

SASKATCHEWAN'S NEO-COLONIAL FOREST POLICIES

John W. Warnock

For more than 60 years, Saskatchewan governments of all political stripes have pursued a policy of encouraging the exploitation of the province's forests by the wood products industry. In effect, citizens have been taxed in order to finance environmental harm and economic dependency. Both trade unions and private corporations have been complicit in this development. What is needed is a policy that requires forest products companies to pay for all the costs imposed by their use of this precious natural resource.

Pendant plus de 60 ans, tous les gouvernements en Saskatchewan, quelle que soit leur allégeance politique, ont adopté des politiques favorisant l'exploitation des forêts par l'industrie du bois. De sorte que les citoyens ont en fait payé des impôts pour financer les dommages causés à l'environnement et la dépendance économique de leur province. Une situation néfaste qui s'est développée avec la complicité de l'entreprise privée comme du mouvement syndical. Il est temps de mettre en œuvre une politique qui impose aux entreprises forestières de rembourser tout ce qu'il en coûte d'exploiter une ressource naturelle aussi précieuse.

The Canada-US Softwood Lumber Agreement has expired, and the US forest industry, represented by the Coalition for Fair Lumber Imports, has asked the US Department of Commerce to impose countervailing duties against the Canadian industry. The Coalition argues that if Canadian governments wish to subsidize their forest industry, that is their choice. But under international trade rules set forth in the *Canada-US Free Trade Agreement*, the *North American Free Trade Agreement* and the World Trade Organization, such subsidies cannot be used to promote exports. The US forest companies are supported by a long list of members of Congress, trade unions and environmental groups.

The US industry has accused Canadian provincial governments of providing subsidies to the forest industry through very low royalties on timber, non-enforcement of forestry rules, mandating forest firms to comply with minimum cut requirements, providing tax benefits to private firms, bailing out firms in financial difficulty, and providing extensive infrastructure, clean-up and reforestation. Direct subsidies have also been given to forest corporations to encourage local employment. The Americans argue that our

forestry policy encourages over-harvesting and wasted wood, resulting in environmental damage. By granting very large corporations long-term cutting rights on huge areas of land, the provincial governments have hurt small, independent forestry companies and have denied Aboriginal Canadians, who actually live in the forests, access to forest resources. The Coalition is not alone in its criticism of Canadian forestry practices. On July 19, 2000 the World Resources Institute petitioned the G-8 Summit of major industrial countries to end "destructive forest subsidies which cause forest loss or degradation and have no lasting positive impact on economic development" (see the full text of their statement at <http://www.wri.org>).

The response to such criticism from our political leaders, government spokesmen, trade union leaders and the mass media is to emphatically dismiss the charges out of hand. In Saskatchewan there is almost no public debate on this issue. My purpose here is to ask: "What in fact is the record of forestry practices in the province of Saskatchewan?" My conclusion is that while the charges laid against the Canadian industry may not be accurate in every particular, the broad outlines are true.

Despite its social-democratic philosophy, the Douglas government's resource policy was not fundamentally different from those pursued by other governments in other provinces. The government was interested in expanding a commercial forestry industry.

Natural resources are a gift from nature. Under the English law that Canada inherited, all natural resources—air, water, land, sub-surface minerals and forests—are held for the population as a whole by the Crown. It is up to the government, acting in their interest, to decide how it will dispose of these public assets and what prices it will charge when they are sold. In Canada, the *British North America Act* of 1867 granted authority over natural resources to the provinces. Because of the federal government's National Policy for the promotion of the wheat economy, however, Saskatchewan was not granted control over natural resources until 1930, and its first *Forest Act* was not passed until 1931.

In 1944, the new CCF government of T. C. Douglas was primarily concerned with high-grade cutting by private interests and with the destruction of the forests that had been caused by extensive fires during the drought years of the 1930s. A Royal Commission on Forestry was appointed to provide advice on conservation. The government created the Timber Board in 1945 as a marketing agency for the hundreds of small saw mills, but it soon became an instrument of the Department of Natural Resources for managing the commercial forest. While all pulp wood cut was exported to Manitoba and the United States, lumber was consumed almost entirely in Saskatchewan.

