



A path for a sustainable economic forest in New Brunswick

Report by the New Brunswick
Crown Land Task Force

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Introduction

In April 2011, the Honorable Bruce Northrup, Minister of the Department of Natural Resources (DNR), struck the New Brunswick Crown Land Task Force with a mandate to develop an actionable report that, building upon the considerable consultative work previously undertaken in this area, would make recommendations on the establishment of a timber objective for New Brunswick Crown lands. (See Appendix 1.)

Members of the task force were Norm Betts (Chair), Andrea Feunekes and Roger Clinch.

While the mandate is specific to the establishment of a timber objective, the task force concluded that any recommendation in the report must be fiscally mindful and that any recommendation made in isolation from the context of the broader economic goal would be remiss.

Comments on the governance and cost structure of Crown forest land management, and maximizing provincial economic benefits by strategically allocating Crown wood to primary and secondary manufacturers are included in this report.

The report's recommendations are focused on three areas: achieving a specific, measurable economic goal; the 2012-2017 NB Crown Forest Land Management Plan process; and, most importantly, the structure that will set the stage for a prosperous and sustainable Crown forest and forest land management for generations to come.

Constituency consultation

Meetings were held with a number of representatives of various constituencies interested in the province's forests. (See Appendix 2.) In order to bring focus to deliberations and to constituent presentations, three questions, directly related to the mandate, were addressed:

1. What is a timber objective?
2. Why do we need a timber objective?
3. How would a timber objective be implemented?

As expected, comments were generally split between those favoring conservation versus those favoring industry and increased wood supply.

Some groups preferred the status quo and did not see the need for a timber objective at all. The task force was intrigued to learn that, in the status quo approach to Crown forest planning, non-timber objectives are specified and the timber objective falls out of planning as the residual product, a point the task force believes few New Brunswickers realize.

The task force disagrees with the status quo approach and believes that a timber objective must be embedded in forest planning models to directly test the economic versus the environmental tradeoffs. It also recognizes and respects those who have an opposing viewpoint and it was careful to ensure that the findings represent a reasonable balance between the economy and the environment.

First Nations representatives were also consulted. Although First Nations' treaty rights fall outside the mandate of this task force, it is important that, in the implementation of any recommendations from this report or others, the constitutionally required duty to consult with First Nations is respected.

Achieving a specific, measurable economic goal

The Economic Value of the Forest Industry

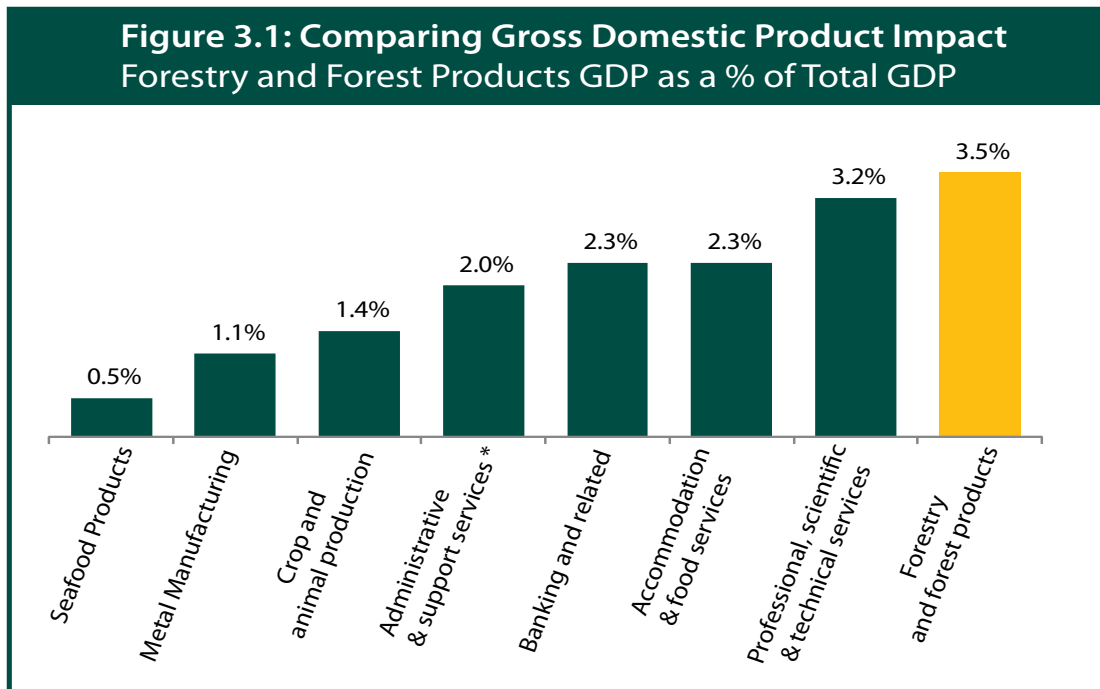
The task force disagrees with the minority who feel that the forest industry locally is a “sunset industry;” it believes strongly that the forest industry is very important to the New Brunswick economy today and in the future.

With the urbanization and globalization of New Brunswick and the increased centralization of decision-making to urban centers, it is paramount that policies and structures be put in place to ensure a vibrant and growing forest sector for the future.

The following section is drawn directly from a submission by the New Brunswick Forest Products Association (NBFPA). This submission is an illustration of the importance of the forest industry to the province, and specifically to rural New Brunswick.

“Economic Value of the Industry

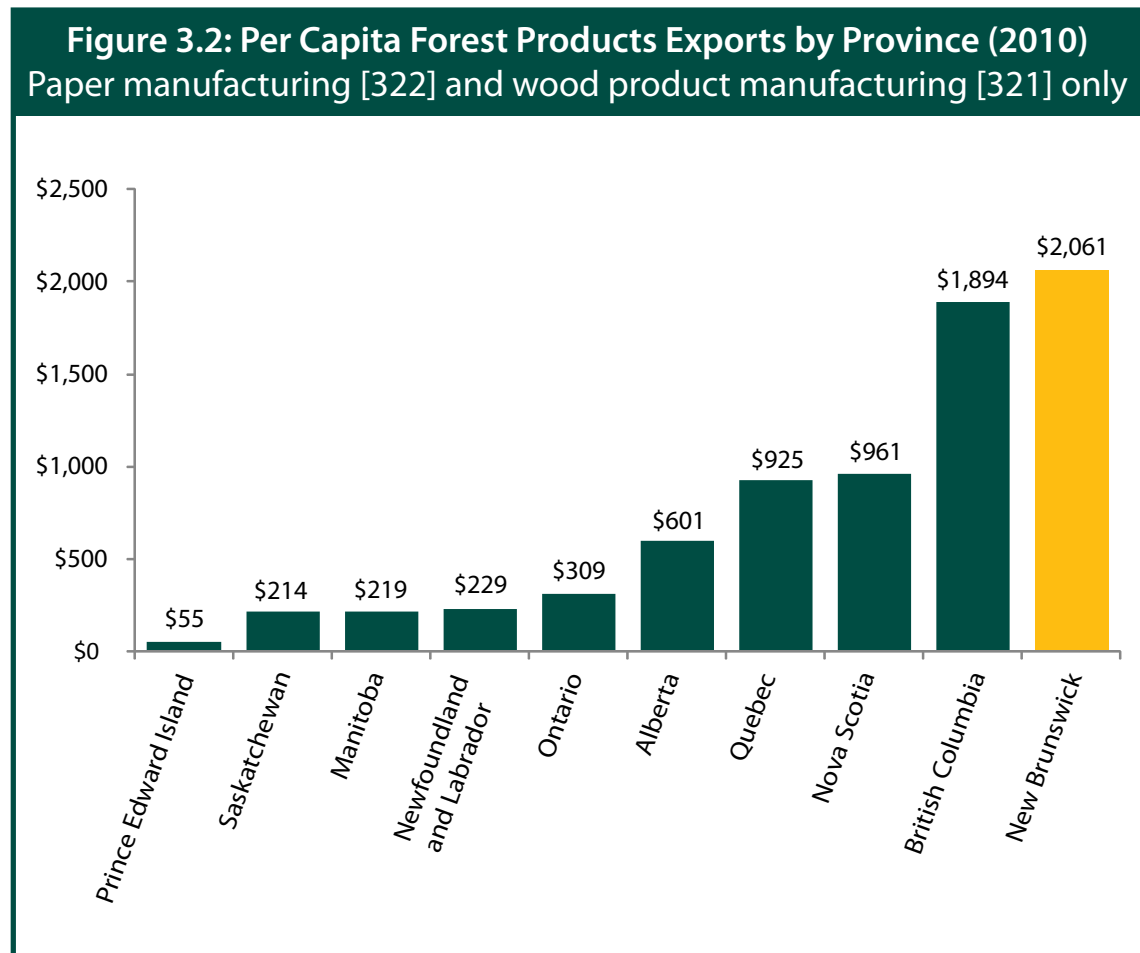
Forestry has been the cornerstone of the New Brunswick economy for decades. More than 20,000 families are supported by the forest sector. With more than 16,500 people directly working in forestry related jobs, our people produce 30% of total manufacturing output of the province and as such make the forest sector the largest in the New Brunswick. The forest sector pays more than \$1 billion in annual salaries to the men and women who are the backbone of the industry and the heart of our communities. Forestry jobs are high paying and are the pillar of our rural economy and of particular importance to the Northern economy. Every town and city in New Brunswick is affected by the forest sector.



