

New Directions in Ontario's Forests

Planting the Seeds of a New Forest Economy

This is the ninth in a series of fact sheets detailing the economic links between healthy forest ecosystems and the long-term viability of resource-dependent communities in Ontario. This fact sheet looks at the way Ontario's public timber is sold and considers some other approaches that might help to fund healthier forests and more sustainable communities.

Ontario's forests have suffered from years of abuse resulting in degraded ecosystems and depleted forest capital (see Fact Sheets #1-5). To take advantage of the many economic opportunities offered by healthy forests, forest capital needs be rebuilt through intensive ecosystem restoration. Ontario will need to implement ecological harvesting practices and encourage more sustainable and diverse community economies.

But change is never easy. Forest restoration is costly and timber-dependent communities will require financial support if they are to make the transition to an economy capable of maintaining both long term jobs and healthy forests.

How can we afford to pay for these changes? Part of the answer may lie in the current pricing of the province's timber and in how these funds are managed.

Public forests

Premium resources at bargain prices

The province (ie. the people of Ontario) owns 88% of Ontario's productive forests.¹ Companies or individuals who want to cut trees from these public lands pay the Ontario Ministry of Natural Resources (MNR) a fee — called "stumpage" — for this privilege, based on the volume of wood cut.

However, the price paid for the province's wood should not reflect simply the cost of cutting trees; full compensation for use means covering the

maintenance and renewal of the overall forest resource. The TRUE cost of timber production includes the impacts of logging on the health of the forest environment - impacts such as erosion, siltation and destruction of fish habitat, tree species conversion, damage to wildlife habitat, and loss of soil fertility (see Fact Sheets 1-5).² Forest managers are a long way from even understanding — much less calculating — these costs. Instead of being paid by the users of forest resources, they are currently borne by everyone in society, and by the forest itself.

Even in terms of simple tree replanting and tending of logged-over areas, the public appears to have subsidized Ontario's forest industry for many years. From 1990 to 1992, for example, the province paid an annual average of \$267 million for forestry management but took in only \$67

million in stumpage.³

Changing the price structure

New problems, new opportunities

In October 1994, the Ontario government initiated a "New Business Relationship" with the forest industry. This included reorganizing the stumpage system to make it more "market-based" and turning more responsibility for forest management

The new business relationship between the MNR and the forest industry has not changed the proportion of funds directed toward forest regeneration.

Year	Total Spent on Silviculture (\$000)	Total Harvest (000m3)
1990	124,000	25,420 ⁵
1995/96	110,000	22,000 ⁴

ILLUSTRATION BY CHARLES DREYER

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over to the forest industry. While these recent changes have created a more complex and changeable fee structure, the amount of money going to forest regeneration in 1995/96 is virtually unchanged from what was spent in 1990.^{4,5} Nothing has been done to ensure that the province's stumpage rate more truly reflects the cost of timber production.

The new stumpage rate, tied to the volumes of wood cut, is actually three separate charges: a **base** rate, a **residual stumpage** charge and a **forest renewal** fee (see graphic). There is also an **area charge** (not technically considered stumpage) which determined by the number of hectares under licence to be cut (see graphic).

In terms of financing sustainable forests, this new stumpage system has serious shortcomings. But these problems could suggest new opportunities.

Timber revenues

An opportunity for forest renewal

A primary concern is that only about one-half of the stumpage fees collected are reinvested in the forest (through the **forest renewal** charges).⁴ Both the **base** and **residual** fees go directly into "Consolidated Revenue," the general government treasury⁶ for allocation to all government departments and programs. If we want to make ensure sustainable forest resources then surely the government's treasury should not be allowed to turn a profit with business-as-usual timber extraction until costs of previous forest abuse have been paid.² All money generated by government timber sales should be returned to ecosystem management until there is convincing evidence forest-harvesting plans are sustainable.

Windfall profits

A chance to invest in sustainable forests and communities
Another concern is the method of calculating

residual stumpage. This charge is tied to the market price for a specific wood product such as pulp or sawlogs. When the market price rises above the industry's cost of production including a "reasonable rate of return for profit and risk", the provincial government takes a 29% share of the additional windfall profit as **residual stumpage**. If the market price is exceptionally high (as if was for pulp over most of the 1995/96 year⁴), the government's share actually drops to a paltry 10%.⁶

This arrangement raises troubling questions. Is it acceptable for the forest industry to make windfall profits from a public resource that is already seriously depleted? And why would the government's (ie. the public's) share of forest profits drop just as industry's profits reach exceptionally high levels? We are left to wonder: would not a more sustainable approach be to reinvest all of these windfall profits back into replenishing forest capital and easing the transition for timber-dependent communities? Perhaps an allowance could be made to provide financial incentives to companies which adopt more ecological forestry practices.

Community control

Not industry control

Problems abound in the charges for **forest renewal** — the stumpage charge specifically earmarked to pay for regeneration after logging. Far from covering the full costs of forest ecosystem renewal, these funds only provide for replanting and tending of designated tree species identified in the site's forest management plan. There are no regulations which require a stand be brought back to its pre-logging mix of trees species. Neither does the **forest renewal** trust provide increased funding for poor quality sites that are difficult and expensive to regenerate.

