

Northwest Forests: Where the Future is Being Made Today

An Interim Report from the City of Terrace Forestry Task Force

Submitted to Terrace City Council
June 11, 2007

Executive Summary:

A combination of high operating costs, along with a low-value timber profile, has been a recipe for repeated economic failure in BC's Northwest. While the situation in the Northwest is dire, it is not just about the Northwest. Mountain Pine Beetle area forests are expected to become like those of the Northwest, i.e. with very little sawlog component, where the logs have no economic value, or are only of pulplog quality. The Northwest provides a view of the future of the BC Interior, and therefore *addressing the Northwest situation is critical to the economic well-being of British Columbia.*

The City of Terrace Forestry Task Force recommends that City Council call on the Province to extend to the Northwest the same resources and initiatives currently in place to support communities and industry impacted by the Mountain Pine Beetle, and that these initiatives include implementation of the Northwest Revitalisation Strategy developed under the leadership of the Kalum Forest District Manager.

Introduction:

In 2003 the City of Terrace struck the Forest Implementation Task Force Committee. This Committee made a number of recommendations to the Provincial government that the City considered critical for revitalizing the Northwest forest industry. The Province adopted some (but not all) of the recommendations, and there may have been a slight increase in harvesting activity as a result of the changes. However, the 2003 committee were working under a premise of a pulp mill in Prince Rupert and two sawmills in Terrace. There has been no re-start of the pulp mill, and the financial failure and dismantling of the Terrace Lumber Company in 2006 has once again demonstrated the need for the City of Terrace to take an active role in developing strategies that will bring investment and business into the Northwest forest sector. Therefore, on November 14th the City of Terrace re-constituted the Terrace Forestry Task Force.

The Task Force has been asked to make recommendations on actions that can be taken to revitalize the forest industry in the Northwest. It is looking at the full range of potential markets and end users for the fibre, and identifying any legislative, regulatory, municipal, financial obstacles to attracting investment into the forest sector.

The Goals of the Task Force are to:

- 1) Identify potential markets and opportunities for the Northwest fibre basket;
- 2) Identify legislative, regulatory, policy or municipal obstacles to harvesting low valued fibre;
- 3) Consult with individuals and groups that can provide information and advice required for the preparation of the action plan.

Specific Goals of the Task Force are:

- 1) Structure the action plan in a manner that prioritizes the recommendations;
- 2) Take into consideration the cost implications and limits of expertise within the City of Terrace to carry out the recommendations;
- 3) Formulate the recommendations in a clearly worded and concise manner and identify the intended objectives of the recommendations.

This report is provided as a summary of findings and concepts to date, and provides some initial recommendations regarding actions that the Task Force should be taken immediately by City Council.

An earlier version of this report was presented to Council; however, it included more technical wording and jargon. This version of the report is provided in an attempt to reduce the technical wording; however, we caution the reader that there still exist terms and concepts that are specific to forest management, so the lay reader may still have to request clarification on some points. We hope to further reconcile the wording in the Task Force's Final Report.

As this is an Interim Report¹, we will not be delving into specific details. Instead, we provide our basic findings to date, our recommendation, and we provide our thinking on potential solutions or required actions as an Appendix. This will keep the report brief and to the point. The Final Report of the Task Force will provide more detail.

Background:

The geography and climate of the Northwest² is coastal, but the forests are not typical of the coast. Nor are the forests typical of the BC interior. This has led to the Northwest being described as a "transition" area, yet this is misleading – the Northwest forests are different and unique in their own right, for their own reasons.

¹ An earlier version of this report was presented to Council; however, it included more technical wording and jargon. This version of the report is provided in an attempt to reduce the technical wording; however, we caution the reader that there still exist terms and concepts that are specific to forest management, so the lay reader may still have to request clarification on some points. We hope to further reconcile the wording in the Task Force's Final Report.

