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The Role of the Provincial State in Forest Policy: A Comparative
Study of British Columbia and New Brunswick

by Benjamin William Cashore

A thesis submitted to the Faculty of Graduate Studies and
Research in partial fulfillment of the requirements for the
degree of Master of Arts, Department of Political Science

Carleton University
Ottawa, Ontario
September, 1988

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To my parents, John and Sharon Cashore,
whose guidance and support will always
be cherished and never forgotten.

The undersigned recommend to the Faculty of Graduate Studies
and Research acceptance of the thesis

THE ROLE OF THE PROVINCIAL STATE IN
FOREST POLICY: A COMPARATIVE STUDY OF
BRITISH COLUMBIA AND NEW BRUNSWICK

submitted by Ben Cashore, B.A.(Hons.)
in partial fulfilment of the requirements for
the degree of Master of Arts

Thesis Supervisor

Chairman, Department of Political Science

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September, 1988

Abstract

Most of the literature available on forest policy chooses to examine either "national" forest policy initiatives or those policies specific to a particular province. The lack of inter provincial comparisons has meant that our understanding of the role of the forest policy arm of provincial states has been limited. A comparison of British Columbia and New Brunswick shows that the level of Crown land alienation has a strong affect on the role of the forest policy arm of the state- both in amount of intervention and the capacity to take autonomous decisions from the dominant economic actors in the forest industry. The different proportions of Crown land ownership in these two provinces has led to diverse approaches to forest policy making. This is true whether examining overall approach to forest policy initiatives, stumpage rate policy, or reaction to the U.S. softwood lumber countervail.

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TABLE OF CONTENTS

	Page
Abstract.....	1
Acknowledgements.....	ii
Table Of Contents.....	iii
List of Tables.....	iv-v
Introduction:	
Forest Policy and the Role of Provincial States.....	1
Chapter Two:	
Decline in the Power of Decision Making: Crown Land Alienation and the Role of The New Brunswick State.....	20
Chapter Three:	
Forest Policy Development, Activity and Structure in the B.C. State.....	53
Chapter Four:	
Stumpage Rates in British Columbia and New Brunswick: Comparing the Disparate.....	82
Chapter Five:	
Interprovincial Comparisons and the U.S. Softwood Lumber Countervail.....	122
Conclusion:	
The Importance of Differences in the Forest Policy Arm of the Provincial State.....	155
References.....	161

LIST OF TABLES

TABLE	DESCRIPTION	PAGE
2.1	Exports of Lumber from British North America (by loads).....	24
2.2	Exports of New Brunswick Timber (tons).....	25
2.3	Export of Square Timber.....	29
2.4	Number of Sawmills in New Brunswick, 1830-1845.....	32
2.5	Crown Land Alienation, New Brunswick.....	35
2.6	Total Percentage of Provincial Forest Ownership.....	39
2.7	1982 New Brunswick Forest Act Licensees.....	40
3.1	B.C. Exports of Goods and Services 1880-1980.....	58
3.2	Crown Land Alienation, New Brunswick.....	59
3.3	Percentage of B.C. Provincial Harvest By Ownership.....	69
4.1	Cost of Public Timber, B.C. and New Brunswick...83	
4.2	Average Stumpage Prices Received By Species and Forest Districts, 1963-84.....	85
4.3	Average Stumpage Prices Received By Selected Species.....	86
4.4	New Brunswick Stumpage, 1980-82.....	87
4.5	Stumpage Collected from B.C. Forest Industry....	91
4.6	Forest Harvest on Crown Land, New Brunswick.....	104
4.7	New Brunswick Stumpage Before and After 1982 Forest Act.....	107
4.8	Assessed Crown Timber Royalties, New Brunswick..	108
4.9	Overall Weighted Average Softwood Stumpage Royalty Paid to New Brunswick.....	109

5.1	Value of Softwood Lumber Exports as Percentage of Total Exports of Forest Products, New Brunswick and British Columbia, 1963-87.....	125
5.2	British Columbia Softwood Lumber Exports, 1963-1983.....	125
5.3	New Brunswick Softwood Lumber Exports, 1963-1983.....	126
5.4	Average Stumpage Rates in B.C. and New Brunswick (for Bench mark period and one year after).....	133
5.5	Lumber Shipments from New Brunswick to the U.S. 1985-86, 1986-87.....	135
5.6	B.C. Forest Industry Gains, Selected Companies, First Half of 1986.....	142

Introduction: Forest Policy and the Role of Provincial States

Forests have always played an important role in Canadian economic development. Indeed, A.R.M. Lower and Harold Innis detailed the significance of forests and the forest industry in the early years of our history.¹ Recent promises to create a federal Ministry of Forests as well as the 1986 US countervail action against Canadian softwood lumber exports are examples of the importance of forestry and forest policy in Canada today.

Yet, the new political economy literature has given this area little attention,² even though there have been seminal studies of other staples industries.³ For academics seeking a better understanding of the Canadian political economy, the apparent paucity of authoritative literature on the subject is cause for concern. More specifically, little is known about the role of the provincial states or the factors which have influenced them in determining forest policy. What are the constraints and influences under which they operate? How do provincial states compare in their development of forest policy?

It would appear that where such literature exists on this subject, much of it either centers on the importance of national forest policy initiatives or is specific to one province.⁴ The works of Les Reed,⁵ Jeffrey Bellinger⁶, R. Peter Gillis and Thomas Roach⁷ all contain assumptions that national forest policy is a crucial area of analysis. Keith Reid, Don Weaver⁸, Nicolas Sidor⁹ and Patricia Marchak¹⁰ have chosen to

examine the forest policy of a particular province.¹¹

While such studies are undoubtedly important areas for enquiry, their approaches contain unproven assumptions. On the one hand, the implication made by those who demand more national forest policy initiatives is that the federal government has a significant role to play. However, since provinces have constitutional control over forest resources, the possibility of dominant national forest policy initiatives implies that there are many aspects of forest policy upon which all provinces can agree. Such agreement seems implausible.

Provincial state forest policies in Canada appear dissimilar, leaving little room for federal policy initiatives. Provincial state actors presiding over forest policy have been influenced by the decisions of previous provincial state actors who were themselves reacting to unique historical factors. As will be discussed in Chapters Two and Three, a province's place in the domestic and international political economies has had a significant effect on decisions taken by previous state actors. There has been almost no effort to harmonize policy with other provinces. As a result, major decisions regarding forest policy have been taken by individual provinces without interprovincial consultation.

On the other hand, a study of only one province assumes that a comparative approach is not needed for intra provincial policy analysis. Yet, it is only through a comparative provincial analysis that "global" explanations of provincial

state forest policy can begin to be developed. It is doubtful that intra provincial analysis could be capable of developing hypotheses which transcend its boundaries. If our understanding about forest policy in Canada is to be enhanced, it is crucial that the actions of provincial states be examined.

It is the contention of this thesis that the most significant variable constraining provincial state policy in at least two provinces has been Crown land alienation (i.e. the sale of provincially owned land to private interests,) as it affects the level of state intervention or activity in forest policy development. Hence, the less Crown land there is, the less the state is disposed to taking an active, interventionist approach in conducting forest policy. As such, the less Crown land, the greater the role of private land and private land owners in influencing state forest policy. Further, the capacity of the state to take autonomous decisions in forest policy development is strongly related to Crown Land alienation. The more Crown land, the easier it is for state actors to take decisions at odds with the dominant economic actors in the provincial forest industry. Thus, this study will show that the varying degrees of Crown Land alienation in the provinces which have been examined are largely accountable for the development of distinct provincial forest policies.

The amount of Crown land alienation does not, by itself, dictate the relationship of state actors to dominant capitalist interests in the forest industry. A province with a

high level of Crown land can develop licence and tenure systems which facilitate capital accumulation for the dominant forests companies. Rather, the level of Crown Land alienation affects the nature of this relationship- both in terms of level of state intervention and capacity to take autonomous decisions. However, analysis of policy decisions must also taken into account how conjunctural variables interface with these structural constraints.

By developing the "Crown land alienation" hypotheses, analyses of the role of the provincial state in contemporary forest policy issues can be more complete. It will first be ascertained why different provinces alienated to such varying degrees their Crown Land and the resultant effect this had on overall forest policy. Further, an enquiry will then be conducted into two related policy areas: recent development of provincial stumpage policy; and a comparison of the different roles of these two states during the time of the U.S. Softwood lumber countervail.

This thesis will focus on the roles of the British Columbia and New Brunswick states in forest policy development. These provinces have been selected because of the pivotal role the forest industry occupies in their respective provincial economies, while operating under radically different constraints. Whereas British Columbia has a high level of Crown Land alienation, New Brunswick does not. As a result, the method by which these two provinces conduct overall forest policy, collect

stumpage rates, and respond to the U.S. countervail is significantly different.

Methodology

In order to examine these hypotheses, we will invoke a political economy approach. For this paper, this means using a framework for analysis which allows the author to examine the important influences of the direction of forest policy while at the same time not being misdirected by a pre-established framework.

Briefly, historical development is crucial for our analysis of forest policy in the selected provinces. Key units of analysis will include political/state actors who have control over forest policy and the forest industry actors with whom they interact.* Finally, the linkages between these actors and their attitudes and beliefs will allow for the broad analysis needed when comparing such diverse provinces. Such an approach will allow for a solid testing of our hypotheses.

We will be able to see that decisions to alienate Crown land have been heavily influenced by a variety of economic and political factors, varying over time. The resultant role of the state regarding general questions of forest policy can then be determined. Once this is completed we can turn to an analysis of resource rent policy and the discourse of federal/provincial and

*Social Actors, i.e., labour, academic and political parties will only be examined insofar as they affect the relationship between economic and political/state actors. As will become evident, social groups appear to have much more influence in the B.C. political economy of forest policy than in New Brunswick.

inter provincial relations. With respect to resource rent questions, we can determine how the role of the state has influenced its method of collecting stumpage. Further, we will be able to compare stumpage policy and set the stage for the countervail.

Chapters Two and Three examine the reasons for Crown land alienation, and the resultant forest policies which have developed. Analysis focuses on how economic and political constraints throughout each province's history of forest policy have significantly affected the manner in which state actors in B.C. and N.B. conduct themselves.

Chapter Four analyses the role each province's state actors have played in developing their current stumpage or resource rent collection methods. It becomes clear that British Columbian state actors have been able to take on a much more active role than their New Brunswick counterparts. As well, the roles of the political, economic and social actors in each of these provinces' forest industries have different degrees of influence on state policy making. This chapter will also compare the actual stumpage rates in each province to show that at the time of the countervail, New Brunswick's stumpage rates appeared much higher than British Columbia's.

Chapter Five examines the 1986 countervail and the radically different approaches of state actors in British Columbia and New Brunswick. While both provinces had numerous reasons to take autonomous decisions, only British Columbia had

the capacity to do so.

We will try to explain why New Brunswick state actors did not take a more critical view of the those provinces which had high stumpage for rates "allowing" the countervail action to proceed. By focusing on the role of the state in forest policy, such a response will seem quite logical.

The State and State Autonomy

The part of the state which will be examined in this thesis is that which has responsibility in the area of forest policy- including both the bureaucratic and elected arms. It is also crucial to identify which factors drive the state to act and what is meant by state autonomy. Canadian political economists have cited varying influences on the state. For early staples theorists, development of the staple economy resulted in the state playing a functional role in developing Canada's resource industries.¹² While emphasizing different abilities of the state to perform this function, Harold Innis, W.A. MacKintosh, Donald Creighton, Vernon Fowke, and Hugh Aitken clearly saw the role of the staple as the key factor in guiding the Canadian state.

Later Canadian political economists saw the state not simply as performing a functional role in developing the staples economy, but also as responding to the interests of the ruling capitalist class.¹³ In this sense, state structures were clearly influenced by the dominant class. C.B. Macpherson, Claire Pentland, and Stanley Ryerson all offered seminal works in this field.¹⁴

The new Canadian political economy which emerged in the late 1960s developed the notion that the preoccupation by the state with staple exports (and a lack of initiative by Canadian industry,) explained Canada's lack of industrialization and its eventual dependence on foreign capital.¹⁵ Thus, external forces appeared to guide state decision making.

Still another group within the new political economy focused on domestic social relations within Canada, seeing the state as developing policies in response to class conflict within Canadian society.¹⁶ Applying concepts introduced by both Ralph Miliband and Nicos Poulantzas, domestic class relations determined state policy.

* This discussion surrounding factors which guide state decisions complements the study of how the state, or state actors, respond to these political and economic conditions. The focus has been primarily on whether the state has had some form of autonomy from the forces by which it was perceived to have been guided.

Within the new Canadian political economy literature, neo-Marxists have developed various notions of the concept of the "relative autonomy" of the state. That is, neo-Marxist political economists have worked under the assumption that the state will act in the long run interests of the dominant capitalist class but that relative autonomy is needed in order to maintain capital accumulation. As such, the state relationship to civil society and the capitalist class must be analyzed in order to understand

state autonomy.¹⁷ Leo Panitch argued that the Canadian state acts not at the behest of the capitalist class, but on its behalf.¹⁸ Tom Traves and Paul Craven have used this concept to show that various state agencies or departments have developed in order to maintain capitalist production relations and stabilize class conflict. Rianne Mahon sees the state as actually representative of the class composition of civil society, with some arms of the state representing the working class.¹⁹

There have been two responses to the neo-Marxist conceptualization of the state. First, some political economists argue that there exists the capacity of the state to take autonomous decisions in which explanations for its decisions have to be found within the state itself.²⁰ For these neo-institutionalists, while the state is constrained by the international and domestic political economies, there nonetheless exist a series of choices from which state elites decide.²¹ Glen Williams adopts a framework in which he recognizes the constraints imposed by the liberal capitalist state, but allows for a wide variety of option facing state elites.²² Pratt and Richards argue that the state elites can determine the direction of capital accumulation.²³

Second, there also exists a literature which rejects the notion that the state inevitably took decisions for the maintenance of capitalist class relations.²⁴ For this group, there exist other reasons besides class relations in civil society which account for state action. Brodie and Jenson argue

that the language of politics has affected the nature of state representation.²⁵ Others like Pat and Hugh Armstrong have argued that unequal gender relations were reproduced by the state.²⁶

This literature presents useful concepts for analyzing the state. While there exists a wide range of views, the literature is unified in the questions it seeks to answer- i.e., "Which factors motivate the state to act?"; and, "Can state actors take autonomous decisions?" By attempting to answer these questions of British Columbia and New Brunswick, we can acquire a better understanding of the constraints and influences under which their state actors operate.

In capitalist economies, state involvement in resource industries can be seen as having two basic functions: 1) Guaranteeing capital accumulation for the dominant economic interests (in "exchange" for development of the staple and resultant economic development) and 2) the role of raising revenue for state expenditures. It seems that the primary function of accumulation usually takes precedence over that of revenue collection. This is especially true when examining that arm of the state which is responsible for forest policy.

In both British Columbia and New Brunswick, the forest policy arm of the state appears to be motivated by the desire to maintain economic growth through the development of the forest staple. However, the state tends to rely on the dominant economic interests to provide economic development. As a result, the state is guided by the dominant economic interests in their

forest economy.

As such, the early staples theorists who emphasized resource development as motivating state policy have much to offer. However, there may also exist the capacity for state actors to take autonomous decisions from the dominant economic interests.

It does appear that if the goal of creating economic growth through staple development is not realized, the impetus may exist for some provinces' state elite to take autonomous decisions from the dominant economic actors in the provincial forest industry. For example, in British Columbia there was an apparent failure of the dominant forest industry actors to provide "adequate" economic growth in the mid 1980s combined with diminishing revenues from the forest industry to the provincial treasury. The result was a series of policy decisions taken by the B.C. state which were autonomous from those of the dominant economic actors in the forest industry. As such, analysis of the reasons for state decision making can not simply be ascribed to development of the staple. The state itself has to become a focus point for enquiry. In this case, the works of Williams, and Pratt and Richards seem to complement such an approach.

However, not all provinces have the capacity to exercise such autonomous decisions. For example, it seems that the high level of Crown land alienation in New Brunswick renders the state unable to take decisions at variance with those of the dominant economic actors in the forest industry. In this sense,

those state analysts who see little room for state agency would best be suited to analyze state forest policy in New Brunswick.

As should be apparent, state autonomy does not appear to be fixed. It can vary across provinces, and across time. As Skocpol states:

... "state autonomy" is not a fixed structural feature of any governmental system. It can come and go. This is true not only because crises may precipitate the formulation of official strategies and policies by elites or administrators who otherwise might not mobilize their own potentials for autonomous action. It is also true because the very structural potentials for autonomous state actions change over time, as the organizations of coercion and administration undergo transformations, both internally and in their relations to societal groups and to representative parts of government. Thus, although cross-national research can indicate in general terms whether a governmental system has "stronger" or "weaker" tendencies toward autonomous state action, the full potential of this concept can be realized only in truly historical studies that are sensitive to structural variations and conjunctural changes within given polities.²⁷

Since the concept of state autonomy is not fixed, it makes little sense to assume that both the British Columbia and New Brunswick states would necessarily operate under the same kind of constraints or influences.

Further, it must be clear that as this thesis only examines the role of the forest arm of the state, we cannot apply such notions of autonomy to the entire B.C. state, nor can we infer that the New Brunswick state cannot perform autonomous functions in other areas. As Stephen Krasner expresses:

There is no reason to assume a priori that

the pattern of strengths and weaknesses will be the same for all policies. One state may be unable to alter the structure of its medical system but be able to construct an efficient transportation network, while another can deal relatively easy with getting its citizens around but cannot get their illnesses cured.²⁸

As such, our enquiry is necessarily limited one since we are only examining the forest policy arm of the state."

Further, as defined by neo-Marxists, we cannot argue with any validity as to whether decisions taken are relatively autonomous. By their definition, relative autonomy contains the assumption that the state will act in a functionalist manner for the long run interests of the dominant capitalist class. As such, it is dealing with a relationship between the state as a whole and civil society. Discussions about one arm of the state are not able to test the "relative" autonomy hypothesis.

Resource Policy and Federalism

This thesis also belongs to a much larger literature on resource policy and federalism. Unlike forest policy, the political economy of resource policy has been given much attention. However, this larger literature contains approaches ill-fitted for analyzing forest policy.

Concepts of metropole domination over hinterland or periphery versus center have been used by many students of Canadian political economy when studying regional or provincial resource policy.²⁹ In this sense provinces are usually defined as pre-determined regional delineations in examining periphery

versus center or uneven development questions. The perceived nature of Canadian federalism has obviously had a role in focusing the literature in this direction. Yet assumptions about the nature or direction of economic development in Canada made by many political economists can skew analysis which compares provinces.

In effect, because they make certain assumptions, these studies ask different questions to explain how particular provinces develop. As such, rarely is the same mode of analysis applied to all provinces equally. Rather, provinces are usually seen as taking clear, distinct and separate roles in one overall area of study (i.e. producer versus consumer in energy policy or resource exporting versus industrial base in agricultural policy.)³⁰

One recent foray into resource policy literature saw some political economists refer to the oil industry as making Alberta a new finance capital in Canada.³¹ While critiquing Macpherson for seeing 1930s Alberta as a virtual homogeneous unit, Larry Pratt and John Richards nonetheless delineated their subject matter by regional or political territory. In predicting the rise of Alberta as a new financial capital, they argued that regions do not necessarily have to adopt a subservient role simply because they are not located in the center or metropole.³²

Yet, their mode of enquiry still contained Macpherson's assumptions of east versus west or that provinces tended to be involved as "adversaries" with different economic interests.

(i.e. as mentioned producer versus consumer.) Recent analysis comparing provinces with the same interest has been noticeably scarce.

Contemporary works on public policy and resource policy have added confusion by attempting to bring a broad paradigm to resource policy enquiry. For example, Chandler and Chandler have argued that until the 1970s, provincial resource policies were basically the same.³³ Yet, as stated, this does not appear the case for state forest policy in B.C. and New Brunswick.

Thus, past approaches in resource policy enquiry seem to fall short of helping us to compare provinces with respect to the softwood lumber industry.

With these concerns in mind, we can use the analytical framework presented here to help facilitate a comparative political economy of B.C. and New Brunswick forest policy, which makes few preconceived assumptions.

In sum, those actors in government, industry and the academic community who have implicitly chosen to understand the forest policy of one province or imply that there is an identifiable national forest policy may be misdirecting their enquiry. They appear to misunderstand the distinct roles of provincial states in conducting their forest policies and underestimate the importance of comparing provincial state forest policy.

Yet, it is only in comparing the forest policy arms of the provincial states that we can see the significant effects of

Crown land alienation. Without such comparisons, our understanding of state decision making in determining stumpage, responding to the U.S. countervail, or other pertinent issues, will be less than complete.

End notes

¹See A.R.M. Lower, The North American Assault on the Canadian Lumber Industry (Toronto: The Ryerson Press, 1938)

²Notable exceptions are Pat Marchak, Green Gold (Vancouver: UBC Press, 1982), and Keith Reid and Don Weaver, "Aspects of the Political Economy of the B.C. forest industry," in Paul Knox and Philip Resnick (eds.) Essays in B.C. Political Economy (Vancouver: New Star Books, 1973)

³ For a discussion of energy policy, see Larry Pratt and John Richards, Prairie Capitalism. For an analysis of fishery policy see, Wallace Clement, The Struggle to Organize (Toronto: McClelland and Stewart, 1986)

⁴ One possible exception is Gordon W.V. Jansen, "Canada-United States Trade Relations: The Lessons of the Softwood Lumber Countervail Case," Executive Bulletin, No. 27, Aug., 1984 (Conference Board of Canada.) However, while Jansen acknowledges the differences of the Maritime provinces, he still focuses on national forest policy initiatives.

⁵See F.L.C. Reed, "Realizing the Economic Potential of Canada's Forest Resource," in The Forestry Chronicle, December, 1979.

⁶See Jeffrey Bellinger, An Historical Analysis of the Goals, Means and Processes of Forest Policy Formation in Canada: Determinant For and Against a National Forest Policy (M.A. Thesis, Carleton University, 1984)

⁷See R. Peter Gillis and Thomas Roach, Lost Initiatives: Canada's Forest Industries, Forest Policy and Forest Conservation (New York: Greenwood Press, 1986)

⁸Reid and Weaver, in Knox and Resnick(eds.)Essays in B.C. Political Economy

⁹Nicholas Sidor, Forest Industry Development Policies: Industrial Strategy or Corporate Welfare? (Ottawa: Canadian Centre For Policy Alternatives, 1981)

¹⁰ Marchak, Green Gold,

¹¹ Some authors combine these two approaches, seeing national forest policy initiatives as being represented by a single provinces. See, for example, Percy and Yoder, The Softwood Lumber Dispute and Canada-U.S. Trade in Natural Resources (Halifax: Institute for Research on Public Policy, 1987)

¹² For a general discussion see Gregory Albo and Jane Jenson, "A Contested Concept: The Relative Autonomy of the State in the New Canadian Political Economy," in upcoming publication, W. Clement and Glen Williams, The New Canadian Political Economy

¹³ see ibid.

¹⁴ See C.B. Macpherson, Democracy in Alberta: Social Credit and the Party System, (Toronto: University of Toronto, 1968); Claire Pentland, Labour and Capital in Canada: 1650-1860 (Toronto: James Lorimer, 1981); Stanley Ryerson, Unequal Union: Roots of Crisis in the Canadas, 1815-1873 (Toronto: Progress, 1968.)

¹⁵ See, for example, Mel Watkins, "The Staple Theory Revisited," Journal of Canadian Studies, 12:5 (1977).

¹⁶ See for example, Alvin Finkel, Business and Social Reforms in the Thirties, (Toronto: James Lorimer, 1979) and also, Alvin Finkel, "Origins of the Welfare State in Canada" in Panitch (ed.), The Canadian State. See also, Tom Traves, The State and Enterprise: Canadian Manufacturers and the Federal Government, 1917-1931 (Toronto: University of Toronto, 1979.)

¹⁷ Further, "explanation[s] of state policies [are] located in the contradiction between the formal political equality of the political sphere and the class divisions of the economic realm." Jenson and Albo, p.25

¹⁸ Leo Panitch, (ed.) The Canadian State: Political Economy and Political Power (Toronto: University of Toronto, 1977)

¹⁹ Albo and Jenson, p.35

²⁰ Ibid.

²¹ Glen Williams, David Wolf and Pratt and Richard's work can be grouped in this field.

²² See Glen Williams, Not For Export: Toward a Political Economy of Canada's Arrested Industrialization (Toronto: McClelland and Stewart Ltd., 1983)

²³ Larry Pratt and John Richards, Prairie Capitalism: Power and Influence in the New West (Toronto: McClelland and Stewart, 1979)

²⁴ Albo and Jenson, p.36

²⁵M. Janine Brodie and Jane Jenson, Crisis, Challenge and Change: Party and Class in Canada (Toronto: Methuen, 1980)

²⁶This is seen, for example, in ibid, where the language of politics is used as an explanation for the lack of a working class party.

²⁷Theda Skocpol, "Bringing the State Back In: Strategies of Analysis in Current Research," in Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol, Bringing the State Back In, (Cambridge: Cambridge University Press, 1986), p.14.

²⁸Stephen Krasner, Defending the National Interest, p.58.

²⁹For a developed discussion, see, G.B. Rush, E. Christensen, and J. Malcolmson, "Lament for a notion: the development of social science in Canada." CRSA, 18 (4), 1981.

³⁰See for example, G. Bruce Doern and Glen Toner, The Politics of Energy: The Development and Implementation of the NEP (Toronto: Methuen, 1985) where they identify a division between "producing" and "consuming" provinces. (especially. Ch. 5)

³¹Pratt and Richards, Prairie Capitalism

³²Ibid.

³³She states, "From measures of revenues and state intervention, it is apparent that the long-standing policy uniformity in provincial resource policy was shattered in the 1970s." See Marsha A. Chandler, "The Politics of Provincial Resource Policy," in Michael Atkinson, and Marsha Chandler, The Politics of Canadian Public Policy (Toronto: University of Toronto, 1983)

Chapter Two: Decline in the Power of Decision Making: Crown Land Alienation and the Role of the New Brunswick State

The relatively high degree of Crown Land alienation in New Brunswick has meant that while the state is not unimportant in administering provincial resource policy, it does not appear to have either the political will, nor the economic rationale, to obtain the relevant expertise needed to assume a leading role in its forest industry. Moreover, the dominance of private forest land means the New Brunswick state does not have the structural capacity to take autonomous decisions in forest policy development.

