

THE FORESTRY CRISIS (PART III):

Proposed market-based “solutions” would only worsen the crisis

Forest greening revolution offers promising new opportunities

Properly tackled, industry’s future could be bright, not bleak

By Paul Tulloch

Part I of this essay provided a brief overview of the crisis in Canada’s forestry sector. Part II focused on outlining a process for developing solutions. This third and final part attempts to provide answers to the most difficult of questions: what is to be done? What are the possible and practicable solutions to what is arguably the most daunting set of problems our forest industry has ever encountered? As the third leading exporter of products (in terms of shipment value) in our economy, and an employer of more than 310,000 workers, the forest industry requires urgent remedial actions by business, labour and government. Only a concerted effort by all three partners will get the industry and its workers safely through the immediate crisis and address the sector’s longer-run transitional requirements.

Given the severity of the crisis, the most pressing task for policy-makers is to address the short-term needs of the many forestry-dependent communities and the displaced or soon-to-be-displaced workers. Up to now, although plant and mill closures have become almost a weekly event, not much in terms of pro-active measures have been sought by industry or policy-makers. Typical of their approach was federal Finance Minister James Flaherty’s claim on May 12 that the problems plaguing the manufacturing and forestry sectors are market-based, so any solutions that were not also market-based would be just temporary “Band-Aid” fixes. He noted that the federal Tories do not make a habit of interfering with the markets, clearly implying that the Harper government will sit on the sidelines and wait for the market’s “invisible hand” to work its magic.

Contrary to Tory ideologues, however, government interventions to avert or curtail market failures have been far from infrequent in our economic history. The boom-and-bust cycles of capitalism tend to make it crisis-prone, forcing governments to come to the rescue of both the affected industries and their workers and communities. Such government interventions have happened many times in the past, and should not be so cavalierly shrugged off in the current industrial crisis.

Knowledgeable industry observers admit that the market-based “solutions” favoured by the Harper government and the business community would only exacerbate the problem. At a recent conference in Vancouver, Craig Campbell, a forest industry advisor at Pricewaterhouse Coopers, warned that declining demand from the U.S. housing market caused by the deepening recession would force forestry companies with unsold stockpiles to close even more mills. The continuing high valuation of the Canadian dollar is also making our forestry products uncompetitive in world markets, adding to the pressure on companies to downsize and consolidate their global production capacities.

“There’s going to be more closures, more cash burn, more blood on the floor,” Campbell predicted.

This gloomy prognosis by an industry insider is just the latest proof that the business-as-usual “solution” proposed by both industry and political leaders will only deepen the crisis, not alleviate it. The outcome will only be more closures, more job losses, more communities plunged into economic and social distress.

According to forest products guru Avrim Lazar, the markets will turn around in the long run because of the diminishing area of global land devoted to forestry. But even if this turnaround eventually occurs (in how many years?), nothing is being done to cushion the immediate impact of these market forces. The affected workers and their communities are being left to cope as best they can with the unemployment and other painful adjustments until, far in the future, this promised market revival materializes.

The critical flaw in this kind of thinking is the assumption that these communities, which are the key to the future of the forestry industry, will somehow survive. Many of them, denied help, could well become ghost towns, and, if they die, a good chunk of the forestry industry will go with them. The companies that are callously and blindly shutting the mills and factories, and the governments that are sitting idly by, are gambling dangerously and irresponsibly with these workers and communities, and indeed with the future of the industry itself. Under no circumstances can this be considered an acceptable course of action.

STRONG, a group representing Northern Ontario forestry-dependent communities, has mounted a campaign to save them, and has forged links with similar community and labour groups in the interior of British Columbia. Frustrated with both industry and government inaction, STRONG has called on them to start working “towards the survival of our forest resources, the industries, and communities. Governments wave the flag of democracy and sovereignty, yet policies allow the export and sell-outs of our forest and mining resources for short-term profits of multinationals and their shareholders that care little or nothing about community sustainability.”

Unfortunately for these smaller communities, they are so geographically dispersed that they wield little political clout. They will somehow have to overcome this geographical drawback and develop an alternative political strategy to make their voices heard in the legislatures and boardrooms.

As it stands, business and government policy responses for dealing with the crisis in the short run are distressingly limited. Companies will try to hold their own by raising the prices of forest products, but this means capacity reductions to limit supply, which involves more plant closures, which in turn may protect some communities and workers, but mean closures and layoffs for others--far from a “solution” that could be considered remotely acceptable. Given this “fix for the short run” decision, government intervention on a fairly grand scale will be required to solve the problems created by this blind reliance on market forces.

