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The City of Port Alberni

Log Export Policy Proposal

FRST 523 FALL 2012 MULTISTAKEHOLDER CONSULTATION EXERCISE

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CITY OF PORT ALBERNI

Mayor John Douglas, Councillors Hira Chopra, Rob Cole,
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THE CITY OF
PORT ALBERNI
BRITISH COLUMBIA, CANADA

IN ASSOCIATION WITH



Alberni Valley Community Forest

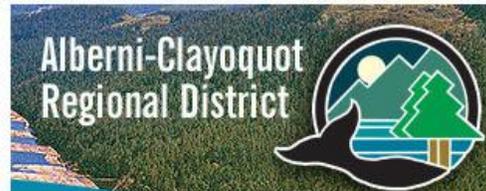
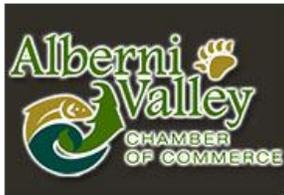


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Organisational Background

The City of Port Alberni is represented by an elected Mayor and Council. The Council's mission for Port Alberni is to enhance the quality of life of residents and tax payers by creating a vibrant, healthy and united community through economic, social, and environmental wellbeing (Bish & Clemens, 2008; City of Port Alberni, 2005).

Problem

Since the 1980s Port Alberni, like many Coastal communities, has seen a decline in the forest economy. Port Alberni's forestry sector used to be one of the highest paid in the Province but the decline of the forest industry in the last 20 years has greatly reduced forestry jobs (Gordon, Halkett, Macauley, & Saunders, 2007). The City of Port Alberni strongly believes that this situation was exacerbated by the increase of raw log exports from Coastal BC, as there has been a 300 % increase from 2009 to 2011 alone (Hamilton G. , 2011). Port Alberni residents oppose log exports at 73 per cent (BC Federation of Labour, 2006)

It is currently uneconomical for local mills to purchase logs advertised under the surplus test. In addition, harvested logs are predominately second growth and the majority of local mills are only equipped to process large diameter old growth logs. Further complicating this problem, most logs are transported to the East side of Vancouver Island or the Lower Mainland for sorting. As a result, local mills have extreme difficulty accessing locally harvested logs or obtaining sufficient inventory to upgrade existing mills. As much as 50 per cent of local mill workers have been laid off (Gordon, Halkett, Macauley, & Saunders, 2007; McLeman, 2012; Hamilton W. , Alberni Valley News:News, 2012). The Alberni-Clayoquot Regional District is surrounded by private managed forest land which is under federal jurisdiction; most logs harvested on federal lands are directly exported. Although the Federal/Provincial disconnect in export policy has been a significant driver of the current situation, this policy proposal is directed toward the Provincial Government.

Evaluation Criteria

In order to equally assess and measure any proposed options for log export policy change, the City of Port Alberni has established the following evaluation criteria which will be used in the evaluation exercise and recommendations of this report:

- Increase in employment rate
- Increase in locally processed timber volume
- Residential and industrial property value assessment

Discussion of Policy Alternatives/Options

1. Increase Provincial Fee-In-Lieu of Manufacture for Local Revenue Sharing

The City of Port Alberni wishes to realise some financial benefit from the forest resources leaving Alberni-Clayoquot Regional District. The City would therefore like to propose a higher fee-in-Lieu of manufacture for public lands, *a percentage of which be returned to the Regional District for revenue sharing* in order to offset local economy loss.

The fee-in-lieu of manufacture is currently calculated based on a percentage of the domestic log value per cubic metre. As of August 2004, the coastal fee-in-lieu is 5 to 15 percent of the domestic value per cubic metre¹ (Thomas, 2012). In 2011, the Province collected \$21.3 million from the fee-in-lieu of manufacture; however, revenues to the industry also substantially increased to \$588 million (Gorden, 2012). Although this was an overall increase in revenue earned by the Province, there is still little incentive for companies to utilize domestic manufacturing facilities. This policy was also recommended by Dumont and Wright (2006).

A reasonable method of calculating the percentage of returned revenue is outlined in Table 1. If there were a 12.5% increase in fee-in-lieu, 6.25% could be designated to all export Districts, within which each Regional District would receive an amount according to their contribution to total export volume. This additionally ensures that Regional Districts are being compensated for their own contribution to export volume, given that some Districts export volume that has been harvested outside of the immediate region.

Table 1 Alberni-Clayoquot Regional District Revenue Return Percentage

Estimated Total Exported Volume from Alberni-Clayoquot Licences ² = 394,313 m ³ Total Exported Volume from BC ³ = 4,313,780 m ³ Estimated Alberni-Clayoquot Licences Contribution to Total BC Log Export Volume = 9%
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The City of Port Alberni intends to use the fee-in-lieu dollars to rejuvenate the local forestry industry, ultimately making it more diverse and competitive. Three key initiatives include: the expansion of the Alberni dry land sort, a continued decrease in industrial property taxes, and support for advanced education of forestry workers. These initiatives are outlined in following sections.

¹ Depending on tree species and quality, i.e. 15% of domestic log value for all grades of Douglas fir; 10% of domestic log value for all other coastal coniferous species and grades (except U and lower); 5% of domestic log value for all coniferous species except Douglas fir (grades U, X, Y and Z) (Ministry of Forests, Lands and Natural Resource Operations, 2004).

² Gordon, Halkett, Macauley and Saunders (2007).

³ BC Statistics (2012).

i. Dry Land Sort Area Expansion

Efficient log allocation ensures the best end price of the log. Efficient sort yards can generate more value locally and can create up to 13 full-time jobs, based on the average dry land sort area size. This translates to roughly 200 shifts per year and an average of \$720,000 per year in salaries (BC Ministry of Sustainable Resource Management, 2003).

