It's time to rethink forest management

More subsidies will not succeed

Susanne Ivey-Cook, Financial Post October 13, 2009

Ontario's forest industry has changed fundamentally. Demand for newsprint has plummeted (U.S. consumption is down nearly 30% from last year) and lumber sales are doing even more poorly as a result of the slumping U.S. home-building sector. These factors, coupled with a high Canadian dollar and rising energy costs, have led to the shutdown of many of Ontario's pulp and paper mills.

The scale of the decline is staggering. Close to 8,000 jobs have disappeared in the past five years, forest-dependent communities are facing serious distress and best estimates suggest that wood extracted from public forests is down 40% from 2004 harvest levels. For Ontario's pulp-and-paper industry, this is not a cyclical downturn, but part of a larger industrial transformation caused by the rise of electronic media, declining newspaper use, and competition from places where trees grow more quickly and labour costs are lower. Consequently, waiting for a global economic recovery is not the answer; the structural changes are permanent.

Closed and idled mills mean lost jobs, towns without a sufficient tax base, and a province that is paying more to manage the forests than it can collect in logging fees.

So what can be done? The provincial and federal governments have tried grants, loan guarantees, road-building subsidies and special breaks on electricity prices, all with little success. Industry fundamentals have shifted dramatically and Ontario needs to rethink how to secure economic, social and environmental benefits from its forests and forest industry. More government subsidies will not succeed.

There is hope, and Ontario still has an opportunity to lead in new uses of forests that are better-suited to future demand. Our forests, all 50 million hectares of them, are, for the most part, healthy. Moreover, Ontario is a leader in forest sustainability with extensive areas certified to the rigorous Forest Stewardship Council standard, meaning green consumers from around the world will choose our forest products over those of other countries and regions. This tremendous public asset can provide a great place to invest and there are several promising industrial opportunities, such as biofuels, wood-based plastics and specialized structural and finish-wood products. Manufacturers of these products require access to wood supplies that are now tied to historical uses.

There will also be new markets for ecological services, notably carbon-intensive industries in the west paying for Ontario's forests to absorb some of the carbon they emit. Finally, Ontario's forests contain globally significant wilderness areas and all evidence points to growing demand for wilderness, while in most countries this asset is being decimated at unprecedented rates.

Unfortunately, new business ventures are prevented easy entry into Ontario because our publicly owned forests are locked into long-term licences to forest companies, some of which are no longer operating. Potential investors are therefore unable to access forest areas or wood supplies; placing constraints on resourceful individuals or communities eager to explore new ways to sell goods or services from the forests nearby.

We must replace the almost 100-year-old system under which forests are managed largely as supply departments for large integrated pulp-and-paper companies. Within the current licencing arrangement, forest companies have a business interest in keeping the cost of wood, labour and long-term investment low. After all, they don't own the forest and their profits are, in good measure, dependent on how low they can keep their costs.

In place of this antiquated system, Ontario needs to make room for new business opportunities by reforming the licencing system to provide citizens (the owners) with market-based prices for the wood cut, the carbon stored and the ecological services provided. The forests themselves would then become the asset and the centre of wealth creation. Retained profits could be invested in improved forest management, greater resource productivity, new recreational amenities and a stronger management infrastructure. These activities will create new and better jobs with more employment per cubic metre of wood harvested.

This new system would be easier to administer, increase citizen participation in the management of the forests, let the marketplace determine the best use of the wood harvested, and allow new companies to manage forests for multiple products and services of the highest value.

Furthermore, it would undercut one of the key arguments made by the United States against Canadian lumber exports, namely that our logging fees are not set in a competitive market and therefore constitute a government subsidy.

We are at an important juncture; the Ontario government has launched a process to review forest tenure, licencing and pricing. Ontario's forests and forest communities will be much better off with a market-based licencing model. A decision is expected in the spring of 2010 and we encourage and support the Premier in doing what is best for all of Ontario.

--- - Susanne Ivey-Cook is the director of the Ivey Foundation, a philanthropic charity that supports environmental causes in Canada.

Japanese pulp mills are still the major destination for the world's chips vessels; the country imported 53% of globally traded hardwood chips and 15% of softwood chips.

Other countries in Asia, including China, Taiwan and South Korea, accounted for 12% of global imports, while the Nordic Countries have imported 14% of traded chips this year.

The biggest plunge in shipments has been that of wood chips to Japan. During the first six months, the country imported 34% less chips than the same period last year, with the biggest decline being that of softwood chips. Practically all major importing countries have reduced their purchases this year. The only countries that have increased their reliance on imported wood fiber are Turkey (softwood), China (hardwood), Sweden (hardwood) and Portugal (hardwood), WRI said.

The countries that have reduced exports the most in 2009 are Australia, South Africa, Vietnam and Uruguay. Australia, the world's largest exporter, has reduced shipments from 3.1 million tons the first half of last year to 2.3 million tons during the same period this year. Uruguay has cut back exports 65% this year, while shipments from South Africa have declined 40%.

With pulp production slowly increasing this fall and energy companies in Europe searching for additional sources of woody biomass, it is likely that trade with wood chips will increase in 2010, WRI predicts.

SOURCE: Wood Resources International