

Revitalizing Ontario's Forest Tenure System: Foundations for a 21st Century Forest Economy

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Preface

Why the Government Should Change Tenure Now

The provincial government has recognized that the difficulties that have beset the forest industry in Ontario, and in much of Canada, go well beyond the normal cyclical lows and are in fact indicative of a sector that needs re-vitalization and transformation. One of the components of the institutional framework for the sector is the tenure system, and the current system no longer supports the sector – it instead entrenches incumbents, discourages productivity, innovation and investment, and does not work in the interests of enhancing forest sustainability. Current tenure does nothing to reduce or eliminate the financial drain and punitive decisions of the US softwood lumber trade dispute. The provincial government’s commitment to overhauling the tenure system is welcomed and we encourage the government to make some major changes that we set out in this visioning document.

We are advocating changes to the main purposes of the existing tenure system that will contribute to creating conditions for a restructuring and revitalization of the Ontario forest sector. The present system, which served Ontario very well for decades, has not adapted to changes in the way business is done, and its requirements for agility, innovation and efficiency. Just as debilitating is administrative inflexibility. The deep seated reliance on government wood directives removes the incentive for forest managers to seek the best value and highest revenue from wood products. In the 21st century, where information is transmitted instantaneously and competitors are able to react swiftly, the dwindling members of Ontario’s forest sector are lagging behind. The current system also makes it very difficult for entrepreneurs with new ideas about products and markets to gain access to wood supply, depriving the sector of a key source of vitality, innovation, and capital. Smaller companies that are already operating also find themselves shut out of opportunities to increase their access to timber. Our competitors do not operate under such restrictive conditions. For these reasons, leaving the system as is and hoping that an economic recovery will cause the sector to rebound is a serious misdiagnosis of the situation.

We need to realign our forest product mix with the values of the goods and services that are produced from our forests. Creating jobs, sustaining communities, and providing access and opportunities for Aboriginal people need as much attention as the bottom line. During the past several decades, the value placed on forest goods and services has changed dramatically, with some higher, some lower. Ontario is one of the few jurisdictions where forest management is insensitive to that ebb and flow. In such a circumstance it makes sense to offer forest managers the opportunity to re-balance the management objectives. If the tall pines in Temagami have more economic and social value in enhancing the quality of recreational experiences and storing carbon than they do as timber, the forest should be managed to reflect that. Key to this is enabling the forest manager to benefit from such decisions, which will enable them to manage for overall benefits to Ontario, optimized over the long term.

The industry’s reliance on commodities has effectively reduced the value of the timber – it is a business model that has been “squeezed dry” in the words of one analyst who reviewed our approach. We think that Ontario’s most important future markets will be those where there is a willingness to purchase products and services from forests that are demonstrably managed in a sustainable way. Moving from a cost-driven model to a sustainability driven model that considers the triple bottom line is an important step in capturing these markets. We also believe that this approach will enable local communities to retain a greater share of the benefits from forests. Our proposal will also lead both to an increase in the value of the timber as producers move up the value chain, and to a greater recognition of the value of the timber and forest services.

Following is a lighter vision of what we would hope the forest sector and other elements of society would look like in 2020, after the transition to the new tenure system has been completed.

In 2020, the Ontario forest sector is much more diverse and competitive than it used to be. New forest products companies, some headquartered in Ontario, some based elsewhere in Canada and other parts of the world, have built competitive facilities at a range of scales. Companies that are fully or partially Aboriginal-owned are also present in the sector and are thriving, and responsive to the court decisions flowing from Canada's constitution. The sector is again creating new, well-paying jobs like it did in the 1970s. However, employees are required to be highly educated and entrepreneurial, and employers continue to have difficulty finding such people in the north. Fortunately, employers, government and First Nations and Métis communities have cooperatively supported the education of young people of Aboriginal heritage, and the emerging graduates are a significant and growing part of the work force.

In comparison with the sector as it was prior to the Great Recession of 2008-09, there is a greater diversity of products being manufactured, and the division of the timber harvest among various production lines is highly differentiated. Not only are logs sorted into more categories, but what were formerly known as by-products from sawing and pulping are also rigorously sorted and directed to high value uses. There is much more secondary manufacturing in the north. Spruce and jack pine continue to be prized – the internationally acclaimed NHL hockey arena in Hamilton and continued interest in using GreenHouseGas-friendly building materials has triggered a resurgence in the use of wood as a desirable building material. There is a high demand for the fibre as an additive in a wide range of plastics being used by the automotive and aerospace industries. Other species have become more important, including poplar given its quick growth rate, low silviculture costs, and attractiveness as a torrefied wood.

Ontario is no longer critically dependent on the U.S. market; China, India and Latin America are significant and growing markets. Although Canadian companies missed the opportunity to become major offshore producers, some small to mid-scale joint ventures have been started in countries such as Russia, where we have been able to leverage our knowledge of managing boreal forests. Being more active outside of North America has reduced the impact of American trade action, which has continued against softwood lumber. This is despite Ontario's resounding victories at the WTO, which recognized that the revisions made to tenure and pricing discredited the American arguments. However the U.S. Fox News party, the dominant US conservative party to emerge after the Republicans splintered, persists in its efforts to protect its forest sector.

The overall harvest in the province is in the 20 – 22 million cubic metre range, and is gradually increasing on a stable land base. There are still a few large pulp and paper mills in the province, but the virtual disappearance of newsprint after the introduction of the Apple IPAD and its imitators resulted in some complete refurbishing. These corporations expanded into chemical production and are heavily invested in by large pharmaceutical companies. The remaining mills are within the top quartile in terms of productivity, and some have made it into the upper decile.

There is considerable integration, and some competition, among timber users, biomass users, carbon offsetters, and buyers of biodiversity credits. The importance of the latter two uses has contributed to the harvest level remaining well below the peak (established before Ontario got serious about offsetting climate change). Competition for wood has driven up prices, and forest management companies have begun to intensify silviculture, significantly increase tending, and started to implement commercial thinning on prime sites. Pre-commercial and commercial thinning is now common practice on a wide range of species and sites. At the same time, land use has become more rational—there is little harvesting on marginal sites such as spruce lowlands and within much of the northernmost band within the old

Area of the Undertaking. Inventory has improved and “bypass” has passed out of the forest management lexicon. The sector is more innovative, with significant progress being made in pre-commercially spacing poplar. The growing use of small-scale, portable ethanol converters has greatly reduced the consumption of fossil fuels during the harvest operations.

Meanwhile, a variety of Local Independent Forest Enterprises (LIFEs) have sprung up, and many of these have prospered. Most of the new LIFEs took several years to adjust their mindsets to become fully revenue and profit-oriented, and several had to be re-organized, a process that was triggered by a series of independent management reviews and implemented under the direction of the Ontario Ministry of Northern Resources. In retrospect, it was discovered that in two cases, the governance structure had been poorly set up, while in a third case, the forest management unit was too small and had too few prospective major buyers to be successful. However, the LIFE’s have higher staff levels than the old SFLs did, with a greater percentage of professional staff. Most have an accountant, engineer and at least one biologist on staff. The better managed and located companies have managed to accumulate as much as a \$3-4 million dollar contingency to see them through the next economic downturn. As the single-entity SFL-holders recognized the benefits of divesting themselves of their forest management role, they became some of the biggest supporters of the new tenure arrangements.

Most timber is harvested under long-term contracts. Forest management companies in the Great Lakes–St. Lawrence Forest, closer to markets, have a vigorous market of small manufacturers buying directly from the forest. In the boreal forest, where the management units are larger, the energy sector buys wood for cash on the spot market, which delivers the product immediately, but most wood goes to manufacturing and is committed through long-term contracts to providing a stable business environment and jobs.

The provincial government no longer directs wood flows in the sector, although it continues its oversight role and retains primary responsibility for setting out the regulatory requirements under which the LIFEs must operate. The long-delayed landscape level guide is due to be released in 2021, and the 2018 Forest Management Planning Manual will as of this year fully replace the 2016 FMPM. The Forestry Futures Committee continues to oversee many aspects of the sector, and its role has expanded to include the encouragement of innovation in the governance and structuring of the sector, including the LIFE benchmarking review and regular Independent Forest and Corporate Management Audits that all LIFEs are required to undergo. The Committee has been enriched through the strong leadership role that the Aboriginal membership has made on the committee in support of equity, balance and forward thinking through the expanded use of traditional ecological knowledge and the Medicine Wheel value system. Crown revenues from dues have increased more than expected, but the greatest benefits of the new system to government revenues have been high tax revenue and reduced social expenditures in northern communities.

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1.0 Executive Summary

The forest tenure system is an enormously important, although almost invisible, part of the administration of forests. In Ontario's public forests, tenure is the legal arrangement that defines rights and responsibilities assigned to resource users such as forest products companies. A well designed tenure system provides a foundation for a robust forest sector as well as sustainable management of the resource. The current system has been outdated for some time. While there are a number of factors that are responsible for the current problems within the forest sector, five key weaknesses of the tenure system have contributed to the gradual erosion of the sector's vitality, which has been dramatically exposed in the current recession:

- There is little scope within the system for market forces to influence where, how and when timber is utilized;
- There is little flexibility within the system to respond to court rulings that uphold constitutionally protected Aboriginal inherent and treaty rights;
- Linking wood supply to individual mills has meant that the forest is considered and managed as a cost centre, with little regard for the potential value of some segments of the resource;
- The system poses barriers to new entrants, particularly small companies, and even to the expansion of incumbents; and
- There is no incentive to invest in the forest above the minimum regulatory requirements.

Additional weaknesses include lack of involvement by forest-dependent Aboriginal and non-Aboriginal communities in forest management—as well as in the sector in general—and the emerging need for tenure arrangements to cover other wood-related resources, such as biomass for energy and carbon storage.

The theme of our recommendations for revising the provincial tenure system is that there is a greater need for the forest to be managed according to business principles—this applies not only to forest managers and mill owners but also to the provincial government. The set of incentives faced by forest managers needs to be altered to encourage and reward value enhancement, profit-making, innovation, and entrepreneurship, coupled with the development of a comprehensive framework that ensures resource sustainability and community-based social equity. We recommend that:

- All forest management units (FMUs) be administered by Local Independent Forest Enterprises (LIFEs) which, by design, are responsive to communities, stakeholders, mills and other resource users, but are, at the same time, independent of any of these.
- LIFEs have tenure over timber, wood for biomass, and the carbon within the forest. LIFE rights to manage the forest should be based on a contract with government that stipulates conditions for valuation and transferring rights, and includes the right and responsibility to market wood and other related resources.
- The structure of each LIFE adheres to some key principles but also reflects local circumstances, and is broad enough to include both for-profit and not-for-profit companies (incorporated under Ontario's Corporations Act 1990).

- Each LIFE follows good governance procedures and has an independent Board of Directors to ensure this is done. Directors must act in the best interests of the LIFE.
- The provincial government ensures that there is a locally appropriate level of community membership on each LIFE Board of Directors. This includes Aboriginal and non-Aboriginal communities. The government should also ensure that Board members are properly trained and accredited, and are responsible for instigating regular third-party management audits of LIFEs.
- All LIFEs have the mandate to seek opportunities to achieve highest overall value for the resource while managing it sustainably. Within this context, for-profit LIFEs would be expected to optimize their profitability over the long term.
- A LIFE be allowed to enter into resource product sales transactions in a manner most suited to its circumstances, using techniques ranging from auctions to long-term contracts.
- The price of timber transactions be publicly posted to provide a transparent price system.
- The provincial government make Crown dues a fixed percentage of the delivered wood price, subject to either a minimum charge, or zero charge (benefits to Ontarians accrue through taxation)
- The Ontario government remain responsible for ensuring that the Crown forest estate is managed sustainably. The Crown should continue to administer the planning system, maintain operational oversight through compliance inspections, and retain responsibility for managing non-timber values.
- The Ontario government take advantage of tenure reform as an opportunity to move towards reconciling historical land issues with Aboriginal communities by fully embracing the spirit, intent and wording of the evolving relationship with Aboriginal people.
- Government provide incentives for LIFEs to increase forest productivity.

This is not a wholesale revision of the system. There are a number of aspects of current forest administration in Ontario which are effective in principle and design: the planning and regulatory system; third party overview; Renewal Trusts; and the Forestry Futures Trust. All of these components are compatible with the direction we are proposing and should be retained although some modifications may be needed.

Our recommendations will separate the management of the forest from the processing of forest products. We propose replacing a cost minimization approach (cost centre) with a value maximization perspective (profit centre), by charging each LIFE to seek high, long-term value for the forest resources that are harvested, while mandating sustainable forest management. The elimination of features of the system that tie wood supply to individual mills will create fair competition among timber users and allow for new entrants—whoever is able to make the best economic use of the wood can buy it. The sector will gradually become more dynamic and innovative.

The inherent productivity of our forest asset has not been adequately recognized or sustained under the present system. Our recommendations also aim to create conditions which will encourage and reward investment in the forest. Replacing the cost-centre mentality with a value-oriented perspective will help in this regard, but there is an additional need to provide a greater level of certainty that investors in the forest will also be beneficiaries.

Finally, emerging new uses and users of the forest resource suggest that tenure for the traditional timber resource should be expanded to cover other wood fibre-related values, including biomass for energy, carbon, and more distant potential uses such as biochemicals. We suggest that the scope of the tenure system be broadened to integrate these other goods. Consideration must be given to the development of non-timber forest products. This will be important in discussions with Aboriginal communities.

The full benefits of an improved tenure system will take some time to become evident, just as the weaknesses of the present system have become apparent in the nature of cumulative effects. Ultimately, our suggested revisions to forest tenure will support the emergence of a dynamic, re-vitalized forest sector where there is fair competition and greater local benefits, a more productive forest, and a more socially beneficial allocation of the goods and services that the forest provides. Past generations received substantial benefits from Ontario's forests, particularly jobs—our intent is to enhance the benefits for present and future generations.

2.0 Introduction

The forest tenure system is an enormously important, although almost invisible, part of the administration of forests. The recent economic downturn has proven to be the catalyst that has revealed the outdated foundations of the forest sector in Ontario as well as in much of Canada. Ontario's forest tenure system for Crown-owned lands is based largely on a 19th-century design, and was a major contributor to the current weakness in the sector. This is widely recognized. The Ministers of Natural Resources and of Northern Development, Mines and Forestry have responded by initiating a discussion on tenure reform. This vision document is our contribution. We offer a blueprint for tenure based on fundamental business principles, high governance standards, and regulatory oversight. At its centre the ideas are simple—more business independence for forest managers, and more opportunity for local influence on how local forests are managed.

The tenure system is set out in the Crown Forest Sustainability Act (CFSA).¹ In essence, tenure is granted by the Ontario government to a licensee. Right now, the licensee is typically a large forest products company. There are some licences held jointly by several companies, and these are loosely referred to as “co-ops”. The government, on behalf of the Ontario public, is the owner of the forest resource. A licence defines the rights and responsibilities of the Crown and the licensee (i.e. the tenure-holder). The CFSA describes how tenure is awarded, who can hold tenure, and the rights and obligations of tenure holders, as well as the extent of the Minister's powers to make revisions to the licences. It is within the authority of the Minister to change the licensing arrangement when necessary.

Most Ontarians do not appreciate the magnitude of the forest industry. In 2005, Ontario's forest sector supported 200,000 direct and indirect jobs with annual sales of \$19 billion, providing \$2.3 billion in taxes, with \$800 million going to the Ontario government. Current estimates are that the harvest level for 2010 will be down 50% compared to 2005. Losses of permanent direct jobs since 2002, according to the Ministry of Northern Development, Mines and Forestry (MNDMF), exceed 9,000, many lost in 28 northern communities almost entirely dependent on the forest products industry. Several large companies, which have provided employment to small northern communities for decades, are in receivership. Some Sustainable Forest Licences are reverting back to the Crown.

Government has, with some positive effect, put in place a long list of initiatives through which over \$550 million has flowed to the forest products sector, with substantially more leveraged through loans. Despite this large effort, which has likely saved many jobs, the outlook is still poor. The long-term health of the sector can only improve if some fundamental changes are made. One of these is the re-design of tenure.