Despite its social-democratic philosophy, the Douglas government's resource policy was not fundamentally different from those pursued by other governments in other provinces. The government was interested in expanding a commercial forestry industry, including the building of a large sawmill and a pulp mill, and it was quite willing to use economic incentives to attract foreign or domestic capital. For instance, a pulp mill was announced in 1958, but the agreement fell through. As Ronald C. Murray noted in his history of provincial mineral policies, as a hinterland agricultural area, Saskatchewan had little capital. From the beginning, therefore, the Douglas government established a general policy of trying to attract outside capital to invest in the resource sector by offering tax holidays and low tax and royalty rates. Capital would be generated by increased retained earnings which it was hoped would be invested locally rather than just repatriated to the United States or Toronto.

Saskatchewan's first major forest industry project was announced by Ross Thatcher's Liberal government in 1965. It negotiated an agreement

with Karl Landegger, owner of Parsons and Whittemore, a US corporation, to build a pulp and paper mill at Prince Albert. Of the \$65 million originally invested in what came to be called PAPCO, \$50 million came from a government-guaranteed loan and \$5 million from the Department of Regional Economic Expansion. The provincial government took a 30 per cent equity position and Landegger got 70 per cent ownership with an investment of only \$7 million and the corporation was guaranteed a supply of wood at a low stumpage fee for a long period of time. Not surprisingly, Landegger specialized in operations in Third World countries.

Although the NDP government of Allan Blakeney, elected in 1971, generally pursued a policy of trying to increase royalties on the extraction of natural resources and promoting Saskatchewan ownership, this did not carry over to the forestry sector. In 1980, however, Parsons and Whittemore decided to sell its 70 per cent share in PAPCO to another American corporation. Invoking a clause in the original agreement, the Blakeney government borrowed \$162 million in New York, bought the outstanding stock, and transformed PAPCO into a provincially-owned Crown corporation. It was a high price to pay for a company that was not doing well. With the onset of the recession in the 1980s, PAPCO began to lose money. Between 1982 and 1986 its losses totaled \$44 million.

In 1986 the Tory government of Grant Devine arranged to sell PAPCO to Weyerhaeuser Corporation for \$248 million. But the Washington state-based corporation put up no money. The government lent it the sum via a 30-year debenture and agreed that any losses incurred for the first three years could be deducted from the purchase price. For its part, Weyerhaeuser agreed to construct a paper mill in Prince Albert, which required an investment of \$250 million. The government guaranteed \$83 million of the debt of the new paper mill.

Management at Weyerhaeuser knew it had a good deal. A new forest management licence gave it cutting rights on a huge area of land for a stumpage fee that was a small percentage of what it would have had to pay for a similar concession in the United States. Weyerhaeuser did pay back the government for the original purchase and made further investments in the mill in 1999.

At the time of the PAPCO deal, a second mill had been promised for the Meadow Lake area, and in 1971 the Thatcher government had

again chosen Parsons and Whittemore for the job. A short while later, however, it was defeated at the polls, and the incoming NDP government decided to pay a penalty and cancel the agreement. Two decades later, in 1990 the Devine government put up one half of the capital (\$246 million) to create the mill, a joint venture with Millar Western Industries of Alberta. Today that mill still operates but only because of annual subsidies from the Saskatchewan government totaling \$43 million over the two years 1998 and 1999.

In 1991, with the return to power of the New Democratic Party, a resumption the province-building strategies of the Blakeney government was widely expected. But the new government of Premier Roy Romanow continued with the neo-liberal strategy introduced by Grant Devine. For instance, in 1995 it merged Sask Forest Products, a successful Crown corporation created by the Douglas government in 1949, with MacMillan Bloedel, and in 1999 the privatization of this plywood plant and sawmill was completed. The payoff was a new MacBlo oriented strand board (OSB) plant at Hudson Bay, Saskatchewan.

