

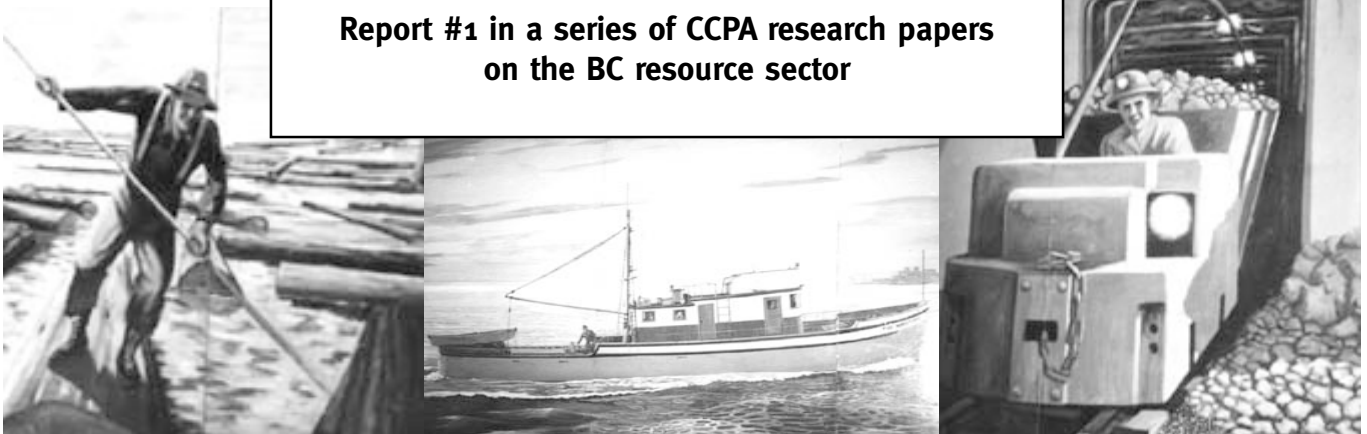
# Follow the Money:

## Understanding the Crisis in BC's Resource Sector

by Dale Marshall

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Report #1 in a series of CCPA research papers  
on the BC resource sector



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The contents, opinions, and any errors contained in this report are the full responsibility of the author.

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# Preface

THE REPORT YOU ARE READING IS PART OF A NEW SERIES OF CCPA STUDIES AND POLICY briefs dealing with the economics of BC's resource sectors. Since early 1999, the Centre's *Resource Economics Project* has been engaged in analysis of BC's principal resource sectors – identifying the main sources of economic, social and environmental insecurity that characterize BC's resource-dependent communities, and developing alternative policies to foster economic diversification, higher value-added investment, greater community stability and ecological sustainability.

In 1998, the Centre's BC Office was approached by a coalition of labour and environmental groups meeting under the auspices of the Vancouver and District Labour Council (VDLC) Environment Committee, with a request that our Centre undertake research into BC's natural resource sector. Attracted by the Centre's solid research reputation, these organizations asked the CCPA-BC to conduct an economic analysis of BC's resource sector, with the hope that the resulting research may help to move the public policy debate beyond the jobs-versus-environment dichotomy. The CCPA agreed and the *Resource Economics Project* was born.

In the ensuing period, the CCPA has worked with two very impressive researchers, David Peerla, and Dale Marshall, who is now our staff resource policy analyst. We also established an advisory group for the project, with representatives from many of BC's most prominent environmental groups, resource unions, and the First Nations Summit. The advisory group has been an invaluable source of understanding and analysis, and our project, in turn, has provided a unique meeting place for these different organizations to share information, exchange policy ideas, and begin to find common ground in the long-term search for more stable and secure resource communities.

In contrast to the policy prescriptions advanced by industry lobbies and corporate-funded think tanks, the CCPA *Resource Economics Project* seeks to develop collective, public and community solutions that aim to protect employment and the environment, and that advance the aspirations of First Nations. A special focus of the project is on how investment and production can be regulated to ensure that the wealth gener-

ated from BC's resources is re-directed towards the future economic and environmental well-being of all British Columbians.

BC's main resource industries are now emerging from a dismal few years. But many problems remain. BC's over-reliance on the export of basic resource commodities has left the province, especially its resource-dependent communities, vulnerable to international commodity price swings and demand drop-offs from export markets such as Asia. BC's resource sector has also witnessed increased corporate concentration, making the sector heavily dependent on the investment decisions of a few corporations, many of which are now transnational. But the investment record of these corporations leaves much to be desired. The wealth and profits generated from BC's resource sector have too often been moved elsewhere in Canada, the U.S., and internationally, putting at risk the future of some communities and leaving BC with a poor record of generating the maximum employment from the resources extracted.

The Bowater and Skeena Cellulose pulp mills in Gold River and Prince Rupert offer telling case studies of the failure to invest in the province's resource sectors. Years of corporate decisions to siphon earnings to other locales have led to mills that are less efficient and more expensive than others in eastern Canada and Scandinavia. Similarly, the mining companies that generated considerable wealth in BC are now exporting their investment to Chile and other Latin American and Asian countries, where wages are lower and environmental protection is weak. And communities that have long relied on fishing are now being frozen-out of a fishery where policies are increas-

ingly made in the interests of a few large fishing corporations with global interests.

The corporations active in the resource sector, through industry associations (such as the Council of Forest Industries and the Mining Association of BC) and corporate-backed think-tanks (like the Fraser Institute) have been quick to present their policy prescriptions for BC's ailing resource sector. They have blamed BC's environmental regulations, such as the Forest Practices Code, for stifling economic activity. Many are demanding decreases in the resource rents charged for extracting resources from crown lands, and some are now proposing that these publicly-held lands (and publicly-managed fisheries) be privatized. Appurtenance clauses tying timber rights to job creation and value-added mills are being challenged, workers are being pressed for wage concessions, looser health and safety standards are being called for, and the BC government is being urged to reverse its policy of consulting First Nations on land use issues in light of the Delgamuukw Supreme Court ruling and the ongoing treaty process. But these policy recommendations, which too often dominate the public debate, are based upon the objectives of corporations, and are not necessarily in the best interests of workers, resource-dependent communities, and First Nations, or meet the goal of environmental sustainability.

In recent years, tensions between some environmental organizations, labour unions and First Nations have increased. Finding common ground has been difficult, in part because there is a lack of economic analysis and data that can be jointly drawn upon to determine areas of agreement or concern. There is also a lack of policy alternatives that recognize the need for environmental sustainability, but that also offer a hopeful and realistic framework for workers in the resource sector and their families.

There is, therefore, a clear need for research that challenges the "jobs-versus-environment" dichotomy, and for analysis that can inform the thoughtful development of alternative public policies. There is a need for research that will help British Columbians develop a common economic vision for the future – a vision that combines good jobs with environmental sustainability, and that incorporates the aspirations of First Nations and the necessary changes that will result from First Nations' land claims, treaty settlements, and aboriginal resource management.

We trust you will find this report helpful in terms of enhancing your understanding of the crisis facing the resource sectors. More reports – with more policy alternatives – are forthcoming.

Seth Klein  
Director, CCPA-BC

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# Summary

THROUGHOUT THE 1990S, BRITISH COLUMBIA'S RESOURCE INDUSTRIES CONTINUED TO experience boom and bust cycles, and resource-dependent communities endured tremendous economic and social stress. In the last few years, the resource sector has faced one of its periodic crises, with mills shut down, mines closed, and fish boats retired. At the same time, First Nations' grievances have remained generally unresolved and public concern about ecological sustainability has continued to rise.

This paper uses three resource sectors – forestry, gold and copper mining, and commercial salmon fishing – as case studies, examines the present state of the sectors, and assesses the reasons behind the crisis in each sector. Alternative policy directions are suggested for further investigation.

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## Major Findings

- The fundamental reasons for the downturn in the resource sectors are mostly international: increased global competition, oversupply in basic commodities due partly to a demand drop-off in Asia, and depressed commodity prices.
- A lack of investment by BC resource companies has led to an uncompetitive position vis-à-vis other global competitors.
- BC's resource industries have not committed themselves to moving towards more value-added production, leaving them vulnerable to commodity price swings.
- Notwithstanding the mostly global nature of the resource crises, BC's resource companies have convinced the public that resource sectors' problems stem almost exclusively from BC public policy and have convinced government to grant them regulatory and tax concessions.

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## Additional Findings

### Forestry

- The drop in pulp and lumber prices has had a far greater impact on the profitability of BC forestry companies than adhering to the Forest Practices Code.
- Eastern forestry companies – Canada's high-cost producers as late as the 1980s – have moved up the value chain to produce more manufactured wood products, fine paper, and newsprint, while BC producers continue to produce mainly basic lumber and pulp.
- International competitors in Scandinavia have also made significant moves towards value-added and ecologically sustainable production in both solid wood and paper products.

### Copper and Gold Mining

- A drop in prices in 1996 and 1997, not BC's regulatory environment, was the main reason BC mining companies went from being profitable to recording net losses.
- There has been a global reduction in mineral exploration expenditures. This includes BC, where some mining companies have decreased provincial exploration efforts, instead investing in operations in Peru, Chile, and elsewhere where labour is cheaper and environmental regulations are more lax.
- Investment in international mining projects has allowed mining companies in BC to turn the various

branches of their global operations into competitors, and press governments and workers everywhere to make concessions.

### **Commercial Salmon Fishing**

- Increased global production of farmed salmon – particularly in Chile and Norway, but also in BC – has depressed prices for BC’s wild salmon and reduced the overall commitment to the health of wild salmon stocks.
- Despite the Department of Fisheries and Oceans’ claim that their restructuring programs were balanced, the seine fleet – mostly corporate owned and controlled – was favoured by the programs.
- Small boat independent fishermen and coastal fishing communities – including First Nations fishermen and communities – have experienced the brunt of recent restructuring.
- Conservation of the salmon stocks is no more ensured now than before the restructuring programs began.

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## **Towards an Alternative Agenda**

THE PROVINCE’S FORESTS, MINERALS, AND FISH ARE PUBLIC RESOURCES. YET THE RESOURCE industries and, alarmingly, the public policies that should be shaping them, have become hostage to their industrial structure. The corporate clamour about high costs and the need for deregulation has drowned out a more important debate on the vulnerability of British Columbia’s resource-based industries to increased competition and sudden swings in commodity prices.

The province needs to make a final break with a “volume not value” industrial strategy. Once we begin to maximize the quality of our resource exports, focusing on the economics of adding value, we will be less vulnerable to international forces beyond our control. This will require consistent reinvestment of resource revenues, and significant policy and attitudinal shifts.

Some identified policy alternatives:

- Require forest and mining companies to reinvest in their provincial operations a minimum portion of the profits made off BC’s public resources.
- Create an investment fund (through resource rents and/or other revenue sources) to provide capital for value-added projects or the purchase of environmental technologies in the resource sector.
- Allow communities and enterprises that want to produce high quality wood products to access wood.
- Commit the resources needed to resolve First Nations land claims in a fair, equitable, and timely manner.
- Ensure that the capital needed for post-mine environmental clean-up and worker and community transition have been accumulated over the life of the operation.
- Work towards a system of orderly global mineral production, by coordinating the volume of ore and concentrate produced from the world’s different mining regions, to avoid the oversupply of all minerals.
- Strengthen environmental legislation so that renewable resources are used sustainably, while opening up markets for ecologically-friendly forest, mining, and fish products.
- Eliminate license stacking and leasing in commercial salmon fishing licenses, and establish mechanisms to ensure baseline economic survival for BC’s coastal communities.
- Fund economic development projects so that community-based value-added projects can create more wealth from the wild salmon catch.
- Protect and rehabilitate wild salmon habitat from environmental damage – impacts from farmed salmon production, riverside development, forestry, municipal sewage, agriculture, and industrial effluents.

# Introduction

THE GOAL OF THIS PAPER IS TO MEASURE AND EXPLAIN THE CRISIS FACING BC'S MAIN PRIMARY resource industries. Our objectives were to: assess the lay of the land; understand the crisis more profoundly and challenge some of the explanations regularly presented to British Columbians; and point to future policy directions that will be more thoroughly explored in future research papers.

The resource story is a classic case of free market irrationality and failure, with the subsequent costs being borne by communities and the environment.

There are a number of themes that carry through all three resource sectors – forestry, mining, and fishing – explored in this study. First, the crisis that continues to plague these sectors is largely the product of global factors: increasing international competition, oversupply, and depressed commodity prices. Second, to some degree, these factors are the result of misguided choices by transnational resource corporations themselves, who have sought to expand their global operations when prices were high or new opportunities arose. They have consequently overshot market demands with excess capacity, thereby depressing the very global prices they rely on. The resource story is a classic case of free market irrationality and failure, with the subsequent costs being borne by communities and the environment. Third, resource corporations have been able in the last half decade to guide the direction of resource policy in this province.

BC has felt the consequences of these global trends more acutely than other provinces due mainly to our

particular resource commodity product mix, and to our reliance on the depressed Asian market. In spite of the international causes of the crisis facing resource-dependent communities, however, the resource corporations have seized on the occasion to extract as many concessions as possible from their workers and from local/provincial governments. These concessions have come in the form of tax cuts or credits, cuts in public resource rents, and environmental regulatory rollbacks.

The resource corporations have also been remarkably adept at pitting the various components of their global operations against one another in a never-ending bid for wage, tax, and regulatory concessions. Thus we have seen mill workers in BC played off against those in Indonesia; BC miners forced to compete with their counterparts in Latin America; and BC wild salmon fishers watching salmon prices plummet in the face of an exploding farm salmon industry in Chile, Norway, and BC.



The viability of every natural resource sector is influenced primarily by the investment decisions of that sector's largest corporations. To conduct a proper analysis of the resource sectors, it is critical that we investigate those investment decisions and understand what drives them. In short, we need to follow the money.

In BC, it is clear that there has been inadequate levels of investment. Less investment means fewer jobs. The question is: What is the reason for the downturn in investment? Industry, at least in its media pronouncements, has tended to place all the blame on government policies and regulations, resource rents, and taxes. In truth, these factors do increase some immediate costs.<sup>1</sup> However, there are other more important explanations for under-investment – explanations that the people of British Columbia hear much less about.

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## Forestry

Forest policy in BC has changed considerably in the last decade, most notably through the enactment of the Forest Practices Code, the adoption of the protected areas strategy, and the creation of Forest Renewal BC. These policies have increased costs to forestry companies. But other factors have affected their collective bottom line to a much greater degree. For example, in 1997, the drop in the price of market pulp had a greater impact than any other factor on pulp companies' net revenues. The cost of cutting wood has also increased as supplies become less accessible, and increased competition has reduced BC's market share in solid wood and pulp.

The predominant factor in the demise of this province's forestry companies, however, has been their failure to invest in BC operations in order to increase productivity and move up the value chain. A continued over-reliance on basic lumber and pulp commodities has left the province more vulnerable to international competition and price volatility. Companies in other Canadian provinces and Scandinavia – who faced many of the same competition and cost factors as BC

companies – have upgraded their operations and produced more value-added products, and are more competitive and profitable as a result.

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## Mining

Investment – or lack thereof – has been a trend in BC's mining sector as well. (This report only investigates copper and gold mining, but the situation in these two commodity sub-sectors mirrors that of the BC mining industry in general.) When the price of gold and copper dropped in 1996, 1997 and 1998, BC mining companies, industry analysts, and the local media all pointed to provincial regulations as the problem. This ignores the fact that these companies were prosperous in previous years within the same regulatory environment, and that their own reports indicated external factors as the cause of the downturn.