*Includes most of New Brunswick’s call centre industry.

Source: Statistics Canada. Table 379-0025 - Gross domestic product (GDP) at basic prices. Expressed in chained (2002) dollars. Forest products includes: forestry & logging, wood and paper products’ manufacturing only. Paper products’ manufacturing figures for New Brunswick are estimated based on previous year trends. In addition, New Brunswick is the most forestry dependent province in Canada, surpassing British Columbia and Quebec. New Brunswick has the highest per capita forest products’ exports of paper manufacturing and wood products’ manufacturing (Figure 3.2).

At 3.5 per cent, the gross domestic product (GDP) of the forestry & logging, wood and paper products' manufacturing sectors is much larger than the entire banking sector in the province and well above the GDP of the province's call centre industry which is employment intensive but has limited broader impacts on the economy (Figure 3.1). Wood and paper products' manufacturing accounts for over 30% of the total manufacturing output of the province and forestry is the largest exporting sector in the province. (Not including oil and refineries)



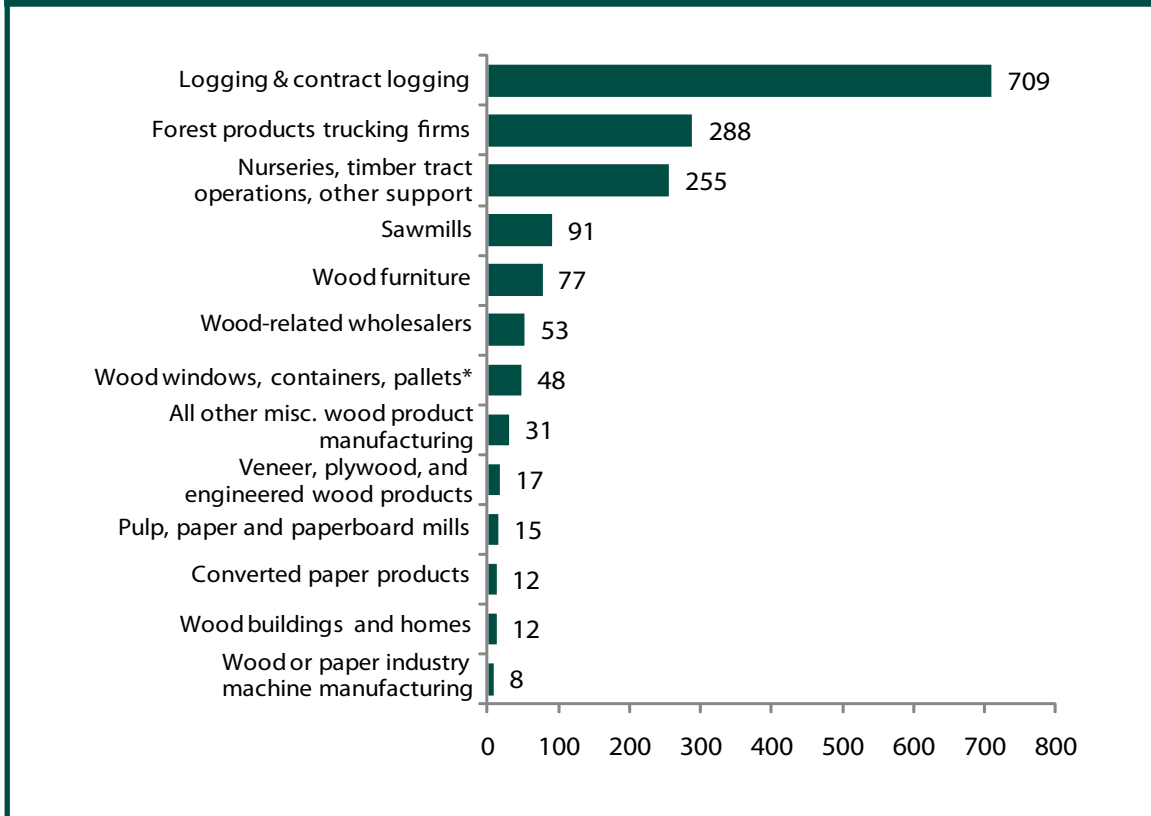
Source: Statistics Canada.

Industry Scope

One of the most important attributes of the forestry and forest products industry is its broad impacts across a wide range of sectors. As Figure 3.3 shows below, there are over 1,600 firms directly involved in the industry from nurseries and timber tract operations through to pulp and paper mills and wood furniture manufacturing. There are over 700 firms across the province providing logging and contract logging services. Nearly 300 firms provide dedicated forest products trucking services. There are over 90 firms in the sawmills' sector and another 77 involved in the manufacture of furniture from New Brunswick wood. Twelve firms are using wood to manufacture buildings and modular homes and eight firms actually manufacture equipment used in the forestry and forest products sector.

This does not include the hundreds of firms that provide products and services to the industry (but are not classified as firms directly in the sector) such as research, engineering, environmental services, construction, etc.).

Figure 3.3: Forestry-based Firms by Sub-Sector (2010)



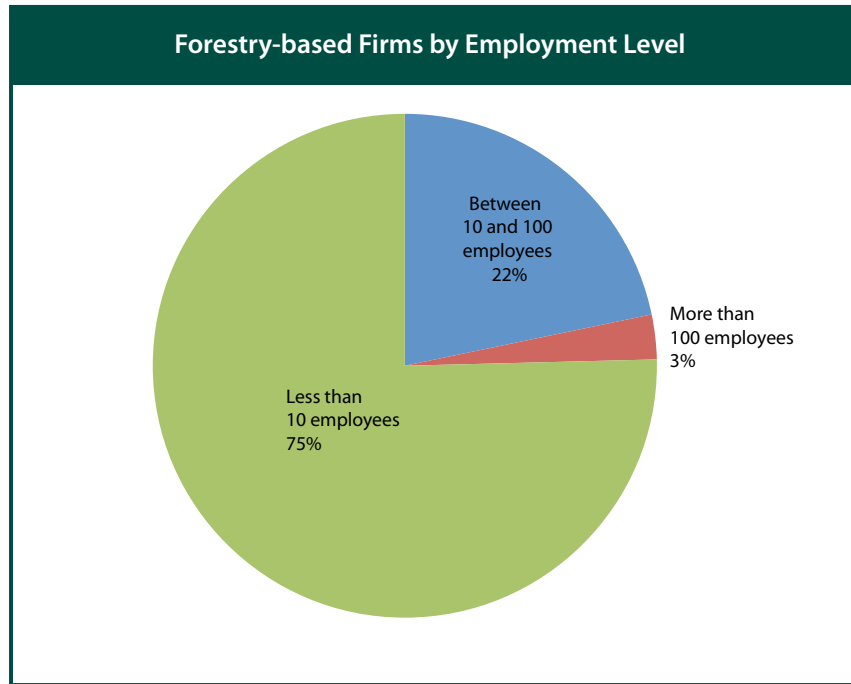
*Includes firms involved in other types of millwork as well.
 Source: Statistics Canada – Canadian Business Patterns (June 2010)

It is also important to point out the industry is made up of primarily small, New Brunswick-based businesses. While there are a few important, large anchor firms, the vast majority of players are relatively small. Over 75 per cent of firms in the forestry and forest products industry have less than 10 employees.