² For the purpose of this Interim Report, the Northwest is defined as the areas within the North Coast Forest District, the Kalum Forest District, and the Kispiox, Cranberry, and Cassiar Timber Supply Areas in the Skeena-Stikine Forest District

The basic challenge facing forest management in the Northwest is that it simply costs much more to harvest and transport timber than this wood is worth under the status quo. The status quo is where logs from a forest are sorted into sawlogs (to be cut into lumber) or pulplogs (to be turned into pulp). Historically, the value of pulplogs has been significantly lower than that of sawlogs, and the forests in the Northwest have a lot of pulplogs: the average is estimated as 50-65% pulplogs). Therefore, the combination of high operating costs, along with this low-value timber profile has been a recipe for economic failure. This is demonstrated by the failures of a succession of corporate entities in the Northwest for over 30 years.

In the past decade the Northwest has gone from nine sawmills to two; two operating pulp mills to one; and remanufacturing plants are closing. Where many may want to point to one aspect of forest policy or another, it is important to recognize that there is no single solution or approach. However, a core problem is that the forest policies developed for BC were not created for a region where there can be so many forests with so many costly pulplogs, on such a large scale.

There have been a number of reports commissioned by government over the years providing guidance on both the problems and potential solutions for the Northwest forest industry. Most of these reports have called for some kind of special treatment for the region. Governments have resisted the call mainly due to the fear of a “me-too” effect from other regions who are experiencing economic problems on their forest licenses. Most recently, the District Manager of the Kalum Forest District has been working within government on a Northwest Revitalisation Strategy. The Task Force supports this work and believes that its implementation will assist the recovery of the Northwest.

Primary Finding of the Task Force:

There will be no single solution. Recovery in the Northwest will come from a suite of actions. However, arguably the most critical component of a recovery will depend on making efficient use of the historically low-valued pulplogs - logs that are made of high quality wood fibre. We believe that if these “fibre logs” are viewed, researched, utilized, and marketed differently, their value will increase.

Public policy must take into consideration that the Northwest forest is dominated by fibre-quality trees, i.e. trees that are not of saw log quality, unlike forests encountered elsewhere in the Province. Tenures, policies, and regulation should endeavor to make the recovery of logs from Northwest forests economically feasible and should support the development of alternative use strategies.

The situation in the Northwest is dire, but it not just about the Northwest. ***Addressing the Northwest situation is critical to the economic well-being of British Columbia.***

The Task Force believes that the forests of the Northwest are similar to is being predicted for the areas affected by the Mountain Pine Beetle, where the Beetle has been changing and devaluing the forest resource. Mountain Pine Beetle area forests are expected to become like those of the Northwest, i.e. with very little sawlog component, where the logs have no economic value, or are only of pulplog quality. In other words, the Northwest provides a view of the future of the BC Interior. The history of economic failures in the Northwest does not bode well for the Interior.

Government response at both the Federal and Provincial levels to the areas attacked by the Mountain Pine Beetle has been to put in place policy decisions, and to invest resources in a

number of areas including changes in legislation, permitting, tenure systems, marketing, community support, and research and development. Investment of similar resources into the Northwest will benefit the communities that are directly affected by the Beetle, and will address the long-term stability of the BC Interior.

Therefore, it is critical that the same resources and initiatives currently in place to support the communities and industry impacted by the Mountain Pine Beetle be extended to the Northwest. For instance, this would include a study of the local fibre supply and evaluation of potential utilizations for this supply. It would also include implementation of the Northwest Revitalisation Strategy.

The Province's actions in response to the Pine Beetle epidemic provide some clear guidance in what is required for the Northwest. The reality for most of the Province over the next decade is that if government policies, as well as market research and initiatives, don't facilitate the economic use of fibre-logs, the collapse we have seen in the Northwest may well extend to the vast majority of the interior. Our reality today is their future, unless we take action.

The Terrace Forestry Task Force suggests that the Province needs to embark on a multi-prong approach to attract and support re-investment in the forest industry. Appendix A to this report identifies some of the actions that would be included in this approach. The goal is to attract investment in the harvesting and manufacturing of the entire forest profile of the Northwest, including fibre-quality logs.