Many BC mining companies used this trough in the price cycle to decrease their exploration efforts in BC and use their BC-based capital to invest in mines in Chile and Peru. With operations in multiple countries, mining companies were then able to pressure local governments to ease regulatory and taxation burdens. The BC government, admittedly in a difficult position, reacted with short-term and piecemeal measures to keep BC mines open and its workers employed.

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## Commercial Salmon Fishing

The situation in the commercial salmon fishing industry is distinct from the other two sectors. Most importantly, the commercial salmon fleet is made up of thousands of independent, small-boat operators, along with some corporate-owned, -controlled, and -leased seiners.

Fleet overcapacity had been a concern for many years. Beginning in 1996 and continuing through 1999, federal Fisheries Ministers Fred Mifflin and David

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Anderson implemented policies that reduced the number of salmon licenses by more than half. Conservation was the rationale used to justify these decisions and certainly some conservation measures were required to preserve some weak salmon stocks. However, the manner in which the fleet was reduced favored large seine boat operators and fish-processing corporations at the expense of the small-boat operators and coastal fishing communities that depend on salmon as a vital resource. This did nothing to alleviate the long-standing perception that the federal Department of Fisheries and Oceans has been captured by corporate interests. Furthermore, conservation is no more guaranteed now than before the restructuring programs began.

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## **The Delgamuukw Decision and Aboriginal Rights**

In the midst of the turmoil in BC's resource sectors is yet another force, this one quite internal and quite constant. First Nations assert that they have owned and exercised jurisdiction over the lands in British Columbia since time immemorial. The lands and waters they claim overlap with forest and fishing licenses and mineral claims, setting the stage for an ongoing series of legal and political confrontations over natural resources.

Many First Nations believe that logging, mining, and fishing practices to date have violated their aboriginal title. First Nations have traditionally used the land and waters for hunting, fishing, and social and ceremonial purposes. In their view the Crown has an obligation to protect those aboriginal rights. That obligation may be breached if, for example, the right to log is granted to a forest company without adequate compensation granted to the local aboriginal group.

The Supreme Court of Canada's landmark Delgamuukw decision in December 1997 established meaningful consultation with First Nations as one of the requirements for settling issues of land use and tenure. The Supreme Court affirmed that First Nations groups continue to have aboriginal rights in provincial land used or occupied by their ancestors in 1846. Those rights may vary from limited use to aboriginal title, depending on the extent of prior aboriginal use and occupation. The Court stated that consultation with and compensation to (and possibly the consent of) aboriginal groups may be required in connection with the sale of government-owned land or the granting of mining, forestry, and other rights to use publicly-owned land.

With aboriginal rights determined on a case-by-case basis, it is difficult to predict the outcome of any particular dispute involving natural resources and an aboriginal group. One point is indisputable though: logging, mining, and fish processing companies have extracted billions of dollars worth of resources from the traditional territories of the First Nations while many aboriginal persons continue to live in deep poverty and social distress. As the current treaty negotiations proceed at a tremendously slow pace, we can expect First Nations to continue to seek legal remedies, mount blockades, and plead their cases in the court of public opinion.

THERE ARE OTHER RESOURCE SECTORS (agriculture and energy for example) and even sub-sectors (coal mining and the fishing of non-salmon species) that are important to BC and that are not addressed in this report. We have focused on forestry, copper and gold mining, and commercial salmon fishing as case studies. These case studies do not exactly mirror the situation across BC's entire resource sector, but they do tell a story that is common to the sector in general.



# Forestry

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## Roots of the Crisis

A SUPERFICIAL PROSPERITY AND STABILITY HAS NOW RETURNED TO THE FOREST INDUSTRY. PricewaterhouseCoopers' recent announcement that BC's forest companies made profits of over \$600 million in 1999<sup>2</sup> indicates that the industry is recovering from the Asian recession (Table 1-2). Record first quarter earnings in 2000 further signal that the worry is over for BC's forest companies, at least for now.<sup>3</sup>

Rising prices and profits, however, mask serious long-term problems. The competition that BC companies now face comes from Scandinavia, Indonesia, Latin America, and surprisingly, Eastern Canada. Global overcapacity in market pulp and lumber may be corrected in the short term. However, BC forest companies have invested far less than their counterparts in Eastern Canada in upgrading plants and equipment during recent years, leaving them at a considerable disadvantage.<sup>4</sup>

This is not the story being told to the general public. British Columbians have been told by industry observers that the problems facing the BC forest industry stem from an NDP government that has imposed excessive red tape on the industry and inter-

vened inappropriately in the marketplace. Especially vilified are environmental protections in the province's Forest Practices Code; reductions in the annual allowable cut (AAC), made because of pressure from environmental groups and government's acknowledgment of sustainability issues; and increases in stumpage fees paid to the province for timber cut on Crown lands. The result in this view has been excessively high costs for forest producers, which have forced them to close operations and shed jobs.<sup>5</sup>

In order to better understand what's really happened to BC's forest sector, it is important to investigate how forest policy has shaped provincial operations, and take a deeper look at the industry's costs and revenues.

<b>TABLE 1-1: BC FOREST INDUSTRY AT A GLANCE</b>		
(1997, unless otherwise stated)		
<b>Share of provincial GDP</b>	15.8%	
Source: PricewaterhouseCoopers, 1997		
<b>Share of Exports</b>		
Wood	36.5%	
Pulp & Paper	18.8%	
Source: BC Stats 1999a		
<b>Major Markets: Destination of BC Forestry exports (1998)*</b>		
	Solid wood	Pulp&paper
U.S.	73.9%	43.0%
Japan	19.4%	13.8%
EU	4.2%	21.1%
* Each column displays the proportion of exports for that class of products only. Source: BC Stats 1999a		
<b>Sales in 1998 (\$ million)</b>		
Lumber	7,007	
Plywood and Veneer	731	
Market Pulp	2,299	
Newsprint	1,254	
Other*	4,332	
<b>Total</b>	<b>15,623</b>	
*Includes assets and deferred charges not allocated to individual products, such as currency translation losses. Source: PricewaterhouseCoopers, 1998		

<b>Employment</b>	
Lumber	23,000
Plywood	3,300
Market pulp	7,400
Newsprint	3,300
Logging-company	9,150
Logging-contractor	20,500
Value-added	13,000
Prov. government	5,000
Silviculture	4,600
Other operations	8,000
<b>Total</b>	<b>97,250</b>
Source: PricewaterhouseCoopers, 1997	

<b>Major Forestry Companies</b>	
	<b>Product Mix</b>
Ainsworth	lumber
Canfor	lumber
Doman	lumber, pulp
Fletcher Challenge	paper, pulp
Harmac	pulp
Interfor	lumber
Pacifica Paper	paper
Primex	lumber
Riverside	lumber
Slocan Forest	lumber, pulp
Tembec	lumber, pulp
TimberWest	raw logs, lumber
Western	lumber, pulp
West Fraser	lumber, pulp
Weyerhaeuser	lumber, packaging

# Overview of the Industry

The forest industry can be separated into two sub-sectors: solid wood production (lumber, plywood, and value-added wood manufacturing) and pulp and paper production (pulp, newsprint, and various grades of paper production). The BC industry has traditionally been fairly integrated, with most companies cutting trees, manufacturing wood products, and producing pulp partly through the use of residual fiber from sawmills. More recently, many companies have decided to focus only on pulp and paper production *or* on solid wood facilities by selling mills in other sub-sectors. For the most part, basic commodities – lumber and pulp – have been the BC industry’s focus, while production further up the value chain has been slow to develop.

Solid wood is British Columbia’s single largest industry, with lumber making up the vast majority of wood production. The province’s 50 million hectares of forests produced solid wood sales of \$11.4 billion in 1997 dropping to \$10.2 billion in 1998, one of the industry’s worst years.<sup>6</sup> In 1997, solid wood products represented 36.5% of British Columbia’s entire export portfolio<sup>7</sup> and logging and lumber production employed almost 53,000 people (Table 1-1).<sup>8</sup> The manufacturing of pulp and paper products is the second largest industry in the province, with sales and export shares equal to about half of those in solid wood.<sup>9</sup> About 11,000 workers are employed in this industry.<sup>10</sup>

A total of about 97,000 workers were directly employed in the forest industry in 1997, representing 6% of provincial employment (Table 1-1).<sup>11</sup> Each direct

job in the forest industry generates an estimated two indirect jobs through the supply of goods and services to the industry.<sup>12</sup> The forest sector accounts for approximately 16% of provincial GDP (Gross Domestic Product)<sup>13</sup> and export sales of forestry products made up 54.8% of the value of BC’s exports in 1997.<sup>14</sup>

The industry is divided into two main geographic regions: the coast and the interior. The coast accounts for approximately 25% of the annual cut, averaging 3.5 billion board feet of lumber per year over the last five years.<sup>15</sup> British Columbia coastal mills produce a wide variety of both specialty and structural products that are largely oriented towards Asian markets. Product prices, stumpage fees and logging costs are significantly higher than in the interior of BC, reflecting the products produced and the rugged geography of the coast.

Increasing wood costs in the U.S. provided the opening for the development of BC’s interior sawmill industry.<sup>16</sup> Interior mills export 90% of their production to North American markets, with the largest market being the U.S. Interior mills have lower stumpage rates and cheaper logging costs than mills on the coast.

## A Recent History of BC Forestry

The recent instability in BC forestry is, in part, a product of historic decisions made by forest companies. Prior to the 1990s, stumpage fees paid to the province for timber were extremely low, while the value of the natural timber was very high. The province’s large integrated producers were thus able to practice a “volume not value” approach. They were content to ex-

**TABLE 1-2: PROFITS (LOSS) OF BC FORESTRY COMPANIES (\$ million)**

Year	Profits (Loss) (\$ million)
1993	520
1994	1,360
1995	1,280
1996	(290)
1997	(132)
1998	(1,057)
1999	600*

Source: PricewaterhouseCoopers, 1997, 1998  
\*estimate, source: Hamilton, 2000a

Forest industry groups frequently claim that costs, particularly stumpage costs and the excessive environmental regulations of the Forest Practices Code, are at the root of the industry's problems. These policies have increased costs, but more fundamental problems exist, namely a decreased fibre supply, increased competition worsened by a lack of investment, and a failure to boldly move towards value-added production.

tract large quantities of timber from the province's land, while paying little attention to the economics of adding value, and even less to questions of land use policy. Due to the changing realities of the forest industry in the last 20 years – a restricted U.S. market, increased environmental considerations, and international competitiveness – this strategy has become increasingly unviable.

### **Export Lumber Quotas to the U.S.**

In the early 1980s the U.S. timber industry became convinced that BC lumber exports were subsidized. They claimed that BC producers flooded the U.S. market with cheap lumber, mainly by using the unfair advantages of low stumpage and government subsidies. Unable to withstand the pressure of a protectionist U.S. government, the federal government negotiated agreements, beginning with a 1986 Memorandum of Understanding, that regulated the level of each province's exports to the U.S. and set out a schedule of import tariffs that would apply when exports exceeded defined levels.

The latest Softwood Lumber Agreement (SLA) was signed in 1996. Under the Agreement, BC is able to annually export 8.37 billion board feet of softwood lumber to the United States. Exports in excess of this level incur a tariff, which limits the ability of lumber producers to increase shipments into the U.S. market when other markets weaken.

The SLA determined each BC producer's portion of the U.S. quota by traditional export levels. Since BC coastal producers historically concentrated on exporting their wood to Japan, they were given only 20% of the share, and some coastal mills were left with virtually no U.S. market access.<sup>17</sup>

### **Increased International Competition and a Move Towards Institutional Investors**

Profits in the pulp industry rose substantially in the late 1980s after a worldwide increase in demand for paper. High profits attracted investment in new mills around the world, particularly in the Indonesian and Brazilian pulp sectors. But this cycle was different since it was capital from financial speculation, not forest company money, that was being attracted to the pulp and paper business. The result was a massive international investment in new pulp and paper pro-

duction, leading to global over-capacity.

Increasing international competition keeps a lid on prices and squeezes profits. By the late 1980s BC forest companies had made rapid gains in world export shares, which made it profitable to sustain high levels of investment and mill modernization in basic commodities. But as their market share growth slowed, profitability sagged and with it investment and growth.

The influx of money from institutional investors has changed the nature of the forest industry. Long-time forestry investors understand the cyclical nature of basic commodity markets such as lumber and pulp. They know that the forest industry, following the market, has big "booms" followed by shorter and smaller "busts". The institutional investors that entered in the late 1980s are not so patient. Their goal is to maximize return on investment. This is highlighted most recently by Ann Gibbon, the *Globe and Mail's* forestry reporter. Commenting on the forest industry's \$600 million profits in 1999 and the 6% return on capital employed, Gibbon wrote, "A 12-per-cent return is considered break-even.... That means that despite its profitability, the industry is, in effect, still losing money."<sup>18</sup> Industry analyst Craig Campbell explained further: "It's like putting your money in a Canada Savings Bond when you could have made better returns elsewhere."<sup>19</sup>

Incidentally, the return was consistent with that of the international forest industry. In the U.S. Pacific Northwest, forest companies generated a return on capital employed of 7%, while the Global Top 100 forest companies produced returns of 5.7%<sup>20</sup> – figures that challenge the industry claim that BC is a more difficult place to make money.

### **New Environmental Realities**

Conflicts in the forests were intense in the early 1990s, culminating in a summer-long protest and mass arrests in Clayoquot Sound in 1993. The Harcourt government, in an attempt to ease the public pressure led by environmentalists, embarked upon an ambitious agenda to bring "peace to the woods". The province initiated regional roundtables with major stakeholders – industry, government, labour, First Nations, environmentalists, recreationists – to decide upon land use plans within each region. The Protected Areas Strategy was put in place to increase the proportion

of BC's land base protected in parks to coincide with the UN Brundtland Commission's somewhat arbitrary figure of 12%. Greater resources were committed to First Nations treaty negotiations. And, in 1995, the province enacted the Forest Practices Code, promoting it as legislation that would lead to "World Class Forestry."

### The Market Turns Down

International lumber and pulp commodity prices each operate on their own cycles. However, the 1997 Asian economic crisis – and the investment exodus that followed – triggered an international commodity price drop. The price of lumber, market pulp, and other internationally traded commodities produced by BC sank at the same time.<sup>21</sup> The price of market pulp had already fallen from \$888/tonne in 1995 to \$567/tonne in 1997 but the Asian crisis compounded the decline (Table 1-3).<sup>22</sup>

In lumber, the price for spruce/pine/fir (SPF) two by fours was recovering from a 1995 dip when the Asian crisis hit in 1997 (Table 1-3).<sup>23</sup> The BC lumber sector was hit hard during the next two years, particularly on the coast. BC exports to Japan in general went down by 47.7% over 1997, and exports of solid wood products alone dropped by 62.9% the same year.<sup>24</sup> In the first half of 1998, exports to Japan declined a further 35.3%.<sup>25</sup> The Asian crisis also meant a dimin-

ished market for U.S. exporters. More U.S. lumber ended up on the domestic U.S. market as a result.<sup>26</sup> Restrictions imposed by the softwood lumber agreement made the situation for BC forest companies worse. The end result was that, despite near record levels of U.S. housing starts, output and lumber prices dropped for BC producers. Thirteen mills closed at least temporarily in 1998, some mills took extended shutdowns, shifts were reduced, and workers were laid off.<sup>27</sup>

## Explaining the Crisis

So what's wrong with the BC forest industry? Forest industry groups frequently claim that costs, particularly stumpage costs and the excessive environmental regulations of the Forest Practices Code, are at the root of the industry's problems. These policies have increased costs, but more fundamental problems exist, namely a decreased fibre supply, increased competition worsened by a lack of investment, and a failure to boldly move towards value-added production.

