



Do we need new institutions and new policies for BC?

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First, is there a problem?

- The focus here is on the economic health of the BC forest sector
- And there are a number of different measures that we can examine
 - Corporate earnings
 - Return on capital employed
 - Production levels
 - Harvest levels
- While useful they vary from year to year and are influenced by volatility (changing prices)

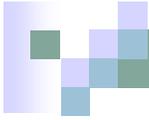
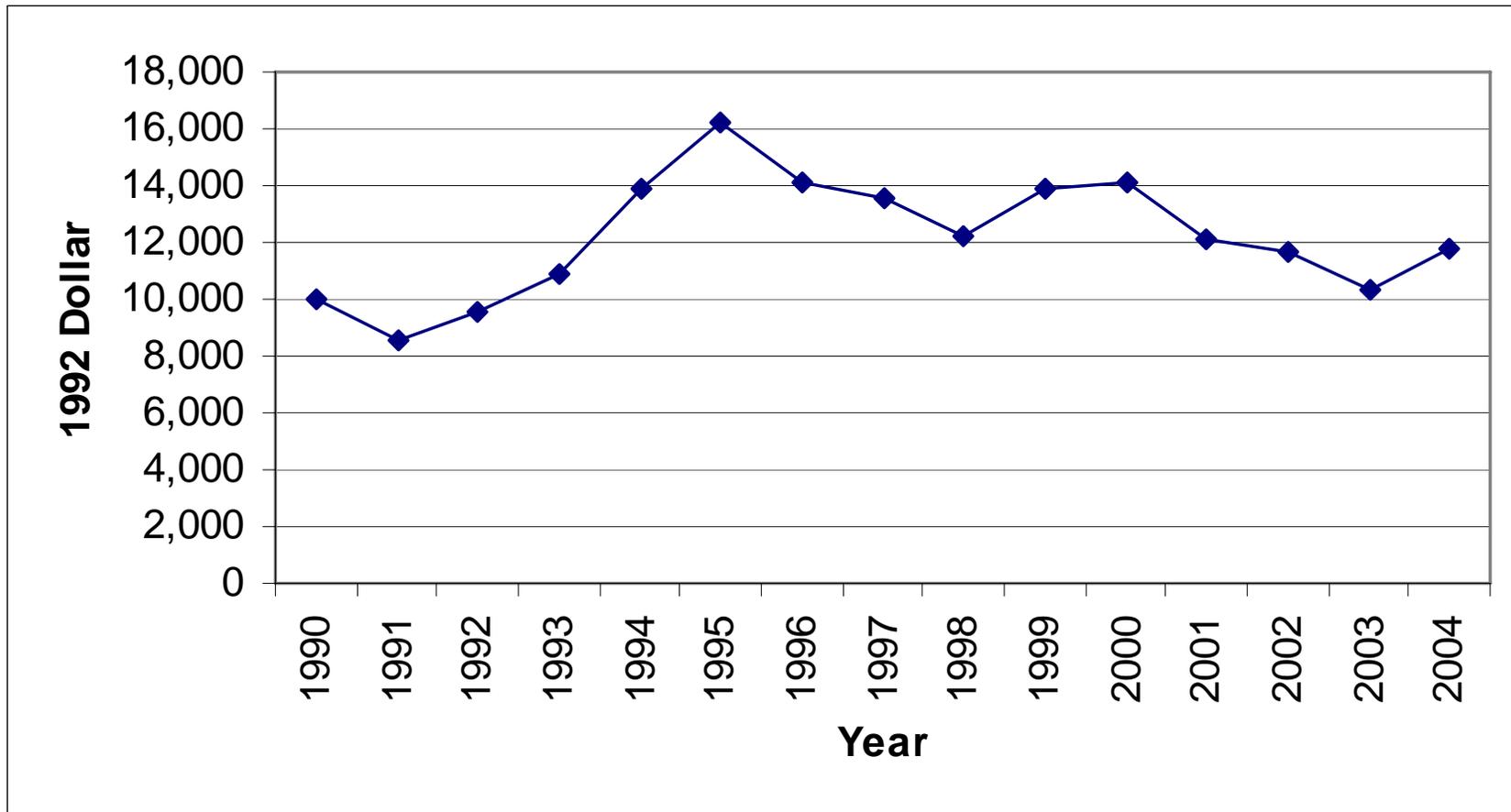


