F O R E S T R Y

The Business Case for Sustainability in the Forestry Sector in British Columbia

OPPORTUNITIES AND REALITIES

SUMMARY RESEARCH BRIEF

NOVEMBER, 2003

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Opportunities and Realities

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SUMMARY RESEARCH BRIEF

Forestry Sector

THE BUSINESS CASE FOR SUSTAINABILITY

INTRODUCTION

The British Columbia forestry sector's goal is to be a global leader in sustainable forest management, while regaining its previous stature as a profitable and competitive export-oriented industry. Achieving the former without negating the latter requires going to the heart of the sustainability concept: giving equal recognition and commitment to economic, environmental and social values, and daring to measure and disclose the real results with integrity and transparency. Meanwhile, fundamental and far-reaching changes to the values, practices, and perceptions that shape the industry are well underway, presenting leadership opportunities and challenges on a scale unprecedented in its long, proud history.

Since 1997, 13,000 BC forestry jobs have been lost, 27 mills have been closed, and forestry revenues have fallen by $600 million.

The Supreme Court of Canada has ruled that because BC's First Nations never relinquished their rights by treaty, Aboriginal Title rights to their ancestral lands have not been extinguished and must be accommodated. The failure of the modern-day comprehensive treaty process to reconcile Crown and Aboriginal Title issues has created uncertainty over who actually owns the province's forest land base, and how decisions regarding its management and use should be made.

Financial blight afflicts the entire industry, brought on by the combination of lingering weakness in Asian markets, the US softwood lumber dispute and crippling countervailing duties, 4.2 million hectares of mountain pine beetle infestation, forest fires, and the rise in value of the Canadian dollar. The once mighty coastal industry has been decimated by the combination of these shocks, compounded by a number of structural economic issues; for example, the transition from old to second growth harvesting, overdue capital investment to upgrade or replace aging and obsolete mills, untenably high labour costs and Forest Practices Code compliance costs. Since 1997, 13,000 BC forestry jobs have been lost, 27 mills have been closed, and forestry revenues have fallen by $600 million.

In this context, it is difficult for firms to focus on sustainability efforts that can result in an immediate reduction in harvest volume with an attendant increase in operating costs. Yet, the Forest Practices Board recently reported that "responsible forest practices, once considered outstanding, are becoming standard operating procedures in BC" – a credit to the resilience and resolve of the entire BC forestry sector. The notion of "sustainability" in the forestry context can be confused with "sustained yield forestry", an economic concept built into BC's forestry legislation in the 1940's and 50's as part of the tenure system, and referring to the process of reseeding logged-off areas to produce commercial, second-growth timber stands. For the purposes of this brief, "sustainable" and "sustainability" are based on the Dow Jones Sustainability Index (DJSI) definition, "[i]ntegrating long-term economic, environmental and social aspects in business strategies while maintaining global competitiveness and brand reputation."

"Responsible forest practices, once considered outstanding, are becoming standard operating procedures in BC" – a credit to the resilience and resolve of the entire BC forestry sector.

This brief surveys examples of these sustainability principles in BC's forest industry and sets out the business case for sustainability by reviewing gains and savings generated by sustainable practices. It examines opportunities and challenges for sustainable forestry and identifies key stakeholder groups, or communities of interest. Summaries of case studies depict and assess sustainable practices, and finally, lessons learned through the research are noted.

Sector Overview

The foundation of BC's economy – and the source of both its strength and vulnerability – lies in its history of reliance on resource extraction industries and related enterprise. BC's entry into confederation in 1871 confirmed provincial ownership of forested land claimed in the Land Ordinance of 1865.

Government and industry of the day perceived the province's vast forest cover as an endless supply of timber. The Timber Act of 1884 established the original Timber Licenses, which came to cover a large portion of BC during the ensuing quarter century of unbridled expansion by BC's early forest industry. The pace and scale of the resulting deforestation led to a government moratorium on Timber Licensing in 1910. Subsequent tenure sales were governed by the new Forest Act of 1912, which secured public ownership of 96% of BC's forests, but did little to restrain the highly destructive logging practices of the time.

The Sloan Commission's acknowledgement in 1945 of the problems caused by unbalanced harvest patterns (i.e., "clear-cutting") led to the introduction of short-term Tree Farm Licenses (TFL), enabling the government to impose integrated management of private and publicly owned lands under a "sustained yield policy [which had], as one objective, the maintenance of forest cover and growth, thus ensuring a perpetual supply of raw material for forest."