### Fibre Supply

Fibre supply, the supply of wood required for sawmills and pulp mills, is of paramount importance to

**TABLE 1-3: FOREST PRODUCT PRICES (\$ U.S.)**

	Lumber (WSPF) (\$/1000 bd. ft.)	Pulp (\$/tonne)	Newsprint (\$/tonne)
1990	187.67	811.67	-
1991	188.71	572.00	-
1992	227.15	563.08	-
1993	336.68	433.21	441.25
1994	342.54	572.00	463.33
1995	251.40	887.98	675.67
1996	352.40	590.58	652.35
1997	353.38	566.54	559.04
1998	286.00	515.94	595.00

Source: BC Ministry of Finance

any forest industry. In BC, research from industry, labour, government, and the environmental community acknowledges that the shortage of fibre is a crucial problem.<sup>28</sup>

In essence, there are too many sawmills chasing too few trees. In 1998, forestry companies cut a decade-low 65 million cubic metres of forest (Table 1-4), which was below the annual allowable cut, but still 30% above the Ministry of Forests' recommended Long Term Harvest Levels (LTHL).<sup>29</sup> Some environmentalists insist the sustainable yield should be even lower<sup>30</sup>, while most industry and union sources believe it can be higher.<sup>31</sup> Regardless, fibre is becoming harder and more costly to reach, regrowth times in BC's climate are long, and there exists growing international/market pressure to hold the line on, if not lower, the AAC.

The wood supply squeeze is acute, especially on the coast. The coast's AAC and its mill capacity are drifting dangerously apart. In 1996, the forestry consulting firm Simons Reid Collins estimated that demand for fibre in the Vancouver forest region exceeded supply by 343,000 cubic metres.<sup>32</sup> Fibre supply was cited as the main reason for closure of the MacMillan Bloedel sawmill at Powell River and the Canfor Eburne mill in Vancouver, and the extended downtime at Western Pulp's Port Alice mill.<sup>33</sup> During the 1995 pulp price boom the coastal forest industry was only able to sustain production with 3-4 million cubic metres of wood imports from Alaska, Alberta and the

Yukon.<sup>34</sup>

As the province's actual cut declined from a peak of 90 million cubic metres in 1987 to a low of 65 million cubic metres in 1998 (Table 1-4), lumber capacity could not be significantly increased. Zero growth in productive capacity inevitably means a decline in employment as industry modernizes over time.

### Increased Competition: Eastern Canada and Scandinavia

As the cut fell in BC during the 1990s lumber production increased in eastern Canada. For decades BC was Canada's unchallenged exporter into the U.S. market. But the lumber boom of 1993 and 1994 changed all that. High prices and profitability prompted the expansion of U.S.-destined lumber exports in Eastern Canada. By 1996 BC was fighting Canadian competitors, with few eastern markets of its own, while a U.S. lumber oversupply kept prices and profits depressed.<sup>35</sup> The following year, 1997, Eastern Canadian production increased by 808 million board feet to 10.77 billion board feet, just 2.56 billion board feet less than BC's production.<sup>36</sup>

Meanwhile, the Scandinavians were increasing their production capacity in small dimension kiln dried lumber. Posts that were formerly made of BC old growth coastal hemlock were now being made of laminated European second growth. Japan, which imported virtually no European lumber in 1990, imported 16.7 % of its total imports from Europe in 1997.<sup>37</sup> The in-

The interesting thing about the success of Scandinavian exporters is that they developed their value-added industry at a time of high wood costs and high unemployment.

**TABLE 1-4: FORESTRY PRODUCTION**

	Timber Cut (million cubic metres, M3)	Lumber	Market Pulp	Paper products*
		(million tonnes)		
1990	78.3	33.5	3.55	2.99
1991	73.7	31.4	4.01	2.72
1992	74.0	33.4	3.82	2.69
1993	79.2	33.9	4.04	3.07
1994	75.6	33.7	4.76	2.95
1995	76.5	32.6	4.57	2.84
1996	75.2	32.7	4.38	2.82
1997	68.6	31.6	4.53	2.57
1998	65.0	30.2	4.45	2.75

\*Includes newsprint, other paper, and paperboard.  
Source: BC Ministry of Finance



interesting thing about the success of Scandinavian exporters is that they developed their value-added industry at a time of high wood costs and high unemployment. For example, Finland, having lost the Soviet Union as a major market, was experiencing unemployment rates of more than 12% during the same period they were developing their Japanese export market.<sup>38</sup> Labour and stumpage costs in Scandinavia were higher than in BC. High wood costs and a weak domestic economy presented an opportunity that the Scandinavians seized rather than an excuse to attack stumpage costs and environmental regulations.

At the same time that European producers were emerging as competitors in the Japanese market, BC's share of EU lumber imports from outside the Union fell from 22% to 14% between 1990 and 1996. Producers gaining market share fastest were those in Eastern Europe.<sup>39</sup>

**BC Forestry:  
Investment Chill or Capital Strike?**

One of the most important decisions facing the province's forestry corporations during the 1990s was how to allocate their capital: how much should be spent on new equipment, plant upgrades, and other improvements needed to maintain a competitive position? If a business is to increase efficiency and spark innovation, it must make capital expenditures that are

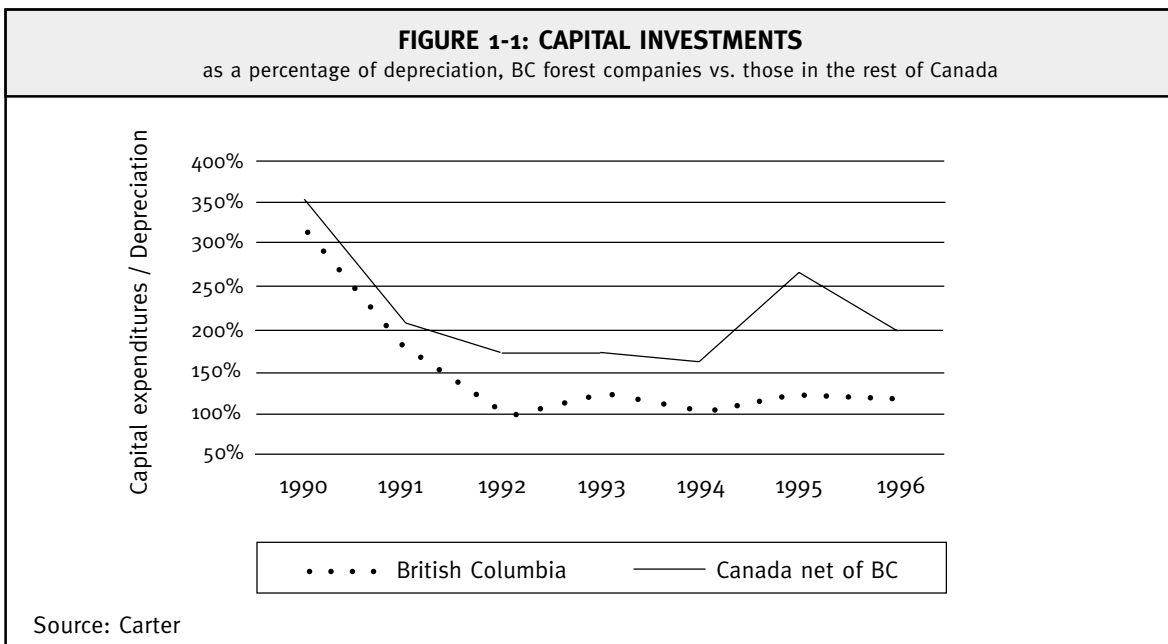
greater than its infrastructure's depreciation.

From 1992 to 1998 the ratio of capital expenditures to depreciation in the BC forest industry was virtually static, remaining at slightly higher than the 1 to 1 ratio necessary to stave off business decline (Figure 1-1). Investment analyst Reid Carter described the pattern of investment as "maintenance of business."<sup>40</sup> But the industry's defensive strategy of merely maintaining business did nothing to address the new reality of a shrinking wood supply and increasing competition.

Rather than address these real problems, the companies mounted a political campaign to deregulate the forest industry. In 1996, Goepel Shields investment analyst Hamish Kerr, a man who described the industry strategy as "destroying capital", recommended a capital strike. Kerr advised his industry listeners, "If you really feel strongly that the BC government is taking you down the road to rack and ruin, stop investing."<sup>41</sup> Pricewaterhouse's Mike McCallum predicted that the high costs of stumpage and regulation were going to stop investment cold.

At a January 1999 PricewaterhouseCoopers conference, then-Fletcher Challenge CEO Doug Whitehead estimated BC's investment gap (the difference between the capital that should have been reinvested in BC and actual investment) at \$500 million over the last five years.<sup>42</sup> In February 1999, solid wood producer MacMillan Bloedel announced there would be

Labour and stumpage costs in Scandinavia were higher than in BC. High wood costs and a weak domestic economy presented an opportunity that the Scandinavians seized rather than an excuse to attack stumpage costs and environmental regulations.



no new investment in BC; the company had instead decided to shift its focus to the U.S., Eastern Canada, and offshore locations.<sup>43</sup>

In summary, the industry made a decision, as early as 1992, to slow down investment and at the same time mounted a successful political campaign to extract stumpage and regulatory concessions from the province and flexibility concessions from the unions. In the end, the industry received almost \$300 million a year in provincial concessions.

### The Pulp Industry's Investment Decline

In 1980, the high-cost forest producers in Canada were in Eastern Canada, specifically Northern Ontario. By the end of the 1990s, according to the latest PricewaterhouseCoopers comparisons, Eastern producers held a cost advantage in pulp and newsprint.<sup>44</sup>

This dramatic turnaround came about for two reasons. The first (discussed in the next section) is that Eastern Canada mills have changed their product mix, producing more newsprint and fine papers. BC companies, stressing volume rather than value, have continued to sell more raw pulp, which moved into a condition of oversupply in 1998. Second, during the last commodity cycles of pulp, paper, and lumber, BC firms apparently found it easier and more profitable to delay much needed cost-reducing capital investments. In contrast, British Columbia's competitors in

Eastern Canada, Scandinavia, and the United States increased cost-cutting investment while adding little or no capacity. Capital expenditures as a percentage of sales were 65% higher in forest companies east of the Rockies compared to BC companies during the period 1992-1997 (Figure 1-2).<sup>45</sup>

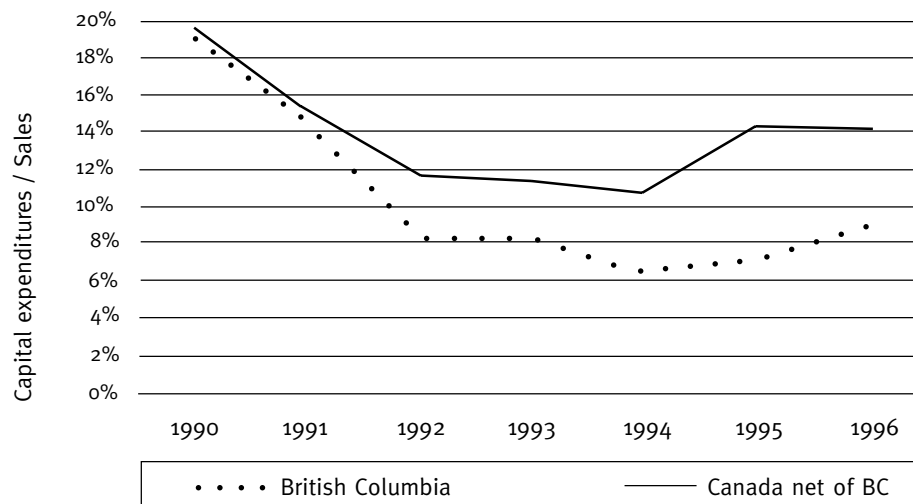
In the early 1990s, though profits sagged, British Columbia didn't scrap old mills or rebuild them. The industry kept working them, producing more pulp and newsprint and exerting further downward pressure on prices. In Eastern Canada and Finland, the pulp and paper industry took a different approach. In Ontario, in 1991-92 newsprint and groundwood specialties producers shut down 24 old paper machines, eliminating thousands of jobs and 1,350,000 tons of production. The closures were offset by the start-up of four new machines that added 805,000 tons of new capacity.<sup>46</sup> The current competitive advantage that Eastern Canada enjoys over British Columbia in the newsprint sector reflects a ruthless round of restructuring in the early 1990s. The same gains in productivity can be achieved in BC without the social upheaval by investing in both newer technology and a move towards more value-added production.

In Finland, it was crucial investment dollars that allowed Finnish producers not only to expand their market exports but also to increase their operational efficiency. A BC-Finland comparison of the 1997

The industry made a decision, as early as 1992, to slow down investment and at the same time mounted a successful political campaign to extract stumpage and regulatory concessions from the province and flexibility concessions from the unions.

**FIGURE 1-2: CAPITAL INVESTMENTS**

as a percentage of net sales, BC forest companies vs. those in the rest of Canada



Source: Carter

delivered costs of market pulp and newsprint shows that while BC is vilified for its high costs, Finland has even higher fibre costs – \$381 per tonne compared to \$214 per tonne for BC (Table 1-5).<sup>47</sup> But as the data also show, Finland can turn that expensive fibre into pulp for \$201, half the cost of BC producers. What explains this? The size and speed of a company’s machinery in processing commodity-grade forest products determine its cost position. While state of the art Finnish newsprint machines crank out paper at 1,800 metres per minute, BC papermakers operate at a more sedate 1,300 metres per minute.<sup>48</sup> BC pulp mills are also older and smaller than Finnish mills<sup>49</sup>, requiring higher maintenance costs and overhead on a per volume basis.<sup>50</sup> BC producers simply have not adequately reinvested in their operations, seriously undermining their ability to remain competitive.

In the late 1980s and early 1990s the large volume of investment in the BC forest sector was probably driven by commodity prices much more than by costs. Investment during that period also concentrated on increasing capacity in basic commodities rather than on the manufacturing of higher value products. This approach, along with the failure to invest consistently in cost-saving technology, left the industry plagued by older, inefficient mills and highly vulnerable to serious pressures from international competition.

### Value-added?

One of the ways the forest industry can address some of its challenges – a declining wood supply, a protectionist U.S. market, and increasing competition – is to shift from basic lumber and pulp to higher value-added products. The industry needs to remanufacture more lumber in BC and produce higher quality paper. A new generation of value-added exports would keep jobs in rural resource communities and break the cycle of boom and bust that has resulted in the closure and downsizing of sawmills and pulp mills.<sup>51</sup> It would also support the transition to more sustainably diversified regional economies.

Rather than pursue such a strategy, however, most BC mills have continued to specialize in commodity lumber grades.<sup>52</sup> Tellingly, growth rates have been highest for BC firms producing secondary manufactured solid wood products. Revenues from the value-added wood products industry grew by 40% between 1994 and 1997, from \$1.9 billion to \$2.7 billion.<sup>53</sup> However, BC value-added wood products account for only 8.5% of all wood exports compared to 30.6% for the rest of Canada. Furthermore, value-added wood product exports in the rest of Canada are rising faster than they are in BC (at an astounding average annual growth rate of 59% compared to BC’s rate of 26%) (BC Stats, 1998b).

A new generation of value-added exports would keep jobs in rural resource communities and break the cycle of boom and bust that has resulted in the closure and downsizing of sawmills and pulp mills.

**TABLE 1-5: REGIONAL COMPARISON OF DELIVERED COSTS OF MARKET PULP, 1997**

	Sweden	Finland	U.S. West	BC	Rest of Canada
Fibre*	307	381	192	214	254
<b>Conversion Cost</b>					
Labour	70	53	89	116	111
Chemical	63	65	96	73	64
Energy	17	-1	55	43	41
Other Mill	58	71	87	130	109
Corporate & Selling	11	13	37	26	11
Conversion Cost Total	219	201	364	388	336
Delivery	58	61	113	84	62
<b>Total</b>	<b>584</b>	<b>643</b>	<b>669</b>	<b>686</b>	<b>652</b>
*Includes cost of harvesting, transportation, and stumpage fees. Source: PricewaterhouseCoopers, 1999					

Not surprisingly, those forest companies that produce more value-added products are faring better than those that have focused exclusively on commodities.

