US \$316 to US \$355/thousand board feet	10%	3.0% + provincial share of 32% of U.S. consumption
US \$315 or under/thousand board feet	15%	5.0% + provincial share of 30% of U.S. consumption

Table 1: Current export tariff for US trade of Softwood Lumber (Government of Canada, 2013)

- **Countervailing duties (CVDs):** Trade import duties imposed under World Trade Organization (WTO) rules to neutralize the negative effects of subsidies.
- **Lumber 1 (1982-1983):** The International Trade Commission (ITC) and several US softwood producers accused bc of selling their timber at a much lower rate than market value. Wanted countervailing duties imposed to offset the subsidy. Canada won the dispute when a negative countervailing duty was calculated by the US department of commerce.
- **Lumber 2 (1986):** The US Department of Commerce issued new guidelines, making what BC was doing a subsidy and therefore imposing a countervailing duty. The Coalition for Fair Lumber Imports filed a new petition backed by the ITC. US department of Commerce found that the preliminary calculated subsidy rate was 15%.
- **Memorandum of Understanding (1986-1991):** Used to settle lumber 2 before the final countervailing duties were calculated by the US agencies. The tax was originally set at 15% but could

be reduced by provinces that increased their timber prices or took measures to offset subsidization. The tax was entirely lifted in BC by 1987.

- **Lumber 3 (1991-1994):** Canada withdrew from the MOU in 1991, the US department of Commerce then determined a subsidy rate of 6.5%. This and all CVD's were revoked by the US-Canada free trade agreement (FTA) panel
 - **SLA 1996 (1996-2001):** 5 year term, a tariff-rate quota was imposed on all exported softwood lumber from BC, and the fees from over-quota shipments were collected by the Federal Government of Canada.
 - **Lumber 4 (2001-2006):** Canada declined to renew the SLA of 1996, and the US department of commerce implemented a newly determined duty rate of 27.2% due to new subsidy findings. Canada challenged all of the US's findings to the World Trade Organization (WTO).
 - **SLA 2006 (2006-Present):** Agreement will last 7 years with the option to extend it another 2 years, which has happened. US refunded roughly \$5 billion in paid duty deposits to the government of Canada and new tax schedule was approved.
- Source: (US Lumber Coalition, 2012)

Asia Export Market:

Log exports to china started in the 1990's, when BC began exporting raw logs in relatively small volumes (~ 200,000 m³/year). By the turn of the century, exports increased to a volume in the low millions. This increasing trend continued until recently, with exports in 2013 reaching 7.9 million m³/year. This equates to 10% of total volume cut each year in B.C. The market for log exports to china has slowed due to normalization of growth in china.

China primarily uses low grade fibre for concrete molds in construction. Because of this, lower quality and smaller logs are exported. Hemlock and Balsam account for 50% of log exports to china. It is not permitted to export Cypress or Red Cedar from provincially managed forests (Higgins, 2014). Western Forest Products stated, "A higher export price helps the company access marginal timber stands, he said. "We would not be able to take them out if we did not have an export premium. The company would lose money by logging low quality wood at domestic prices" (Matas, 2012). This argument is relevant in the current midterm timber supply and management of Beetle kill wood.

Value Added Wood Manufacturing in BC:

BC's current exports, raw logs and dimensional timber, are commodity products. Commodity products are resources that are well established and actively traded. For these types of products prices are set by markets and not the producer. In order to compete and make a profit, companies must cut costs. Because of strong competition and constant improvements in efficiency of production, prices for commodity products trend down over time.

There is currently an argument that BC should be focusing more on the secondary processing of wood, and the creation of value added products. If raw logs are processed in BC and then sold as more valuable products, BC would be extracting more value from that wood. At every stage of production, jobs would be created and profits could be earned. An additional benefit is that these products do not follow the downward price trend of the commodity market. Currently, there are some difficulties for smaller companies such as access to fiber. If BC wants to focus more on the production of value added products, the question remains as how to best foster the growth of these companies.

In Ontario, for example, approximately 300m³ of harvested timber is needed to create 1 full time job. In B.C., this volume to create 1 full time job jumps over 4 times (~1300m³)². Part of this discrepancy is created by the different raw materials, hardwoods vs. softwoods. Hardwoods are often processed into furniture and flooring etc. (high value) whereas softwoods tend to be used as commodity lumber (low value).

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