

A Business Case for Separating Forest Land Management & Tenure from Manufacturing

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“Creating New Opportunities: Forest Tenure & Land Management in BC”

What Makes Firms Competitive?

- Factor advantages – such as
 - Wood: historical source but declining
 - Skilled Labour
- Strong home demand with discerning customers
- Related and supporting industries
- Firm structure, rivalry and strategy



from Porter (1990)

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Why Hold Forestland

- ~~• Value of standing timber~~
- ~~• Timber growth~~
- Low risk asset
- Tax advantages
- Hedge against inflation
- Opportunity for forestland to move into higher valued real estate

Primary reason behind timberland divestiture occurring now



Why Hold Timber Tenures?

- Value of standing timber
 - Decreasing due to
 - Declining value of commodity products
 - Increase in market based pricing
 - Increasing environmental costs
- Timber growth
 - Little value currently because
 - Short term licenses
 - Slow tree growth in most areas
 - No real tax advantages



How TIMO's Create Shareholder Value

- Maximize cash flow from timber operations
- Minimize costs of production including **silviculture** (unless return justifies expense)
- Move land into higher and best use classes
- Tax advantages in timber as an asset class



Why Integrated Companies Divest

- Generate cash to pay off debt or invest
- Reduce net assets / increase RONA
- Timberland has a higher value to timber management organizations
- Streamline supply chain
- Reduce environmental exposure



Benefits from Timber Tenures

- Assured wood supply (decreasing)
- Barrier to new entrants (remains but not a good reason)
- Security for investment capital (not seen as a barrier to private investment in the US)
- Capture forest rent (decreasing)
- Tree growth (little value)



Why Manufacturers Should Divest

- Encourage value focused production
- Spawn new investment
- An open market would allow optimizing wood flows to existing plants
- Improved focus on manufacturing and customers
- Eventually remove softwood lumber duties



Why A Bigger Log Market Makes Sense

- 1) Current system has most long-term tenure tied up
- 2) Value to current tenure holders flows from perceived security it offers
- 3) Larger market offers alternative source of supply
- 4) Offers opportunities for new entrants
- 5) Changes the incentives from volume-based production to value-based production



What Is Required

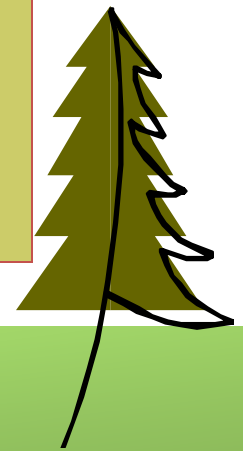
- Land use zoning
- Implement alternative tenure & management arrangements
- Need to consider aboriginal rights



Recommendation

From the existing THLB, create a dedicated land base with a priority for timber production with forest certification and an open market for timber products.

Create a much larger public forest with priority given to conservation of ecological & social values including some timber production overseen by public directors.



Research Questions

- 1) What is the appropriate size/structure of the timber production land base?
- 2) What is the direction & quantity of log flows?
- 3) What new business opportunities are possible?
- 4) How would provincial revenues be impacted?
- 5) What is the optimal level of divestment?
- 6) How can contracts provide certainty in timber supply



Beyond Timber.....