Recommendation of the Interim Report:

The City of Terrace Forestry Task Force recommends that City Council call on the Province to extend to the Northwest the same resources and initiatives currently in place to support communities and industry impacted by the Mountain Pine Beetle. These initiatives should include (but not be limited to) implementation of the Northwest Revitalisation Strategy developed under the leadership of the Kalum Forest District Manager.

Respectfully submitted,

City of Terrace Forestry Task Force

Dave Menzies, Chair
Bernie Banovic, RPF
Rick Brouwer, RPF
Brian Downie, RPF
Dave Martin, RPF
Roger Harris
Kim Haworth, RPF
John Nester

APPENDIX A: Suggested Actions related to the Recommendation from the Interim Report of the City of Terrace Forestry task Force

In order to bring considerable attention to a very serious challenge in the Northwest the Terrace Forestry Task Force has provided this *Appendix to the Interim Report* for the consideration of Council. The Terrace Forestry Task Force suggests that the Province needs to embark on a multi-prong approach to attract and support re-investment in the forest industry. The following section identifies some of the actions that would be part of that approach, and that we believe are necessary if we are going to be able to attract investment in the harvesting and manufacturing of fibre-logs in the Northwest.

Please note that the discussions in this Appendix A are worded in a more technical manner than in the body of the Interim Report.

Research, Development & Marketing:

The Province has provided \$1.6 million to the Caribou-Chilcoltin Beetle Action Committee, and \$800,000 to the Omenica Beetle Action Coalition to work on recovering strategies for the communities in the northern interior and Caribou forest regions. . Research into bio-energy and other non-traditional uses of the fibre-quality wood in this region would likely reveal some unforeseen opportunities. We suggest that a similar fund be put in place in the Northwest to invest in research and development and marketing that will open up new market opportunities. Studies of the local fibre supply and evaluation of potential utilizations for this supply have been promoted by Northwest groups for the past two years without any success

The Task Force strongly believes that the study proposed almost two years ago needs to be done. The stated goals of the Task Force are key subjects identified for study in the proposal. The study as designed by members of the Task Force has an estimated cost of around 100 thousand dollars. TEDA, which would be the sponsoring agency for the project, has independently raised 20 thousand dollars for the project from interested sponsors, but has not been successful in accessing government sponsorship for the required level of funding to complete the project. The Task Force requests the direct assistance of the City of Terrace in securing the remaining required funds for this project from the Provincial Government. If the Task Force recommendation is acted upon, funding for this study would become available.

Bio-Energy:

The Province has embarked on a number of initiatives to support the use of wood in the bio-energy/engineered wood sectors to support an effort to find uses for pine beetle impacted fibre. BC Hydro has now initiated a call for proposal to utilize wood waste in power generation. The costs of harvesting fibre in the Northwest are significantly higher than in the interior. The lack of operating sawmills in the region will require that any power generating facility will also have to incur the additional costs of converting logs into combustible fibre. Any call for proposals from BC Hydro for wood waste power generation must include a component to recognize the unique differences and challenges in the Northwest.

Tenures:

The Ministry of Forests & Range considers innovative tenures to facilitate innovative product processing in the non-traditional forest industries. These tenures will need to consider that MOFR may undertake a number of the financial responsibilities, including road construction, maintenance and silviculture obligations. Potentially, the Ministry could offer competitive license opportunities with a cost sharing mechanism tied to the amount of low-valued timber extracted from the block. Tenures could be time or profile based the full range of options should be considered. Short-term tenures awarded to local First Nations have been one of the few successes in the area. Opportunities for converting these short-term successes into long-term opportunities also need to be evaluated.

Log Exports:

A critical component of encouraging investment in any value-added facilities will be in creating an active log market. As a large percentage of the stands in the Northwest have marginal economics, the ability to access the global market for logs will ensure many of these timber stands will be harvested. Increasing the harvest activities in the Northwest will ensure a continuity of supply for mills looking to secure a specific log profile for their product and market. Therefore, we believe that it is critical that the Province maintain and extend the current Log-Export OIC beyond the current 6-month period to a 3-year program with annual reviews, with all of the same conditions and fees in lieu that are currently in place.