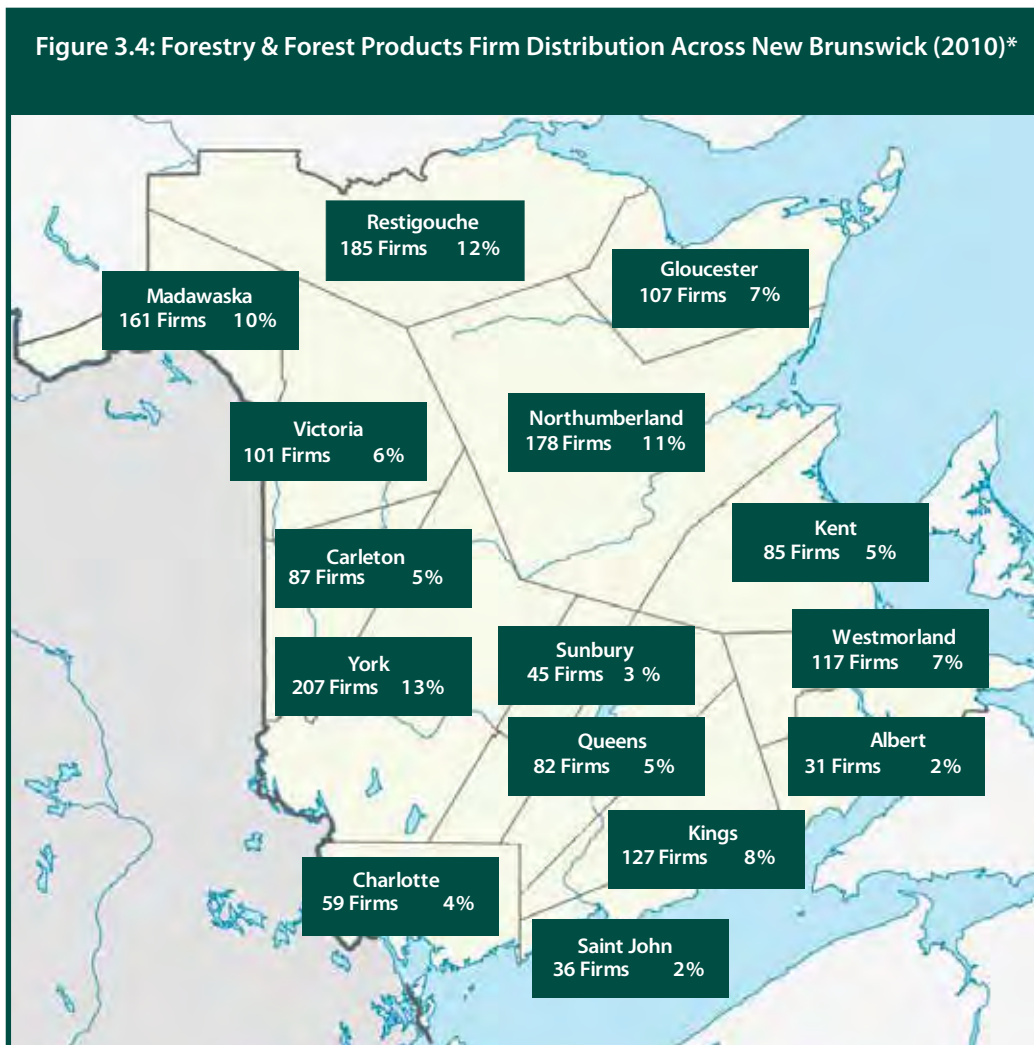
Regional Impacts within New Brunswick

One of the most important features of the forestry and forest products industry is its wide ranging impact across the province. Statistics Canada tracks the number of active firms by industry across the province and the regional distribution of forestry and forest products-related firms is found in Figure 3.4.

There are 178 active firms in the forestry and forest products industry in Northumberland County - a full 11 per cent of the provincial total. There are nearly 100 firms in that area providing logging services and another 30 firms providing trucking services. There are over 100 firms in the industry in Northeastern New Brunswick led by nearly 50 firms in the logging sector. Northwestern New Brunswick (Restigouche and Madawaska Counties) account for 22 per cent of all forestry and forest products firms across New Brunswick (346 total firms). There are over 730 firms active in the five counties of Northern New Brunswick. The vast majority of forestry and forest products' industry firms and employment is based in rural New Brunswick and the north.



Source : Statistics Canada - Canadian Business Patterns (June 2010).



* See Appendix A for a full list of firms by industry grouping.
 Source: Statistics Canada – Canadian Business Patterns (June 2010).

Broad Economic Impacts

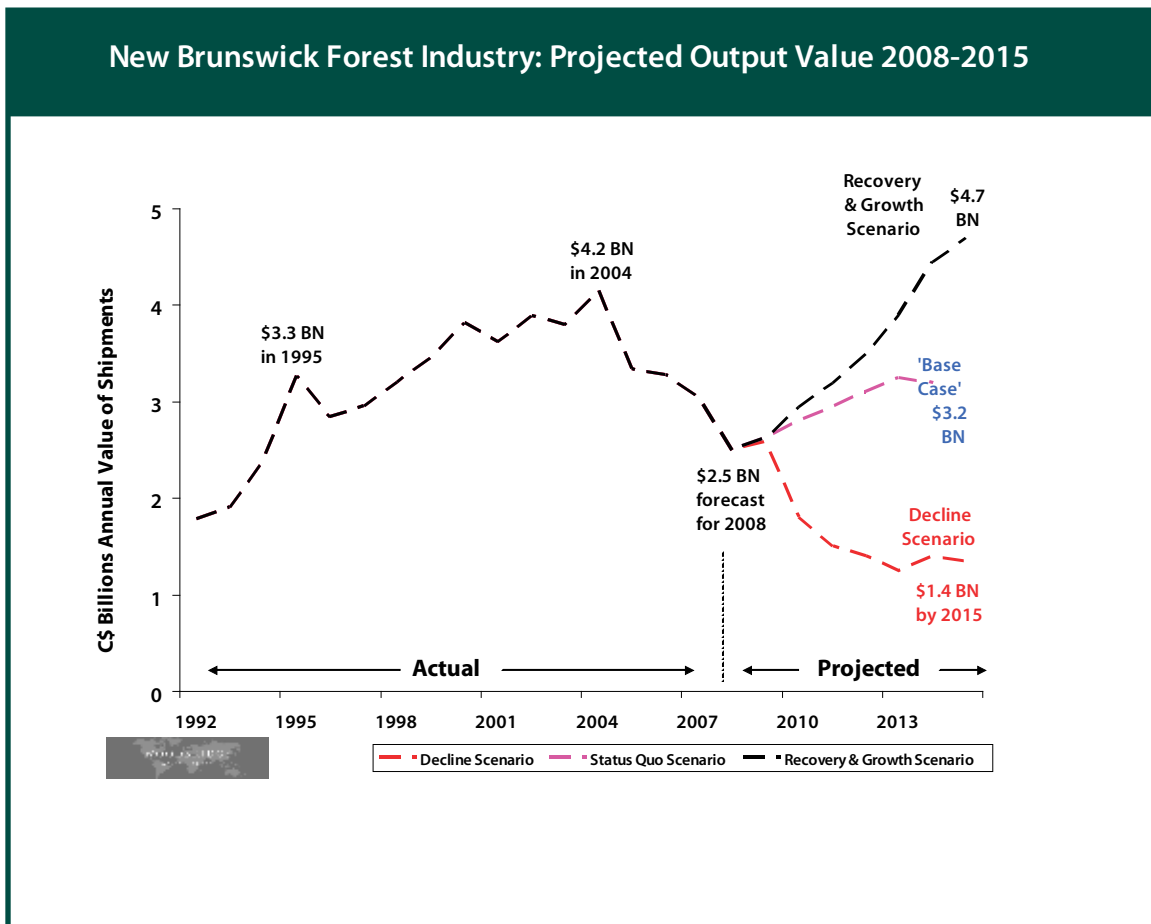
As the province's largest exporter of manufactured goods, forestry remains a significant contributor to the economy and the government. The sawmills and pulp mills paid \$35.1 million in Crown royalties to the province in 2010 and the forest manufacturing sector contributed an estimated \$250 million in direct taxes to government coffers.

According to Statistic Canada, each cubic metre of wood available for harvest on Crown land is worth \$49.56 to the government when tax revenues from employees in the sector are added. Based on the most recent Annual Allowable Cut (AAC) established in 2007, this represents seven times the Crown royalties for a total of \$249.8 million/year.

Statistic Canada also stipulates that for each cubic metre of wood harvested on Crown lands, \$41.54 can be attributed to the overall economic impact of that activity. This impact can be better quantified in terms of direct salaries, equipment and supplies."