Investment in high capacity mills fuelled rapid expansion of annual harvest levels, from 22 million cubic metres logged in 1950 to 55 million in 1970. Although an "Integrated Resource Management System" (IRM) had been introduced to ensure that "... through coordinated planning the best pattern of uses would be determined", by the late 1970's and early 1980's a large proportion of BC's logged forestlands had been found by regulators to be "Not Sufficiently Restocked". Concern over BC's forestry practices gained international notoriety, with media coverage of environmental protests in areas such as Clayoquot and Carmanah reaching millions of people world-wide.

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By the early 1990's the Annual Allowable Cut had reached 70 million cubic metres, and BC Forest Services field officers were complaining that "they could no longer design a twenty year cutting plan at the present rate of harvesting, while following IRM guidelines."

This tangled web of economic, environmental and social history may explain why two politically opposed BC governments would each risk attempting sweeping and controversial forestry reform in less than a decade. First came the 1995 Forest Act and Forest Practices Code (the `95 Code): a massive, complex body of legislation prescribing virtually every aspect of forestry management and practice, credited by environmentalists for driving significant progress in environmental stewardship, and charged by industry with choking its capacity for creativity and flexibility under onerous bureaucracy and compliance costs. Then, after an exhaustive two-year process of roundtable discussions, public hearings, lobbying and consultation, the current government recently introduced its Forest and Range Practices Act: the centrepiece of a "results-based code" promoted as a policy framework that will "lead to a competitive market-based forest industry in BC, reflect[ing] a high level of commitment to environmental and economic responsibilities, and provid[ing] stability for forest workers and their families." Streamlining amendments to the `95 Code came into effect in December, 2002, with the Forest and Range Practices Act to be fully implemented in December, 2005.

The Results-based Code moves away from the `95 Code's prescriptive approach, and moves toward a site-specific regulatory regime that requires companies to perform sustainable forest management planning, to provide measurable results that confirm compliance with provincial standards, and to produce a comprehensive "forest stewardship plan" required for harvesting approval.

Forestry remains one of the most important engines driving the economies of BC and Canada. In 2002, the industry ranked first in BC for sector revenue as a percentage of GDP, and employed 373,300 Canadians directly and another 700,000 indirectly.

The Business Case for Sustainability

Many companies attribute their lack of triple bottom line focus to various difficulties hampering demonstration of the business case for sustainability, which include:

In 2002, the industry ranked first in BC for sector revenue as a percentage of GDP, and employed 373,300 Canadians directly and another 700,000 indirectly.

- Many of the benefits are intangible and inherently hard to quantify;
- Traditional accounting is more likely to track additional costs incurred in implementing sustainable practices than the benefits resulting from them; and,
- Adverse market conditions leave any non-essential expenditures open to challenge.

However, companies that have invested in sustainability initiatives "have found significant savings, revenue enhancement and employee productivity opportunities" in a number of areas, including:

1. Social licence to operate;
2. Brand reputation;
3. Technological efficiency;
4. Improved security and risk management; and,
5. Employee retention and satisfaction.

1. Social licence to operate

Notwithstanding that the concept of a social licence to operate may be difficult to account for, "any action or inaction that undermines the integrity, ethics or reputation of a company can lead to immediate and dire financial consequences." Earning a social licence to operate involves focusing strong vision and principled leadership to ensure that company conduct is built upon a broad, solid foundation of integrity and ethics that will meet or surpass the shifting standards set by external pressures and values.

2. Brand reputation

Brand reputation and social licence to operate are intimately linked: both go to the core of a company's identity. Whereas the spectrum of a company's social licence to operate must be broad enough to embrace all of its relationships with its communities of interest, its brand reputation is a benefit gained from external perception of the company's products, pricing, practices, and values. This includes marketing its sustainability practices to buyers who include social and ecological values in their decision-making process.

3. Technological efficiency

The benefits gained from improving technology are evident in several areas of forestry, including operations, manufacturing, and consumer product quality. Weyerhaeuser, a world leader in the forest industry, recently achieved a 55% reduction in the amount of water used in pulp and paper production, a complete elimination of elemental chlorine from the pulp bleaching process, and a 65% reduction in fossil fuel consumption, by burning wood waste and other fuels made from renewable, greenhouse-gas-neutral biomass. Another example of economic gain reaped from technological efficiency lies in Ainsworth Lumber's aggressive commitment to produce and market "Oriented Strand Board" (OSB) – stronger and lighter, and made with less wood fibre than conventional fibre-board. The company increased total annual sales by 9.0% ($29.4 million) in 2002 under difficult market conditions, with "[s]ales of OSB representing approximately 75% of the company's total sales in 2002 and 2001."

