LOGGING RESIDUE UTILIZATION

Lost Opportunities

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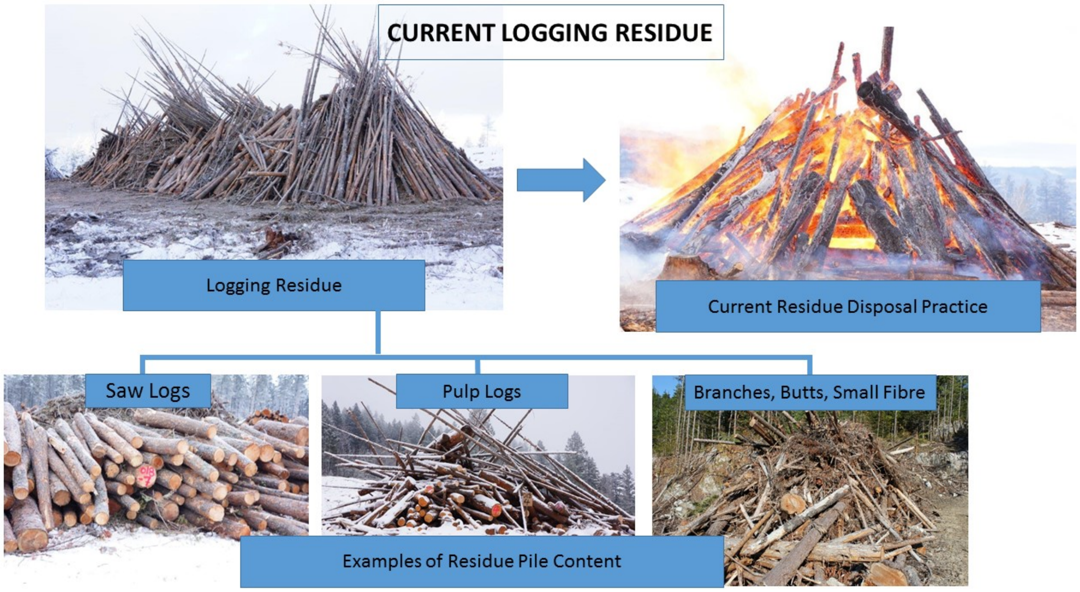
ISSUE

The lost opportunities in the creation and burning of large roadside logging residue piles raises the question as to the appropriateness of this practice.

CURRENT LOGGING PRACTICES

Economics has been used as the rationale for Licensees to only process and transport logs with characteristics consistent with their needs. This policy is understandable from a corporate perspective but the method of residue "disposal" remains an issue. **It is not a new issue!** It has been around before the response to the 2008 recession when the practice was enhanced to address tough economic times. The practice continues today with piling the remaining fibre at the site for later burning. Licensees choose this practice because it is the easiest, controllable, cost effective and legal. However, there is commonly usable logs and fibre in these piles albeit not of the characteristics for the Licensee's mill.



Merchantable residue in the piles is subject to fines but the chances of this being enforced is limited. Also, paying the fine is commonly viewed by the Licensee as more cost effective than separating these marginal logs and transporting them to their mill and further distribution to other mills or facilities.

The Ministry of Forests, Lands and Natural Resource Operations (MFLNRO) *Fibre Action Working Group* developed guidelines for Licensees and District Managers with the "overall objective to increase the communication between and encourage business to business relationships between primary and secondary harvesters for the efficient removal of residual fibre." Simplified, the guidelines include:

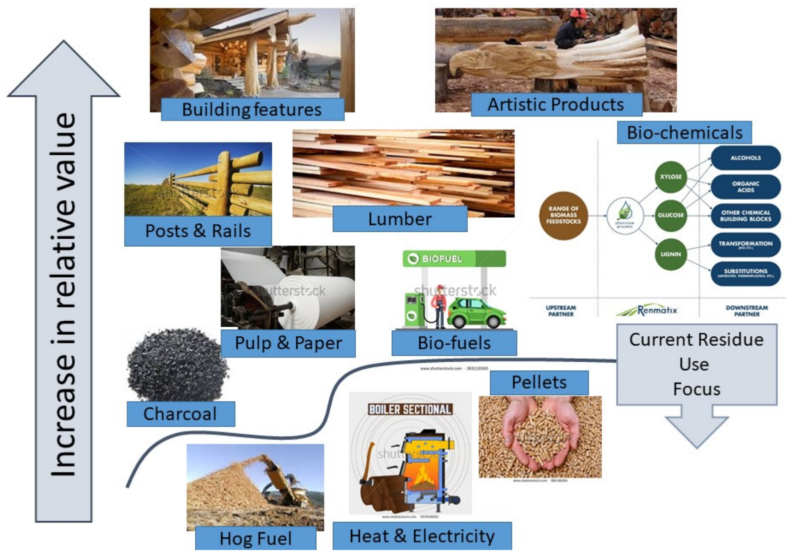
- The Licensee being required to either use this material or identify to the District Manager the fibre is available to other companies through fibre recovery tenures.
- If the Licensee does not identify its intent, the District Manager can make the fibre available to other interests through fibre recovery tenures.

LOGGING RESIDUE UTILIZATION OPPORTUNITIES

The lack of full residue utilization negatively impacts the opportunities to increase both jobs and community economic development, reduce greenhouse emissions and improve community air quality.

There are a number of currently operating commercial technologies and markets for wood residue products. The following are examples of available and realistic opportunities to utilize the logging residue and their relative value to one another.

POTENTIAL LOGGING RESIDUE PRODUCTS



As noted, the current focus is on utilizing logging residue for the lowest value products. It is not that this is bad, just that BC is losing value through this focus. Why is BC not producing more charcoal for soil amendments, chips for pulp and paper, bio-fuels, industrial sugars for a variety of products, post and rails, lumber, artistic logs and feature log products for houses? The failure to capitalize on these opportunities is a loss for communities and the Province.

OPPORTUNITIES CHALLENGES AND BENEFITS

Research and business learnings by a number of people knowledgeable about the issue identified four (4) priority challenges to the utilization of the logging residue:

1) **Providing a secure and dependable fibre supply** for secondary wood manufacturing businesses[1],
2) **Removing the barriers** preventing economic use of the available wood fibre,
3) **Creating an investment climate** that supports diversification and growth of the sector, and
4) **Providing investor awareness** of the business opportunities in the region.

There are significant benefits associated with overcoming these challenges, specifically:

- Increased stewardship of fibre from forest harvesting and management,
- Increased jobs through improved utilization of logging residue,
- Increased Government revenue - direct and indirect through growth of businesses,
- Increased community economic development and diversification, and
- Improved air quality impacts in regional air sheds.

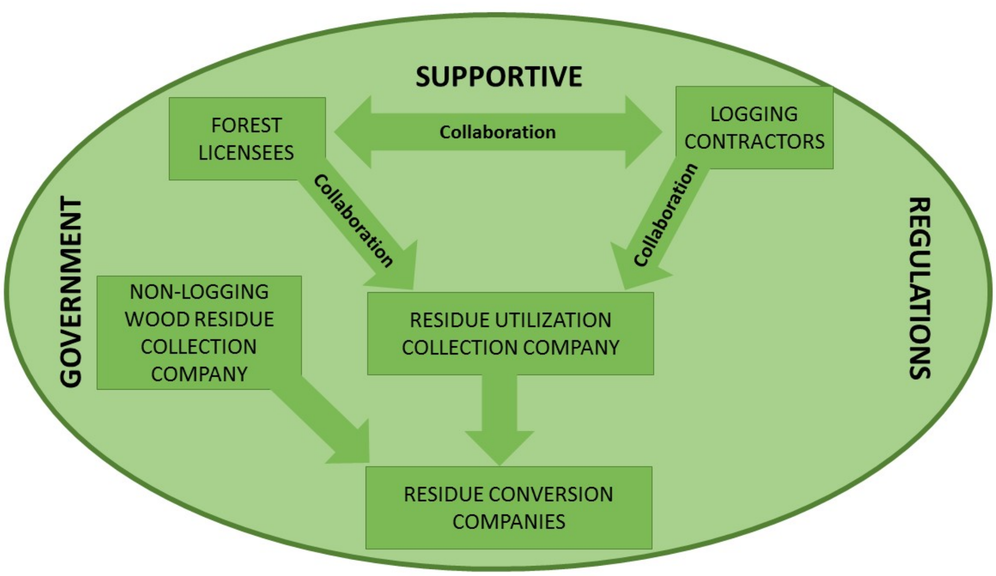
[1] Secondary wood manufacturing includes traditional businesses and emerging businesses

