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PRIVATEERING IN THE PUBLIC FOREST?

SUMMARY
SPEECH

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Today's forests and forest-dependent industry are markedly different from those that confronted the four provincial Royal Commissions of Inquiry into forest resources. Resource-based economies like British Columbia grow by exploiting natural capital and converting it to man-made capital. While possibly the over-all productivity may improve in the process, the conversion initiates change. As old-growth trees were exploited, the economy grew and powerful forest industry began to emerge as a major political force.

Natural forests represent stock resources. The majority of recent timber management issues are related to the transition from a stock resource with natural-occurring sets of physical characteristics to renewable forest resources, potentially composed of engineered features. Since silviculture is directed primarily towards enhancing the production of commercial forest crops, it lends itself to conventional investment analysis. Of course, this implies that the values of silvicultural activities are known or can be estimated.

Government appears to have a good estimate of the value of the old-growth forest industry to the economy of the province. On the other hand, government seems to only have vaguely conceptualized the economic values associated with public forest management. Given the Progressive roots of the Ministry of Forests, the fact that the organization seems non-responsive to economical decision-making is not surprising. Yet considering the size and economic power of the province's forest-dependent industry and the complexity of the problems emerging as the old-growth forest is removed, it is difficult to understand how the Ministry can efficiently undertake timber tenure policy directions without estimating the economic implications of that choice.

The beginnings of a managed forest policy emerged in 1979 when a new timber supply strategy was announced with the signing of two forest-related acts into law. Despite the embodiment of a requirement for economic forestry in the objectives of the Ministry of Forests Act, the province's timber tenure system largely remained in arrangements made during the pre-management era. Forest Licences,

for example, were established by the 1979 Forest Act. These licences were primarily made up from old Timber Sale Harvesting Licences negotiated between the Forest Service and individual companies during the mid-1960's. In 1982, partially as a response to depressed financial conditions, the Forest Act was amended to permit the replacement of the Forest Licence by the Tree Farm Licence. The major difference between the two tenures is that the Tree Farm Licencee "owns" access to a given area of public forest land along with the residual timber for a given period of time.

If the new Tree Farm Licences are to be allocated by political rather than market forces, the agency conferring public property rights to the private companies ought to have a good notion of the values associated with those rights. In the thesis, a method is described to value public timber and land assets in British Columbia. Further, a system is demonstrated that assesses potential impacts of timber tenure change on the objectives of the Ministry of Forests defined in the Ministry of Forests Act.

Using Equation 4, a modified Faustmann approach to land value, the Coastal forest lands and their timber potential are appraised using a number of management alternatives. The procedure differs from traditional valuation literature in that the transitional stand is considered to part of the management decision. All costs of regeneration and cutting are charged to the transitional stand. If the costs of cutting and regeneration exceed the sum of the value of the current stand and the soil expectation from future harvests, the transitional stand is not an economic venture.

The approach is sensitive to the presence of merchantable timber, the real rate of interest, and the lengths of the managed and transitory rotations. A five percent real rate of interest was used in the construction of the tables of the thesis while the rotation length was varied by the site and the biology of the species considered. Since the real rate of interest varies, the tables only represent one point in dynamic time.

The key academic attribute of the valuation section is the definition of a Coastal Log Market. Evidence in the literature

more than suggests that the Vancouver Log Market is flawed. Still, Pearce (1986) studying the economics of site regeneration, and Percy (1986) discussing forest management and economic development in the province, both used the Vancouver Log Market as a base for their log price estimates. The Coastal Log Market developed in the thesis results in values comparable to those found by Lyon and Sedjo (1983) working with regional timber supply in the U.S. Northwest, and Byron and Douglas (1981) in their study of import log value in Australia.

In Chapter 6, the specific question of concern is the amount of competition for public timber supply by industry. The underlying assumption is that those companies with access to economic power will use that power for their own benefit. Osberg (1981) defines economic power as that control, authority, or influence over others which arise from the ownership of property.

As of January 1, 1985, the top five corporate groups listed in Table 23, Epicenters of Economic Power, owned 93.2 percent of the annual allocated quota or 84.1 percent of the total provincial cut. Figure 3 displays the current ownership relationships between two ^{of} ~~the~~ the major groups of companies.

Since this chapter was written and revised a few weeks ago, there have been a number of changes in the structure of the industrial supply of the industry. Hees International, the financial interest behind the B.C. Forest Products sale to Fletcher and owned by the Bronfmans, has gained equity in Canadian Forests Products' Versatile Corporation of Vancouver. Also, Slocan Forest has gained control over both Clearwater and Weier's Sawmills. The Weier's purchase indicates that Slocan has become a partner with Ainsworth and Pinnette and Therren. Since Pinnette is held by B.C. Forest Products, Slocan is entering Fletcher's power influence zone. Also, Evans Products sold its western tenures to Ainsworth and departing from business. Thus the supply-side of the industry is continuing to concentrate into the two or three major groups of corporations.