New Brunswick's place in the international political economy greatly affected state decisions to alienate Crown land. As such, the nature of export markets, trade agreements, and the role of immigration are key variables. Further, the make up of the domestic industry is also important (e.g. the nature of ownership and type of forest production). As the vast majority of Crown land was alienated in the 19th Century, analysis will necessarily focus on state decisions during this period.

It is best to see the level of Crown land alienation through a series of eras in which both international and domestic constraints had varying degrees of influence. Arguably, there are four broad eras in the history of New Brunswick state forest policy: 1) French control before 1783, in which the forest industry utilization was of little importance¹; 2) British colonial rule in which New Brunswick forests were quickly

developed in order to provide much needed timber to Britain's domestic markets (1783-1838) ; 3) The emergence of the New Brunswick state (1838-1890); 4) The end of large scale Crown land alienation and a visibly non interventionist state (1890-present).

The last two eras can be broken into more specific periods. From 1783-1807, the British home government allowed little Crown land to be alienated. A new period began in 1807 with a move toward more Crown land alienation while at the same time resource rent collection was minimal. For the most part, this was because most decisions were based on ensuring a supply of forest products for the British home market. From 1828-1838, the appointment of a Commissioner of Crown Lands saw a distinct change in Crown policy where Crown land alienation became a favoured tool for raising revenues. The third era of New Brunswick state control also has distinct periods. From 1838-1867, the young New Brunswick state experimented with the most efficient and best ways to charge for crown land. While the state actors appeared opposed to Crown land alienation, they found themselves hesitantly giving up vast tracts of Crown land for the creation of railway infrastructure. This was also the beginning of a shift away from the British market and a growth of exports to the United States. The next time frame commenced in 1867 with Confederation, significantly influencing forest export policy. A new mode for collecting resource rents (stumpage) was introduced and more Crown land was alienated in order to augment

infrastructure development.

By 1890, state actors believed enough Crown land had been alienated and forest policy became centred on resource rent collection and licensee agreements.

The state's approach to forest policy in the 20th Century has also been minimal. While stumpage rates changed depending on economic and political factors, there was not even an established mode of calculation. The New Brunswick forest industry would shift in importance from the small sawmill lumber producers to large forest companies producing primarily pulp and paper, as the state was little more than an interested observer.

Not until 1982, did a significant change occur with New Brunswick forest policy.

British Colony (1783-1838)

Little Crown Land Alienation (1783-1807)

The emigration of Loyalists from the United States in 1783 gave the first real impetus for the colonial government ruling New Brunswick to assert its authority. Previous experiences led the Home government not to grant forest lands.² In marked contrast to previous policies in Nova Scotia and the New England states, the Home government wished to encourage immigration and believed that previous policies of Crown land alienation had failed in this regard³:

...fee granting of huge tracts of lands in the older colonies had acted as a restraint upon immigration and enterprise...[and] that the people of New Brunswick should abandon

all thought of acquiring tens of thousands of acres in the woods and should concentrate upon the large holdings they already possessed.⁴

The moratorium on crown land grants had the opposite effect of what the Home government wanted and "many people, in fact, emigrated to Upper Canada⁵ and the United States," "...where they could obtain land in a milder climate completely free of restrictions."⁶ There was much concern in the colony and the Governor arbitrarily muted this ordinance by promising tracts of land to people whenever the ban would be lifted.⁷ Finally, in 1807 the views of Carleton and New Brunswickers led the Home Government to allow the sale of Crown land.⁸

The effect of the moratorium meant that unlike Nova Scotia and the New England states, the New Brunswick state would, for a while, have a greater role in questions of forest policy.

Demand For Timber (1807-1824)

At the beginning of the 19th Century New Brunswick's forest policy was greatly directed by the industrial revolution and economic growth in Great Britain. It was the Home government's desire for a secure timber supply which gave the first noticeable impetus to the New Brunswick forest industry. Concerns regarding Crown land alienation or resource rent collection appeared to be of secondary importance to a British government which desperately needed timber:

The rapidly growing urban population, and the expanding industrial economy depended on wood in countless ways. Wood was needed in building, in mining, in the construction of containers, and especially, in the

development of the railway.... Between 1811 and 1831, when it was said that half the expense of building was in the cost of timber, 750,000 new houses were erected; between 1831 and 1851, railway mileage rose from 140 to 6,266 miles. With this expansion, Britain's domestic timber requirements expanded greatly."⁹

The Napoleon blockade of British ships to many European ports in 1806 greatly affected the development of the forest trade in New Brunswick as Britain shifted its focus to the British North American colonies.

Table 2.1 Exports of lumber from British North America to Britain (by loads)

1806	15,000
1807	27,000
1808	57,000
1809	90,000
1810	180,000
1840	800,000
1841	800,000

Source: Graeme Wynn, Timber Colony

In fact, as Table 2.1 demonstrates, Britain received 15,000 loads of lumber from B.N.A. in 1806, 27,000 in 1807 and 57,000 in 1808 and 90,000 loads in 1809. In 1809 a temporary war duty added to the permanent duty doubled British exports from the British colonies in 1810. By 1811, "...the differential in favour of BNA wood clearly exceeded the added cost of transatlantic freight."¹⁰

The end of conflict in 1815 did not see a reduction in the colonial preferences. In 1816, the war duty on imported timber was made permanent.¹¹ From 1815-1855, British trade with

North American colonies actually exceeded that from the Baltic.¹² By 1840 and 1841, total British imports from British North America exceeded 800,000 loads, which at the time was about three times that of the Baltic trade.¹³

New Brunswick most markedly to benefit from the Napoleonic blockade and resulting British preference, with large increases in population, and economic development.¹⁴

Table 2.2
Exports of New Brunswick Timber

1805	5,000 tons
1812	100,000
1819	240,000
1825	417,000

Source: Graeme Wynn, Timber Colony

The lumber industry dominated production in New Brunswick in the first part of the 19th Century. As table 2.2 shows, from 1805-1812 exports of timber multiplied almost twenty times reaching almost 100,000 tons. In 1819 this figures exceeded 240,000 tons and in 1825 exports were at 417,000 tons. For the following 25 years, exports were in excess of 200,000 tons.¹⁵

The rapid growth in the export marked pushed aside concerns of Crown land alienation. In fact Crown land grants were now encouraged in order to have immigrants stay in Canada and harvest the forests. However, the desire for timber in Britain also led to the virtual free harvest of Crown forest lands.

As an extension of this, extremely poor methods developed in collecting resource rent on Crown timber. Forest land surveys taken between 1810 and 1820 revealed that lumbermen had "illegally" "...weeded the forest in every direction of the choicest timber."¹⁶ Yet, the Home office did not appear concerned.¹⁷

Making Crown Land Less Profitable

As the New Brunswick forest industry was on the way to becoming an established supplier for the United Kingdom market, attention shifted to raising revenues from the forests.

By January, 1816, the president of the New Brunswick Executive Council warned of the depletion of valuable, accessible timber.¹⁸ (These concern about poor forest management helped lead to a change in administration from the British Crown to representatives located in New Brunswick in October of 1816.¹⁹)

The issuing of licenses for logging Crown timber would be much more controlled. Applicants would have to explain clearly where it was they were going to harvest timber, and if the Crown agreed, "...the allowed cut was to be specified in the licence."²⁰ A tonnage system was developed requiring that a fee be paid depending on the amount of timber harvested. It became the responsibility of deputy surveyors to forward licence applications to a Committee of Council.²¹

At this time, there was a strong desire because of the demand of timber in Great Britain, that lands not be hoarded and underutilized. In order to, "...reduce speculative and under-

capitalized participation in the timber trade," as of 1821, the actual payment in advance of the tonnage duty was required and a limit of 1000 tons per year was imposed per person.²²

Enforcement was also more effective. Deputy surveyors were paid one third of the monies collected from the illegal timber they seized.²³ In 1822 more changes were made requiring the registration of log-marks and spring inspection of timber berths.²⁴

Graeme Wynn has argued that by 1824, "...the provincial timber-licensing regulation formed a relatively comprehensive system."²⁵ The levy of 1/- per ton was equal to about 5-8% of the selling price in ports. The stated goal was to ensure that those who wished to make a living from the forests would have to have access to some initial capital.

For all these reasons, Crown Land was becoming less attractive in relation to private land. Nonetheless, it seems incorrect to assert that at this stage revenue collection was of foremost concern to the Home government. When trespass offenses on Crown land were detected, foresters were often allowed to keep what they had cut if they simply paid the regular fee of 1/- per ton.²⁶

As A.R.M. Lower has noted:

In New Brunswick, until about 1820, almost anyone could go on to the ungranted lands of the Crown (and he need not be too particular whether the lands were Crown lands or private lands, so long as they were far enough away from observation) and cut timber. After 1820, a system of licenses was set up, permits being issued for the cutting of a

prescribed number of tons of timber and a certain rate being charged per ton. But official complacency and local pressure allowed payments to be postponed and when the Crown did make an effort to collect outstanding accounts, it failed. (J. Hannay is cited at this point.) For at least a generation, or until about 1840 or 1850, when the forest industries began to assume a more tangible capitalistic form, New Brunswick remained the small individual cutter's paradise, Crown timber lands practically lying open to all comers.²⁷

It seems that the need to ensure that New Brunswick continue to be a stable supply of timber was still more important to the British colonial administration than collection of resource rents. Yet this epoch did mark a move in the direction of a focus on resource rent collection.

Alienating Crown Land (1824-38)

There was a growing concern in Britain that the colonies were costing more in defence and administration and more than exceeded any benefit being received.²⁸ This was due partly to a slight drop in the importance of some New Brunswick exports to the United Kingdom. Table 2.3 shows how the exports of square timber from new Brunswick (most of which were directed to the United Kingdom government), had been dropping since the 1824 high of 321,211 tons.

With the colony losing its prominence as Britain's timber supply, the Home government felt that New Brunswick should be paying for more of its maintenance. This was to be accomplished through higher resource rents and Crown Land alienation. Both of these approaches would see private land

increased.²⁹ In order to achieve these results best, the Home Office appointed Thomas Baillie as Commissioner of Crown Lands and Forests.³⁰

Table 2.3 Export of Square Timber

Table- the export of square timber in New Brunswick

Year	Square Timber (Pine)
1821	246,394 tons
1822	266,450 "
1824	321,211
1835	291,817
1839	277,998
1840	261,118
1845	257,451
1860	39,290
1900	20

Source: Forests and Forestry in New Brunswick, 1928 p.601.

Neither Baillie, nor the British Home Office, appeared to concern themselves as to long term effects of alienating Crown timber. Raising revenue was the primary concern.:

His duty was to raise a vast revenue from the Crown lands, to create a fund which would ... relieve the British government of the costs of the civil establishment in New Brunswick...³¹

The details of this era under a Commissioner of Crown Land and Forests are extremely detailed and complex. Briefly, however, decisions were taken to bring in competitive bidding for Crown land, substantially increasing resource rents.³²

The higher resource rents had the effect of increasing the demand for private land.³³ Not all purchases were from legitimate lumberers:

[Baillie] defended the land sales system-introduced on instructions from England in 1827 - against the accusation that lumberers were posing as settlers to acquire land for its timber, and encouraged "capitalists" to purchase large tracts for their timber in the 1830s. To Baillie's mind, "bogus settlement" and the alienation of large areas of timber land were of little concern if they brought more for well-timbered land than bona fide settlers would pay. ³⁴

Graeme Wynn has argued that the ability of the surveyors to exercise control over the forest kept even more Crown land from being alienated:

At a time when the United States had provided a lead in the rapid transference of the public domain to private ownership, when success in the administration of the forest was measured by the revenues derived from it, and when Thomas Baillie was prepared to alienate large tracts of the Crown domain to lumberers, the Deputies' success in implementing Crown control of the forest lessened the incentive to change that might have come from official discontent at the ineffectiveness of the Crown's administration. ³⁵

By 1878, the position of Commissioner of Crown Land had ended. Yet the policies brought in by the Colonial Government through this position saw vast tracts of land alienated and the beginning of concentration of capital.

Statistics on Crown land alienation are incomplete. Nonetheless, those which are available reveal that before 1807, one million acres of Crown Land had been alienated and that before 1867, 7.6 million acres had been alienated.³⁶ It can therefore be assumed that much Crown land was alienated during this period. (See Table 2:5)

The advantage Lower attributed to the small lumberer in

the first three or four decades of the 19th Century had disappeared. The Crown land alienated under the Baillie administration would become a major factor in constraining the role of the New Brunswick state in forest policy development.

Emergence of the New Brunswick State: Short Term Assertiveness
(1838-1867)

In 1837 the Imperial government and the House of Assembly signed a contract which saw the assembly gain control over the administration of Crown lands.³⁷ The protective relationship that Great Britain had over New Brunswick had begun to decline. Reductions in the colonial preferences started in 1842, continuing through 1847, 1848, 1850, and 1860 so that by 1866 exports of wood to Britain were duty free.³⁸ This marked a slight change in direction from the New Brunswick forest industry toward other markets, principally the U.S.

This change in administration was crucial as the New Brunswick government did not appear to favour the policy of granting tracts of Crown land. The question facing the young government was how to raise revenue without further alienating Crown land. The answer, in the short term, came from the Brunswick House of Assembly which imposed an export tax on all lumber leaving the province in 1842.³⁹

The Crown also made collection of stumpage easier as Crown lands were no longer granted on stumpage basis. Instead, the Crown turned to a system of leasing forest lands on a mileage

basis which would form the basis of Crown Land leasing for the next three decades.⁴⁰

This was clearly a move by the New Brunswick administration to favour Crown land use. Unless a lumberer could actually prove that his lumber was cut from private property (which was a costly event as it meant one had to pay for one's own surveying costs,) an export tax applied.

This export tax also encouraged the growth of industry and employment in the forest industry. The tax did not cover domestic consumption, thereby encouraging the indigenous New Brunswick shipbuilding industry.⁴¹ In fact, the young state did reside over a massive increase in the number of sawmills and people employed. Table 2.3 shows that before Responsible Government was introduced in 1838, there were 320 sawmills employing 4200 people. This figure jumped to 640 sawmills employing 8400 people by 1845.

Table 2.4, Number of Sawmills in New Brunswick

Year	#of Mills	People employed	Value
1830	229	3798	\$320,000
1835	320	4200	420,000
1840	574	7400	740,000
1845	640	8400	900,000

Source: Forests and Forestry in New Brunswick, 1928. p. 603.

Throughout the life of this tax, many perceived it was unfair.⁴²

While the state clearly took an active role in forest policy development during this epoch, it would have difficulty maintaining this posture.

The export tax can be seen as the last era in which the state was a dominant actor in forest policy. Ironically, it was its entry into Confederation that marked the repeal of the export tax, further Crown land alienation and the decline of the role of the state.

New Trade Relationships, and More Crown Land Alienation
(1867- 1890)

Upon entry into the Canadian federation, the province no longer had jurisdiction in export markets and was forced to end its export tax.⁴³ Foreshadowing future activity, the New Brunswick state was slow to replace the export tax with other charges. As Babcock notes, "The Province was very slow to realize that without the export tax it was virtually giving away its standing timber."⁴⁴

In 1867 the current Surveyor-General noted in this annual report that:

The Upset rate of Mileage on Timber Berths was Two dollars per square mile from 1844, when the Export duty was first imposed, until 1852, when it was increased to four dollars, at which rate it yet continues. I am of opinion that it is still far too low, and that a considerable increase in the rate might certainly be required for a whole year whatever quantity, however great, the Licensee may be able to find growing on Six hundred and forty acres.⁴⁵

He further submitted that, "...the too favorable terms on which Licenses can be got from the Crown, (besides being unfair to

private land holders) induces waste and frequent over production."⁴⁶

Concerns over resource rent revenue were finally addressed in 1874. Stumpage became the main way for raising crown timber, with a mileage and annual renewal fee more or less set.⁴⁷ Yet, stumpage rates were still arbitrary figures, and while they tried to capture some kind of economic rent, there was no set formula applied.⁴⁸

In raising stumpage, private land would become increasingly attractive, further diminishing the amount of Crown land and injuring state control over forest policy development.

Even though the state had been opposed to further Crown land alienation, it appears that it felt compelled to do so in order to maintain economic development.

By 1860, railway development was becoming increasingly important for maintaining a modern infrastructure. As with the federal government and other provinces, New Brunswick state actors felt the need to subsidize railway companies which would build the necessary infrastructure to facilitate a growing economy.

The result of the subsidies was the alienation of massive amounts of Crown land to private railway companies. The largest of these grants were made in the St. John River Valley from 1873-1879.⁴⁹

The end of the initial railroad construction would also end the massive Crown land alienation by both the British home

office and the indigenous political elites in New Brunswick. Yet it is apparent that the role of the state and Crown land became less dominant as the most accessible and productive lands were those which were alienated:

Generally speaking, the Crown forests make up the more remote half of the timberlands of the Province. It is logical that the forest industries should first use the timber which is close at hand and this is what has happened.⁵⁰

Table 2.5 Crown Land Alienation, New Brunswick*

<u>Year</u>	<u>Acres</u>
1890	35,400
1889	30,200
1888	26,600
1887	26,700
1886	29,200
1885	40,600
1884	43,700
1883	59,700
1882	59,700
1881	56,700
1880	37,200
1879	35,900
1878	714,400**
1867-1877	1,117,954**
Before 1867	7,600,000 acres

*Provincial land base of 17,910,400 acres. Total land alienated is about 59.2% of total land. Approximately 83% of New Brunswick lands are considered forest.

**The figures for 1878 has been calculated from information supply by both sources above. It is know for certain that between 1867-1878, 1,832,300 acres were alienated in New Brunswick. Information from the New Brunswick source above shows that as of 1877, 8,717,954 acres had been alienated from New Brunswick. The figure for 1878 is has therefore been calculated using both sources, and is not an actual report figure.

Note:

1) Information on the yearly figures of Crown land alienation before 1867 does not appear available.

Sources: Urquhart, M.C. (ed), Historical Statistics of Canada (Toronto: MacMillan Co. of Canada, 1965); F.H. Leacy, (ed), Historical Statistics of Canada (2nd ed.); Statistics Canada; 17th Annual Crown Land Report for the Province of New Brunswick, 1877; Forests and Forestry in New Brunswick, Special Report to the British Empire Forestry Conference, Australia and New Zealand, 1928 (Fredericton, New Brunswick, 1928); Report of the New Brunswick Forest Development Commission (Fredericton, N.B., June, 1957);

Since 1879, there has been little Crown land alienation. As Table 2.5 demonstrates, between 1867 and 1877, 1,117,954 acres of Crown land were alienated and 714,400 the following year. As of 1879, these figures dropped dramatically to the 10,000 level. In 1928 the Crown land totalled 55.18% of all lands in New Brunswick.⁵¹ Today, this figure has only dropped to 48.5%.

Ironically, this era in which the state supported massive infrastructure development entrenched the role of the state as a supportive actor in New Brunswick forest policy. Increasingly, private land owners and lumber company owners would have a dominant role to play.⁵²

Life After Alienation (1890-)

By 1890, significant Crown land alienation had ceased. However, almost half of the land, and most of the accessible land was privately owned.⁵³ Table 2.5 shows that as early as 1879, Crown land alienation had been severely curtailed. The state would therefore assume a supportive role in the forest industry and future forest policy decisions. As Chapter Four elaborates,

the state was fairly inactive in setting resource rents, and did not appear active in other areas of forest policy development. For the most part, it would remain an interested observer as the industry itself would change, becoming dominated by large companies, most of which were pulp and paper manufacturers.

Not until 1982, would the dominant forest industry actors clearly provide the impetus for the state to significantly alter the manner in which forest policy was conducted. Only at this time, would the New Brunswick government even appear to be actively involved in the creation of forest policy development. As the impetus for policy decisions appear to originate from the forest industry, it is necessary to review briefly changes in the structure of the New Brunswick industry.²

Changes in the Industry

From the turn of the century, the lumber industry was in decline vis-a-vis Western Canada. As Eugene McGuinley has noted:

By the end of the first two decades of the 20th Century, the lumber industry of the Atlantic region had passed its heyday and had entered the period of decline or regression....While the industry continues to play an important role in the regional economy, it no longer maintains the dominant position it once held. It is apparent that since the beginning of this century, there has been a gradual shift toward the western regions of Canada of the centre of gravity of the Canadian lumber industry.⁵⁴

While lumber was decreasing in importance, a highly concentrated pulp and paper industry was developing. A 1974 report summarized:

The pulp and paper industry in New Brunswick, which was

only embryonic before World War I, now dominates the forest products scene in terms of value of production, wood consumption, and control of the timber resources. Since the end of the second World War, the number of pulp mills has increased from six to eleven, and production at five of the original six has been increased.⁵⁵

Not only was the structure of the forest industry changing, but the role of Crown land was diminishing rapidly. In 1957 it was remarked:

The average annual cut on Crown lands in recent years is almost exactly the same as it was reported to be 25 and 40 years ago....On balance, it can be said that the Crown timberlands have so far made no direct contribution of raw material to the expansion of the forest industries.... In the earlier period, the Crown lands were supplying more than half the logs needed by the saw-timber trade, but lately they have provided barely one-third of the saw logs used by a somewhat shrunk lumber industry. (Emphasis added.)⁵⁶

Crown land was also less productive:

To present the picture another way, ...the average annual harvest off wood from Crown lands has been almost stationary at about seven or eight cubic feet per acre, except during the 1930's when it dropped to less than five cubic feet. In contrast, the amount of wood taken from private lands has risen from about 16.5 cubic feet per acre in the early 1920's to 25 in the early 1950's.⁵⁷

These changes no doubt helped to create the impetus for the establishment of the New Brunswick Forest Development Commission of 1957. Its mandate was to "study and report to the Government of New Brunswick concerning the forest resources of the Province and their protection, development and utilization for all purposes...including...the nature and extent of the Province's forest resources both Crown and privately owned...."⁵⁸ The Commission was highly critical of current state involvement in

the forest industry and recommended sweeping changes to tenure, lease and stumpage practices.⁵⁹ Yet there was little effect on government policy which, for the most part, did not change in any significant fashion.

The New Forest Act (1982- present)

With a forest industry that was being dominated by large forest companies, the 1982 New Brunswick Forest Act was implemented.⁶⁰ This Act severely changed licence agreements in New Brunswick and radically increased the stumpage rates. The main goal, according to the government, was to manage the timber supply allocation in anticipation of an inadequate supply of timber to meet the industry's needs. (Chapter Four will provide a detailed analysis of the Act with respect to stumpage.) Many claimed that the changes were the result of an active state asserting its authority over the forest industry.

Table 2.6 Total Percentage of Provincial Forest Ownership

Crown	48.5%
Large Free Hold	21.0%
Small Free Hold	30.5%

Source: New Brunswick Response to the U.S. Countervail. The Report of the Forest Resources Study, 1974 presented slightly different statistics.⁶¹ However, recent Annual Reports from the Department of Natural Resources confirm this table's statistics.

Such analysis appears to misunderstand the reasons for the change in New Brunswick policy. Actually, the New Brunswick Forest Act seems to represent a further step in the concentration of industry occurring in the province. Ten forest companies (most of them pulp and paper oriented) were given long term

licenses over all Crown forest lands. As Table 2.6 shows, this represented about 48.5 per cent of the provincial forest land (although the least productive.) Every other forest company (mostly saw mills) had to enter into sublicensees with these large forest companies. Table 2.7 shows the select group of companies and the Crown land upon which they have control over. As such, the little government involvement in the forest industry in the past has declined even more. As we will examine in Chapter Four, the high stumpage rates would actually serve to increase the concentration of capital in the large forest industries vis-a-vis the smaller sawmill operations.

Table 2.7 1982 Forest Act Licensees

Licensee	Area (ha)*
NBIP Limited	380,300
Consolidated-Bathurst Inc.	263,900
Acadia Forest Products Ltd.	324,600*
Boise Cascade Canada Ltd.	403,900*
Northwood Pulp and Timber Ltd.	72,900
J.D. Irving, Ltd.	532,500
Rothsay Paper Limited	405,300**
St. Anne-Nackawic Pulp and Paper	157,500
Juniper Lumber Co. Ltd.	134,200
Fraser Inc.	450,800

Source: Annual Report of the Department of Natural Resources, New Brunswick, 1984-85, p.54

* As of 1985, Miramichi Pulp and Paper Inc. had assumed responsibility over both the Acadia Forest Products Ltd., and Boise Cascade Canada Ltd. licenses

** Soon after the 1982 Crown Lands and Forest Act was passed, J.D. Irving purchased Rothsay Paper Limited, giving Irving effective control over 937,800 hectares.

Large industry itself seemed to understate publicly its support for the Act. Then president of the New Brunswick Forest

Products Association, Joe O'Neill remarked in 1982 , "[All it really is] is a more organized way of doing business and a more efficient means of preserving our forests."⁶² However, in the same breath O'Neill acknowledged that further concentration of industry was inevitable, "...eventually there's going to be a scramble for the resource. It will be a survival of the fittest."⁶³ (Soon After, K.C. Irving ltd. bought Rothesay Paper Ltd, almost doubling the amount of Crown land it would manage. As of 1985, the Acadia Forest Product Ltd. and Boise Cascade Canada Ltd. Licenses had been taken over by Miramichi Pulp and Paper Company.) It seems that with the Crown Lands and Forest Act of 1982, the large forest companies were well positioned for such a battle.