The companies’ capacity cuts have already gone well beyond the marginal trimming of inefficient plants and mills that usually occurs with market downturns. Given the depth of the cuts so far, we need a determined effort by governments at both the federal and provincial levels to preserve these threatened communities. It could be viewed as an investment in the future of both the

communities and the forest industry itself. We cannot leave it up to the markets, whose actions, left unchecked, will continue to destroy the human resources that are needed for the sector's long-term viability. With the economic fundamentals so badly mismanaged, nothing but firm government intervention will solve the problems inherent for the near term. Flaherty and his ilk may wash their hands of the problems, but that doesn't mean they're going to go away. On the contrary, bereft of government aid, they're going to get a lot worse.

Such a bleak future might be viewed as unavoidable if the forestry sector didn't have the potential for growth that is on the horizon. But the fact is that Canada has one of the most abundant forest resources in the world. With the promising opportunities to be opened up by the greening of the industry and what it has to offer the world with its environmental assets, the future should be considered bright, not bleak. The question remains, however: how do we get from here to there in a way that preserves communities and jobs? So far, with both industry and government seemingly hostile to new ideas, only the community-based groups and some of the unions have proposed and lobbied for innovative and practical actions and options.

They see the future of forestry improving and unfolding through a mix of traditional and new industrial methods, with the newer methods focusing on the greening of the sector's practices and products. The traditional approach is to accelerate the movement away from raw log exports towards a higher value adding industrial strategy. This approach has been ongoing since the earliest days of the forestry sector. From asset ownership, valuation of the dollar, and a host of other variables, raw log exports have always been pitted against the more valuable domestically produced intermediate and finished-good forestry outputs. There has always been some mix of the two, but the amount of timber cut per job has been the yardstick that measures this mix. The more value added processing that occurs in Canada, the greater the economic impact the forestry sector has within our economy in terms of jobs and other economic benefits. In the past few years, and quite dramatically of late, a majority of the plant and mill closures have been those that have provided the higher value adding jobs. Increasingly, the foreign-based multinational companies have been shutting down the higher value processing plants and increasing the raw log exports, shipping them to lower-cost countries for processing.

In sharp contrast, the "new" forest industries are moving towards a greening of forestry operations and outputs. From certified sustainable forestry management practices to the introduction of non-food-based biofuel production, the forestry industry has many opportunities to explore within the green movement. The key to this new future is in the renewable resource aspects of forests and the changing market demand from consumers seeking new green choices. It will also address the growing concern over CO₂ emissions, since the forests obviously store carbon dioxide and thus hold an important potential for combatting climate change. These and other innovations in the forestry sector will entail a quite dramatic transformation in how we currently envision our forests--away from a short-term profit- oriented natural resource towards a more sustainably-based forest management and custodial approach.

With these longer-term forestry goals in place, the success of any short-run bridging solutions would lie in linking the two time-frames. This will not be easy, but the question is: how do we fund these short-term-targeted interventions? For example, it will take both government and business efforts to repair the pine-beetle- ravaged forests of British Columbia. How does one pay for such a major revitalization project? One obvious source of revenue would be from placing a tax on raw log exports.

This would effectively provide a disincentive to such exports and facilitate the relocation of future investments for processing back within Canada. This was one of the excellent recommendations made by the United Steelworkers' union in its 10-point plan for the renewal of the forestry sector.

Another somewhat less obvious source of funding is from the Employment Insurance Fund. With its outstanding reserves estimated by the Canadian Labour Congress to be near \$54 billion (if not drained by this and former federal governments to defray tax cuts and debt payments), this fund could easily serve to bridge the financial gap. The EI Fund was designed, in any case, to be tapped when recessionary winds start blowing, so why not dip into it for targeted investments in preserving forest industry jobs and the industry's future? Admittedly, that \$54 billion is not really there, but it should be, and a recent court challenge launched by the CLC may succeed in restoring some if not all of these missing billions.

Even without the EI Fund, a strong case can be made that, in major emergencies, governments at all levels should not hesitate to incur temporary deficits if that is the only way to finance urgently needed expenditures when any sector falls into lean times, as the forest industry most definitely has. Such short-run government aid could enable the industry to build the transitional infrastructure that is needed to meet the challenges--and new opportunities--that the greening of our forestry operations will entail. There are numerous new approaches and industries being opened up by the green movement. For example, a whole new bio-chemical forestry industry is in an early stage of development. The potential is promising, as several successful pilot projects have already shown. It is now possible to produce a variety of new products from waste wood fibre using many of the same synthetic materials that are now derived from oil. These range from wood-based biodegradable plastic shopping bags to the clothes on our backs. The technology is now coming into the mainstream and maturing to the point where mass production of such products could take off. And it has the enormous advantage over oil to be a resource that is both biodegradable and renewable, as well as carbon neutral. Now that is a material for unlimited future growth!

