

City of Terrace Forestry Task Force

Final Report



**Submitted to Terrace City Council
July 2009**

Executive Summary

In June 2007, the City of Terrace Forestry Task Force prepared an interim report with a recommendation that Terrace 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 those initiatives include implementation of the Northwest Revitalisation Strategy developed under the leadership of the Kalum Forest District Manager.

The interim report also included an appendix which included discussion of actions that could be undertaken once the Province provided the resourcing and initiatives as per the Recommendation.

The Forestry Task Force has continued to provide information and ideas related to the Interim report recommendation and the actions identified in Appendix A to its Interim Report; however, without resourcing from the Province to implement the Recommendation, or from any Agency to act on the Appendix A actions, there has been no solution to the crisis that exists in Terrace and the Northwest region.

The recent formation of the Skeena-Nass Center for Innovation in Resource Economics (SNCIRE) provides a potential solution to this lack of action. In fact, many of the actions recommended by the Forestry Task Force are within the mandate of SNCIRE, and some are currently being acted upon. SNCIRE has also been taking on an informal advisory and advocacy role related to the natural resource economy of the Forestry Task Force.

The Forestry Task Force therefore recommends:

1. *That City Council call on the Province to recognise that the forests of the Northwest region will provide a critical component of the future forest economy of BC.*
2. *That City Council call on the Province and Canada to support local and regional efforts to create a new forest economy, and that this support be:*
 - a. *in the form of resources and funding;*
 - b. *at least at the same level as has been provided to support communities and industry impacted by the Mountain Pine Beetle; and*
 - c. *appropriate to the needs, circumstances, and issues of the Northwest region.*
3. *That the City of Terrace actively support the efforts of the Skeena-Nass Center for Innovation in Resource Economics (SNCIRE) and encourage all other stakeholders (private, public, and governmental) in the Northwest to also support SNCIRE and other similar organisations.*

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 14, 2006 the City of Terrace re-constituted the Terrace Forestry Task Force.

The Forestry Task Force was asked to make recommendations on actions that can be taken to revitalize the forest industry in the Northwest. The Goals of the Forestry 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 Forestry 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.

In June 2007 the Forestry Task Force submitted an Interim report which provided as a summary of findings and concepts to date, and provided initial recommendations to City Council.

The Interim Report also provided an Appendix which contained the Forestry Task Force's thinking on potential solutions or required actions.

This final report provides a brief update on actions and activities that have occurred since the Interim Report was submitted, with specific attention to how those activities related to recommendation in the Interim Report or the potential solutions identified in the interim Report Appendix.

The Problem

The geography and climate of the Northwest¹ 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 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 operating sawmills to none; two operating pulp mills to one; and remanufacturing plants have closed². 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 reports³ commissioned by government and industry 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 recognition of the specific circumstances of the region. Governments have resisted these calls. The Forestry Task Force believes this lack of action is mainly due to:

- the fear of a “me-too” effect from other regions who are experiencing economic problems on their forest tenures.
- bureaucratic inertia which naturally resists any change
- an expectation that market forces will eventually result in a solution
- memory of “bail-outs”⁴ that did not result in long-term stability for the region

Past and Current Initiatives

In June 2007, the City of Terrace Forestry Task Force recommended that Terrace City Council call on the Province to extend to the Northwest resources and support similar to what has been provided to communities and industry impacted by the Mountain Pine Beetle. The Forestry Task Force also identified actions that could be undertaken once the Province provided the resourcing and support.

Since June 2007, the following events have occurred:

- The City called upon the Province as recommended.