In any event, the state's role in forest policy would be further lessened, becoming the "conscience of the system."⁶⁴ The government seemed more concerned about rushing in changes than it did about the possible effects of the proposed legislation, "The question is not whether we must undertake these tasks [outlined in the Act], but only who should undertake them and how."⁶⁵

Not surprisingly, the state did not appear to appreciate the concentration of industry its Act encouraged:

I am sure if they (the government) had known that Irvings were going to buy ...Rothesay, which really gave them two licensees and put them under one corporate banner, they (the government) would never have [brought in the Act.]⁶⁶

By December 1982, after almost a year under the New Act, the only group which seemed to openly support the program was that of

the large licensee companies: "The whole industry had input, so it's up to us to make it work."⁶⁷ However, the New Brunswick Federation of Woodlot owners were less than happy. Although happy with the intent of the legislation, the secretary-manager of this organization argued that, "it just hasn't worked out well,"⁶⁸ asserting that the concept of Crown land as the residual supplier had not been enforced. As we will see in Chapter Four, nor were the small sawmill sublicensees companies favourable.⁶⁹

Thus, contrary to many views,⁷⁰ the strongest support for the New Brunswick 1982 Forest Act seems to have come not from government, but from large industry.⁷¹

Summary

The decision to alienate Crown land in New Brunswick was affected by the domestic and international political economy of the 19th Century. The level of Crown land alienation meant that the state came to play only a minor role in the creation of forest policy. Further, any impetus for change would have to come from the dominant economic actors within the New Brunswick forest industry.

It is not possible for this paper to test this hypothesis with every aspect of forest policy. Nonetheless, by examining stumpage policy and state activity during the time of the countervail, the effects of Crown land alienation will become apparent. Before we can examine the particulars of present day New Brunswick stumpage policy, an analysis of the role of Crown land alienation in British Columbia is needed.

Endnotes to Chapter Two

¹ Before 1783, the New Brunswick forest industry was not a well developed nor was it a significant force in the international lumber trade. Also, with the 1763 Treaty of Paris having all the French seignories reverted back to the state, under British control. From Special Report to the British Empire Forestry Conference (Australia and New Zealand), Forests and Forestry in New Brunswick, presented by Charles D. Crichards (Minister of Lands and Mines and G.H. Prince (Deputy Minister of Lands and Mines), Fredericton, N.B. 1928. p.28

² Land titles given after 1783 "reserved the Crown's right to all timber fit for naval purposes, and Crown reserves were established to prevent settlement in areas of particularly valuable pine timber." By 1805, 200,000 acres was set aside for Crown use. See Graeme Wynn, Timber Colony: A Historical Geography of Early Nineteenth Century New Brunswick, p. 138.

³ It is true that from 1763 until 1784 large tracts of forested land were set aside for officers of the Royal Service. But while the intent of this action was to have these lands settled by the officers, the conditions of the land grants were not satisfied and the land reverted back to the state.

⁴ W.S. MacNutt, New Brunswick A History, 1784-1867 (Toronto: MacMillan of Canada, 1963), p.71.

⁵ In 1802, the problem was perceived as being so bad that the legislature appointed commissioners whose were required to find a way to stop the emigration to Upper Canada (MacNutt, Gh.5). As MacNutt tells his readers, "For almost every community in New Brunswick introduction of new people represented the only hope of survival."

In 1803, the King indicated he was willing to withdraw his ordinance, but he quadrupled the payment to the King of fees by 4 (1/2 a penny for every acre, every year forever)

⁶ Keeping Crown land for state ownership was not a goal within itself. The British Privy Council also felt it better to halt the sale of crown land until it could be sold in such a way as to raise revenues to help offset "the great civil and military expense now incurred on account of the colonies." Ibid., p.70

⁷Macnutt, p. 71.

Rule by a British government across the sea did not make the colonial administration of New Brunswick an easy task as confusion and mismanagement rained in New Brunswick during the first part of the 19th Century. See Wynn, Timber, p.138.

For a detailed account, see Graeme Wynn, "Administration in Adversity: The Deputy Surveyors and Control of the New Brunswick Crown Forest before 1844," in Acadiensis, Autumn 1977.

⁸ Carleton successfully argued that New Brunswickers could not afford any additional land taxes. MacNutt, Chapters 5-8.

⁹Timber Colony p. 27-28.

¹⁰Ibid. p. 31

¹¹Ibid. p.31

¹²Ibid., p.29.

¹³Ibid.

¹⁴ Graeme Wynn has noted that:

Nowhere were the consequences of the Napoleonic blockade and the colonial timber preference more marked than in New Brunswick. Exploitation of the province's forests increased enormously after 1805, and in forty-five years the province was transformed from an undeveloped backwater of 25,000 people to a bustling colony of 190,000 with a 'reputation for commerce and enterprise.' Timber, p.3.

¹⁵Timber p.33

¹⁶G.S. Smyth, Royal Gazette, April 13, 1819.

Wynn also points out that many depletions of the forest were actually done by people who, although claiming the land for settling purposes, were actually removing wood for the sole purpose of harvesting timber. Although this practice was illegal, the British government appears to have willingly overlooked these infractions because of "Britain's pressing need for wood." (p.139).

17 See Wynn, Timber, p. 139)

Graeme Wynn points out:

Regulations were commonly honoured in the breach. Some who took timber from the Crown domain paid a 'licence fee' (most often 1/- per ton) to deputy-surveyors who had no authority to demand it; a very few suffered the seizure of their timber; but most worked in the woods and brought their timber to market unconcerned about the restrictions on exploitation of trees in the Crown domain. (Timber, p. 139.)

18 Ibid, p. 139

19 Ibid, p. 139

(However, conflict still occurred between different arms of the government as the lieutenant-governor and the New Brunswick Council constantly fought over which group represented the Home government's policy in forests.)

20 Ibid, p.140 This was also designed to stop competing bids on the same property.

21 This process was open to much abuse as many surveyors acted demanded illegal fees from prospective applicants.

In order to facilitate easier collection of fees for logging Crown lands, on March 1818, the lieutenant governor and the Executive Council asked the colonial office if it could impose a 1/- ton on timber licenses issued in the province (in lieu of all other charges.) While some forest companies protested this increase, the request was eventually implemented. (Ibid.)

22 Ibid, p.140 It is important to distinguish between was meant by the terms, tonnage as compared to stumpage. Briefly, tonnage is the same as stumpage in the sense that it attempts to extrapolate economic rent for its forested crown lands. However, tonnage is based on more rough characteristics such as the estimated number of trees per acre. While usually not as accurate, it is much easier to administer.

23 Ibid, p.140

24 Ibid, p.142

25 Ibid, p. 142.

²⁶Ibid, p.140

²⁷A.R.M. Lower, North American Assault on the Canadian Forest: A History of the Lumber Trade Between Canada and the United States (Toronto: The Ryerson Press, 1938), p.76 (Isaac Stephenson, Recollections of a Long Life, 1829-1915, was the source provided by Lower.)

²⁸This also came at a time when the Napoleon blockade had been lifted.

²⁹For a detailed discussion of the accomplishments of Thomas Baillie see Graeme Wynn, "Administration in Adversity: The Deputy Surveyors and Control of the New Brunswick Crown Forest before 1844," in Acadiensis, Autumn, 1977.

³⁰Graeme Wynn, "Administration in Adversity: The Deputy Surveyors and Control of the New Brunswick Crown Forest before 1844," in Acadiensis p.52.

³¹See MacNutt, p. 197.

³² With the belief that competing bids would generate more revenue for the New Brunswick state (50-400 per cent more), Baillie effectively reversed the decision of 1816 which attempted to reduce competing bids. (Wynn, Timber, p.142)

As Graeme Wynn has noted:

In 1828 he advocated the disposal of timber berths by auction, in the belief that this would produce between 50 and 400 per cent more revenue. According to Baillie- and it was a theme to which he would return- competition for desirable berths would drive up the price and benefit the Crown without denying the lumberer an adequate profit. Early in the 1830s, Baillie again noted his displeasure at the returns from timber licenses. Timber on private land sold for 3/- to 5/- a ton, he complained, and even in Maine it brought 2/6 per ton. The provincial levy of 1/- per ton was clearly less than the trade would bear, especially for timber in favourable locations, and it was, therefore, 'highly objectionable.' In view of the tonnage on New Brunswick timber was raised to 1/6 in March 1833, and despite the protests that ensued, to 2/- in 1835. Again, complaints at the new tariff were common. There were frequent allegations that the trade would be ruined. But much of the

argument was polemic. The new fee was not exorbitant, but it was opposed because of the added expense it imposed on the province's lumberers. (Wynn, Timber, p.143)

³³One of the largest of these sales was 920 square miles sold to the Nova Scotia and New Brunswick Development Co. in 1835 at a cost of three shillings an acre. As provincial control of land disposal occurred in 1838, these practices were abolished almost immediately. (Forests and Forestry.)

³⁴Wynn, Acadiensis, p.53

³⁵Ibid, p.65 Wynn claims that was because of the fact that New Brunswick did not develop the individual liberalism of the U.S.

³⁶Historical Statistics, 1965 p. 309 of Also find MacNutt info for one million acres before 1807.

³⁷For further detail, see First Annual Report of the Crown Land Department for the Year ending 31 October, 1861 Hon. John McMillan, Surveyor-General (Fredericton: Reporter Office, 1862)

The ten years before the 1837 saw a battle between House of Assembly and the Executive government over control over crown land administration.

This debate has been well detailed elsewhere. See for example, A.W.J. Knight, Timber, Revenues and Politics in New Brunswick, 1827-1837: The struggle of the House of Assembly to gain control of the Crown Lands and the Casual Revenue. M.A. Thesis (Fredericton: University of New Brunswick, 1956.)

³⁸See Timber Colony, p.33 for a specific breakdown on the rates given with the colonial preference of British North American wood. For our purposes, it is simply important to note that the growth of urbanization in Britain, coupled with the need for a guaranteed supply of wood, gave New Brunswick its first impetus to becoming a "modern" economy.

³⁹ The New Brunswick executive council imposed an export tax on timber partly because it made the collection of resource rents easier with little administration involved. (See 1838 New Brunswick debates of the House of Assembly.)

40J. Miles Gibson, The History of Forest Management in New Brunswick (An H.R. MacMillan Lectureship Address delivered at the University of British Columbia, Vancouver, 1953), p.3 [from Babcock thesis]

As Babcock has postulated that the reasons for the switch away from a stumpage to a mileage system is because of , "...the burden of expenditure for supervision and scaling." Babcock, Milton Some Economic Aspects of Crown Land Stumpage (M.A. Thesis, UNB, 1957), p.14.

This would form the basis of Crown land leasing for the next three decades. See First Annual Report of the Crown Land Department for the Years ended 31 October, 1861. Hon. John McMillan, Surveyor-General (reporter office, Fredericton, 1862).

41See for example, Reports of the Debates of the House of Assembly ..., Jan. 29, 1838. The Committee of the House recommending the export tax details its reasons in the minutes of these debates.

While the five members submitted the committee's report, one member did not. Mr. Stewart felt that it was too difficult in proving that timber was cut in private property and that the duties were too high. He pointed out that timber was worth about 16s per ton on the northern side of the Province, while it was worth 30s on the southern side. An export tax, would not correct this problem. Other members of the Assembly raised similar concerns, but it passed 16 in favour, 10 opposed.

42 In one debate in the New Brunswick House of Assembly in 1854, after full self government was given to New Brunswick, one member represented much of the opposition to this export tax when he likened the tax as something which would only occur in a backward society. As the official minute reporter has noted, "Captain Robinson considered an export duty on goods a relict of barbarism, unbecoming a civilized people." (From 1854, Debates of the House of Assembly of New Brunswick).

43As a method of compensation for losing control in establishing and export tax, the Federal Government agreed to make annual payments to New Brunswick of \$150,000.000, even though the export duty in timber leaving the province in 1867 only raised \$56,400.00 (James E. Defenbaugh, The History of the Lumber Industry of America, Vol I, Second Edition (Chicago, The American Lumberman, 1906), p. 229.

44p. 18 of Babcock, Some Econ...

45 Sixth Annual Report of the Crown Land Department of the Province of New Brunswick, (1867), (Charles O'Connell, Surveyor-General) p.viii.

46 Ibid.

47 This era is also significant because there was a move after the repeal of the export tax, to bring in stumpage rates in addition to mileage charges. As Connell also argues:

...as regards the question of Stumpage or Mileage, it appears to me, would be that the operator should pay Stumpage for what he actually cuts,...(Ibid.)

48 See, Fourteenth annual report of the Crown Land Department of the Province of New Brunswick, (1875), pp. 56-58.

Stumpage rates were applied to different species, yet there was little attention paid to the varying costs in exploiting the timber from the different regions (with the exception being that spruce, pine saw logs cut on streams flowing into the Gulf of St. Lawrence contained less stumpage fees than those elsewhere in the province.) (from 1875 Annual Report.)

These changes were not met well by the forest industry which had been used to inexpensive Crown timber for seven years. An almost unanimous boycott of the timber berths auction by the lumber industry was a major threat to the New Brunswick state. Eventually one company accepted took part in the timber auction which set the path for others to accept the current system or give up valuable timber tracts to competitors. For a much more detailed description, see Babcock, pp.21-24.

49 The New Brunswick Railway Company received a total of 2,5000 square miles of timber. (Forests and Forestry.) p.28

Other companies also benefited. The New Brunswick and Canada Railway and Land Company were granted large tracts of forested land in the south-western part of the province. (Forests and Forestry. p.28) These policies seem to have led to the concentration of capital.

50 Bates (Commissioner), New Brunswick Forest Development Commission Report (Fredericton: King's Printer, 1957), p.22

51 Forests and Forestry p.27

52 The concentration of industry was actually a concern for the government at this stage. In 1901, the Department of Crown Lands realized that bidder "combinations" were being created to stop driving the action price up. See 1902 Annual Report, p.x.

53 Even as far back as 1873, the Commissioner of Crown Lands said in this Annual Report, "There have been no sales of large tracts of timber lands, the financial position of the province not requiring any sales for Revenue, and the government fully realizing the fact that timber lands of the province are...much more valuable." (Stevenson, 1873 Annual Report of the Department of Crown lands.)

54 McGuinley, Eugene Gregory Bernard, The lumber industry of the Atlantic region 1945-1955, MA Thesis, Department of Economics, (Fredericton: UNB, 1958), p.1

55 The Report of the Forest Resources Study, 1974, (R.E. Tweedale, Executive Director,) (Fredericton, 1974,) p.25

56 Bates Commission p.23

57 McGuinley, Eugene Gregory Bernard, "The lumber industry of the Atlantic region 1945-1955," (MA Thesis, Department of Economics, UNB, 1958) p.1

58 Bates, p. v.

59 With respect to Crown Timber lands, it was advised that there be changes in the charges for Crown timber:

...the present system of low annual carrying charges and high stumpage rates for Crown timber has many, bad features which have been accentuated by gradual changes in the forest economy. It encourages the 'high-grading' of the forest; offers strong temptation for the speculation in Crown timberlands; induces wasteful logging practices; and, above all, condones the holding of more Crown timber by some licenses than their present production warrants....(p.105-106 of Commission Report.)

The Commission thus recommended that there be a radical change in how the province earns its economic rent:

We therefore recommend...[t]hat the present system of 'mileage', 'bonus', and stumpage charges be abandoned as the standard basis for Crown timber revenue and that a system of forest rental be substituted.(p.106 of Commission Report.)

The rent would be collected on a per acre basis, with the

relative value of each acre taken into account. (See pp. 106-108 of the Commission Report.) Recommendations were also made with respect to bidding on leases as they open, with the idea that a land worth aspect be brought into the bidding session. (see pp. 126-129 of report.)

The government did not accept the basic recommendation to impose the rental fee. However, some minor changes were made. [Before the commission reported the renewal fee for Crown timber licenses was a fixed fee per square mile (\$10.00) which combined a mileage charge (\$8.00) and a "bonus" charge (\$2.00). [See p. 2 of E.S. Fellows, Report to the New Brunswick Department of Natural Resources on Past, Present and Future Charges from Crown Lands (Unpublished, from Director of Timber Resources' files)]

In 1958, the government responded by changing to a charge based on a softwood inventory (instead of fixed fee per square mile) at a rate of two cents per cunit, but the bonus per square mile was kept. Because of the increase in renewal fees, stumpage rates were reduced. (Fellows report of 1977, p.2.)

As E.S Fellows has noted:

The Government of the day did not see fit to accept this recommendation in toto, but it did agree to go 20 per cent of the way and suggested that, if the system worked, it might take another '20-per-cent step' each year until the change-over was completed in five steps. However, the first 20-per-cent step was also the last.

As well, the government did not respond to the recommendations that rental fee be adjusted annually and that there be increased in the basic rent "...to reflect the Government's expectation that industry will increase its use of Crown-owned timber." (p.19 of E.S. Fellows, 1977, Past, Present)

⁶⁰The Crown Lands and Forest Act was passed in 1980, but came into effect, April.1, 1982.

⁶¹ Statistics show that 44.4 percent of the forest land or 6.94 million acres was Crown owned, 31.2 percent or 4.87 million acres was small free hold and 22.2 percent or 3.47 million acres was large freehold (the remaining 2.2 percent of .35 million acres belong to the federal Crown.) From the 1974, Report of the Forest Resources Study

⁶²St. John Telegraph Journal, December 28, 1982.

⁶³St. John Telegraph Journal, December 28, 1982.

⁶⁴ From Dr. Ker, The Dean of the University of New Brunswick Forestry School, as quoted in the Globe and Mail, December 25, 1981.

65 J.W. Bird, Minister of Natural Resources, as quoted in the St. John Telegraph Journal, September 14, 1981.

66 From Lockert interview.

67 From Joe O'Neill, then president of the New Brunswick Forest Products Association (which is generally seen as representing the large licensee companies) as quoted in the St. John Telegraph Journal, Dec. 28, 1982.

68 David Curtis, secretary-manger of the New Brunswick Federation of Woodlot Owners, as quoted in the St. John Telegraph Journal, Dec. 28, 1982.

69 Interviews with two small lumber mill owners (Russell and Green.) Both were dissatisfied with the new Act, feeling that it took away much of their management responsibilities.

70 New Brunswick interviews

71 It is interesting to note that the Minister of Natural Resources, J.W. Bird, who brought in this Act, soon retired from politics and became a director of Fraser Inc., the company which, next to J.D. Irving, received the highest management of Crown lands in the province. (From Who's Who, 1986.)

Chapter Three: Forest Policy Development, Activity and Structure in the B.C. State.

During the embryonic stages of the development of the B.C. forest industry, state elites took a conscious decision to halt the alienation of Crown land. As a consequence, the state would come to play a dominant role in forest policy decisions. As well, the state has the capacity to take autonomous decisions at variance with the dominant actors in the forest economy. A growth economy, led by the forest staple with relatively low unemployment through much of its history, meant that little impetus had existed for the state to act autonomously. The U.S. softwood lumber countervail of 1986 provided such an impetus. For this chapter however, it is important to note the reasons why the B.C. state alienated little Crown land and the resultant direction of the state in overall forest policy.

Like New Brunswick, B.C.'s place in the international and domestic political economies influenced decisions made regarding Crown Land alienation. In fact, the lack of an "overnight" colonial market, and the absence of any colonial preference, meant that state actors were not hastened to alienate Crown land. However, alienation that did occur can be attributed to an initial lack of concern for Crown land during the infancy of British Columbia's economic development. Further, little Crown land alienation was actually a result of government policies directed at attracting capital to the forest sector. Inexpensive leases of Crown land could actually be more

attractive to a company than having to use capital to pay for a land purchase. Nonetheless little Crown land alienation would ensure a dominant role for the B.C. state in its forest industry.

As forest exports increasingly contributed to B.C.'s economic development, the role of the state in B.C. became focused on maintaining a competitive industry in the international economy. Most of the state's actions seemed to support W.A. Mackintosh' optimistic staples theory of economic development. As discussed, the state has a general goal to maintain and increase the exploitation of the staple in order to encourage economic development. Moreover, the dominant economic actors would guide the state in attaining this goal.

Changes in state decision making have tended to be a result of factors in the domestic economy, or the B.C. government's efforts to maintain the benefits of the export trade. Efforts to develop a provincial infrastructure, B.C.'s role in the Canadian federation and the ability to raise funds for state developments are all variables which have affected the level of Crown land alienation. After a conscious decision on the part of the state to end further Crown land alienation, decisions regarding the forest resource would focus on maintaining a healthy, export oriented forest industry. The state would take a series of steps entrenching the position of the dominant economic interests in the forest industry. An expanding forest industry serves to encourage such state action and appeared the best way to maintain the staple.

By focusing on these points, it is apparent that the history of forest policy in B.C. can be broken into distinct epochs. From 1858-1878 there was little development of a forest industry which was perceived to be hurting the dominant fur trade. The next period is between 1878-1884 at which time where forest policy was conducted largely by the granting of Crown lands. The years 1905-1907 marked a period of large increases in the bids for licenses of forest lands. From 1907-1912 a period of transition in which the decision was made to halt further Crown land alienation. The years 1912-1945 marked a period of competitive bidding for collecting resource rents. From 1945-1987¹, there existed a period in which a complex residual system was combined with a policy for sustained yield management. The events of 1986-87 can be seen as an example of state autonomy being exercised through the implementation of a new system of resource rent collection which few dominant economic actors appeared to support.

Pre-Forestry in the British Columbia Colony (1821-1858)

As one author has noted, "To the pioneers, standing timber was probably as much an impediment to settlement as an asset."² Since the fur trade relied on a large land base, forest development was discouraged because of the problems it might have caused for good exploitation of the fur trade.³ Not until the fur trade began to deteriorate, did the forest sector even become a viable option for British Columbia's economic development. It was only during the gold rush that the B.C. forest industry

started to become a viable economic activity.

Beginnings (1858-78)

The first state activities regarding Crown land were markedly different than they are today. It was 1858 which saw the earliest disposal of Crown lands.⁴ Yet, there was an apparent ambivalence toward Crown land alienation. As the Report of the Forestry Commission of 1910 (or the Fulton Report) explains:

In the early days of the Province, timber lands seem to have had little or no value in the public estimation. They could be acquired by purchase and Crown Grant from the Crown in the ordinary way and at the same rates as any other land. Crown Grants carried all timber without any reservation of royalty, and valuable tracts of timber were acquired for what would now be considered nominal prices.⁵

Revenue to the Crown was also poor:

...timber lands were conveyed to the private sector through crown grants which conferred fee simple title to the land and everything on it. The crown captured rents only to the extent they were embedded in the sale price.⁶

As Peter Pearse has noted:

During most of the pre-Confederation period the only means available to colonial administrators for conveying timber rights from the Crown to private parties was through Crown grants of the fee simple interest in land,...⁷

The B.C. colonial leaders seemed so determined to encourage the development of its forest staple, that in the beginning, it required little in return for its resource. For example, in many cases the state would keep title of its land but

allowed exploitation at little or no cost.⁸

The first of the timber cutting rights became known as Timber Leases which were "restricted to those actively engaged in the commercial exploitation of the resource."⁹ It carried no stumpage or royalty fee, instead the state received "valuable consideration" in terms of increased industrial development through appurtenancy requirements.¹⁰ It seems that the state decided not to collect a stumpage fee in order to achieve broader goals of employment and economic development.¹¹ More important was the contribution which companies could make to the overall economic development of the provinces¹². As Sloan has noted:

There was a definite policy of discouraging investment in timber land without operating it, indicated by limiting the lease to those who were actually engaged in industry.¹³

This was the start of the B.C. state's active participation in forest policy, while at the same time maintaining ownership of the resource.¹⁴ These leases, or cutting rights, were given to only those who were cutting "spars, timber or lumber".¹⁵

So entrenched was the notion that rapid exploitation of the staple would bring economic prosperity, that the leases had no royalty, no restrictions on export, and usually no limitation to size.¹⁶ As well, as Sloan has hypothesized, "...as no limit was set to the period of tenancy, the tenure was almost as secure as outright ownership.¹⁷

Nonetheless, Crown land alienation still occurred if state actors felt it would encourage the economic growth of the

province. For example B.C. state actors decided to provide an impetus to the mining industry with infrastructure development, by granting valuable tracts of land at no cost to railway companies.¹⁸

Change in State Approach as Forest Industry Became Secure

The provincial state would eventually concentrate on raising revenues after the forest industry appeared secure. While there were a number of methods in which the Crown collected resource rents during this initial period, "Timber licenses"¹⁹ established under the Timber Act of 1884 warrant our attention. These licenses were different from timber leases in that they actually were created with the purpose "...to derive revenue from the cutting of timber on Crown lands."²⁰ At first, "economic rent" was based on a per acre basis. By 1887, primitive forms of stumpage rates based on board feet of lumber and a fee for the number of trees on the land were introduced.²¹

This 1884 Timber Act is symbolic of an apparent increase in the role of the state in the B.C. forest economy. This seems largely due to the growth of the relative importance to the forest industry to British Columbia exports.²² By 1880, lumber exports represented 7 per cent of total exports of goods and services for the B.C. economy, as Table 3.1 demonstrates. While small in comparison to future years, it was the beginning of the growing dominance of the forest economy to B.C.'s exports.

Table 3.1 B.C. Exports of Goods and Services, 1880-1980
(percentage distribution)

<u>Year</u>	<u>lumber</u>	<u>pulp and paper</u>	<u>logs</u>
1880	7%	0	0
1890	5	0	0
1900	12	0	0
1910	33	0	0
1920	39	7	1
1930	22	8	4
1940	25	8	2
1950	39	9	1
1960	31	18	1
1970	25	19	1
1980	24	20	2

Source: Robert Allen and Gideon Rosenbluth (eds), Restraining the Economy (New Star Books, Vancouver, 1986)

Further Development 1888-1905

By 1888, the forest industry appears to have begun its dominance of the B.C. economy²³ and marked changes in state's ideas about the resource were noticeable. For state actors, it was now possible and also necessary to gain higher revenue from the industry. An economic Depression lasting from 1873-1896 was leading the provincial government to a financial crisis which was exacerbated by a rapid growth in population.²⁴ As a result, by 1888 the government introduced licencing changes requiring higher annual fees and higher royalties.²⁵

Table 3.2 Crown Land Alienation, British Columbia¹
(thousands of acres)

1915	106.1
1914	273.7
1913	404.8
1912	286.3 ²
1911	543.7

1910	318.8
1909	342.8
1908	253.5
1907	2,599.4 ³
1906	336.1
1905	133.2
1904	107.4
1903	83.7
1902	87.9
1901	4,632.8
1900	104.7
1899	672.1
1898	3,090.5 ⁴
1897	2,777.9 ⁵
1896	66.8 ⁶
1895	95.5
1894	47.2
1893	124.6
1892	809.9 ⁷
1891	143.5
1890	99.3
1889	134.2
1888	94.3
1887	74.0
1886	50.5
1885	128.8
1884	2046.2 ⁸
1883	114.6 ⁹
1882	23.6
1881	23.1
1880	24.1
1879	46.8
1878	31.2
1877	10.0
1876	18.0
1875	18.0
1874	26.2
1873	-
1872	-
1871	-

¹Provincial land base of 234 million acres. However, 11 million is swamp, 90 million are non productive, (Alpine rock, etc.) Of the remaining, 97 per cent is forest land. Total land alienated is about 5.3% of total land.