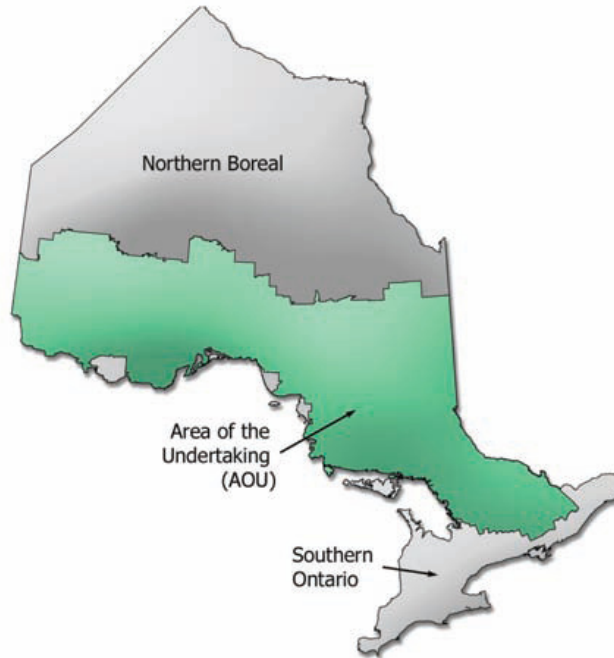
In this document we start with a review the basics of the current tenure arrangement in Ontario. Then we critique the current system in more depth, identifying the underlying problems. From this we present the key principles behind our “Foundation for a 21st Century Forest Economy in Ontario”. Following this is a discussion of some of the socio-economic aspects of this (or any) new tenure system. The reality is that there are social implications that must be considered when so many jobs and lives are affected. Using the critiques that we have received to date through informal discussions of this framework, we also try to visualize how a transition would work. Throughout the paper, we draw on examples from a suite of case studies (see Appendix 1).

A well-designed tenure system will provide a foundation for a robust sector as well as sustainable forest management. In the short term, the fixes to the tenure system will not have a dramatic effect; however an improved tenure system is a pre-requisite for a strong, dynamic forest sector.

¹ CFSA 1994 -- <http://www.search.e-laws.gov.on.ca/en/isysquery/c423016c-d09c-4950-86a8-274a547b5502/2/frame/?search=browseStatutes&context=>

3.0 Overview of Tenure and Public (Crown) Forest Management in Ontario

Eighty-seven percent of Ontario’s land is owned by the people through the provincial government with Aboriginal people claiming an underlying right to the same land. The provincial government manages the land under its jurisdiction, including the majority of the land that is used for commercial forestry. Most forest management takes place within a large zone called the “Area of the Undertaking”² (AOU), which is shown in the map. Southern Ontario is primarily privately owned while the far northern part of the province has limited potential for commercial forestry. In other words, the provincial forest tenure system is implemented in the AOU and has little relevance in the far northern³ or southern zones of Ontario.



The provincial government, often referred to as the Crown, is responsible for the management of most of the land and the trees within the Area of the Undertaking. Since the 19th century, the Crown has used a licensing system to enable individuals and companies to harvest trees on Crown land. Ontario (then Upper Canada) first introduced a Crown Timber Act in 1849. The Act evolved through many decades but the basic approach did not change—tenure was conferred by licences issued by the provincial government. When most timber harvested in Ontario was used for lumber, timber berths were auctioned by the provincial government, which then issued a licence permitting the successful bidder to harvest the timber in the berth. As pulp and paper mills became interested in the provincial resource, changes were made to the licensing system. Compared to sawmills, pulp and paper facilities require greater capital resources to construct, more power for operation, and access to larger volumes of wood, which required a different approach to licensing. As a result large licence areas were identified by negotiation between the provincial government and the prospective operators and their financiers. The purpose of the licence was to supply the mill, and by supporting mill development, the government was encouraging northern development. As the pulp and paper sector developed, a large percentage of the Crown forest went under long-term licence to pulp and paper mills to attract investors.

For most of the 20th century, licensees built roads and cut the trees while the government protected the forest from fire and insects and prepared forest management plans. In the early 1970s, the government developed a Forest Production Policy designed to increase the investment in renewal and government assumed responsibility for regenerating the forest. In 1979, the province passed the Crown Timber Amendment Act, which replaced the large Order-in-Council licences with Forest Management Agreements (FMAs). Many Crown-managed units were left in place. An FMA provided 20-year exclusive rights to

² This term comes from the Ontario Class EA meaning the undertaking of forest activities.

³ The community-based land use planning approach adopted for the Northern Boreal Initiative and now for the Far North Act is a different form of tenure, still under a provincial system.

the timber in the management unit in exchange for assuming complete management of the area, including reforestation. The provincial government also agreed to pay set rates for road construction and maintenance, renewal and tending. The FMAs represented a significant departure from previous licences in that they gave the agreement-holders a greater degree of control, along with defined responsibilities. FMA holders were audited by government on their performance.

In 1994, the Crown Forest Sustainability Act (CFSA) was passed to replace the Crown Timber Act. It placed a greater emphasis on sustainable management of the forest resource. The CFSA established, among other things, the Forestry Futures and Forest Renewal Trusts and Local Citizens Committees (LCCs). The provincial government also returned to a licensing model, replacing the FMAs with Sustainable Forest Licences (SFLs). Many SFLs have Ministerial commitments associated with them— these typically stipulate that the licensee must make available a certain amount of timber to a specific mill. A key attribute of all of these instruments is that the Minister has made a decision to allocate a portion of the Crown timber resource to a business entity. The majority of Ontario's wood has been allocated in this manner.

The SFL-holders do not pay a fee to obtain the licence, but they are required to meet a wide range of regulations and guidelines related to consultation with the public, stakeholders and Aboriginal communities; forest planning; the conduct of harvesting, renewal and tending operations; monitoring, and reporting. The Crown retains the responsibility for managing wildlife, other forest values, and Aboriginal consultation. It implements this responsibility on areas available for timber harvesting by regulating the licensees. The application and enforcement of these regulations is intended to counterbalance the incentive for licence-holders to minimize their costs of managing the resource and maximize the value they can extract. In other words, the public depends primarily on government regulation anchored in the CFSA to deliver forest sustainability.

In summary, the tenure system has changed remarkably little since it was instituted in the 19th century. While there have been meaningful innovations, at its core, tenure has remained based on licensing to primary forest product producers, with government determining what timber goes to which mill. Part of the conventional wisdom behind this system is that there were too few mills to create competitive markets for timber and so government was the best-placed agency to assign its use.

Another limitation is that tenure has always been focused on timber. The system is not designed to accommodate emerging uses such as wood-based bioenergy or carbon offsets in an integrated manner. In essence, mill-owning companies and MNR control access to timber, blocking new entrants and any competition for the resource. This approach was designed to enable government to use the Crown timber resource to stimulate economic activity. The government controlled economic growth by controlling available wood supply, subject to the legislation, regulation and policy environment of the day. The route to securing a wood supply for new market entrants, mostly large companies, was convoluted and expensive; it is completely daunting for small enterprises.

Local communities, including Aboriginal ones, largely have no voice in deciding which firm or mill gets access to the wood, and are not asked to participate in decision-making regarding the mill or the use of the forest (except obliquely through the planning process). This is particularly problematic given Crown consultation obligations with respect to Aboriginal communities. There is also a fundamental tension between the desire of licensees to obtain the best timber at the lowest cost and the interest of the government in sustaining the resource. Licensees, who are most often mill owners, see the forest as a source of timber and the overriding imperative is to reduce the cost of acquiring said timber, subject to meeting regulatory

requirements. Competition in product markets and dismal “net present value” determinations for forest resources have sharpened this tension to the point where licensees rarely invest any more than they need to in the forest.

During the last 50 years, the value of other forest benefits has increased markedly relative to timber. A boom in recreational use began in the 1960s and has continued, and people are more concerned about wildlife and habitat than they were in previous decades. Complicating the issue of whether the resource value is being optimized under the current regime is the shift in policy to an ecological focus, driven by the perspectives of southern Ontario residents. The forest industry had its heyday from the 1950s to the 1970s, although some feel the return on investment was low even then. Remaining dependent on commodity products exported to the U.S., however, has gradually eroded the industry’s competitiveness and increased its vulnerability to unfavourable developments in its chief market, such as the softwood lumber trade disputes, exchange rate adjustments and, most recently, the steep economic downturn centred in the U.S. housing sector.

4.0 Critical Assessment of the Current Tenure System

When conducting a review of any type of system with an eye towards its revitalization, it is tempting to advocate wholesale and sweeping changes. However, a number of components of Ontario's tenure and forest management system function well and should be retained, albeit some with modification. In this section, we provide our perspective on what parts of the system are the "baby" and what constitutes the "bathwater."

As discussed earlier, the Crown Forest Sustainability Act (CFSA) empowers the government to oversee forest management. The Minister has said that the government does not intend to sell Crown land and so, in this context, the ultimate responsibility for ensuring that forests are being sustainably managed will continue to reside with the provincial government. A major challenge in designing a tenure system in this context is how to create the most appropriate interface between the Crown, which needs to fulfil its responsibilities as steward, and the private sector, which is to manage and utilize the resource.

4.1 Forest Management Planning

The current forest management planning system requires the production of a new plan every 10 years. The planning framework is complex and includes an array of requirements related to Aboriginal involvement, public consultation, modeling of forest dynamics, non-timber values and their protection, estimated wood supply volumes, road access requirements, forest renewal mechanisms, and reporting requirements. The key document which outlines planning requirements is the Forest Management Planning Manual (FMPM). In addition, the province has issued a series of guide documents to ensure that forest management and planning provide appropriate protection for ecological and social values.

Ontario's planning framework is complex but is recognized as being the most comprehensive in Canada, and has been instrumental in enabling many licensees to achieve Forest Stewardship Council certification. As in any planning system there are inefficiencies and a revised FMPM is in preparation. Fully reviewing this process is beyond our scope, but there is room for improvement in the implementation of the system, such as the recommendations in the industry-government "Forest Process Streamlining Task Force Report"⁴.

One of the key planning outcomes is the determination of the planned harvest level, which supports timber supply. On some forests, the actual harvest routinely came in at 60% of the planned level even before the economic downturn. The planning process, in other words, consistently overestimated the amount of wood that was economically available on these forests, undermining the credibility and value of forest management plans. While these are important shortcomings in implementation, the planning system stands up well to the requirements of any environmental certification system and there is nothing in the current system that is inherently at odds with a revised tenure system. MNR and MNDFM should proceed with making improvements in this process.

4.2 Third-party Overview

The CFSA requires that all SFLs undergo an independent review every five years. This process is achieved through the MNR's Independent Forest Audit (IFA) Program. The audits bring independent scrutiny to tenured areas, thereby supporting the credibility of the province's forest management system.

⁴ http://www.mnr.gov.on.ca/en/Business/Forests/2ColumnSubPage/STEL02_179259.html

In addition to the IFAs, many FMUs are certified by third-party certification systems and MNR has required that all Crown forests become certified under a third-party standard. We would suggest that this policy be continued. Although some changes are necessary in the IFA system (e.g., reports currently take more than two years to release), we see the IFAs and third-party certification assuming increased importance if there are revisions to tenure that encourage forest managers to emphasize revenue and profitability

4.3 Timber Pricing

Currently for each merchantable cubic metre of wood that is harvested, the licensee is required to pay the Crown a charge that varies by species, end product, and market conditions. Crown dues consist of a minimum charge and a so-called residual component, which is based on the difference between the price of the forest product and the cost of production. This residual value is the means of sharing extraordinary profits between the forest product manufacturer and the Crown. Dues also include contributions to the Forest Renewal Trust and the Forestry Futures Trust, as well as charges for forest inventory development. The system generally works well, and has some degree of market responsiveness. Nevertheless, we suggest that a simplified, more transparent market-based system is needed for a modern tenure system.

4.4 Trusts

As described above, the Forest Renewal Trust and Forestry Futures Trust provide mechanisms for ensuring ongoing investments in the forest in the form of forest renewal and forest inventory activity. The Trust structure generally works well. The basic principle is that a charge is levied on each cubic metre of wood cut and the funds flow into the Trusts. There is also a requirement to maintain a minimum level of funding in the Renewal Trust while meeting silvicultural obligations.

The amount paid per cubic metre (i.e., the renewal rate) may be revised once per year based on a submission from the SFL-holder and approval by MNR. Again, the structure is good but hindsight shows that the implementation could be stronger. The recent trend has been to lower renewal rates to reduce “excess” funds that have built up in the Renewal Trusts over the previous decade. Now that harvesting has declined, the lack of funds flowing into the Trusts have left some SFL-holders with silvicultural liabilities (they cannot fully fund outstanding renewal obligations) or they are unable to meet minimum balance requirements, or both.

These issues are related to the implementation of the mechanics of the Renewal Trusts, and do not reflect faults in their inherent purpose. We suggest that the Renewal Trusts and Forestry Futures Trust will continue to be important components of forest management under a revised tenure system. Some adjustments to the funding mechanism for the Trusts may be warranted, but this is beyond the scope of this report

4.5 Linkage to Processing Facilities

In contrast to the elements listed above, the tenure system attributes described in this and remaining sections are ones that we feel have significant inherent inadequacies and should be overhauled in the revitalization of the system.

A key flaw in the current system, we feel, is the linkage between forest tenure and processing facility ownership. This is known as mill appurtenancy. Some SFLs, for example, are held by forest products companies whose goal in managing the forest is to attain wood for their nearby facilities. In this situation, forest management is perceived as a cost to be minimized. The same dynamic is present where tenure is held by a group of shareholders, because there are almost always dominant mill-owning shareholders whose primary concern is to obtain wood at a low cost.

We recognize that company forestry staff want to do a good job of forest management including accounting for and protecting “non timber” forest values, public consultation, environmentally responsible operations in the woods, and good silviculture. Our case studies verify this (case studies 5-7). However, at the same time, there is considerable pressure on staff to reduce costs.

A more subtle feature of this system, which became especially apparent in the last two years, is that the management of the forest is linked very closely to the fate of the SFL-holder’s mill. When the primary destination mill closes, the forest is essentially without a main consumer for its timber, and harvesting and other aspects of management are often put into abeyance until mill activity resumes. Licensees are loath to relinquish the right to harvest, even temporarily, especially since there are minimal costs to retain these rights. As well, allocated wood can be flowed through one company to another, making nonsense of wood commitments, our next topic.

4.6 Commitments

Almost all SFLs are governed by Ministerial wood supply commitments. These are legal directives which obligate the tenure-holder to supply specific volumes of wood to designated mills. In a typical FMU, the SFL-holder owns a mill that processes primarily coniferous wood, and most of the hardwood is allocated by commitment. In the case of forests where the SFL-holder is not a mill owner, most of the wood of all species goes to the mills of other companies via directive. A Minister’s commitment, via a supply agreement or some other mechanism, is one way for a mill to demonstrate to its Board of Directors or to a lender that it has a viable raw material supply. It is often stated that these commitments are important in assisting companies to raise financing, and that without them, there would be less forest-sector investment. However, there are significant negative implications associated with commitments. First, they tend to be one-sided—commitment holders gain access to a guaranteed supply of wood at little cost. And, while the commitments stipulate that pricing is to be negotiated between the licensee and the commitment holder, the bargaining position of the licence holder is compromised by the requirement to supply wood to the commitment holder.

A more serious detriment is that commitments prevent a licensee from seeking other markets for the wood where they may obtain a better price. This is so even when commitment holders do not take their allotted volumes. In essence, a commitment holder has a free option on the committed wood, which encourages them to hoard supply. Although government does have the right to withdraw wood, this is rarely done. The effect is to keep wood off the market and from seeking its best end use. Wood commitments are not an effective approach to wood disposition in the 21st century.

4.7 Aboriginal Engagement

Tenure is a key component of many of the historical land issues that inflame relations with Aboriginal peoples and tenure reform provides an opportunity for the government to move in the direction of reconciling with Aboriginal peoples. It is our understanding that Aboriginal organizations are paying attention to the tenure review process and feel that if their interests are given short shrift, there is the potential for court action and civil unrest. If it wished, the provincial government could choose to use the tenure revision process to accommodate some of the more extensive proposals that have been advanced by Aboriginal organizations, such as co-management and sharing royalties.

