

RESOURCE RENTS IN BRITISH COLUMBIA

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I intend this morning to talk mainly about our forestry industry which is our primary industry in British Columbia. A lot of you may be more interested in urban questions or other rent collection questions; we might cover that in the question time we have.

But because forestry is our primary industry and because we generally don't tend to think of it in the Georgist sense, I think it's worthwhile to deal with it in detail.

First, a bit of an overview in terms of the nature of the beast in Canada, this little rabbit next to the giant American elephant. For B.C. an interesting model is Finland, in a similar situation, but with a less friendly neighbour, which has its advantages and disadvantages.

In Canada we are by and large controlled by externally owned firms. In terms of our economy, 63% of our mining is foreign owned, 48% of our manufacturing is foreign owned. And here in B.C. much of the rest is owned by eastern Canadian interests, primarily Ontario.

So we very much are a kind of third world semi-developed country here in British Columbia. The rents in this province are generally not collected throughout the resource spectrum. Most of you would be familiar with that. They

are leaked out to external shareholders in the United States and abroad and in Eastern Canada. So the surpluses are not ploughed back into our provincial economy.

We are indeed a wealthy part of the world. Only 2½ million people in a great chunk of the planet with great resources. It is of course the leaking of the rent to external owners that reduces our regional income tremendously, reduces regional development tremendously, and limits new processing and manufacturing and value-added industries in the province.

Inadequate Forest Revenue

Tom Gunton, a professor at Simon Fraser University has carried out some excellent studies in this area and in the resource field. He points out that U.S. corporations withdrew 9.6 billion more than they invested in Canada between 1950 and 1976. Yet their equity in ownership of industries in Canada increased from 3.4 billion in 1950 to 33.9 billion in 1976, a tenfold increase in that time period. Had that been debt capital invested in Canada and not equity investments in Canada the 9

billion plus that we paid out would have wiped out the debt, and we would have been the complete equity owners of our industries in this nation in that time period. That's the nature of an underdeveloped economy, a branch plant economy adjacent to the American elephant.

Our provincial budget just came out a month or so ago. Total revenue projected in the document for the coming fiscal year from our forests (which are one of the great forests of the world) is 140 million dollars. But what are we going to spend in terms of managing the forests, administering and that sort of thing? Total expenditures will be 344 million dollars to administer our forests in British Columbia. And we don't administer them well. We don't come anywhere near the Americans or Scandinavians in managing our forests, in silviculture, in reforestation and the like. In fact, many American and Canadian academics are convinced that we mine our forests in British Columbia, that it is not, in fact, a renewable resource as it should be if we managed it properly.

So what's different? It costs us 344 million to administer the forests; anticipated revenue is 140 million. We sell 75 million cubic metres of goods annually from our forest industry for minus 204 million dollars. This is a right wing business method administration we have in British Columbia. If you can fit those together you're doing better than I can! We sell all the trees from here to the tundra, from the 49th parallel to the Yukon frontier for minus 200 million dollars a year.

We have some loggers from the B.C. interior here in the audience today. No logger, no individual in the province, if he owned the public lands, would abuse them in the way they are abused and end up with the minus dollars that we have in British Columbia.

How does forestry compare with other revenues? Well, liquor. We're in the liquor business. It's a state monopoly in British Columbia. \$420 million net revenue from liquor, but our basic industry is minus 200 million. Lotteries? Plus 110 million dollars. Permits and licenses? 191 million dollars. Our revenues are 721 million dollars in those questionable areas of income to the province—liquor, lotteries, permits and licenses. It gives you an idea of how we twisted the poor economy of this beautiful province.

Various academics have looked at these problems internally in the province. Richard Schwindt, Professor of Public Administration at Simon Fraser, says the likely shortfall is at least half a bil-

lion dollars in uncollected rents in our forest industry, and I suspect that's understated because I don't think he looked at all the pieces.

The Tenure System

The nature of our tenure system with respect to our forests is the beginning and as Georgists I'm sure you would appreciate that. 94% of British Columbia is public domain, ninety-four percent! Only 6% of British Columbia is fee simple land.