Fig 1. Export revenues per year (\$1992 millions)



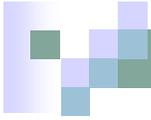
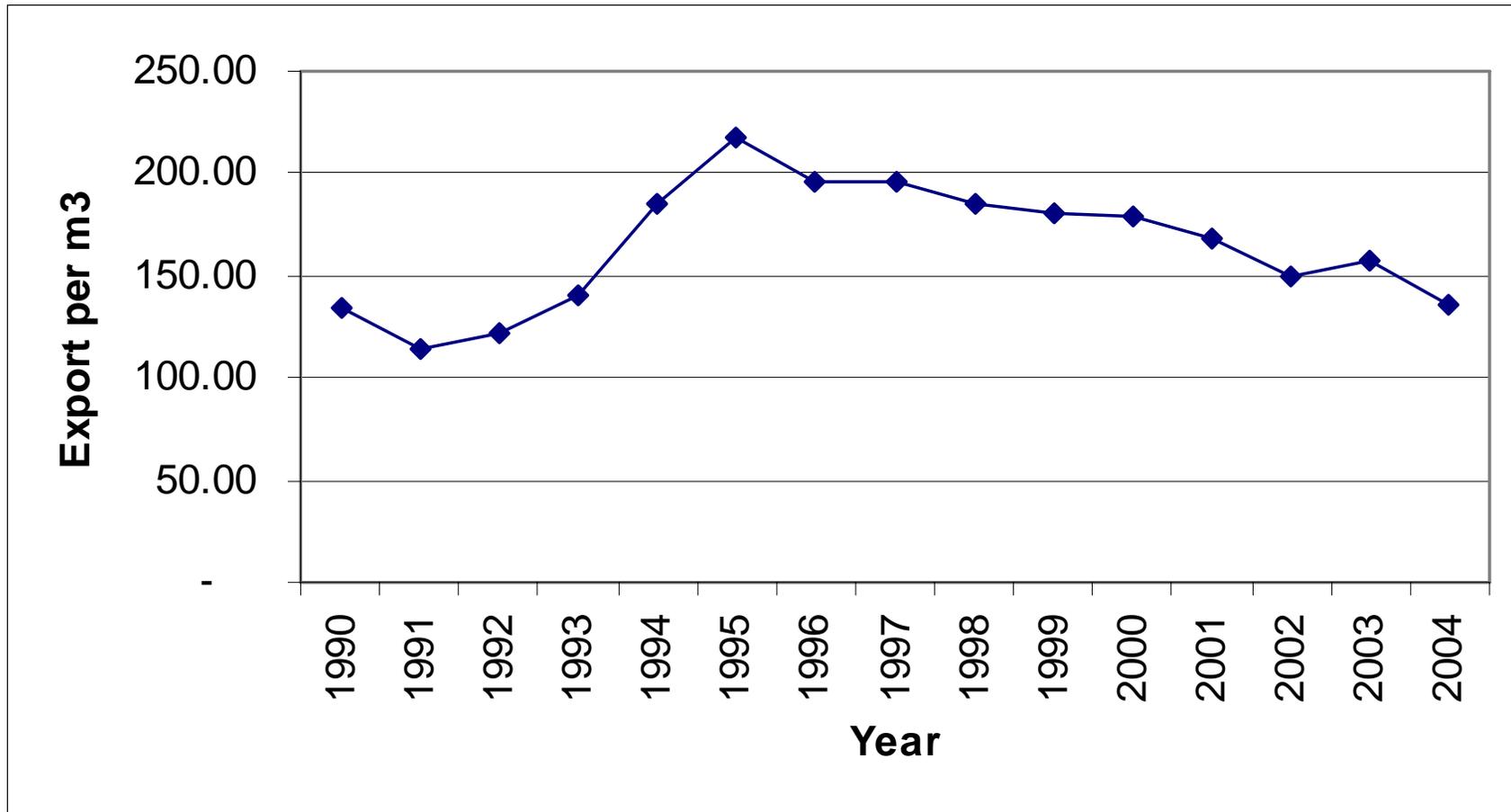