The Government of Ontario has fallen behind the jurisprudence curve when it comes to respecting Aboriginal rights. The courts are becoming more forceful in advocating the need to reconcile historical land issues with Aboriginal peoples. Neglecting this trend would merely compound related risk and liability—at a time when greater certainty is required.

4.8 Community and Aboriginal Benefits

The current management system makes efforts to involve communities, Aboriginal and others, in planning. The Class EA approval directs the MNR to ensure that opportunities are provided to Aboriginal communities and companies to share in the benefits from the forest. While there has been progress in these areas, overall one would have to conclude that it has been largely insufficient.

The reasons for this are complex. Historically, there has been little effort on the part of the MNR, and some SFL-holders, to actively develop strong relationships with local municipal and Aboriginal government officials. Neither participation in LCCs by municipalities and First Nations, nor direct Aboriginal involvement with MNR from a duty-to-consult perspective, allow communities to participate in key company or MNR business decisions. As a result, municipalities and Aboriginal organizations have had little involvement in forest matters. With numerous mill closures in the province over the last two years, communities have been left to deal with the fallout but still have little say about the future.

In the same way, despite extensive efforts to engage with Aboriginal communities in forest management planning, results could be described, at best, as mixed. For Aboriginal communities, obtaining access to wood must be negotiated by government through the EA Declaration Order, then with other commitment holders. This process has proven ineffective, sometimes forcing Aboriginal communities to vent their frustration through alternate and sometimes inappropriate dialogue processes. Aboriginal involvement in planning is not the appropriate avenue for obtaining access to wood—it is, however, an appropriate forum to discuss a number of other Aboriginal interests such as Aboriginal Values Mapping and the use of traditional knowledge in support of better decision-making. In fact, Aboriginal companies face the same obstacles to accessing wood supply that have been described above for other new players. In addition, the minor allocations they are given are often uneconomic to harvest, yet it is held against them when they don't harvest their allocation. Ironically, no one sees anything wrong with SFL-holders using only 50-60% of the planned harvest in their allocations. It is a clear double standard. Community involvement, both Aboriginal and municipal, needs to be addressed by the new tenure system.

4.9 Lack of Incentives for Innovation

In comparison with mills in other forested regions, many of Ontario's wood-processing facilities are old and technologically disadvantaged. Given that wood supplies have been guaranteed to tenure-holding companies and commitment-holders, there has not been a strong imperative to update facilities or innovate to use wood more efficiently. The commodity orientation of the sector, and the lack of appreciable increase in prices of forest commodities, has left companies with little margin in the face of increasing energy and transportation costs. This has depressed the value of standing timber. In our minds, the tenure system has created a club of incumbents who have a regulated supply of wood and little to fear in the way of new entrants. In this way, the incentives within the tenure system are geared towards maintaining the status quo.

4.10 No Consideration of Other Forest Resources

SFLs very clearly state that they provide the right to harvest trees from the licence areas. No mention is made of other (i.e., non-timber) products or services. As a result, existing tenure arrangements are not equipped to handle potentially valuable forest resources such as biomass for energy, carbon, biodiversity credits, and some economically small but socially significant values like woodcraft, medicinal plants, etc. Harvesting activities are also undermining the ability to capitalize on a growing ecotourism-cultural tourism industry. In our view, LIFE's should be empowered to issue RFPs to encourage the sustainable utilization and protection of these other resources.

4.11 Shortcomings

This discussion of various aspects of the province's forest management system has highlighted that it is those components that support planning, such as the guides and planning framework itself, that seem to be working reasonably well. The four principal shortcomings of the tenure system are:

1. Linking wood supply to individual mills means the forest is treated as a “cost centre” and the dominant concern of the mills is to reduce the price they pay for the raw material, regardless of other considerations.
2. The current system includes many government-imposed wood commitments or directives which distort the marketplace and pose barriers to more competitive new entrants and incumbents.
3. It does not foster a means of resolving a number of outstanding constitutionally-based Aboriginal issues including the need for fair access to wood fibre.
4. There is no incentive to invest in the forest above the minimum regulatory requirements for renewal and the system lacks incentives to market timber to the highest-valued use.

5.0 Foundations for a 21st Century Forest Economy

This chapter presents our vision for a new tenure system for Ontario. One of its key features, and a notable difference from the current system, is to separate forest management from the mills. Doing this by creating local independent forest management enterprises which have a mandate to optimize the value of the goods and services produced by the forest, while managing the forest sustainably, will shift the forest management mindset from viewing the forest as a cost centre to treating it as a value centre. Giving forest managers a free hand to sell the timber from the forest to those most willing to buy it implies that government should phase out commitments and other directives. In this way, the first two shortcomings listed above can be largely addressed.

With respect to the third shortcoming, Ontario needs to be particularly vigilant in allowing Aboriginal communities and the traditional values they hold dear, to play a meaningful role in advancing the shift in forest stewardship responsibilities.

The fourth shortcoming, lack of investment, requires putting a higher value on the resource. Addressing the first two shortcomings will create an environment more conducive to investment. However, the forest manager also needs greater assurance of obtaining a benefit from silvicultural investments.

Separating the forest products sector from forest management means that any forest product company can enter the sector. Companies will only need to compete with other sector participants to purchase timber, and this has the beneficial result of encouraging more efficient use of timber and the production of higher value products. This is how most businesses operate and there is no reason to think that the dynamic will not produce beneficial results in the forest sector.

In the following section we elaborate on these basic ideas. Our reviewers have clearly brought forward situations and challenges to this concept. A key concern was with the transition to this model. We have made an effort to think broadly without being constrained by the practicalities and politics of the transition. Given the dire situation of northern people and communities, we think this is justified. Elements of a transition strategy are described briefly in Section 7.

5.1 Moving from Crown Direction to a Sustainable Business Model

Implicit in the discussion above has been the idea that forest management should be conducted as a business with less direct participation by government, although government would retain its oversight role as well as other essential responsibilities. It has also been implicit that the current model, which treats the forest as a cost centre, should be converted to a model that treats management as a profit centre. We suggest that this can be accomplished by revising the nature and incentive structures of the entities that undertake forest management.

After the turmoil of 2008-2009, one lesson that applies to all economic sectors is the need to buffer against future uncertainty by following good business practices. For a new tenure framework, the first step towards being more businesslike is to put all forest areas under the control of companies whose exclusive interest is the management of the forest for which they hold a licence. Although this sounds obvious, no licence holder currently meets this test. We foresee all FMUs being stewarded by dedicated forest management entities which, by design, are responsive to communities, stakeholders, mills and other resource users, but are at the same time independent of all these—in short—Local Independent Forest Enterprises (LIFEs).

LIFEs can include for-profit or not-for-profit enterprises, depending on what is appropriate for local needs. The Algonquin Forestry Authority (AFA), a Crown corporation, effectively functions as a LIFE (Case Study 3). In areas where a strong community presence is appropriate (Aboriginal or other communities), proper design of company bylaws and the selection process for Board members can help meet this need. In other areas, a simpler company structure may be necessary to focus narrowly on cost-effective wood delivery. In all cases, the companies will be ruled by independent business decisions, from the perspective of what is good for the forest asset base, rather than the mill.

The framework we propose is built on a company model (under Ontario's Corporations Act 1990) because that is the best understood administrative unit for regulating business activity. Both B.C. and Quebec are working on more complex models relying on a significant government presence (Case Studies 2 and 4). In Ontario we believe a more business-based solution is workable.

5.2 Organization of a Local Independent Forest Enterprise (LIFE)

In this section we discuss the basic principles of how a LIFE would look and govern itself, starting with a discussion of the purpose of a forest management company.

5.2.1 Company structure and *raison d'être*

Current SFL-holders have a mandate to deliver wood to mills. They must do this within the regulations of Ontario, which means sustainably, but their central business is to get wood to mills at as low a cost as possible. In the most common arrangement today, the mill-owner holds the licence directly (Case Study 5) and there is no SFL management company *per se*. Obviously, the company shareholders have the right to expect that getting low cost, good quality wood to the mill is the company's priority. However, it is hard to argue that the model is successful and should be retained given the recent significant problems afflicting *all* of the major forest products companies.

We suggest that LIFEs with appropriate governance will result in a more beneficial balance of goals. Creation of LIFEs requires establishing a company whose purpose includes a mandate to optimize revenue and profit from selling wood at transparent and fair market prices. Of necessity, there will also be a core commitment to sustainability. Both are attainable. By placing those two commitments in the hands of an independently-run company whose purpose is to deliver on these goals, we change the *raison d'être* for the forest manager. It is no longer the job of the manager to keep a wood yard full for a particular mill.

In this section we address both for-profit and not-for-profit enterprises. Past experience suggests that actual profitability in this sector will be limited for the foreseeable future, but there are examples that work in nearby jurisdictions (Case Study 14). There are other reasons for a for-profit arrangement, discussed below, but we foresee that the not-for-profit model will probably dominate (like Case Study 11) because of community support (both Aboriginal and others). This is discussed further below.

In the case of a co-op SFL company (Case Studies 6 and 7), there is already a separate company tasked with forest management. However, in our opinion the current co-op structure is not much better than a single-entity SFL, because most co-op members are downstream mills, which creates the expectation that the purpose of the co-op is to make sure that all of the wood yards are full. The motivation of the co-op company is not aligned with the public interest, although certainly there are benefits through job creation and meeting regulatory requirements.

The challenge is how to structure a LIFE to effectively deliver on the two primary goals—sustainability and economic activity. Several forests in the province have set a good example in meeting the costs of sustainability while still maintaining stable business operations through the downturn (Case Studies 3 and 7).

Central to the discussion is the concept of ownership and shareholders. The decision whether a for-profit or not-for-profit company is appropriate will lie with the enterprise, no doubt informed by a vigorous public discussion. The government may need to set up an independent selection process to choose the most competitive enterprise in areas where alternatives arise. We believe that either scenario is acceptable depending on the situation. We address the not-for-profit approach first because it is the simpler of the two.

5.2.2 Not-for-Profit LIFEs

A not-for-profit company has members rather than shareholders. There is no profit expectation (nor loss), and the purpose (or Charter) of the enterprise could be simply stated as in the two goals above, plus others if desired. Governance still follows strict standards. There are two not-for-profit LIFEs in our case studies, one of which, Westwind (Case Study 11), is described here to illustrate the point. The conclusion is straightforward: they seem to work fairly well.

In 1998 Westwind Forest Stewardship was established following guidance from business advisors, with a seven-person board, four of whom were independent of the business of the company and were selected for their business background and community involvement. A few years ago another position was added that was filled by a member of a First Nation (one of seven First Nation communities on the forest). Westwind was a pilot test. The primary lesson from Westwind involves independence of Board members and the role that proper Board training in governance plays in meeting the company goals. A new system of tenure based on a company approach will not work without rigorous governance rules.

5.2.3 For-profit LIFEs

This arrangement is more complicated than a not-for-profit scenario. This is somewhat ironic because it would be fair to say that no “profits” in the general sense of the word have been created since the institution of co-op SFLs, although they are set up as for-profit corporations. Consistent with the cost-centre philosophy, co-op partners make an effort to keep costs minimal, and any surplus revenue is kept for use in the company. In our proposal, the shareholders in the LIFE could be various, but there seems to be four obvious possibilities. (Note that this discussion pertains only to the creation of shares of a LIFE and not the means of dealing with harvest shares.)

The first and most likely group of investors are the corporations that now hold licences or supply agreements (both co-ops and single entity, Case Studies 5 to 7). Some companies will be happy to be rid of their SFL costs and the attendant concerns over forest management. But some companies will want to be part of a LIFE. The profound difference is that the governance of the LIFE, and the stability and success of the LIFE, cannot be placed second to the welfare of the shareholder companies. **The LIFE must follow good governance procedures and have an independent Board of Directors to ensure this is done.** The creation of the LIFE and the spirit the company operates within (stand-alone or a minion of mills) rests on this point.

As a second group of LIFE investors we have included operators—the people and small companies that harvest wood, but do not own processing facilities. This is the situation now for the Lakehead Forest (Case Study 8). Unlike the first group above, the “cost centre” approach is not as strong a motivator for this group. As people who profit from providing quality logs and fibre, their goals are more akin to the goals of a LIFE. They will benefit directly from value being added to the forest.

Third on the list are communities. There is no intrinsic reason why a for-profit approach would be unsuitable although a not-for-profit LIFE model is more consistent with traditional community and Aboriginal philosophies and with the role that any community would likely see for themselves. Southern communities own forest estates that regularly provide profits for the use of the community generally.

Fourth on the list, and most optimistically, would be entrepreneurs who believe that a LIFE can turn a profit. This is hard to fathom in the current environment, but it is the model elsewhere in the world (Case Study 14) and in Canada (Case Study 13). It causes concern because, to some, the profit motive is seen as out of place in caring for forests. That said, it is done, and can be done well with safeguards.

5.2.4 Balancing Profitability and Sustainability

It is possible that sustainability can be achieved while still maintaining stable business operations through the downturn as in the cases of Algonquin Forest Authority and Mazinaw-Lanark (Case Studies 3 and 7). From an economic balance perspective, particularly for “not-for-profit” companies, the goal is to not lose money as opposed to making money. The major process dividends from the grassroots approach come on the social benefits side—not the economic side.

5.3 Governance

We are critical of the general state of governance of the current SFL management companies, but we understand how they arrived where they are. As the tenure system evolves, we should improve the standards of governance. We feel that much of this discussion would also apply to not-for-profits, of which there is currently only one. Good governance may be one of those elusive goals that is never attained, but the effort in striving to meet it is worthwhile. The first thing one sees when visiting the website of the Canadian Coalition for Good Governance⁵ (CCGG) is the effort they make to reward companies that are making positive steps. CCGG provides guidelines⁶ which are accessible to lay readers. The Toronto⁷ Stock Exchange also provides an accessible standard. **Every member of every Board should receive training in good governance concepts.** The guidelines discuss for-profit companies, but many of the principles apply equally to not-for-profits.

We need to be clear that the LIFEs are set up with good business practices to deliver the company goals of sustainability and efficient, cost-effective wood production. The role of governance is very important, although intangible, and most Board members are only vaguely aware of their responsibilities. An example is from CCGG Guideline 1:

“GUIDELINE ONE: Ensure Quality Motivation of Board Members

“The single most important corporate governance requirement is the quality of directors. By quality we mean directors with the integrity, competencies, capabilities and motivation to carry out their fiduciary duties in the long term best interests of the corporation and all of its shareholders. ...”

If an IMFE meets this guideline and has properly structured Charter (letters patent), goals and a vision, it would mean that if a mill owner sat on the Board of a LIFE, he or she must, in fairness, act in the best interests of the LIFE, even at a cost to the mill. That is why the TSX guide refers to “full disclosure”; the Director must be seen to be behaving in the best interest of the company, in this case the LIFE. This can be uncomfortable for a mill owner. The selection mechanism for appropriate members is an important task, not discussed here. We note that several business reviewers commented on the challenge of obtaining qualified, possibly certified and experienced directors. They must be fairly compensated to be attracted to such an enterprise.

⁵ Canadian Coalition for Good Governance: <http://www.ccg.ca/>

⁶ Canadian Coalition for Good Governance. 2005. Corporate Governance Guidelines for Building High Performance Boards. Version 1. <http://www.ccg.ca/media/files/guidelines-and-policies/guidelines/CCGG%20Guidelines%20v1%20-%20November%202005.pdf>

⁷ TSX. Corporate Governance—A guide to good disclosure. http://www.ecgi.org/codes/documents/tsx_gtgd.pdf

A little discussion of Director “independence” is also appropriate. This is a much discussed concept, but in its simplest form it is understandable, and helps to illustrate how companies can behave in an honourable and profitable way. An example is from CCGG Guideline 4:

“Independent directors should form the majority of every board. Independence is usually taken to mean that the director is independent of management and has no material relationship with or financial benefit from the company other than director fees and share ownership⁸. Consequently, the interests of an independent director should align with those of shareholders.”⁹

Mills receiving wood from an SFL company have a (major) material relationship. Although it is possible for mill owners (or their employees) to be a Board member, there are issues of perception, and real issues of conflict of interest. However, there are governance mechanisms to address this.