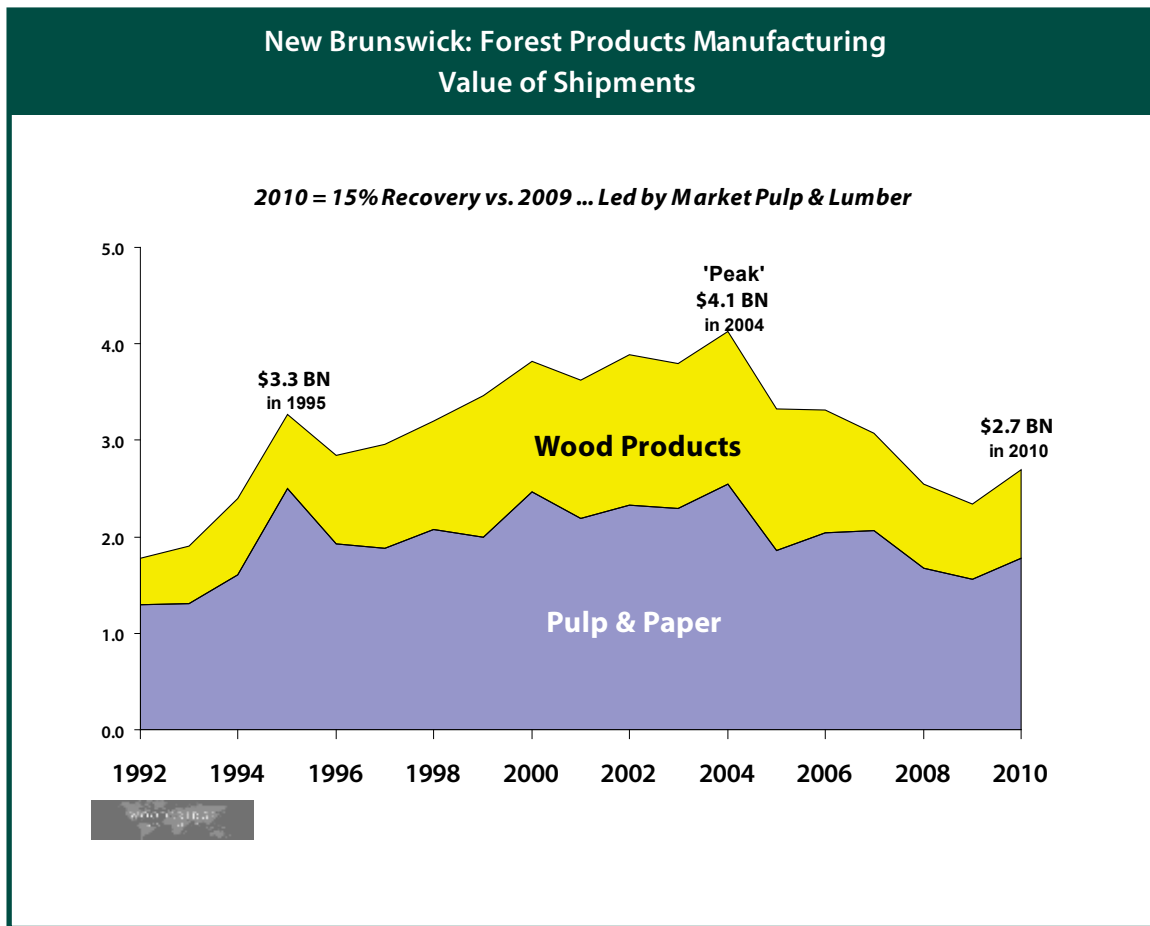
The Potential of the Forest Industry

While the previous section has illustrated the importance of the industry, the **potential** of the industry was clearly laid out by Don Roberts in his submission to the Forestry Summit¹, drawing on his substantive research conducted for the provincial government in 2008.



1 Don Roberts, Vice Chairman, CIBC World Markets Inc. New Brunswick Forestry Summit: Fundamentals for Future Competitiveness November 18, 2010

These shipment targets are certainly realistic and attainable. In fact, as also illustrated by Roberts, New Brunswick has achieved those shipment levels in the recent past.



Data sources: StatsCan; Strategis & Woodbridge Estimates

After due consideration, the task force concluded that, in the end, it is the value of shipments that demonstrate the contribution of the industry to our economy.

Private Woodlots

The supply of wood from private woodlots not only plays an important role in the provincial economy, it is a significant source of supply for the province's primary and secondary mills. Thus, private wood has an important role to play in maximizing the economic output of the provincial forest industry.

Given the current competitive environment for forest products and for the capital required to remain globally competitive, without a threshold level of relatively secure Crown wood, there will be no market for private wood in New Brunswick.

On a global scale, New Brunswick has a relatively small forest land base – about six million hectares, of which approximately 50% is Crown land, 30% is private woodlot and 20% is industrial freehold. The province's forests are mixed, which, by definition, have operating cost disadvantages relative to other countries. In the province, it is a given characteristic that the supply from private woodlots is less secure in the long term than Crown wood².

² In the electricity sector, base load plants are needed for secure supply and as back-up for wind generation when the wind does not blow.

Analogous, the forest sector needs Crown wood as a base load as the economic winds driving private wood production shift over time.

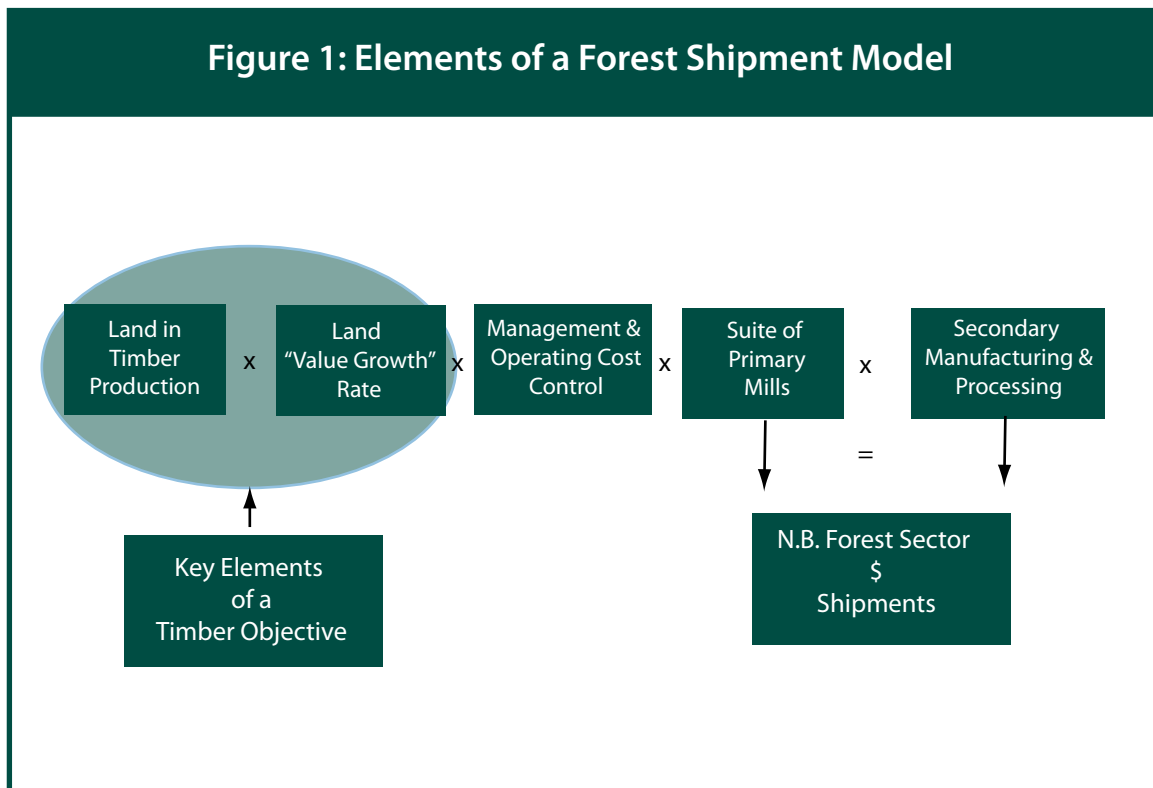
Without the security of supply that Crown wood provides, private industry will not attract the capital to invest and to maintain their production facilities, which in the end are the market for private wood.

The task force believes that Crown wood should return market values to the New Brunswick taxpayers and that policies should be put in place to ensure that Crown and private wood complement, not compete with, each other.

A Private Forestlands Task Force, chaired by Dr. Don Floyd, is in the process of developing a report with recommendations on how to maximize the value of private wood for all constituents. The report will be released subsequent to this report.

The Role of a Timber Objective in the Economic Goal of the Industry

In order to determine the role of a timber objective in facilitating the ultimate economic goal of the industry, it helps to embed the elements of a timber objective into an economic model, as illustrated in Figure 1 below.



A timber objective is the foundation of the forest shipment economic framework. "Land in Production" and "Land Value Growth Rate" are the two components that are used to form a timber objective. The industry submissions received by the task force emphasized these components, which were often expressed in terms of their effect on the annual allowable cut (AAC).

The timber objective in the broader context

Consideration of the timber objective in the broader economic forest shipment model is the necessary first step in understanding why a timber objective is necessary.