²Four million acres were also repurchased by the Crown during this year.

³Includes a university endowment grant of 2 million acres.

⁴Includes a 2,719,087 acre railway subsidy

⁵Includes a 2,168,327 acre railway subsidy

⁶Includes a 30,000 acre railway subsidy

7¹Includes a grant to the Vancouver Island Development Company of 500,000 acres.

7¹Includes a 1.9 million acres Grant to the Esquimalt and Nanaimo Railway in 1883/84.

9¹Includes a wagon road grant of 60,000 acres.

Note: i) A 14.5 million acre "railway belt" grant was also made to the federal government in 1983/84 in order to encourage completion of the national railway. However, this land has not been included in this table as it was returned to the province in 1930.

ii) Much of the alienation which took place in the 1890s and the first decade of the 20th Century actually reverted back to the Crown with the failure of the enterprises which were granted the land. As such, only 6.5 million acres (just less than 5 per cent of the productive forest land) in the province is privately owned (and only 2.1 million acres of this is actually used for forestry purposes.)

Sources: Urquhart, M.C. (ed) Historical Statistics of Canada (Toronto: MacMillan Co. of Canada, 1965); F.H. Leacy, (ed), Historical Statistics of Canada (2nd ed.); Statistics Canada; Pearce, Peter (Commissioner), Timber Rights and Forest Policy in British Columbia: Report of the Royal Commission of Forest Resources (Victoria, 1976) pp. 15-16, 22-27.

At the same time, British Columbia state actors felt that in order to encourage the development of its staple economy, infrastructure development should be encouraged. As a result, valuable Crown land was granted to railway companies as incentives to build. Table 3.2 shows that the last decade of the 19th Century saw vast tracts of timber land granted to railway companies. Nonetheless, a land base of 234 million acres meant that the alienation, while important, were relatively small.

Further changes were also made during this era. In an apparent move to improve the security of forest companies, the timber licenses terms were increased from one to five years.²⁶ As well, the lease was renewable for 21 years, but royalty and rental rates were subject to change at "each renewal date, and

the lessee was required to own a mill."²⁷ Sloan states:

Of the two forms of tenure, the lease was the more secure but necessitated a greater investment on account of the mill requirement.²⁸

More Provincial Revenue, and a Run on Leases (1905-1907)

By 1905, state actors seemed to feel that the best method of attracting capital to exploit its forest resource, while at the same time maintaining a continual supply of timber, was to curb Crown land alienation. However, state actors would not be content to simply administer already existing policy. Spurred by its recent revenue crisis, the state made the sale of Crown timber licenses much more accessible.²⁹ Licenses could be renewed for a period of up to twenty-one years³⁰, appurtenancy requirements were relaxed, and there were no limits on how many licenses a company or individual could own.³¹ (The right to set royalty rates was maintained.)

The Minister of Lands for 1912 explained the rationale:

In 1905 the administration realized that the leasing system was an extremely bad one, the timber being sold for twenty-one years ahead at the low prevailing rates....It was decided to substitute a constructive forest policy which would revolutionize conditions in the province....For years the province had been in a bad way....The province was starving for capital and had no means of drawing upon its natural wealth.... What did the Government do? The Government threw open all Crown timber lands, but it handed over merely the cutting rights....Profit was extracted from the forest by holding the timber and also by cutting it. The forest policy of 1905 caused the world to rely something on this country's resources, it let loose the flood of prosperity which the province has enjoyed ever since.³² (Emphasis added.)

As a result, much of B.C.'s most accessible prime timber land came under licence between 1905-1907. Over 9,600,000 acres were licenced during this time, ten times all the previous amount.³³ By 1907, state actors seemed to feel that the special regulations had raised enough revenue and were ended. In keeping ownership of the resource, the state could maintain development of the staple by relying on the private economic interests and could also maintain its revenue function.

II THE END OF CROWN LAND ALIENATION

Period of Transition (1907-1912)

The years of 1907 marked a period of transition as the state would at first decide to postpone, and then altogether end, further sales. The previous system of tenures would also be changed. As Ross told the legislature:

By the end of 1907 an annual revenue of two and a half million dollars had been secured. This being sufficient for the opening for settlement of central British Columbia and other new regions, the Government ceased to issue timber licenses and placed the remaining timer lands under reserve until further sales should become necessary.³⁴

In order to develop a method for the use of future Crown lands, the F.J. Fulton Royal Commission of 1910 was established. It supported the view that Crown land not be alienated, asserting that, "sufficient timber had been alienated to satisfy the industry's requirements for some time."³⁵ As a result since 1905, little Crown land has been alienated, with 94

per cent of British Columbia land owned by the Crown.

The Move to Competitive Bidding (1912-1945)

A major proposal of the Commission was for the government to open up a system of competitive bidding for its forest resource so , "...that anyone could initiate a sale of timber on a defined tract of Crown land."³⁶ The Forest Act of 1912 accepted this principle and a system of competitive bidding ensued.

After a floor or upset price (which was administered under the newly created Forest Service stumpage appraisal procedures) was established for a given tract of Crown land and the highest bid was accepted by the newly created B.C. forest service. The rights included the right to log for a specified period and was conducted at an auction.

As Pearse notes:

The criteria used to determine this upset price were designed to yield a more discriminating estimate of the value of Crown timber than the royalties applicable to the old temporary tenures and some Crown grants.³⁷

These proposals marked the beginning of the Timber Sale Licenses, which "remains one of the principal instruments for granting rights to Crown timber today."³⁸ As the Old Temporary Tenures and the granting of land stopped, the competitive bidding or TSLs were the only way companies could gain new supplies of land.

Arguably, little else of significance took place in licence/lease policy until the 1940s. By 1940, Old Temporary Tenures still accounted for 1.6 million hectares³⁹ as well as

most of the harvest.⁴⁰ The change toward sustained yield is an example of the British Columbia applying its control over the industry.

Switching to Sustained Yield and Residual Rent (1945-1978)

The advent of World War II, B.C. saw an increase in the importance of the forest sector in B.C. economic development.⁴¹ Yet, by 1945, the British Columbia government was concerned that the growth of its forest industry was leading to inadequate resource management and unequal regional development. For example, only a quarter of the provincial harvest but half of the interior harvest was from Timber Sale Licenses.⁴² As Pearse notes:

...apprehensions had arisen over the unbalanced pattern of timber harvesting in the province, the lack of secure timber supplies for new industrial ventures, and the inadequate provisions for future forest crops.⁴³

Further, both the Old Temporary Tenures and Timber Sale Licenses were found in the prime harvesting areas on the coast or in the more developed areas of B.C.'s forests.⁴⁴ Meanwhile, huge tracts of B.C. forest were left untouched.

There also appeared a need for the state to address the changes in the B.C. forest industry, as the pulp and paper industry was growing at a considerable rate. Since World War II the number of pulp mills were increasing while the number of sawmills decreased from over 2,000 in the 1950s to 330 in 1978. However, unlike New Brunswick, there was not the same kind of split between pulp and paper producers vis-a-vis softwood lumber

producers. Instead, most companies became vertically integrated.⁴⁵

These changes coincided with a fear on the part of the British Columbian government about export products from Sweden and other European countries. State actors felt that if they were going to protect their staples economy, the state would have to take decisions facilitating forest industry growth.⁴⁶ The growth in the forest industry, questions of improper forest management and the fear of external competition led the state to set up the Sloan Commission of 1943.⁴⁷

The major recommendation of this commission was that the B.C. government implement a system of Sustained Yield Management. Basically, this study argued for forest companies to have "...long term harvesting rights over extensive forest areas in return for a commitment by these enterprises to practice sustained yield management on their holdings."⁴⁸ This would also serve to give large forest companies a competitive advantage in which to meet European competition. Not surprisingly, the government of the day carried out these proposals and by 1975, 80 percent of the forest harvest came from sustained yield units.⁴⁹

In carrying out these recommendations, a number of different types of management structures were brought into existence. For the purposes of this thesis, we will only briefly discuss a few.

Basically, two different modes of managing B.C.'s forests were introduced. One was called the Tree Farm Licence in

which management would be carried out by the forest companies. The other land would be managed by the B.C. Forest Service and later became Public Sustained Yield Units. (As of 1975 PSYU land accounted for over 80 million acres or 60 per cent of all forest lands.⁵⁰)

Thus, the Timber Sale Licence was drastically changed:

...licenses ceased to authorize harvesting of all the timber on a specified tract of land, and instead conveyed a right to an annual volume, to be cut within a Public Sustained Yield Unit in places to be designated by the Forest Service at intervals during the term of the licence.⁵¹

Those with licenses received informal "quota positions" with their licenses being replaced on expiry and without competition.⁵²

Tree Farm Licenses were developed to include more rationalization and long term planning. Owners of Old Temporary Tenures and Crown granted forest land were encouraged to combine these together into "self-contained sustained yield management units."⁵³ The caveat was that the government would allow the existing licence holders to gain even more Crown land under their control.⁵⁴ As well, tax incentives were introduced as a further incentive for forest companies to use sustained yield.⁵⁵

The state also exercises control by requiring economic development plans of the holders of Tree Farm Licenses. Forest companies must develop management working plans and development plans which, "...embody statements of the licensee's management responsibilities over his licence area and his plan for its

development;..."⁵⁶ and TSHL holders "must submit 5-year development plans,..."⁵⁷

As of 1975, 54 per cent of the land given under the old temporary tenures and 7 per cent of the Crown forest land became part of the Tree Farm Licenses.⁵⁸ Perhaps most striking is that these OTT lands account for only 13 per cent of those under the Tree Farm Licenses. The other 87 per cent consists of the Crown's contribution to these lands.

By the 1950s, there was concern that the perpetual terms Tree Farm Licenses gave the licence holder too much security. The result was the second Sloan Commission of 1956 proposed that TFLs be limited to, and issued at, renewable terms of 21 years.⁵⁹ The state readily concurred.

A state decision to concentrate on the PSYUs, believing it was better way of allocating Crown timber, led the Department of Lands and Forests to stop issuing Tree Farm Licenses in 1966. As of 1976, only 8 per cent of B.C.'s productive forest land (10.5 million acres) were under Tree Farm Licenses. However, because the Crown granted forest land and the old temporary tenures were located in prime forested areas, as of 1976, they comprise over a quarter of the entire provincial harvest.⁶⁰

As the reader may well imagine, the recurring problem with these new developments was an overwhelming sense of confusion, "...there were so many forms of tenure rights and with such diverse contracts as informal agreements involved, that the industry was at one and the same time overregulated and under

controlled."⁶¹

Acknowledging this problem the government attempted to bring together all of the different management practices into a single management system through the TSHLs. The government would allow companies to phase out previous licenses by "...encouraging licensees to consolidate rights already held into larger and longer-term tenures with management obligations."⁶² As a result, even more security would be granted to the existing large companies. Management under the TSHLs including building roads, silviculture (reforestation), fire control and inventory statistics, and environmental care (subject to government restrictions.)

By 1975, 60 percent of the PSYUs were under a TSHL (39 per cent of the timber harvested from Crown lands.)⁶³ Nonetheless, Table 3.3 shows that there were still a variety of forms of Crown licenses for supplying timber.

Table 3.3 Percentage of Provincial Harvest by Ownership

<u>Ownership</u>	<u>Per cent</u>
Provincial Crown	
Old Temporary Tenures	14.6%
Timber Sale Harvesting Licenses	31.6%
Other Timber Sale Licenses	19.8%
Tree-farm Licenses	16.5%
Farm Wood-lots	.1%
Other	2.8%
Total Provincial Crown	85.4%
Crown-granted land	14.0

Federal land

.6

Source: Pearse, Peter (Commissioner), Timber Rights and Forest Policy in British Columbia: Report of the Royal Commission of Forest Resources (Victoria, 1976) p.27.

Sustained Yield and Further Concentration of Industry

The increased tenures given to the large dominant forest companies, as a result of the implementation of sustained yield, has led to an increased concentration of industry. Pat Marchak tells us that:

The 10 largest enterprises, in terms of allowable cut, hold nearly one half the cutting rights in area subject to management regulations. This understates their actual holdings because these firms hold the majority of unregulated timber lands which provide up to 20 per cent of the harvest.⁶⁴

The harvest of the 10 largest companies in 1954 was 37.2 per cent of 9.4 million cunits harvested. In 1974, this figures was 54.5 per cent of 21.2 million cunits.⁶⁵ By 1954 four firms controlled more than half the temporary tenure land and by 1965, this figure had risen to two thirds. The top eight companies controlled 82 per cent of the temporary tenures in 1965. By 1974, one forest company controlled "445,000 hectares still outstanding in the Timber Sale Licenses [TSLs]",⁶⁶ and five firms "held 80 per cent of timber land allotment."⁶⁷ Recently, William Wagner found that four groups of companies control 32.8 percent of the total provincial cut. The largest eight control 50.7 per cent of the total allocated annual cut and the top 20 own 78.5 per cent.⁶⁸

While this concentration of industry may seem alarming, it is a logical consequence of a state which is clearly guided by

the interests of the dominant economic actors.

Questioning Returns to the Crown; Towards a New Forest Act

In 1972, a government was elected with radically different proposals for collecting rents from resource industries. The new government set up A Task Force on Crown Timber Disposal to look at the question of stumpage rates. While we will examine this question in greater detail in Chapter 4, it is important to note that there was a growing concern that the Crown was not getting a proper return on its forest resource.

By 1974, yet another forest policy study, the Pearse Royal Commission on Timber Rights and Forest Policy, was created largely because of concerns of concentration in industry and resource rent collection. However, the ensuing legislation, the Forest Act of 1978, did not seem to correspond with the Commission's recommendations. The Commission's discussion of industry concentration and resource rent appears to have been ignored. Instead, the 1978 Act addressed questions of tenure and slightly altered the tenure requirements.⁶⁹ Most important, the state increased the length of tenure on Tree Farm Licenses:

The holder of a tree farm licence granted under this act for a twenty-five-year period is offered another twenty-five-year tenure after ten years. The act does not permit renewals....but critics point out that the time period is so long the avoidance is of no significance.⁷⁰

In fact, Marchak claims that the actual result of this Act was to abandon the principle of sustained yield.⁷¹ She asserts, "Though the Pearse Commission was established by the NDP government, the Forest Act that emerged from it under the Social Credit

government provided for even greater concentration of forest holdings."72

Summary

The state goal of encouraging economic growth through development of the forest staple was realized through a series of state decisions which supported the interests of the dominant economic actors in the forest industry. The change from a "pure" form of competitive bidding, and the host of government license programs incorporating the concept of sustained yield has resulted in greatly concentrated industry. As Marchak laments:

In retrospect it appears that the outcome of the Sloan Commission's recommendations, was not more than consolidation of timber holdings and increasing concentration of manufacturing facilities for preferred large companies. 73

As long as the dominant economic actors were maintaining the development of the forest resource, it appears that state actors were content to enhance the position of the dominant forest companies.

It also appears that the second function of the state to raise revenue was clearly of less importance than guaranteeing capital accumulation for the dominant economic actors.

Nonetheless, it was the state which has ultimate control over the development and direction of the forest industry. As Schwindt concurs:

The industrial structure of the [forest] sector has been strongly influenced by the government's policy for allocating harvesting rights on crown lands. 74

If it were not for the decision to keep Crown land, the key role of the B.C. state in forest policy would not have been possible.

Endnotes

¹Some academics like Pat Marchak argue that the Forest Act of 1978 marked the end of the provincial state's commitment of sustained yield management.

² Richard Schwindt, "The British Columbia Forest Sector: Pros and Cons of the Stumpage System," in Thomas Gunton and John Richards, Resource Rents and Public Policy in Western Canada, (Halifax, IRPP, 1987), p. 189

The first people to exercise control were British administrators who ruled under the aegis of the Northwest Company until 1821 when it merged with the Hudson's Bay Company. They saw their task as two fold, first, to prevent American expansion into the territory and secondly, to discourage settlement, through monopolization of land and control of transportation.

³Marchak, Green Gold p.33

⁴Any doubt about this was answered in 1859 when the Governor of the Colony of British Columbia ruled that, "unless otherwise specially announced at the time of the sale, the conveyance of the land shall include all trees...." See Gordon Sloan (Commissioner), The Forest Resources of British Columbia: Royal Commission on the Forest Resources of British Columbia, Vol. I, (Victoria: Queen's Printer, 1957), p.19.

(at this time the price for land was 10 shillings per acre. In 1861 this was reduced to 4s. 2 d. an acre.)

⁵Report of the Forestry Commission(1910) , p.11

⁶Schwindt, "The British Columbia Forest Sector" in Resource Rents and Public Policy, p.189

⁷Peter Pearse, (Commissioner), Timber Rights and Forest Policy in British Columbia, 1976, Vol I. Royal Commission on the Forest Resources, (Victoria: Queen's Printer, 1976), p. 23.

⁸Sloan, The Forest Resources..., p.17.

See also Schwindt, p.189.

It was in 1865 when a Land Ordinance of the colony of British Columbia (Vancouver Island joined B.C. in 1866) introduced a system of granting the right to cut timber without alienating the actual crown land.

⁹Schwindt, p.189.

¹⁰see McAskill, Ian, Public Charges and Private Values: A Study of British Columbia Timber Pricing Policy (UBC MSF Thesis, 1982).

See also, Sloan, The Forest Resources..., p.24-31 for a detailed explanation.

¹¹See for example, Schwindt, p. 190.

¹²Interestingly, this argument was made by B.C.'s largest forest companies lobby group, COFI, when explaining to this writer why B.C. stumpage rates should not be raised. (see Ch.5.)

¹³Sloan, The Forest Resources..., p.25

¹⁴Sloan, The Forest Resources..., p.17

¹⁵Sloan, The Forest Resources..., p.17 Besides encouraging the then existing industry, these rules also attempt to prevent speculation on crown timber lands.

¹⁶Sloan, The Forest Resources..., p.18

¹⁷Sloan, The Forest Resources..., p.25

¹⁸ In 1883-84, the Esquimalt and Nanaimo Railway was 750,000 hectares of timberland on Vancouver Island. Today, this land contains some of the best stock in the province.

Four years later, the E and N land was obtained by the Canadian Pacific company which its subsidiary, Pacific Logging, still logs to this day. Other companies to obtain shares from the original land grant are Crown Zellerbach and MacMillan Bloedel and other small companies. (Marchak, Green Gold, p.35.)

¹⁹Sloan, The Forest Resources..., p.27.

²⁰Sloan, The Forest Resources..., p. 27.

These licenses were granted for four years at an annual cost of \$10.00. Almost all vacant Crown land was included in these licenses. Land excluded were Indian reserves and "lands exempted by the Lieutenant-Governor in Council on grounds of public policy." Each licence was limited to 1,000 acres. Sloan, The Forest Resources..., p. 27.

²¹Sloan, The Forest Resources..., p.28.

²² Whereas leases, continued appurtenancy requirements and were restricted to mill-owners, licenses had no like restrictions Sloan, The Forest Resources..., p.28.

²³Marchak, Green Gold, p.33.

²⁴Between 1871 and 1911 the population of B.C. increased by 700 percent. (Marchak, Green Gold, p.33.)

²⁵Ibid., p. 15. See also, R. Schwindt with Adrienne Wanstall, "The Pearse Commission and the Industrial Organization of the British Columbia Forest Industry," in B.C. Studies, No. 44, Fall, 1979. p.8.

The effects of these higher fees actually made the production of many small mills unavailable. Reid and Weaver have argued that this was the first signs of industry concentration in B.C., (in Essays in B.C. Political Economy)

²⁶ This occurred in 1903 (renewal fees were also) increased.

²⁷ Sloan, The Forest Resources..., pp.28-29.

²⁸ Sloan, The Forest Resources..., p.29.

²⁹ The public debt of 1904 was over \$1.5 million, and the provincial government was forced to take out a loan from the Bank of Commerce, Reid and Weaver, "Aspects..." in Essays in B.C.... pp. 14-15. See also, W.A. Carrothers, "Forest Industries of British Columbia," in A.R.M. Lower, The North American... p. 29.

³⁰ Sloan, The Forest Resources..., p.29.

³¹ Sloan, The Forest Resources..., p.25.

³² Sloan, The Forest Resources..., pp. 29-30.

³³ Reid and Weaver, "Aspects...", in Essays..., p. 15.

³⁴ Sloan, The Forest Resources..., p.30 As well, all systems of licenses, leases, or temporary tenures and agreements between the B.C. state and the forest industry became Old Temporary Tenures and would occupy a special status in future state policies. For example, while stumpage rates would apply to those lands Crown lands licensed after 1912, "royalty charges" would accrue to the old temporary tenures.)

³⁵ R. Schwindt, "The Pearse Commission...", p.3

³⁶ Pearse, Timber Rights... 1976, Vol I. p.28.

³⁷ Pearse, Timber Rights... 1976, Vol I, p.28.

³⁸ Marchak, Green Gold, p.36

³⁹ Ibid, p. 36

⁴⁰ Pearse, Timber Rights... 1976, Vol I., p.29

While "2,858 companies were involved in licensing arrangements, 58 of these [controlled] approximately 52 per cent of the timberland." (From Marchak, Green Gold, p. 36)

⁴¹Marchak, Green Gold, p. 40.

⁴²Pearse, Timber Rights... 1976, Vol I., p.28.

⁴³Ibid, p.28

⁴⁴Ibid, p.29

⁴⁵Much of this was because of technological advances which "...encouraged the integration of facilities and the agglomeration of saw- and pulpmills at central locations." (Marchak, Green Gold, p.47)

⁴⁶See Reid and Weaver and Marchak, Green Gold. Reid and Weaver argue that the international political economy of the world softwood lumber production, saws Scandinavian and Baltic firms were increasing their competition with firms operating in B.C. Thus, the argument goes that in order to increase their competitive nature, B.C. companies wanted "greater tenure security."

⁴⁷ As well, it was at this time that the B.C. CCF was calling for nationalization of the forest industry.

Keith Reid and Don Weaver has suggested that a sustained yield system might appease the CCF supporters while at the same time "would undermine both the competition from small loggers and the appeal of small companies to the public, since the small loggers could not advocate or survive on more restrictive legislation."

⁴⁸Ibid.

⁴⁹ One unlikely critic of this system was forester H.R. MacMillan. He argued at the hearings for the second Sloan Commission that:

A few companies would acquire control of the resource and form a monopoly. It will be managed by professional bureaucrats, fixers with a penthouse viewpoint who, never having had rain in their lunch bucket, would abuse the forest....Public interest would be victimized because vigorous, innovative citizen business needed to provide the efficiency of competition would be denied logs and thereby prevented from penetration of the market. (Sloan, The Forest Resources...)

⁵⁰Pearse, Timber Rights... 1976, Vol I., p. 29.

51Pearse, Timber Rights... 1976, Vol I., p. 29

52Ibid., p.29. For a more detailed examination, see McAskill, Private Charges... p.8

53Pearse, Timber Rights... 1976, Vol I., p.30.

54Ibid.

55See McAskill, Private Charges..., p.8.

56Pearse, Timber Rights... 1976, Vol I., p.34.

57Ibid.

58Ibid., p.31. Unlike PSYUs, the licensee has many management responsibilities and the costs of management responsibilities are deducted from what is paid for in stumpage and royalties.

59Ibid.

60Ibid.

61Marchak, Green Gold, p.49

62Ibid.

63Pearse, Timber Rights... 1976, Vol I., p.30

64Schwindt, "Resource Rents," p. 185.

65Marchak, Green Gold, p.51.

66Ibid.

67Ibid.

68 In the coastal region, the four largest companies control 57 percent of the total provincial cut. The largest eight control 82.5 per cent of the total allocated annual cut and the top 20 own 96.8 per cent. See Wagner, William, Privateering in the Public Forest? A Study of the Forest Industry's Expanding Role in the Management of British Columbia's Forest Lands M.A. Thesis (Victoria: University of Victoria, 1987)

⁶⁹Briefly, the Forest Act of 1978 it changed licencing arrangements First, Forest Licenses (20 yrs duration, with clause for another 15- non-renewable. 2) Timber Sale Licenses (10 year duration) 3) Timber Licenses (unspecified duration- "intended to replace old temporary tenures at the discretion of the holder." p.55 4) Tree Farm Licenses (25 yr duration- replacement clause for another 25 yrs-non-renewable. 5) Pulpwood agreement (same as four) 6) Woodlot licenses (15 yrs, rep after five for another 15 yrs.) See Marchak, Green Gold, pp. 55-56.

⁷⁰Marchak, Green Gold, p.56.

⁷¹Further, it appears as if established companies will be able to benefit from government preference for new forest or timber sale licenses:

Licenses and sales will be determined through a process of sealed bids, bonuses, and preferences for "designated applicants," who are permitted to rebid if higher bonuses are offered. Criteria for choice of preferred applicants are vague and dependent on the chief forester's discretion. (Sections 11-16) (Ibid, p.57).

⁷²Marchak, Green Gold, p.80.

⁷³Ibid, p. 80.

⁷⁴Schwindt, "Resource...", p.158

Chapter Four : Stumpage Rates in British Columbia and New Brunswick: Comparing the Disparate

The divergent roles of the British Columbia and New Brunswick states in forest policy are readily apparent when examining their stumpage programs. British Columbia has been active in promoting discussion and developing changes to stumpage rates. New Brunswick has played a comparatively insignificant role. Even its Crown Lands and Forest Act of 1982, which many claim was government initiated, enabled the dominant forest industry actors to increase their position in the New Brunswick forest industry. These different state roles affected the methods of collecting stumpage as well as the actual amount charged. In B.C., the role of the state also facilitated an atmosphere in which numerous groups in society debated the effectiveness of the stumpage system. Conversely, the debate about stumpage in New Brunswick has been mostly limited to forest industry actors.