We have a very constricted geography. Natural river systems, steep mountains, countless mountain ranges, a tremendous cordillera we have to deal with. It ends up creating a very constricted potential settlement pattern, a very constricted communication system, highway system, rail system and the like. And that, of course, confers, as you would all appreciate, monopolies of rental values at critical locations relative to that geography.

Historically our trees were allocated on a bid basis for timber only, and so for most of our history in this province it was an open bidding system for public timber, similar in many ways to the American system. That changed dramatically in the 1950s when cutting rights were allocated to those who were already in the business, and bidding was effectively ended, and no newcomers were allowed into the system. So that is the nature of our basic industry now in British Columbia and that has been the case for about 30 years. We are beginning to wrestle with the tremendous price that it is costing us, allocating that privilege 25-30 years ago.

Constriction of Settlement

The tree farm licenses are currently area-based with respect to timber rights on the public land. These are huge, no-bid geographic enclaves controlled by one company. Over the years, with the interlinking of government and the companies, the Crown, the public, has lost out dramatically as the numbers I mentioned earlier suggest. But we have lost out in almost every conceivable way. In revenues, indeed, but well beyond that. As I suggested, we have been locked into a settlement pattern almost a hundred years old by nature of our geography and by nature of our licensing system. As a result settlement and urban

development have been constricted. You can visit a region like Vancouver Island in the province, see the diverse south part of Vancouver Island where Victoria, Nanaimo and the main communities are. If you visit the rest of the island you will find virtually no settlement. It was controlled by early railway land grants like the CPR (Canadian Pacific Railway), or huge tree farm licenses of the major forest companies. Up until a decade ago, when we became government, you had to pay a toll to enter those public land regions of the province. People who lived in those areas had to pay a toll on bread and groceries and everything that went in and out of those regions despite the fact that they were public domain. That at least has changed.

So we pay a price now in terms of this great allocation of privilege that has occurred. We pay a price in lost entrepreneurship. Probably our greatest problem in the province economically is the loss of two generations of genuine entrepreneurs in the forest industry. They are all now essentially bureaucrats along with the government. People in the companies are essentially paper shufflers, and controllers of privilege who milk the Crown in every possible conceivable way, using every angle and every subterfuge imaginable, and I intend to document that now and in subsequent speeches in the legislature.

Efficiency of Mills

It's ended up in lack of efficiency in mills. This land of ours with its great forest resources as significant as the American northwest, and larger, has the most costly production in pulp and paper in the world, as a result of the inefficiency and control patterns that we're harnessed with. Our pulp and paper costs are running 175 dollars a unit higher than the North Scandinavian countries right now. That's working with a price level of \$550 for example in newsprint. Incredible differences in terms of efficiency. We're working with 1960 technology throughout this industry right now. We're now a generation and a half, two generations behind the Scandinavians, our main competitors. Our labour cost, because of the nature of the technology we use which is antiquated, is four times that of the North Scandinavian countries. Right now, four times. Our energy costs in production are four times that of the North Scandinavian countries. All of this is documented in a secret report by Price Waterhouse of just a few months ago that I will be releasing to the Legislature.

In terms of turning our valuable wood into valuable products, and creating wealth for the province, compare us with Scandinavia. They are about four times up in terms of wealth generation out of a piece of wood. So the North Scandinavian countries get four times more than we do in British Columbia, with our constricted ownership system—the system of absentee control, lack of new players, lack of innovation, lack of new blood, greater and greater monopoly control, and less and less efficient over time. And the Georgists can see this world very clearly indeed.

Academic Studies

The first academic study looking at how we price our timber was actually done only recently, in 1980, by Professor David Haley, who is on the University of British Columbia Forestry Faculty. He looked at the difference between stumpage in the U.S. Northwest and British Columbia, and he found huge differences between the two. The Americans still essentially have a 'bid' system, although their industries are looking enviously at ours saying 'Well, that's exactly what we should have.' (We have civil servants trying to simulate the market. I'm sure many of you appreciate how well civil servants might do trying to simulate all the markets of the province.) Haley's data, which were damning, needed some further work in terms of costs that might have been deducted, but he received a firestorm of criticism from our industry, needless to say. American academics however had paralleled his work at an earlier stage. Walter Meade's studies twenty to twenty-five years ago of the U.S. Northwest clearly showed what bidding does in terms of pricing public timber. They clearly showed that when there was open bidding and many bidders the rent paid increased dramatically for public timber. We now have countless examples on file here in British Columbia that indicate the weaknesses of our system, and these various reports are sitting like smoking guns on Ministers' desks pointed at our own provincial economy...