The next step is to recognize that New Brunswick companies in the forest industry are **global price takers** – the value they receive for their products is set in the context of global markets over which they have no control.

There will be no industry unless conditions are set where New Brunswick can “punch above its weight.” The province needs world-class mills that can match strength in fiercely competitive global markets.

This leads to two important interactive points:

1. Mills must have a threshold security level of wood supply in order to attract private investment necessary to become global producers.
2. In order to secure access to Crown wood, producers must show a firm commitment to invest.

This interactive relationship means that two-way accountability is necessary in a Crown forest management system to add the most value to the provincial economy. In order to access secure Crown wood at fair market prices, end users of the wood must commit to invest to reach and maintain global competitiveness. In return for a demonstrable commitment to global competitiveness, provincial government policies should be non-wavering in their commitment that a secure wood supply will be available to those who add the most economic value to the provincial economy.

This principle of two-way accountability is the foundation of the task force’s recommendations.

The Conservation Forest Debate

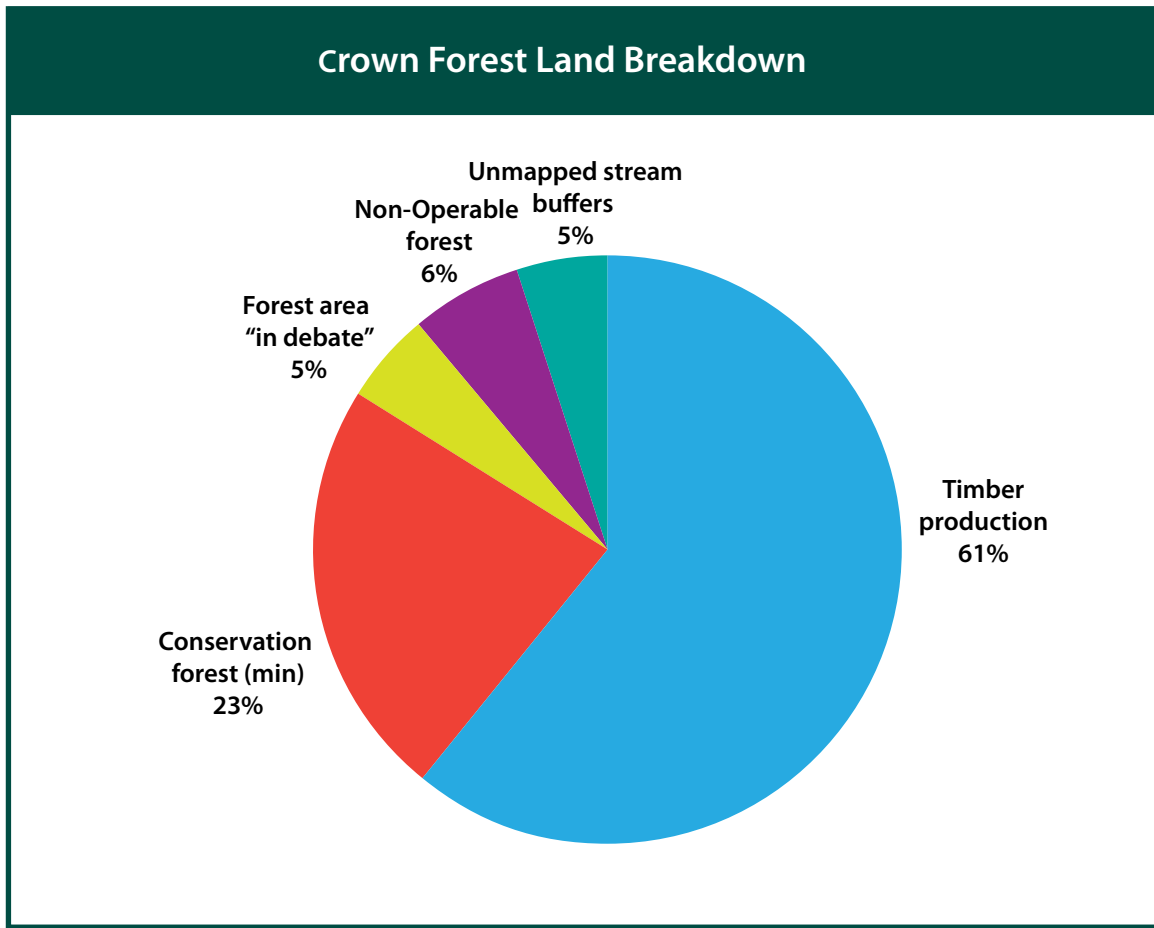
Although the task force was not drawn into the debate, its deliberations did coincide with an intense public debate surrounding the percentage of Conservation forest within the overall Crown forest.

Fortunately, the debate serves to highlight the time, effort and futility of a system that requires and facilitates constant re-working, creating considerable ongoing uncertainty.

Unfortunately, this intense debate, **concerning only five per cent of the Crown land-base**, consumes an inordinate amount of time, public attention and intellectual capacity of forest industry personnel, NGOs, DNR staff and government policy makers. It also focuses only on the land in timber production component of the forest shipment model, taking focus away from the other four components (value growth, cost management, primary manufacturing mix and secondary manufacturing mix) and putting the entire forest economic system at risk. It takes attention away from the big picture: a forest management system that needs significant structural overhaul.

A significant opportunity for New Brunswick to focus on improving the return of economic benefits derived from Crown lands will be lost if the setting of a timber objective serves only to heighten this debate. Rather than address or encourage, this will detract from consideration of and improvement in the other aspects of the forest economic system.

To illustrate, the following chart breaks out the approximately three million hectares of New Brunswick Crown land as reflected in the present status of the 2012-2017 forest management planning process. The graph reflects the parameters laid out in the January 2009 government response to the Erdle Task Force options, “*A Balanced Management Approach for New Brunswick’s Crown Forest.*”



Area in timber production (61%): that area of the forest that is managed primarily for timber production.

Conservation forest (23%):

- Watercourse and wetland buffer zones;
- Protected Natural Areas (PNAs);
- Old forest wildlife habitats, which includes deer wintering areas and;
- Old forest communities.

Non-operable forest (6%): that portion of the Crown land base that licensees have identified as unfeasible to include in management planning due to inoperability issues or uneconomic harvest costs. Any timber volume associated with that land-base is not planned for harvest.

Unmapped stream buffer (5%): consists of the area of forest land along unmapped watercourses identified on the ground when a block is laid out on the ground. The buffer land base associated with mapped streams is included in the Conservation forest land base. This land base has traditionally not been included in conservation forest area summaries.

Forest area "in debate" (5%): that area of the forest land base that might be managed primarily for timber production or might become part of the Conservation forest land base that is managed primarily for non-timber outcomes.

Effectively, any land added to the Conservation land base is at the expense of the timber production land base and vice-versa. Hence the polarizing debate. The lowest limit being considered for land identified as Conservation forest is 23%. This percentage was the lower limit associated with the government strategy published in January 2009.

With the Conservation forest limited to 23% of the forest land base, target levels for old forest communities and habitat levels are not achieved. To reach this percentage, a large percentage of the vacant deer yard land base (defined as demonstrating a minimum of 10 years or more of inactivity) returns to primarily timber production status. The government strategy target level for Protected Natural Areas (PNAs) of 8% of the total forest land base is met. Watercourse and wetland buffers meet, and in some cases exceed, regulatory levels.

At a 28% Conservation forest, all presently achievable old forest wildlife habitat and old forest community targets are met. The majority of vacant deer yards are maintained for potential future repopulation by deer. PNA and watercourse/wetland objectives continue to be met.

Industry and Public Perspectives

Continued investment is the lifeblood of any vibrant economy. At the November 2010 Forestry Summit, Don Roberts of CIBC World Markets Inc. outlined three requirements that public policy must provide in order to attract and retain private investment. The three criteria identified were:

Transparency: How easy is it to both navigate through the policy structure and execute?

Longevity: Does the policy match the investment horizon and create a stable environment?

Certainty: Does the policy deliver predictable revenues to support a reasonable rate of return?

Mr. Roberts outlined these prerequisites from the industry investors' viewpoint, however, the citizens of the province also have their own broad perspective regarding Crown forest land management policy. These views were made clear as the task force met with the various New Brunswick stakeholders:

Transparency: How easy is it to understand the decision-making process and have input in influencing forest policy?

Longevity: Does forest policy reflect a long-term sustainable view?

Certainty: Does the policy deliver predictable revenues to government and maintain the many recreational and spiritual aspects desired from Crown land?

The perspectives of forest sector investors and that of the general public may deviate in some aspects and require some compromise as it relates to forest policy, but in many instances their objectives are aligned.

Transparency in simple terms means an open and easy-to-understand decision-making process. Here, both industry and the public have similar values.