Pulp and paper exports from BC followed the same trend: products with greater value-added content had higher export growth. For example, shipments of non-newsprint paper grew 136% between 1990 and 1997, while pulp exports grew by only 0.5% and newsprint exports (having less value-added content than other papers) shrank in value by 23%.<sup>54</sup> But non-newsprint paper remains a relatively small piece of BC's overall pulp and paper industry, making up less than 20% of the value of BC's exports.

Not surprisingly, those forest companies that produce more value-added products are faring better than those that have focused exclusively on commodities. For example, in 1998 MacMillan Bloedel made a significant turn-around due primarily to earnings in its packaging and panel board divisions.<sup>55</sup> Pacifica Pa-

per and Fletcher Challenge were both profitable in 1998, a poor year for the forest industry overall, due in part to their production of specialty grades of printing papers.

An important lesson of the past three years is that all good things – stable employment, ecological forest practices, high lumber prices and strong export markets – have rarely occurred at once. The strengthening of environmental regulations and the weakening of lumber export markets unfortunately came hand in hand. During the economic downturn, environmental regulations and government stumpage revenues were sacrificed for what was perceived as necessary for economic recovery. A second, more hopeful lesson is that investment higher up the value-chain can pay off.

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## Re-examining the Attack on Provincial Policy

“Red tape” is such an evocative term that industry analysts use it at will to disparage any government policy or regulation it dislikes. The forest industry lobby has persuasively blamed rising costs on the environmental movement, which in the 1990s advocated a reduced annual allowable cut, changing forest practices, and tighter environmental regulations. An analysis of costs in the forest industry reveals a more complex reality.

### A Closer Look at Costs

No one disputes that the Forest Practices Code has increased the cost of delivering wood. In 1997, KPMG estimated the average provincial increased cost of the Code at \$12.22 per M<sup>3</sup> of wood harvested, with greater increases on the coast and smaller increases in the interior.<sup>56</sup> However, it is important to put these increased costs in perspective. Between January and December 1997, for example, the SPF price fell from US \$415 to US \$285 per thousand board feet.<sup>57</sup> This drop is equivalent to approximately Cdn\$40 per M<sup>3</sup> at 1997 exchange rates. Price fluctuations over a single year

therefore had a greater than threefold impact on forest companies' bottom lines than did increased costs from the Forest Practices Code.

Another cost that is determined by provincial policy is stumpage, a resource rent based on the volume of timber cut. Despite industry attacks on the high costs associated with this policy, as of 1997, BC had lower stumpage rates than all jurisdictions in the world except other Canadian provinces.<sup>58</sup> Stumpage rates were increased in 1996, but this increase was integral to the Canada-U.S. softwood lumber deal. Though restrictions still applied, this measure avoided the placement of large tariffs on the majority of BC wood products heading south of the border. The provincial government used the extra stumpage revenue to create Forest Renewal BC, a mechanism to fund training programs for displaced forest workers, silvicultural activities to facilitate the regrowth of deforested areas, and the restoration of damaged streams and riparian areas (among other things). In the eyes of some, stumpage fees taken for FRBC were simply returned to industry, since the cost of these activities – worker transition, silviculture, repairing environmental dam-

age – should have been borne by industry in the first place.

The demand for lower regulatory and stumpage costs is even less relevant since the more recent changes to BC's forest policy. In April 1998, the Forest Practices Code was "streamlined," leading to an estimated \$5.00 per M<sup>3</sup> cost reduction.<sup>59</sup> In June 1998, the provincial government cut stumpage by a provincial average of \$4.89 per M<sup>3</sup>, dramatically reducing the funds going to FRBC from an annual average of \$470 million from 1995 to 1998 to \$177 million in 1999.<sup>60</sup> Finally, through the ongoing implementation of the Forest Action Plan, the Ministry of Forests has assured forestry corporations that the cost of harvesting BC's forests will decrease further by at least \$5 per M<sup>3</sup>. This will supposedly be accomplished by eliminating unnecessary costs but without compromising environmental protection outlined in the Code.

Forest companies may correctly argue that after 1995 the cost acceleration caused by stumpage increases and environmental regulations outstripped the growth of productivity, thereby squeezing profits.<sup>61</sup> But the deeper problem was that the productivity slowdown reflected the industry's failure to invest in cost-cutting technology or move towards value-added production. As the PricewaterhouseCoopers data reveal, the Scandinavians maintained lower production costs than BC pulp and paper mills despite higher wood costs, more regulated labour markets, more stringent environmental regulations, and a greater social safety net. The reason for their competitiveness comes back to investment in productivity and more value-added production. While BC forest companies "rationally" decreased investment due to their dissatisfaction with the going rate of profit<sup>62</sup> Finland's forest companies committed themselves to an investment strategy that saw the building of totally chlorine-free paper mills, the first serious look at closed-loop production and recycled fibre capacity, the development of a Japanese lumber market, and ecological certification. All of this happened without an increase in the annual allowable cut. It was all built on a second-growth forest.

With all the discussion over costs in the forest industry, what is often forgotten is that industry was involved in crafting the Forest Practices Code, Forest Renewal BC, and the land use plans. The resulting

legislation and agreements were supported by forest companies. However, when lumber and pulp prices dropped, the Code and other policies fell quickly into disfavour, and industry began its relentless "red tape" campaign.

### Short-term Recovery

The BC forest industry's problem during the late 1990s has not been a shortage of capital – witness the recent spate of mergers and acquisitions. The companies have restructured by spinning off unwanted businesses, raising more cash. Commodity prices are recovering, as is the Asian market. But companies would rather retire debt, and make acquisitions in other parts of Canada and abroad than invest in modernizing their aging BC operations.<sup>63</sup>

Before its 1999 takeover by Weyerhaeuser, MacMillan Bloedel, British Columbia's number-one forest company, was number nine in the North American lumber league tables. The merger makes the new company the world's largest softwood lumber producer. In commodity pulp, paper, and lumber production, bigger companies have definite competitive advantages. They can afford bigger investments.

Most of the current players in the BC industry concentrate on a core business, with MacMillan Bloedel's pre-merger remake as a solid wood producer perhaps the best example. Fletcher Challenge, one of only two true transnationals in British Columbia, recently failed to spin off its Canadian operations in what would have been a cynical move designed to strip the BC operations of cash in order to pay down the corporate debt of the parent company, based in New Zealand.

The question underlined by the recent Weyerhaeuser takeover of MacMillan Bloedel concerns the future of the remaining relatively small producers. At the end of the current wave of consolidation we could be looking at four major players controlling more than 80% of British Columbia's forest sector. For British Columbia's smaller forest companies, a focus on highly specialized products offers the only long-term survival strategy.

The BC forest industry as a whole is poised for a profitability upswing. In addition to international prices firming up, BC employers have pushed "flexibility," closing mills and downsizing others.

Price fluctuations over a single year had a greater than threefold impact on forest companies' bottom lines than did increased costs from the Forest Practices Code.

The Scandinavians maintained lower production costs than BC pulp and paper mills despite higher wood costs, more regulated labour markets, more stringent environmental regulations, and a greater social safety net. The reason for their competitiveness comes back to investment in productivity and more value-added production.

MacMillan Bloedel's pre-takeover restructurings were not only about shareholder value, but also about discipline and the ability to exit operations as firms eliminate redundant functions, shut plants, and cut costs. The current wave of takeovers includes Tembec's purchase of the Crestbrook pulp mill.

Despite this return to profits, there's no guarantee the industry will react in ways essential to its long-term health. The need for reinvestment is critical. First, commodity prices can drop for any number of reasons. The May 2000 increase in interest rates is predicted to decrease U.S. housing starts and depress the demand and price for BC lumber.<sup>64</sup> Second, even if there is a sustained recovery with an upswing in prices for lumber, pulp, and newsprint, and British Columbia regains markets at the expense of the United States and Eastern Canada, we will still face severe competition. Indonesia's Riau mill, for example, can produce one ton of bleached kraft pulp at 50% of the cost of BC pulp. The basic issue facing the province's industry is to manufacture more products with greater added value.

### **First Nations and Forestry**

The Nisga'a Treaty was recently passed in the province's Legislature and in the House of Commons, though not without controversy. In fact, the BC Liberal party is challenging the treaty in provincial court, arguing that it sets up a third order of government and is therefore unconstitutional. Nevertheless, it is useful to take a look at the treaty to see how treaty settlements might affect forestry in BC.

The model used for the Nisga'a Treaty negotiation was a land selection model. The Nisga'a were awarded

a small portion, less than 10%, of the land they identified as their traditional territory. They will also be assigned an annual allowable cut of their forested land, but only after a five-year transition period. Even though some land has been taken out of the forestry land base, the interests of forest companies have been protected in several ways. In the transition period, the forest industry will be allowed to access higher value stands. Also, the Nisga'a cannot establish a timber processing facility for ten years, so the wood they cut during this time will be made available to local mills. Finally, the federal government has agreed to share, with the BC government, the costs of compensating third-party interests.

It remains to be seen how other negotiations will be resolved. The BC government has stressed that the Nisga'a Treaty will not be used as a template for other treaty negotiations. Almost certainly, First Nations people located in what are now urban areas will be granted even less land than the Nisga'a.

Other First Nations people will likely take paths other than treaty negotiations. For example, the Gitksan people have put forward a different model, one of cooperation between aboriginal and non-aboriginal people using ecosystem-based community forestry.<sup>65</sup> They are collecting evidence of traditional occupation in order to prove legal entitlement of their territory in court, using the Delgamuukw decision.<sup>66</sup> Other aboriginal groups, the Huu-ay-aht and Esketemc First Nations, have been awarded two of the pilot community forest licenses.<sup>67</sup> Still others have formed joint ventures with license holders (for example, in Clayoquot Sound). Finally, some First Nations – most notably in the Okanagan – have been logging completely outside of established processes.

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## Keeping Profits in the Province

There are ways to ensure that the forest sector in BC remains viable – with stable forest communities and employment – despite the increased capital mobility that encourages companies to be cash-rich while starving their operations of investment dollars. Ensuring that an adequate portion of revenues from forestry stay in the province is probably the most compelling solution. Other measures include providing those companies that want to engage in value-added enterprises with access to wood, and facilitating the eco-certification of the province’s wood products.

There are several policy mechanisms that could be used to keep the wealth generated from public resources in the province. One is to require that a minimum portion of forest companies’ profits be reinvested in their provincial operations. Another is to tie subsidies and economic development aid to a mandatory period of time during which the companies’ operations must stay in BC. FRBC has had some success in retraining laid off forest workers and reforesting harvested land. An expanded role – funded through restored stumpage fees or other deposits – could be to provide money to companies that are dedicated to modernizing their mills with environmental technology or to producing more value-added products. If the FRBC program is discontinued, there will be a more desperate need to create a fund that encourages higher valued products. Recent decreases in BC’s stumpage rates will do nothing to convince U.S. regulators that BC’s forestry companies are not being unfairly subsidized.

For smaller, independent enterprises that want to create and market fine wood products, it is often difficult to access the required wood. Though many of these operations typically cater to niche markets, a multitude of them could lead to tremendous economic development and employment for British Columbia. BC needs policy mechanisms to help those smaller

producers gain access to wood.

Eco-certification is a trend that could potentially have positive ecological and economic benefits. Companies have been forced to move in this direction due to pressure from environmentalists, who have convinced international consumers that BC’s forestry practices could and should be more sustainable. Policies should be put in place to facilitate this transition. The province could recognize the increased labour required for more sensitive harvesting techniques – variable retention or selective logging, for example – by decreasing stumpage costs for those practices. Decreasing the sales tax on, or providing tax credits for, eco-certified wood products would also make them more viable in the marketplace.

Industry and government will play crucial roles over the next two years in determining the long-term viability of forestry in BC. Forest companies should acknowledge that their high costs have mainly to do with investment decisions rather than regulatory charges, that their bottom lines are affected more by commodity prices than by government intervention, and the key to overcoming both problems is investment in increased productivity, in a more pronounced move towards value-added products, and in eco-certification. Essentially, BC forest companies must do more with the same or a lesser amount of wood. Government, meanwhile, can come to the realization that strong environmental regulations in our forests are needed both to sustain the resource and allow industry to cater to increasingly discerning international markets. A strong Forest Practices Code and facilitation of the industry’s move towards eco-certification will improve the province’s long-term access to those markets. Meanwhile, high priority must be given by all players in the forestry debate to making lasting agreements with First Nations in BC. ■

FRBC has had some success in retraining laid off forest workers and reforesting harvested land. An expanded role – funded through restored stumpage fees or other deposits – could be to provide money to companies that are dedicated to modernizing their mills with environmental technology or to producing more value-added products.



# BC's Mining Industry

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## In Search of the “Favourable Climate”

BRITISH COLUMBIA'S MINING INDUSTRY IS ONCE AGAIN RIDING OUT THE TROUGH OF AN international metals price cycle. From 1995 to June 1999, 15 BC metal mines closed or suspended operations, and the six that opened during that time came nowhere close to making up for their losses.<sup>68</sup> The crisis has been devastating for miners, their families, and their communities. In January 1995, 4,710 people were employed in metal mining in British Columbia. By January 1999, the number had declined to 3,732, a drop of 21%.<sup>69</sup>

British Columbia is not alone. Its mining woes are part of a global restructuring in the mining industry that has seen a spate of mergers and acquisitions and dramatic layoffs. Exploration expenditures are down 40% worldwide as mining companies switch from searching for ore to buying producing mines. The results have been felt worldwide. Some 50,000 gold miners have lost their jobs in South Africa as the

world's central banks sell off their gold reserves. In Latin America, investments in advanced exploration are down 33.5%, and some 23 projects have been put on hold.<sup>70</sup>

The source of BC's crisis is external to either the government's mining policies or the province's regulatory environment. Low gold and copper prices are a product of oversupply, brought on by decisions of the



**TABLE 2-1: BC SOLID MINERAL PRODUCTION AT A GLANCE**

<b>TABLE 2-1: BC SOLID MINERAL PRODUCTION AT A GLANCE</b>			
(1997, unless otherwise indicated)			
	<b>All Minerals</b>	<b>Copper</b>	<b>Gold</b>
<b>Value of production as % of BC GDP</b>	2.90%	0.64%	0.24%
Source: BC Ministry of Finance			
<b>Share of BC Exports</b>	6.70%	2.10%	-
Source: BC Stats, 1999a			
<b>Employment (1999)</b>	3,732		
Source: Statistics Canada 1999			
<b>Major Markets: Destination of BC Mineral Exports* (1998)</b>			
	<b>All minerals</b>	<b>Copper</b>	
U.S.	33.0%	3.1%	
Japan	45.6%	70.0%	
EU	1.2%	0.0%	
* Each column displays the proportion of exports for that class of products only. Source: BC Stats, 1999a			
<b>Metal mines operating in BC (1999)</b>			
<b>Company</b>	<b>Mine</b>	<b>Capacity (tonnes/day)</b>	<b>Products</b>
Highland Valley Copper	Highland Valley	120,000	copper, molybdenum, silver, gold
Northgate	Kemess South	50,000	copper, gold
Thompson Creek Mining Company	Endako	30,000	molybdenum
Princeton Mining Corp.	Huckleberry	18,000	copper, molybdenum, gold, silver
Imperial Metal Corp.	Mount Polley	18,000	copper, gold
Cominco Ltd.	Sullivan	6,900	zinc, lead, silver
Westmin Resources Ltd.	Myra Falls	3,500	copper, zinc, gold, silver
Wheaton River Resources Ltd.	Golden Bear	1,000	gold
Prime Resources Ltd.	Eskay Creek	300	gold, silver
Source: BC Ministry of Finance			

world's central banks and global lending agencies. Nevertheless, BC's mining companies seized these conditions as an opportunity to disinvest in their BC mines and invest in existing operations in southern countries. In so doing, they have put themselves in a position to play one operation off against another in an attempt to wring concessions from provincial, state, and national governments and from their workers.