A comparison of stumpage rate statistics shows that at the time of the 1986 countervail New Brunswick's charges were substantially higher than those of British Columbia. There was also a difference in perception; in B.C. many felt that the government was not collecting enough revenue from stumpage, while in New Brunswick, after the 1982 Crown Lands and Forest Act, stumpage rates were criticized as too high.

Through such tools as Royal Commissions and state sponsored policy reviews, state actors have come to play a much

more active role in B.C. in the creation of stumpage policy. In New Brunswick, forest policy development has not been vigorously proposed by the state, and until 1982, the dominant forest industry actors did not support any significant change in state resource rent collection.

This Chapter tests the hypothesis that Crown land alienation affects the nature of state activity by looking specifically at recent stumpage policies. This analysis also allows for a comparison of British Columbia and New Brunswick stumpage rates which will in turn set the stage for an analysis of state activity during the time of the countervail.

Defining Stumpage

Stumpage refers to the charge which the government imposes on companies for lumber they cut on Crown land. In effect, the government is selling a commodity it owns (trees) to companies that want to exploit it for a profit. It is a measure of collecting resource rent on a renewable resource. Unlike licence fees and other charges, stumpage is unique in that its costs are calculated by the amount of lumber a licensee cuts from Crown land. As such, calculations are not based on the amount of land being logged, but on the amount of lumber being produced. It is also different from royalties in that it captures resource rent by a measure of board feet produced as opposed to standing

timber in a designated area.*

There are numerous ways to charge for stumpage. Arguably the easiest way would be to let "market forces" determine the stumpage charge. Richard Schwindt has argued that:

In theory the most straightforward method of assigning a value to standing timber is to organize a competitive auction and allow market forces to determine price. In reality it is very difficult to organize a competitive auction market for standing timber. The nature of the resource and public policies both tend to restrict the number of potential bidders for any given timber stand.¹

As a result of the difficulties in arranging for competitive bids (especially a state wants to organize stability and sustained yield in its forest policy), both B.C. and New Brunswick have opted for different kinds of systems in calculating their stumpage charges. Before examining the rôle of the state in stumpage policy, it is necessary to be aware of the limitations of a direct comparison of provincial stumpage programs.

Difficulties in Comparing B.C. and New Brunswick's Stumpage

It is extremely difficult to compare directly provincial stumpage rate statistics. At various times in both B.C. and New Brunswick, the government assumed different levels of costs of silviculture, forest upkeep, fire protection and the

*In 1963 the New Brunswick government made a conscious decision not to distinguish between royalty and stumpage. Whereas most New Brunswick actors will use royalty when B.C. actors will use the term stumpage. This is important in that when B.C. actors use the term royalty, they are referring to a method of collecting resource rents from those lands leased before 1907.

Forest Services, through the receipt of stumpage revenue. In New Brunswick, much of these services are performed by the licensee while in B.C., this situation varies depending on the type of licence issued to the lumber company. It has, therefore, been difficult to determine which province had the higher stumpage rates.

Even direct comparisons of average stumpage rate statistics between British Columbia and New Brunswick can reveal very little. Table 4.1 demonstrates that accumulated data on Crown timber charges may be more stable in New Brunswick, ranging from a low of \$2.94 in 1978/1979 to a high of \$3.44 in 1980/81 before the New Brunswick Forest Act of 1982 while B.C.'s ranged from a high of \$7.02 in 1979/80 to a low of \$1.37 in 1976/77.

Table 4.1
Industry Cost for Public Timber in B.C. and New Brunswick, 1976-1981 (\$/m³)

<u>Year</u>	<u>B.C.</u>	<u>New Brunswick</u>
1976/77		
Timber Dues	\$1.01	\$1.16
Total /m ³ *	1.37	\$2.98
1977/78		
Timber Dues	2.23	1.40
Total /m ³	2.56	3.05
1978/79		
Timber Dues	5.64	1.30
Total /m ³	6.15	2.94
1979/80		
Timber Dues	6.44	1.27
Total /m ³	7.02	3.02

1980/81		
Timber Dues	6.18	1.31
Total /m ³	6.83	3.44

Source: C.H. Gairns, Provincial Charges for Timber in Canada, August, 1982 (Funded under the Canada- Saskatchewan Forest Development Agreement and done by Industrial Forestry Service Ltd., Prince George, B.C.)

*Includes rental and other charges including what may apply with respect to silviculture, forest management and inventory, primary access roads, scaling charges, insect and disease protection etc.

This said, a comparison of stumpage statistics can give an adequate portrayal of the approximate cost of stumpage.

Further, the method of calculating stumpage is easily contrasted. British Columbia's system is much more complex. Until November, 1987, the B.C. stumpage rate was based closely on a Rothery or "residual" system (often referred to as the "Modified Rothery" system.) On paper, the province receives any profit which the company makes "beyond a reasonable rate."

As an equation, stumpage in B.C. can be viewed as:

$$S = SP - (C + P)$$

Where: S= stumpage costs
 SP= the selling price
 C= operation costs
 P= the margin for profit²

In theory, therefore, stumpage is a residual fee and not part of a lumber company's operating costs. That is, stumpage will be a figure which allows the lessee to obtain a profit, but high enough as to bring some kind of a return to the Crown.

Stumpage is calculated on the basis of the values of

timber stands and is administratively divided in regions across the provinces. In order to establish the market value needed for the stumpage calculations, timber harvest on the coast is calculated from the coastal log market while interior calculations use the selling price of timber.³

The Rothery system created an extremely complex system of calculation which meant that, administratively, the state also had a dominant role. The B.C. Forest Service calculates stumpage on the basis of regional and intra regional measurements, as well as particular species of trees. The reasons for this is that the stumpage formula equation will have extremely different inputs depending on where the timber is harvested, even within particular regions. This means that depending on the region, and where in the region a lumber company operates, the stumpage fee for the same species can be radically different. Table 4.2 demonstrates this phenomenon. In 1973 for example, stumpage fees averaged \$5.71 per 100ft³ cubic feet in Prince Rupert, to \$16.37 in Vancouver. The range of stumpage was from \$.25 to \$16.4. In 1982, stumpage ranged from an average of \$.91 m³ in Nelson to \$4.03 in Prince Rupert Central.

Table 4.2
Average Stumpage Prices Received By Species and Forest Districts,
on same Timber or Tree Farm Licence cutting permits, 1963-84

	63*	68	73 77	82**	83	84	
Van	\$3.81	5.39	16.37	10.29	3.62(C)	4.39	4.61
					2.48(I)	2.08	2.03
PR(C)	2.16	3.64	5.71	4.82	4.03	3.61	3.85
PR(I)		2.41			.95	1.11	1.10

PG	2.06	6.31	16.80	1.90	1.02	1.23	1.17
Cariboo			19.87	7.40	.95	1.06(C)	1.10
						1.21(I)	1.10
Kamloops	2.11	5.53	17.09	1.78	1.05	1.32	1.24
Nelson	2.33	4.64	11.20	2.63	.91	1.20	1.21
Average	\$3.06	4.81	12.90	7.34	1.79	2.15	2.12
Range	\$0.25-	0.20-	0.30-	0.55-			
	16.40	17.90	66.15	89.4			

Source: Selected Reports of the British Columbia Ministry of Forests.

*One hundred cubic feet.

** Measurement changes to metre³

Years actually end in may of the following year.

Table 4.3 demonstrates the difference between species. For example, while Cedar averaged \$5.80 a cubic metre in the Prince George Central region, Douglas fir in the same area was only \$2.95. The average cubic metre cost ranged from 1.48 in the Prince George Interior region to \$9.27 in the Vancouver Central region while the average Douglas fir cost per region ranged from \$1.16 in the Prince George Interior region to \$3.88 in the Vancouver Central region.

Table 4.3

Average Stumpage Prices Received By Selected Species and Forest Districts, on same Timber or Tree Farm Licence cutting permits, 1984-85*

Region	<u>Cedar</u>	<u>Douglas-fir</u>
Van(C)	\$9.27	3.88
Van(I)	6.02	1.85
PR(C)	5.80	2.95
PR(I)	1.48	1.16
PG	1.53	1.30
Cariboo(C)	-	-
Cariboo(I)	1.46	1.29
Kamloops	1.51	1.31
Nelson	1.97	1.34

Average

6.78

2.14

Source: Reports of the British Columbia Ministry of Forests,
Fiscal Year Ended March 31, 1985..

* Measurement in metre³

This creates a complex system of determining stumpage rates quite unlike the system in New Brunswick. For example, New Brunswick has only one provincial rate for a particular species. Table 4.4 shows that the stumpage rate for softwood sawlogs was \$1.40 across the entire province, regardless of the cost involved in extracting the raw material. Until the 1982 Crown Lands and Forest Act, these stumpage rates were set arbitrarily.

Table 4.4

New Brunswick stumpage 1980-1982. (selected species and classes). *

Species/class	1980**	1981**	1982
Sftwd sawlogs	1.40	2.65	3.30
Sftwd Poles & Pilings	3.44	9.10	10.40
Sftwd Studwood	1.40	2.65	2.75
Cedar pulpwd	.87	1.75	2.00
Sftwd pulpwd	1.66	2.40	2.94

Source: Stumpage Practices, Industrial Development Programs and Government Ownership and Participation in the Canadian Lumber and Shingle and Shake Industries Volume II: Appendix. Resource Industries Branch, ITC, September, 1982

* Given as \$/m³

** included in this figure is a License Renewal Fee and Protection tax. 1980 classes were not directly comparable and average values were imposed using 1981 classes.

Thus, while it is difficult to compare directly the actual stumpage statistics, it is nonetheless possible to gain an

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approximate understanding of which province has higher stumpage rates. Further, the method of calculating stumpage is vastly different. As we shall examine shortly, the perception of whether the province receives an adequate return for its resource is radically different for these two provinces. The perception can have just as much significance as the "reality" of stumpage rate data.

Role of the B.C. State

The role of the British Columbia state in determining stumpage is demonstrative of the kind of role it has come to assume. As discussed, Royal Commissions and state sponsored studies have been an important governmental tool in keeping an active role in forest policy development. Even when these reports presented ideas which were fundamentally at odds with prevailing ideas of state actors, they still served to remind other actors in the forest sector that the state would not take a dormant role in forest policy development.⁴ In almost every review stumpage was either a key variable or was the actual reason for its creation.

The current system of stumpage can be traced back to the 1907 decision to establish competitive bidding.⁵ As discussed in Chapter Three, competitive bidding would see an upset price set (lowest minimum bid), and cutting rights were to go to the firm with the highest bid. As Schwindt explains:

Forest Branch appraisers estimated both the value of the timber to be cut and the costs of the harvest; and by subtracting the latter from the former, they set a minimum or "upset" price for the stand. The licenses

were allocated by bidding, with bids starting at the upset price.⁶

While apparently intended to be "market" driven, this system actually increased the role of the state because of the importance of the upset price. Economies of scale and transportation factors meant that there would often be only one bidder and the upset price would result as the stumpage price.⁷

During the late 1940s and early 1950s, the forest industry was growing quite rapidly⁸ and state actors became concerned about the supply of the forest resource and the dominant role of forestry in the B.C. economy.

It was in this context that the Sloan Royal Commission of 1956 was created. As noted earlier the Sloan Commission recommended a system of sustained yield management in which many forest companies were guaranteed the timber cutting rights to large tracts of land as an incentive to support sustained yield (retail Tree Farm Licenses and private working circles from Chapter Three.)⁹ Later, Public Working Circles (PSYUs) would see this process continue.

With sustained yield, the principle of competitive bidding would become even more diminished. Cutting rights to large tracts of land would virtually preclude other companies from bidding and entrenching the upset charge as the actual stumpage rate. As a result the important role of the state in determining stumpage policy increased.

As this system developed, it was also apparent that the allowable annual cut established to comply with sustained yield

would mean a reduction in the amount of timber harvested. The question remained as to which forest companies would see their allocations reduced.¹⁰ As discussed in Chapter Three, the state decided that established forest companies (before the time of sustained yield) would be given the same proportion of the harvest which they had before this program. This "quota" system gave these established companies advantages in the bidding system so that they had effective cutting rights in these PSYUs.¹¹ Huge non-refundable bidding fees were set for firms which wished to outbid a company with a quota in a certain area.¹²

As Schwandt summarizes:

Within twenty years of implementation of sustained yield in British Columbia, competitive markets for the timber resource were closed. This was done by design in the TFLs and by default in the PSYUs.¹³

This represented the end of large scale competitive bidding and significantly augmented the role of the state in the B.C. forest economy.¹⁴

Even with the Rothery system relatively secure, the B.C. state still used the tool of government sponsored commissions to review government policy. The 1974 Task Force on Crown Timber Disposal was designed specifically to examine resource rents. The ensuing Pearse Royal Commission also examined stumpage rates extensively. However, despite these reports, the stumpage system was left, for the most part, unchanged.¹⁵

Thus, while the state sponsored many research commissions which either dealt with resource rents specifically, or contained many recommendations about stumpage policy, it rarely felt

compelled to heed their recommendations. It was the state which created commissions, and it was the state which would take the ultimate decisions.

Response by Actors

The active rôle of the B.C. state in stumpage policy also appears to have given the impetus to a highly public debate involving the authors of the recent state sponsored reports, large and small forest companies, academics and political actors.¹⁶

The dramatic decline in stumpage rates in recent years has added fuel to the stumpage rate controversy. Table 4.5 highlights the volatility of B.C. stumpage revenue. For example, in the 1975-76 fiscal year, revenues from stumpage were only about \$30 million dollars. Five years later, this figure had reached \$530 million only to fall to \$80 million just two years later.

Table 4.5

Stumpage collected from B.C. Forest Industry, 1976-1985*

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
	(\$ Millions)									
A)	\$49.8	78.1	222.5	561.7	390.7	134.9	106.9	146.0	144.3	166.1
B)				34	81	65	59	59	66	71
Real	49.8	78.1	222.5	527.7	309.7	69.9	47.9	87.0	78.3	95.1

A) These calculations were made before reimbursements by the provincial government under Section 88 of the Forest Act (for silviculture, roads, other expenditures (1979-1985)).

B) Shows what these deductions amounted to.

Real refers to the actual amount paid after Section 88s were calculated.

*fiscal year

Source: C.O.F.I., The Contribution of the British Columbia Forest Industry to the Federal, Provincial and Municipal Governments, May, 1987

Marchak has noted:

The drop [in resource rents] from 1979 to 1982 was really catastrophic....And even now...they are nowhere near the levels. They never will be. So there really is a very good argument from the point of view of the government for getting bigger resource rents. They no longer have a guaranteed future and they've got to get money from somewhere.¹⁷

The recent debate has critiqued the Rothery system in two directions: lamenting its basic flaws; and critiquing the data used to calculate the stumpage.

Macro critiques of the Modified Rothery

L. Copithorne argued in 1979 that the residual nature of B.C. stumpage rates allows the rent to be dissipated into wages, "...stumpage regulations make it possible, within limits, to pay wage increases out of government stumpage revenue instead of company profits."¹⁸ Marchak has recognized this:

In the [B.C.] forest industry the capacity of firms to pay higher wages than is the case in the same sectors in the United States and elsewhere in Canada is much improved, and the cost to employers considerably decreased by the stumpage formula.¹⁹

In 1981 forest economist David Haley added fuel to this discussion in his comparative study by asserting that the method of arriving at stumpage was causing low B.C. stumpage rates:

Stumpages for crown timber in British Columbia are considerably lower than for public timber in the United States Pacific Northwest, and these price differences are increasing annually. There is little doubt that the principal reason for higher stumpages in the Pacific Northwest is that all public agencies, both state and federal, involved in timber production, encourage competitive bidding for standing timber whereas in British Columbia competitive sales for public timber have been virtually eliminated...

The evidence (is)...that appraised stumpages in British Columbia fail to reflect the full values of the Province's timber resource and that, in the absence of competitive markets for stumpage, public revenues from the production and sale of timber are much lower than they could be.²⁰

Other academics have developed these arguments. Richard Schwindt has asserted that rent is dissipated not only into wages, but also to the provincial government in the form of social goals and to business through inefficient production.²¹

Glen Clark, in his 1985 M.A. Thesis,²² blamed the timber allocation system in B.C. and the ending of competitive bidding as the reasons for low resource rent collection. He further attributes these factors for an increasing concentration of capital:

It appears that this [ending up with the appraised price for timber] has undervalued the crown's share of the resource rent. The combined effect of timber allocation policies after 1947 was to accommodate, if not encourage, the consolidation of timber rights.²³

In a detailed analysis of B.C.'s stumpage policy, McAskill compared B.C. to the United States Pacific Northwest, concluding that "timber charges in B.C. fail to exact the full value and rent of the timber resource."²⁴

Politicians have also been vocal. Former New Democrat

Lands and Forest Minister Bob Williams has argued that "[The stumpage system has] no relation to the value of the resource."²⁵ Even some Social Credit cabinet ministers agree.²⁶ The province's largest woodworkers union, the IWA, also agrees that, "[t]here is an inadequate return to the Crown."²⁷

A Micro Critique of the Modified Rothery: Problems in Administration of Stumpage

There has also been much discussion about problems with the administration of the Rothery formula. Most of the criticism stems from determining a proper market price for the timber resource. As discussed, this figure is essential in calculating a Rothery stumpage rate.

Ironically, some of the harshest critics have been the authors of the State sponsored studies. The 1974 Task Force on Crown Timber Disposal was not critical, in principle, of a residual stumpage system.

The report found that since stumpage is a residual:

...appraised prices for timber, properly calculated, should not give rise to any cost advantage or disadvantage to producers of forest products in this province relative to their competitors in world markets.²⁸

This noted, the Task Force found that because of difficulties in determining a competitive market price for timber, stumpage prices have been skewed.²⁹ These findings were further confirmed by a fourth Royal Commission created in 1975 under the chairmanship of forest economist Peter Pearse. Pearse contended that there are three basic reasons why B.C. stumpage never fully

reflects the residual cost:

- 1) Stumpage rates are constrained by minimum and maximum figures, therefore, changes in cost may not be fully reflected in stumpage fees.
- 2) Allowances in appraisals for various taxes and charges are often imprecise.
- 3) Some stumpage charges are based on large units of Crown timber holdings, not just on the timber currently harvested.³⁰

Pearse has further added:

All indications suggest that the log market has reached a point of crisis, and the implications extend well beyond the market to the structure and efficiency of the cost forest industry. If present trends continue, all manufacturing firms will require their own rights to standing timber and the market will be reduced to exchange between them. The prices will not provide a reliable base for stumpage appraisals, both independent milling and logging will disappear, and the industry will become increasingly consolidated into fewer large companies.³¹

Other academics have also addressed the difficulty in identifying a proper market for logs. As Marchak stipulates:

The integration of logging and lumber and pulp companies over the post-war period has undermined the effectiveness of this internal market. This marketing process could operate only if the sellers of logs and manufacturers were separate. If they are all part of integrated firms, then the intermediate market simply consists of companies pricing supplied for book-inventory while selling them to sibling firm.³²

Small contractors have been equally critical. The price they argue is low, and is set by the large forest companies.³³

Some academics discern problems with the stumpage rates;

but argue that there exists no clear notion about what adequate stumpage would entail.

Percy and Yoder suggest that:

There is no easy answer to the question whether the British Columbia government captures all of the returns to the forest base that it should. It is as much a political problem as it is an economic one. The complexity of the issues involved in pricing of Crown resources and the trade-offs between economic and social objectives are discussed in Gunton and Richards (1987). The available evidence does suggest that, if "underpricing" of standing timber does exist, it is certainly not as great as alleged by the U.S. forest industry and is probably a factor only in the interior.³⁴

They go on to assert, "It is not the formula that is at fault; it is the data used in the calculation that require attention."³⁵

Further, one indicator that resource rents are not unduly low is that forest industry is not very profitable:

The industry has a history of chronic unprofitability. A Canadian government review of the forest products sector (Canada 1978, 47-48) and Pearce (1980, 29) both note the poor financial performance of the forest products industry in comparison with manufacturing industries in Canada.³⁶

Industry Response

The Council Of Forest Industries has consistently supported the Rothery formula, "stumpage fees are not low if the anomalies are corrected."³⁷ This organization insists that before the Rothery format, the stumpage system was inadequate. The presence of numerous small firms combined with a lack of tenure meant that there were no major infrastructure developments in the B.C. forest sector. Shebbeare argues that large companies are vital

to a thriving forest industry.

In the recent wake of criticism that forest companies are not paying enough stumpage, COFI has undertaken an extensive campaign to counter these arguments. During the time of the countervail, COFI designed an elaborate table showing the amount of taxes the B.C. industry pays. The thrust of the paper was that to look solely at stumpage rates as the industry's contribution was to misunderstand what the industry actually paid. Shebbeare argues that the industry has never contributed less than \$1 billion a year into the B.C. economy when taxes, corporate and income, are all factored in. This view is echoed by individual company members of COFI:

Our view point is that stumpage is just a minor point of revenue generated from the forest industry, about 10 or 15%. Most of the other income...comes through taxes and other levies....We think it is just ridiculous for them to say that the stumpage has got to pay for the whole thing.³⁸

The stumpage system, Howard argues, is a good one:

On the whole, B.C. has a pretty good system...we like the stumpage system from the point of view that anybody can go and see where it is.... [We have had the] present system since the 1940s. [It has] gone through several royal commissions and a task force...and...the major thrust came from the United States [Countervail proceedings] in 1983. [I]t was examined with a fine tooth comb and it came through...as clean as a whistle.³⁹

This is also supported by other COFI members.⁴⁰

This debate is an open one, with each "side" responding to the claims of others. Bob Williams has rebuked the argument of the forest companies that stumpage is not the best way to measure their contribution to British Columbia, "That's just so much

nonsense. The forest companies are paying for a resource owned by the Crown. What they are paying in taxes has nothing to do with what the kind of return the Crown should be getting for use of its resource."

In any event, this widespread, vocal debate has created the perception that British Columbia stumpage rates were faulty. The fact that the debate tended to see large forest companies isolated in their support for the modified Rothery formula, gives currency to this perception.⁴¹

New Brunswick Stumpage Policy

The New Brunswick state has not been active in the development of stumpage policy. Perhaps more than any other area of forest policy, state involvement in administration and method of collecting stumpage has been determined largely by the supportive role the state has come to assume. The prominence of private land over that owned by the Crown has solidified the weak nature of the state in this area. Indeed, until the Forest Act of 1982, the state had shown little interest in invoking a well developed stumpage system. As discussed, there has been only one New Brunswick Royal Commission in the last Century. The only other state sponsored report was that of the ineffective 1974 Forest Resources Study. Before 1982, there was not even a preset method of determining stumpage:

Prior to 1982, stumpage was set every so often. [There was] no requirement under the old act to review stumpage on a yearly basis. It was set probably based on pressures coming either from private woodlot owners

claiming that the crown was too low and was competing unfairly with their product, or the politicians of the day felt that they...needed more revenue. There were probably all sorts of reasons why royalty went up. It went up in fits and starts. It may have been adjusted every ten years or so. It didn't go up in a yearly increment at all. That happened up until 1982.⁴²

The 1982 Crown Lands and Forest Act did radically change the method of collecting stumpage. However, it appears incorrect to claim that this Act was the result of an active state.⁴³ Contrary to the opinions of many observers, this actually represents the actions of an impotent state deciding to give even more control in stumpage administration to the dominant forest companies. Therefore, it will be necessary to examine in some detail the consequences of the 1982 Crown Land and Forest Act on the future ability of the New Brunswick state actors to determine stumpage policy.

The Role of the State Before 1982

The New Brunswick state has a long history of relative inaction in the area of stumpage policy development. On the rare occasions where state actors did commission a study on the forest resource, its responses to such studies reveal even more about the non-active, supportive nature of the New Brunswick state to the dominant economic interests in the forest industry.

A rare 1892 commission on Crown timber land administration failed to recommend a formula or pre-determined method of collecting stumpage.⁴⁴ Nor did they not recommend that a variable stumpage rate system be implemented.⁴⁵ Since then, there has been no particular detailed method for calculating

stumpage and rates.⁴⁶

Throughout following years, stumpage rates were increased and decreased depending on rough guidelines and the lobbying ability of the forest industry. As there was no set formula, stumpage rates could run the risk of being extremely low. Consequently the appearance of consistent policy was difficult to ascertain. As Babcock postulates:

General policy statements concerning stumpage rates by the Government of New Brunswick are few and far between.⁴⁷

While stumpage policy obviously reflects this, the 1927 Report of the Royal Commission in Respect to the Lumber Industry, 1927, actually argued for less stumpage rates:

For the purpose of further assisting in the stabilization of the lumbering industry, and inducing new capital to seek an outlet in the province, from the information gained in our investigation, we further recommend that the rate of stumpage on all softwood timbers be fixed for a period of not less than five years.⁴⁸

The report of the New Brunswick Royal Commission of 1958 contained two recommendations regarding stumpage. The first suggested stumpage be changed to a 'mileage' format (for easier administration), and the second called for fees to be adjusted annually (for greater revenue.) Neither of these proposals were followed. An internal report to the New Brunswick Deputy Minister of Natural Resources criticized the state inaction at this time:

Since neither of these provisions was implemented, the result has been that the Government not only forfeited "real" revenue as a result of inflation, but also suffered a further serious impairment of income through

the fact that renewal fees were tied to the 1957 rate of use of Crown wood-- a use which has about doubled since then. Its recent revenue from renewal fees has therefore been less than one-quarter of what it should have been...⁴⁹

Stumpage rates would continue to drop throughout the 1960s and 1970s. The same internal report found that, insofar as comparisons could be made, New Brunswick rates were low vis-a-vis other provinces; "It seems that, all things considered, charges in Ontario are now about 50 per cent higher than those in New Brunswick."⁵⁰ To combat the decline, the report actually suggested a reversion back to "...the 1958 rates updated to account for inflation by multiplying by a factor of 2.25," at least as a temporary measure.⁵¹ Regarding stumpage, it was recommended, "...that stumpage or royalty reflect market prices for the end-products"⁵² and that stumpage rates should also be adjusted quarterly.⁵³ Still, none of these proposals were adopted.