Table 28 presents the estimated land values of the replacement

licences and their expected distribution among the major groups. As of June 1, 1987, the top four corporate groups in the province's forest industry owned 93.2 percent of the annual allocated quota or 84.1% of the total annual provincial cut. Further, of the approximately \$367.1 million in land assets associated with the replacement licences, \$262.5 million or 71%, would be distributed to the top three major corporate groups. These groups presently own \$656.8 million or 95% of the public land assets in Tree Farm Licences. Of the remaining quota not held by the three major groups, 63.2% of the allocated value and 49.2% of the replacement values would be allocated to the top four major independent companies.

Table 29 estimates the impact of the replacement licences on the priorities, purposes, and functions of the Ministry. If the Ministry proceeds with the roll-overs, the conversion would appear to be the substitution of an organizational priority for the Ministry's legislated objectives.

Table 30 summarizes the Ministry's present performance using the methodology described in the thesis. In terms of the objectives of the Ministry, the organization is failing. The Ministry may not have demonstrated the expertise on which to base a redefinition of its objectives.

As the forest community moves into the twenty-first century, it must be prepared for change. The old-growth forest will be gone as will much of the old-growth industry. At a time when many important components of the industry are concentrating into groups of organizations with enormous economic power, the Ministry seems to be falling back to successful institutional arrangements that had been employed in the past. That those timber tenures assisted in closing the timber frontier, serviced an expanding timber industry and helped create a world demand for British Columbia's public forests and forest companies does not mean that the old arrangements will be useful in guiding the forest economy into the next century. Indeed, the concentration of public timber and land assets suggests an intimate relationship between corporate power and access to publicly-owned timber supplies. In the thesis, a number of alternatives, including the creation of public corporations

to compete with the partnership of Ministry and industry in the management of the public forest and forest lands, are suggested.

Still, if tenure is to continue to be determined by political rather than market forces, the agency conferring the property associated with the institutional arrangement ought to understand the values of those rights. In the pages of this thesis, a method and system of analysis was proposed to evaluate and appraise the economic implications of those property rights. The valuation system allows the calculation of the costs of allocating forest land based on a flawed log pricing system. The method also permits the estimation of costs associated with under-managing or over-managing the public's timber resource.

The majority of present timber tenures are arrangements in which private companies are licenced to act as exclusive agents of the Crown. In the Colonial days, this was referred to as privateering and may have been acceptable; today the prize is still captured by the most powerful but it is now termed privatization. While these timber tenures have promoted consumption and development of the province's old-growth forests, they have not yet brought about forest conservation and management.