Just a month later MacBlo was taken over by Weyerhaeuser. The NDP government immediately announced that it would transfer MacBlo's forest management license areas to Weyerhaeuser. Janice MacKinnon, the NDP Minister of Economic Development, proclaimed that the government had no fear of Weyerhaeuser's near-monopoly position in Saskatchewan because of its "track record as a good corporate citizen in Saskatchewan."

If that is true of Weyerhaeuser—and environmentalists give the company low marks in other jurisdictions in which it has operated, notably the Pacific Northwest—it certainly has not been true of all private operators in Saskatchewan. In 1965, for instance, the Simpson Timber company from Seattle was invited to Saskatchewan to establish a softwood sawmill. It received the usual long-term agreement to cut timber on Crown land, which included a requirement that the company reforest the areas it cut. It did not do so, however, arguing that the costs were too high. Neither the Liberal government of the day, nor the subsequent NDP or Tory governments took any action against the company. In 1990, Simpson Timber closed the plant and the taxpayers are now paying for the reforestation of the northeast area of the province.

Today most of the harvested areas of Saskatchewan's forests are considered to be

understocked, if not deforested. Those areas left to regenerate on their own have not done well. Plantations have had a high failure rate. Around 600,000 hectares of harvested forests are classified as "not satisfactorily restocked," harvested forest land which is "partially or completely barren of its potential." This amounts to 66 per cent of the forest land harvested since 1975. Nationally, the equivalent figure is 17 per cent (see www.globalforestwatch.org/canada).

Saskatchewan forest policy has been consistent in this way whatever party has been in office. In April 1999 the Romanow government announced a massive expansion plan for the forest industry. Twelve new processing facilities were to be built or expanded, \$850 million was to be invested by private corporations, and 10,000 new jobs were to be created. The NDP government stressed that the comparative advantage of the Saskatchewan industry was the growing share of the market in the United States and the province's exemption from the *Softwood Lumber Agreement*.

In the "Commercial Forest Zone," i.e., the boreal forest of central Saskatchewan, the NDP plan is to increase the allowable annual cut of wood from three million cubic meters to 6.6 million. At this new rate of harvest, all the commercial timber would be cut in just 27 years. In the boreal area it takes 70 years to grow a hardwood tree to maturity and 90 years for a softwood tree. The new policy was supported by the Liberal and Saskatchewan Parties. The only opposition came from the province's small environmental groups and the fledgling New Green Alliance. The Aboriginal community was split, with some band leaders and Indian corporations supporting the government and Natives who don't want clear-cut logging opposing it. The opponents supported sustainable logging, wild food industries, commercial fishing, outfitting, trapping and tourism, and the maintenance of forests and their diversified species.

The Romanow government also brought in a new *Forest Resources Management Act*. Corporations are to negotiate 20-year forest management plans with the province and are to pay for reforestation and roads where they harvest. But there is to be no policing of the plans by the provincial government: This will be left to the private corporation, with an outside review to be held every five years. The new *Act* was wholly consistent with the government's budget and staff cuts in other areas of environmental enforcement.

Today most of the harvested areas of Saskatchewan's forests are considered to be understocked, if not deforested. Those areas left to regenerate on their own have not done well. Plantations have had a high failure rate.

Given the very low stumpage fees charged in Saskatchewan, it is no surprise to learn that over the 1990s the provincial government averaged only around \$3.5 million a year in total revenues from forestry operations.

