



THE ROLE OF INTEGRATED FOREST COMPANIES  
IN WESTERN CANADA

W. GERALD BURCH Forest Industry Lecturer

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## THE FOREST INDUSTRY LECTURES

Forest industry in north-western Canada has cooperated with Alberta Energy and Natural Resources in providing funds to assist the Faculty of Agriculture and Forestry through sponsorship of outside speakers.

During the 1976-77 term a seminar course was developed, taught by Desmond I. Crossley and Maxwell T. Maclaggan. The contribution of these two noted Canadian foresters was much appreciated.

In the fall of 1977 C. Ross Silversides was brought in for a week to visit with students and staff. During this visit he gave several talks to students, and made one major address. Copies of this major talk are available on request.

W. Gerald Burch visited for a week in March 1978, also holding many discussions with students and staff. We are pleased to be able to make his major address widely available through this printing.

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## W. GERALD BURCH



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Gerry was born and educated in British Columbia. He attended Trail High School and the University of British Columbia, graduating in 1948 with a B.A.Sc. in Forest Engineering. His degree was completed after four years of war-time service with the Royal Canadian Navy.

Gerry has worked since graduation with British Columbia Forest Products, moving up through the organization from his first position as cruiser. He was appointed Assistant Chief Forester in 1955, Supervisor of Forestry in 1959, was appointed Chief Forester in 1964 and General Manager of Timberlands in 1972. He was promoted to his present position in 1976.

He is active in professional and community organizations. He is a member of the Board of Directors Forestry and Logging Committee, and the Forest Management Committee of the Council of Forest Industries of British Columbia; a trustee of the Western Forestry and Conservation Association; past president (1970) of the Association of B.C. Registered Foresters; and past National President (1972) of the Canadian Institute of Forestry.

His contributions were recognized by the Association of B.C. Registered Foresters in 1972 when he was presented with the Distinguished Forester Award. In 1978 he was appointed to the Senate of the University of British Columbia.

W. Gerald Burch is a forestry graduate who has reached the corporate executive level in Forest Industry and is highly regarded in the national and international forestry community. He draws upon his background and insights in this presentation.

## THE ROLE OF INTEGRATED FOREST COMPANIES IN WESTERN CANADA

W. G. Burch, R.P.F.<sup>1</sup>

It was a special honour for me to be invited to the University of Alberta to be one of your first Forest Industry Lecturers. I must commend the forest industry in northern British Columbia and Alberta, and the Alberta Government, for sponsoring this new Lectureship. Two such Lectureships are held at the University of British Columbia—one of which is sponsored by my Company, and so I have seen the value of visiting Lecturers, primarily for the students. I hope I can provide similar encouragement, enlightenment, and knowledge while I am here.

The topic of my speech today is, "The Role of Integrated Forest Companies in Western Canada". I hope to convince you that the integrated forest companies in Western Canada play a very beneficial and important part in the stability of the entire forest industry.

I am not qualified to speak on behalf of each major company in our industry. No one can be that well informed. However, I have had some experience and insight into the operation of a large, integrated forest products company over the past thirty years—a Company with two pulp mills, a newsprint mill, a coated paper mill, ten sawmills, two plywood plants, a waferboard plant, a shingle mill, and with supporting woodlands and logging operations.

There are many degrees of integration in our industry, and all integrated companies do not earn the same level of profits each year. The sustained profitability of a company depends, to a large extent, on its mix of product lines, its efficiency in producing those products, and the location and health of the markets which it serves. I believe the remarks I will make today will probably apply to almost any integrated forest products company in Western Canada and, for that matter, should apply to the whole industry.

In looking at the subject of this talk, I decided to develop it by examining where we are today, the problems we are facing, the strengths of the industry, and the direction that I feel we should go in the future in order to solve some of the challenges facing us. I do not wish to review the past except to ensure that we do not repeat the same mistakes again.