What Margolick and Ewart (1986) didn't really focus on was the incredible difference between the real market and our local market. Just to give you a rough picture of the pattern of differences, a chart in their report completed in the last month indicates that Douglas Fir, high quality, is 17% higher, real market versus local market. Balsam Fir, high quality, and I'm only going to use the high quality sections of the species,

96% higher than local markets. Cedar, 88% higher than local markets. Hemlock, 58% higher than local markets. Spruce, 29% higher than local markets. And some types of pine, 418% higher than local markets. So it gives you an indication of the tremendous uncollected rent in this basic industry of ours.

Uncollected Rent

But there are other points indicating uncollected rent in this one industry of ours where these fat, slothful businessmen carry on as they do. One is in the simple measurement of the volume of wood, what we call 'scaling', where we weigh and measure the trees that are cut off the public land.

On the coast off Vancouver Island is a location called Shoal Island where one of the largest companies, B.C. Forest Products, was measuring public timber coming through their gates for 6 years. For 6 years the Crown, that is, the government, never checked the measuring or weight. For 6 years! The only time a Ministry of Forests employee was on the site (and this isn't public information yet, it's from an Examination for Discovery, a court case that will be coming up in 2 months that I am anxious to see made public), the only time a Ministry of Forests person was on that site was at a cocktail party opening the facility. Our Ombudsman, who has since been fired by the government, looked at the matter and he said for the short time period he looked at it, with respect to one company, a private company that was selling logs to the big company, that he guessed that there had been ten million in cheating in the time period he looked at. There were six similar facilities on this coast owned by the same company and the Ombudsman thought it was reasonable to assume the same level of cheating existed. So there was something like 60 million in cheating on just a limited volume in that 6-year time span. He only looked at part of one year in terms of faulty measurement. So another major leakage of rent exists besides the fact that we don't have market rent in this industry...

Yet another case of uncollected rent in our forest industry is with respect to wood chips, the residual from sawmills that go to the pulp mills and newsprint.

Around the world the pattern has been for wood chips to become the main feed for pulp and paper industries, the waste from sawmills being effectively used by this other sector of the industry, pulp

and paper. And around the world where they have market systems working there has been a consistent pattern of the roundwood (i.e. the cost of logging the log and bringing the log into the pulpmill) being equal to the cost of chips from a sawmill. And in a normal market situation you get that kind of equilibrium.

In British Columbia, because of our constricted geography and the oligopolistic pattern that exists, the pulp mills can control the price. And they do. As a result, the pulp mills consistently pay half of the cost of roundwood production. So unlike pulp mills in the rest of the world, our pulp mills get their fibre at half cost, *half cost*, and our sawmills and the Crown are the losers in the exercise. Half price! Now despite this, they are still the most inefficient producers in the world. They are the most costly producers in the world — more costly than Eastern Canada, more costly than the United States, more costly than Norway, more costly than Sweden, more costly than Finland. And those are all our competitors. That too is rent leakage.

Louisiana Pacific

Now because we're worried, because we've got problems of unemployment, the present administration is saying 'What can we do?' Their answer, of course, is to throw more money at the inefficient producer. Or gifts? Or maybe bring in more American enterprisers and give them money to come? And that, we are currently doing.

We have invited Louisiana Pacific in, which didn't operate in this province up till now. We have offered them money for the building of a waferboard plant in the northeastern part of the province. It will use aspen. Aspen is now one of the most valuable species for waferboard. But our administration doesn't yet realise that. With the result they have made a 25 million dollar loan to Louisiana Pacific at zero percent interest for three years, and then half of the prime for three years thereafter.