COLLABORATIVE RESIDUE UTILIZATION MODEL

Evaluating the research and discussions with knowledgeable people on the issue, collaboration and cooperation is clearly required if BC is to capitalize on the available opportunities. Utilization of the residue is a low margin business. This requires a strong and dependable supply/value chain. Consequently, all opportunities to reduce costs and increase efficiency will be necessary. The cluster concept lends itself to this type of situation. It is not a new approach as it exists in other sectors (e.g., automobile manufacturing, window and door production, etc.). Cluster models benefit all the parties.

Industry cluster definition - An industry cluster is a group of firms and institutions located in close proximity whose businesses are interlinked through value and supply chains, labor, and use of similar inputs, technology, and complementary products. Reference: *The status of and opportunities for business clustering within the forest products sector in the US,* US Endowment for Forestry and Communities, 2009, 27p.

Analyzing the situation regarding logging residue utilization suggests a cluster model consisting of bio-refinery/bio-energy and secondary wood manufacturing products should be the focus. The full utilization of logging residue can only be accomplished through collaboration and cooperation between the key "partners" in achieving the goal. Without this, the status quo will remain with its deficiencies. The proposed approach will require Government leadership in providing an effective and supportive legislation and policy framework. The concept outlined in the graphic below has been developed using the cluster model principles and the knowledge generated through the current studies conducted by the MFLNRO Forest Sciences.



RESIDUE UTILIZATION COLLABORATIVE CLUSTER MODEL

POLITICAL COMMITMENTS

If BC is to move forward in full utilization of logging residue, Government has to provide leadership which has been lacking to date, even with the production of plans, etc. This is most evident with the statement in the MFLNRO *Value Added Sector Action Plan:* "Any policy or program changes must avoid duplication or conflict with existing activities, and need to complement actions that support the primary sector." The message is: **"Yes, you can have changes as long as they do not upset the status quo."** With all due respect, this is not leadership!

The three (3) major BC political parties have recognized the need for more secondary wood manufacturing and made the following relative commitments:

BC Liberals

- As part of the Government *Forest Sector Competitiveness Agenda,* the *Value Added Sector Action Plan* references support for the Sector but with some caveats, specifically:
  - "Government can support the sector by maintaining a positive investment climate and supporting market development that can benefit all industry segments."
  - "Any policy or program changes must avoid duplication or conflict with existing activities, and need to complement actions that support the primary sector."
- It should be noted that the review of the value-added sector involved the two largest secondary wood manufacturing associations in B.C. along with Forestry Innovation Investment, FP Innovations, and key ministries with input from value-added companies and others with an interest in finding ways to improve the sector. However, it is unclear whether the request for comments was constrained by the two caveats. The assumption is they were.
- The MFLNRO *Fibre Action Working Group*, developed draft guidelines for Business to Business (B2B) procedures (preferred BC Liberal model vs a regulatory model) in utilizing roadside logging residue as part of the *Fibre Action Plan* with a focus on increased fibre utilization.

BC NDP – election platform and NDP-Greens *Confidence and Supply Agreement*

- Work with industry, local governments & First Nations to expand wood manufacturing capacity.
- Work with industry, local governments & First Nations to create new manufacturing jobs.
- Implement an increase of the carbon tax by $5 per tonne per year, beginning April 1, 2018 and expand the tax to fugitive emissions and to **slash-pile burning** (Part of *Confidence and Supply Agreement* between the Parties).