Fig 2. Export (m³) per year (\$/m³)



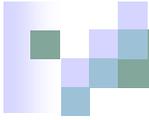
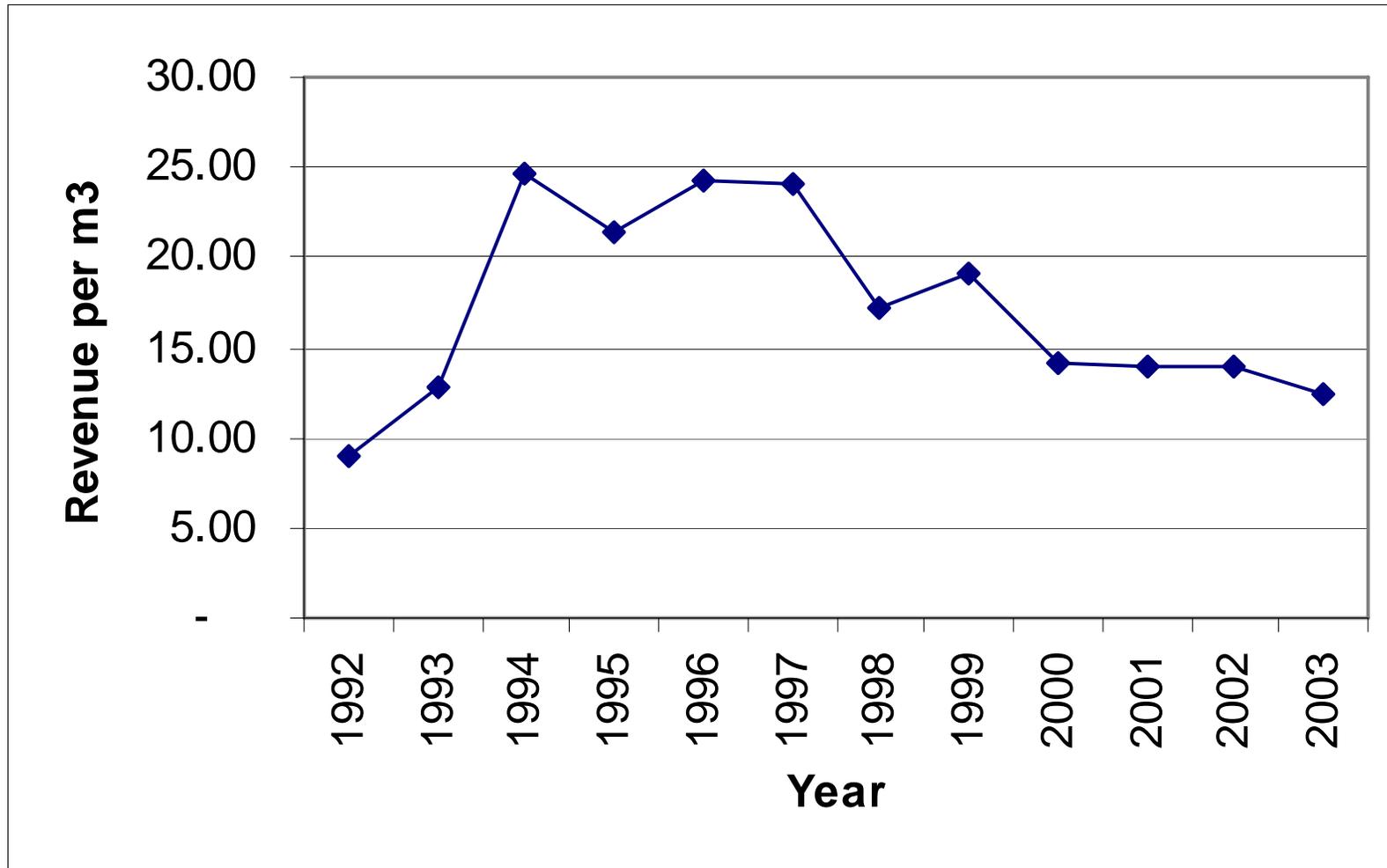


Fig 3. Stumpage revenue per year (\$1992/m³)





We can see the economic returns eroding despite boom times...