The response of the state to the 1974 Report of the Forest Resources Study was similar.⁵⁴ The Report recommended strong deviations from existing policy so that the Crown would develop more control over stumpage, recommending that, "...the full control and management of Crown Lands be returned to the Province through the termination of all timber licenses as soon as feasible."⁵⁵ Yet, while an experiment using Tweedale's recommendations was attempted, the New Brunswick state decided against the 1974 recommendations by arguing that the experiment was not a success. The low, ad hoc stumpage rates would.

remain.⁵⁶ E.S. Fellows noted that:

...present [1977] Crown timber revenues are based on rates established 14 years ago which in turn were significantly lower than the rates set 18 years ago which had then been stable (for most practical purposes) for a period of at least six years before that. In other words, the current royalty and renewal fee charges combined are no greater than they were 24 years ago; indeed they are effectively less than they were even without taking into account the drastic reduction in the purchasing power of the dollar.⁵⁷

The inability of the state to create a stable, defined stumpage system also led to major inequalities between those charges set by private land owners and those of the Crown:

There is no doubt in my mind that, in the great majority of cases, privately owned timber is cheaper for its owner than equivalent Crown timber even at today's low Crown royalty rates. However, the matter is quite different when it comes to purchases of private stumpage.⁵⁸

The effect of these low Crown stumpage rates was also to reduce the amount that private woodlot owners could charge:

...in the New Brunswick forest-economy, the Crown rates have a strong influences on freehold prices; any change in Crown rates will almost certainly trigger a reaction in the "free" market for stumpage.⁵⁹

Industry in Transition

There thus existed a climate then in which private land owners in the forest industry were losing potential revenue because of the low Crown stumpage. However, private land owners were not the dominant actors in the forest industry. As discussed earlier, the small sawmill owners appear to have become usurped by the larger pulp and paper companies as the dominant actors in the forest industry.⁶⁰ As Chapter Two discusses, pulp and paper companies have become increasingly dominant force in

the New Brunswick forest sector:

The pulp and paper industry in New Brunswick, which was only embryonic before World War I, now dominates the forest products scene in terms of value of production, wood consumption, and control of the timber resources ... during the past 20 years, there was a steady reduction in the number of sawmills [and]... the lumber industry has lost control over its supply of raw material⁶¹

While low Crown stumpage rates clearly benefitted sawmill owners, (since most relied on the Crown for their timber),⁶² pulp and paper company actors had ambivalent feelings. These large forest companies owned their own land, but many also turned to Crown land for additional supply.⁶³ As such their operating expenses would be decreased through inexpensive stumpage. Paradoxically, these same companies would also benefit from high stumpage in that high rates would serve to further consolidate their position in the New Brunswick forest industry.

Therefore, the question was, "to which of the ambivalent feelings would the dominant forest industry actors turn?" By 1982, the answer was seemed clear: toward consolidation of power and higher stumpage rates.

Factors Leading up to the 1982 Crown Lands and Forest Act

The impetus for the Crown Lands and Forest Act came from both private land owners and the pulp and paper Companies. The private land owners became increasingly opposed to low Crown stumpage as the use of Crown land increased in the late 1970s. Table 4.6 shows how Crown land increased in use from 3.5 million cubic metres in 1978 to 4.33 million cubic metres in 1979 and maintained this rate in 1980/81.

Table 4.6
Forest Harvest on Crown land, New Brunswick

Year ending	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>80/81*</u>
million ft ³	115.7	124.7	123.8	151.9	
mtrs ³	3.3	3.5	3.5	4.3	4.3
Cut ft ³ /prod. acre	15.7	19.0	17.7	21.6	
2cut mt ³ /prod. hect	1.10	1.33	1.24	1.51	1.52
Year ending	<u>81/82</u>	<u>82/83</u>	<u>83/84</u>	<u>84/85</u>	
million ft ³					
mtrs ³	3.8	2.6	3.7	4.2	
Cut ft ³ /prod. acre					
cut mt ³ /prod. hect	1.36	0.91	1.3	1.5	

Source: New Brunswick Department of Natural Resources, Annual Reports.
 * stats shift to year ending March 31

However, for such a change to take place, the dominant Pulp and Paper companies would also have to support high stumpage rates. If such a system could augment their market share, their support was possible.⁶⁴ The Forest Act of 1982 incorporated these wishes.⁶⁵

The 1982 Crown Lands and Forest Act

The 1982 Crown Lands and Forest Act seemed to have both overt and covert goals. There were three official goals; "...ensuring the maximum stable flow of revenue from Crown timber; encouraging efficient and effective forest management practices; and the maximum utilization of Crown timber on a

sustainable basis."⁶⁶ Presumably state actors would have claimed to ascribe to these generic goals long before the 1982 Crown Lands and Forest Act. To be aware fully of the reasons for such state action, we must be aware of the unofficial goals of the private land owners who did not wish to compete against Crown land stumpage, and the dominant forest companies who seemed to desire an increase in their control of the New Brunswick forest economy.

As discussed in Chapter Two, the 1982 Crown Lands and Forest Act appears to have actually weakened the role of the New Brunswick state by shifting much of the administration of Crown forests to ten of New Brunswick's largest forest companies. Both timber supply allocation and the method of calculating stumpage rates were changed. Twenty-five year tenures were granted to ten large forest companies,⁶⁷ with the condition that they undertake forest management.

Most important, Crown land was designated as a residual supplier, guaranteeing the private woodlot owner would be able to set a price relatively "unaffected" by that of the Crown.⁶⁸ (Further, the willingness of the New Brunswick state to establish high stumpage rate costs, meant also that the private woodlot owner has been able to charge more for timber, i.e., the cost of Crown and private timber are part of a reciprocal relationship.) Before the 1982 Crown Lands and Forest Act, Crown stumpage kept private stumpage at relatively low rates. Now, the opposite is occurring. Unconstrained private stumpage should mean higher

private stumpage fees, and since the Crown rate is based on a percentage of the private stumpage, the amount charged for stumpage will also rise.

The result of the 1982 Crown Lands and Forest Act was to increase dramatically the amount of Crown stumpage. In deciding what system to use to achieve this, New Brunswick bureaucrats studied numerous systems. They even took a detailed look at the mode of collection which B.C. employed.⁶⁹ It was rejected because it was believed that a much larger, expensive bureaucracy would be required to implement the numerous stumpage calculations. As well, there was a belief that it was not an adequate method of maintaining a relatively high stumpage rate. As a senior New Brunswick Natural Resources official remarked, "I can see where you can make an argument [if using the B.C. Rothery system] where we should be paying them [the forest companies] to cut it."⁷⁰

In the end, it was decided that the 1982 Crown Lands and Forest Act would invoke a system called Fair Market Value. Simply put, this system takes a survey of what private woodlot owners in New Brunswick, Quebec, Nova Scotia and Maine charge for stumpage. The results are examined and the Crown rate is set as a percentage of the private market rate. Table 4.7 demonstrates that before the new system was implemented, Crown land stumpage rates ranged from 21-40% of the private stumpage rates (and this is after significant increases from the 1960s and 70s levels). During the first year of the Act, the percentage of what the

Crown charges vis-a-vis the private market or fair market value increased substantially, with the percentage being from 50-80% of the fair market value in the next few years. These percentages will gradually increase to an average of at least 70% of the fair market value.⁷¹

Table 4.7

New Brunswick stumpage before and after 1982 Forest Act and establishment of Fair Market Value (selected species and classes).*

Species/class	1982 FMV	1980**	1981**	1982
Sftwd sawlogs	6.60	1.40 (21%)	2.65 (40%)	3.30 (50%)
Sftwd Poles & Pilings	13.00	3.44 (26%)	9.10 (70%)	10.40 (80%)
Sftwd Studwood	5.50	1.40 (25%)	2.65 (48%)	2.75 (50%)
Cedar pulpwd	2.50	.87 (35%)	1.75 (70%)	2.00 (80%)
Sftwd pulpwd	4.20	1.66 (40%)	2.40 (57%)	2.94 (70%)

Source: Stumpage Practices, Industrial Development Programs and Government Ownership and Participation in the Canadian Lumber and Shingle and Shake Industries Volume II: Appendix. Resource Industries Branch, ITC, September, 1982

*Given as \$/m³ and as % of Fair Market Value (FMV)

**included in this figure is a License Renewal Fee and Protection tax. 1980 classes were not directly comparable and average values were imposed using 1981 classes.

At this point it may seem that 70% is still low vis-a-vis private stumpage rates. However, Crown forest land is usually more remote (as explained in Chapter Two), creating additional transportation and harvesting costs.⁷²

Nonetheless, the stumpage revenue has increased dramatically since the Forest Act. Table 4.8 demonstrates that while in 1981 the government received only \$5.6 million in

stumpage or royalty (despite Table 4.7 which showed an increase in the amount of crown timber harvested), this rose to a staggering \$16 million in 1985. With rates expected to increase even more, these revenues should rise even higher.

Table 4.8
Assessed Crown Timber Royalties(Stumpage), Revenues for New Brunswick, 1979-1985*

	<u>1975</u>	<u>1976</u>	<u>1977</u>					
	(\$ Millions)							
Timber under Licenses	4.3	3.4	3.4					
Not under Licence	.7	.6	.6					
Total	\$	5.0	4.0	4.0				
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
	(\$ Millions)							
Timber under Licenses	\$3.9	4.6	4.9	4.4	6.2	7.1	11.2	15.5
Not under Licence	\$1.1	0.9	1.9	1.2	1.8	.7	.6	.5
Total	5.0	\$5.5	5.8	5.6	8.0	7.8	11.8	16.0

Source: New Brunswick Department of Natural Resources Annual Reports.
*Ending March 31st of the given year

Stumpage rates are still applied equally across the entire province. Table 4.9 indicates what the average stumpage rate was for the entire province since the 1982 Forest Act.⁷³

Table 4.9

Overall Weighted Average Softwood Stumpage Royalty Paid to New Brunswick, 1983-1986:

type	1983-84	1984-85	1985-86	1986-87
softwood			\$3.95m ³	\$4.98/m ³
sawlogs				
entire				
industry	\$3.27/m ³	\$3.80/m ³	\$3.83/m ³	

Source: New Brunswick response to ITA Questionnaire, 1986, Appendix VI, p.10 and Statistics Representative of New Brunswick's production and distribution to the U.S.A. Obtained from the Maritime Lumber Bureau, Amhurst, N.S.

It is correct that the Crown stumpage rate was still lower than those charged by the private land owners, despite the dramatic increases. However, the Crown stumpage charge does not represent the entire stumpage charge applied to sublicensees. In addition to Crown stumpage charges, the Act allows the licensee to charge a management fee. In 1986, this fee averaged \$3.00 per cubic metre of lumber and increased the cost of Crown stumpage far beyond the private land owner charge.

This has significantly entrenched the dominance of the Pulp and Paper and lumber companies over the sawmills.⁷⁴ In addition to entering into sub licensee agreements with the large companies, and the smaller companies must also pay the licensee additional stumpage.

A New Brunswick bureaucrat who helped to implement the 1982 Forest Act, explained the change in stumpage rates by

emphasizing the reciprocal relationship between Crown and private stumpage rates:

"...in a province this size over half the land is owned by private citizens, obviously there is an interrelationship between what royalties the crown chooses to charge and what they can afford to charge themselves, the lower ours are the less economical we are making it for the individual private landholder because he is in direct competition."⁷⁵

Yet, the individual private landholder was always in competition with the Crown stumpage policy. In order to understand the direction of the policy change on the part of the government, it must be placed within the context of the dominant ideas by the actors in the forest industry and the manner in which the New Brunswick state conducts itself. We are then left with the curious spectacle of a weakened state "allowing" for high Crown stumpage rates.

Reaction by New Brunswick actors to current stumpage policy

The current stumpage system has been treated relatively favourably by most forest industry groups in New Brunswick.⁷⁶ Even groups which are generally seen as representing the smaller sawmills in the province seem to be pre-disposed to it:

As more and more pulp mills came into the province...they realized that we just weren't going to have enough fibre and what you had to live with, is what is growing now and so to ensure a fair allocation, everyone agreed we all [are] going to be short but let us make the fairest possible way to spread it across all the users.⁷⁷
I think it is a good act, I think it could be a model for the rest of the country.⁷⁸

However, there appears to be some unease on the part of

small sawmill owners who object to becoming sub licensees. One small lumber company president tells of his bitterness with the new Act, especially having the management fees in place. He laments:

[You have] no control over your prices. Government in no way wants to intercede. Now big industry has the say.⁷⁹

Another softwood lumber company president concurs:

We have to deal with licensees...we have to pay the licensees. They are supposed to be the people who know all...about the Crown Land Administration and I disagree with that.⁸⁰

The same president actually applied to have his own independent licence (along with the large 10 companies), but was unsuccessful.⁸¹

The director of the Maritime Lumber Bureau, on the other hand, contends that in general the sawmill industry is better off under the new Crown Lands and Forest Act:

You can say that the sawmill industry is much better off since 1982...since they do know that they are going to get a continual supply [of lumber] to keep them viable....⁸²

However, there are other signs that the industry associations now see specific problems with the Act. The Director of the NBFPA has claimed that a recent takeover of one of the licensees (Rothsay Paper Ltd.) by J.D. Irving has further, concentrated the industry. "When you put those two licenses together...it is [almost] the whole southern part of the province....⁸³

Some licensees still had ambivalent feelings about the

idea of high stumpage rates. At the time of an increase in stumpage in 1984, Fraser was on record as being displeased.⁸⁴ For the most part, however, the large companies do seem inclined towards the view that higher stumpage rates were necessary.⁸⁵ As MacFarlane has noted, "It is no secret that Irving ... argues for relatively high stumpage prices. Naturally that is because he benefits from his own land."⁸⁶

While the New Brunswick Forest Act of 1982 has not been wholeheartedly supported by all factions of the New Brunswick forest industry, the debate which took place centres on whether the stumpage rates are too high. There has been little criticism by any social, economic or political actors that the stumpage rates in New Brunswick are low. In fact, academic, labour and other actors have virtually no role in this debate.

Where the debate in British Columbia centres on whether the Crown is getting an adequate return through its stumpage rates, such was not the case for New Brunswick. In British Columbia, a vocal debate on stumpage rate policy would add legitimacy to the U.S. Countervail. Since such a debate had not occurred in New Brunswick, its state actors would have been able to legitimately criticize the B.C. stumpage rates for helping to cause the countervail. Yet as we will see in the next chapter, New Brunswick state actors were not able to do so.

Summary

The discussion in this Chapter has had two goals. First, it has tested the hypothesis of the level of Crown land

alienation, and the ability of the state to take an active, dominant role in forest policy development. It has been shown that New Brunswick state actors were clearly non responsive to recommendations regarding changes in stumpage policy. The result for New Brunswick was that it possessed relatively low stumpage rates for most of the of the 1950s, 1960s and 1970s. Yet, the same weak role of the state was responsible for dramatic increases in stumpage under the New Brunswick 1982 Crown Lands and Forest Act. Conversely, British Columbia actively pursued the question of stumpage, but a state concerned about facilitating a staples led economy had little reason to make major changes. In both these examples, the Crown land hypothesis appears confirmed. However, both studies showed that while state activity may have been filtered through constraints imposed by Crown land alienation, conjunctural events cannot be ignored in analysis. As such, the Crown land alienation hypothesis is not so much predictive, as it is a type of guide- allowing a general knowledge of how a state may respond to conjunctural events. To analyze state action without examining conjunctural variables and constraints would render the hypothesis meaningless. It is for this reason that Chapter Five's discussion of the countervail must make the reader aware of the various constraints imposed on state actors, which may be specific to that time.

The second goal of this chapter was to compare the methods and statistics of British Columbia's and New Brunswick's stumpage systems. It was pointed out that there are certain difficulties

comparing of stumpage rates in B.C. and New Brunswick. Nonetheless, it has been possible to gain a general understanding that at the time of the countervail, New Brunswick stumpage rates were significantly higher than those of British Columbia. Regardless of whether B.C.'s stumpage rates were lower for "legitimate" reasons, the perception by numerous groups in B.C.'s was that their stumpage rates were inadequate.

Both aspects of this Chapter put the reader in a better position to understand the actions of each provinces at the time of the U.S. countervail. It is to this question which we now turn.

End notes

¹ Schwindt, p. 194.

² From Forestry Handbook for British Columbia (3rd. ed.) (Vancouver: The Forest Club, UBC, 1971)

³ Not all of B.C.'s Crown land is based on stumpage. Those tenures acquired before 1907 are based on a royalty charge and "are determined by rate schedule for various species of timber cut, and by forest region. These rate schedules are legislated and have remained unchanged over long periods." (p.2 of Ian McAskill, Private Charges... MA Thesis.) Royalty covers a much smaller area of the province than does timber.

Stumpage applies to the method of charging for Crown timber acquired after 1907. This residual or Rothery system actually evolved from a system which was originally designed as one using competitive bidding. (The tree farm licenses established after 1907 were subject to competitive bidding. (even the OTT were the source of most timber up until the 1940s.) p. 191 of Schwindt)

⁴ In fact, Marchak has noted that the state would actually use Royal Commission to justify legislation which may not have had anything to do with the recommendations of the Commission.

⁵ This in turn, was a result by the state to shift from Crown Land alienation and license systems.

⁶ Schwindt, p.191

⁷ Ibid, p.192.

⁸ Ibid. See also Table 3.1

⁹ I may want to explain how other companies could bid for this land but they would have to pay huge non refundable bidding fees.

¹⁰ Schwindt, p.193

¹¹ Pearse, Timber Rights..., p.72 and Schwindt, p.193.

¹² Pearse, Timber Rights..., p.72

¹³ Schwindt, p.194

¹⁴ In almost all cases involving Crown leases after 1907, the upset rate became the stumpage rate in B.C.

It should be noted that there have recently been some small state sponsored initiatives which allows a small degree of

competitive bidding. A Small Business Enterprise Program has been established which basically allows small contracts to bid on a competitive basis for lumber which a large licensee has cut. This has been a source of irritation for some of the large companies. (Howard and Moonen interviews)

¹⁵Whether or not this had to do with the return of the Social Credit Party to power remains to be tested.

¹⁶As Marchak states, "The government gave away the resource...it is ridiculous to talk about resource management for the stumpage rates...it was just a giveaway and imposed precious little in return. [The government] under financed the forest service, [and] used Royal Commissions to end up justifying legislation that did not in any way cohere with what the royal commissions actually said." (interview, Aug., 1987)

¹⁷From Marchak interview.

¹⁸See Marchak, Green Gold, p. 72.

¹⁹Marchak, Green Gold, p. 71.

²⁰See Marchak, Green Gold, pp. 68-71

²¹See Schwindt, pp. 200-205.

²²Glen Clark, U.B.C. Master's Thesis, 1985

²³Ibid.

²⁴McAskill, p. 92

Some have argued this has to do with government mismanagement. Marchak: "The government gave away the resource...it is ridiculous to talk about resource management for the stumpage rates". (Interview).

²⁵From Williams interview. The dormant Liberal Party has also been critical. Former MLA Gordon Gibson Jr. has been a vocal opponent of the current stumpage system. (See Pat Marchak, Green Gold, p. 58, 77-78)

²⁶Jack Kempf interview.

²⁷This is in despite of the fact that labour leaders concede that wages are higher through a residual Rothery stumpage system. Clay Perry of the IWA, (interview).

²⁸Second Report of the Task Force on Crown Timber Disposal July, 1974- Timber Appraisal: Policies and Procedures for Evaluating Crown Timber in B.C. by Peter Pearse, Arvid Backman and Edward Young. p.7.

²⁹Ibid.

³⁰Report of the Royal Commission on forest Resources: Timber Rights and Forest Policy in British Columbia, Vol. II (Victoria, 1976,) pp. C12-C13.

³¹Pearse, Timber Rights... (from Marchak, Green Gold, pp.53-54.)

³²p. 52 of Green Gold.

³³ The B.C. Truck Loggers Association President argues that the average market value is actually decided by the major licensees who control the Vancouver log market. This, they view as unhealthy. (from Manson interview, B.C. Truck Loggers Association.)

³⁴Percy and Yoder, p.71.

³⁵Percy and Yoder, p.73.

³⁶Percy and Yoder, p.74. They also say that companies are poor compared to their U.S. counterparts.

³⁷McCarthy, Bruce interview.

³⁸from Howard, BCFP, interview. He added further:

...and we think that the NDP when they were in the 70s tried to put in a mineral tax took the revenue out too early in the system and by doing so they crippled the mining industry at that time....[T]hey [the B.C. government officials] are taking a very simplistic and short term view that if they charge too much for timber, they are liable to cripple us. [T]he forest service is in the position of owning a warehouse full of timber and some of it has been attacked by beagles...or rotten...or on expensive areas...if they do not make that attractive to the purchaser, it will rot on the stump. If they charge too much for it, it will rot on [the] stump.

³⁹from Howard interview

⁴⁰ For example, while Macmillan-Bloedel officials see specific problems, (e.g. interior chip rates) in administration, they highly support the overall system.

41 The government's apparent support of the dominant industry is evident in the Forest Act of 1978. Although changes in appraising timber recommended by the Pearse Royal Commission, the 1978 Forest Act did not significantly change the administration of the Rothery formula.

42 MacFarlane interview.

43 Most authorities seem to think this was the case. B.C. forest economist, Les Reed, and the Executive Director of the Maritime Lumber Bureau are just two of many observers who believe the New Brunswick state actors deserve much credit for creating the 1982 Forest Act.

44 From "Report of the New Brunswick Crown Land Commissioners, March, 1892," Thirty-second Report of the Crown Land Department of the Province of New Brunswick, (1893), Appendix D, p.D-1.

45 Babcock, p.30, "Report of the New Brunswick Commission..." in the 1983 Annual Report, pp.D-2 ff.

The Crown responded in 1893, by increasing the length of a lease for Crown land was increased to 25 years (ten year licenses in 1883 were allowed to be auctioned for an additional 15 years.) Stumpage rates were also increased. The effect of these measures were to raise revenues considerably initially. p.31 of Babcock and Thirty-third Annual Report of the Crown land Department of the Province of New Brunswick, (1894), and the 1898 Annual Report, p. 10.

46 For example, when the government wished to raise the rates in 1903, the Surveyor-General of the time, Albert Dunn, actually convened a meeting of private land owners to see what they thought. At the time, Dunn felt that the good shape of the lumber industry meant that private land holders were benefiting from high stumpage rates while the government was not. (1902 Annual Report, p.x. and Babcock, p.32) He suggested changing the Province-wide uniform rate for stumpage charges and again increasing stumpage costs. (p. x of the 1902 Annual Report.)

In response, the Lumbermen and Limit Holders Association argued that the stumpage rates should remain low, and that if they were raised, that the leases should be increased to no less than 25 years from the date of stumpage. (As mentioned, the 25 years leases were dates from 1893. See Babcock, p.34) They also argued that the province wide rates should continue. In the 1904 Annual Report, the government responded by saying that because freight charges did vary across the provinces, an argument could be made for a variable stumpage system. However they would cede to industry's wish, and keep the uniform rate. (p. 35 of Babcock)

Nonetheless, the New Brunswick state cannot be seen as being completely subservient. It refused to increase the length of the leases and stumpage rates did increase. [44th Annual Report, p.16 (1905)] In fact, in 1909, a better monitoring system for collecting stumpage fees was brought in, creating increased revenues for the New Brunswick treasury. (50th Annual Report, (1911) p.viii)

Other changes also occurred.

In 1911 the New Brunswick government fostered the development of an indigenous forest industry by passing legislation banning the export of pulpwood cut from crown lands. (51st Annual Report, (1912), p.viii.)

In 1913 the leasing system was changed to allow sawmill licenses to exist. Stumpage rates were also increased. (See 43rd Annual Report (1914) and Babcock, p.39)

⁴⁷Babcock, p.53.

⁴⁸ From the Report of the Royal Commission in Respect to the Lumber Industry, 1927, p.19. For a detailed examination of earlier stumpage policy, see Babcock thesis.

⁴⁹ E.S. Fellows, Past, Present and Future Crown charges for Timber internal document prepared for the New Brunswick Department of Natural Resources. pp.19-20.

⁵⁰Ibid, p. 14.

⁵¹Ibid, p.23.

⁵² Ibid, p.26

⁵³Ibid, p.35.

⁵⁴This was of course, followed by the E.S. Fellows report.

⁵⁵Tweeddale, p19. The 1977 report by E.S. Fellows also recommended that stumpage rates should be significantly increased through an "end product type of analysis."

⁵⁶From interview with Watson and Department of Natural Resources, 1982/83 (Ben check the year.)

⁵⁷E.S. Fellows, Past, Present,... p.4

⁵⁸Ibid.

⁵⁹Ibid, p. 7

⁶⁰This is not to argue that Pulp and Paper companies did not deal in lumber. However, unlike the vertically integrated forest companies in British Columbia, most of the large forest companies in New Brunswick concentrate on Pulp and Paper products.

⁶¹Tweedale, 25. For a detailed analysis of the composition of the forest industry in New Brunswick, see Tweedale, pp 25 26.

⁶²Quote 1958 study.

⁶³From interview, Director of Timber Management in New Brunswick.

⁶⁴In fact the Forest Minister, Bud Bird quickly returned to the private sector as a vice president for one of these large forest companies.

⁶⁵This is not to say that lumber interests would be completely ignored in this new act. As a matter of fact, many argue that because it guarantees supply, the lumber industry was actually better off (Interview with Rumboldt)

⁶⁶From Province of New Brunswick initial response to U.S. Commerce Department ITA questions concerning the countervail by the United States Coalition Against Unfair Lumber Imports.

⁶⁷With all but Juniper Lumber being a pulp and paper producer.

⁶⁸However, The Secretary-manager of the New Brunswick Federation of Woodlot Owners, David Curtis, has claimed that the concept of the Crown being the residual supplier has not been enforced well. (St. John Telegraph Journal, December 28, 1982)

⁶⁹Interview with Watson.

⁷⁰From interview with Watson in Fredericton

⁷¹from Watson interview

⁷²See Report of the Forest Development Commission, interviews with MacFarlane and Watson.

⁷³See also the Scaler's report for 1987-88, New Brunswick Department of Lands and Mines

⁷⁴It should be noted that these are broad terms. Of the five companies who got exemptions from the softwood lumber exports, two are known as pulp and paper companies (Fraser and Irving.)