BC GREENS – election platform and NDP-Greens *Confidence and Supply Agreement*

- Promote value-added enterprises in the forest industry.
- Ensure resilient forests & sustainable forestry, maximizing the value from our forests & ensuring their sustainable long term management
- Implement an increase of the carbon tax by $5 per tonne per year, beginning April 1, 2018 and expand the tax to fugitive emissions and to **slash-pile burning** (Part of *Confidence and Supply Agreement* between the Parties).

BUSINES TO BUSINESS (B2B)

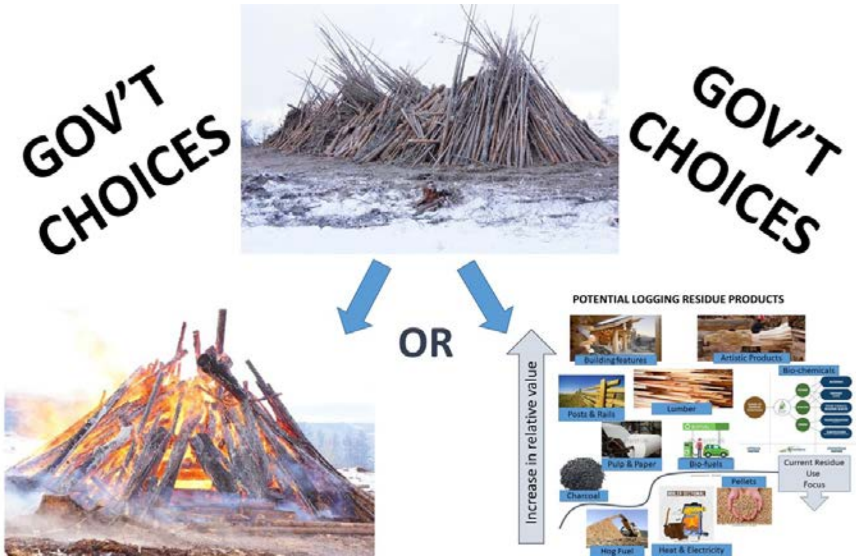
The review associated with development of the *Value Added Sector Action Plan* identified the Sector consists of a the wide range of companies interpreted to suggest a province wide strategy would be a challenge, thereby, resulting in the adoption of the B2B model. The B2B model and the policy caveats included in the *Value Added Sector Action Plan* are critical guidelines in the growth of secondary wood manufacturing in BC and the utilization of the logging residue fibre. As noted before, full utilization of logging residue requires Government leadership in providing the supportive legislation and policy framework. Government has been committed to the B2B model and the objective of not adversely affecting the primary wood products sector. The question arises as to whether this approach will achieve the objective.

OPINION

It is unlikely the B2B model and associated operational guidelines will overcome the priority challenges and realize the potential benefits. The rationale for this comment is:

- The common argument restricting utilization of logging residue is “nobody wants the fibre” but this is based on restrictions, mainly controlled by the Licensees, preventing investors from obtaining a long-term secure fibre supply;
- Licensees are in control and not interested in adjusting to help non-core business interests (i.e., residue utilization);
- The current practices are consistent with Licensee corporate objectives and legal requirements, so why change;
- Government to date continued to take the position that “any policy or program changes must avoid duplication or conflict with existing activities, and need to complement actions that support the primary sector” reinforcing the control of the Licensees;
- Government to date has not appeared to be interested in taking a strong leadership role with a “real” commitment to residue utilization and increasing secondary wood manufacturing; and
- Government to date has not demonstrated a willingness to address the priority challenges that will generate an economic climate for investment in the emerging secondary wood manufacturing businesses.

GOVERNMENT HAS CHOICES



Adjustments by Government to remove the barriers to full fibre utilization has the potential to achieve the associated benefits and increase community economic development and diversification. The leadership challenge is before the 2017 BC Government. We don't need more plans and strategies. We need "real" leadership actions based on what we know today.