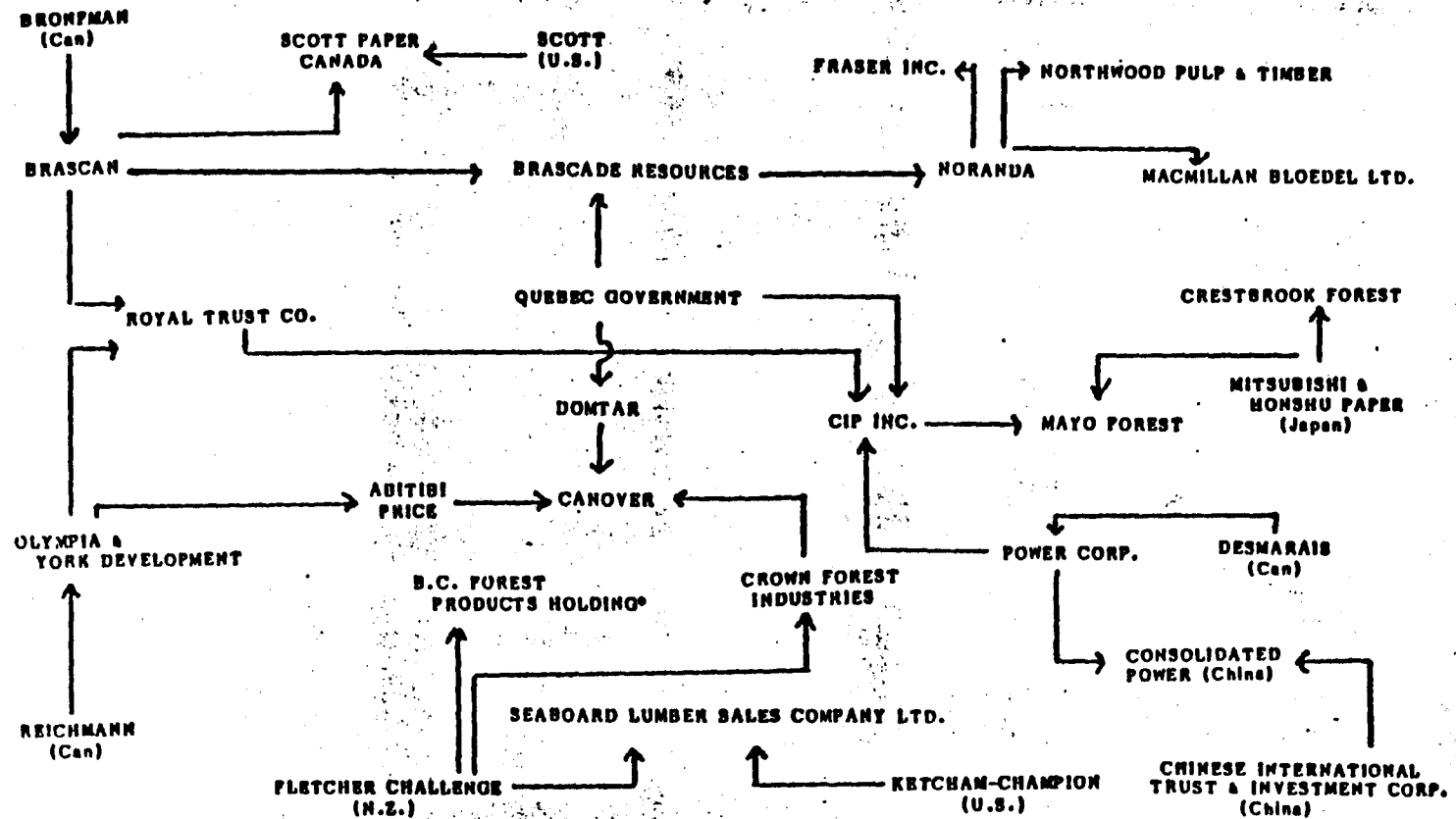
Almost 160 years ago, the political economist John Stuart Mill observed:

"The usual effect of the attempts of government to encourage consumption, is merely to prevent saving; that is, to promote unproductive consumption at the expense of reproductive, and diminish the national wealth by the very means which were intended to increase it."

He could easily have ^{been} writing the epitaph to the once grand forest heritage of British Columbia.

FIGURE 3

EMPIRES WEST - BRITISH COLUMBIA'S CORPORATE MENAGERIE



*See Mead-Scott Group Table 23, p. 134.

**ESTIMATED LAND VALUES ASSOCIATED WITH
CURRENT AND REPLACEMENT TREE FARM LICENCES
(Major Groups, March 1, 1987)**

I. BENTLEY, PRENTICE, AND THORLAKSON

	Value MM(\$)	
	<u>Allocated TFL's</u>	<u>Replacements</u>
Canadian Forest Products	41.4	15.1
Canfor Ltd.	9.5	-
Takla Forest Products Holdings	-	13.4
Balco Industries	-	11.9
Lavington Planer	-	<u>3.2</u>
	<u>50.9</u>	<u>43.6</u>

II. BRONFMAN, REICHMANN, AND DESMARAIS

CIP Inc.	36.6	18.9
Northwood Pulp and Timber	5.5	-
Crestbrook Forest Industries	1.5	14.7
MacMillan Bloedel	<u>255.3</u>	<u>11.4</u>
	<u>298.9</u>	<u>43.0</u>

III. FLETCHER, SAUDER, KETCHAM, AND CHAMPION

B.C. Forest Products	57.7	50.2
Western Forest Products	90.0	4.5
Doman Industries	-	20.7
Whonnock Industries	-	70.9
Holding Lumber	-	3.3
Weldwood of Canada	19.5 ¹	18.3
West Fraser Mills	8.5	-
Enso Forest	23.5	-
Westar	38.5 ¹	-
Repap	22.4	-
Crown Forest Products	<u>46.9¹</u>	<u>8.0</u>
	<u>307.0</u>	<u>175.9</u>

IV. INDEPENDENTS²

<u>Major Firm</u>	<u>Allocated Value</u> (MM\$)	<u>\$</u>	<u>Replacements</u> (MM\$)	<u>Value</u> (\$)
1	-	-	23.0	21.8
4	21.1	63.2	52.0	49.2
8	25.6	76.6	75.2	71.2
20	<u>25.9</u>	<u>77.5</u>	<u>104.6</u>	<u>100.0</u>
Total	33.4	100	104.6	
Grand Total	<u>690.2</u>		<u>367.1</u>	

1. TFL's are Interior and Coastal.

2. See Table 23 for listing of companies.