What about stumpage fees, the royalties received by the Crown in return for selling provincial natural resource assets? In 1990 a study for the UN Food and Agriculture Organization by Minoru Kumazaki, professor of forestry at Tsukuba University in Japan, concluded that Canada has the lowest overall stumpage rates in the world. In 1998 a study by Reid Carter for First Marathon Securities concluded that stumpage rates in British Columbia were the lowest in the world except for the other Canadian provinces. In 1999 BC's stumpage fees averaged \$33 a cubic meter for coastal areas and \$27 a cubic meter for the interior. The Transborder Conservation project concluded that BC's stumpage fees in 1999 (between \$25 and \$40 per cubic meter) were "about one half of what companies in the US are paying for similar wood."

How low can stumpage fees get? In 1996 companies in Saskatchewan's forest industry paid between \$0.28 and \$0.60 for a cubic meter of hardwood and between \$1.02 and \$1.77 for softwood. (For basic data on the forest industry in Saskatchewan, see: Canadian Council of Forest Ministers, National Forestry Database Program at <http://nfdp.ccfm.org>). When the Romanow government introduced a new forestry act in 1996, it proposed doubling the existing stumpage fees. The forest companies strongly objected and the government backed down. It also dropped its plan to have the industry help finance fire control and disease and insect protection.

The present stumpage fees are prescribed by the *Forest Resources Management Act*, passed in 1999. For softwood used for lumber, the base rate is \$2.00 per cubic meter of timber with a diameter greater than 14 centimeters, plus a formula for recovering more if the price of lumber exceeds \$340 per thousand board feet, as reported in the *Random Lengths Price Reporter* (Seattle). For smaller softwood timber, the fee is only \$0.75. In the US wood is measured in board feet rather than cubic metres. One thousand board feet equals 2.36 cubic metres.

Hardwood used to be considered a "weed" species in Saskatchewan, but it is now used widely for pulp and paper, oriented strand board, chipboard and particle board. The new prices for hardwood range from \$6.00 per cubic metre for ash, birch, elm and maple timber greater than 14 centimeters to only \$0.75 for smaller wood. For other hardwood timber, including aspen, which is widely used, larger trees earn \$1.00 a cubic metre, smaller ones \$0.50.

How does this compare to the stumpage resource royalty system in the United States? Let us look at one example, sales from the Chippewa National Forest, as reported by the US Forest Service and the General Accounting Office. In 1996 the US Forest Service sold 62.3 million board feet of timber from this forest. The stumpage fees collected, \$84 per thousand board feet, were the equivalent of \$36 per cubic metre—at least 17 times the highest stumpage fee paid in Saskatchewan. Even so, environmental groups in United States insist that the US National Forest Service is selling timber to private companies at below market value.

Given the very low stumpage fees charged in Saskatchewan, it is no surprise to learn that over the 1990s the provincial government averaged only around \$3.5 million a year in total revenues from forestry operations. In 1992, the province received \$3.1 million from all forestry dues, fees and royalties, compared to \$3.7 million from licenses from big game hunters! Industry sales were \$335 million in 1992 but rose to \$654 million in 1997, thanks to increased exports to the United States. Despite this almost doubling of sales provincial revenues rose to only \$4.9 million in 1997. The government is so embarrassed by these low returns that it has buried the figures in all the published reports.

Saskatchewan government forestry expenditures, which include management, replanting, and fighting fires have averaged around \$66 million per year over the 1990s. Data from the Canadian Council of Forest Ministers shows that only British Columbia takes in more revenues each year than it spends in forest management. In Saskatchewan, citizens pay the forestry companies to take away the wood.

There are, of course, other government subsidies to the industry that are not found in the accounts of the forestry department. All the resource extraction industries have been assisted by infrastructure spending. For example, as part of the 1999 NDP plan for expansion, Ainsworth Lumber of Vancouver agreed to build a new sawmill at Deschambault Lake. This was to be in partnership with the Peter Ballantyne band of the Cree Nation. Ainsworth wanted Sask Power, the Crown utility, to pay for a new power transmission line. The total cost was to be \$16 million, but when Sask Power asked Ainsworth to put up \$2.9 million as its share, it refused and pulled out of the project. The company also complained that the province was not spending enough on expanding roads in the area.