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## Industry Tale Ignores Global Factors

Despite the international framework of the crisis, media reports based on industry statements depict British Columbia as a province that is unfriendly to the mining industry. For the most part, this explanation stresses local factors, blames government policy, and pushes for local solutions. For example, Richard Bennett, writing in *The Vancouver Sun* in April 1997, argued that mining activity and all the investment that went with it were going overseas to "mining-friendly climates." He depicted British Columbia as an unfriendly climate because of "sometimes unreasonable environmental regulations," high taxation, and the government's alleged tendency to give in to "uninformed criticism from pressure groups."<sup>71</sup> Other media commentary calls for deregulation and tax breaks so the industry can compete in a global market. Without such special treatment, the argument goes, the BC mining industry will continue to suffer, mines will continue to close, and workers will continue to be laid off. Often these analysts claim that the provincial policy of settling aboriginal land claims is another factor in the crisis.

Organizations such as the corporate-backed Fraser Institute agree with this view. In its *Survey of Mining Companies Operating in North America, 1998/99*, the Fraser Institute ranks British Columbia last or close to last among all the provinces and among countries worldwide in terms of investment climate. They cite as problems regulation uncertainty, environmental regulations, Native land claims, and taxation, among other things.<sup>72</sup> The Fraser Institute characterizes the situation as being so bleak that the province ranks low even in terms of its mineral potential. The Institute ranks the mineral potentials of New Brunswick, Sas-

katchewan, Yukon, and the Northwest Territories as all being higher than the mineral potential of British Columbia. Yet, in 1998, a bad year for British Columbia's mining industry, the dollar value of the province's mineral production was greater than that of those four provinces and territories combined.<sup>73</sup>

The industry campaign to extract concessions from BC regulators and the public ignores global realities, yet has managed to have an impact on provincial policy. The government's 1996 Mining Rights Amendment Act (Bill 12) is in keeping with industry demands. The Act was sold by the government as a plan "to stimulate investment and employment in the sector . . . to secure investor confidence to work with industry to meet its goal of creating thousands of new mining-related jobs over the next decade." The Act entrenches the rights of mineral investors and companies and ensures access to mineral tenures, key industry demands.<sup>74</sup> The Mineral Exploration Code streamlines the application process for exploration permits by requiring only one form to be completed by the mining company, to be reviewed by the relevant agencies (Ministry of Energy and Mines; and Ministry of Environment, Lands, and Parks). In 1998 the government created an annual \$9 million Mining Exploration Tax Credit to stimulate exploration.

In the face of threatened and actual mine closings and layoffs caused by commodity price downturns and reduced revenues, the government began scrambling to work out deals with specific companies. For example, to keep the Mount Polley and Huckleberry gold-copper mines operating (under threats of closure), the BC government, with the aid of unions, suppliers, and creditors, helped cut costs for the Imperial Metals Company. Included in these favourable deals for the company are supplier discounts, tax and loan deferrals, temporary wage rollbacks, and at Huckleberry, an agreement to freeze payments on its environmental reclamation bond for two years. Endako Mines Ltd. received a similar deal for its mine at Fraser Lake. Highland Valley Copper temporarily closed on May 15 1999, after the companies that own it (Cominco, Rio Algom, Teck, and Highland Mining) were unable to squeeze enough concessions (including \$12 million from their workers) out of suppliers, the government, and the union. Eventually, in a landmark deal, a new contract was signed that tied wages to the cyclical highs and lows of the world copper market. Swings

British Columbia is not alone. Its mining woes are part of a global restructuring in the mining industry that has seen a spate of mergers and acquisitions and dramatic layoffs. Exploration expenditures are down 40% worldwide as mining companies switch from searching for ore to buying producing mines.

in commodity prices – including those that result from the speculative activity of mining investors – is now a part of the everyday reality of BC mine workers.

An important concern for the public is that BC’s government has rushed into its reforms and bail-out deals without answering two key questions: who will decide which changes should be made, and who will they benefit – miners and their communities or international mining companies and their shareholders? The real questions – about strengthening the position of mine workers, taxpayers, and the government against future commodity price troughs and upholding environmental values – have not been addressed.

## Outside Forces Affecting Mining in BC

The problem with the dominant policy debate is that it virtually ignores the industry’s main problem: the dramatic and long-term cyclic downturn in world commodity prices, particularly in prices for gold and copper. Also ignored is the role big Canadian companies played in bringing on this downturn with investment and development choices that created oversupply problems. Oversupply has its source entirely outside the province of British Columbia, save for decisions made in the boardrooms of BC mining companies in consultation with their financiers.

### Commodity Prices: the Impact of Financial Institutions

According to a recent World Bank report, “Real prices (for commodities) in 2010 are expected to remain below 1997 levels because of projected more rapid increases in supply than demand.”<sup>75</sup> Commodity exports are crucial to BC’s economy. For British Columbia’s mining industry, the real crisis does not rest in government taxation or environmental regulation but in the instability of world metal prices.

Between 1995 and 1998 the total value of mineral production in British Columbia was more than \$6.5 billion. The value of BC mining hit an all-time high in 1995 of just over \$2 billion.<sup>76</sup> If government costs were indeed the greatest factor in revenue generation, the record revenues of 1995 would have persisted, since regulations have not stiffened since that year. However, a greater factor affecting BC mining revenues is the world price for copper and gold (Table 2-2). In each of 1995 and 1998, for instance, British Columbia mined almost the same amount of copper, but the monetary value of the product was 39% less in 1998. In 1998, British Columbia mined about 2 million more grams of gold than it did in 1995, yet the gold was worth \$24 million less in 1998.

It is an economic reality that the decisions of a small number of institutions can have global implications. This reality exists for both gold and copper mining, but the institutions responsible for recent low prices were different for each metal.

The size of the world’s major central bank gold reserves is a major factor in the determination of

**TABLE 2-2: PRODUCTION OF GOLD AND COPPER IN BC, 1995-98**

	Copper		Gold	
	Production ('000 tonnes)	Value (million \$)	Production (tonnes)	Value (million \$)
1995	306.2	1,119.2	21.3	327.6
1996	252.8	725.3	19.8	306.2
1997	242.1	696.9	19.3	258.1
1998	304.8	681.3	23.9	303.9

Source: Natural Resources Canada, 1998

world's gold prices. Between 1992 and November 1998, the world's central bank gold reserves decreased from 928.81 to 881.21 million fine troy ounces.<sup>77</sup> That decrease reflected gold sold into the market, thereby deflating its price. In 1995-97 there was greater speculation in the gold market because of uncertainty in Europe concerning central bank reserves. With the creation of the European Central Bank and common currency, many European countries, in order to reach the required deficit-to-GDP ratio of 3%, considered selling off their gold reserves. Belgium, for example, sold close to two-thirds of its gold reserves in March 1998. Others, like Germany, France, and Spain, did not touch their reserves.

On our side of the Atlantic, the Canadian government has been hastily selling off its gold reserves. Between 1991 and February 1999, Canada's gold reserves decreased from 12.96 to 2.49 million fine troy ounces. In monetary value, this represents a decrease of U.S.\$359 million, approximately equal to BC's annual gold production.

On May 6 1999, gold prices plunged in a single day by U.S.\$6.80 an ounce to \$282.90 after Britain announced its plans to sell more than half its holdings.<sup>78</sup> Martin Murebennbeeld, an industry analyst, commented that central bankers are increasingly choosing to sell gold – which earns nothing sitting in their vaults – and re-invest the money in packages of interest-bearing bonds. He likens the modern central banker to a portfolio manager going for yield.

For copper, a low commodity price cycle was worsened by the International Monetary Fund's (IMF) ac-

tions. The IMF insisted that Third World copper projects – most notably in Chile – expand their production of copper in order to generate cash flows for debt repayment. This caused an increase in production (Table 2-3) at a time of decreased worldwide demand brought on partly by the Asian economic collapse. The end result was further depressed copper prices.

### **BC Mining Companies Head for South America**

After two years of dialogue between industry, unions, government, NGOs, and aboriginal groups a landmark agreement, the Whitehorse Mining Initiative Leadership Accord, was signed in 1994. According to the Accord, its principles and goals “represent a major and historic first step toward revitalizing mining in Canada. They point to changes that can restore the industry's ability to attract investment for exploration and development and, at the same time, ensure that the goals of aboriginal peoples, the environmental community, labour and the government will be met.” The mining industry was profitable in 1994 and 1995 in spite of the Accord and provincial environmental regulations in place. Nevertheless, with the downturn in metal prices, mining companies began complaining about government regulation and local conditions. Large companies like Placer Dome began divesting from British Columbia and investing in countries like Chile.

While overall industry spending remained fairly stable throughout the 1990s, the senior companies

**TABLE 2-3: EXPORTS OF COPPER ORE AND CONCENTRATES ('000 tonnes)**

	Canada	Chile
1991	328.1	506.7
1992	321.2	631.1
1993	301.6	655.0
1994	219.4	690.1
1995	256.7	783.9
1996	387.2	1019.8

Source: International Monetary Fund

decreased exploration expenditures in BC from \$50 million in 1996<sup>79</sup> to a record-low \$19 million in 1999.<sup>80</sup> In 1998, BC mining companies' exploration expenditures were 20% to 30% of their Ontario and Quebec counterparts, even though spending levels in all three provinces used to be similar.<sup>81</sup> Expenditures were so low that industry analyst Mike Smith commented, "Current levels of exploration are simply not sufficient to sustain the [BC] mining industry."<sup>82</sup>

The decline was due in part to a structural change in the industry that saw a greater share of the exploration costs and risks being off-loaded to stock market-driven 'junior' mining companies. The structural change was a reflection of a global retrenchment in exploration expenditures, which began as the price of gold dropped from U.S.\$387.78 per ounce in 1996 to U.S.\$294.78 in 1998 (Table 2-4).<sup>83</sup> Copper's fall began in 1996, from a 1995 average of U.S.\$1.33 per pound to U.S.\$0.75 in 1998 (Table 2-4).

The experience of Placer Dome is telling. Between 1992 and 1994, Placer Dome's annual profits averaged U.S.\$107.67 million<sup>84</sup>. After posting a profit of U.S.\$74 million in 1995, the company reported losses of U.S.\$65 million and U.S.\$249 million in 1996 and 1997. But in its annual report, Placer Dome does not blame these losses on high production costs, environmental regulation, labour costs, or taxation. Rather,

the company states that earnings "were significantly impacted by the decline in the gold price."

Placer Dome attributed the decline in the gold price to three factors: a strong U.S. dollar; a massive short-selling of gold by commodity funds, speculators, and central banks; and an unusually high volume of forward sales as higher-cost producers strived to cover their production costs. In other words, factors that governments – like the BC provincial government – can influence were not part of the picture at all. In spite of their own assessment, Placer executives offer a different spin in BC's news media. Joe Danni, Placer's vice-president of corporate relations, said that Placer is interested in opening up a gold-copper mine (Mount Milligan) in northern BC, but not until the government changes its regulatory and taxation practices.<sup>85</sup>

In the context of declining prices, mining companies have moved to lower cost locations, and pit operations in one part of the world against those in another. Placer transferred much of the wealth it had amassed from the labour of BC workers to countries like Chile and Peru. In the mid-1990s, Placer Dome had investments in or operated three mines in British Columbia: Endako, Equity Silver, and Gibraltar. In 1996 it sold its shares in the Equity Silver and Gibraltar mines, and in 1997 it sold Endako.<sup>86</sup> It meanwhile

BC's mining companies seized the opportunity to disinvest in their BC mines and invest in existing operations in southern countries. In so doing, they have put themselves in a position to play one operation off against another in an attempt to wring concessions from provincial, state, and national governments and from their workers.

**TABLE 2-4: YEARLY AVERAGE PRICE**

	Copper (U.S. \$/lb.)	Gold (U.S.\$/troy ounce)
1990	1.21	383.94
1991	1.07	361.74
1992	1.04	344.18
1993	0.87	360.29
1994	1.05	384.18
1995	1.33	384.27
1996	1.04	387.78
1997	1.03	331.23
1998	0.75	294.78

Source: BC Ministry of Finance

Placer transferred much of the wealth it had amassed from the labour of BC workers to countries like Chile and Peru. In the mid-1990s, Placer Dome had investments in or operated three mines in British Columbia: Endako, Equity Silver, and Gibraltar. In 1996 it sold its shares in the Equity Silver and Gibraltar mines, and in 1997 it sold Endako.

accelerated its more than \$1 billion exploration and development program in Chile, in particular at the La Coipa and Zaldivar mines, which are now in production. More recently Placer Dome purchased the Aldebaran property in Chile, which hosts the Cerro Casale gold-copper deposit.

These projects are now flooding the market with copper, further undermining its price and ensuring that mining in BC will stay in the doldrums for the foreseeable future. It's a vicious industry-driven cycle of low-cost production leading to oversupply and depressed metal prices, which leads to further pressure on governments to decrease production costs even more. Mining companies are clearly sometimes their own worst enemy.

### The Search for Lower Costs and Weaker Environmental Standards

Why would a firm like Placer Dome accelerate the run to Chile, Peru, and other Third World countries at a time of collapsing prices? The answer is a matter of recent access to previously unexplored high ore grades, low production costs, and weaker environmental regulations.

In Chile, for example, the average yearly salary at the large mining companies is reported to be U.S.\$21,640 (Cdn\$32,100). In British Columbia the average yearly salary is \$54,607.<sup>87</sup> In other words, labour costs in Chile are about 41% less than they are

in Canada.

Environmental standards in Chile are also much weaker. According to Professor Gustavo Lagos of the Mineral Centre of the Faculty of Engineering, Catholic University of Chile, his country had no environmental policy whatsoever before 1990. Since then government and mining companies have made "progress toward defining environmental policies." But the "policies and actions carried out by the Chilean Government and by Mining Companies in the environmental sphere are insufficient in order to tackle the environmental challenges faced by mining."<sup>88</sup>

Australia's Mineral Policy Institute has pointed to the Chuquicamata copper mine in Chile, the world's second largest copper mine, as having "experienced major pollution and contamination problems." Meanwhile, Chile, even after making the transition from its dictatorial past to democracy, still lacks a good record on human rights.<sup>89</sup>

Since the mid-1980s the opening up of Latin American countries to private mining investment has allowed Canadian companies like Placer Dome to exploit previously untapped high-grade ore in local economies hungry for foreign investment, often at a cost to workers and the environment. While the previous state-run companies were often worse in terms of efficiency or environmental protection, the private investment boom has left little room to demand significant improvements to community, worker, or environmental health.

TABLE 2-5: JAPANESE IMPORTS OF METALLIC RAW MATERIALS				
	Value (million U.S.\$)		Share (%)	
	Canada	Chile	Canada	Chile
1991	711	544	8.1	6.2
1992	625	588	8.2	7.7
1993	434	584	6.2	8.4
1994	419	719	5.6	9.6
1995	583	1,096	6.2	11.7
1996	400	1,062	4.8	12.9
1997	452	1,075	5.2	12.5

Source: Province of BC

The new reality is based on “corporate voluntarism”, a concept which is not well-suited to protecting rights or encouraging accountability.