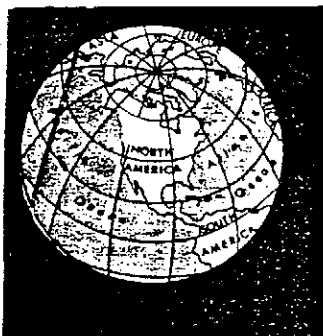
I didn't bring the letter that lists everything that Louisiana Pacific requested, but my memory will serve reasonably well. They asked for the land for the manufacturing site free. They asked for railway spurs to the site free. They wanted special freight rates on our publicly-owned railways to ship to the Los Angeles market and not to exceed \$30 a unit all the way to L.A. They wanted labour rates not to exceed \$8.50 U.S.,

and on and on. They wanted electric rates at 50% of industrial market rates in the province. This is a plant that will employ 125 people. That's where this whole exercise of giving away rent has got us in British Columbia.

I'm sure the American citizens in the audience will be pleased to hear that this has not gone unnoticed by your Administration because we have been competing in the U.S. domestic market.

American Reaction

I should say we do have efficient saw-mills in the Interior of the province, in the north-central interior especially. Given my background I would say the reason they are more efficient is because their tenure is less secure, and there is what they call a 'third-man' system, a benefit system based on efficiency, in the Interior. That has resulted in more efficient production of low value products, of two-by-fours, and the like. At any rate, they are efficient at turning out those low-value products in the centre of the province.



Between all the concessions we give, and some efficiencies in the interior, we have moved from 18% of the domestic lumber market in the United States to 30%. And as a result many industries have crashed, especially in Oregon and the Northwest because of these plain unfair elements of our system in Canada. British Columbia is not the exception in Canada, it is part of the pattern. Because we in B.C. have half of Canada's forests we're a model (quote, unquote) for the rest of the country.

At first, the U.S. producers thought we might just be more efficient, and they might live with that. But as they analysed the problem, more and more they came to the conclusion that it was the tenure system, the stumpage system, and the rest, and the leakage of rent that was the root of their problem because they still got timber on a bid basis from their public forests.

Canadian Administrations historically have not been interested, as I have indicated, in getting a proper price for timber compared to the Americans. What happened in 1982 is that the U.S. industry formed a coalition, called the 'Fair Lumber Coalition' or something similar, and they pursued a countervailing tariff under the trade laws in the United States. Our monopoly forest companies hired a hotshot lawyer in Washington, DC, paid him four million dollars, and defeated the countervail proposal. Now, however, the pressure is on. It's on very heavily. The countervail is being applied for again, and the industry in the U.S. expects that they will do very well. They think they learned a great deal last time. I don't know if they've hired our lawyer. At any rate, they understand our system all too well. They understand it far better than we do.

They have all of these Canadian studies that I've mentioned, and more. They are smoking guns pointed at us, and written by us. They think they are going to win, and if they win,—establish a tariff, a countervailing duty—for British Columbia it will be the worst impact on us that we have had since the great depression of the 1930s.

What they are arguing for is a 27% tariff on these products going into the United States. The only analysis I've seen done by academics here in Canada is that of Professor Michael Percy at the University of Alberta, who constructs a model using a 15% duty. With a 15% duty he thought there would be a massive contraction of the British Columbia economy and a 10% drop in the labour force in the province. We have 1.3 million employed in the province right now. That would mean 130,000 added to the rolls of the unemployed which is already above 190,000 level. In a province of two and a half million it would mean 320,000 of the work force unemployed along with the 220,000 we have on welfare. That's what it will mean.

Conclusion

So it's the classic Georgist story. The non-collecting of rent is a massive subsidy from the provincial government and has led to quasi-monopoly control of our major industry. That has resulted in inefficiency and the lack of wealth creation, plus unfair competition with our major trading partner. And we now face the prospect of tariffs from the U.S. In effect the Americans collect rent that we foolishly didn't collect in British Columbia, and the rest of

Canada, and we will pay a penalty on top
of this as well. Our subsequent

decline could make poor old Henry whirl
around in his grave.