⁷⁵From interview with Watson.

76The New Brunswick Forest Products Association which represents the large Pulp and Paper companies strongly supports the Act. (From interview WITH NBFPA Director.)

He further acknowledged, "Some of the sub-licensees felt the system was unfair in that it granted too much power and authority to the licenses and in one way they are correct. [But] somebody has to undertake the responsibility of managing the licence."

77Rumboldt interview.

78Rumboldt interview.

79Interview with Harry Green of Nautical Terra in Blackville.

80Miles Russell in Doaktown.

81Interview with Miles Russell in Doaktown.

82From interview with Rumboldt. Rumboldt also argues that the company which applied for its own lease is also better off than before the 1982 Forest Act.

83From interview with Don Lockert He also surmised:
I am sure if they [the government] had known that Irvings were going to buy MacMillan Rosse [one of the ten licenses] they would never have done it.

84As the New Brunswick's director of timber management noted:
 One of the companies that we got a fair amount of flack from was Fraser which owns about a million acres of private land....The problem is those companies don't sell wood on the open market, ...so it is not a matter of [an increase in stumpage] making it more lucrative for them...." (Watson Interview with Watson).

85Actually wrote CPPA during stumpage countervail saying we have to increase stumpage across Canada and New Brunswick

86From Watson interview,

Chapter Five: Interprovincial Comparisons and the U.S. Softwood Lumber Countervail

In the spring of 1986, the United States Coalition For Fair Lumber Imports filed countervail proceedings against Canada, charging that stumpage fees levied for softwood lumber included subsidies.¹ That fall, U.S. Commerce Department International Trade Administration ruled in its preliminary decision that Canada's stumpage rates for its softwood lumber did in fact contain subsidies.² In so doing, the Commerce Department reversed its own decision of 1983 where it ruled that Canadian stumpage programs were not subsidized.³ Before the final determination was to be announced, the Canadian and the U.S. governments negotiated a compromise deal which resulted in the Canadian government taxing the exports of its own softwood lumber industry.

Explanations for this ruling on the part of the U.S. Department of Commerce must go beyond an examination of forest policy in Canadian provinces. Between 1983 and 1986, federal and provincial softwood forestry programs have not been altered significantly.⁴

What had changed, however, was the political and economic environment in the United States. The low Canadian dollar continued to benefit exports from Canada to the U.S.⁵ Difficulties in trade and a fear of American jobs being exported to other countries has led to a protectionist mood on the part of the U.S. Congress (despite the Canada/U.S. trade deal.) We can

assume that these sentiments have found their way to the Commerce Department.⁶ As well, in an effort to get his tax package passed in Congress, President Ronald Reagan promised the U.S. North-West forest industry that he would fight to protect their interests from inexpensive Canadian lumber.⁷

It is therefore of little surprise that Canadian politicians responded that the real reason for the U.S. tariff has little to do with Canadian softwood lumber subsidies and much to do with the political and economic climate in the U.S.⁸ It was further argued that this reversal amounted to double jeopardy.⁹

The result has been that a number of academic studies, and much of the general media, have focused on U.S./Canada relations and the validity of the ITA ruling.¹⁰ It was argued that Canadian stumpage rates did not contain subsidies and that the ruling was an affront to Canadian sovereignty. The fact that there was no such thing as "Canadian" stumpage did not appear of concern to most analyses. While important areas of enquiry, comparative provincial analyses have been left neglected.

The intergovernmental discussion over stumpage rates has not been given much attention. It is important to note that only four provinces (British Columbia, Alberta, Ontario and Quebec) were examined by the U.S. ITA, and deemed to have countervailable stumpage programs by the U.S. Commerce Department. Yet after December, 1986, all provinces were subject to the 15 export tariff.¹¹

There appeared to have been a strong potential for

interprovincial conflict as provinces which were not deemed to have subsidies incorporated in their stumpage rates were penalized (or at least appeared penalized) as a result of the policies of other provincial governments. Chapter Four's examination shows that at this particular juncture, New Brunswick state actors had a valid claim that their stumpage rates were among the highest in the country.¹² Yet overt domestic political conflict has not occurred.

One explanation for the lack of interprovincial conflict between countervailable and non countervailable provinces has to do with the relative importance of softwood lumber exports. For example, the value of softwood lumber exports in B.C. is worth about half of all of its forest product exports yearly. In New Brunswick, the same figure fluctuates around seven per cent. Table 5.1 shows that in 1983, softwood lumber exports were worth 7.39 per cent while in B.C. they counted for 49.96 per cent of forests exports. More importantly, the amount of exports in 1983 was 9,306.2 MBF in B.C. while only 204.2 MBF for New Brunswick.

Table 5.1

The Value of Softwood Lumber Exports as Percentage of Total Exports of Forest Products, New Brunswick and British Columbia, 1963-87

Year	New Brunswick	British Columbia
1966	7.17	43.9
1967	5.39	43.75
1968	5.63	47.0
1969	6.50	44.61
1970	5.86	43.73
1971	6.20	-
1972	6.31	53.05
1973	6.37	55.74
1974	3.39	41.62

1975	2.76	36.28
1976	4.00	42.14
1977	4.83	50.83
1978	7.33	53.70
1979	7.69	53.04
1980	7.21	43.36
1981	7.09	39.09
1982	5.06	39.55
1983	7.39	49.96

Source: Raw Data from Statistics Canada (Special compilation for Canadian Forest Service, Calculations by author.)

Further, Tables 5.2 and 5.3 illustrates that British Columbia's softwood lumber exports to the United States have been considerably greater than those of New Brunswick. In 1983, British Columbia exported over 7,203.3 million cubic metres while New Brunswick only sold 149.3: Compared to British Columbia, New Brunswick's exports do seem insignificant.

Table 5.2

British Columbia Exports of Softwood Lumber, 1963-87 (Thousands of MBF)

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
U.S.	3807.9	3922.8	4463.0	4414.0	4327.9	5520.0	6586.4	6416.4	5009.0	4259.5	6196.4
U.K.	573.1	696.7	523.8	310.9	563.2	417.9	348.4	491.1	560.1	233.2	536.6
EEC	737.3	865.4	689.3	494.0	770.1	592.6	479.1	649.9	744.6	335.5	808.3
Japan	271.7	486.0	541.3	383.9	732.1	419.7	396.3	617.2	501.3	404.7	633.8
Total	5100.6	5574.9	6009.1	5570.0	6142.8	6884.2	7738.9	7984.4	6660.6	5232.2	7897.5
	1977	1978	1979	1980	1981	1982	1983				
U.S.	7987.6	8449.9	7726.1	6326.2	5262.5	5177.2	7203.3				
U.K.	507.7		517.5	484.9	472.2	486.3	450.8				
EEC	762.7		911.1	1023.0	800.6	748.6	633.7				
Japan	705.7		1008.5	1082.8	865.3	1045.1	894.9				
Total	9749.3	10256.8	9943.4	8881.7	7352.8	7386.9	9306.2				

Source: Statistics Canada, International Trade Division (Canadian Forest Service special compilation)

Table 5.3

New Brunswick Exports of Total Forest Products and Softwood Lumber, 1963-87 (Thousands of MEF)

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
U.S.	66.1	69.4	106.1	128.9	116.2	140.9	152.8	126.2	97.6	76.9	106.5
U.K.	61.0	21.5	2.0	.5	13.1	1.7	.5	1.4	5.8	.3	4.9
EEC	65.3	23.6	2.0	.6	13.2	1.8	.5	1.4	6.4	.5	4.9
Japan	-										
Total	132.5	93.7	108.7	130.0	131.0	143.5	154.0	128.1	98.8	86.1	
	1977	1978	1979	1980	1981	1982	1983				
U.S.	133.9	196.5	173.4	121.1	122.9	77.2	149.3				
U.K.	9.5	10.2	37.3	74.6	69.8	33.1	27.8				
EEC	9.6	12.0	37.5	97.0	91.9	40.3	42.1				
Japan											
Total	143.9	210.8	220.7	249.5	235.3	134.3	204.2				

Source: Statistics Canada International Trade Division (Special Compilation for Canadian Forest Service)

Therefore, it may appear that this would be a major cause for the absence of provincial conflict between New Brunswick and B.C. by understanding the dominance of B.C. softwood lumber exports.

However, it would be incorrect to assume this was the only reason. Firstly, New Brunswick's role in the Canadian domestic softwood lumber market is as significant as its export market; and any softwood lumber export tax will also affect the nature of

the home market. "Dumping" by B.C. forest companies into other provinces was a legitimate fear on the part of the New Brunswick forest industry.¹³ Like British Columbia, New Brunswick contains many single industry towns whose economic base is softwood lumber production.¹⁴ Further, the United States has been New Brunswick's most stable export market. Table 4.3 shows that only once during the 1970s, did U.S. softwood lumber exports fall below a 100 million MBF. On the other hand, United Kingdom exports have ranged from 69.1 million MBF to 300,000 MBF in 1975.

Secondly, while the countervail deals with stumpage rates only for softwood lumber, its ramifications could be much greater. There was a strong possibility that with the success of the U.S. countervail action, the precedence would be set for other forest products to be deemed countervailable and open the way for further export taxes.¹⁵ In fact, state and economic actors in both provinces were aware of this problem.¹⁶

Thus, the entire New Brunswick forest industry would be affected by the Softwood lumber export tax. In this context, it is important to note that the forest industry provides both provinces with similar per capita economic development. In fact, New Brunswick has the second highest forest industry related jobs per capita in the forest sector of all provinces. Moreover, the New Brunswick forest industry counts for 40 per cent of the provinces manufactured products and 50 per cent of its exports.¹⁷

In order to understand fully the lack of interprovincial conflict during the time of the 1986 countervail, explanations

about provincial market share are not satisfying. As previously stated, the low level of Crown land alienation means that the B.C. state works in an environment conducive to an active, interventionist approach and that it also has the capacity for state autonomy. The New Brunswick state on the other hand, plays a supportive role to dominant forest industry economic actors and does not have the expertise or ability to play a dominant role. It is these differences, combined with conjunctural constraints that account for the lack of interprovincial conflict.

That is, New Brunswick's inability to criticize strongly other provinces for creating an atmosphere which allowed the countervail to take place was largely because its large forest companies appeared to benefit from the countervail and the resultant export tax. In B.C. the state supported an export tax because of recent depletions of stumpage revenue and the desire to decrease a provincial deficit. Yet, it was only able to take these decisions which were clearly at odds with the dominant forest companies because it had the structural capacity to do so.

The Countervail

Until the preliminary October 1986 decision on the part of the U.S. Commerce Department which ruled in favour of the United States Coalition for Fair Lumber Imports, most Canadian state and economic actors held the view that they would win the case as they did in 1983.

Suddenly, the federal and provincial governments were in a position of trying to minimize the effects of a 15 percent tariff

and a possible reduction of softwood lumber exports to the U.S. market. It was in this context that federal and B.C. state actors suggested: 1) changing the tariff into an export tax so that the monies would stay in Canada and 2) achieving a mechanism for the eventual elimination of the export tax through high stumpage fees.

The Vancouver First Minister's Conference

When B.C. and New Brunswick actors met for the first time at the Vancouver First Ministers Conference of November 21, 1986, their approaches were manifestly different. B.C. Premier William Vander Zalm was a vocal actor during discussions of the countervail. Yet, Premier Richard Hatfield and his Minister of Natural Resources were clearly ill-informed of what was going on.¹⁸

However, then federal Trade Minister Pat Carney's proposal to change the 15 percent countervail tax changed to a self imposed 15 percent export tax, was supported by both B.C. and New Brunswick. Only Ontario was opposed to this measure.¹⁹

On the surface, New Brunswick's compliance made little sense. New Brunswick state actors could have legitimately argued that if all provinces had stumpage rates as high as those in their province, that Canada would currently not be under countervail proceedings. Moreover, they could have insisted that if there was to be an agreement, New Brunswick should be exempted.²⁰

The New Brunswick role

State Actors

New Brunswick was, for the most part, a silent participant. While five of its softwood lumber exports to the United States were given exemptions in the preliminary ruling of the US ITA decision, there was no guarantee that any negotiated settlement would contain the same guarantees. Moreover, numerous sawmill communities across New Brunswick would not see their industry exempt from the export tax. Nonetheless, New Brunswick was on record as supporting the export tax compromise.

The only real "concession" New Brunswick received was a vague promise that provinces would review their stumpage systems. During closed talks all participants except Ontario had agreed to re-examine their stumpage rates after New Brunswick Natural Resource Minister Malcolm MacLeod argued that Nova Scotia and New Brunswick "are not sinners [in the area of stumpage]." ²¹ A senior New Brunswick forestry bureaucrat explained the New Brunswick state approach thus, "...we are not in this situation because we did it. It is the Americans who did it. They are the ones who instigated the thing." ²² Despite the harmful impact on the forest economy that an export tax could have, New Brunswick state actors played a minor role in the countervail talks.

The B.C. Role

At the early stages of the countervail proceedings, it seemed that B.C. state actors would not be wholly defending their

stumpage rates. The B.C. Minister of Lands and Forests had stated previously that B.C. was not getting a fair return on its forest resources, "I think stumpage rates at present are too low."²³ In fact, after the countervail proceedings had commenced, the premier announced a policy review of B.C.'s stumpage system.²⁴ Thus, the mood of the British Columbia state at the time of the Vancouver conference appeared conciliatory to the U.S. countervail action. B.C. state actors certainly left the impression that even without the export tax, they would have revised its stumpage system.²⁵

It was in this context that British Columbia supported a negotiated settlement by offering an export tax. Further, B.C. state actors supported a proposal that particular provinces could become exempt from the tax in the future if they increased their stumpage rates. As will be discussed, both these decisions were in complete contrast to those of the dominant economic actors in the forest industry. The B.C. state was clearly taking decisions autonomous from those of the main economic actors in the B.C. forest industry.

The Settlement

On December 31, minutes before the final determination on the part of the U.S. ITA would have been made public, a negotiated settlement was reached between Canada and the United States. The United States Coalition for Fair Lumber Imports agreed to withdraw its claim and the final determination would not be made public. It was a method which would keep tariff

monies in Canada and was an attempt by the federal government to avoid a precedent setting decision which could affect further resource rent industries and other aspects of the forest economy.

Canada agreed to a 15 per cent tax softwood lumber exports to the United States. The agreement included exclusions for provinces which would significantly increase their stumpage rates. Moreover, the five New Brunswick companies ruled exempt in the preliminary decision were exempt from the export tax.²⁶

New Brunswick Response to the Deal

In New Brunswick state actors claimed a certain success, pointing out that the five excluded companies accounted for most of New Brunswick's softwood lumber exports to the United States. (See Table 5.2). (While the opposition Liberal Party was critical of the Hatfield administration, it did not argue that the government had done too much, but that it had done too little "The federal government has sold us out, and Hatfield also sold us out by letting New Brunswick's forest industry be lumped in with the other big province....Pat Carney and the politicians got involved in something they knew nothing about at all, and industry should have been allowed to fight the case through the courts."²⁷) The Minister of Natural Resources felt that it was the best possible decision under the circumstances. Soon after the countervail, the federal Minister of State for Forests said that New Brunswick got the best deal out of the countervail.²⁸

Yet, New Brunswick state actors had seemingly given up trying to get a total exemption on the basis that they already

had high stumpage rates. Instead it was decided to use the provision of the agreement that would allow an exemption if they raised their stumpage rates even further. This was despite the fact that the head of the U.S. Coalition for Fair Lumber Imports argued on many occasions that they did not consider the Maritime Provinces to be a problem.²⁹ The New Brunswick state raised stumpage rates even higher. Table 5.4 shows that since April of 1986 New Brunswick stumpage rates went up a further 26 per cent from \$3.95 m³ to \$4.98m³. The average B.C. rate remained the same at \$1.40 m³.

Table 5.4

Average Stumpage Rates in B.C. and New Brunswick (for Bench mark period and one year after)

Province	<u>April 1985-March 1986</u>	<u>April 1986-March, 1987</u>
B.C.	\$1.40 m ³	\$1.40
New Brunswick	\$3.95 m ³	\$4.98 (+26%)

Source: Statistics Representative of New Brunswick, obtained from the Maritime Lumber Bureau.

Analyzing the Decision in New Brunswick

New Brunswick's decisions were taken because of the nature of the forest industry in New Brunswick. As explained, part of the reason New Brunswick did not take an active role in criticizing the low B.C. stumpage rates was because of the supportive nature of the New Brunswick state in forest policy. However, the inability to take decisions radically different from

the desires of the dominant actors in the forest economy was also a key factor. As examined in Chapter Two, the New Brunswick forest industry can be divided into three distinct groups: the large companies who emphasize pulp and paper production, woodlot owners, and small sawmill operators. The large companies have come to dominate the forest economy and have a strong influence in the policy making process.

The outcome of the 1982 Crown Land and Forest Act was simply one example of the influence of the large forest companies. To argue that the New Brunswick government should have opposed an export tax because of its detrimental effects on the New Brunswick industry is to misunderstand fundamentally the process of concentration of industry which has been occurring in ~~the~~ province.

It seems apparent that in the long run an export tax would not be desirable to the New Brunswick forest industry. However, in the short run there are many reasons for the large forest companies to support the export tax. First, with the exemption to the top five companies,³⁰ an export tax would serve further to weaken the export capabilities of the small softwood lumber companies vis a vis the large pulp and paper companies. In fact, the first year after the imposition of the export tax shows that the taxed companies lost market share in the U.S. while the ones who were exempt actually increased their market share.

Table 5.5 shows that immediately before the countervail, exempt

Table 5.5
Lumber Shipments from New Brunswick to the U.S.

<u>1985-86</u>		
<u>Exempt Cos.</u>		
exports to U.S.	222,587,610fbm	\$60,989,005.50
total production	369,592,398fbm	\$101,268,208.00
<u>N.Expt Co.s</u>		
exports to U.S.	16,320,390fbm	\$4,471,786.00
total production	228,775,000fbm	\$62,684,350.00
<u>All Co.s</u>		
exports to U.S.	238,908,000fbm	\$65,460,792.00
total production	598,367,398fbm	\$163,952,558.00
<u>1986-87</u>		
<u>Exempt Cos.</u>		
exports to U.S.	262,700,000fbm	\$73,556,000.00
total production	396,400,000fbm	\$110,992,000.00
<u>N.Expt Co.s</u>		
exports to U.S.	12,905,000fbm	\$3,613,400.00
total production	198,154,000fbm	\$55,483,120.00
<u>All Co.s</u>		
exports to U.S.	275,605,000fbm	\$77,169,400.00
total production	594,554,000fbm	\$166,475,120.00

Source: Maritime Lumber Bureau.

companies exported \$101,268,208 worth of softwood lumber to the United States while non exempt companies shipped \$4,471,786 of the same good. After the tariff/export tax had been imposed, exempt companies increased their export to \$73,556,000 while non exempt companies saw a drop of 24 per cent to \$3,613,400.

Second, even if these companies were not excluded from a

countervail duty, the large companies would be in a much better position to withstand any economic downturn. As such, any attrition would most likely occur with the smaller sawmills, further contributing to the concentration of the forest industry. High stumpage rates for those who own their land actually means they will benefit vis-a-vis those companies which have to buy their timber from the private market and the Crown.

This is not to argue that the large forest companies overtly expressed these goals. In fact, there were other factors that made an export tax or countervail duty less than attractive for the large New Brunswick companies. First, the fear of B.C. lumber producers redirecting some of their production to the domestic market⁴ was a concern of all forest companies in New Brunswick. In fact, there was a fear on the part of many economic actors in New Brunswick that if B.C. forest companies were to have a 15 percent export tax imposed, national markets may look more inviting. The "flooding of New Brunswick markets" had been constantly raised by forest companies during the time of the countervail.³¹ Indeed, New Brunswick supplies half of its lumber to its domestic market.

Secondly, other foreign markets were feared in jeopardy because of the precedence being set.³² As there was an ambivalence on the part of large forest companies on this issue, they would not fight strongly the export tax. This in turn, meant that there would be little impetus for the New Brunswick government to consciously break out of its traditional supportive

public policy role.³³ Indeed, it was the small sawmill companies which took the leading role in fighting first the preliminary ruling, and then an exemption from the MOU. After the preliminary ruling, the Maritime Lumber Bureau fought for a Maritime exemption by lobbying the American Commerce Department. Officials from this industry organization were given "support" from the Maritime premiers but it was clearly their case to pursue.

Once the MOU was signed, the Maritime Lumber Bureau quickly moved to form a group called, Coalition Against Unfair Lumber Taxes. At the founding meeting on January 9, Irving Lumber and the other dominant forest industry economic actors openly supported the formation of this group. Yet a motion was defeated at the same meeting denouncing the high stumpage rates in the countervailable provinces. As such, CAULT was already handicapped in that while it could argue for a Maritime exemption, it could not claim to be unified on the question of whether B.C. stumpage rates were high.

The reason the MLB became the main voice in attempting to obtain a Maritime exclusion is demonstrative of the lack of interest of the large forest companies. If there were a strong interest on the part of the New Brunswick large forest companies, then the New Brunswick Forest Products Association would have provided the impetus. As has been pointed out, the MLB has been viewed as being the supporter of the softwood sawmills.

When examining the role of the Maritime Lumber Bureau in

fighting for a Maritime exclusion, the relatively inactive role of the state is evident. State actors were only involved in a "supportive" manner.³⁴ Nor were state actors well briefed on the issue. The less than effective role by the New Brunswick state actors at the Vancouver conference rendered further state action difficult. As the Executive Director of the MLB explains, "None of them (Maritime provinces) realized what they were getting into. Everyone [of the premiers] has some agenda. [It was only]...after words [that]...they realized what was going on."³⁵ But then it appeared too late, "It is very hard for a premier to come out publicly and say I made a mistake in November in Vancouver so they keep quiet about it."³⁶

Clearly then, the state was acting as a result of what was happening within the New Brunswick forest industry. While not acting on behalf of the large forest companies, the ambivalence on the part of many actors toward the export tax meant that no strong opposition was mounted. As the state did not have the capacity to take autonomous decisions from the dominant forest industry actors, the relatively small softwood lumber companies would be the initiators of an effort to obtain an exemption.

The B.C. Response

In B.C., the provincial government quickly moved to end the export tax by increasing its stumpage system rates. A discussion paper which proposed to radically alter the method in which stumpage would be collected. Instead of a modified Rothery format, the state would turn to a system based on a target

revenue set by state actors. Despite the disapproval from the dominant economic actors in the forest industry, the B.C. government implemented this system on October 15, 1987.³⁷

Industry Response

The actions by the B.C. state both during the countervail discussions and the move to radically transform the method of collecting stumpage were clearly at odds with the main forest industry economic actors in B.C. A vice president of the Council of Forest Industries in B.C. (COFI) says, "He [Vander Zalm] decided he wanted to do his own thing. He wanted revenue and he saw an export tax as the best way to do it."³⁸ A negotiated settlement was not welcomed by the large forest companies. As COFI argues, "the views of our industry were subordinated to overwhelmingly large political agendas on both sides of the border."³⁹ Individual companies also took the same view. The Vice President of Government Relations of British Columbia Forest Products explains, "I guess if we had to pay the tariff we would rather see the money remain in Canada. But we don't think we should be paying the tariff."⁴⁰

Industry opposition did not end with the negotiated Memorandum of Understanding. COFI and its member companies were just as adamant that any negotiated plan not be turned into a new stumpage system. As the President of COFI argued in his 1986 Annual Report:

The federal and provincial government are currently considering options for converting the export tax to

provincially controlled charges.. The industry is extremely worried that this proposed shift could increase the penalty dramatically - from an estimated \$350 million a year here in B.C. to \$500 million -and spread the punitive effects across all products and all markets. ⁴¹

As one major company official asserted, "Our position is retain the tariff as a tariff so we can point to it. If it is included in the stumpage system," it may end up affecting lumber not geared for the U.S. market. "We do not want to pay tariff to the U.S. on stuff we're shipping to China."⁴²

Of equal concern was the large industry's fear of the proposed system to replace the tariff.⁴³ "Many of us perceive that what is happening here is that they [the provincial government] are taking a very simplistic and short term view and if they charge too much for timber, they are liable to cripple us. [The stumpage rates would depend] on what the cabinet feels like next week. That uncertainty would be very detrimental to estimate."⁴⁴ When the detailed policy was announced, the president of CQFI appeared completely shocked:⁴⁵

We've seen five full years of losses. And in the first year that we've started to make money, in the first year that we've started to pay more government revenues, in the first year that we've started to really reinvest in our industry, they [the government] come along and say they want more. We say that's wrong.⁴⁶

Explaining the B.C. Response to the Countervail

The decision on the part of the B.C. state to take decisions clearly at odds with the dominant economic actors was created because of the failure of the state to carry out its main goal. As discussed in Chapter One, the main goal of the forest policy

arm of the state was to ensure the growth of the forest staple. As such, the state had two functions: 1) To guarantee capital accumulation for the dominant economic actors (in "exchange" for development of the staple and resultant economic development); and 2) raising revenue for state expenditures.

At the time of the countervail, however, both of these state functions, were beginning to unravel: First, there was a severe economic recession in the B.C. forest industry in the early 1980s. When the forest companies began to recover, employment and other economic benefits of developing the staple were not being realized. Although the state role of guaranteeing capital accumulation for the dominant economic industry was being realized, the low level of employment meant that the economic development was less than adequate. Further, revenues from the forest industry were dropping at an alarming rate. The state goal of achieving economic development through exploitation of the staple was faltering.