- And we need to get more competitive
- But are the factors we need to address out of our control?
 - Is it due to new, more efficient competitors? Do they have lower cost timber? Are we competing with subsidized plantation wood?
 - Are we then in products or markets where we will fundamentally be unable to compete?
- Or are the factors within our control?
 - Can we adapt our institutions and policies to meet these competitive pressures?



What do we mean when we talk about institutions?

- Institutions are the basic “rules of the game” that provide the framework in which firms and other organizations are embedded
- The role of institutions is to provide stability and infrastructure for firms to invest and grow
- An important BC institution is tenure and the property rights associated with it
- Policies then provide direction given the existing tenure arrangement



And this is important (and not just academic jargon) because...

- We can then have problems that stem from:
 - Institutional failures that would suppress growth
 - Market failures
 - Inappropriate policies that create unintended consequences or do not achieve results
- Problems may then need to be addressed at the institutional level and/or policy level
 - For example, encouraging more investment in intensive silviculture-can it be addressed through policy changes (such as the IFPA's) or is there the need to change something more fundamental (as some argue the case for longer tenures)?



Is there then a problem with tenure or is it our policies?

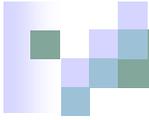
- Basic principles of tenure system
 - Long-term access to timber drives investment by private sector
 - Government retains ownership and control
 - Enough slack (historically) to meet social objectives (principally employment)
- System worked so long as
 - Harvests were expanding
 - Markets were growing
- But now this is no longer the case
 - timber supply is no longer a key variable



So how does the tenure system operate today?

- Government has introduced new policies to facilitate competitiveness (improve efficiency and draw in new investment)
- Response has been all about driving down costs
 - consolidation and rationalization of existing capacity to reduce manufacturing costs
 - shift to contracting out to reduce harvesting costs
 - Industry lobbies government to further reduce costs of the existing system & provide assistance





What are the consequences?



- Social and political concerns are mounting
 - Employment is declining and less stable
 - Impact on forest dependent communities
 - Impact on government revenues
- Environmental and social objectives still seen as constraints (costs)
- Industry still wants further cost relief



The policies have not achieved their objectives

- Cost-efficiency does not guarantee long-term competitiveness
- While cost is important it is insufficient to ensure competitiveness
- This requires investment and innovation
 - And so far the desired levels of investment have yet to materialize
 - And we see little evidence of innovative behaviour