Longevity is an area in which industry and the general public may deviate in their perspectives, particularly in the duration of forest policy and in the key indicators of long-term sustainability.

Forest industry investors want long-term stability as it relates to policy as investment can take up to 25 years to see a return. On the other hand, the general public prefers to retain more policy flexibility in order to react to new situations or changes in public values as they arise.

Both the industry investors and the general public agree that long-term sustainability needs to be reflected in the setting of a timber objective. Where disagreement may occur is in the definition of what constitutes sustainability or in the operational measures used to deliver sustainable outcomes.

Certainty is an area in which the forest industry and the general public share similar values but with different deliverables.

The industry investors want stable policies so their input costs can be competitive and reasonably predictable over the investment horizon.

The public also wants to be certain that their direct individual, social and recreational benefits, resulting from Crown forest land management policy, are protected. From a broader societal perspective, the public wants to be certain Crown forest land policy resource allocation provides direct financial contributions to government to fund other government programs.

In making its recommendations, the task force will be cognizant of these three principles: transparency, longevity and certainty. Where possible, it will attempt to strike an acceptable balance between the perspectives of both the forest industry and the general public.

These strategic considerations illustrate the inadequacy of setting a specific timber objective without consideration of changes to the other related factors which influence the forest shipment model.

The task force, therefore, will identify an achievable forest shipment target and clearly outline the specific short-term and long-term conditions to achieve that target.

Recommendation:

The task force recommends that the Department of Natural Resources and the Government of New Brunswick establish the economic goal of achieving \$4 billion in forest products shipments as recommended by Roberts in his 2008 report and indicate a specific period over which that goal will be achieved.

More importantly, the task force recommends later in this report that the Government of New Brunswick immediately implement the structure, incentives and accountability measures to achieve that economic goal.

The task force believes that this ambitious economic target is achievable while meeting most environmental targets and concerns. Furthermore, external market forces will ensure that conservation targets will be met through strict commitment and adherence to an accepted and recognized external independent third-party environmental certification body. With that as a given, the task force will now make short-term and long-term recommendations to achieve that goal.

The 2012-2017 NB Crown forest land management planning process

As previously noted, this report is to be actionable and help set the stage for a prosperous forestry sector for decades to come.

Crown forests are experiencing a low point in inventory prior to the realization of benefit from more than 30 years of silviculture investment policy. This “crunch period” means that there are limited options to address habitat-related and other non-timber forest objectives if the province is also to continue to allocate wood to licensees at recent levels.

Coincidentally, the forest sector is undergoing unprecedented competitive challenges characterized by low productivity levels or lack of profitability. The task force is cognizant that the provincial forest sector must maintain a critical mass and that it has significant impact on the rural and northern communities of the province, in particular. At the same time, it is aware that there is a risk of over-harvesting in some old growth areas.

It is clear that the circumstances surrounding the 2012-17 Crown forest land management planning process will make it difficult to fully achieve Crown forest-related objectives. A degree of compromise will be required, at least over the next 10 to 15 years.

The task force believes that the setting of the percentage of Crown land to be set aside for Conservation forest falls clearly in the realm of public policy and should be left to the discretion of the Minister. However, the task force would be remiss if it did not offer some guidance to the Minister in the face of a difficult policy decision to help provide a clear focus on setting longer-term policy objectives and putting them into action.

The task force offers the following guidance and recommendations to the Minister of Natural Resources as it relates to the 2012-17 Crown forest land management planning process.

Protected Natural Areas (PNAs)

The desire to increase PNAs was clearly communicated to the task force by environmental groups. Interestingly, the willingness to accept, and, in fact, promote the increase in PNAs was also heard from the industry. The task force heard that, while that only four per cent of Crown land is “protected” within the current PNAs, a significant portion of standing trees are not available to harvest. The logical conclusion is that PNAs can be increased without adversely affecting the economic output of the forest.

The January 2009 provincial government response to the Erdle Task Force report identified a target PNA area of between six per cent and eight per cent of the forest land base. The process to identify future PNA candidate areas included the distribution of candidate areas based on provincial eco-districts and selection criteria based on a hierarchy. This includes:

- representation of enduring features,
- overlap with the Conservation forest,
- forest communities of interest,
- expert and licensee suggested sites,
- calcareous soils, and
- avoidance of mineral and potential petroleum resources.

A land base of approximately nine per cent of the provincial Crown forest was identified as candidate area. The general international target for PNAs is 12% of the forest land base. At the same time, the amount of harvesting planned for the non-PNA Conservation forest going forward is extremely limited.

Recommendation:

The task force recommends that, where practical, the area outside the PNA land base in the presently identified Conservation forest be considered for inclusion as PNAs. The preferred outcome would be to expand the PNA footprint to 12% of Crown land.

Inoperable Land Forest Base

Approximately 175,000 hectares of Crown forest land that do not overlap the Conservation areas are inoperable. These areas are remote and/or difficult to harvest, which makes harvesting currently uneconomical.

Forest management modeling projections estimate that this land base includes about 10 million cubic metres of untapped wood potential. DNR forest planners have cautioned that a wide variation above and below this volume may exist. Reducing candidate harvest areas to acceptable opening size and other restrictions further diminishes potentially extractable inventory. A broad estimate of standing inventory that could be harvested is three million cubic metres of softwood fibre and one million cubic metres of hardwood species. Essentially, this is wood that is available, but is not cost-effective to harvest.

The task force suggests that, over the next 10 to 15 years, the Department of Natural Resources set policies that make it feasible for the forest industry to access this merchantable volume in order to mitigate the impact of potential reductions in wood supply while waiting for previous silviculture investments to come to fruition. A target of 200,000 cubic metres per year of softwood and 75,000 cubic metres per year of hardwood is recommended. This volume would not be a guaranteed component of Crown allocations.

Just as the inoperable land base is not the preferred area for harvest, it may also not be the preferred area for inclusion in the Conservation forest to meet habitat targets, due to its marginal quality. However, it may contribute to that environmental goal.

The task force believes that the Department of Natural Resources should review the 2012 inoperable land base with the objective of finding one per cent that can be included as Conservation forest, recognizing that it may be of marginal quality. Targeted habitat types would be those that were not met in the identification of the Conservation forest land base.

Hardwood

There is a specific immediate problem in this area. The 2012 Crown forest land management planning projections indicate that a reduction in hardwood AAC is required so that allocation will reflect a sustainable harvest level. The reduction is projected to be in the range of 20% and, depending on the provincial hardwood demand picture, could have a significant impact on competitive wood costs for the major regional anchor mills that utilize hardwood. This is a substantial - and long-term - decrease and the Department of Natural Resources should review options to mitigate the impact on affected industries.

The task force received a well-informed and passionate presentation from the maple sugar industry. Although the severe reduction in hardwood allocations will make it difficult, the task force believes that this industry can contribute to the economic well-being of the province. The Department of Natural Resources should revisit its current moratorium and explore the granting of additional Crown licences, particularly in the "light touch" Conservation areas.

Policy Changes

Crown forest land management planning currently follows a five-year cycle where the roles, responsibilities and control relationships for developing and approving plans are both complex and time consuming on the part of both the licensees and the Department of Natural Resources.

Over the past number of cycles, new or modified objectives have been introduced to the planning process, many of which have a direct impact on wood supply, and require a new or modified planning process. While aimed at improving the overall approach to forest management in the province, these relatively frequent changes in policy have some drawbacks:

- They run counter to the longevity principles for attracting and retaining industry investment, outlined previously in this report.
- They open forest policy for broad review which rekindles the recurring divisive land use debate, distracting attention and resources from the larger issues in the New Brunswick forest sector which hold back shipment growth.

The task force believes that policy changes for the 2012-2017 planning period must be kept to an absolute minimum. Once the 2012-2017 plans are approved and if policy changes are deemed necessary for environmental or other reasons, the resulting impact on wood supply (positive or negative) be phased in over a longer time period -- up to 10 years from the time of the change in policy.

Recommendation:

The task force recommends that the Minister of Natural Resources accept that, in this period of low timber production, meeting 100% of economic and environmental objectives will not be achievable and that the Minister clearly establish the area of Crown forest land to be designated as Protected Natural Areas (no touch) and Conservation forest (some touch).

It follows from this recommendation that by defining the PNAs and the Conservation forest, the Minister of DNR is also explicitly defining the area of Crown land that the forest shipment model would refer to as "Land in Production."

The task force recommends that this area of Crown land be referred to, and promoted as, the "**working forest**," a term that in today's world is synonymous with maximizing economic value, while at the same time meeting strict adherence to third-party verified environmental stewardship standards.