Also developing fast is the promising wood-based bio-energy potential, with high hopes for several innovative uses, including wood-pellet high-efficiency heating and non-food-based ethanol production from scrapwood fibre. Granted, questions still remain about the feasibility of wood-based bio-energy, for which research and development are still far from complete. One area of concern is the amount and availability of wood waste that could be used in this process, since shortages have already emerged in the paper industry in B.C. But this may be a matter of extraction costs rather than actual shortages. Much work needs to be done in maturing this technology.

The certified sustainable forestry management practices movement has been gaining exposure in global policy circles as a means to curb environmentally destructive and unsustainable harvesting practices. Canada, although not perfect, has made great strides and is among the leaders in the best-practices forestry management movement. With proper certification processes and a pervasive buy-in from both suppliers and distributors, this greening of forest production could be quite helpful for the industry in Canada. Again, however, it will take government regulation and resources to ensure a properly functioning system at both the local and global levels.

Governments clearly have a key role to play in ensuring that these industrial innovations are explored and developed. Some will undoubtedly argue, like our federal finance minister, that

government financial start-up aid would be a waste of taxpayer monies for allegedly futile “Band-Aid” fixes. Such an attitude, however, reflects a failure to think outside the limited “free market” box. It is ludicrous to rely on equally shortsighted private investors to pay for the development of the needed new infrastructure. It is like saying that the transportation industry should pay for the roads we all drive on. These are in some cases entirely new industries, and they will require creative thinking, ample resources for research and development, as well as the requisite infrastructure to reach their full potential.

We need only look at other countries’ experiences and how they have begun to transform their forestry sectors. Finland is a case in point and should be seen by Canadian business and political leaders as an example of how to successfully innovate within the seemingly tight confines of profit and market margins.

The emergency infusions of public funding could serve as part of a longer-term forestry renewal strategy. This essay has only briefly outlined some of the initiatives and ideas that could fairly easily be taken not only to address the forest industry’s immediate problems, but also to serve as a springboard to advance toward a longer-term stability. The short-term actions include clearing away the pine-beetle-devastated forests in B.C., reforesting harvested land, replanting barren land, and removing small underbrush and other non-productive growth—all programs, incidentally, that unions and environmentalists have long been calling for. Unfortunately, some governments, such as New Brunswick’s, have recently announced they will be cutting their silviculture programs instead of expanding them. A worse time could not have been chosen to make such disastrous cuts to much-needed industry support programs and thus to the jobs that they help create and protect.

The pressure for change is complex, multi-faceted, and far-reaching. The problems have been festering and growing for many years. Sometimes, however, it is only through the collapse of existing markets that the underlying faults and flaws of an industry are exposed. This has now happened to the forestry industry, whose serious problems have been made painfully visible. Regrettably, the first simplistic and outdated “solutions” being proposed by industry and political leaders rest on the shaky assumption that the market will eventually help the industry cure its own ills. Completely ignored in this approach is that it was such short-run profit-oriented policies that have dragged the industry to its current grave-side in the first place. As in any economic crisis, the cause of a problem can never provide the solution.

This is not just another downturn in the boom-and-bust cycle of capitalism. We can’t afford to wait for a return to a cyclical boom that may never come unaided. We need a more innovative and encompassing set of solutions that address the many dimensions of the forestry sector crisis and the pressure for change that it is undergoing. This is not just a case of wealthy foreign-based owners responding to a market downturn by closing mills to reduce production capacity and supply in order to drive up prices. This is a much deeper and more prolonged crisis, with thousands of laid-off workers and their devastated communities serving as collateral damage. We are at a fundamental turning point in the history of the Canadian forestry sector, and we need solutions that accomplish more than accommodating only those that own the assets.

Instead, we need a broad range of policy-based measures that will meet the needs of all stakeholders: the forest communities, the labour groups, the environmentalists, the Aboriginals, the

broader national economy, the public interest, and, lastly--and likely the most overlooked—the forests themselves.

(Paul Tulloch has worked for over 14 years at Statistics Canada, assessing and measuring work and labour trends. This is the third and last part of his essay on the forestry sector crisis. Visit Paul's website: www.livingwork.ca)

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CALL-OUTS:

“Knowledgeable industry observers admit that the market-based ‘solutions’ favoured by the Harper government and the business community would only exacerbate the crisis.”

“The abundance of our forest resources and the great potential to be opened up and developed by the greening of the industry offer the best way out of the current difficulties.”

“This is not just another downturn in the boom-and-bust cycle of the capitalist system. We can’t afford to wait for an upturn to a cyclical boom that may never come unaided.”