I don't have to tell this audience the value of the forest industry to Canada, either in terms of employment, revenue, or balance of trade payments. This industry has an export value to Canada one and one half times as big as agriculture, half as big again as oil, natural gas and coal combined, and fifteen times more than fisheries. It is obvious that forestry should be first in economic importance to Canada and, as well, should be first in Provincial and Federal priorities. Unfortunately, it is not, and I plan to comment on that later.

But where are we today? Well, when you consider all of the odds against the industry, it is rather amazing that we continue to have this fairly successful multi-billion dollar forest business operating in Western Canada. Remember that most of our markets are far to the south or east of us, as well as off of the continent. You don't have to look very hard to see that we have no 'corner' on the forest resources of the world and, since fibre is a world-wide commodity, we therefore have very little control on the price of our products. I find it interesting that Western Canada has only 9 percent of the total volume of conifers in the world yet one-third of the world's lumber trade comes from this region.

How do we remain competitive under such circumstances? Well, it's difficult, particularly when our customers are not really interested in our problems. They are interested only in "PDQ", and by that I mean that our product price, our ability to deliver, and the quality of our product, all of which are suspect from time

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to time by our customers.

Western Canada is considered to be a marginal producer of forest products, located as we are at the edge of the boreal forest, and this will have to be considered most seriously when we look into the future. While the forests are huge, they are of relatively low quality, and the growth cycle is long—particularly when compared to some of our competitors. It is significant that out of the 500 million acres forested in Canada, only 20 percent is so far allocated to wood production. The rest is considered too remote for economic use based on present price levels for our products.

To all of this, we add other challenges. Let's review some of them. Wages, the highest of any forest industry in the world; productivity, lower than in many countries; and log sizes, which require an expensive variety of handling and converting systems. These all add to the difficulty of obtaining reasonable returns on our investments.

A further challenge to the industry is the one of "change", a fact with which all industries must frequently cope. This has been well illustrated during the last few decades when the tremendous development of the industry, especially in the 50's and 60's, was accompanied and sustained by low cost energy sources. But it could not persist. The war in the Middle East, the oil embargo by the Arab Nations, and a huge boost in world oil prices in 1973 and 1974, marked the end of an era. In addition, our industry had to adjust to fluctuations in market volumes, prices, product mix, foreign exchange, tariff changes, costly and sometimes questionable environmental protection requirements, and an unprecedented increase of government red tape.

At the same time, in order to remain competitive, the industry was obliged to seek and implement vast technological changes in forest management, harvesting, and manufacturing processes to meet and deal with new competition in the world market place.

It is significant that Canada's share of world markets for forest products has declined from 31 percent to 19 percent in the last twenty years. It may appear that we have lost ground but this decrease does not relate to a drop in our production, but to a world-wide increase in demand. At the present time, it appears that the industry is in for an extended period of low economic growth and a more modest increase in demand for our products—particularly pulp and paper. These are changes and facts to which we must adjust.

Obviously, in light of all these problems, our industry must have some "strengths". We must, as they say in show business, "be doing something right". Well, you bet we are—let's not talk ourselves and our industry into a recession. Our competitors don't believe we are "on the skids". They believe, and rightly so, that we have the finest and one of the most competitive forest industries in the world. They also realize that many of our problems relating to allowable cuts, regeneration failures, environmental conflicts, etc., are very similar to their own, and they admire our favourable resolution of many of these issues. And, particularly, I believe the forest industry in Western Canada is leading the Eastern companies—profit-wise and forestry-wise. So, let's not be too downhearted by our problems and challenges.

Let me enlarge on some of these strengths. Canada has many—such as an abundant supply of energy, water, food, and natural resources. The world is short of these commodities, and, therefore, we in Canada, and particularly in Western Provinces, can capitalize on this demand if only we can attract sufficient capital to develop our resources and remain relatively efficient.

I believe that the forest industry in the West has a most desirable mix of large and small companies. Both are needed for an industry to survive. Remember that the dependence on foreign markets and other competitive factors make the forest industry highly cyclical. As some will recall, until the larger, integrated companies were developed in Western Canada and helped to moderate the effect of these cycles, the economy of most of our communities that were dependent on wood production was disastrous. Even today, the size of our integrated companies is still relatively small compared to many companies competing in the world markets alongside us.