As an example, Placer prides itself on its environmental standards. But a disastrous tailings spill at one of the company’s mines in the Philippines suggests otherwise.<sup>90</sup> Furthermore, Placer Dome had to halt exploration at its Cerro Crucitas gold property in Chile for non-compliance with an environmental impact statement.<sup>91</sup> These events – and similar ones in Guyana, Spain, Romania, and Kyrgystan – suggest that for many ‘modern mining’ companies, profits still come before environmental protection.

Back in North America, companies can shut the gates on rich ore bodies without serious financial loss. Because their stock value is as dependent on reserves as it is on production, mining companies have no qualms about leaving minerals and metals in the ground until prices increase. The reality of being able to effectively pit operations in different countries against one another provides extraordinary leverage for gaining concessions from governments and workers (as was the case with the Mount Polley, Huckleberry, and Highland Valley Copper mines).

As a result, Chile is gaining a larger share of the Japanese and U.S. markets that are so important to Canadian mining (Table 2-5). While Canada has moved from the fourth to the sixth leading supplier of metallic raw materials to Japan, Chile has moved from

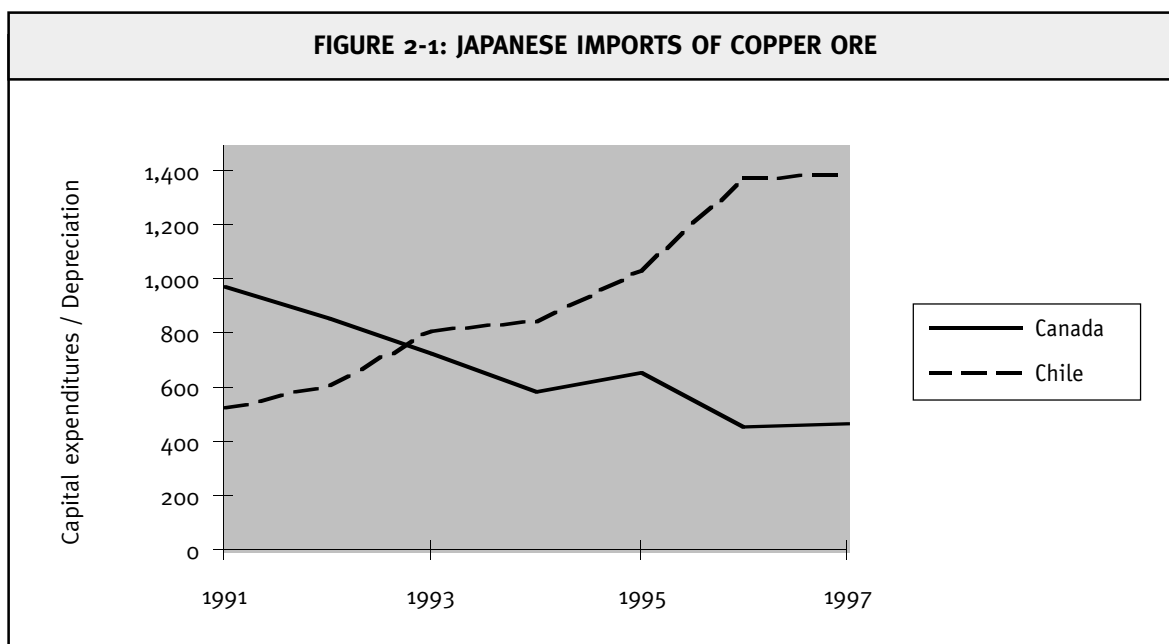
the seventh to second position.<sup>92</sup> (Australia has continued to be Japan’s leading supplier, keeping roughly a 25% market share from 1991 to 1997.) In the case of copper ore, Canada led the way in 1991, with a 24% share of the Japanese market (Figure 2-1).<sup>93</sup> By 1997, Canada was fourth at a market share of only 11.8%, with Chile at 34.7%, Indonesia at 24.1%, and Australia at 14.0%. Regardless, recent price decreases have hurt not only BC but have also had an overall slowdown effect on southern nations from Chile to South Africa.

## Towards Long-Term Solutions

The crisis facing mining communities in BC has little to do with provincial government policies. It nevertheless leaves BC in a politically and economically vulnerable position simply because the province is an advanced economy with greater expectations with respect to environmental quality and the rights of workers and communities. Trying to address the short term demands of investors without threatening the long term health of British Columbians has been a serious, and so far less than successful, challenge for the provincial government. To date, they have tried to respond to threats of further capital flight with piecemeal regional policy gestures.

Since the mid-1980s the opening up of Latin American countries to private mining investment has allowed Canadian companies like Placer Dome to exploit previously untapped high-grade ore in local economies hungry for foreign investment, often at a cost to workers and the environment.

FIGURE 2-1: JAPANESE IMPORTS OF COPPER ORE



Instead, the BC government needs to look for long-term solutions to the crisis in the mining industry, but not by tinkering with local cost structures and local regulations. They must recognize that BC cannot and should not compete with Chile or Peru on costs. And as long as commodity prices remain low, investment everywhere will be down.

### **Being Strategic with BC's Public Resources**

The province's mineral deposits, like our forests and our fish, are for the most part public resources. The provincial government must begin to manage them as such, by being more strategic and visionary with respect to their management.

The first step in this process is to develop a comprehensive understanding of the mining industry. Having a strong, current, and sophisticated assessment of the economics of mining will aid in determining the true financial position of the industry in this province and elsewhere. Claims made by mining corporations with respect to their bottom line and BC's regulatory environment can then be independently evaluated. Disingenuous statements from these companies can be dismissed, while justifiable changes can be made. For example, one of the legitimate complaints from BC's mining companies is that, in some instances, they pay more taxes and royalties when prices are low than when prices are high.

Part of this focused analysis must incorporate the many benefits that BC's government provides to mining operations. The provincial government collects excellent geophysical data used by mining companies, has regulatory control over access to venture capital, and provides a politically stable environment and a highly-skilled workforce.

Mining is a unique industry in that its operations are always temporary – on the day a mine is opened it is absolutely certain that it will one day close. To prepare for that day, the province must ensure that the resources needed for environmental clean-up and worker and community adjustment are accumulated over the life of the operation. Mining companies should be required to reinvestment a minimum percentage of BC-earned capital in provincial exploration. Such a mechanism could be used to sustain the industry in the province.

Another reality of the mining industry is that, in some cases, an economically rational business decision might be to leave ore in the ground. This strengthens the industry's position with respect to bargaining, allowing them to simply shut down operations until they get the concessions they want. However, the holding of mineral rights could be made contingent on performance requirements such as the mining of the resource within a certain time period. The mining company would lose its occupancy right to the resource after that period of time, and other companies who *are* interested in mining the property would be allowed to do so.

### **Developing International Relationships**

In order to avoid "race to the bottom" competition for mineral investment dollars, we must actively pursue greater corporate transparency and international accountability. Claims by industry that their conduct is consistently beyond reproach regardless of the jurisdiction, regulatory climate, degree of labour organization, or public scrutiny do not stand up. Yet, these claims are used regularly to undermine legitimate calls for corporate controls. Without a strong set of binding international requirements for disclosure around public risk, as well as a commonly accepted international approach to standards and performance, regional governments will continue to be in a very weak bargaining position with these multinational companies.

Further, the province's non-governmental leaders can build links and make common cause with miners and mining community leaders in other commodity-producing parts of the world. It is clear there exist powerful common interests. BC's mining unions and NGOs can assist those who might at first seem to be competitors by helping them improve their poverty-level wages and fight environmental degradation brought to the Third World by First World mining corporations.

The provincial government can also develop contacts with other governments in order to strengthen both their bargaining positions. For example, in Chile there is an ongoing public debate about whether the expansion of mineral production is really in the national interest as well as a great deal of public con-

The crisis facing mining communities in BC has little to do with provincial government policies. It nevertheless leaves BC in a politically and economically vulnerable position simply because the province is an advanced economy with greater expectations with respect to environmental quality and the rights of workers and communities.



cern that their resources are being mismanaged. Fostering a relationship with that country's decision-makers might allow for discussion on the optimum level of copper production, for example, so that its price does not remain low forever.

The end goal is a system of orderly production and marketing, involving some form of common action by governments and mining communities in producing regions. It will be difficult to achieve. But the very process of working toward that goal, step by step, will be far more conducive to the long-term health of British Columbia's mining industry than capitulation to the short-term demands of those who are trying to obscure the causes of the industry's crisis. There is ample precedent for such a campaign. Mine union

leaders and local activists in Sudbury, Ontario waged a fight for just such a commodities cartel in the late 1970s when new supplies of nickel were poised to undercut the value of Canada's nickel deposits.

The alternative would be to allow the mining industry to rule by blackmail and ultimatum, forcing down miners' living standards everywhere through aggressive, 'bottom-line' competition with poverty-stricken nations like Peru, Indonesia, or Zambia. Rather than generating wealth and healthy communities from our public mineral endowment, this path would transfer that capital primarily to the shareholders and corporations that have, in effect, sponsored the decline of their own industry here in BC. ■



# The BC Salmon Fishery:

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## How Independent and Small-Boat Operators Got Squeezed Out

IN JUNE 1998, THEN FEDERAL FISHERIES MINISTER DAVID ANDERSON WARNED CANADIANS that British Columbia was in danger of losing the coho. He was planning, he said, to restructure the entire salmon fishery in the name of conservation.<sup>94</sup> The implications of the announcement were not lost on the Fisheries Council of British Columbia, the lobby for the major fishing companies. They had waged a relentless 30-year campaign to sell both the federal government and the public on the idea of fishery fleet reduction. Their success would culminate in this last round of restructuring. The rationale for the restructuring likely did not matter to them, so long as it happened, but Anderson used a reason he knew would appeal to a broad segment of the public: salmon conservation.

Fleet restructuring is a euphemism for fleet reduction. And the truth is that the salmon fleet indeed needed to be reduced, for the sake of salmon conser-

vation and the viability of commercial fishermen. However, restructuring can take many forms. Former fisheries ministers Fred Mifflin and Anderson decided to favor the corporate-owned and controlled seiners instead of small boat operators and the communities that depend on them. The result is that control of the salmon fishery has been consolidated into the hands of corporate seiners and license speculators, while the viability of coastal fishing communities is in serious jeopardy.

**TABLE 3-1: BC SALMON FISHERY AT A GLANCE**

(1997, unless otherwise indicated)		
<b>Wholesale value of catch as % of BC GDP</b>	0.46%	
Source: BC Ministry of Finance		
<b>Share of BC Exports</b>	1.50%	
Source: BC Stats, 1999a		
Major Markets: Destination of BC Salmon exports (1998) *		
	Whole fish	Canned, smoked
U.S.	65.0%	0.9%
Japan	11.0%	1.0%
EU	1.2%	13.8%
* represents % of all wild and farm salmon exports, whole, canned and smoked. Source: BC Stats, 1999a		
Major fish processors		
Canadian Fishing Co.	J.S. MacMillan Fisheries	Ocean Fisheries Ltd.
Major BC Fisheries		
Fishery	(\$ million)	
Wild Salmon	300.4	
Farmed salmon	195.0	
Herring	116.0	
Halibut	64.0	
Groundfish	140.2	
Shellfish	165.3	
Other	1.2	
Total	982.1	
Source: BC Ministry of Fisheries, 1997		

## A Long History of Restructuring

“Fishery restructuring” was first invoked in 1968 at a moment of economic crisis. The catching capacity of British Columbia’s 7,000-boat salmon fleet was increasing rapidly, yet the average BC fisherman was finding it hard to make ends meet. Tension between operators of the different gear types – from gillnetters to seiners – was increasing, no solutions were in sight,

and the salmon fishery appeared to be in deep trouble.<sup>95</sup>

The first step was the Davis Plan of 1969, a strategy to buy back a large number of small salmon boats. This put the fishing companies in position to replace independent boats with corporate seine boats that were two to three times more efficient than the “inefficient” small boats. The Davis Plan increased corporate catching capacity at the expense of more than 3,000 boats that were bought out of the fishery, all in the name of cost reduction and efficiency.<sup>96</sup>

The concept of fishery restructuring did not die with

Fleet restructuring is a euphemism for fleet reduction. And the truth is that the salmon fleet indeed needed to be reduced, for the sake of salmon conservation and the viability of commercial fishermen. However, restructuring can take many forms. Former fisheries ministers Fred Mifflin and Anderson decided to favor the corporate-owned and controlled seiners instead of small boat operators and the communities that depend on them.

the Davis Plan’s implementation. For years resource economists and government fishery scientists stated that in order to make our salmon fishing system more efficient and less costly we had to eliminate “marginal” fishing boats.<sup>97</sup> Some even speculated that as low as 10 to 20% of the current fleet could catch the same amount of fish.<sup>98</sup> According to this view the major policy question was not whether to eliminate fishing boats but when to stop small-boat fishing altogether.

Where did this opinion come from? How has it remained with us in the 1990s, a decade where, far from extinction, the Horsefly sockeye stock surged to surpass the Adams as the most productive stock in the Fraser watershed? Sockeye in the Chilco, another Fraser tributary, had strong returns in 1999. In 1997 there was a record return of 7 million sockeye to the Skeena River. Sockeye returns to the Nass River were also strong, and target escapement levels were exceeded in 1996.<sup>99</sup>

The answer is, in part, that there were some weak salmon stocks (namely the upper Skeena and upper Thompson coho, some chinook runs, and the central coast sockeye). These coincided with three years of

low salmon prices and increased international and domestic competition from fish farming. What was neglected in this push for fleet rationalization was that low salmon returns were a product of several factors. Overharvesting by the commercial fleet needed to be addressed, but other important factors included habitat loss, changing ocean conditions, and an unrestricted coho sport fishery.

To understand how the fishing corporations and the federal Department of Fisheries and Oceans (DFO) captured the fishery debate in British Columbia, we must first understand the public’s perception of commercial salmon fishermen as strip miners of the sea. After the collapse of the eastern cod fishery, the public was concerned about and sensitive to the health of the west coast salmon stocks. Many people had come to assume a causal connection between commercial fishing and declining salmon stocks. Mainstream media and policy discussions discounted the commercial fishery as failed, without recognizing the complexities of the issue. It is essential to our analysis that we unpackage the simplistic belief that commercial fishing “destroyed” the coho and threatens to destroy other salmon stocks.

TABLE 3-2: NUMBER OF JOBS IN COMMERCIAL SALMON FISHING		
	Fleet [1]	Salmon fishery [2]
Prior to 1996	10,430	17,385
1997	6,558	10,940
2000	-	5,000*
*Estimate [1] source: Gislason et al., 1998 [2] source: Gislason; includes fleet, supplies, processing, and transport & handling		

TABLE 3-3: NUMBER OF LICENSES IN COMMERCIAL SALMON FISHING FLEET				
	Seine	Gillnet	Troll	Total
1995 [1]	536	2,543	1,288	<b>4,367</b>
2000 [2]	275	1,097	542	<b>1,914</b>
Reduction	48.7%	56.9%	57.9%	<b>56.2%</b>
Source: [1] Gislason et al., 1998; [2] calculated from: Department of Fisheries and Oceans, 2000				

# The Salmon Fishery

A few basic facts provide a backdrop for understanding the highly diverse nature of BC's salmon fishery. BC waters produce some of the best salmon runs in the world. High quantities of six species – chinook, sockeye, pink, coho, chum, and steelhead – are caught by BC fishermen. Sports fishermen harvest the majority of three species: coho, chinook, and steelhead. The commercial salmon fleet is classified by gear type: gillnetters (curtain-like nets that nab salmon by their gills), trollers (hook-and-line fishing), and seiners (purse-like nets cast in the open sea). First Nations people make up a significant proportion of people employed in the commercial fishing fleet. In 1995, First Nations people operated 29% of the commercial salmon licenses and filled 29% of the salmon crew jobs.<sup>100</sup>

The seiners – the higher capacity boats that traditionally made up about 12% of the total commercial fleet yet haul in more than 40% of the catch – are largely owned, controlled, or mortgaged by the major processing companies, which are located mostly in the province's lower mainland.<sup>101</sup> In early March 1999, Jimmy Pattison's Canadian Fishing Company, Canfisco, announced its purchase from George Weston Ltd. of the remaining fisheries assets of BC Packers

Ltd. This gave Canfisco ownership of one-quarter of the seiners in Canada's Pacific fishing fleet, the majority position in Canada's roe herring fishery, and the BC Packers plants in Alaska.<sup>102</sup>

Salmon is processed into canned, fresh, frozen, or smoked fish at more than 100 plants along the coast.<sup>103</sup> Canfisco now accounts for more than one-third of all BC salmon production, with the majority of its operations located in Vancouver and Prince Rupert.<sup>104</sup> J.S. MacMillan Fisheries and Ocean Fisheries Ltd. are the other two companies in BC's "big three" of fish processing. This apparent consolidation, however, betrays the reality that salmon is processed mostly by many smaller companies that dot the coastline.