By 1986, the forest industry had made a significant recovery from its recession.⁴⁷ Table 5.6 demonstrates the size of profit increases. For example, Crown Forest Industries increased its net income by 133 per cent in the first half of 1986 as compared to the first half of 1985. Other companies such as B.C. Forest Products made similar large increases.⁴⁸ These increases continued into 1987.⁴⁹ However, technological advances and increased mechanization meant that many jobs did not return to the forest industry.⁵⁰ Further, the stumpage revenue was not

returning back the rates of the 1970s (As Table 4. 5 demonstrated).⁵¹

Table 5.6 B.C. Forest Industry Gains, Selected Companies, (first half of 1986)

Firms	Sales (\$millions)	% Change from year earlier	Net Income (\$millions)	% Change from year earlier
BC Forest Products	\$593.7	+5%	\$24.8	+64%
Canfor	560.5	+1	13.4	*
Crown Forest Industries	242.5	+11	10.5	+133
Primex Forest Industries	19.8	+16	1.2	+200
Slocan Forest Products	46.5	+59	4.2	+110
Waldwood of Canada	356.6	+14	15.9	+468

Source: Financial Post, August, 16, 1986

*Canfor lost \$25.2 million during the first half of 1985

While the high level of Crown land has meant that B.C. state actors have always had the structural capacity to take autonomous decisions from the dominant economic actors in the forest industry, they had previously seen little reason to do so. The financial/economic crisis gave state actors the impetus to take these autonomous decisions.

With a vibrant industry, the state could turn its attention away from its first function of ensuring capital accumulation for the dominant economic actors in the forest industry and turn attention toward the secondary goal of raising revenue. In this context, the state decision to change its stumpage system is understandable. As B.C. Premier Bill Vander Zalm noted, "[the new stumpage policy should] more than compensate for any concerns that the American may have from the countervail standpoint."⁵²

In fact, the motivating force seemed to be the state's desire for revenue, with little desire to channel the increased revenues back into the forest industry. The then B.C. Minister of Forests openly defended this proposal:

This province has a deficit of over \$1 billion. I don't think I'll have any problems saying to the people of B.C. that rather than spend that money in an area we're not sure of, maybe we should be channelling that money into other areas.⁵³

This was echoed in the government's press release of September, 1987, announcing the new measures, "[The new stumpage scheme, would]...result [in] a net increase in forest revenues of \$100 million annually."⁵⁴ In this sense, the B.C. state was actually pleased with the U.S. countervail as it would either mean an export tax or higher stumpage rates, both of which would bring higher revenues to the provincial treasury. The then B.C. Deputy Minister of Forests stated bluntly, "It's hard to complain when somebody (the U.S.) is trying to help you have more revenue."⁵⁵

Even those in the U.S. Commerce Department understood the B.C. position:

From the point of view of B.C., it seems to me that they get a favourable impact on their budget under circumstances in which they can blame the United States. The United States is seen as the ogre, but we are giving you \$500 million."⁵⁶

Thus, it appears that both structural and conjunctural factors led the B.C. state to take decisions autonomous of economic actors. As previously stated, the state had the structural capacity to taken autonomous decisions. However, it

was the mid 1980s' revenue crisis, low employment in the forest industry, and a record profit year for the largest forest companies, which facilitated such state action.

It is also important to note that the decision appears to be made at the level of the state, with the views of other groups involved in the B.C. forest industry apparently not consulted.⁵⁷ The B.C. Truck Loggers' Association, which represents small and medium sized contractors, did not fully support the proposed changes.⁵⁸ The International Woodworkers of America have called the latest system, "crazy," "unilateral" and "stupid."⁵⁹ Opposition Party member Bob Williams proposed a completely different kind of change.

Only a handful of academics seem to support these initiatives, and then only the principle of paying for the B.C. forest service.⁶⁰ Peter Pearse argued that the new stumpage system would be better than an export tax, but also saw problems with arbitrary stumpage rates.⁶¹ Former head of the Canadian Forest Service and Professor at the University of British Columbia, Les Reed, strongly supported the concept of raising more revenue from the industry.⁶²

Summary

The response by state elites to the U.S. countervail vary across province and across time. While the New Brunswick state was given many reasons to vigorously oppose the low stumpage rates by other provinces, it did not have the ability to do so. Decisions taken a century before to alienate a large portion of

New Brunswick Crown land have significantly affected the manner in which today's New Brunswick state elites can conduct themselves. As large industry actually appeared to benefit in some important ways from the export tax, the state would not be guided to vigorously critique the provinces which had high stumpage rates.

In British Columbia, the low level of Crown land alienation meant that the state had the structural capacity to take autonomous decisions. When the state functions began to falter, the state elites took decisions to "correct" the problem. The U.S. countervail actually presented the B.C. state with a unique method of solving its problem.

The different responses by the New Brunswick and British Columbia states to the U.S. countervail exemplify the diverse roles of these provincial states in developing their forest policy.

Endnotes

¹ The term "countervail" or "countervail proceedings" refers to the process took in the United States to determine if Canada subsidized its softwood lumber industry.

² The United States Department of Commerce News: International Trade Administration. (Washington: Arnold and Porter, October 16, 1986).

The countervail did contain other elements. Explain that a basic assumption of this paper is that if it were not for stumpage rates, the countervail could not have gone ahead. External Affairs minister Joe Clark rose in the Commons to say he had sent a sharp letter of protest to the U.S. government. The British Columbia government and the New Brunswick government were both on record opposing this move. In fact, many felt that as had occurred in 1982, the countervail proceedings would fail.

³ U.S. Department of Commerce News

⁴ The U.S. Commerce Department argues that the main reason for its policy reversal had to do with looking at the "discretion in the awarding of stumpage rates (ibid.)" which they claim was not investigated in the 1983 decision.

⁵ For a brief discussion on the effects of the low Canadian dollar on U.S. imports of Canadian softwood lumber, see, Economic Council of Canada, 23rd Annual Review, Changing Economic Times (Minister of Supply and Services, Ottawa, 1986.)

⁶ See, for example, ibid., pp.6-7.

Also see Michael B. Percy and Christian Yoder The Softwood Lumber Dispute and Canada-U.S. Trade in Natural Resources, for a discussion on the changing U.S. economic climate as being the "real" cause for the ITA switch. (esp. executive summary and Chapter One.)

Rob Dobell also asserts that:

While the letter of the laws remained the same, interpretations of it were different, apparently to reflect the Administration's desire to appear more attuned to the prevailing mood of protectionism in the U.S. Congress. (p. xiv of Percy and Yoder.)

Tony Shebbeare of the B.C. Council of Forest Industries concurs:

These things are supposed to be quasi-judicial...and I think countervail one was really run that way but countervail two go an over layer of a burden of politics which it was not supposed to do (Sept 16th interview, 1987).

⁷From Rumboldt interview.

⁸See House of Commons Hansard, October 17, 20, 21.

⁹ The explanation by the Commerce Department was that they had changed their focus on how they would determine what a subsidy was. (See U.S. Commerce Department ITA, Trade News, October, 1986 and Percy and Yoder, The Softwood Lumber...) Basically, using a new definition of what a subsidy was, the ITA determined that stumpage rates were subsidies because they were limited to specific groups within an industry. The details of this are not important for this paper and have been well documented elsewhere (See Percy and Yoder, Schwindt etc.)

In effect low stumpage rates actually had little to do with determining if there were subsidies, rather it was the way in which they were applied. If it could be shown that a particular program "i.e. low stumpage rates" applied only to certain industries, then the United States Commerce Department could rule that there was an improper "specificity" on the part of the government(s) administering the program. Once specificity has been established, then the next step is to find a measure of what the subsidy is. It is at this level that the actual revenues created from stumpage become extremely important. There were numerous difficulties in trying to determine what the level of subsidy was. In the end, the ITA based their calculations on a controversial formula to arrive at a 15% fee (government put in more money than industry paid in stumpage.) Many had argued that this fee actually included double counting. What is most important here is to understand that the U.S. ITA placed a dollar value on crown land which they argued had to be recovered in the price of stumpage. This was obviously direct at those provinces which had large amounts of crown ownership. Moreover, as the countervail had to do with the method in which the state disposed of Crown land, B.C. was much more vulnerable than the New Brunswick government.

10 Studies by Percy and Yoder, and Richard Schwindt have looked into the question of subsidy. -both in terms of whether this was correct, and in terms of whether the U.S. ITA had any business determining this question.

An 11th hour agreement was reached between Canada and the United States so that the final determination was never made public.

11 As of December of 1987, B.C. and the Maritime provinces became exempt from the export tax. The remaining six provinces which were not examined by the U.S. Commerce Department (ITA) were not eliminated from the original export tax of December, 1986. Instead, individual lumber companies in these provinces had to prove that during 1985, they did not receive more than .5 percent of their operating costs from government subsidies. If a company was over this "diminimous" level, then they were subject to the export tax.

12 It is important to note at this point, however, that, New Brunswick and the other five "non-countervailable" provinces were not even looked at by the ITA. Tony Shebbeare of the B.C. Council of Forest Industries (COFI) argues in part that:

That is where the bulk of the volume is by far [referring to B.C., Alberta, Quebec and Ontario]....The ITA is a fairly small staff...[they had to] make strategic judgments...[with] the objective of having one rate....They took a bit of a short cut.(interview from Ottawa to Vancouver, by phone, Sept.16(Friday), 1987.)

Still, he was not sure if they would have arrived at the same kind of decision if they looked at New Brunswick.

13 From New Brunswick interviews.

14 As one actor in the countervail proceedings has said:

...cold figures are misleading. Because of the nature of the forest industry in the Maritimes, the social fabric faces devastation in some areas. Excluding the five major producers, the forest economy is based on small independent operators- one-town sawmills, private woodlot owners and the like. These businesses would face the total loss of their profit margins if faced with the highest stumpage rates in the country and the export tax.(Canadian Forest Industries Magazine, June , 1987, Editorial by Richard Homes, p. 320.)

15 On October 20, 1986, the president of the Canadian Pulp and Paper Association said, "Like any case of that kind it (the softwood tariff) tends to attract attention and could lead other interests to undertake similar actions." (Chronicle Herald, Mon. Oct 20, 1986)

16 From industry and government interviews. See appendix.

17 See Selected Forestry Statistics, Canada, 1986 (Canadian Forest Service; Minister of Supply and Services, 1987)

18 After this agreement was first agreed to, New Brunswick's Minister of Natural Resources refused to answer questions on New Brunswick's support saying he was not that informed of its contents.

Telegraph Journal, Natural Resources Minister Malcolm MacLeod declined comment "until he has time to learn more about the agreement." Monday, November 24, 1986, p.1.

19 It is true that before and after the Vancouver conference, New Brunswick forestry officials took slightly different actions.

In fact, representations were made by the New Brunswick Natural Resources Department at the end of October, 1986 with industry and "other provinces." The Telegraph Journal claimed that, "New Brunswick forestry officials continue to contend that the province should be exempted because of its higher stumpage fees, and any move to had off the duty must come from the larger producing provinces." (Telegraph Journal, October 21, 1986, p.3)

In the Chronicle Herald, October 30, 1986, New Brunswick's minister of forests, mines and energy, Malcolm MacLeod is quoted as saying that Nova Scotia and New Brunswick "are not sinners" in the Canadian stumpage dispute. "He said that in closed talks across Canada all provinces except Ontario have agreed to review the stumpage rates."

On. Nov. 25, , Malcolm MacLeod was quoted in the St. John Telegraph Journal as arguing, "I feel we have a special status, New Brunswick is not named in the countervail and I want to be sure we are not asked to pay more than our share," he said.

By December 23, 1986, MacLeod was even more forceful, "New Brunswick should not be included in a negotiated settlement between Canada and the United States over softwood exports, says Natural Resources Minister Malcolm Macleod. The four named provinces are the problem and that's the way it should be settled. We should be negotiated out of it. ...when we agreed to attempt a negotiated settlement, it was on the condition that the exempted firms would not be included. (Times Transcript,

December 23, 1986, p.7)

Yet, the New Brunswick state admitted that they never sought A Maritimes exemption at the conference. As Macleod said, A Maritimes exemption was never on the table. The American negotiators refused to consider it. If it were not for the intervention of the [New Brunswick] premier [Richard Hatfield] in final negotiations, we would have lost the five exemptions as well. (Times Transcript, April 30, 1987)

In fact, the Director of Timber Policy for New Brunswick candidly remarked that it was his view that if New Brunswick had been examined by the U.S. ITA, New Brunswick would have also been deemed to have countervailable stumpage rates (Watson interview)

Even the federal Minister of State for Forests, Gerald Merrithew, said New Brunswick (his home province) came out of negotiations better than any other province. (Telegraph Journal Feb 25, 1987)

20 According to New Brunswick industry actors, Pat Carney had promised the Maritime premiers that their provinces would get an exemption. However, even if this was the case, there is little reason to take her word at face value, and not air publicly the concerns of the Maritime provinces.

It is true that two months later Macleod did call for a Maritime exemption, but the inaction had already had its effect.

21 Chronicle Herald, October 30, 1986.

It is true that at the end of October, 1986, bureaucrats from the New Brunswick Department of Natural Resources quietly met with industry and "other provinces" on this issue. However, little came of these meetings.

22 From Watson interview, transcripts.

23 Vancouver Province, September 2, 1986. Pointing to the high cost of the forest service compared to revenues being brought in \$150 million in revenue compared to \$325 million in expenditures, Kempf remarked, "That's not a very good business venture on the part of the government."

24 Bill Vander Zalm claimed that the review had nothing to do with the U.S. Countervail action, "If it needs doing (raising stumpage) it will be done, but not because we are trying to appease somebody across the line." (Vancouver Province, September 2, 1986.) Yet, ten days later, Vander Zalm was seeking a delay of the Countervail hearings until after the B.C. forest review was completed. (Victoria Times Colonist, September 12, 1986.)

25 Ken Baker, Manager, Stumpage Administration, in B.C. has said that regardless of the countervail, the new appraisal system, "would have happened anyway" as the government was looking for a revenue system which would at least pay for the cost of operating the B.C. forest service. (From interview.)

26 As would all of the 20 companies on the original ITA exemption list. The five exempted New Brunswick companies are J.D. Irving, Inc.; Fraser, Inc.; Dead River, Ltd.; Devon Lumber Co., and Fawcett Lumber Co. (From Commerce News, p.68)

27 From Liberal Natural Resources Critic, Stan Graham (verify-get date from earlier footnote.

28 This is not to claim the New Brunswick state took no other action, but that they were taken only after long delays and as such were relatively insignificant. For example, in June 1987, eight months after the Vancouver conference, the New Brunswick state got the Canadian Council of Forest Ministers to agree to a Maritime exclusion.

29 Interview with Rumboldt, Blenkarn. Even state actors realized this fear. New Brunswick's Natural Resources Minister remarked, "I wouldn't think this dumping will occur if we can get these provinces to raise their stumpages. If they don't, it's gong to make it a little tough on us, no question about it." (Telegraph Journal, December 23, 1986)

30 Because New Brunswick stumpage programs did not actually get examined by the U.S. ITA, companies in New Brunswick were only given exemptions if government subsidies they found were to be above a "diminimous" level set at 5% of production. If they were even slightly higher than this, they were subject to a 15 per cent export tax.

31 Industry interviews, newspaper reports.

32 From industry and state interviews. See appendix.

33

For example, Henry Bell Irving sent a letter to the head of the Canadian Pulp and Paper Association arguing that stumpage rates should be even higher which can hardly be seen as supporting the New Brunswick softwood lumber companies for obtaining an exemption.

34 Rumboldt interview.

35 From Rumboldt interview

36 From Rumboldt interview

37 This decision by the British Columbia state to change its system and by the New Brunswick state to increase its stumpage rates, led to the agreement on December 1987 to exclude the Maritime provinces and British Columbia from the export tax.

38 from Shebbeare interview.

39 G.L. Pearson, Chairman, COFI, 1986 Annual Report.

40 From interview with Frank Howard.

41 COFI, 1986 Annual Report, T.M. Apsey.

42 Howard BCFP interview.

43 See COFI response to proposed timber appraisal system, spring, 1987

44 Howard interview. Vice president for government relations at MacMillan Bloedel, Fred Moonen has also lamented that the new system would not be market sensitive (interview.)

The COFI president concurred, "There is no assurance that in six months time they'll take that \$680 million and make it \$780 million (Vancouver Province, September 16, 1987.)

45 The new forest policy did more than simply change the mode for calculating stumpage. The annual harvest of most forest companies was reduced, but the large forest companies' tenures were increased. (The annual harvest from the Tree Farm Licenses would be increased from 29 per cent of 67 per cent by converting the other types of licenses.) More lumber was also open to competitive bidding, in an apparent bid to woo the small contractors.

For the purpose of this thesis, the issue of stumpage concerns us most.

46 Vancouver Sun, September 10, 1987

47 The recovery appeared to commence in 1985 as B.C.'s major forest firms first moved into "strong profit positions." MacMillan Bloedel doubled its earnings from \$19.3 million in 1984 to \$42.9 million in 1985. B.C. Forest Products Ltd. tripled its earnings from \$9.2 million in 1984 to \$30.1 million in 1985. (Victoria Times Colonist, February 8, 1986)

48 See also the COFI 1986 Annual Report.

49 For example, MacMillan Bloedel Ltd. reported its highest-ever quarterly profit during the first quarter of 1987 of \$60.4 million. B.C. Forest products also recorded record profits of \$32.7 million for the first quarter of 1987. (Vancouver Sun, April 21, 1987). In September of 1987, the Interior Lumber Manufacturers Association reported record production as did the largest producer in the Okanagan, Crown Forest Industries. (Vancouver Province, September 14, 1987.)

In October, 1987, British Columbia reported more record profits of \$99.5 million over nine months. West Fraser Timber Co. Ltd. nine-month earnings increased to \$36.2 million from \$26.6 million in 1986. (Vancouver Sun, October 23, 1987)

50 In August, 1986, the outgoing B.C. deputy minister of forests, Al MacPherson, acknowledged affect of technology in determining stumpage calculations. He argued that the forest service's estimates of mill efficiency (how much lumber can be made from each log) were done before the forest industry spent \$2 billion in modernizing its machinery: "[Stumpage] estimates are bound to be low considering the modernization which has gone on in the last three years." (Vancouver Sun, August 16, 1986.) See also 1986 Council of Forest Industries Annual Report.

51 Part of this was because the increase in technology meant that companies were obtaining more usable wood per volume cut- while the stumpage calculations were still based on the old technology.

52 Vancouver Province, September 16, 1987. Although Vander Zalm's statement could appear contradictory. On September the 5, 1986, he is quoted in the Vancouver Sun as saying, "As to whether I would be willing to change them (stumpage) to appease someone across the line, no, not likely. It need doing it will be done, but not to appease some one."

53 Vancouver Sun, February 5, 1987. The Edmonton Journal also quotes Vander Zalm as saying that the export tax revenues would be used to cut the provincial deficit, not for reforestation. However, on Feb. 6, Vander Zalm appeared less committal about where the revenues might be spent. (Vancouver Sun.)

54 Ministry of Forests Press Release, September 15, 1987.

55 From B.C.'s then deputy minister of forest, Bob Flitton, (Saturday Night, July, 1987)

56 From Bruce Smart, U.S. undersecretary, Department of Commerce. (Saturday Night, July, 1987)

57 In fact, there appear to be some indications that even if it were not for the U.S. countervail action, B.C. stumpage rates would have gone under a policy review process anyway (interview with Hartley Lewis, Victoria. and interview with Pat Marchak)

58 (Manson interview) The Truck Loggers had ambivalent feelings about some parts of the new proposals. For example, the provision allowing for an increase in the amount of lumber open for competitive bidding was seen as a positive development (see Vancouver Sun, September 17, 1987.) However, the proposals for more increased tenure for the large forest companies (by increasing the amount of timber harvest through Tree Farm Licenses) was met with disdain by the Truck Loggers.

Bob Williams was most critical, calling the new policy, "a huge an monstrous giveaway that hasn't been equalled in the history of the province." (Vancouver Sun, September 16, 1988.)

59 Clay Parry, IWA interview.

60 Recall that Marchak supports efforts to obtain higher revenues for the head of the provincial treasury.

61 On July 17, 1987, Pearse was quoted as saying, "...though there were some improvements in the proposal, the new system would be even more arbitrary than the current one." (Vancouver Sun) However, on September 16, 1987 Pearse was quoted in the Vancouver Province as saying, "...if this package can satisfy the Americans then we're a lot better off with it than we are with the 15 per cent tax."

62 Calling the new stumpage measures, "an excellent package," Reed argued, "Everyone has to pitch in to help reduce the provincial deficit, and the forest industry isn't exempt." (The Vancouver Province, October 15, 1987.)

In August, 1987, Reed made similar remarks to this author. (Reed interview)

Conclusion: The Importance of Differences in the Forest Policy
Arm of the Provincial State

It is in the provincial realm that key forest policy decisions are taken. In discussing the British Columbia and New Brunswick stumpage policies or their responses to the U.S. countervail, it is evident that a uniform "national" forest policy does not exist.

By invoking a comparison between New Brunswick and British Columbia, this paper has shown that a major cause for provincial state differences in forest policy is the level of Crown land alienation. Crown land alienation has had two major effects on state action. First, it affects the level of state intervention or activity in forest policy development. The less Crown land, the less the state is disposed to taking an active, interventionist approach in conducting its forest policy. Second, it affects the capacity of state actors to take autonomous decisions from the dominant economic actors in the provincial forest industry. The more Crown land, the greater the ability for state actors to taken such autonomous decisions.

By developing this "Crown land alienation" hypothesis, we were able to analyze more fully the decisions taken by these two states in the area of stumpage policy development and their responses to the U.S. countervail. It was first shown how these two provinces' places in the domestic and international political economies affected their decisions regarding the granting of Crown land.

However, before undertaking such analysis a working conceptualization of the state was introduced. Two questions were asked; "Which factors motivate the state to act" and, "Can state actors take autonomous decisions" and if so, from whom were they autonomous?" In answering these questions, two basic functions of the state in resource policy development were identified. First, the state was found to have a function of guaranteeing capital accumulation for the dominant economic actors (in "exchange" for development of the staple and securing economic prosperity for the province). Second, a function of raising revenue for state expenditures was also identified.

However, the main goal of the state was to encourage broad economic growth for the province through development and exploitation of the forest staple. Like W.A. MacKintosh, state actors in both provinces believed that development of the natural resource would encourage economic prosperity.

In order to achieve this goal, the state would rely on the dominant economic actors in their respective forest industries. Guaranteeing capital accumulation for the dominant forest actors was thus the manner in which development of the staple could best be accomplished. Further, the state relied on development of the staple to provide revenue for its expenditures, although this appeared of secondary importance. In any event, it was the dominant economic actors in the forest industry which would guide the state in its decision making.

If the dominant economic actors fail to provide the

state with the resources necessary to perform the state functions, then the impetus may be created for the state to take autonomous decisions. That is, if the economic prosperity which is assumed to accompany staple development is not adequately realized, then the state may decide to end its guidance from the dominant economic actors for staple development.

This said, of the two provinces, it is the B.C. state which has the greatest capacity to take autonomous decisions. In New Brunswick, regardless of the ability of the state to realize general prosperity or revenue through development of the staple, the state will continue to be guided by the dominant economic actors in the forest industry.

This approach provided an explanation as to why New Brunswick's stumpage rates were considerably higher than those of B.C. during the time of the U.S. countervail. It was found that high stumpage rates appeared to benefit, at least in the short run, the dominant economic actors in the New Brunswick forest industry. This was because high rates could make the viability of smaller forest companies uncertain. Thus, the 1982 Crown Lands and Forest Act was a logical result of a weak state operating under an increasingly concentrated forest industry.

In B.C., the ability to take autonomous decisions from the dominant economic actors in the forest industry, explained state activity during, and shortly after, the time of the U.S. countervail. That is, we saw the impetus to support an export tax and later invoke the 1987 stumpage changes as a result of

inadequate staple development. The dominant economic interests in the forest industry failed to create an environment for full prosperity from the forest staple, nor was the state able to obtain adequate resource rents. The inability of the dominant interests to allow the state to achieve its two functions created the impetus for state initiated change.

While capital accumulation itself was not at risk (with the dominant economic actors making record profits in the mid 1980s), the type of economic prosperity envisioned by development of the staple was not being realized. Employment in the industry was relatively low, with most of the economic benefits appearing to only accrue to the dominant economic interests. This was coupled with a low level of resource rents from the forest industry.

At this juncture, the state would have to act autonomously in order to attempt to increase the benefits of the staple. This conjunctural crisis, combined with the structural capacity to take autonomous decisions from the dominant economic actors, allowed for the state to make significant changes to its stumpage system to allow for higher state revenues.

Conversely, the inactive role of the New Brunswick state during the time of the countervail can be attributed to its lack of autonomy from the dominant economic actors in the forest industry. New Brunswick state actors could have legitimately argued that they were not responsible for the countervail action—that it was the fault of provinces like British Columbia for

having such low stumpage rates.' (Even if some feel that B.C.'s rates are not low, the debate occurring in British Columbia about regarding stumpage policy would have given credibility to any critique of B.C.'s rates.)

New Brunswick state actors could have also argued that they had the highest stumpage rates in the country. (In fact, the debate about stumpage policy in New Brunswick was that stumpage rates were too high.)

Our examination of the dominant economic actors in the New Brunswick forest industry showed, however, that they had ambivalent feelings about the export tax. An export tax, combined with exemptions for most of the licensee companies, meant that it could further entrench the position of the dominant economic actors in the New Brunswick forest industry vis-a-vis the smaller forest companies. However, potential ramifications of an export tax on other export markets, combined with a fear of "dumping" by other companies in other provinces, meant that there were also risks involved. The resulting ambivalence led to little action on the part of the New Brunswick state.

The ability of each state to take autonomous decisions, combined with their stumpage policy in 1986, greatly affected their action during the time of the countervail. For the British Columbia state, it probably would have changed its stumpage system even if there had not been a countervail. In fact, the U.S. countervail actually provided a "scapegoat," for those critical of the state decision. These decisions were taken

despite the unequivocal position on the part of the large forest companies that both the export tax and the new stumpage system were unjust.

This thesis has demonstrated that it is dangerous to speak of a national forest policy. Structural constraints vary for the two provinces examined and can be traced back to decisions taken regarding Crown land alienation. As well, the composition of provincial forest industries and the conjunctural circumstances are all radically different. As a result, each province tends to take decisions in forest policy irrespective of those of other provinces.

At this point, it should be noted that a comparison of only two provinces does not provide an adequate testing of the "Crown land alienation" hypothesis. We have only examined two of Canada's ten provinces. It remains to be tested if other provinces are similarly affected by their level of Crown land alienation. Based on this evidence this thesis has presented, it seems that there would be much benefit in further examining the effects of Crown land alienation. As such, much more work needs to be done.

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