There has been concern expressed that the big "integrateds" will "gobble up" the little companies, and then each other. I don't think this will be the case. For each amalgamation that occurs, another company seems to come along and take its place. Many uncommitted fields remain in the forest industry where the "little guy" can become established, grow, and become quite profitable. As a case in point, I know of two up-and-coming manufacturing companies in British Columbia at the present time, which are as big today as my Company was 25 years ago, and they continue to grow and do well.

I believe that it is the larger companies today who are supplying the strong base in our industry upon which the smaller operators depend, our customers depend, and the level of forest management depends. I am sure that the Government depends on this group to supply the higher stumpage and income revenues to the Crown and, provide benefits to the citizens of Western Canada through relatively stable employment and social programs. The comparatively small number of larger, integrated companies in Western Canada does not concern me too greatly—no more so than I am concerned with the relatively small number of automobile manufacturers in the world. I am sure that government controls on large industry, either by major policies, day-to-day administration, or in controlling transfers of cutting rights, can change the structure of the industry in the future if it is felt that these large companies are not responding to the desires of the public.

In forest management planning, the forest sector in Western Canada also does as good a job, in my experience, as anywhere else in the world. I refer not only to the economic and industrial planning carried on at the government levels but the operational forestry planning that is carried out in the field by qualified professionals in the larger companies.

Financing is another area where the integrated companies in the West have shown some relative strength. The ability to attract capital for new , projects, or for the improvement of existing facilities, has rarely been a serious problem for the major forest products companies in Western Canada. I think that in no small measure this is due to their high reputation in world markets, despite the cyclical nature of their business

<sup>2</sup>. We must not forget the PDQ principle mentioned earlier. If we lose our credibility in world markets, financing could be a major obstacle in the future.

In the area of research, we have made some real advances, particularly in the development of equipment for both harvesting and manufacturing. In the past, the most significant changes were the introduction of the powersaw, wheel skidders, feller bunchers, and grapple yarders, but most of these were some time ago. Ironically, in recent years, there have been only a few major improvements in logging equipment, despite the formation of the F.E.R.I.C. group and its efforts to produce a "better mousetrap", skidder, or whatever. In the coastal regions particularly, I don't foresee any great changes in logging equipment or practices in the near future with one exception—that being helicopter logging. In B.C. this year, this concept has been given a boost by the Forest Service and it is conceivable that over 100,000 cunits could be logged by this method in 1978. Some new log transportation ideas are being investigated as well but their full scale practical implementation is some time off.

Regarding silviculture research, I must say that I am concerned. Unfortunately, we have a long way to go before research completely solves many of our stand management problems. The emphasis on ways and means of increasing cuts is slowly swinging away from our old growth stands towards second growth. But research in this field is weak and results are not available to the field forester to enable him to determine proper management programs, involving ecosystem classifications, stocking levels, site preparation techniques, genetic programs, fertilization projects, etc.

In the field of land management, where full consideration is now being given to all the resources of the forest, the record of the forest industry is showing some large improvements and change. One way that industry is showing its concern is by hiring resource specialists, either as consultants, or on staff. My own Company established a Resource Planning Group during the last few years, consisting of a Fish & Wildlife Biologist, a Soils Specialist, a Forest Hydrologist, and an Ecologist, headed by a Silviculturist, all of whom are concerned with the problem of harvesting our lands in a manner that will provide the minimum impact on the other resources of the forest, and also to recommend procedures to improve future productivity of our forests. Their primary responsibility at the present time is to be a member of the Planning Team in each Logging Division working on the determination of the harvest pattern and sequence for each 5-year cutting plan.

So much for our strengths. They are important, but only if put in the proper context. If we are to survive and grow, the industry also has a number of "needs", the largest of which is to obtain better understanding.