An important example of good governance and good business comes from the AFA (Case Study 3). Although this is a government agency, we argue that this organization follows good business practices, and with care, the tenets of the organization can be copied to a LIFE. Note that we are not proposing changing the AFA or its tenure arrangement. We acknowledge that the AFA is a unique creation that resulted from its rich local history and geography. It works partly because of the local culture of understanding good forestry, something that is difficult to copy. The AFA business model is particularly interesting because it has been relatively stable through the downturn in terms of retaining staff and supplying clients.

5.4 Assets of LIFEs

The examples from the case studies show that both not-for-profit and for-profit approaches can work in forest management. But, of course, every company needs to have assets, and in the case of a LIFE the critical asset is the right to harvest timber, which is presently owned by the shareholders of the current licensee companies. Other assets include documents required to meet regulatory and other needs and their associated intellectual property. For example, an approved FMP is worth hundreds of thousands of dollars. It is a soft asset, but a significant one because it is essential in order to proceed with timber harvesting.

Under the current system, some of the rights to harvest timber have usually been transferred to overlapping licensees. The value of these commitments can be expressed as the dollar value for a percentage of the annual harvest. For example, a purchaser of 1% of the annual harvest of Mazinaw-Lanark (Case Study 7) could be worth \$5,000. This gives the new owner the right to 1% of the annual production of wood indefinitely (the price does not include other charges such as management fees and stumpage).

Transfer of an asset like this is not recognized under the current tenure license system, because it is a license, not a contract. MNR can cancel a license without compensation and has the right to deny a transfer. That said, share percentages are bought and sold occasionally in the smaller forests where there is a distribution of small and large holdings. Mazinaw-Lanark, for example, has 20 shareholders, ranging from small independent operators to five sawmills and one pulp mill. Westwind (Case Study 11) started with more than that, but consolidation has brought the number down to about the same level as Mazinaw-Lanark. Both companies have had a small number of sales occur, enough to establish a market value for a percentage. This is an interesting development because it arose in an unregulated forum and is based on real valuation by the operators themselves—the ones who best know how much value can be obtained from a share in a licence. This example shows that valuation can be done, and that real value exists in the SFLs.

⁸ Share ownership is restricted.

⁹ In this case, those interests would be the creation of a profitable LIFE.

5.5 Transferability and Contractual Arrangement

The basis for the discussion of assets above also relates to the contractual footing that we are advocating generally between the LIFEs and the government. In short, we suggest that the LIFEs would hold a contract for the management of the forest, instead of licenses. **LIFE rights to manage forests should be based on a contract with government that stipulates conditions for valuation and transference, and includes the right and responsibility to market wood.** A contractual arrangement is not an essential element of a LIFE, but it lends to the more business-like approach we are advocating.

This is similar to the Forest Management Agreements of the 1980s. Problems arose at that time with FMAs, partially related to political decisions. But the nature of a contractual agreement rather than a license is that it at least offers the promise of fair market dealings. It is beyond our scope to explore this idea in detail but there are some possible benefits from a contractual arrangement:

- the method for valuing rights and transferability (which is not now possible) can be made clear;
- it is a sign that the value of shares and wood is market-based, which may be of advantage in trade issues;
- conditions for renewing a contract may be easier to enforce than with an elusive 20-year evergreen license (e.g., penalties for non-performance can be clearly set out and renewability conditions would be clearer);
- rationalization of the land base between LIFEs may be more easily negotiated (several SFLs currently have townships that are geographic outliers; government approval would be a requirement);
- local economic development agencies have a clearer asset to market to prospective manufacturers;
- LIFEs would be an active part of expanding economic development compared with current license holders, which are at best neutral.

This contractual agreement could also result in more forest management autonomy. Currently, managers cannot influence when operators take their portion of the allocation for a five-year plan. Operators try to time their harvests for the mill prices, seasons, labour availability, and a long list of other considerations that are not related to the needs of the forest manager. By having more autonomy in assigning the harvest schedule, again through contract, the manager can encourage better harvest timing.

Merchandising (seeking value added timber products) would now be under the purview of the LIFE. The AFA (Case Study 3), through the use of wood sorting and merchandising yards, has shown that managers can improve value added directly to logs. In Case Study 14, the value added by merchandising would be greater than any other step in the process, due to the high value of the product. The importance of this added opportunity for a LIFE cannot be understated, although this will take time to evolve. There are other benefits to more autonomy for the manager in influencing timing.

Related to merchandising are the opportunities that arise outside of licensed products. Non-timber products and services have often been discussed as a potential area for added revenue for forest managers. This too would fall under the mandate of the LIFE. Special consideration could be given to Aboriginal members with respect to culturally significant resources such as medicinal plants. In practical terms this general area has not translated into much significant business. Some efforts have been made by current companies; for example, Westwind (Case Study 11) has worked with yew harvesters, staff have participated in 3rd party certification audits, and they have produced maps for anglers and other forest users. These are

currently all small activities, and no doubt similar activities have been pursued by co-op SFL companies. Exploration of other business ventures would be part of a LIFE's charter, available to be pursued if the LIFE Board chooses. For example, purely Aboriginal LIFEs would likely more vigorously explore opportunities for non-timber harvesting activities as a means of protecting traditional interests such as hunting, trapping and the harvesting of medicinal plants. Related activities could include eco-tourism and cultural tourism and would undoubtedly generate carbon credit opportunities accordingly. The opportunities for various types of activities are potentially large.

5.6 Implications of Establishing LIFEs to Manage the Forest

There are several key beneficial implications of establishing LIFEs to manage the forest. A LIFE will be free to sell to any potential buyer, within Ontario or outside (for a discussion of the influence of Quebec, see section 6.2), not being bound by commitments. Ontario-first constraints might apply if the government was to so decide, but forest managers would not be able to present artificial constraints. The market must be open to be effective. A constraint on shipment would be tantamount to a commitment, and it would have to be paid for.

The LIFE will have an incentive to increase the revenue it derives from the harvested timber. A LIFE will have incentives to merchandize the timber and sort logs by quality, species, end use and other relevant attributes. It would also have an incentive to look for interested buyers, something that rarely happens now. This would in effect be a market-based implementation of "best end use", which has long been a policy goal of MNR but has proven difficult to realize.

An LIFE can enter into wood transactions in a manner most suited to its circumstances, using techniques ranging from auctions to long-term contracts. In areas with fewer mills, we anticipate that long-term contracts would tend to be the norm, whereas in areas with a large number of mills, the LIFE might use auctions or simply sell into the local market at the going rate.

Another benefit of our proposed separation of forest management and product manufacturing is that if tenure covers biomass for energy, carbon offsets, and other components of the resource, the LIFE will be motivated to harvest and market the most valuable mix of resource values. The regulatory process and other checks that we have identified will be relied on to ensure that the forest manager does not tilt the management direction too far in the direction of any particular product or set of products. This must be done in a way that does not significantly interfere with business, thus getting politics involved—the largest flaw in the current system.

5.6.1 New Entrants

This separation would also make it easier for new forest products companies to enter Ontario. It would of course be prudent for them to assess the availability and price of wood as a normal part of business planning, but there would no longer be a government requirement to secure a wood supply in advance (commitments would be directly with the LIFE). They would be expected to compete with other buyers to purchase wood. Eliminating the competitive advantage that commitments and possession of the SFL provide to the incumbent forest products companies means that new entrants, such as Aboriginal enterprises, value-added players, secondary manufacturers, bioenergy and biochemical companies, would have a greater opportunity to enter Ontario. We also observe that this separation would greatly facilitate Ontario's ability to meet its obligations under CFSA Condition # 34 to provide meaningful economic opportunities to Aboriginal communities. More competition and increased access to wood will ensure both a higher wood value as well as a likely increase in secondary and value-added manufacturing. Uncompetitive companies and mills will be forced to improve their processes, which would be another beneficial outcome.

5.6.2 Independent Loggers

It is anticipated that independent loggers will continue to conduct most of the harvesting. We do not see the need for the government to issue overlapping licences to companies that wish to harvest on an FMU. In principle, the LIFE would be able to contract the harvesting to whomever it felt could best undertake the operation. We note the strong role that independent loggers now have in several SFLs, since the demise of some of the forest products companies.

5.6.3 Specific Aboriginal Opportunities

One of the most significant aspects of the proposed approach is the opportunity that arises for engaging local community members. We anticipate that Aboriginal communities and businesses would be involved in LIFEs, and they could participate as one shareholder among others, controlling interests, or sole players, especially in regions like the area north of the current Area of the Undertaking where First Nations are the only local communities. In most cases local company directors would do their best to meet community needs, while being financially diligent and ensuring that the LIFE operates according to its charter. One of the merits of this approach is that it is consistent with the concept of proportional representation. The level of Aboriginal involvement in a particular LIFE could in part reflect the percentage of the population in a region that is of Aboriginal heritage. While not addressing the outstanding issues surrounding Aboriginal and treaty rights in forest management, this opens the door to a potential solution-based approach to the ongoing economic, resource access, management and stewardship challenges that face forest-based Aboriginal communities. We acknowledge that it is imperative that the province reconcile Aboriginal and treaty rights with forest management and tenure and would support an immediate, focussed discussion on this long outstanding issue.

In practical experience, we highly recommend close examination of the Mistik Forest Management situation in Saskatchewan (Case Study 9). It is beyond our scope to discuss in detail, but it is clear that the community benefits of having a local forest management enterprise have brought significant financial and socially stability, in comparison with other dismal corporate performances in that province.

5.6.4 Community Involvement

All communities stand to benefit from more local control. Community councils must understand that the community does not exercise direct control or ownership. Managing a forest through a local town or band council would be, we believe, ineffective and subject to political discussion that would be counter to the primary focus. Examples from county-owned forests in the south show that the forest is not the top priority for the politicians. As well, governance and management review requirements for ownership of an LIFE would be awkward in a municipal setting. Explaining this approach to communities across the province, both Aboriginal and non Aboriginal, will be crucial and this is discussed more in the transition section.

5.6.5 Transparent Pricing

We also advocate that the price of timber transactions be publicly posted to provide a transparent price system. This is a key element of a functioning market, and one of the aspects of this LIFE approach that will give much support to Ontario's arguments in the ongoing softwood lumber trade actions. No doubt the U.S. lumber lobby will find other avenues for trade actions, but it becomes progressively difficult to argue with a fully functioning Ontario marketplace that is based on fairness, transparency and equality. In practice, there are pitfalls that need to be overcome to ensure that the posted prices are comparable (e.g., it would not be helpful to have a mix of roadside and delivered prices presented on the same electronic bulletin board), but we believe that a workable system can be developed after due consideration.

5.7 Role of the Government

We discuss this subject briefly. In this review, we break the responsibilities down into management activities, oversight, planning and transition to a new tenure system.

Reviewers of earlier versions took us to task for letting government off too easy on their responsibilities. One comment stated “[your approach requires] ...the separation of mills from their supply commitments AND relief from all the costs they [the mills] have been incurring as part of the stewardship responsibilities legislated on them by existing tenure mechanisms. This further implies that the landowner will take on more of the costs of managing and improving the forest...” Suffice it to say that we would like to build a significant investment by government into our approach. We did not do that, nor have we spent a great deal of time exploring possible increases of activity for government in other areas. The reality is, we believe, that government will maintain its role, with some small additional responsibilities, related to modernizing tenure.

As the de facto steward of the forest, the government has been supporting various activities related to forest management. The main costs have been incurred in road construction and inventory, which are both a substantial investment and will continue. The government role in oversight of the forest will remain mostly the same, with a few additions. Government will continue to produce the planning manuals and associated guides, approve forest management plans and other planning products, maintain operational oversight through compliance inspections and report on the state of the forest on a regular basis. The government will also retain the responsibility for sustaining non-timber values, both through ensuring that the forest management guides are implemented through the forest plans and by maintaining the inventory of values. Government oversight of operations would be maintained by a compliance inspection program. Consistent with their current responsibilities, government will also ensure that the needs of Aboriginal peoples and communities are properly accommodated within these processes.

The new system would also create some new roles that will likely be best done by government, such as ensuring that the management contracts are faithfully followed. We would also see the government, initially, as the arbiter of what level and manner of community participation was sufficient. Ideally this would be done through the design of the governance system; however initially, some oversight, by a commissioner for example, will be required (discussed in the section on Transition). The province would participate in the development of the LIFE ownership and management structure. We would also see government, perhaps through a commissioner (or outside agency or other vehicle), making sure that new companies have proper governance. This could be accomplished by measures including:

- Verification of proper training and accreditation for members of Boards;
- Commissioning of management audits when deemed necessary to ensure proper business practices; and
- Performance benchmarking to assess company accomplishments.

We foresee a more rigorous surveillance of the new forest management companies, at least initially. This may include management consultants doing a periodic review of the function and governance of the LIFEs. Benchmarking of the initial status of new companies would be a useful exercise to assess performance over the long term. This is a good business practice that may be useful at a broader provincial scale. In this way, LIFEs that are struggling or encountering issues could be flagged and given attention.

5.8 Restoring Productivity

Earlier sections of this report have described in general terms the lack of incentive for investing in the forest. Generally, what is missing is an effective basis for restoring areas that have been degraded by early harvest practices and any incentive for renewing currently harvested areas at a level beyond the minimum required to meet regulatory requirements.

There are considerable areas of Ontario's forests that are dominated by low economic value species or low quality trees of potentially high value species. There has been some funding to supplement harvest costs to start the process of upgrading the quality of these stands, but there is a large area of degraded forests—and markets for low grade fibre have usually been poor. The renewal trusts provide adequate funding for basic renewal of current harvest areas, but the cost-centre mentality, together with industry concern about regulation and land base issues, is a disincentive to fund supplemental silviculture.

The tenure system is not the sole factor behind the minimal level of investment in our forests. Compared to other forests in the world, Ontario's forests are relatively slow growing. For this reason, the economics of more intensive management are considered unfavourable. However, as the recent Quebec government green paper points out (they face many similar issues), growth rates could be doubled and, to most members of the public, the forest would look no different than it does today. It is not necessary to establish tree farms to achieve a significantly higher growth rate—increased planting levels (they have declined in recent years) and developing a mechanism to rehabilitate understocked and low quality stands are two measures that would increase yields.

Charging reduced stumpage rates on yields above a base level would also serve as an incentive for greater investment in forest productivity. We feel that viable rates of return can be obtained from investments on more productive forest sites close to mills—prime sites, in other words. Other arrangements such as leasing of tenures could also enhance investment prospects. The potential for revenue from the sale of carbon offsets may also improve the return on investment if such a system were to develop.

We contend that the erosion of forest productivity and the attendant diminished forest quality and yields has contributed to the loss of vitality in the forest sector over the last couple of decades. It is difficult to see how Ontario can have a vibrant forest sector when the forest is not managed at a high level of productivity. While the sector has been labelled a sunset industry in Canada, we observe that there are three or four Scandinavian forest product firms among the global top ten, indicating that our national disinterest in the forest sector has been costly.

Some of the measures for reforming tenure discussed above will help to address the ongoing missed opportunity to improve forest productivity. **Establishing a mechanism for strongly incenting forest managers to increase revenue is critical.** The government should also provide some assurance that it recognizes that the return on investments in the forest, including silviculture, should not be undermined by changes in government policy. We make the following suggestions to encourage greater investment in the forest:

- The provincial government should consider providing matching funding when an LIFE increases its renewal rates above some pre-determined level (through a contractual arrangement for cost share possibly);

- The provincial government should extend the scope of tenure so that it includes carbon and it should create the conditions needed to encourage forest managers on Crown land to produce and sell carbon offsets within the “green carbon” sector if land-use change and forest management become capped sectors¹⁰; and
- The provincial government should consider reducing the stumpage rate on the incremental timber that is generated from LIFE investments in intensive silviculture.