4. Improved security and risk management

Like many of the areas that demonstrate the business case for sustainability, measurement of practices that decrease risk by improving safety and security should link cost-savings achieved with expenses incurred. Avoiding legal claims and litigation can produce tremendous savings in terms of reduced damage settlements and awards, legal fees, management productivity, and corporate profile – "not being in court this week" is always a good thing!

5. Employee satisfaction and retention

Boosting employee satisfaction and performance contributes to corporate stability, earnings, and the social licence to operate. Ethically and sustainably run companies will attract highly skilled employees prepared to make longer and stronger commitments when they see their personal values reflected in those of their employer.

Opportunities

The BC forest industry has made many advances in ecological and social best practices, has gained respect from critics for its commitment to responsible forestry practices, and is well positioned to leverage its leadership status in sustainable practices in marketing its products world-wide. The following areas of opportunity for the industry are presented in the context of the four-pillared platform of sustainability: environmental, economic, social, and governmental initiatives.

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Opportunities for environmental sustainability

- Continue efforts to create value from surplus wood residues through value-added products, the use of waste woodchips and sawdust by progressive pulp and paper producers, waste reduction regimes, and electricity co-generation projects; and,
- Create value from low impact management strategies designed to conserve biodiversity.

Opportunities for economic sustainability

- Continue to develop Asian markets for BC forest products, particularly the potentially enormous Chinese housing and paper markets;
- Strengthen R&D investments, particularly forest management and wood processing sectors, with focus on long-term research and expanding second-growth forestry; and,
- Pursue multiple land-use partnerships and joint ventures with other resource sectors and with First Nations.

Opportunities for social sustainability

- Foster working relationships with communities of interest to protect resources while strengthening the social licence to operate;
- Explore possibilities for using sustainability initiatives as the basis for negotiating creative new ventures and arrangements involving industry, government and First Nations;
- Create new revenue sources from more diversified management and new approaches to revenue sharing; and,

- Improve understanding of local values, and communicate that understanding with local communities.

Opportunities for government in sustainable forestry

- Identify resource objectives and targets;
- Evaluate tenure and stumpage systems to enable financial stability and to support innovation in conservation;
- Communicate industry's strengths to the world and communicate the benefits of the industry locally; and,
- Strengthen commitment to conservation programs.

The forest industry competes in the international market place, and must balance its local needs with global values.

CHALLENGES

While BC's forest industry has taken steps toward sustainability, it still faces substantial challenges.

Reliance on global markets

"Sustainability is a moving target, social values are constantly changing. What is acceptable in terms of decisions for forestry locally may not be the same elsewhere." The forest industry competes in the international market place, and must balance its local needs with global values. There are a number of emerging forestry producers in the developing world who pose a serious competitive threat to BC's forest industry, and who operate under far less stringent sustainability standards.

Role of government

BC's provincial forest policy is undergoing radical reform intended to create a new regulatory regime with industry as manager and government as regulator. Resolve balanced by flexibility and communication is needed.

Market acceptance

"Business people have difficulty generating metrics for sustainability issues. Because these issues tend to be softer, we lack financial metrics to demonstrate the value of sustainable initiatives and to connect that value to the needs of the marketplace." However, exciting work is being done: note the partnership between NorskeCanada and WWF to improve global forest conservation, to advance environmental goals relating to responsible paper production, and to promote light weight, high quality papers requiring significantly less wood fibre in their manufacture.

Complexity of forest management

A delicate balance is needed to serve the respective ecological, aesthetic, recreational, spiritual, and economic values of a forest: forest managers must maximize yield and economic return, while dealing with hazards and addressing the range of values noted above. Managing the modern forest industry poses incredibly complex challenges.

Case Study: Lignum Limited

In 2000, Lignum Limited (Lignum) entered into "The Innovative Forest Practices Agreement" (IFPA), with the BC government. IFPA is a landmark agreement, providing leadership in forest management and serving as a template for expeditious government approval of Lignum initiatives advanced within its jurisdiction. The plan uses innovative strategies in the areas of inventory control, silviculture, forest health, and job creation. The plan consists of nine steps, ranging from collection of forest status information to third party audits verifying attainment of IFPA objectives and standards, and allows the company to increase its harvest using sustainable forest practices. Significant implementation progress has been made, including:

Certification has been aggressively pursued by the Canadian forestry sector as a tool for defining and monitoring progress towards sustainability.

- One of the most technically advanced mills in the world;
- Extensive research in natural forest disturbance patterns (insects, fires, etc.), seeking to emulate those patterns during harvesting – minimizing ecological impacts;
- Partnerships and agreements with fifteen First Nations; and,
- Four joint ventures with First Nation silviculture/logging companies, with 50/50 capital investment, equal board representation, and a unilateral buy-out clause permitting the First Nation companies to buy out Lignum.