² Mills that have shut down: Two in Prince Rupert (North Coast Timber – sawmill dismantled, Skeena Cellulose – pulpmill shut and partially dismantled); three in Terrace (Skeena Cellulose - sawmill dismantled, Skeena Sawmills – indefinite shut, Forwest Veneer – remanufacturing plant dismantled); two in Kitwanga (CGed - sawmill permanently shut down, Kitwanga Lumber – sawmill in bankruptcy protection); four near the Hazeltons (Carnaby - sawmill dismantled; Kispiox Forest Products – sawmill permanently shut down; Hazelton Whole Log – chipping plant dismantled; Seaton Lumber – sawmill dismantled)

³ Examples include the Ministry of Forests’ Cost-Driver Initiative (late 1990s), the “Cheston” Report (2000), previous reports from the Terrace Forestry Task Force (2004, 2007), and the Northwest Revitalisation Strategy (2007)

⁴ Columbia Cellulose in the late 1970s and Skeena Cellulose in the late 1990s

- The Province extended the Mountain Pine Beetle zone to include the Terrace area, with resources and funding tied to the amount of pine in the area (a relatively small amount).
- Government announced \$4 million for silviculture to be spent in the Northwest over a three year period.
- The government initiated the Roundtable on Forestry in early 2008, which reported out in March 2009.
- The global economic meltdown occurred in 2008.
- BC Hydro closed its call for proposals to utilize wood waste in power generation, with no successful proposals from the northwest.
- Individuals from the northwest that were involved in the Forestry Task Force or the Northwest Revitalisation Strategy promoted the need for a regional body that would move the Northwest towards a new resource economy, leading to the formation in January 2009 of the non-profit Skeena-Nass Center for Innovation in Resource Economics Society (SNCIRE).
- Government announced \$4 million in early 2009 for critical road maintenance in the Northwest.
- The Chief Forester issued a Silviculture Discussion Paper in March 2009.
- The Minister of Forests and Range initiated a “Northwest Vision” project in March 2009, aimed at combining and jointly marketing a portion of the annual cuts of local forest tenure holders.

The Forestry Task Force is encouraged by an increased awareness of the issues facing the Northwest over the past several years; however, awareness is not enough to break the Northwest out of the commodity dependence cycle. Organisations like SNCIRE have continued to advocate for resourcing to facilitate the creation of a new natural resource economy in the northwest, but while they have received significant verbal support, they have had little success in accessing financial resources. In other words, without adequate resourcing there will be no solution to the crisis that exists in Terrace and the Northwest region.

The Solution

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. Organisations like SNCIRE have recognized this need, and have been advocating for resourcing to facilitate the creation of a suite of solutions, including solutions to take advantage of the Northwest’s “high-quality fibre”. Unfortunately, these resources have not yet materialized.

Public policy must take into consideration that the Northwest forest is dominated by fibre-quality trees, i.e. trees that are not of sawlog 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 Forestry Task Force believes that the forests of the Northwest can be viewed as the future for the areas affected by the Mountain Pine Beetle. After the beetle has been through an area, the forests are changed: they contain very little sawlog component, and what timber remains is predominantly only of pulplog quality. In other words, the future of BC's Interior post-Mountain Pine Beetle is very similar to the present circumstances in the Northwest. 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.

The recent global economic collapse has exacerbated the situation in the Interior, with mills shutting down; again, the circumstances are similar to what has been experienced in the Northwest, even to the point where Government is considering propping up or bailing out impacted mills.⁵

In the Northwest, we have experienced all that is happening in the Interior. The remaining people understand that we need to look at things differently, and are willing to look at and implement innovative solutions. The Forestry Task Force does not believe that sustainability will be achieved by propping up or bailing out individual companies. Instead, by carrying out a critical re-invention of our natural resource economy, and by piloting new ideas, the Northwest can quickly take the steps necessary to create an economy which is locally sustainable and globally competitive.

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 and the creation of more diverse natural resource economy, the collapse we have seen in the Northwest will extend to the vast majority of the interior. In fact, the recent closures of mills in the Interior are likely the first of many. Our reality today is their future, unless we take action.

Therefore, it is critical that the same level of resources that were provided 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 initiatives being promoted by the recently formed regional body known as the Skeena-Nass Center for Innovation in Resource Economics (SNCIRE).

The Forestry Task Force suggests that the Province needs to support review and re-creation of the Northwest forest economy. One way that the Province can do this is to support the efforts of organisations like SNCIRE. The following sections identify some of the actions that the Forestry Task Force has identified as important components that need to be included in this approach, and our understanding of how those components fit within the mandate of SNCIRE. The goal is to

⁵ E.g. Recent efforts by government in Mackenzie are reminiscent of previous responses to the Skeena Cellulose situation in the late 1990s.

attract investment in the harvesting and manufacturing of the entire forest profile of the Northwest, including fibre-quality logs.