The number of active licensed boats in the province's commercial salmon fishery was estimated at 2,881 in 1997, a reduction of 33% from the 1991-94 average of 4,288.<sup>105</sup> The decline in licenses is mirrored by the decline in seasonal fishing jobs. The number of commercial salmon fishers in BC was estimated at 6,558 in 1997, a decrease of 37% from 1995 (Table 3-2).<sup>106</sup> Respected analyst Gordon Gislason suggested in a report for the Job Protection Commissioner that a fleet size of 2,100 vessels would be required to make a viable industry.<sup>107</sup> As of January, 2000, the fleet had been diminished below that number to less than 2000 active boats (Table 3-3).

Despite the fact that Alaska's harvest has historically been much bigger than BC's,<sup>108</sup> the premium quality of BC salmon meant that the size of BC's commercial catch determined the market price for salmon. This helped to stabilize BC fishermen's salaries. When BC catches were low, low supply meant a higher price

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**TABLE 3-4: BC SALMON LANDINGS**

('000 tonnes)		
	Wild	Farmed
1990	96.4	15.5
1991	85.7	24.4
1992	64.3	19.8
1993	85.0	25.6
1994	65.8	23.7
1995	48.5	27.3
1996	34.6	27.8
1997	48.7	36.6
1998*	30.2	42.3
*estimated		
Source: BC Ministry of Fisheries, 1998		

**TABLE 3-5: SOCKEYE LANDED PRICE**

(\$/pound)	
1990	1.85
1991	1.55
1992	2.30
1993	1.50
1994	2.82
1995	2.00
1996	2.25
1997	1.48

so that fishermen weren't hit as hard. Conversely, a great harvest year was tempered by lower salmon prices.

Unfortunately, this trend did not persist. The province's low recent salmon harvests – 30,200 tonnes in 1998 compared to a long-term average of 71,000 tonnes (Table 3-4) – have been coupled with dropping market prices (Table 3-5).<sup>109</sup> The province's record low 1996 harvest of 35,000 tonnes was dwarfed by the Alaska catch of 435,000 tonnes. Meanwhile, the newly emerging farmed-salmon power of Chile surpassed BC with a harvest of 158,000 tonnes, with world production of farmed salmon quickly approaching that of wild salmon (Figure 3-1).<sup>110</sup> Despite some recent good news – the partial recovery of prices, the region's stabilized fish stocks, and Japan's slow recovery<sup>111</sup> – the repercussions from all the bad news will continue to be felt in coastal communities for the foreseeable future.

### Farmed Salmon Compounds the Crisis for BC's Small-boat Operators

The unique aspect of BC's current fishery crisis is not "too many boats chasing too few fish" but timing. What turned a bad situation into a potential catastrophe in 1995-97 was that a declining salmon catch coincided with a dramatic increase in the production of Chilean

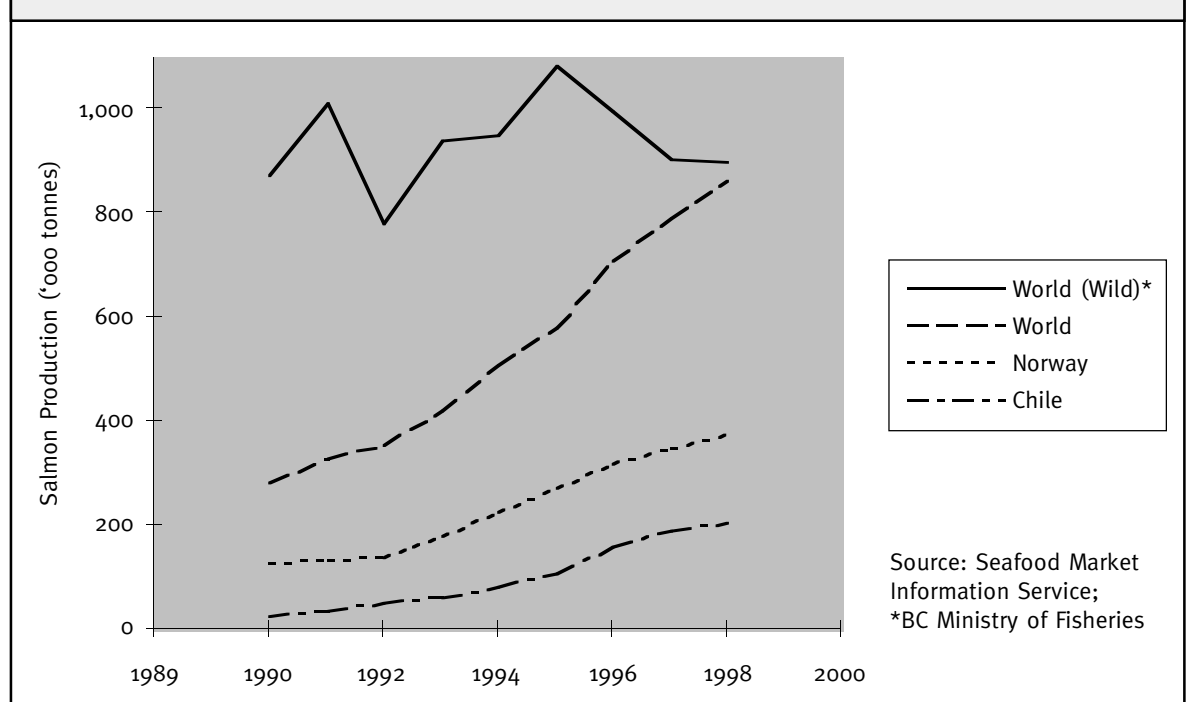
farmed salmon. Chile has become one of the world's top salmon producers, second only to Norway.<sup>112</sup> More than half (56.6%) of Chile's salmon exports go to Japan, while 30.9% go to the United States, which are both key markets for BC wild salmon. And the relentless annual increases in world farmed-salmon production show no signs of slowing.

The world's largest salmon market is Japan.<sup>113</sup> In 1998, Chile sold more salmon in Japan than did Alaska, the world leader in wild-salmon production.<sup>114</sup> The reason was simple: price. The Japanese wholesale price for a wild Bristol Bay frozen sockeye of four to six pounds in 1998 was \$2.82 a pound. A similar Chilean coho at the same time sold for 38 cents a pound less.<sup>115</sup> In a year, when Japan's total imports of salmon increased by 6.7% and sockeye prices were the highest in ten years, Japan saw a 75% decrease in Canadian sockeye salmon imports, to 2,491 tonnes. Meanwhile, Japanese imports of Chilean trout – like salmon, produced primarily by fish farmers – increased by 29%, to 40,508 tonnes.<sup>116</sup>

The world's farmed salmon industry has been the only clear winner in recent years. BC's wild salmon industry continues to lose market share, falling in 1998 to less than 5% of the world's market, down from a 15% share just ten years earlier.<sup>117</sup> The annual global average of wild salmon production during the 1990s

What turned a bad situation into a potential catastrophe in 1995-97 was that a declining salmon catch coincided with a dramatic increase in the production of Chilean farmed salmon.

FIGURE 3-1: WORLD FARMED SALMON PRODUCTION



was 940,000 tonnes, while farmed salmon production went from 280,000 to 864,000 tonnes in 1998 (Figure 3-1).<sup>118</sup> The International Salmon Producers Association predicts that Chilean salmon will supply 32% of world demand by 2010.<sup>119</sup>

Increasingly, BC's farmed salmon have become a contributor to world oversupply despite the supposed moratorium on new fish farms. BC fish farms produced 42,300 tonnes of salmon in 1999, up 50% over industry predictions<sup>120</sup>, due mainly to increased production on a per farm basis. Production is expected to increase by a further 45% in the next four years<sup>121</sup> through the redistribution of licenses from problem sites<sup>122</sup> and/or inactive fish farms to new operators in new areas. The federal and provincial governments seem determined to expand farmed salmon production without the necessary environmental safeguards, contradicting the DFO's supposed emphasis on conservation.

Inevitably, that level of production flooding onto the world market will cause fresh and frozen salmon prices to drop. As a report by BC economist Murray Shaffer put it, "World farm production has depressed fresh prices and displaced frozen markets."<sup>123</sup> Profit squeeze has been an overworked term, but it describes British Columbia's salmon crisis all too well.

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## The DFO's Latest "Solution": More Restructuring

The DFO was desperate to overhaul the fishing system due to a few bad years of fishing and weak corporate profits. Working closely with the fish companies, in 1996 the DFO came up with a strategy, named after then fisheries minister Fred J. Mifflin. The main elements were:

1. License buybacks: the DFO would halve the 4,200-strong commercial salmon fleet by buying up existing commercial licenses.
2. Single gear licensing: this restricted fishermen to only one type of gear per license to land salmon.
3. Area licensing: BC's coast was divided into three areas for the smaller trollers and gillnetters and two for the larger seiners; each license allowed a fish-

erman to access only one area.

4. License Stacking: fishermen who wanted to access more than one area could "stack" licenses by purchasing more.

The concept of a license buyback was perhaps the least contentious element of the plan.<sup>124</sup> Many fishermen acknowledged that some fleet reduction was necessary and some fishermen were perfectly willing to sell their license and retire from fishing. Area licensing and license stacking, however, were widely believed to encourage independent operators and small-boat fisherman to either assume unsupportable debt loads in pursuit of licenses or be forced to leave the fishery. For instance, it cost approximately \$80,000 to buy a gillnet or troll license and \$430,000 for a seine license<sup>125</sup>. This "fleet rationalization" further concentrated catch capacity in the deeper pockets of the fishing corporations.<sup>126</sup> To add insult to injury, licenses could be leased out in speculative financial ventures that turned Toronto dentists, for example, into fishing landlords and license speculators.<sup>127</sup>

The fish corporations knew that their financial success depended on increasing corporate control of the industry.<sup>128</sup> DFO officials helped by ensuring that new policy initiatives such as license stacking, license fees, and area licensing made it difficult for small boat fisherman – northern gillnetters for example – to make a living.<sup>129</sup> BC salmon fish jobs soon fell precipitously. BC fish processors were thus able to achieve their goal of dramatically reducing the fleet. Ironically, this would do little to ensure conservation since the fishermen who were bought out were those who had the least impact on salmon stocks.<sup>130</sup>

Clearly the most vulnerable fishers in an economic downturn are independent and small-boat operators, people without the financial resources to survive more than two bad years in a row. While the license buyback plan was sold as an example of the free market's natural role of picking winners and losers, others feared that it would lead to the abandonment of entire coastal communities.<sup>131</sup> For all the departmental rhetoric about balance, the license buyback plan did not adequately consider the long-term viability of these communities.<sup>132</sup> And in the wake of public opposition to the Mifflin plan, the DFO shifted the focus to conservation, particularly of the coho, as a means of exploiting the environmental appeal of salmon and justify its restructuring measures. At a critical time when

The federal and provincial governments seem determined to expand farmed salmon production without the necessary environmental safeguards, contradicting the DFO's supposed emphasis on conservation.

salmon prices were declining, weak salmon stocks became banners that could popularize the DFO restructuring agenda.

The DFO's message was based on the convergence of weak salmon returns, priority rights of aboriginal fisheries, and falling salmon prices to promote its agenda of fleet reduction and license reforms. Its message of increased conservation captured the escalating environmental fears of urban British Columbia at a time when coastal fishing communities were most vulnerable.

Under the next federal fisheries minister, David Anderson, restructuring themes were sharpened and the message of endangered salmon stocks became more pronounced. Anderson built on environmental sentiments by popularizing the image of a non-selective and implicitly environmentally destructive commercial fishery.<sup>133</sup> By playing into a stereotype of the overfishing commercial fisherman, the DFO's message – generally accepted by the public – was that the commercial fishery could never be selective.<sup>134</sup>

The DFO increasingly focused the public debate on issues of fleet size and endangered salmon runs rather than on an understanding of the complexities and nuances of how fishing works in coastal communities. In this way, fleet overcapacity became the primary cause of weak stocks, not issues such as climate change, pollution, habitat degradation, or marine survival rates.<sup>135</sup> Also not considered was the Department's ability to properly manage fisheries openings and area boundaries in order to make the fishery more selective, its lack of commitment to adequate funding for research, or the fact that license buybacks have not reduced capacity. Instead, the argument was reduced to its simplest form: too many boats caused too much fishing.

The result of DFO's programs was devastation for many coastal communities dependent on commercial salmon fishing. Employment in the fishery has plummeted from over 17,000 jobs in 1995 to an estimated 5,000 in 2000 (Table 3-2). Though few regions have escaped the impacts, those communities hardest hit, at least by the Mifflin Plan, were the Queen Charlotte Islands, the Central Coast, and the northern part and west coast of Vancouver Island.<sup>136</sup> Furthermore, these regions have the highest concentration of aboriginal peoples in their commercial fishing populations. Seven of the fifteen most heavily impacted communities, in terms of job losses as a proportion of total jobs in the

community, are primarily First Nations communities.<sup>137</sup> Aboriginal people and communities find it particularly hard to cope with a reduced employment base since fishing jobs make up a greater share of their economic base, there are fewer job opportunities in aboriginal villages, and many of these communities are isolated and/or lack road access.<sup>138</sup> This is also the case for isolated non-aboriginal communities.

## The Critics

The diversity of responses to Anderson's plan matched the complexity of the salmon fishery itself. Within the environmental community, some groups fully supported Anderson, others were pleased that conservation was being given consideration but were hesitant to support the shut down of the fishery, and still others were critical of Anderson for using conservation as a guise to ram through a fleet restructuring program that would adversely affect fishing communities.

Most defenders of independent operators and small-boat fishermen believed that less emphasis should have been placed on license reallocation. They felt that a well-managed small-boat commercial salmon fishery could feasibly implement conservation practices first and foremost. The reallocation of fishing capacity, they felt, would increase corporate control of the seine fleet, a fleet that already had a majority of the catch capacity. The result would be that even viable independent operators and small boats would eventually have no choice but to leave the fishery. Instead of reducing the fleet by punishing community fishermen, some felt that the people or communities nearest to the particular fishery should have priority rights of access.

Meanwhile, an ad hoc coalition of commercial, aboriginal, and sport fishermen, and environmental and community representatives developed a three-pronged solution to the decline in coho. They called for the DFO to implement short-term measures to protect the coho, mid-term programs to invest in fishers and fishing communities, and a long-term strategy to protect and restore fish habitat from its many impacts and threats.