I am talking about the need to be understood not only by politicians, but by a broad segment of the public and particularly by our first "public", those who work in this business and depend on it for their livelihood. Obviously, if we can't tell our story credibly to the tens of thousands already involved and committed to the business, then we are going to have difficulty in convincing the general public that we are harvesting "their" resource in a responsible manner. I guess one of the problems we have in gaining such understanding is that most forest companies do not retail their products in local communities or for that matter, in Canada. There has been apathy on the part of much of the forest industry in the past to "tell their story" to the local public, little realizing that these people are the true owners of the resource, and need, and want, to be informed. Industry too often has assumed that people in the Western Provinces know what is going on, and haven't gone out of their way to educate them.

A 1977 study by the Canadian Pulp & Paper Association polled people in each province across Canada on their knowledge of the forest industry. They found that Canadians pretty well take this business for granted, and have numerous misconceptions about the industry and its economic and problems. We need to do a better job in "telling our story".

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<sup>2</sup> However, capital is becoming a scarce commodity to companies contemplating the huge investment (> \$300 million) necessary for the construction of a modern pulp-mill.

In the political and governmental area, we need to be better understood by Federal, Provincial, and local Governments—they need to know what we are doing, where we are going, and where governments should and can help. One important area where governments can help is in encouraging and creating a favourable economic growth climate; that is, legislative and governmental action which encourages private sector investment and expansion.

We also need a good work climate and responsible labour-management relations, and here is where some progress is being made. The International Woodworkers of America, the biggest forest union in North America, have continually shown concern for improved worker safety and more recently have taken a very positive step in encouraging better forest management. The I.W.A. deserves a real pat on the back for its recent decision to hire a full-time professional forester. This labour group is becoming more and more dedicated to proper forest management, including progressive reforestation and intensive forestry policies. Their efforts should also provide an additional balance to the demands of environmental extremists in the future.

This forest industry, the largest industry in Canada, is anxious to modernize and expand. But do we have the fibre base to support that growth? Remember that much of Canada's undeveloped forest land is marginally economic at the present time. It is a poorer quality than we are used to logging, its growing period is long, access to these forests is generally not developed, and the market place is a long way from the woods. Here is where I see the integrated companies taking a leading role in supporting the future of the industry in Western Canada. As the recent F.L.C. Reed Report to the Canadian Forestry Service indicated, we have three alternatives to turn to in order to sustain or expand our industry:

- (a) Develop these remote and marginally economic stands, (or)
- (b) Practice doper utilization of the forests presently being harvested, (or)
- (c) Practice more intensive forestry.

Reed concludes by indicating that the most economical decision is in favour of intensive forestry. I tend to agree with him, although I would advise that all of the three alternatives would be followed to some degree. There is no doubt that some remote areas can be economically viable with higher values for our products, better access, new technology, and the proper incentive policies from governments. After all, 60 percent of the potential allowable cut in Canada is in the West, and only 65 percent of that volume is presently being utilized. The Reed Report for instance tells us that although three-quarters of British Columbia's timber reserves are in the interior, only 50 percent are presently profitable to harvest.

Regarding doper utilization, I appreciate that we have come a long way in the last 20 years, sometimes with the prodding of Provincial Forest Services. Forest companies are leaving less fibre behind in the woods than ever before. We are cutting smaller diameter stands and have certainly improved our sawmill technology for converting smaller logs. But even if we improve our technology further, I don't believe we will get the kind of volume increase needed to meet future demands—particularly for sawlogs.

So the obvious solution is to concentrate on intensive forestry. Related to intensive forestry is the topic of allowable cuts, which has been talked about much in Western Canada recently. Although these cuts are under continual analysis, there have been very few reductions of the magnitude that are expected to come about in the next few years, in my opinion. A recent review of allowable cuts by the Provincial Forest Services involves allowances for reserves of forest land for parks, agriculture, recreation, and wildlife; also, reduced rates of cut on marginal, high elevation, or sensitive soil type areas; and further reductions to allow for areas which have proven difficult to reforest after harvesting. Unfortunately, and most significant, is that these reductions do not take into consideration the large reductions in yields that might occur as a result of fire, disease, insect, or blowdown catastrophes.