Structure, incentives, independence and accountability

This section is the focus of this report and deals with the primary objective of the task force: to make recommendations that will help to set the stage for the long term by providing stability and predictability to the industry while meeting the stewardship and environmental objectives that all New Brunswickers expect.

The task force firmly believes that, without proper structures and incentives, timber objectives and the broader expansion of forest sector shipments will not be met.

It is difficult to support innovative forest management practices under the present government system, which is based on an annual budget cycle and the separation of revenue generation from annual expenditures. At present, accountability for Crown timber management is primarily associated with meeting, but not exceeding, approved program budgets.

There are inherent and significant inefficiencies in the system. The existing Crown land management system is directly responsible for land management activities on three million hectares of Crown land. This is a relatively small forest land management area, compared to other jurisdictions, yet the number of organizations performing forest management activities on this land is numerous. In addition to administration, planning, oversight and selected direct operational activities carried out by DNR on Crown land, five organizations perform forest management activities on six separately managed Crown licenses. This causes considerable duplication of infrastructure, planning and operational activity in Crown forest land management, the costs of which are ultimately borne by New Brunswick taxpayers.

Recommendation:

The task force recommends that the forest management functions of DNR be established as a separate Special Operating Agency (SOA). The organization would have both revenue line and expense line responsibility and be mandated as a profit centre responsible for maximizing the economic value derived from that portion of the forest designated as the working forest, which has fibre production as its primary objective.

Within the SOA, a position of "Chief Forester" should be established. That position would be accountable to maximize the economic benefits from Crown forest fibre production directly and to maximize the forest sector economic value in general. The "Chief Forester" will report on performance measures and meet third-party specified environmental stewardship certification.

Legislation or regulation should be developed to give independence, responsibility and accountability to the SOA and the "Chief Forester." The status of this position could emulate that of the Auditor General.

This recommendation is not taken lightly. Consultations with officials within and outside government convinced the task force that this model could be effective in having the Crown forest move toward becoming a profit centre, while reducing bureaucracy and red tape.

The primary advantage of the SOA is that it creates a small group of foresters within government whose specific written mandate is to look at that portion of Crown land designated as the working forest through a specific economic lens. Their goal is to maximize the economic value of the working forest.

This is not to say that the management of the working forest should operate without regard for environmental stewardship. On the contrary, in today's world all governments and businesses in the forestry sector must maintain a high social ethics standard in order to operate. If wood products are not produced in a sustainable manner and certified as such, the market will not accept the products produced. The

global environment today is very different than the one which existed when the NB Crown Lands Act was established. The mandate of the SOA would also require the “Chief Forester” to meet economic objectives while also meeting the strict criteria of an international third-party environmental organization³.

Rationale for a Special Operating Agency

The task force believes that establishing an SOA model is far more than a symbolic move:

- It is a significant departure from silo management to integrated management.
- Structure follows strategy, and the SOA provides an operational vehicle through which the Department of Natural Resources can better define and explain its strategic reasons for managing the working forest.
- It provides the motivation for key stakeholders to manage the working forest to increase gross margin while maintaining social licence.

The following table highlights the ways in which a Special Operating Agency can improve investment levels, stability, perceptions and motivations surrounding the working forest from the present state to a more desirable state.

Present State	Desired State
No direct DNR motivation to increase royalty revenue.	Direct DNR motivation to increase royalty revenue.
No motivation to reduce overhead costs; savings go to general revenue.	Industry and DNR motivated to reduce overhead.
Unstable silviculture annual budget.	Silviculture investments are made based on an economic payback model.

It has been suggested that, in the broader forestry sector, the SOA could play a role in coordinating more efficient management of private woodlots and bringing economies of scale to harvesting and silviculture activities. The task force supports the exploration of this interesting concept, and defers any specific recommendations to the private woodlot task force chaired by Dr. Floyd.

Wood Allocation by the SOA

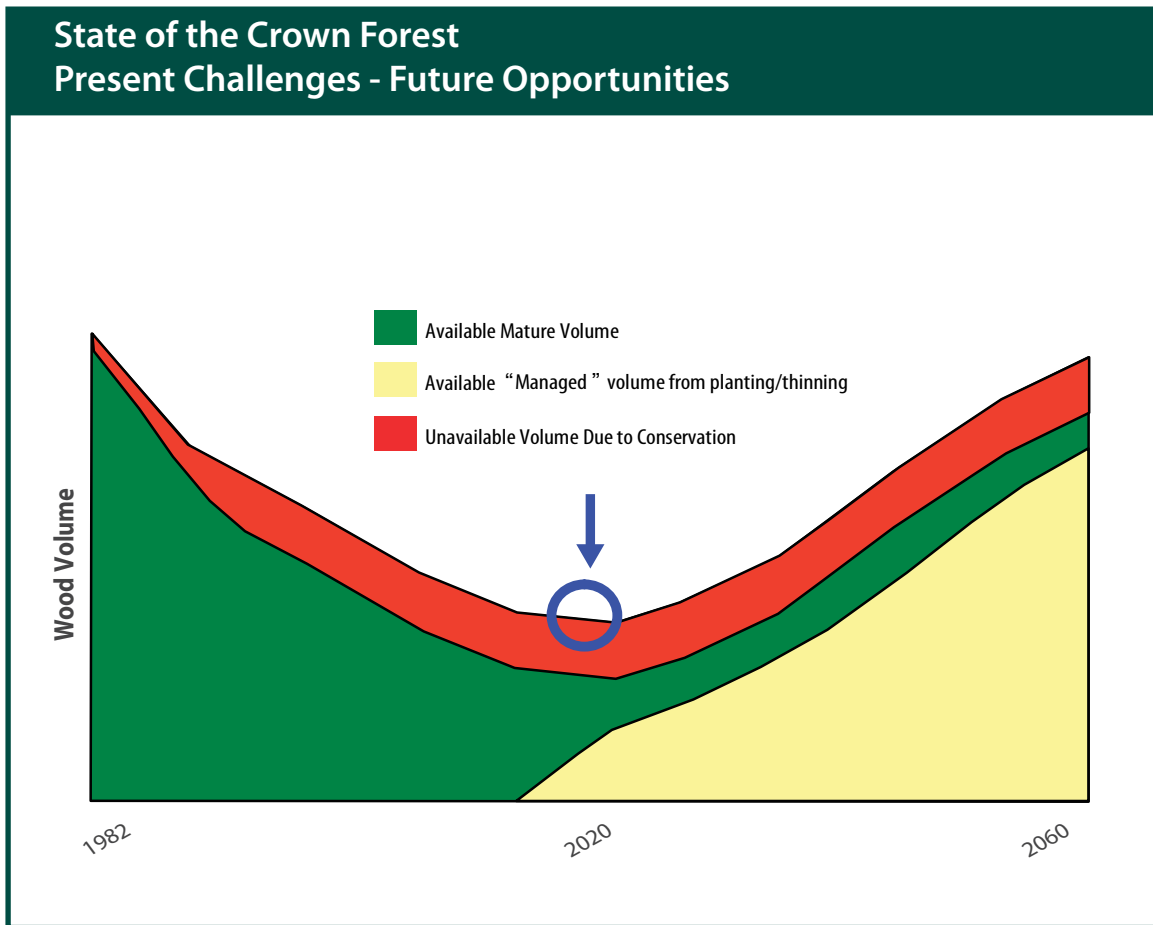
The mandate of the Special Operating Agency will be an economic one, and success of the “Chief Forester” will be determined by broad economic measurements and a reporting process to be determined.

It follows that access to Crown timber should go to those who provide the greater economic value to the province. Allocations should not be automatic. In a prolonged period of economic retraction as New Brunswick has experienced, the issue of wood allocation has not been at the forefront. Wood allocation has essentially been a lobbying effort by industry survivors seeking the allocations of those businesses that have not survived.

3. A number of such reputable organizations exist. The task force leaves the selection of the specific independent third-party certification to the Minister of Natural Resources.

The task force believes that two things will change in the future. Firstly, the fortunes of the forest industry will turn around and those who invest and stay globally competitive will earn appropriate returns on their investments. Secondly, when the benefits of previous silviculture investments come to fruition, there will be more wood available.

As previously stated, the province is in a “crunch period” as depicted in the following graph⁴:



As more wood becomes available beyond the demands of the current industry, a process must be determined for its allocation.

Allocations should be made on a competitive basis to those existing industries that have shown a commitment to invest and stay globally competitive. As more wood becomes available beyond existing industry needs, that wood should be allocated on a competitive basis with clear criteria. Existing industry should compete for the wood with new entrants.

The task force suggests that the “Chief Forester” take a lead role in allocation decisions, with the active involvement of senior government officials responsible for economic development. Ultimately, the decision will rest with the Minister of the Department of Natural Resources but the approval process should focus the Minister’s discretion on the assessment of the transparency and objectivity of the process by which the allocation decision was reached.