Lignum has achieved over fifty years of success through commitment to excellence in forest resource management, customer service, and sustainable profitability.

Audits and Certifications

Certification has been aggressively pursued by the Canadian forestry sector as a tool for defining and monitoring progress towards sustainability. Many companies have sought several forms of certification for their various forestry operations and manufacturing arms. This frequently includes certification of the company's environmental management system under the ISO 14001 standard, as well as certification to one or more of three "performance-based" schemes commonly applied in Canada: the Forest Stewardship Council (FSC) standard, the Canadian Standards Association's (CSA) standard, and the Sustainable Forestry Initiative (SFI).

National data on forest certification programs both current and planned indicates that the large majority of the forest land in Canada considered commercially available and accessible (i.e., 120 million hectares) will be certified under one of the three main performance-based systems by 2006.

Although all of these certification schemes are ultimately voluntary, the Forest Products Association of Canada (FPAC) now requires its members to certify their forest lands under either SFI, CSA or FSC by 2006 and The American Forest and Paper Association (AF&PA), which developed the SFI program, requires compliance with that standard as a condition of membership. It is worth noting the persistent criticism that CSA and SFI governance is dominated by industry and FSC governance is dominated by environmental groups.

LESSONS LEARNED AND RECOMMENDATIONS

Here are the concepts considered to be most significant and widely applicable keys to implementing sustainability initiatives by BC's forest industry.

1. Bring employees on side

The first step for the forest industry is to gather the understanding and commitment of employees at every level within a company. Take time and care to build a wide base of support before launching a major initiative.

2. Build good working relationships with communities of interest

Forest company managers and employees face complex challenges in responding to ever-changing international pressures and values, while addressing the needs of local communities of interest. Integrity in decision-making and leadership, conveyed by transparency in reporting and communications, and reinforced by collaboration with stakeholders, are the keys to meeting that challenge.

Forest company managers and employees face complex challenges in responding to ever-changing international pressures and values, while addressing the needs of local Communities of Interest.

3. Market sustainability

Forestry companies need first to earn public trust through consistent demonstration of integrity and genuine commitment to meeting the needs of their communities of interest, and then to use innovative marketing and advertising ideas to show that forestry means more than cutting trees, that conservation means more than cutting out forestry, that sustainability extends beyond the environment, and most importantly, that there is both commercial and social value in buying and selling "certified".

CONCLUSIONS

The industry faces great opportunities and challenges in moving forward with these sustainability initiatives. The weak global economic climate and the impact of ongoing US softwood trade action, make it difficult to see tangible returns from sustainability initiatives, and constrains the funding of those initiatives. The uncertainty surrounding the BC government's pending program of regulatory reform, and the current impasse between industry and labour regarding restructuring the critically ill coastal industry, adds to these difficulties.

Forestry operations in British Columbia have begun to garner international recognition for leadership in environmental and sustainable practices. Demonstrated industry commitment to forging new partnerships and agreements with local communities, to creating new accommodations and relationships with First Nations that recognize their unique status, and to working collaboratively with government, has begun to bear fruit in the form of community trust and support.

Forestry operations in British Columbia have begun to garner international recognition for leadership in environmental and sustainable practices.

Crisis can be the catalyst and crucible of sustainability. BC's forest industry is poised on the springboard of its world leadership in sustainable practices. Will it be bold enough to take the leap?

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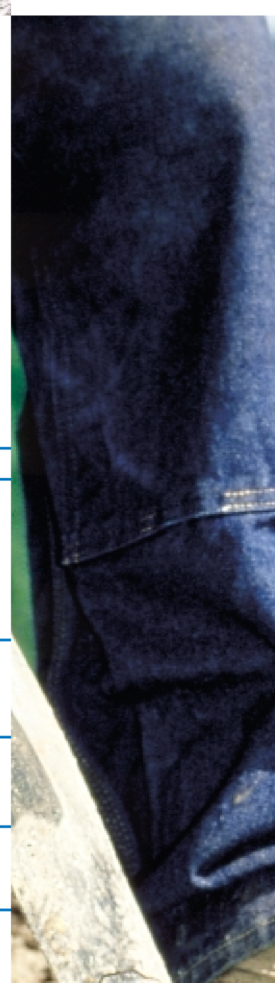
This summary is based on a literature review, two interviews with subject-matter experts, and two interviews with representatives from companies with best practices in sustainability. While we are recognizing certain companies' best practice initiatives, this document is not an endorsement of these companies as a whole.

For more information or to obtain a copy of the original research brief, please contact CBSR at 604-323-2714 or info@cbsr.ca



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