What we have in Saskatchewan, and across Canada, is a neo-colonial industrial forestry model. Provincial governments freely give very large corporations, domestic and foreign, long-term leases to harvest the trees. The trees, which are owned by the people as a whole, are sold to the corporations for a very low stumpage fee. In addition, the provincial and federal governments undertake to facilitate this resource extraction policy through a range of subsidies and supports. A few large firms dominate a highly concentrated industry. Foreign ownership and control are welcomed and are on the rise.

The trade unions in the forest industry have bought into this system. Technological changes have greatly reduced the number of workers in the industry, but those that remain earn annual incomes of over \$60,000, which makes them among the highest paid blue-collar workers in Canada. These business unions are part of the "wood exploitation axis."

There are obvious drawbacks to this model. As economic geographer Roger Hayter stresses, the large forestry firms spend virtually nothing on research and development in Canada. Not only does this cause a loss of high-income jobs and of potential manufacturing exports, it results in extensive importation of equipment and payments for licenses and services from parent corporations.

The neo-colonial industrial model results in a heavy emphasis on exporting low value-added wood products, lumber and pulp and paper. The corporations and their allies are always pressing governments to allow an increase in the export of logs. Secondary manufacturing in wood products is very weak compared to European and Japanese industry, and the Canadian industry provides relatively few jobs.

Under this exploitation model, there is only one use for our forests: as cheap wood for the building and pulp and paper industries. The role of forests in providing pure water, pure air, climate moderation, protection from wind, flood control, production of topsoil, cycling of elements through the ocean and the atmosphere, the storehouse for wild genes, biological diversity and aesthetic or spiritual value are all but ignored. Even other purely economic uses of the forest receive a much lower priority.

The environmental impact of the industrial model is devastating. Clear-cutting is the norm and accounts for 90 per cent of harvesting in Saskatchewan. Clear-cut forests are replaced with plantations that have no structural diversity.

Forest fires become more frequent. Soil erosion increases and soil quality declines. Fish habitat is destroyed. Lakes experience a rise in acidity and high rates of mercury contamination. Pest infestations increase. Water tables decline and wetlands dry up. Biological diversity declines. The carbon balance is changed. In fact, the Saskatchewan government is promising a massive increase in the allowable annual cut for the boreal forests right at the time when the scientific evidence is mounting that this forest region is under severe threat from global warming and climate change.

The social costs of the industrial forestry system are externalized from the private firm to the general public. These include the costs of: fossil fuel use, transportation, environmental degradation and clean-up, damage to fish habitats, loss of aesthetic appeal for recreation and tourism and declining employment and health.

There are alternative systems of forest use. They emphasize ownership and control by local communities, value-added wood production, reduction of waste, and emphasis on recycling, environmental protection, selective logging, and a shift to labour-intensive production. Many of the organizations promoting this model can be found in the International Network of Forests and Communities, mentioned earlier.

Supporters of the alternative model helped found the international Forest Stewardship Council in 1993, which has since established forest management criteria and certifies production systems. The Council is actively involved across Canada (see the following article, as well as George Hoberg's article on forest certification in the December 1999 number of this magazine). Certification is a way to ensure that logging and timber management protects the forests, encourages recycling, allocates the full costs of harvesting to industry, protects the ecosystem and provides community stability (see the FSC's international website at <http://antequera.antequera.com/FSC>).

There are many good examples of the alternative system of forest management. Merv Wilkinson has operated Wildwood on Vancouver Island for over 50 years using selective cutting while maintaining a mix both of young and old trees and of different species. Orville Camp bought over-cut land in Oregon and nursed it back to being a natural forest. Herb Hammond did the same in British Columbia. In Alberta and Saskatchewan a number of small business opera-

There are alternative systems of forest use. They emphasize ownership and control by local communities, value-added wood production, reduction of waste, and emphasis on recycling, environmental protection, selective logging and a shift to labour-intensive production.