Specific Actions

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 section 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 similar funding 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 four years. The Forestry Task Force strongly believes that this project needs to be done, and endorses the efforts of SNCIRE as it continues to actively promote this study.

In addition, the Forestry Task Force agrees with the SNCIRE vision for ongoing applied research, development, and marketing focused on the attributes and advantages of the Northwest.

Bio-energy, Bio-fuel

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 initiated a call for proposals to utilize wood waste in power generation. Opportunities may exist in the Northwest due to amount of available biomass in the regions and the potential for short rotation woody crops. However, the costs of harvesting fibre in the Northwest are significantly higher than in the interior, and the lack of operating sawmills in the region will require that any bio-fuel or energy generating facility will also have to incur the additional costs of converting logs into utilisable fibre. Work is necessary to recognize the unique differences and challenges in the Northwest. Projects planned by SNCIRE will disseminate information on, and promote innovative approaches around, cellulose-based energy production or products.

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. Continued discussion of these policy and regulatory issues are necessary, and the Forestry Task Force recognizes that this is reflected in the mandate of SNCIRE.

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 until a competitive local market is in place, it is critical that the Province maintain and extend the current Log-Export Orders In Council, with all of the same conditions and fees in lieu. The Forestry Task Force is encouraged that these OICs have continued to be in place since our Interim report of June 2007.

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. After considerable effort by the North West Loggers Association, the government of BC has provided four million dollars in the Northwest for critical maintenance. This is a good step in the right direction.

Road Construction

The construction of a number of Northwest resource roads 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. The Forestry Task Force suggests that the BC Government take the lead in driving the construction of these roads; however, we also note that where forestry is perceived to be the primary resource, efforts should first be focused on finding opportunities and markets for fibre-based wood products.

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. The Forestry Task Force recognizes that the BC Government has provided four million dollars

over three years to fund incremental silviculture treatments beyond the current levels in the Northwest, and encourages continuation of this level of funding for at least an additional five years.

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.

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.

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.

Continued discussion of these policy and regulatory issues are necessary, and the Forestry Task Force recognizes that this is reflected in the mandate of SNCIRE.

For the forest industry in the Northwest to be revised MOFR policies need to be directed at the economic harvesting of low-valued timber. 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, by supporting an organization like SNCIRE, which could fulfill both the role of the Beetle Action Coalitions, as well as provide policy advice and direction to government. .

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

In 2007, there was excellent and compelling rationale for the Province to expand the boundaries of the MPB areas to include the Northwest, and this has occurred. However, funding was tied to the amount of pine in the region, which is comparatively small. What is needed now is for this funding formula to be changed so that we can begin implementing the transition to a new natural resource economy as envisioned by SNCIRE.

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. SNCIRE should proceed with work on developing new markets 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 Forestry Task Force endorses the efforts of SNCIRE and suggests that 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.

Recommendations of the City of Terrace Forestry Task Force

The City of Terrace Forestry Task Force recommends:

1. *That City Council call on the Province to recognise that the forests of the Northwest region will provide a critical component of the future forest economy of BC.*
2. *That City Council call on the Province and Canada to support local and regional efforts to create a new forest economy, and that this support be:*
 - a. *in the form of resources and funding;*
 - b. *at least at the same level as has been provided to support communities and industry impacted by the Mountain Pine Beetle; and*
 - c. *appropriate to the needs, circumstances, and issues of the Northwest region.*
3. *That the City of Terrace actively support the efforts of the Skeena-Nass Center for Innovation in Resource Economics (SNCIRE) and encourage all other stakeholders (private, public, and governmental) in the Northwest to also support SNCIRE and other similar organisations.*

Respectfully submitted,

City of Terrace Forestry Task Force

Rick Brouwer, RPF - Chair
Bernie Banovic, RPF
Brian Downie, RPF – Council Liaison
Carol Leclerc – Council Liaison
Dave Martin, RPF
Roger Harris
Kim Haworth, RPF
John Nester