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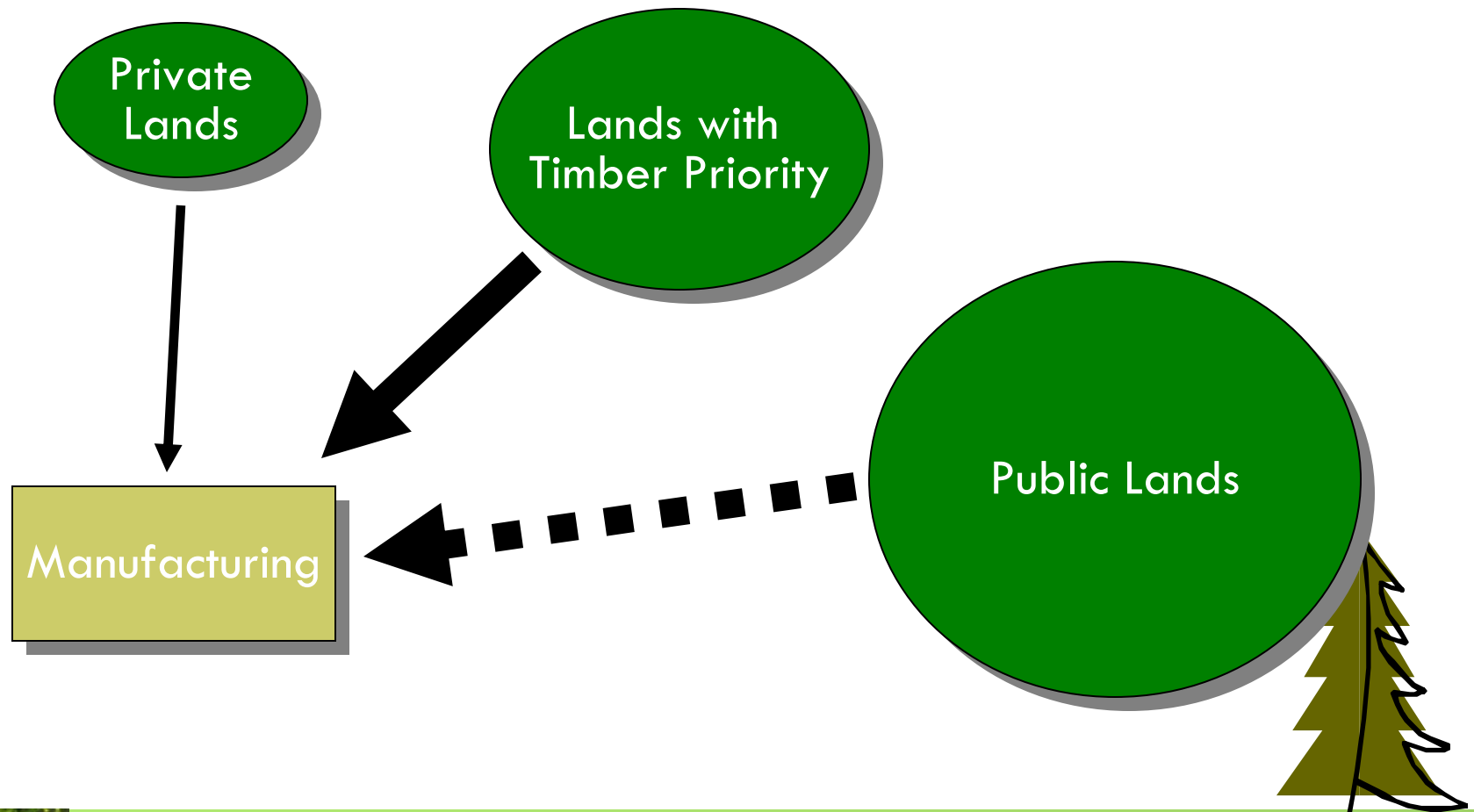


Critique of Existing System

- Current licenses are timber only
- Cumulative impacts not coordinated
- No direct financial incentive for SFM
- Management occurs only on profitable stands
- Current incentive to log the best first
- Employment generation decreasing
- Resources allocated to a small group of companies



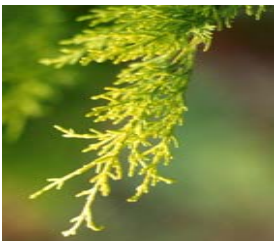
Alternative Management Model



Consequences

- Manufacturing footprint will shrink
- Compensated by:
 - Increase in productive capability of timber focused lands
 - Development of further manufacturing opportunities
 - Non-timber / conservation related jobs

These are natural consequences anyway ...



Management of Public Lands

- Overseen by public boards
- Includes all rights to resources
- Managers compensated for achieving a set of balanced objectives
 - Different for each area
 - Progress indicators drive compensation
 - Revenues go to the crown with a share to communities
 - Products offered competitively



Advantages

- Managers have direct incentive to achieve SFM
- Open and transparent product market
- Non timber and cumulative effects accounted for
- Public directors now have authority for management rules
- Arms length form manufacturing
- Ecosystems services managed for explicitly



Keys to Success

- Agreed upon dedicated timber areas
- Defining role of government
- Finding trusted managers to look after public forest
- Ensuring that this is a “win-win” instead of veiled business as usual
- Willingness to come to the table and search for “win-win”