Thus, in B.C., and all over Canada, there are reduced cuts on the horizon. If all of the constraints identified by other resource agencies are taken into consideration, reductions will apply to every managed unit in Canada. The answer to offset these shortages must be intensive forestry projects, together with a strong and more communicative relationship with those who will decide the fate of our forests.



In short, forestry may be in serious trouble in Western Canada. It is evident that the forest industry, particularly the larger companies, must take the lead in adopting intensive forestry measures, and in improving its communicative role, to at least stay even or expand in the West.

Who knows, there may also be hidden benefits, such as lower logging and handling costs, or at the very least, a means may be found to hold down the spiralling costs of logging and forest management that are now being experienced. For instance, I believe that although immediate increases in allowable cut will be the same size and grade as the wood presently harvested, intensive management could result in a hidden benefit in future stands by producing better quality trees, as a result of genetically superior seedlings, better species mix, and stand improvement activities.

So let me discuss in some detail what I believe to be the key to the future of our industry in Western Canada, and the dependence on the integrated companies to respond to this challenge. Even though general agreement is reached that we must move in the direction of intensive forestry, we must have commitments on the part of Governments (Federal and Provincial) and the forest industry to develop the three necessary ingredients to make it happen—policies (incentives), money (budgets), and people (staff). At present, these commitments are not being made. The jurisdictional rivalry between the Federal and Provincial Governments has been a major delaying factor in obtaining the proper commitments; that is, the additional funding and firm policies for intensive forest management. And this lack of policies has delayed any commitment from industry.

At the present time, 70 million acres or 12 percent of Canada's productive forests are reported to be insufficiently regenerated, and 500,000 acres are being added to this backlog annually. This is not good enough, and intensive pressure must be brought to bear by industry (particularly the larger, integrated companies), the unions, the professional forestry bodies, and the public, on the governments (who own the forests), to provide sufficient funds to correct this "national disgrace". It is reported, that at the present time, approximately \$100 million is being spent annually in Canada on intensive forestry—mainly on reforestation. I believe that another \$100 million annually is required immediately not only to keep current with the present denuded acreage, but also to pick up the backlog, particularly on the higher growing sites. This large outlay of money would be offset by increased allowable cuts, and by the corporate and individual tax revenue that would accrue by the restocking of these valuable lands. However, the total of \$200 million for an intensive forestry program would only be 8 percent of the total revenue at present going to the Federal and Provincial Governments from the forest industry.

An interesting study was carried out in Ontario about ten years ago by that province's Department of Lands and Forests which indicated that each additional cunit of wood that could have been produced from their Crown lands would have resulted in an additional \$30/cunit of tax revenue—\$10 to the Provincial Government and \$20 to the Federal Government. This is the kind of incremental revenue that is theoretically available, provided that policies are formulated to encourage the producer to grow and harvest more wood from his holdings.

Naturally, much more than the extra \$100 million could be spent on Crown lands in Canada if we were to involve ourselves in a whole range of intensive forestry measures. But who should be carrying out these expanded projects? I believe that this is not a problem which can be solved through government action alone. It is my strong belief that free enterprise will always be able to demonstrate better ability to operate its woodlands than any bureaucracy. I believe that the integrated companies in Western Canada are willing, under the proper incentive programs of increased allowable cuts and proper cost allowances, to provide the capital funds required for a dynamic program that would increase the yields from our forest lands by 50 percent to 100 percent.

It is time that the industry gave real and distinct leadership to this cause. The integrated companies and the unions should be pointing out in strong terms what the consequences of inadequate forest renewal will have on existing conversion plants and the associated labour force, and what it means to the communities within those affected areas, and to the economy in general.