We also observe that harvest costs on a per-cubic-metre basis would be lower if forests were more productive and that this might provide a future source of funds for improved silviculture.

5.8.1 Crown Charges

As mentioned, we support the retention of Forestry Futures Trust, the Renewal Trust, and the Crown re-assuming responsibility for producing new forest inventories. Thus, we would retain the components of the dues system related to funding these entities. Retaining a minimum charge per cubic metre of wood, in addition to the funding earmarks just mentioned, is appealing in the sense that it would provide recognition of the public ownership of the forest and of the value of the timber. However, the level must be chosen with care so that it does not become an excessive deterrent to harvesting. **In principle, we would argue in favour of setting dues as a fixed percentage of the delivered wood price, subject to a minimum charge.** This has the virtue of being clear and less susceptible to manipulation.

Alternatively, a zero charge for Crown dues may also be appropriate because of the not-for-profit nature of forest management. Also, in recent years, the non-earmarked portion of Crown dues has been in the order of a few hundred million dollars, which is insignificant in terms of the provincial budget. We would also argue that society accrues significant economic benefit from the activities of the forest management company as well as renewal of the forest in a sustainable manner. When forest management occurs through a not-for-profit enterprise, retained earnings and contingency funds all eventually find their way to improving the forest estate. Normal sales and GST (HST) taxes are paid. By not charging additional dues, the government enables the forest management company to retain additional earnings that will be spent on the forest. The government benefits indirectly from the taxes generated through all of the renewal activity and downstream products. In the situation where profits are actually generated by a for-profit LIFE, then it would be reasonable to expect direct taxation of that profit in line with other corporations.

¹⁰ Forest offsets would be purchasable by fossil carbon emitters for reasons of emission reduction effectiveness that are beyond the scope of this paper

6.0 Challenging Issues/ Other Considerations

So far, the aspects of a revitalized tenure system that we have discussed are ones that we think have strong arguments in their favour. There are a number of other questions related to tenure where we do not see a clear justification for a particular direction or policy choice. These are discussed below.

6.1 Why not Government Agencies?

Several reviewers argued in favour of establishing Crown forest management organizations instead of the LIFEs that we are advocating. The rationale for this position was that state-owned forest management enterprises (in the words of one reviewer) can be just as successful as private ones in delivering good forest management and some of the complications associated with LIFEs can be avoided; this approach is used in Great Britain, Australia and some states in Germany. Reviewers said a state-owned forest management enterprise (SFME) would be responsible for forest management based on business principles, but would not be responsible for forest policy formulation, enforcement, monitoring and evaluation (or forest governance). The Algonquin Forestry Authority (AFA) model is consistent with this idea because the government generally maintains a hands-off approach and does not participate in the business functions of the AFA.

Reviewers argued that the SFME model sidesteps some issues associated with LIFEs:

1. Ownership concentration: There is some potential that through sales of shares, the ownership of LIFEs could become concentrated in a small number of large companies, which would return us to the current circumstance that we are trying to move away from;
2. Motivation: The lure of capitalism would not be as strong within an SFME, which would diminish the potential for there to be an over-emphasis on profit at the expense of broader forest values;
3. Attractiveness: The market value of the forest is low right now, which might lead to few potential LIFE owners coming forward;
4. Cost: Since at least a portion of the rights to harvest would be “given” to the management agency at no cost, which is not overly desirable from the perspective of the public obtaining value for the resource, the SFME approach would avoid this whole issue.

We feel that the first two issues above could be managed by ensuring appropriate governance models and if charters are required for entry into the LIFE business. We would also suggest that the AFA has a healthy but balanced appreciation of revenue and profit, and in fact considers itself to be part of the industry. For the third point, although attractiveness may be low right now, this won't be case indefinitely and so astute businesses may perceive that this is a good time for entry. Communities and First Nations will undoubtedly recognize this opportunity as one that is unlikely to come around again for many years, and so can be expected to be active participants. Regarding the fourth point, we would suggest that the obligations that come with being an LIFE have costs associated with them. If, however, this still undervalued the resource, we would point out that the SFLs can be viewed in much the same way.

We also think that the counter arguments to widespread use of the SFME model are stronger.

1. Government has clearly gotten out of the business of managing forests, primarily because forest management is perceived as an appropriate private sector function. There are no signs that there is a desire on the part of government to get back into the business.

2. Even if the government was willing to entertain the idea of re-entering forest management, public attitude would be strongly against it, for the same reason that government exited in the first place.
3. It is our observation that the government of today behaves much differently than it did several decades ago, when it was last responsible for forest management in Ontario. In our view, all governments have become more risk-averse and much more procedural in nature, which suggest that there would be little innovation or entrepreneurship if the provincial government was actively involved as forest manager.
4. The American Softwood Lumber Coalition would seize on this approach as involving subsidies to the industry, removing any possibility of ending the trade action.

6.2 Licences versus Leases or Agreements

We considered whether the provincial government should continue to licence LIFEs or whether there should be a different arrangement, such as a contractual agreement like a lease. In our discussion above we argued for a contractual arrangement. We see the main argument in favour of moving away from a licence-based approach as being that an agreement places certain limitations on the Crown's ability to change the rules of the game. Beyond certain thresholds, some form of indemnification would be required.

Under an SFL, the government can render parts of the land base unavailable for commercial forestry, change the regulations governing operations, or allocate part of the wood supply to another entity and the SFL-holder is left to adjust as best it can. SFL-holders also see a steady reduction in available harvest, due to removals of land from commercial timber production, as well as an increase in the amount of standing live timber that must be left on and around harvest areas. Without arguing about the rationale for these changes, the result is that SFL-holders have no incentive to invest in the forest beyond the minimum level of funding required to meet regulations. As a result, the forests are not being managed as productively as they could be, and there can be an impact on investment in facilities.

The chief argument for retaining the licensing system is that the Crown should maintain an unfettered ability to act in what it considers to be in the best interests of the province and its people, especially since there is no self-evident way of capturing any of the value that would accrue from the transfer of greater righ

ts to a licensee. By and large, we think that there is greater merit in moving from a licensing arrangement to an agreement that is closer to what one would expect to see between a landlord and a tenant. This is a much larger discussion than is possible in the scope of this report. In previous sections, we have recommended changes that will induce forest managers to behave in a more business-like way, and in this recommendation, we are advocating that the provincial government also deport itself in a more business-like manner while still retaining the ability to act in the best interests of the people—and forests—of Ontario.

6.3 Forest Management Unit Size

Currently, there are 47 FMUs in Ontario, about half the number in 1994. Forty-four of these are tenured through SFLs¹¹ and the others are under direct Crown management.¹² In recent years, the government, with industry's blessing, has been amalgamating FMUs. Although the trend of amalgamations has slowed somewhat, there are indications of renewed interest in larger FMUs.

¹¹ Included in the 44 is the AFA, which operates under a memorandum of understanding rather than an SFL.

¹² http://www.mnr.gov.on.ca/en/Business/Forests/1ColumnSubPage/STEL02_163535.html

Obviously, as the amalgamations have occurred, the average size of FMUs has increased. The Crown land component of the Area of the Undertaking encompasses approximately 385,000 km²; of this area, about 85% or 327,000 km² is in productive forest. The math indicates that the current average size is about 800,000 ha, with about 680,000 ha of productive forest. A useful reference size is that of Algonquin Park, which is about 765,000 ha; therefore the average FMU in the province is slightly larger than Algonquin Park.

Some FMUs in the province are considerably larger than average, with a small number approaching 2 million ha in size, and of course some are considerably smaller. The move towards fewer FMUs has largely been motivated by a desire to take advantage of perceived economies of scale in planning and operations. Given this, it is reasonable to ask “What is the right size for a Forest Management Unit?” While we believe that there is no single appropriate size for FMUs, some considerations suggest that they should be relatively large, including:

- The costs of producing forest management plans is considerable and large FMUs are better able to absorb the high costs of planning;
- Ideally, management operations on FMUs should replicate natural disturbance patterns. In the boreal forest natural patterns operate on a large scale and so large FMUs are needed to plan accordingly;
- In some areas with low productive capacity, large areas may be needed in order to produce the volumes of wood needed to efficiently support industrial demand and the required planning efforts; and
- Large planning units may provide opportunities for flexibility not available in small units.

Other considerations suggest that FMUs should not be too large, including:

- As the size of FMUs grows, it becomes increasingly difficult for forest managers to bring an intimate knowledge of their land base into operational considerations;
- As the size of FMUs grows, it becomes increasingly difficult for government and corporate oversight to remain effective, and LCCs struggle as well;
- In areas with considerable stakeholder presence, planning requirements may be so high as to limit the area which can effectively be managed as a single unit; and
- In areas with complex forests, more detailed planning requirements suggest that smaller, rather than larger, FMUs are appropriate; the heterogeneity of individual areas may be lost in broad planning exercises.

Management science has demonstrated that moving towards large-scale and centralized planning brings inefficiencies and unpredictable consequences into play, and that at a certain point marginal efficiencies of scale tend to be zero or turn negative with increasing size. Certainly, the design of a tenure system that promotes participation will need to consider at what point the number of stakeholders in an FMU becomes unwieldy or has the effect of limiting effective participation. We also suggest that where LIFEs are set up as revenue or profit centres, the sizing of the FMUs will have a bearing on the competitiveness of the market for timber. In sum, there seems no single “best size” for FMUs. We suggest therefore, that moves to achieve economies of scale be assessed realistically and critically to ensure that offsetting factors are taken into account so that whatever changes are made will truly achieve improvements in forest management.

6.4 Cross Border Competition—Levelling the Playing Field

LIFEs, as we propose them, would be able to seek higher prices for wood anywhere, including across Ontario's borders. This is an important principle that will add benefit to the forest, and accrue value for wood. It will be an important aspect in making arguments in softwood lumber trade actions. Unfortunately, it will be politically difficult in some areas. In other jurisdictions export of wood requires certain process, like first right of refusal. It is important that if restrictions are put in place, these not be draconian. Local interests must be given consideration, but only to a reasonable extent. Local companies need to be able to move with the speed of other businesses.

We examined some of the contentious situations around Ontario's borders today. Quebec has a large forest industry that is structured similarly to Ontario's (Case Study 4) and there are a number of mills located relatively close to the Ontario border. The Quebec industry has one significant advantage over Ontario—industrial power rates are approximately 30% of those in Ontario. With this cost advantage, Quebec mills are able to pay more for wood and much of the wood cut from private land in the eastern part of Ontario, as well as some Crown wood, flows into Quebec. Almost no wood flows from Quebec into Ontario, and our understanding is that this is not solely due to differences in ability to pay, but it is also a reflection of Quebec provincial policy.

With such an advantage, Quebec mills would likely be significant buyers of Ontario wood if LIFEs were empowered to sell to the buyer willing to pay the highest price. Under this scenario, many of the benefits envisaged from moving to a market-based system would accrue to Quebec, which is not the intended outcome.

Creation of a fair market would be a high level political undertaking. In the meantime what response is most appropriate? A possible constraint on LIFEs that could shift the balance toward local mills would be allowing long-term contracts for wood supply only to Ontario processing facilities. Although this can be circumvented, well-written contracts can minimize abuse, unlike the current more political approach.

6.5 LIFE Ownership—Out-of-Province Investment

In principle, there should also be no reason to restrict who can purchase a stake in a forest management enterprise. Those LIFEs that have a share structure could be purchased by a willing buyer. While it may be difficult to envisage an organization buying an LIFE right now, it is done regularly in other parts of the world where management companies are attractive investments. There is no doubt that thinking like that of organizations such as Hancock (Case Study 14) would be essential to reaching profitability. Inclusion of some for-profit forest management enterprises in the Ontario landscape would no doubt provide some valuable lessons for all LIFEs.

A more likely buyer would be a company that owns or has ties to processing facilities. As we discussed above in 5.2.3, the LIFE must follow good governance procedures and have an independent Board of Directors. Conflict of interest between a share owner's mill and the LIFE would not be allowed under corporate charter and bylaws.

This discussion has numerous parallels to the discussion about community participation—how should this policy aim be brought about and what is a legitimate role for government to play in doing so? Government is caught between wanting to advance a policy objective while at the same time wanting to avoid intruding into areas that are normally left to markets and management. Because the forest is by the Crown, it has the right to intervene, and through the LIFE structure the government can attain its aims by normal business means. It must not impose unwieldy or unworkable restrictions.

6.6 LIFE Control of the Trees and the Carbon

An idea that has arisen in our discussions and generally through the tenure review exercise is for the Crown to retain stewardship of the land but allow an LIFE to own the trees and the attendant carbon. It is not central to the LIFE concept but we discuss it here briefly. There are several theoretical advantages to this approach, which can be viewed as an effort to capture some of the benefits normally associated with private ownership while retaining public ownership of the land.

It is often argued that someone who owned the trees would have incentive to invest in the forest. The incentive would arise from the legal basis for expecting to reap the benefits associated with greater timber production. An LIFE that also owned the forest carbon would manage so as to produce a most profitable mix of timber and offset credits. Ownership of the timber would also remove the disincentive for investment due to the potential for the government to withdraw land or enact changes to management that reduce the amount of wood available for harvest. If the timber was owned, the owner would be compensated, as is the case when property is expropriated to build a highway or other infrastructure. We are aware of the political realities of this idea.

One of the objections to control relates to how this would be transferred from the Crown to the LIFE. An LIFE could not afford to pay for the control, and the use of an RFP by government to solicit bids opens up the possibility of undesirable outcomes (as well as of surprisingly desirable ones). Furthermore, once the control of the trees had been transferred, what right would the Crown have to impose any regulatory requirements on the management of the forest? It is also important to be cognizant of the longstanding position of First Nations with respect to tenure, resource control and resource stewardship. Further, we note that the supposed high levels of investment in private forests are not often seen—it is not uncommon for some private landowners to strip the resource and sell the land again.

Perhaps it would be more appropriate to consider requiring the Crown and the LIFE to enter into a lease agreement, which could include an appropriate level of community (Aboriginal and non-Aboriginal) involvement, a number of performance requirements, as well as stipulations that Crown management direction and standards would continue to apply. Could leasing represent a best possible solution? A different approach, in the direction of increasing the rights of the LIFE, would be to use agreements instead of licences as the basis for granting tenure. We have not suggested a preferred outcome—we simply wish to raise the question so that it can be debated in the overall tenure discussion.

What we have described in this paper is a vision of the tenure arrangements in a revitalized forest sector.

7.0 Observations on a Transition Strategy

Getting to there from here will take some time, if for no other reason than the government does not have the capacity to participate in the revision of tenure on all FMUs simultaneously. There is also a division of responsibility to be worked out between the Ministry of Northern Development, Mines and Forests and the Ministry of Natural Resources. At the same time, there is a degree of urgency to any reforms that are undertaken—the impetus will diminish as the economy begins to strengthen. For this reason, we advocate that the government declare its intention to convert all licensees to LIFE's within a specified period of time, perhaps five years, institute a number of changes immediately that would apply to all forest managers and management units, and initiate from 6-10 pilots drawn from willing management entities.

One of the challenges in scoping out a broad set of principles and observations regarding a tenure strategy is to determine how quickly the revisions should be made once they have been announced. Constraints on the number and availability of suitable personnel within and outside the government, and the desire to limit the degree of change underway across Ontario at any one time have led us to propose a five-year period for converting existing management entities to LIFE's. We also recognize that this will be a learning process and so it makes sense to develop a process that takes some advantage of this.

On many forests, the most difficult aspects of the transition may well be understanding how to operate effectively within a new mindset and restructured sector. Given the central role of strong governance, we would suggest that the Ontario government work with one of the business schools to develop a customized course and set of learning tools for LIFE board members, upper management, and select MNR staff.

