



**TimberWest**

# **Timberland**

## **How does Canada Participate?**

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TimberWest is a market-driven company with a vision of  
“growing greatest value through Operations Excellence.”

# A new business

- Several things come out of Steve's presentation
  - Timberland is a business, not a cost centre
  - There is a lot of capital eager to invest in timberland
  - Integrated companies and governments are selling timberland

# Government shouldn't own commercial assets

- Sustainable wealth comes from
  - Property Rights
  - Scientific Rationalism
  - Functioning Capital Markets
  - Transport and Communications

# What is the forest industry missing?

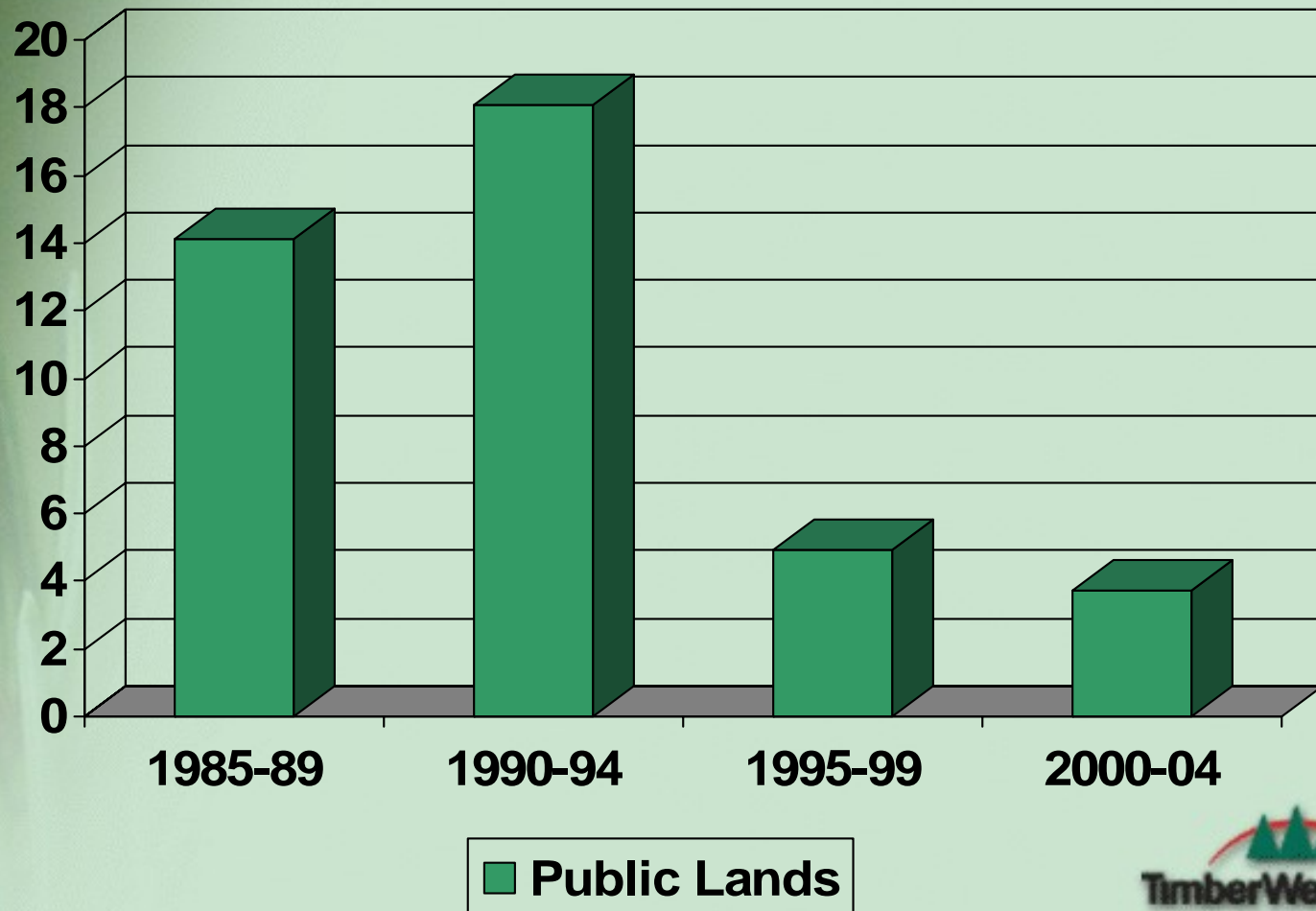
- Property Rights
  - Communally owned assets don't generate sustainable material wealth
- Capital Markets
  - The absence of capital markets leads to a misallocation of capital

# What happens if we don't fix it?

- The forest industry will fade into irrelevance
  - The return on the asset will be too low for the public to support the activity
  - The harvest will decline

# Where is the evidence?

U.S. Public Timber Harvest  
(Billion Bd Ft/Year International 1/4")