A new dry land sort was opened in Port Alberni in October of 2011 (Hamilton G. , 2011; "Dryland Sort Breathes Life into Waterfront", 2011). However, the size of the new sort is relatively small (0.74 ha) compared to the average area (4.5 ha) of dry land sorts (BC Ministry of Sustainable Resource Management, 2003). To reduce log exports, the City of Port Alberni would gradually increase the size of the dry land sort using the shared fee-in-lieu revenue.

To achieve the objectives mentioned above, we will be evaluating the annual employment rate and the annual sorting volume. The destination of sorted logs will also be monitored.

ii. Reduction of Property taxes for Major Industry

Historically, local mills have seen excessive property taxes, much higher than similar communities in the Province. The Catalyst paper mill and two sawmills pay \$70.57 per \$1,000 assessed in major industrial taxes. This is more than twice as much as industrial property tax in the town of Mackenzie and 60% more than the Provincial average (Gordon, Halkett, Macauley, & Saunders, 2007). Although the City of Port Alberni generates a substantial amount of revenue from this taxation, high taxes may hinder the competitiveness of local companies if operating costs exceed market prices.

In 2006, the City initiated a five year tax break for improvements for major industries, reduced industrial property tax to \$300,000/year for the next five years, and discontinued mill property taxes for the City's sewer system. The City wishes to further reduce major industrial property taxes without placing additional burden on residences. Therefore, the City proposes to utilise fee-in-lieu revenues to further reduce industrial property tax over the next five years until it matches the Provincial average. As part of an agreement with the City, companies would be required to reinvest in their mills through upgrades. Residential property taxes would be reduced to the rate prior to increase.

Evaluation can be made via residential and industrial property assessments and the change in locally process timber volume from major companies paying industrial property tax.

iii. Education Investments

Other fee-in-lieu revenue would be invested in initiatives for advanced education in both forestry and entrepreneurship. To be competitive, workers need both innovation and strong business skills. Port Alberni forestry workers have little formal education around forestry, innovative forest products, and basic business practices. In the past, workers were able to get well paying forestry jobs with limited education. In 2001, 24.8% of Port Alberni employees did not have a high school diploma, compared to the Provincial average of 17.7% (Gorden, Halkett, Macauley, & Saunders, 2007). The City of Port Alberni sees a significant opportunity to revitalise the community through education. Funding will be put towards bringing training programs to Port Alberni.

2. Increase Alberni Valley Community Forest (AVCF) Licence Area

The Alberni Valley Community Forest (AVCF) is owned by the City of Port Alberni, and comprises a total land base of 6378 hectares in the Sproat Lake Community Watershed. In the fall of 2011, the AVCF began operations after a long application process in response to then Forest Minister De Jong's invitation to apply for up to a 20,000 m³ Community Forest. However, the AVCF timber profile shows a deficit of the most desirable harvest ages, and the AVCF is not able to realise its full volume (Hutchison & Bartram, 2009).

Thus, the City of Port Alberni proposes that incremental area be added to the Sproat and Taylor operating areas. This proposal ensures a long term, continuous flow of timber, resulting in a balance of ecological and economic benefits. Although this alternative directly addresses Port Alberni, the Province could look at this request as an overall suggestion to diversify the land base through more community forest tenures, placing more emphasis on local economies.

Evaluation of this alternative will be focused on measuring the flow of logs to the newly established dry land sort, as well as measuring the number of associated jobs, which currently sits at eight.

3. Fully abandon raw log exports (Public Land)

The Government of BC has been criticized that it has failed to provide regulatory drivers to ensure the viability of a domestic manufacturing industry (Gorden, 2012). As a result, it has been suggested that the Provincial Government should ban log exports entirely (Marshall, 2002).

Abandoning raw log exports will temporarily halt timber-related jobs on Crown lands. However, as previously stated, most of the Alberni-Clayoquot Region is surrounded by forest lands which are privately owned. The abandonment of log exports by the Provincial

Government would only bring minor changes to Port Alberni. However, this alternative may generate more job opportunities for local loggers and port workers in the long term.

Conclusions and Recommended Option

The City of Port Alberni is proud of the forestry heritage of the Alberni Valley and strongly believes that the forest industry can still contribute to the City's economy. The preceding identification and evaluation of policy alternatives to log exports has largely focused on the perspective of the Coastal forest industry.

Evaluation of the proposed log export policy options against the established criteria of increased employment, increased timber volume processed locally, and increased property values clearly shows that a policy to increase the fee-in-lieu of manufacture and redistribute these revenues is ideal for Port Alberni.

These monies would almost immediately result in a very significant property tax reduction for major forest licensees in the City. In turn, aging mills could better accommodate the changing timber profile and pursue opportunities for the production of value-added forest products. Funding can also be used to expand the new dry land sort, which would quickly increase the amount of logs purchased and processed locally, resulting in more jobs for Port Alberni residents. Funding targeted for education initiatives would lead to a more diverse and stable local forestry economy.

The alternative option to increase the area of the Alberni Valley Community Forest is a viable alternative, although the local benefits may take longer to be realised. An increase in area would open up access to a timber profile containing more mature second growth. This would give more certainty to the business structure of the Community Forest.

The complete ban on all log exports from public land may benefit the local economy in the long term but also hurt it, as the export market employs Port Alberni residents at the port and elsewhere. This option may not be politically acceptable, and is an indication of the poor state of affairs in the local forest economy.

City of Port Alberni appreciates the opportunity to provide input on a subject so close to the heart of the community. We trust that the log export policy alternatives we have put forward will be seriously considered when seeking a solution to a problem which has cut to the core of a proud, vibrant, Coastal forestry town.

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