We also believe that some transitional steps can be undertaken immediately across the board. We suggest that the following steps to be undertaken quickly and applied to all management units:

- Create Boards of Directors for all current single entity SFLs immediately, with appropriate governance.
- Revitalize governance for all management companies in the first year.
- Eliminate all Ministerial wood supply commitments, with a very short phase-out. Immediately eliminate commitments where less than 25% of the volume has been taken over the last three years on average. This would follow through on the December 2009 government request for expressions of interest for wood supply.
- Authorize forest managers to enter into contracts to sell timber that was hitherto “allocated” via the commitments, and that was not committed under the contracts issued by MNDMF to successful proponents under the Provincial Wood Supply Competitive Process. Contract length could not extend beyond the transition period so that all contracts would be renewed when or shortly after the LIFE was created. Contracts from a single-entity SFL to a mill owned by the same company would be scrutinized to ensure that they were at a fair price.
- Immediately expand forest manager responsibility to include biomass and carbon. This option will only be offered to functioning LIFE's.

Implementing these changes to all FMUs would help to keep the playing field level during the transition period; the provincial government will have to adaptively manage the transition to move quickly and complete the process as soon as practicable.

Given the scope of the changes that would be involved in converting forest management companies to LIFE's, and the ongoing need to provide fairness and balance within the sector, we suggest that the office of a forest management commissioner be established. The overall duties of the commissioner would be to:

- monitor the establishment of LIFE's and ensure that the Board composition is suitable for the local circumstances;
- provide input into the corporate structure and mandate of the LIFEs;
- ensure that the management of the LIFEs performs at a high and continuously improving standard;
- address business issues related to boundary realignment if required;
- address issues related to assets that are claimed by shareholders in SFLs, if there is a transfer of a real asset required.

In the following, we provide some observations regarding a transition. We caution readers that we have not tried to work out a detailed implementation strategy.

7.1 Creation of LIFEs

We foresee government being heavily involved in steering the transition process within individual LIFEs. In many LIFEs the provincial government should be a shareholder for a limited period of time. Where an SFL-holder was typically harvesting, for example, 60% of the planned harvest, even prior to the economic recession, we feel it is appropriate for the government to own a share of the enterprise, if for no other reason than to avoid rewarding those SFL-holders who have for whatever reason failed to harvest close to planned levels.

There is currently a considerable range of types of organizations that hold SFLs, and some of them would require relatively few modifications to become LIFEs, whereas the standard SFL that is held by a large forest products company would require a wholesale conversion. Our estimation is that the provincial government may have the capacity to work with converting three to five management units at any given time, however, this could be augmented by hiring negotiators as was done in the process of converting FMAs to SFLs. Those that are already co-op SFLs will probably be easier to convert than the single-entity SFLs, if for no other reason than they are closer to the type of organization that we envisage as being an LIFE.

On the other hand, if there is serious disagreement among the shareholders of a co-op SFL, then the negotiations could prove complicated due to the number of parties involved. The provincial government should look for willing candidates, where the desired participants are in place, and those would include the FMUs that have reverted to the Crown. Some funding would probably be necessary to fund the SFL-holders' legal costs and other transition costs.

On FMUs or other areas where a number of parties might be interested in forming an LIFE, a Request for Proposals could be issued, or a shorter, more direct process could be used. In all cases, the primary principles that should be infused into the corporate structure include:

- the shareholders and directors of the LIFE would act in the best interests of the LIFE, not as a group of stakeholders representing disparate interests;

- no single interest would dominate or have majority control of the Board; and
- the ownership of the company, or its Board of Directors, or both, would include perspectives from local communities, either Aboriginal, non-Aboriginal or an appropriate combination thereof, based on geography, demographics, level of interest and perhaps a number of other considerations.

The means for creation of assets for LIFE s may be complicated, but it does not need to be done immediately. It must be done in order to create a class of companies that use their tenure as a business and that can operate freely in the market (thus solving some of our current tenure problems). The current small co-ops have shown through their transfers that a marketplace will arise wherever business is done. The new LIFE arrangement needs to build on that entrepreneurship. We do not explore this area in detail. We believe that there are several approaches that can be explored in the creation of assets:

- Outright purchase from current shareholders by the government;
- Transfer of the value of the commitment into the shares of the LIFE;
- Exchange of current, indefinite commitment to wood for a wood supply contract of a fixed term, possibly along with some cash value, depending on true market value.

Withdrawal of licenses abruptly sends a poor message to the market and could undo what the government is trying to accomplish. Adjustment must be done fairly, but overpayment for a share of the wood supply is equally wrong.

7.2 Revisions to CFSA

We have great concern that the CFSA will be used a roadblock and a reason to stop tenure reform. If significant time is required to amend the CFSA, then depending on what changes are to be made to the tenure system, there may be a requirement for some up-front work before negotiations begin with individual licensees. For example, if the SFLs are to be replaced with different instruments, relevant sections of the CFSA will need to be revised, although few other amendments to the CFSA would be required. If changes to the stumpage system are implemented, those should be made in advance so that prospective forest managers will have a better sense of the finances of the new entity. Government responsibilities to First Nations must be considered as well. Finally, and very importantly, there should be a framework for negotiation and for ownership transition in place before negotiations commence.

While conversions of SFLs are likely to be time-consuming work, the government could take immediate steps to move in the desired direction on all SFLs. For example, the government could establish forest management boards on all SFLs using section 15 of the CFSA, which states that “(1) The Minister may establish forest management boards for such areas as are designated by the Minister, including forest management boards for community forests designated by the Minister.” The powers of the Boards are potentially wide-ranging, since paragraph 2d under section 15 states that “A forest management board shall ... (c) exercise any authority of the Minister under this Part that is delegated to the board by the regulations.” In addition, section 23 of the CFSA gives the Minister the authority to enter into joint management agreements with First Nations.

7.3 The Need for an Innovation Fund

The forest sector does not have the cachet of a “hot” sector, and one reason is a perceived lack of innovation. As discussed above, we have identified the strong pressures against spending more than necessary to manage the forest, while at the same time there is perhaps less tolerance for poor performance. We have also observed less tolerance within MNR in general for supporting operational R & D. This combination of factors has led to very low levels of operational and planning-related innovation. While this issue is perhaps external to a consideration of tenure, it is our hope that the changes we are proposing will create incentives for forest managers to be more innovative.

To support them, we suggest creating a provincial fund that would support forest management innovation. It could perhaps be funded by a small charge on each cubic metre harvested, matched by the province, and be administered by Forestry Futures. Such a mechanism could provide significant benefits, and it would also have the not insignificant benefit of adding some enjoyment to the working lives of most forest managers.

8.0 Summary

The current economic crisis has triggered a reckoning within the forest sector, and while parts of the current system are fundamentally sound, the incentives and conditions within the tenure system enabled participants to avoid developing an effective response to changing markets, increased competition, and an excessive reliance on commodities and the U.S. market. Recasting the tenure system is a key part of laying a foundation for re-balancing forest uses in a way that benefits Ontarians and supports the re-building of a dynamic forest resource sector.

The analysis in the preceding section has assessed the major aspects of the tenure system, identifying those that we think are effective, or potentially so, and those that no longer serve the province, First Nations, other local communities, or the forest sector well. The tenure system should be modified in a number of key respects, in our view, and the implications from these recommended modifications are profound. We suggest that the tenure system would provide more socially desirable outcomes if:

- Forests were managed by enterprises that were not dominated by mill-owning companies and instead had incentives to increase their own revenue and profit;
- Forest management enterprises could be Crown corporations, not-for-profit companies, for-profit companies and that there should be a strong element of local and Aboriginal participation;
- Ministerial commitments were eliminated from all forests, and forest management enterprises were empowered to sell the timber to whomever was willing to pay a good price, whether it be by long-term contract, auction, or other arrangement;
- Tenure covered biomass and carbon as well as timber and non-timber forest products, and that the system be designed to accommodate future values such as sale of biodiversity credits;
- Licensing is replaced by agreements or leases with the government that provide the holder with a greater level of security over their assets;
- Pricing is transparent and if the Crown dues system is modified so that dues are a percentage of the timber or other resource sale prices; and
- There are clear rules for licence transferability and renewal.

Many of the recommendations described above enhance the market pricing of timber and scale back the role of government in setting prices administratively. We also recognize that a forest management enterprise (FME) that has incentives to increase revenue and profit will be tempted to cut corners and adopt a management approach that overemphasizes the importance of timber at the expense of social and ecological values, as well as sustainability in general. For this reason, we have developed some suggestions to help mitigate these potential drawbacks, and ultimately we will expect MNR to play a clearer role in ensuring that there is a sustainable balance of goals between economic, social and ecological objectives.

9.0 Appendices

9.1 Case Studies

There is a considerable variation in the nature of the tenure holders in Ontario, and the past year has seen companies relinquish their SFLs on several FMUs, turning them back to the government. Beyond Ontario there is a wider range of examples of tenure and tenure-holders, and we have prepared a series of overviews to give a sense of the range of examples. These take the form of 14 one-page case studies. Each case study lists basic information, such as financial, staffing, harvest level, etc., plus a short assessment of the “features” that make these entities interesting tenure arrangements. We also describe governance, which is one of the key determinants of the spirit of the company, and a major reason for general business success or failure over the last decade. Key governance questions include: Is the company all about the bottom line? Is there room for including in the letters patent a more altruistic goal of providing jobs and sustainability?

Across Canada there are a number of interesting approaches to obtaining the right to use forest resources. Over the last decade forest management enterprises have emerged that show that forest management and the sale of forest products can make a profit and do not need to be “cost centres” for large forest companies as they currently are in Ontario. Examples include situations where governments have total control of planning, block layout, compliance and harvest (Case Study 1) to others where ownership of the forest is private (Case Study 14). Although some aspects of private land management are not attainable and perhaps not desirable on public land, there are some features that can inform public forest management. The range of values that are marketed (Case Study 13) and resource pricing (Case Study 14) are two examples. Not only is the planning and harvesting arranged by the company, but marketing and merchandising occurs to maximize the economic return. In many cases, marketing includes monetizing some of the non-timber values, such as recreational use.

Our case studies span the management spectrum from government to non-government. Historically, it was argued that a mill should hold the licence to the forest timber resources, because they take the risk and provide the most jobs. This certainly was the model in the 20th century, when markets and profits allowed for a beneficent mill owner to support the cost centre that has been forest management. When forest managers had an extraordinary expense, say a forest inventory, the deep pockets of the mill owner could supply money, or at least obtain a loan to meet the need. This is still the situation for Case Study 5. Recently, and likely in the future, companies have not had that ability, and some do not want it. As a result, in Ontario, the government has been stepping into that role. In Quebec (Case Study 4) and British Columbia (Case Study 2), governments have seen this trend building and are making changes to the tenure system by taking wood committed to mills and putting it on the open market.

A list of case studies provided in Appendix 1 of management companies and agencies. These are loosely arranged by type of governance—from total government control to the LIFEs described in this report.

Direct Government Management on Crown Land	Forest Product Company	Forest Management Company	Community-Based Management Company	Forest Management and Marketing Company
1 Temagami	5 Tembec Inc. Romeo Malette (single comp.)	8 Lakehead Forest	9 Mistik Management Inc.	13 TimberWest Inc. (mostly private land)
2 BC Timber Sales	6 Timiskaming Forest Alliance Inc. (co-op)		10 Revelstoke Community Forest	14 Hancock (private land)
3 Algonquin Forest Authority	7 Mazinaw Lanark Forest Inc. (co-op)		11 Westwind Forest Stewardship Inc.	
4 Quebec regional authorities			12 White River Forest	

Case Study 1: Temagami Forest

Model Type	Crown-managed forest	
Entity	Managed by Ministry of Natural Resources District Office North Bay	Address: 3301 Trout Lake Rd., North Bay, ON P1A4L7
Contact	Kim Groenendyk, District Manager, (705)475-5599	
Important Features	<p>This is a holdover from a large array of Crown Forest Management Units.</p> <p>Government employees manage the SFL, and administer all of the management activities normally looked after by SFLs.</p> <p>It has been well known for white pine stands, and a public dispute over the harvest of the species.</p> <p>Management fees are covered by government, making the wood costs artificially low.</p>	
Mission or Goal Statement	Follows the provincial policy direction, including commitments such as Provincial Forest Policy Framework and the planning team FMP	
Land base	Temagami Management Unit starts just north of Marten River and extends to New Liskeard, east to Lake Timiskaming and west to the Sturgeon River system. It encompasses 53 townships.	
AAC:	Base AAC: 2 -3 thousand ha per year, area-based, is in the FMP. This level of harvest has not been achieved.	
Tenure Type	Resource: Trees Duration: 20 years	Authorization: Sustainable Forest Licence on Temagami Forest Renewability: Evergreen, every five years
Management Co. Ownership	Ontario government	
Forest Manager Responsibilities	All responsibilities held by government: Implementation of FMP; compliance; oversight of compliance; all provincial; planning team chair and FMP authorship; management of Local Citizen's Committee.	
Operations	By contractors, commitment holders	
FP Industry Mgmt Role	None	
Links to Processing Facilities	Harvest volumes from the Temagami MU are sold by means of three main commitment types: commitment letters, supply agreements and conditional commitments. The remaining volume is then subject to direct license or on an open market basis.	
Governance	Government of Ontario OMNR District Manager oversees operational activities. Regional Director signs off on FMP.	
Crown Oversight	All responsibilities held by government	
Timber Pricing/ Costs	<p>Management fees are covered by government.</p> <p>Stumpage follows the regular provincial rates.</p> <p>Renewal fees determined by committee.</p>	
Financial	Commitments determine who gets the wood. Wood pricing is sum of stumpage, management fee (zero) and renewal.	

Case Study 2: BC Timber Sales

Model Type	Government Agency	
Entity	BC Timber Sales (2003)	Address: PO Box 9510, Stn Prov Govt, Victoria, BC V8W 9C2, with 12 local offices Web: http://www.for.gov.bc.ca/bcts/
Contact	Corp HQ Victoria, (250)387-1261, Assistant Deputy Minister, BC Ministry of Forests and Range	
Important Features	<ul style="list-style-type: none"> • Government agency that fulfils a specific role, related to softwood lumber marketing in the U.S., by providing a fair market price • Allows a broad range of companies to access wood (1100 on their list) • From web: "There is an emphasis on wealth creation from the opportunities provided through the program, rather than on job creation and other social objectives." • Provides transparent pricing to the market (http://www.for.gov.bc.ca/BCTS/wap/bcts02/ with registration) • Informative page is : http://www.for.gov.bc.ca/bcts/faq/#Organization 	
Mission or Goal Statement	<p>"Mandate" given by government (from website: "...to provide the cost and price benchmarks for timber harvested from public land in BC"</p> <p>Vision (web): To be an effective timber marketer generating wealth through sustainable resource mgmt.</p> <p>Mission: To market Crown timber to establish market price and capture the value of the asset for the public.</p> <p>Strategic Goals:</p> <ol style="list-style-type: none"> 1. Provide a credible reference point for costs and pricing of timber harvested from public land in BC. 2. Optimize net revenue to the province, within the parameters dictated by our benchmarking mandate and safe and sound forest management practices. 3. Provide opportunities for customers to purchase timber in an open and competitive market. 4. Be a high performing organization with skilled, motivated and proud people. 	
Land base	Location: BC Gross Area: 20% of harvest in BC Crown Forest: 1.25 m ha Crown Production: 0.93 m ha	
AAC	Base AAC: undetermined land base, however, 20 per cent of volume for transfer across all licensees translates into approximately 8.2 million cubic metres.	
Tenure Type	Tenured Resource: Trees by auction. Long term "tenure" only by government mandate	
Management Co. Ownership	A government agency	
Forest Manager Responsibilities	Part of mandate: "High-quality forest and environmental management practices are integral to the BCTS mandate and the way it conducts business." Has SFI certification on 4 business areas, no FSC.	
Operations	<ul style="list-style-type: none"> • By winning auction bidders, following government determined regs and guidelines. • Significant set up by BCTS 	
FP Industry Mgmt Role	<ul style="list-style-type: none"> • None • Successful bids by forest products companies follow the same rules as other winning bids 	

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Links to Processing Facilities	By auction only
Governance	<ul style="list-style-type: none"> • This is a government agency reporting to the Assistant Deputy Minister of Forests in 2003 (now Min of Forests and Range) • The Timber Sales Advisory Council (TSAC) provides a forum for stakeholder and BCTS reps to consider issues of interest to BCTS clients and customers, including operational and business practices.
Crown Oversight	<ul style="list-style-type: none"> • Crown-determined planning and reporting processes, approves plans and reports • BCTS regularly monitor operations • BCTS also monitors safety; major mandate
Timber Pricing/ Costs	<ul style="list-style-type: none"> • BCTS provides opportunities to purchase timber sales year round to more than 1,100 program registrants, ranging in size from small operators to major licensees. • Focus of BC Timber Sales is to develop and auction Crown timber to establish the market price and to develop a credible benchmark for the cost of developing timber for sale
Financial	<ul style="list-style-type: none"> • First five years sold 63 million cu m, netting \$430 million • Agency has right to refuse to sell wood if the auction price is inadequate. Have done this 21 times. Quote: "Under this system it was difficult to determine if the Crown was getting a fair return for publicly-owned timber and the data collected from these sales could not be used in the larger market pricing system."