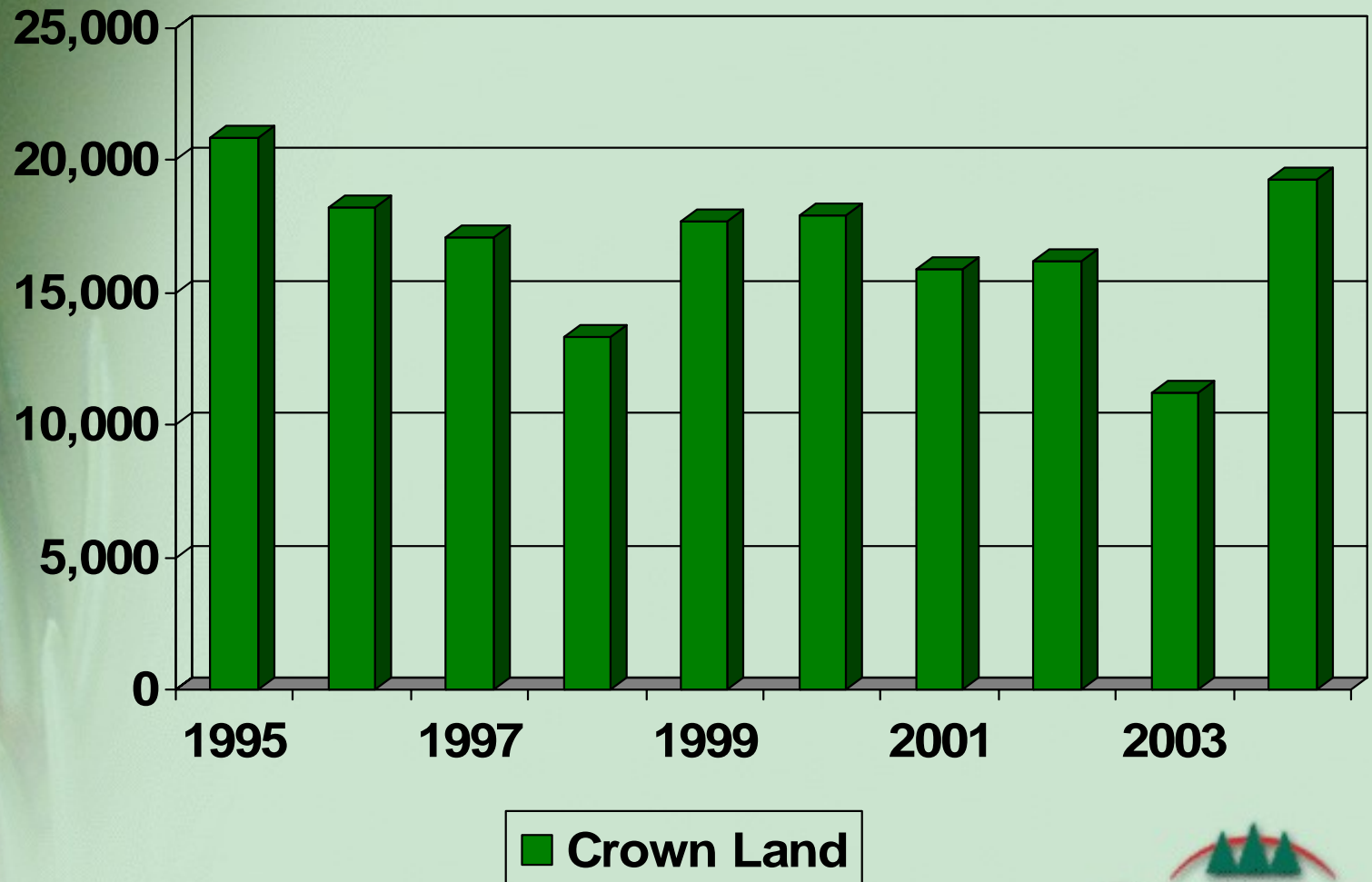


Source RISI



# Where is the evidence?

Coastal B.C. Harvest (000m<sup>3</sup>) Calendar Year

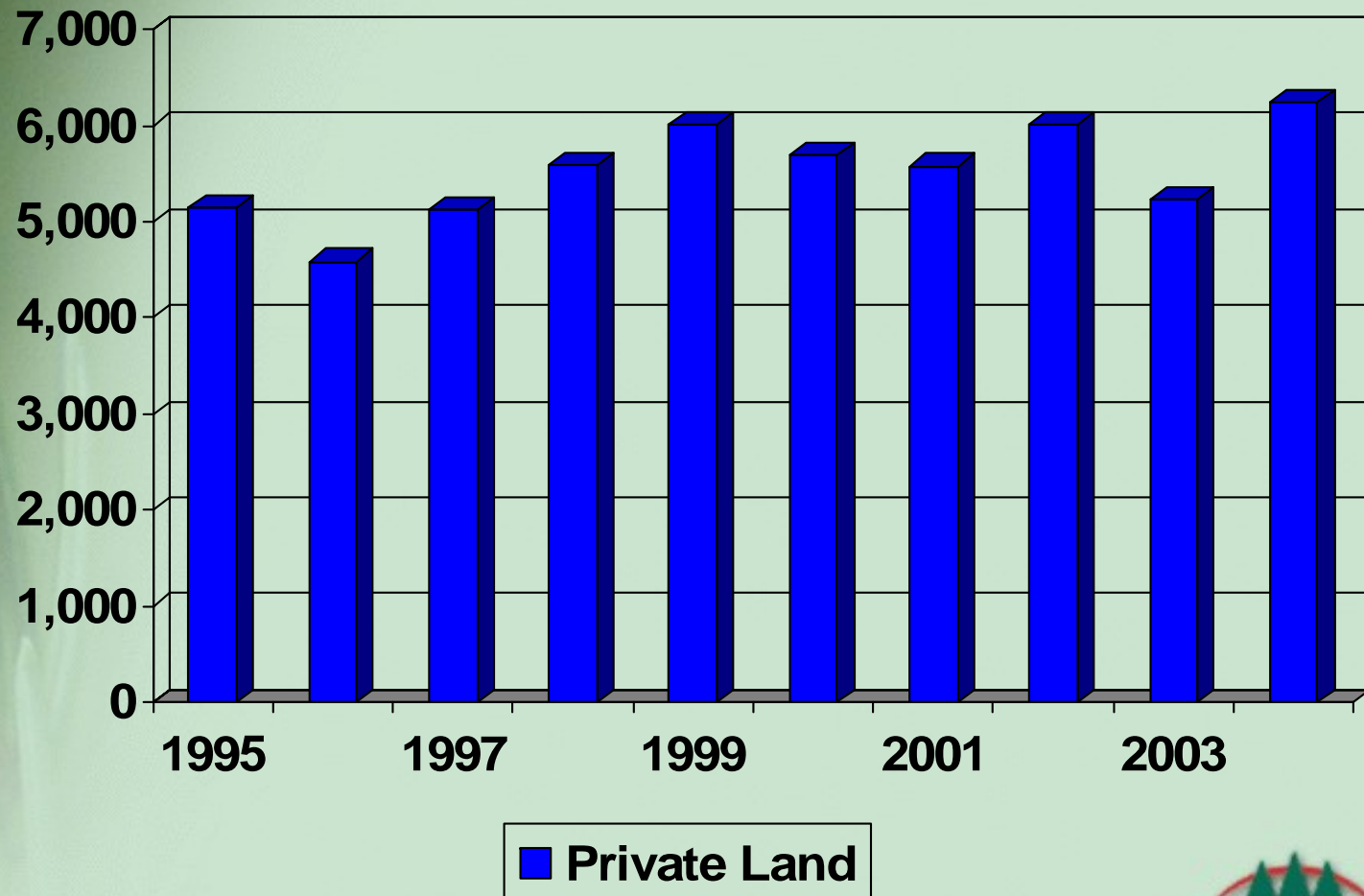


Source MoF through CFLA



# Where is the evidence?

Coastal B.C. Harvest (000m<sup>3</sup>) Calendar Year



Source MoF through CFLA





# Where is the evidence?

- Three Year Average Stumpage net of Administration costs
  - TimberWest                   \$30/m<sup>3</sup>
  - MoF \*                           \$ 6/m<sup>3</sup>

\* Note that MoF number is an approximation calculated by the speaker from poorly understood public data!

# What should we do?

- Simple answer is to privatize commercial timberland
  - Public intuitively understands private property rights
  - Government regulation works in other industries to protect environmental values
  - Only a fraction of total land base is involved
  - Diversity of tenure is good
  - Put Canadian pension money to work in Canada

# Compelling financial case

- TimberWest EV  
– Harvest \$1.3 billion  
2.5 million m<sup>3</sup>
- Crown Debt \$35 billion  
– Harvest 70 million m<sup>3</sup>  
– Value of privatization tens of billions???

# Who is against it?

- First Nations and maybe the courts because land claims are not settled
- Forest industry because they lose control over the land base

# So what can we do?

- An interim step is to put commercial timberland into a Crown Corporation with a balance sheet, income statement and a goal to maximize value for the Crown
  - Several crown corporations could be created (small is beautiful) and they can contract out most of their functions

# What future alternatives exist?

- First Nations land claims should be settled with property that has full property rights attached
- New Zealand sold right to grow trees for two rotations, plus annual rent
- Australia sold right to grow trees on the land but nothing else. No annual rent payable. Supply contracts that existed at time of sale had to be honoured
- Develop “Made in Canada” solution

# Conclusion

- Change is easiest in time of crisis. Coastal industry is ripe for change
- The forest industry will shrink if it doesn't create meaningful wealth
- Canada is the outlier on public ownership of timberland. It is pretty evident we have it wrong
- We need a champion to make change happen