Someone once said that war was too important to be left to generals. Well, forestry is too important to be left to politicians. The "captains" of our industry must recognize the need to assume a new leadership role in intensive forestry development. However, to date, and with only a few exceptions in Western Canada, the statesmen of our industry are reluctant to give leadership in providing proper stewardship of forest lands under their responsibility. The reason usually given is a lack of clear cut Government policies or capital funds. No doubt, there will be a scarcity of funds, but forest management must be accepted as one of the necessary costs of staying in business, and of ensuring opportunities for expansion.

For a moment, I would like to discuss what's happening in forestry elsewhere in the world to give you some comparisons. I have touched briefly on international competition as one of the challenges facing our industry, and while much of that challenge comes from the United States, and will in the future come additionally from South America, one of our key competitors for world markets is the Scandinavian countries. It is interesting to note that much of Canada's western forests closely resemble those of Finland and Sweden in terms of growth potential and commercial opportunity, but that is where the similarity ends. Sweden and Finland, with 70 percent private ownership of their forest lands, spend over three times more per acre and derive three times greater yields per acre than in Canada where there is only about 5 percent private ownership.

In Canada, we are reforesting only 20 percent of the acres logged, whereas in Sweden, 75 percent of the clear cut acres are planted. In 1974, the Scandinavian forest industry spent nearly \$70 million for juvenile spacing and fertilization projects in their forests. These spacing programs covered an area of 1.4 million acres, an area equivalent to 70 percent of the total area logged in Canada each year. During the same period, they fertilized an area of nearly 900,000 acres. As a comparison, in 1974, the forest companies in the western provinces only spent a total of \$9 million on silvicultural projects. Part of the reason for the above differences is the higher percentage of privately held lands in these other countries. But I am not advocating a "swing" to private ownership of forest lands in Canada. Rather, I feel that we should consider a minimum expenditure of \$1 for every cunit logged as an initial investment and reaching the eventual goal of \$5 per cunit or so, being spent by our counterparts in other parts of the world.

Finally, a few thoughts for the owners of the resource, the Provincial Governments. In their efforts to push companies into doing a better job of reforestation, the Provincial Governments are not only going to be faced with providing a better example themselves, but they must also take steps to encourage the forest products companies to adopt a greater "sense of proprietorship" over the forest lands within long term tenures.

It is a pretty well known fact that the best forest management practices in B.C. are carried out on lands which are either owned by a company, or on which a company holds a long term lease. The Tree Farm License form of tenure is a case in point. We can point with pride to the way most TFL's and FMA's are managed and it is in no small measure due to the fact that these companies act as if, and feel as if, they own the land even though it is the property of the Crown.

The legislation in the new Forest Act which will be announced by the B.C. Government in the weeks ahead should make some steps in this direction. But even further steps will be necessary, not only in the way timber rights are granted, but also in the tax structure, so that companies will have the financial wherewithall to practice the kind of forest management needed to assure a long term supply of fibre.

To summarize, where does this leave the integrated forest products companies at the beginning of the 1980's? Are we strong enough, and flexible enough, to face the challenges of the decades ahead?

The answer is a qualified, "yes".

We can make it. But we will need help. We need a public which is understanding and supportive of our needs and problems. We need governments to set reasonable and proper tax levels, and provide the kind of incentives necessary so that the companies can respond to the challenges. And especially, we need governmental bodies which communicate with each other, and with business, so that the left hand knows what the right hand is doing, and so that both hands work towards the same objectives.

We need a continuing commitment to research, both in silviculture and in manufacturing. And we need dedicated employees who understand our needs, and want to personally contribute to their company's profitability and productivity.

Although distant fields often appear greener, I think Canada's forest industry, and particularly the integrated companies in Western Canada, are in a good position to determine their future destiny. Basically, if we commit ourselves to staying competitive, we really have only one major problem: keeping our basic resource renewed and healthy. That means a commitment to regeneration of all logged lands, followed by intensive forestry activity, which will then place us in a position of leading the world in production, utilization, and marketing of fibre. The major question left in my mind is, "Have we the statesmen in our governments and industry who can recognize and meet this challenge?"

Thank you.