Case Study 3: Algonquin Forest Authority

Model Type:	Ontario Crown agency	
Entity	Algonquin Forest Authority (AFA)	Address: 222 Main St. W., Huntsville, ON P1H 1Y1 Web: http://www.algonquinforestry.on.ca/index.htm
Contact	Danny Janke, General Manager, (705)789 9647	
Important Features	<ul style="list-style-type: none"> • Separation of forest management from downstream mills • Operates under its own Act, Algonquin Forestry Authority Act, rather than the Corporations Act • Board members are independent from mills, appointed by government • Conducted management through the downturn with ~23 regular staff and assets of approximately \$ 9 million 	
Mission or Goal Statement	Mission: "Committed to ensuring the long-term health of Algonquin's forests" and "To ensure the long-term health of Algonquin's forests while producing a sustainable supply of forest products for the forest industry of the region."	
Land base	Location: Algonquin Park Gross Area: 7,607 km ² including water ~60% of that is available	
AAC:	Allowable Harvest Area averages about 10,000 ha per year, primarily selection and shelterwood. Planned harvest for all species is about 500,000 cu meters based on 2005 plan.	
Tenure Type	Tenured Resource: Trees	
Management Company Ownership	AFA is the Ontario Crown Agency responsible for sustainable forest management in Algonquin Provincial Park. Responsibilities also include harvesting and distribution of wood products to mills in communities adjacent to the Park.	
Forest Manager Responsibilities	Leads operational planning, reporting, manages harvesting, renewal and maintenance, compliance, pest control. AFA employs a regular staff of 23 which includes five foresters, nine forest technicians, and a chartered accountant. The seasonal staff numbers up to 15.	
Operations	<ul style="list-style-type: none"> • FMP under umbrella of Algonquin Park Management Plan • Planning for forest operations conducted under Crown Forest Sustainability Act, following FMP Manual • Detailed Forest Resources Inventory (FRI) conducted by AFA • AFA responsible for harvesting and distribution of wood to nearby mills 	
FP Industry Mgmt Role	None	
Links to Processing Facilities	None. Mills are clients of the AFA which is run by an independent Board.	
Governance	Board Members: AFA's activities are overseen by a Board of Directors "not fewer than five and not more than twelve members appointed by the Lieutenant Governor in Council". Individuals are from local communities surrounding the Park whose main interest is maintenance of Algonquin's unique values for future generations.	
Gov't Oversight	MNR oversees environmental laws, assists in planning. Plays a substantial role in the management of other values.	
Timber Pricing/ Costs	Fees: Management fees are based on volumes, and are negotiated with the mills that have an allocated share of the Algonquin wood supply.	
Financial	AFA has maintained staff through the recent economic downturn. Assets are estimated at \$9 million (Office of Auditor General).	

Case Study 4: Quebec's Proposed Revised Tenure and Management Approach

In February 2009, the Quebec government released a Green Paper titled “Forests” Building a Future for Quebec”. This paper is positioned as a continuation of the changes that were triggered by the Coulombe commission, against the current backdrop described as a “perfect storm” of negative factors affecting the Quebec forest sector. The paper states that fundamental changes are needed to enable the forest sector to become competitive and to also regain the public’s trust in the management of Crown forests, to continue the process of increasing the role of communities and First Nations in forest management and the forest sector. The proposed reforms cover more than tenure; for example, they attempt to lessen the regulatory burden by moving to a results-based management approach, as B.C. did 7-8 years ago.

The green paper asserts that forests are an essential element of the Quebec heritage and that a healthy forest sector is an important goal of the provincial government. There are five goals outlined in the green paper:

1. Establish a true industrial development strategy and a new appreciation of timber as a material in Quebec;
2. Enhance Quebec’s forest heritage through integrated resource management and sustainable development;
3. Give regional authorities new responsibilities for managing public forests;
4. Give companies access to a secure supply for some of their needs, and create a competitive market for wood from the public forests; and
5. Ensure that forest management reflects the realities of climate change.

The nine reforms are:

1. Enhance resource development by implementing forest zoning: Quebec moves to the triad approach, and estimates that up to 30% of the forest landbase could be zoned for “intensive forest management”, including eligible private land. This is based on the premise that many boreal sites could become twice as productive as present, while hardwood yields could be more than doubled and wood quality improved. The MRNF will develop criteria to identify lands eligible for intensive management zones, and the regional councils will make final decisions.
2. Refocus the MRNF on its primary responsibilities: Government should play a strategic role and delegate other responsibilities to other stakeholders, including licensees and the regions.
3. Give regional authorities more forest management responsibilities: Responsibilities include setting development and protection targets and indicators, preparing strategic plans at the ecozone level, awarding operations contracts, being responsible for operations compliance, identifying intensive management zones, and reporting to the Minister. This new form of governance is to be structured as a partnership—the authorities to receive the new responsibilities have yet to be identified.
4. Entrust forestry operations to certified forestry companies: Selection of forest operations companies will be undertaken in a way to foster competition and excellence, with certification of forest workers coming into place.

5. Promote a management approach based on sustainable results and accountability of managers and foresters: Move to results-based management and place increased responsibility for the outcomes on the people and organizations involved. There is potential to link long-term access to wood supply to performance.
6. Promote a stable supply of timber by introducing a “right of first refusal”: Move away from the current system of tenures given to mill-owning companies and give mills a first-right-of-refusal for a portion of their timber needs. The first-right-of-refusal is expected to apply to approximately 75% of the allocated timber supply. It seems this first-right-of-refusal may last for five years (is this a transitional approach to more of a market-based approach?)
7. Establish a competitive market for timber from the public forests: A portion of the timber produced from the forest will also be sold by competitive bid, with a public timber marketing board being responsible for overseeing and administering the sales. It seems that the regions will coordinate with the marketing board to make these sales happen.
8. Create an investment fund for intensive silviculture: Funds to come from timber sales revenue, leasing of areas for carbon sinks, and possible private sources.
9. Establish an industrial development based on high-value added products: Aim to promote the use of wood at the expense of cement and metal and other high GHG emission products. Labour training programs will be developed to offset the looming forest labour shortage.

Case Study 5: Romeo Malette Forest/Tembec Inc.

Model Type	Mill-owning forest products company	
Entity (inception)	Tembec Inc. (1994; previously Malette Inc. since 1983, a long time when predecessor companies considered)	Address: P.O. Box 1100, Highway 101 W., Timmins, ON P4N 7H9 Web: http://tembec-frm-ontario.ca/imagemapNE.htm
Contact	Don Bazeley, Forester, (705)360-1276	
Tenure Type	Authorization: Sustainable Forest Licence on Romeo Malette Forest Duration: 20 years Renewability: Evergreen, every five years	
Land base	Location: Forest is located just west of Timmins Gross Area: 0.63 million ha Crown Forest: 0.57 m ha Crown Production: 0.51 m ha	
Tenured Resource	Authorization: Sustainable Forest Licence on Romeo Malette Forest Duration: 20 years Renewability: Evergreen, every five years	
Forest Manager Responsibilities	<ul style="list-style-type: none"> Leads strategic and operational planning, reporting, manages harvesting, renewal and maintenance and compliance jointly with Crown; participates in pest control and addressing Aboriginal opportunities 	
Payments to the Crown	<ul style="list-style-type: none"> Forest Renewal Trust (FRT)—(silviculture, etc.)—rate varies by species; set with approval of Crown Forestry Futures Trust—extraordinary renewal efforts, audits, FRI, etc. (\$0.48/m³) Forest Inventory Charge—FRI production (\$2.50/m³ SPF & Hardwood 1; \$0.59/m³ Other) Minimum stumpage charge—stable price and revenue for Crown Residual value charge—comes into effect at high-end product price threshold, determined by Crown considering price and cost of production 	
Crown Oversight	<ul style="list-style-type: none"> Crown-determined planning and reporting processes, approves plans and reports Company and Crown regularly monitor operations Independent Forest Audit every five years, findings considered by Minister re: extension 	
Management Company Ownership	<ul style="list-style-type: none"> In 1983, the forest was managed under an FMA and it was about half of its current size Major increases in area occurred in 1997 and 1999 when Crown managed units were added The FMA became a "deemed SFL in 1995, but legal agreement was still in draft form in 2003 Tembec or predecessor companies have managed the original part of the forest for decades 	
Governance	The forest is managed by Tembec, subject to the terms of the SFL and CFSA.	
Board Qualifications	Not applicable	
Industry mgmt Role	Tembec owns a number of mills in the Timmins area and nearby in Quebec. The company undertakes all forest manager responsibilities outlined above.	
Staff	#: Small management staff	Unionized: Yes
Operations	Forest operations and management is carried out by contractors; there were eight in 2004 one of which accounted for approx 50% of the total harvest.	
Mission or Goal Statement	Mission: Tembec has a corporate mission to be a low-cost, profitable integrated forest products corporation converting forest resources into competitive and innovative quality products for customers while protecting the environment and creating a positive long-term social, cultural and economic benefit for the region and its people, employees and shareholders (www.tembec.ca).	

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AAC	Forecast average annual harvest (2002-2007): 4,213 ha (approx 460,000 m ³) Four-year average actual annual harvest 1997-2002: approx 3,400 ha/yr (408,000 m ³ /yr)
Financial	Tembec funds forest management through corporate revenues, paying for staff and operations (renewal operations are paid for by the FRT) as a cost of procuring wood fibre for its mills.
Links to Processing Facilities	SFL Appendix E had three commitments: veneer is committed to Norbord and Columbia Forest Products and 60,000 m ³ /yr poplar and 57,000 m ³ /yr of birch is committed to Grant Forest Products.
Comments	The forest has been certified under the Forest Stewardship Council's Boreal standard since 2004.

Case Study 6: Timiskaming Forest Alliance Inc.

Model Type:	Incorporated shareholder-based management company	
Entity	Timiskaming Forest Alliance Inc. (1996)	Address: P.O. Box 550, Englehart, ON P0J 1H0 Web: http://www.timfor.com/
Contact	Alan Foley, General Manager, (705)544-2828 ext 222	
Important Features	<ul style="list-style-type: none"> • The company is one of very few in the province which have operated at, or near, full capacity over recent trying years for the forest industry—likely due to proximity to operating processing facilities, good management and well-structured governance • Company has strong history of effective management • Governance structure ensures balanced input 	
Mission or Goal Statement	Mission: TFAI's corporate mission is to maximize value for its shareholders by being a leader in cooperative forest management through superior planning, continual enhancement of services to its shareholders and the execution of its silvicultural responsibilities in an efficient and effective manner. TFAI will accomplish this through the use of the best applicable science and by drawing upon the very best knowledge and expertise of the shareholders and company staff.	
Land base	Location: Northeastern Ontario Gross Area: 1.54 million ha Crown Forest: 1.25 m ha Crown Production: 0.93 m ha Other: Forest encompasses 268,137 ha of patent land and 16,538 ha of Native Reserve	
AAC	Base AAC from 2006 FMP: 9,326 ha (1.197402 m ³)	
Tenure Type	Tenured Resource: Trees Authorization: Sustainable Forest Licence on Timiskaming Forest Duration: 20 years Renewability: Evergreen, every five years	
Management Company Ownership	<ul style="list-style-type: none"> • TFAI assumed full management responsibility in 1998 after a two-year transition from the Crown • TFAI is a consortium of forest industries, which includes six forest products producers and three independent logging operators. Originally there were twelve independent operators, but a number of acquisitions and transfers have occurred. • Shares were proportionately allocated (based on harvest) 	
Forest Manager Responsibilities	<ul style="list-style-type: none"> • Leads strategic and operational planning, reporting, manages harvesting, renewal and maintenance; compliance, jointly with Crown participates in pest control and addressing Aboriginal opportunities 	
Operations	<ul style="list-style-type: none"> • Forest management is carried out by shareholders. Non-mill holding shareholders conduct operations themselves. 	
FP Industry Mgmt Role	<ul style="list-style-type: none"> • Input through Board and also day-to-day through direct communication with TFAI staff 	
Links to Processing Facilities	License tied to provision of timber to shareholder mills: Grant Forest Products (Englehart), Grant Lumber Corp (now Domtar)(Elk Lake), Liskeard Lumber (Elk Lake), Norbord Industries (Cochrane), Cheminis Lumber (Larder Lake), Tembec (Kenogami)	
Governance	No. of Board Members: 7 Board Structure: One director for each mill-owning shareholder plus an additional director, elected annually, who represents all of the other shareholders. <ul style="list-style-type: none"> • Board decisions are based on "reason will prevail" model • Board decisions are carried when two-thirds of the number of directors vote in favour and those directors represent members who hold at least 51% of the harvest rights; this ensures that the three largest shareholders can't control decision-making and three smallest can't stall decision-making. 	

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Crown Oversight	<ul style="list-style-type: none"> • Crown-determined planning and reporting processes, approves plans and reports • Company and Crown regularly monitor operations • Independent Forest Audit every five years, findings considered by Minister re: extension
Timber Pricing/ Costs	<ul style="list-style-type: none"> • Forest Renewal Trust—(silviculture, etc.)—rate varies by species; set with approval of Crown • Forestry Futures Trust—extraordinary renewal efforts, audits, FRI, etc. (\$0.48/m³) • Forest Inventory Charge—FRI production (\$2.50/m³ SPF & hardwood 1; \$0.59/m³ Other) • Minimum stumpage charge—stable price and revenue for Crown • Residual value charge—comes into effect at high-end product price threshold, determined by Crown considering price and cost of production
Financial	<ul style="list-style-type: none"> • TFAI is funded largely through management fees charged per cubic metre; company itself does not seem to make a profit.

Case Study 7: Mazinaw-Lanark Forest Inc.