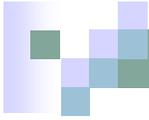
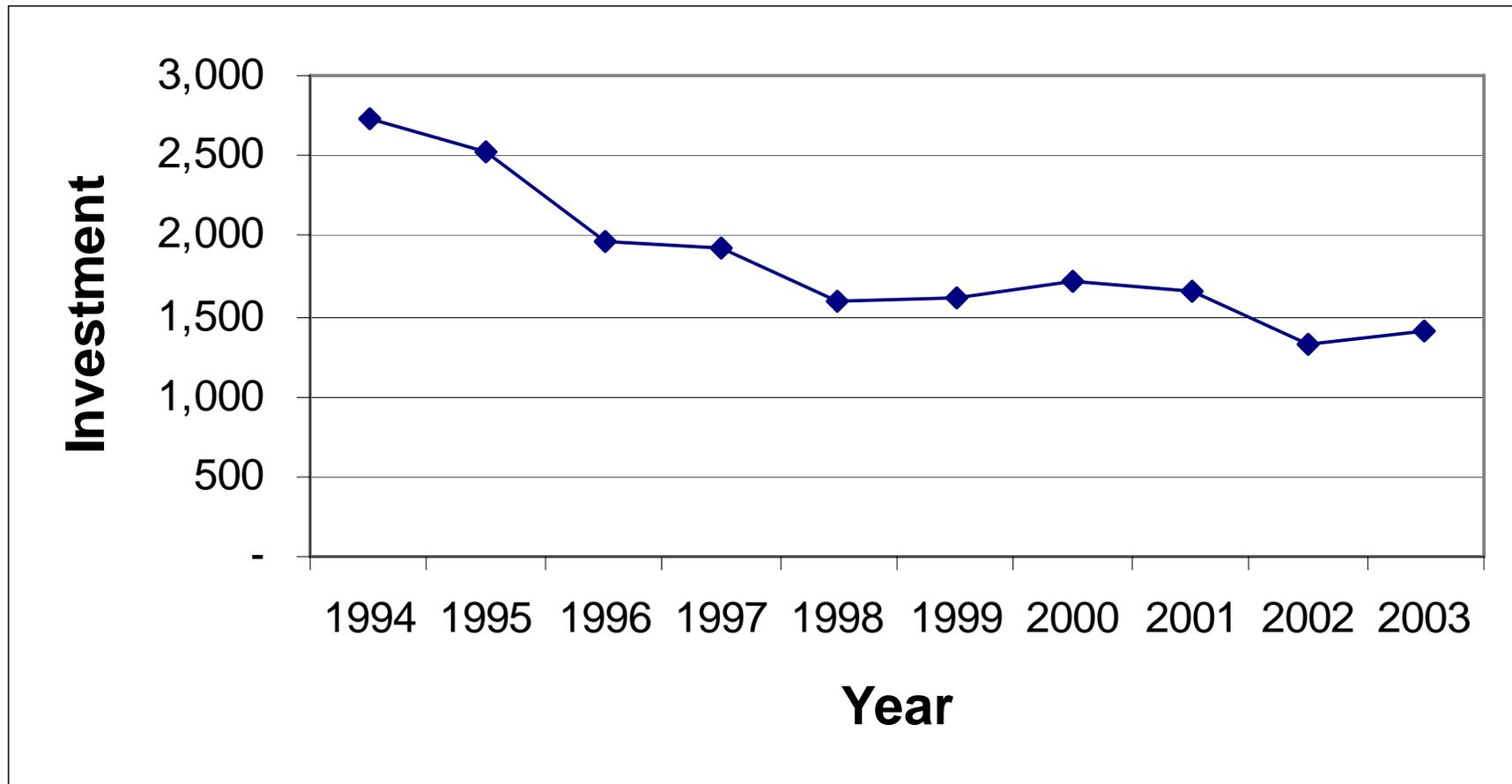
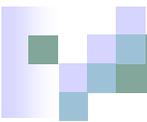


Fig 4. Investment per year (\$1992 millions)





What do we know about what kind of institutions we need?

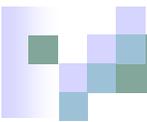


- Static view of institutions is that of passive support, does not distort incentives, ensures transparency
- Alternative is the dynamic view of institutions that respond flexibly and create opportunities and incentives

So what kind do we have right now?



- Tenure system dedicates resources (so it doesn't provide opportunities)
- System restricts change and innovation in change (here are the rules and you need to do it this way)
- Government's traditional ability to provide positive incentives (access to timber) is non-existent
- The current institutions limit the impact of policy changes



So what changes might we contemplate?



- What will create the right incentives for investment and innovation?
- Investment requires security
- Innovation requires the provision of opportunities
- Importance of attracting human capital



Where might we go?

- Alternative is the greater use of markets that offer more diversity of supply (greater de-linking of processing and timber supply)
- Realize competitive timber markets can offer assurance of supply (which will provide security)
- And also provide opportunities for new entrants
- And there may be other areas too where we can experiment (environmental services, amenities, non-timber forest products)



We may be going there...

- Starting to experiment with new ideas
- Some of the policy changes are encouraging new approaches (new owners, increased flexibility)
- But realize there are issues around
 - Government as a monopoly supplier
 - That we still need to figure out how to better meet environmental and social concerns (still constraints)
 - Public skepticism (especially for new kinds of markets)



So what role might professional foresters play?

- Can see now at least two areas
- First, for markets to work will need strong regulatory framework that supports sustainability
 - This will require the associated professional expertise to develop, monitor and help enforce (and will also be a prerequisite for public credibility)
- Second, utilize your knowledge and experience in formulating and evaluating the experiments we undertake