It is interesting to understand why the Department did not react to its critics. Part of the reason is the mutual hostility and suspicion that exists between fishermen and the DFO.<sup>139</sup> Most importantly, though, was that corporate interests had captured the regulator, the

Area licensing and license stacking were widely believed to encourage independent operators and small-boat fisherman to either assume unsupportable debt loads in pursuit of licenses or be forced to leave the fishery. To add insult to injury, licenses could be leased out in speculative financial ventures that turned Toronto dentists, for example, into fishing landlords and license speculators.



DFO. The plan put into place was one designed for the good of the fish-processing companies and put forth by the processing companies.<sup>140</sup> They were the real winners in this drama, and they quickly predicted an increase in their profits through the consolidation of fishing boats.<sup>141</sup>

Despite a fleet which is only 44% of its 1996 size<sup>142</sup>, conservation is no more assured now than before Mifflin. The reason is that the size of the catch will be determined the same way, using test fisheries and predictive models to establish catch targets for various salmon runs. In fact, inequity between the holders of different gear types is the only sure thing. First, gillnet and troll licenses were reduced more than seine li-

censes (Table 3-3). Second, only the seiners now have excess capacity. Thus, in years of low salmon returns, the remaining fleet will equally divide the catch, but when higher returns occur, only the corporate-controlled seiners will have the ability to increase their catch, and they will dominate the commercial fishery.

Two other DFO decisions demonstrate that conservation was never a priority. First, sport fishermen were allowed to continue catching coho in most BC waters during the commercial fishery closure. Second, the Pacific Salmon Treaty signed by the DFO and American regulators allows Alaskan fishermen to have access to BC-bound coho salmon passing through their waters. This included the years BC fishermen were unable to catch any coho themselves.

Not considered was the Department's ability to properly manage fisheries openings and area boundaries in order to make the fishery more selective, its lack of commitment to adequate funding for research, or the fact that license buybacks have not reduced capacity. Instead, the argument was reduced to its simplest form: too many boats caused too much fishing.

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## Democratization of the DFO

The policies implemented by Mifflin and Anderson are indicative of the way the Department's traditional way of dealing with fishermen – sport, commercial, and aboriginal alike. There is a continued lack of consultation with these important stakeholders. Had decision-makers at the DFO been listening, they would have heard a plethora of potential solutions, most of which would have led to a more sustainable and equitable fishery.

The most important mandate of any fisheries regulator is to determine who has access to the fish. Though certainly not a perfect model, Alaska ensures that licenses go only to owner-operators. No leasing, stacking, or speculation is allowed. A state commission monitors license transfers and a state fishing loan program oversees all licenses. By limiting licenses to fishermen, the industry has been stabilized.<sup>143</sup> Another option is to establish a license bank to coordinate the distribution and transfer of licenses. In short, mechanisms need to be established to ensure baseline economic survival for BC's coastal communities.

Diversification in the fishing industry is another option that can lead to the survival of coastal communities. To facilitate diversification, policies should be put in place to help fishermen afford the cost of hold-

ing a fishing license for more than one fishery. There are several ways of doing this, but one is to provide existing small boat owner/operators with affordable access to licenses for newly-created fisheries. This would diminish the seasonal nature of most fishing jobs and buffer fishermen from bad years in any one fishery.

Another strategy to stabilize the industry is to move towards more value-added for the landed salmon. One way of providing this needed economic development is to establish programs to aid small entrepreneurs in coastal communities, be they fishermen or other community members, to produce highly valued fish products such as well-handled frozen fish.

Finally, the BC wild salmon fishery is a valuable resource that must be protected from the environmental pressures of other activities in the province. The ecological threats of open-net fish farming – pollution, disease transmission to wild salmon, and competition from escaped Atlantics – are important. But there are others. Salmon habitat is also greatly affected by forestry practices, water extraction, riverside development, and pollution from agriculture, industry, and municipal sewage. These activities must be managed in order to protect the health of the wild salmon, for there will always be a market for these fish. ■



# Conclusion

FOR THE PAST SEVERAL YEARS BC'S RESOURCE CORPORATIONS HAVE TOLD US A STORY OF increasing costs and government interference. And they have shouted it out so loudly that they have managed to lay the blame at the feet of government, workers, First Nations, and environmentalists. A new story needs to be told, one with some clear lessons.

First, the crisis arose in large part because of international competition and the collapse of investment. The provincial government was too easily convinced that regulatory costs were at the root of the crisis.

Second, investment is the foundation of any industrial policy. The corporate work-to-rule campaign on new investment has left us locked into an archaic industrial structure hinged on volume not value, which only increases the potential for environmental confrontation and plant shutdowns.

Third, environmental regulations played only a very small part in increasing costs. Furthermore, investments in sustainability and product chain stewardship are part of an emerging reality of competitive advantage. A committed move by the forest companies towards ecologically sustainable practices will open up new markets for their products. Similarly, mining com-

panies will be increasingly pressured by consumers to reduce the risk of environmental disasters and take responsibility for their products from "cradle to grave".

The fourth and final lesson is that the stakeholders who have dominated the direction of public resource management are those from industry. British Columbians who depend on the forests, fish, and minerals for their livelihoods, and environmentalists who campaign for ecologically sustainable industries have learned about the importance of a convincing media story the hard way. Corporations who can manipulate images and stories can divert public attention from the money that is changing hands.

A more thorough analysis reveals a fundamental split between the resource corporations and the facts over how much the province's current resource sector

problems can be traced to regulatory costs, and how much they are the product of international competition and a lack of investment. In essence, and most importantly, the public has been misled about the cause and effect relationship of the crisis, which means in turn that current policy proposals urgently need to be reconsidered and dramatically altered. The question is: What do we want from our resource sectors – for workers, First Nations people, our communities, and the environment?

These are the challenges. The ease of capital mobility makes it more difficult to retain the wealth that is created in BC. Irrational decision-making by corporations in the resource sectors has led to overcapacity in many basic commodities. The sustainability of our resources and the environment is being compromised by short-term thinking. And conflicts with First Nations people need to be resolved for justice to be served and stability to be maintained in BC.

Resource policies exist that can meet those challenges. The province should require that a portion of forest companies' BC-based profits be reinvested within the province. Creating a fund, capitalized through restored stumpage fees, to help companies produce more products with greater added value is another option. Allowing communities and smaller enterprises interested in producing high quality wood products to access fibre can also lead to greater economic returns from our forests.

In mining, policies are needed to ensure that, at the end of a project, the required capital for environmental clean-up and worker and community transition has been set aside. Also, working towards a system of orderly global production would combat the oversupply that exists for many minerals due to independent decision-making.

In commercial salmon fishing, small-boat independent fishermen – Native and non-Native – need to have priority access to the resource. No license stacking or leasing should be allowed, since this leads to corporate concentration and financial speculation. Also, providing the funding for community-based economic development projects can lead to economic and social stability for coastal communities. Finally, wild salmon, an icon of this province, must be protected from the environmental impacts of other activities, including fish farms.

The significant challenges facing BC's resource sectors will be addressed by the BC Resource Policy desk at the CCPA's BC office. Ongoing, future research will investigate, more deeply, policy alternatives that work for the communities and workers of this province, while settling First Nations land claims equitably, and protecting the environmental qualities that British Columbians hold dear.

For the past several years BC's resource corporations have told us a story of increasing costs and government interference. And they have shouted it out so loudly that they have managed to lay the blame at the feet of government, workers, First Nations, and environmentalists. A new story needs to be told, one with some clear lessons.

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# Endnotes

- <sup>1</sup> This is generally justifiable on the grounds that these are public assets that must be protected in order to ensure a long-term future return. Also, taxes are used to create competitive advantages for BC, such as an educated workforce, a reliable social and political structure, and programs such as health care, whose costs would be borne by employers were they not publicly accessible.
- <sup>2</sup> Hamilton, 2000a
- <sup>3</sup> Vancouver Sun, 2000; and Fong
- <sup>4</sup> Carter
- <sup>5</sup> see Luke; Mertl
- <sup>6</sup> BC Ministry of Finance, p.290
- <sup>7</sup> BC Stats, 1999a
- <sup>8</sup> PricewaterhouseCoopers, 1997, p.17
- <sup>9</sup> BC Stats, 1999a
- <sup>10</sup> PricewaterhouseCoopers, 1997, p.17
- <sup>11</sup> PricewaterhouseCoopers, 1997, p.17
- <sup>12</sup> PricewaterhouseCoopers, 1997, p.16
- <sup>13</sup> PricewaterhouseCoopers, 1997, p.i
- <sup>14</sup> BC Stats, 1999a
- <sup>15</sup> TimberWest
- <sup>16</sup> Binkley
- <sup>17</sup> Johnson
- <sup>18</sup> Gibbon
- <sup>19</sup> Gibbon
- <sup>20</sup> PricewaterhouseCoopers, 2000
- <sup>21</sup> PricewaterhouseCoopers, 1997
- <sup>22</sup> BC Ministry of Finance, p.252
- <sup>23</sup> BC Ministry of Finance, p. 252
- <sup>24</sup> BC Stats, 1998a
- <sup>25</sup> Nazareth
- <sup>26</sup> Smyth, 1999a
- <sup>27</sup> Pearse, 1999
- <sup>28</sup> see for example Carter, 1998; Wilson; BC Ministry of Finance and Corporate Relations, 1999; BC Wild; Marchak et al.
- <sup>29</sup> Reed and Associates Woodbridge
- <sup>30</sup> BC Wild; Sanjayan and Soule; Marchak et al.
- <sup>31</sup> Smyth, 1999b
- <sup>32</sup> Pierce Lefebvre Consulting
- <sup>33</sup> Wilson
- <sup>34</sup> Gaston et al.
- <sup>35</sup> Kerr
- <sup>36</sup> Smyth, 1998
- <sup>37</sup> Carter
- <sup>38</sup> Nagahama and Bean
- <sup>39</sup> BC Stats, 1997
- <sup>40</sup> Carter
- <sup>41</sup> Luke
- <sup>42</sup> Hamilton, 1999a
- <sup>43</sup> Hamilton, 1999b
- <sup>44</sup> PricewaterhouseCoopers, 1997
- <sup>45</sup> Carter, 1998
- <sup>46</sup> CEP
- <sup>47</sup> PricewaterhouseCoopers, 1999
- <sup>48</sup> Kenny
- <sup>49</sup> Jaakko Poyry Consulting
- <sup>50</sup> PricewaterhouseCoopers, 1999
- <sup>51</sup> Timber and Wood Products
- <sup>52</sup> Smyth, 1999b
- <sup>53</sup> Canadian Press
- <sup>54</sup> BC Stats, 1998c
- <sup>55</sup> PricewaterhouseCoopers, 1998
- <sup>56</sup> KPMG/ HA Simons
- <sup>57</sup> PricewaterhouseCoopers, 1999
- <sup>58</sup> Carter
- <sup>59</sup> KPMG/HA Simons
- <sup>60</sup> BC Ministry of Finance and Corporate Relations, 1999
- <sup>61</sup> Damsell
- <sup>62</sup> Carter
- <sup>63</sup> Hamilton, 1999a
- <sup>64</sup> Hamilton, 2000b
- <sup>65</sup> Burda et al., p.3
- <sup>66</sup> Burda et al., p.6
- <sup>67</sup> BC Ministry of Forests
- <sup>68</sup> The BC mines closed or suspended include the following: Dome Mountain, Golden Bear, Johnny Mountain, Island Copper, Goldstream, Hedley and Mascot Tailings, Premier Gold, Similco, Afton-Ajax, QR, Gibraltar, and Highland Valley Copper. The permanent and temporary loss of mining jobs was approximately 3,000. The source for this material is the *Canadian Mines Handbook*, 1994-98; and *Canadian Minerals Yearbook*, 1994-1997.
- <sup>69</sup> Statistics Canada
- <sup>70</sup> Northern Miner, Feb. 7-13, 2000
- <sup>71</sup> Bennet, 1997

- <sup>72</sup> Fraser Institute
- <sup>73</sup> Natural Resources Canada, 1998
- <sup>74</sup> The Act gives preferred access rights to mineral exploration over all other land uses and guarantees compensation for any claims canceled due to park creation.
- <sup>75</sup> World Bank
- <sup>76</sup> Natural Resources Canada, 1998
- <sup>77</sup> statistics on gold reserves comes from United Nations, 1999; and International Monetary Fund, 1999
- <sup>78</sup> Dent
- <sup>79</sup> from Canadian Mining Handbook
- <sup>80</sup> Nutt
- <sup>81</sup> Vancouver Sun, 1999
- <sup>82</sup> Kennedy
- <sup>83</sup> BC Ministry of Finance, p.352
- <sup>84</sup> all Placer Dome data from Placer Dome, 1998
- <sup>85</sup> Hunter
- <sup>86</sup> Globe and Mail, April 26, 1999
- <sup>87</sup> Northern Miner, January 3, 1997
- <sup>88</sup> Northern Miner, March 24, 1997
- <sup>89</sup> A 1998 Human Rights Watch publication, "Freedom of Expression and the Public Debate in Chile," concludes that "An authoritarian tendency has prevailed in Chilean laws, political culture and judicial tradition, affecting the balance between freedom of expression and the restriction to which it is subject."
- <sup>90</sup> Northern Miner, Jan. 3, 1997, p.11
- <sup>91</sup> Report to the Standing Committee on Natural Resources, April 16, 1996
- <sup>92</sup> Province of BC
- <sup>93</sup> Province of BC
- <sup>94</sup> Department of Fisheries and Oceans, 1998a
- <sup>95</sup> Pearse, 1982; Glavin, 1996
- <sup>96</sup> Oulton
- <sup>97</sup> Brahman; Hume, 1997
- <sup>98</sup> Walters
- <sup>99</sup> Routledge
- <sup>100</sup> Gislason et al., 1996
- <sup>101</sup> Glavin, 1999
- <sup>102</sup> Shreiner, 1999
- <sup>103</sup> Gislason et al., 1998
- <sup>104</sup> Nuu Chah Nulth Tribal Council
- <sup>105</sup> Gislason et al., 1998
- <sup>106</sup> Gislason et al., 1998
- <sup>107</sup> Gislason et al., 1998
- <sup>108</sup> Seafood Market Information Service
- <sup>109</sup> Gislason et al., 1998
- <sup>110</sup> Seafood Market Information Service
- <sup>111</sup> El Diario
- <sup>112</sup> El Diario
- <sup>113</sup> Jung
- <sup>114</sup> Medred
- <sup>115</sup> Anchorage Daily News
- <sup>116</sup> Court
- <sup>117</sup> United Nations
- <sup>118</sup> Seafood Market Information Service
- <sup>119</sup> El Diario
- <sup>120</sup> Kenney
- <sup>121</sup> Intrafish AS
- <sup>122</sup> Problems encountered by fish farms include contamination of the surrounding waters, escape and reproduction of foreign Atlantic salmon, and conflicts with local residents, including First Nations people.
- <sup>123</sup> Marvin Shaffer & Ass.
- <sup>124</sup> Middleton
- <sup>125</sup> Department of Fisheries and Oceans, 2000
- <sup>126</sup> Anderson and Middleton; Crawley
- <sup>127</sup> Nikiforuk
- <sup>128</sup> Shreiner
- <sup>129</sup> O'Neil, 1998
- <sup>130</sup> Pacific Salmon Alliance
- <sup>131</sup> Pacific Salmon Alliance
- <sup>132</sup> Copes
- <sup>133</sup> see, for example, Department of Fisheries and Oceans, 1998a
- <sup>134</sup> Department of Fisheries and Oceans, 1998b
- <sup>135</sup> Department of Fisheries and Oceans, 1998c
- <sup>136</sup> Gislason et al., 1996
- <sup>137</sup> Gislason et al., 1996
- <sup>138</sup> Gislason et al., 1996
- <sup>139</sup> Forsyth
- <sup>140</sup> Hume, 1998
- <sup>141</sup> Shreiner
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