Road Maintenance and Construction:

In order to broaden the economic base of the communities of the Northwest, access to areas for mining, gas, oil exploration, backcountry and conventional tourism must be maintained. As BCTS is now the largest licensee in the region it is essential that MOFR fund the critical maintenance of degraded forest service roads and bridges to provide access to silviculture investment activities, communities, tourism opportunities, and other resource sector activity.

Road Construction:

The BC Government takes the lead in driving the construction of a number of Northwest resource roads that will provide opportunities for natural resource ventures and other commercial activities. Secondary roads into the Upper Nass and Bowser Basin potentially will open up economic opportunities in forestry, tourism, mining, gas and oil.

Silviculture:

The long-term solution for the Northwest will only occur through a change in the timber value across the region. Without harvest activity and investments in silviculture, the status quo will remain. We recommend that the Province commit resources to plant and brush cut blocks with Ministry outstanding obligations. Having second growth available sooner in the Northwest will help mitigate the effect of harvest reductions elsewhere as a result of the Mountain Pine Beetle.

We suggest that the BC Government fund incremental silviculture treatments beyond the current levels.

Lead Agency:

BC Timber Sales is now the largest license in the region. It must take a lead role in developing and planning initiatives around any Northwest strategies. This lead role may involve taking an active role in harvesting through logging contracts and the active management of log-yards.

Consideration may have to be given to the MOFR paying contractors to clear high quality growing sites that might not be logged due to excessive non-merchantable timber.

Timber Appraisal:

Currently the Northwest utilizes the “variable cost” method for calculating upset prices on timber sales. The MOFR should consider going to a below cost upset price model to encourage more harvesting activity, or creating a stumpage “ledger” account for licensees. Avoid situations where harvesting is discouraged due to low value timber left on site as waste billing is calculated at full bid price. MOFR should consider waste billing BC timber Sales at major licensee rates or use Coastal allowances.

The roots of today’s forest policy are based on the conversion of saw logs into lumber with residual products from the milling process going into the manufacturing of pulp and paper. Under this model integrated companies evolved, forest based communities grew, and local economies prospered. But the world is starting to look a lot different today. Forest policy in the 1950s never envisioned a world where the majority of timber stands would be comprised of in excess of 50-65% low valued timber (non-saw log), a reality we have in the Northwest today.

For the forest industry in the Northwest to be revised MOFR policies need to be directed at the economic harvesting of low-valued time. The list of solutions above is just some of the possibilities that we believe need to be explored. It covers a wide range of options and cross-ministry involvement. To co-ordinate these activities and promote the strategies that will be successful, we feel the Northwest needs to take a page once again from the Mountain Pine Beetle Action Plan. One of the first steps the Province took was to appoint a Pine Beetle Boss, which in 2005 was raised to an ADM level. This position now co-ordinates all activities making recommendations to government and bringing other ministries to the table to deal with the growing epidemic, and to prepare for the future.

The Interior’s future is the Northwest’s reality.

Inclusion of Northwest Forest Districts in the Mountain Pine Beetle program area:

There is excellent and compelling rationale for the Province to expand the boundaries of the MPB areas to include the Northwest: for years, this region has been living in a forestry environment which represents the post-Pine Beetle future of the BC Interior. Post MPB, the Interior will have large volumes of low-value, low-quality timber and will be faced with the challenge of economically harvesting and replanting, while at the same time needing to find new processes, new products, and new markets to reflect the new reality of their forest resources.

The Northwest is in this situation now. The difference is that where others see the Northwest forest resource as dominated by “low-value, low-quality” timber, we see the potential of high-quality fibre – but work needs to be done on this potential resource now. The lessons that stand to be learned by applying research and development resources to the Northwest forest will be easily applicable to the rest of BC in the near future. The opportunity to use the Northwest to identify new products and markets exists now. Work on developing new markets should begin immediately, so that they will be ready for interior products when they become available after the completion of the Beetle infestation. As of now, the Northwest has the quality and volume of fiber to provide the new products. The Northwest can serve many purposes in the new forest economy of BC, among them as the R&D laboratory for the Interior as they look to the next generation of “fibre-quality” wood.