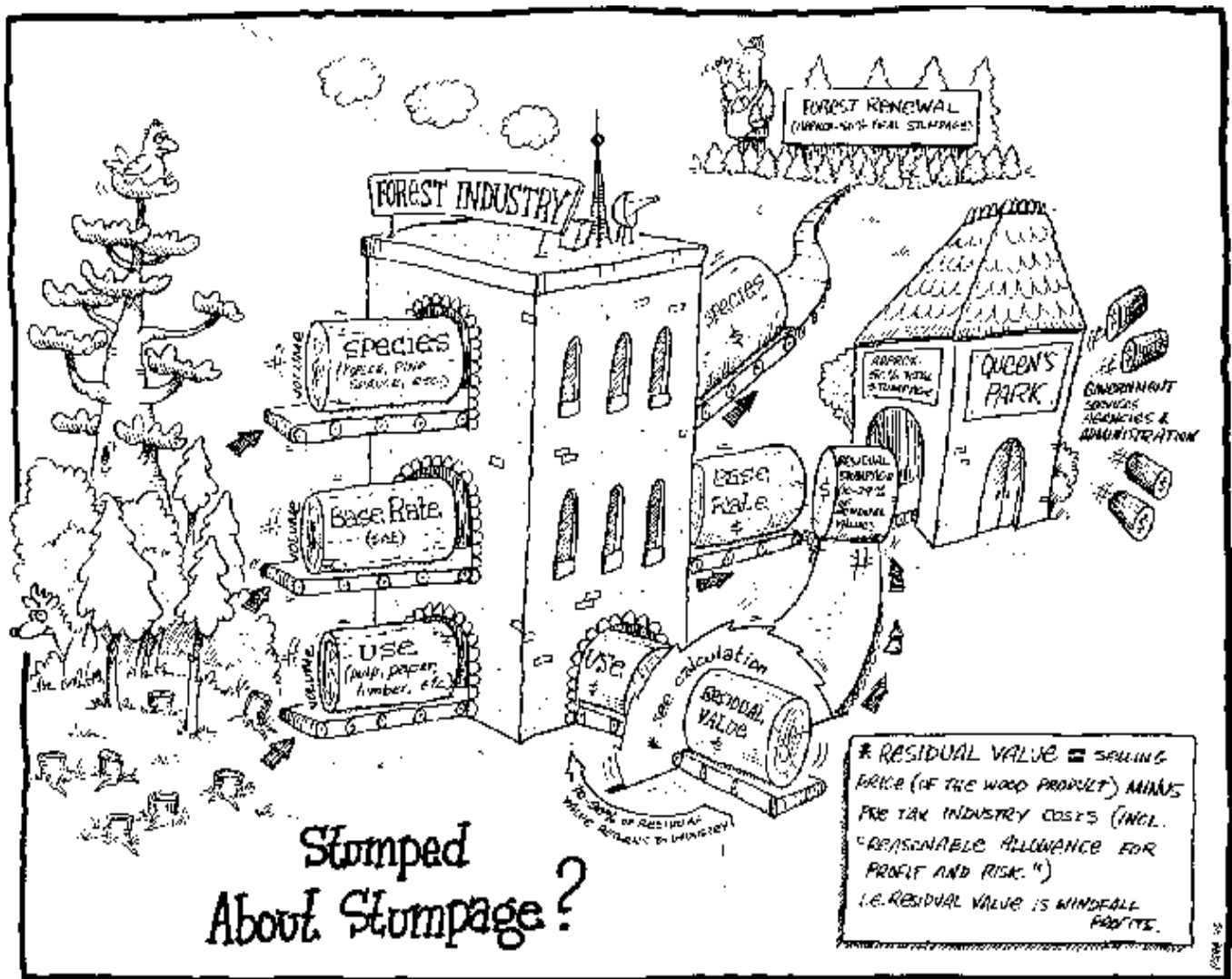
Forest industry licence holders are now responsible for regeneration of the sites they log in the many regions under Forest Management Agreements and Sustainable Forestry Licences. Licence holders are reimbursed for this work from the forest

REFERENCES*

1. The State of Canada's Forests 1994. Natural Resources Canada, Canadian Forest Service
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4. MNR. Phone interview March, 1996. Information confirmed by phone and fax. April 15-17 1996.
5. Compendium of Canadian Forestry Statistics, 1994.
6. The Ontario Market-based Stumpage System. Document of MNR. 1995(?) [find full reference]
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8. MNR. Trust Funds: Draft document. March 1995.
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*Complete references available upon request

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Stumpage is the fee companies pay to cut timber on provincial forest land. Calculated by volume of wood logged, stumpage is actually made up of three separate charges (or "revenue streams"): a basic fee, a fee that varies with the

species of tree cut, and a fee based on how the wood will be used.