⁴ The graph, prepared by the Department of Natural Resources, is a schematic illustration of the past, current and future availability of Crown wood. There is some debate around how much wood will be available and when, and even those debates can be affected by unforeseen natural events. The task force accepts the general belief by experts in the field that more wood will become available

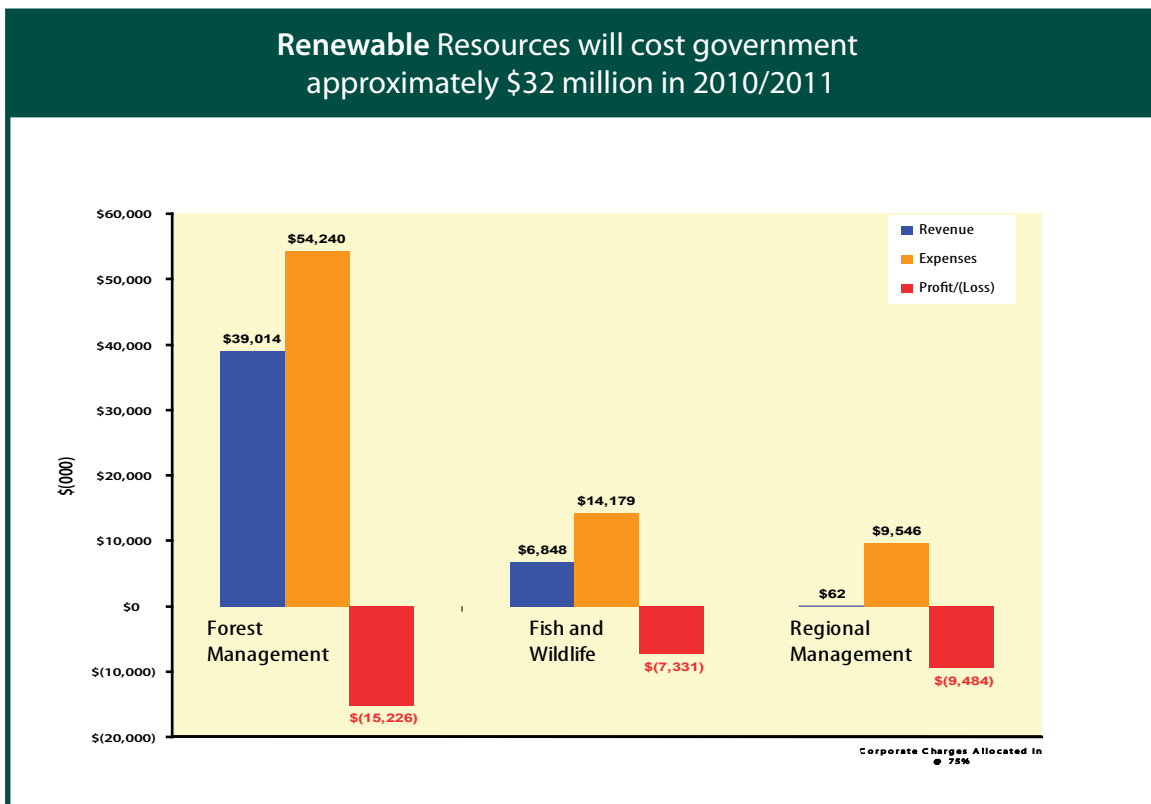
The financial reality

Although the task force was not specifically directed to consider the financial implications of Crown forest land management, it recognizes that if its recommendations are not grounded in fiscal reality, the likelihood of their implementation is diminished.

The following financial and operational highlights for Crown forest land management are meant only to serve as an aid to motivate the implementation of the task force recommendations.

- The gap between DNR's revenues and expenditures has been consistently negative and steadily growing over the last 10 years, reaching - \$41.6 million in the 2009-2010 reporting year.
- The forest management program has operated at a deficit since the 2007-2008 reporting year, reaching -\$20.1 million in the 2009-2010 reporting year.
- In 2000, DNR's forest management program reported revenues of \$60.6 million (in 2000 dollars) and there was 5,068,349 (m³) of roundwood (all species combined) harvested on Crown licences (approximately \$12 of revenue per m³ harvested).
- In 2008, DNR's forest management program reported revenues of \$40 million (in 2008 dollars) and there were 4,453,785 (m³) of roundwood (all species combined) harvested on Crown licenses (approximately \$9 of revenue per m³ harvested).

Based on the numbers above, the task force concludes that a 12% drop in harvest (the difference between 2000 and 2008) brought about a 34% drop in revenue, without accounting for inflation. Again, based on the numbers above, the task force can conclude that, in 2000, revenue was approximately \$12/m³ of harvested wood compared to the 2008 figure of approximately \$9/m³ of harvested wood. These numbers are for broad comparative purposes only since many other factors can influence the revenue stream.



The preceding graph, reproduced from Don Robert's 2010 presentation to the Forestry Summit, demonstrates the striking financial reality of renewable resources in New Brunswick.

In a resource-rich country and a resource-rich province, money is being lost on provincial Crown land.

The task force states this, not to turn the attention of its report to the fiscal challenges facing the province or to suggest fiscal mismanagement. Rather, it wants to emphasize that if its recommendations are not grounded in fiscal reality, the ability for the provincial government to implement them becomes very limited.

The task force wants to help address fiscal challenges, not add to them. It believes its recommendations will accomplish this.

Conclusion

The future of Crown land forest **must** result in economic, environmental and social benefit to New Brunswick.

By acting on the recommendations contained in this report, the Government of New Brunswick can ensure that the Crown land forest **will** be of economic, environmental and social benefit to New Brunswick. The people of this province deserve no less.

Appendix 1: NB Crown land task force terms of reference

Introduction

Government has reviewed the outcomes from the Forestry Summit *New Brunswick's Forest Industry: Fundamentals for Future Competitiveness* and, as part of its strategy to create a healthy and vibrant New Brunswick forest sector, established two Task Forces, one for the definition of timber objectives on Crown Land and the other for Private Land. This document contains the Terms of Reference for the Crown Land Task Force.

Purpose

The purpose of the Crown Land Task Force is twofold: 1) collaboratively define and clarify the key elements and considerations associated with defining a timber objective for New Brunswick Crown land, and 2) make recommendations to the Minister of Natural Resources for a specific timber objective on NB Crown land that takes into account the various stakeholder view points, DNR mandates and values associated with the NB Crown Forests, by July 1, 2011.

Membership

Crown Land Task Force members are appointed by the Minister for the period February 1, 2011, until July 31, 2011. Individuals will be appointed on the basis of their impartiality and their ability to contribute in a constructive manner to the definition of a timber objective for New Brunswick Crown land. Members will be able and willing to devote adequate time to meeting the objectives of the Task Force. The Chair will be responsible for leading the Task Force and ensuring that the objectives are met. The Task Force will include:

- The Chair of the Crown Land Task Force.
- Two members-at-large.

Duties and responsibilities of Task Force members

To review existing reports including the 2004 Select Committee on Wood Supply report, the 2008 *Management Alternatives for New Brunswick's Public Forest* report by the Task Force on Forest Diversity and Wood Supply (Erdle Task Force) and, the *Crown Land and Forest Act*, the *New Brunswick Biodiversity Strategy*, the Solange Nadeau report entitled *Public Views on Forest Management in New Brunswick: Report from a Provincial Survey*, the 2008 Woodbridge-Roberts *Forest Products Industry in New Brunswick* report.

To build upon these existing reports in defining and recommending a timber objective for Crown land.

Stakeholders

The Crown Land Task Force shall seek input from First Nations and stakeholders relevant to the New Brunswick forest sector including industry, non-governmental organizations.

Reporting Structure

The Crown Land Task Force shall make monthly progress reports to the Department of Natural Resources through the Chair. Final recommendations will be made to the Minister of Natural Resources.

Appendix 2: Constituency consultation list

The task force solicited stakeholder views as follows:

1. A website was established to receive comments from the interested public.
2. Written submissions and/or direct presentations were received from a number of groups including:
 - The Assembly of First Nations Chiefs in New Brunswick
 - Bird Studies Canada
 - Quality Deer Management of New Brunswick
 - Dr. Thom Erdle, University of New Brunswick
 - New Brunswick Forest Products Association
 - J.D. Irving Ltd.
 - AV Group
 - Twin Rivers Paper Company
 - Business New Brunswick
 - New Brunswick Maple Syrup Association
 - Conservation Council of New Brunswick
 - Canadian Parks and Wilderness Society
 - New Brunswick Forest Products Association
3. The Department of Natural Resources staff was also invited to submit their thoughts and comments.

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