No matter what party is in office, our provincial governments cannot contemplate moving from the present system to a radically different alternative. Not even the populist social democratic CCF in Saskatchewan was willing to try a fundamentally different approach.

tions follow these practices, using selective cutting, small skidders, farm tractors, including some with horses, and small local mills that hire local people. The Menominee First Nation in Wisconsin has been using this sustainable system for 150 years and has an institute to teach people their approach. The Eel Ground First Nation in New Brunswick has adopted their model.

In November 1995 the Lumby Log Market in Vernon, BC, became Canada's first certified eco-forestry operation. Contractors log the forest site according to the plan and then the BC Forest Service auctions the wood on the open market. Revenue to the government has been three times as high as the stumpage fee. The logging plans were developed by the BC Forest Service in consultation with forester Herb Hammond and the Silva Forest Foundation, which was chosen by the Forest Stewardship Council to certify BC forest operations.

The Toronto *Globe and Mail* recently ran an article (Barrie McKenna, "Louisiana-Pacific CEO is unlikely ally of Canada," March 12 2001) pointing out that two of the huge US forest corporations, Weyerhaeuser and Louisiana-Pacific, have withdrawn from the Coalition for Fair Lumber Imports and now categorically reject the argument that Canadian governments subsidize the forest industry. But should this really be a surprise? These two corporations have acquired cutting rights to millions of hectares of Canadian forests, far more than they have in the United States. They directly benefit from the neo-colonial industrial forestry system and don't wish to see it challenged by US producers.

The wood exploitation axis of the large corporations, the provincial governments and the industry's trade unions have no interest in an ecological alternative. The neo-colonial industrial system that operates in Canada was established precisely to maximize the return on capital investment. Its driving force has always been capital accumulation by big corporations, both domestic and foreign. The capitalist system has always required the central accumulation of capital for investment in large projects. That is one of its basic characteristics.

By contrast, local community control means more local value is added, more capital is retained in local communities, and ownership is more diversified. Less capital is spent on imported machinery, such as the feller-bunchers used in clear-cutting, which typically replace 15 workers. Small operations, such as the non-industrial pri-

vate forestry operations in Europe, employ many more people, but the workers who currently benefit from the Canadian industrial system do not want to see their high wages reduced to the average found in manufacturing.

No matter what party is in office, our provincial governments cannot contemplate moving from the present system to a radically different alternative. Not even the populist social democratic CCF in Saskatchewan was willing to try a fundamentally different approach. The only genuine alternatives to the present system have instead been advocated by environmental groups and Aboriginal people living in the forests. In Saskatchewan all the political parties have always been hostile to the environmental movement and have a long record of ignoring Aboriginal concerns. It appears that it will take a crisis, such as the further expansion of global warming, before public pressure will force the provincial government to take a different course on forestry policy.

As I write this, the US Department of Commerce is poised to rule on countervailing duties to offset alleged Canadian subsidies to the forest industry. Although the US industry is asking for a 40 per cent duty the Commerce Department is expected to impose a 15 per cent interim duty while it completes its investigation. Legislation introduced in Congress would cap Canadian exports at their average of 1993-95, thus limiting them to around one-third of the US lumber market.

The Canadian forest industry is divided. The Free Trade Lumber Council, based in Montreal and supported by the Ontario and Quebec governments, wants unfettered free trade. The BC Lumber Trade Council, representing firms with over half the export market, proposes that Ottawa impose a 15 per cent export tax to head off US government action and keep the funds in Canada. This approach has been supported by the US Trade Representative, Robert Zoellick.

For many years Canadian and American environmental organizations and Aboriginal groups have argued that forestry policy and practices in Canada are rapacious and ignore the many other values and uses of our forests. Provincial governments have ignored these concerns and supported the private industry. Ironically, the US government's action may finally force Canadians to deal with the issue.

John Warnock teaches in the Department of Sociology at the University of Regina. He is currently writing a book on the political economy of Saskatchewan.