The 'logs' on the left side show what the stumpage charges are based upon. The 'logs' on the right show how the money from each separate charge is spent.

Fees collected from the levy on tree species (about half of all stumpage collected) goes into forest renewal. The remainder (from base charges and residual stumpage) goes directly into the government Treasury.

renewal trust. Given their mandate to maximize profit and ensure the highest return to shareholders, timber companies should have the incentives and ability to complete silviculture work inexpensively. However, the forest industry does not have similar incentives to manage forests for ecological health, community stability or the interests of all forest users.

In April 1996, the MNR suffered massive budget cuts and staff layoffs of over 40%.⁷ These cuts severely weaken the MNR's ability to monitor the forest industry's new responsibilities and ensure compliance with forest management standards. There is an alternative to increased forest industry control: community-based local forestry authori-

ties (see Fact Sheet #6) with strong interests in comprehensive, long-term forest health could assume more responsibility for overseeing and monitoring of logging and reforestation practices.

Forest Renewal BC An example for Ontario

British Columbia's approach to the funding of forest sustainability — although far from perfect — could offer some valuable lessons to Ontario (see graphic). B.C. has a fund for forest restoration which is similar to Ontario's **Forestry Futures Fund**. B.C.'s fund, however, provides 26 times greater financial support than that of Ontario

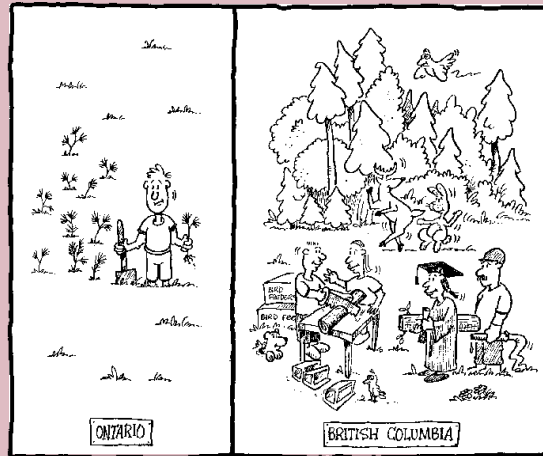
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(adjusted for differences in wood product values)⁸. While Ontario concentrates its finances on timber regrowth, B.C.'s fund is divided into five segments, each contributing to a different aspect of forest health and economic recovery of timber-dependent communities.⁹ In this way, B.C. hopes to use timber revenues to ease the transition to sustainability.

The interests of forest-based communities are not served by low stumpage rates and increasing industry control over Ontario's public forest lands. We do have other options. Communities could play a larger role in monitoring and allocating forest resources for long-term sustainability. Forest products could be priced and taxed to better reflect the true cost of timber pro-

duction. Timber charges, in turn, could be dedicated to restoring our damaged forests, supporting communities in developing a greener, more diverse economy and putting people back to work in the forest.



Ontario's value of shipments is 66% that of BC's, yet Ontario spends only 4% the amount spent by BC for forest restoration. When adjustments are made for the difference in the values of the provinces' wood products shipments, BC spends 26 times the amount of money Ontario spends. BC hopes to ease the transition to sustainability by using revenues from the timber industry.

Ontario	British Columbia
Replanting Cutover Areas	
Forest Renewal Fund (from stumpage charges)*	Separate "Fund" Not Required
Reforestation Funding	
The Forestry Futures Fund (from Area Charges - fee based on area licensed)	Forest Renewal B.C. (from Stumpage Charges)
\$10 million	\$400 million
Relative size of provincial industries	
Value of shipments: \$10,267,000,000	Value of shipments: \$15,557,000,000

*goes into account to pay for replanting (by government or industry)

†since 1987, companies are required by license to pay for regeneration to the "free-to-grow" stage (i.e., planting, spraying, pruning, etc, until trees can grow untended).

Produced by the **Wildlands League** through its Forest Diversity ♦ Community Survival Project, this series seeks to promote constructive dialogue between resource-dependent communities and forest conservation advocates (see *Fact Sheet #1* for more details). We hope the information will be useful in developing economically sound approaches to forest stewardship in Ontario that can help to ensure sustainable economies and sustainable communities.



● **In this series to date:**

- #1 Where Have All the Loggers Gone?
- #2 Cutting the Future Out of Prosperity?
- #3 A New Appetite in the Forest
- #4 Undercutting Our Natural Capital
- #5 Biodiversity at the Crossroads
- #6 Ecological Forestry ... A Cut Above
- #7 Crafting More Jobs with Less Wood
- #8 Nurturing Diversity Through Ecotourism
- #9 Planting the Seeds of a New Forest Economy

Upcoming:

Forest Diversity ♦ Community Survival is a project initiated by the **Wildlands League**, and financially supported by the Richard Ivey Foundation and Ontario Hydro. For more information, mail or fax this coupon.

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The Wildlands League, an Ontario chapter of the Canadian Parks and Wilderness Society, has been working for more than 25 years to promote forest protection and sustainable forest management practices in the province.

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