Model Type	Incorporated shareholder-based ("co-op") for-profit management company	
Entity	Mazinaw-Lanark Forest Inc. (2002)	Address: 1422 41 st Hwy, Cloyne, ON K0H 1K0
Contact	Tom Richardson, General Manager, (613)336 0816 ext 24	
Important Features	<ul style="list-style-type: none"> • "The SFL has the responsibility to manage without the authority" (Tom Richardson quote); process and approval requirements from MNR • Tenure features: Also see list of attributes community shareholders; resilience of small enterprises; family; long-term personal commitments by staff, all; location; diversity of products; SFM management structure • MLFI performs technical, intensive silviculture/tree marking on small block sizes • Shareholder agreement sets a balance between large and small operators. • Provide "one window" for MNR and operators 	
Mission or Goal Statement	Goal: Informal—Implement SFM through FMP in a healthy safe way Ensure legal and technical requirements of planning are met; enforce shareholder agreement	
Land base	Location: eastern Ontario Gross Area: 973,000 ha Crown Forest: 306,000 ha Crown Production: 218,000 ha Other: forest encompasses 650000 ha of patent land	
AAC	Base AAC from 2006 FMP industrial demand of total 100,000m ³ /year	
Tenure Type	Tenured Resource: Trees Duration: 20 years	Authorization: Sustainable Forest Licence on Mazinaw Lanark Forest Renewability: Evergreen, every five years
Management Company Ownership	<ul style="list-style-type: none"> • The shareholders include 5 sawmills, 1 pulp mill and a group of 14 independent logging companies. • Shareholder agreement is a key document, and enforceable by the GM; stipulating performance by shareholders on matters like payment of dues, compliance responsibility etc. 	
Forest Manager Responsibilities	<ul style="list-style-type: none"> • Leads strategic and operational planning, reporting, manages harvesting, renewal and maintenance, and compliance jointly with Crown; participates in pest control and addressing Aboriginal opportunities. • There is NO access or harvest responsibility 	
Operations	<ul style="list-style-type: none"> • Forest management is carried out by shareholders. Non-mill holding shareholders conduct operations themselves. Mill-owning shareholders also cut their own wood. • Access built by shareholders. 	
FP Industry Mgmt Role	<ul style="list-style-type: none"> • Input through Board—no individual board members exert direct influence • Day-to-day communication with MLFI staff for their operational requirements 	
Links to Processing Facilities	<ul style="list-style-type: none"> • License tied to provision of fibre to shareholder mills: Norampac-Trenton largest single consumer of wood produced from the Mazinaw-Lanark Forest. • Lavern Heideman & Sons Ltd. of Eganville and Herb Shaw & Sons Ltd. of Pembroke largest consumers of sawlogs 	
Governance	No. of Board Members: 5; with one for Norampac pulp mill group, two representing sawmills, two representing independent loggers (MFMC) Board Structure: Board operates by consensus for all substantive decisions (determined by shareholders agreement)	

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Crown Oversight	<ul style="list-style-type: none"> • Crown-determined planning and reporting processes, approves plans and reports • Company and Crown regularly monitor operations • Independent Forest Audit every five years, findings considered by Minister re: extension
Timber Pricing/ Costs	<ul style="list-style-type: none"> • Payments to the Crown: Forest Renewal Trust—(silviculture, etc.)—rate varies by species; set with approval of Crown; Futures Trust (\$0.48/m³); Minimum stumpage + Residual value charge • Open market timber sales are set on 5-7 % of volume
Financial	<ul style="list-style-type: none"> • Norampac pays for portion of operating costs; • Remainder of costs portioned out according to harvest share • Many other sawmills receive a portion of wood supply through independent logging contractors who are shareholders in Mazinaw-Lanark Forest Inc. sold on the open market. Fibre quality material harvested from sawmill harvest share is also sold on open market. • Timber sales represent 5-7% but are costly to set up and supervise.

Case Study 8: Lakehead Forest/Greenmantle Forest Inc.

Model Type	Independent forest management company	
Entity (inception)	Greenmantle Forest Inc. (GFI) (1997)	Address: RR #1, Stn F, 25 th Side Road, Thunder Bay, ON P7C 4T9
Contact	Mr. James Harrison, General Manager, (807)807-939-3130	
Important Features	Greenmantle (GFI) is owned by Superior North Loggers Inc. (SNLI), a company that is owned by former independent contractors who operated on the former Crown units that were combined to create the Lakehead Forest.	
Mission or Goal Statement	Mission: GFI is firmly committed to sustainable forest management on the Lakehead Forest. Specific commitments relate to: meeting/exceeding legal requirements; safety; recognition of stakeholder and Aboriginal values/participation; respect for Aboriginal and treaty rights; support for innovation and research leading to continual improvement.	
Land base	Location: Forest is located in the vicinity of Thunder Bay Gross Area: 0.77 million ha Crown Forest: 0.46 m ha Crown Production: 0.32 m ha Other: Forest encompasses 300,600 ha of patent land and 7,000 ha of other land ownerships	
AAC	Forecast average annual harvest (2007-2017): 3,462 ha (approx 365,000 m ³) Five-year average actual annual harvest 2002-2006: approx 2,500 ha/yr (including salvage)	
Tenure Type	Sustainable Forest Licence held by GFI	
Management Company Ownership	SNLI is a company owned by approximately 35 former independent loggers of various sizes, as well as two local Aboriginal organizations—Red Rock Indian Band and Fort William First Nation.	
Forest Manager Responsibilities	Leads strategic and operational planning, reporting, manages harvesting, renewal and maintenance; and compliance jointly with Crown; participates in pest control and addressing Aboriginal opportunities.	
Operations	Forest operations and management is carried out by SNLI shareholders/overlapping licensees	
FP Industry Mgmt Rol	No forest product mill-owning companies have any ownership stake in GFI; the one mill-owning company that did has been in receivership since March 2009 and recently relinquished its ownership stake in GFI.	
Links to Processing Facilities	SFL Appendix E had four commitments; the company owning three of the mills is in receivership; the fourth mill burned down in 2007 % of cut that is committed	
Governance	SNLI holds 100% of the shares in GFI.	
Gov't Oversight	<ul style="list-style-type: none"> • Crown-determined planning and reporting processes, approves plans and reports • Company and Crown regularly monitor operations • Independent Forest Audit every five years, findings considered by Minister re: extension 	
Timber Pricing/ Costs	<ul style="list-style-type: none"> • Forest Renewal Trust (FRT)—(silviculture, etc.)—rate varies by species; set with approval of Crown • Forestry Futures Trust—extraordinary renewal efforts, audits, FRI, etc. (\$0.48/m³) • Forest Inventory Charge—FRI production (\$2.50/m³ SPF & Hardwood 1; \$0.59/m³ Other) • Minimum stumpage charge—stable price and revenue for Crown • Residual value charge—comes into effect at high-end product price threshold, determined by Crown considering price and cost of production 	
Financial	GFI funds itself primarily through the management fee that is levied on wood that is harvested from the forest; renewal operations are paid for by the FRT	

Case Study 9: Mistik Management Inc.

Model Type	Tribal Council-owned	
Entity	Mistik Management Inc. (1998)	Address: Box 9060, Meadow Lake, Saskatchewan S9X 1V7 Web: http://www.mistik.ca/
Contact	Al Balisky, General Manager, (306)236-4431 ext 708	
Important Features	<ul style="list-style-type: none"> • 50% owned by Meadow Lake Tribal Council • Part of a group of companies, including an energy company, 50% pulp mill, saw mill • Management structure: report to tribal Council • During the course of a year Mistik participates in about 130-150 scheduled meetings with Aboriginal groups, stakeholders, and other partners, not including those with business relationships. • Focus on provision of jobs and maintains a viable product by association with a large international pulp company. 	
Mission or Goal Statement	Goal: Mistik's commitment is to plan and practice responsible forestry that maintains the diverse values of the forest, facilitates meaningful interactions among forest users, and encourages forestry-related business opportunities in a cost-effective manner.	
Land base	Location: Northeast Saskatchewan Gross Area: 1,831,964 ha Other: Within the context of twelve management units ranging in size from 13,711 ha to 355,914 ha	
AAC	Base AAC: 1.4 million cu m; 500k to NorSask and 900k to Meadow Lake Pulp Partnership	
Tenure Type	Tenured Resource: Trees Duration: 20 years	Authorization: Government of Saskatchewan Renewability: Evergreen, every five years
Management Company Ownership	<ul style="list-style-type: none"> • Mistik is 50% owned by NorSask Forest Products which is wholly owned by the Meadow Lake Tribal Council, the other 50% is owned by Meadow Lake Pulp Partnership (with an international company) • Mistik assumed full management responsibility in 1998 after a two-year transition from the Crown 	
Forest Manager Responsibilities	<ul style="list-style-type: none"> • Leads strategic and operational planning, reporting, manages harvesting, renewal and maintenance; compliance, jointly with Crown participates in pest control and addressing Aboriginal opportunities 	
Operations	<ul style="list-style-type: none"> • Forest management is carried out by sub contractors in the communities of the forest. 	
FP Industry Mgmt Role	No direct management role	
Links to Processing Facilities	NorSask Sawmill, which in turn sends chips to Meadow Lake Pulp Partnership, a mill 50% owned by MLTC	
Governance	No. of Board Members: 9 <ul style="list-style-type: none"> • Mistik has created co-management boards (CMBs) throughout its FMA area. In addition, the company also works with a number of advisory boards in situations where CMBs do not exist. • In conjunction with a management board comprised from the nine MLTC First Nations, Mistik governs itself according to the interests of community-based forest users such as trappers, wild rice growers/harvesters and outfitters. • Mistik has a policy in place to give local residents the first right to economic opportunities flowing from its operations. 	

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Crown Oversight	<ul style="list-style-type: none">• Crown determined planning and reporting processes, approves plans and reports• Company and Crown regularly monitor operations• Independent Forest Audit every five years, findings considered by Minister re: extension
Timber Pricing/ Costs	<ul style="list-style-type: none">• Limited markets outside of the sawmill and pulp mill which are in the heart of the forest.• It is possible there would be opportunities for smaller enterprises but this has not been an issue in the recent past.
Financial	<ul style="list-style-type: none">• Profitability: Mistik itself does not make a profit. The downstream mills are the profit centre.• However the primary benefit of Mistik is the employment generated, since the council needs to have employment not only in the woodlands but in the mills.

Case Study 10: Revelstoke Community Forest Corporation

Model Type	For-profit corporation with community ownership	
Entity (inception)	Revelstoke Community Forest Corporation (1993)	Address: Box 3199, Revelstoke, British Columbia V0E 2S0 Web: http://www.rcfc.bc.ca/
License/ownership	Tree Farm License (TFL)	
Contact	Michael Copperthwaite R.P.F., General Manager, (250)837-5733	
Status	Profitability: This is a profitable business and has managed to meet the expectations of the majority of citizens of the community.	
Features	Interesting aspects: Operation of a sorting/slashing yard with central control of marketing. Marketing is part of the mandate.	
Governance	Board number: 7-member Board of Directors Board structure: The City holds 100% of the shares in the corporation while the industry partners were given Timber Removal Rights to a portion of the licence's Allowable Annual Cut (AAC) based on each company's financial contribution.	
Board Qualifications	Requirements for board membership: composed of Mayor, two City Councillors, City Administrator and three appointees from the community. Nominating Committee sets rules for selection to Board.	
Industry mgmt Role	Partners have input through a Management Advisory Committee	
Staff	#: 5 or 6	Unionized
Operations	All forest management, construction, logging and silviculture activities are contracted out.	
Mission or Goal Statement	Letters patent, Board Approved or other: The goal is to maximize local employment and economic benefit in the community. Also to regain some control over the local forest resources for social and economic reasons and to improve the standard of forest management and environmental protection in the area. Manage TFL 56.	
Financial	Product: Logs Sales: The Corporation is funded through the proceeds of log sales. Constraint: Condition of the TFL agreement with the government is that 50% of the AAC from the licence must be sold on a competitive basis to the highest bidder. No taxpayer involvement.	
Land base	Gross: 120,000 Forest: 59,000 ha Production: 33,700 Other: 12,000 ha (op reserves)	
AAC	Base AAC (from wood supply models, FMP) Economic AAC: 5-year average annual harvest from 2002 to 2006	
Location	Revelstoke, B.C.	

Case Study 11: Westwind Forest Stewardship Inc

Model Type:	Incorporated not-for-profit management company	
Entity	Westwind Forest Stewardship Inc. (1998)	Address: 17 Church St., Parry Sound, ON P2A 1Z1 Web: http://www.westwindforest.ca/welcome.html
Contact	Steve Munro, General Manager, (705)746 6832 ext 21	
Important Features	<ul style="list-style-type: none"> • The company is set up with an 8-person board: 5 community members including one from a native community, and 3 forest industry "representatives". Not for profit—no shareholders of SFL; only of wood allocations. • Governance follows practices of TSE and other business standards—only such type in Ontario • Have struggled in some years due to lack of assets (cannot borrow from bank—strength or weakness?) • First publicly-licensed forest certified FSC in Canada (2002); recreation by far the dominant activity in area • Heavily high-graded in the 19th and 20th century, a significant backlog of degraded forest exists. 	
Mission or Goal Statement	<p>Mission: Westwind orchestrates ecologically sustainable forest management on the diverse and intensively used French-Severn Forest.</p> <p>Goal: Under the authority of a Sustainable Forest License, it will serve forest businesses and other users of the forest while maintaining the highest standards for business practice and public accountability.</p>	
Land base	<p>Location: Central Ontario, Great Lakes-St, Lawrence forest near Parry Sound. Approx 50% pine and 50% heavy hardwoods</p> <p>Gross Area: 885,446 ha Crown Forest: ~540,000 ha Crown Production: ~ ha</p> <p>Other: Forest encompasses about 50% private land and 23% protected areas; 7 First Nation Reserves</p>	
AAC	<p>Base Annual Harvest Area from 2009 FMP: 4652 ha (m³); actual likely in 09 fiscal less than 3000 ha. Economic AAC: A good harvest year 80% of industrial demand was cut at 340,000 cu m. Current year ~100.</p>	
Tenure Type	<p>Tenured Resource: Trees Authorization: Sustainable Forest Licence (SFL) on French Severn Forest</p> <p>Duration: 20 years Renewability: Evergreen, every five years</p>	
Management Company Ownership	<ul style="list-style-type: none"> • As a not-for-profit Westwind is not "owned"; rather there is a membership which currently consists of the 8 Board members. • Licensees are listed in the SFL; original harvest allocation based on harvest over a 5-yr period. • Other mills have commitments such as Grant Forest Products. 	
Forest Manager Responsibilities	<ul style="list-style-type: none"> • Leads strategic and operational planning, reporting, manages harvesting, renewal and maintenance; and compliance jointly with Crown; participates in pest control and addressing Aboriginal opportunities. 	
Operations	<ul style="list-style-type: none"> • Forest management is carried out by overlapping licensees. This includes road building, although this may be contracted. 	
FP Industry Mgmt Role	<ul style="list-style-type: none"> • Input through Board and also day-to-day through direct communication with Westwind staff. 	
Links to Processing Facilities	<p>License tied to provision of timber to licensees: Fisher sells to Tembec; Tembec; Muskoka Timber Mills, Almaguin FP; Domtar (Monette); Portelance, etc.</p>	

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Governance	<p>No. of Board Members: 8</p> <p>Board Structure: One director for the largest mill-owning allocation holder (Tembec); one for the "mid size" mills, and one for the independent loggers of whom there are approximately 20. There are 5 community Board members, including one from a First Nation community.</p>
Crown Oversight	<ul style="list-style-type: none"> • Crown-determined planning and reporting processes, approves plans and reports • Company and Crown regularly monitor operations • Independent Forest Audit every five years, findings considered by Minister re: extension
Timber Pricing/ Costs	<ul style="list-style-type: none"> • Payments to the Crown: Forest Renewal Trust—(silviculture, etc.)—rate varies by species; set with approval of Crown NOTE: Have been below minimum balance once; under negotiation with Crown. • Forestry Futures Trust (\$0.48/m³); minimum stumpage + residual value charge
Financial	<ul style="list-style-type: none"> • Management fees—portioned according to share of harvest total approx \$250,000 • There is no profit motive. • The company charges management/ admin fees for roads funding, renewal trust silviculture projects

Case Study 12: White River Forest /White River Forest Products

Model Type	Proposed new enterprise	
Entity (inception)	White River Forest Products (2009)	Address: TBD
Contact	Mr. Jeff Butler, President	
Tenure Type	Authorization: Sustainable Forest Licence on White River Forest [conditional transfer] Duration: 20 years Renewability: Evergreen, every five years	
Land base	Location: Forest is located in the vicinity of White River, north of Wawa, Ontario Gross Area: 0.61 million ha Crown Forest: 0.61 m ha Crown Production: 0.45 m ha	
Tenured Resource	Authorization: Sustainable Forest Licence on White River Forest <ul style="list-style-type: none"> Duration: 20 years Renewability: Evergreen, every five years 	
Forest Manager Responsibilities	<ul style="list-style-type: none"> Leads strategic and operational planning, reporting, manages harvesting, renewal and maintenance; and compliance jointly with Crown participates in pest control and addressing Aboriginal opportunities 	
Payments to the Crown	<ul style="list-style-type: none"> Forest Renewal Trust—(silviculture, etc.)—rate varies by species; set with approval of Crown Forestry Futures Trust—extraordinary renewal efforts, audits, FRI, etc. (\$0.48/m³) Forest Inventory Charge—FRI production (\$2.50/m³ SPF & Hardwood 1; \$0.59/m³ Other) Minimum stumpage charge—stable price and revenue for Crown Residual value charge—comes into effect at high end product price threshold, determined by Crown considering price and cost of production 	
Crown Oversight:	<ul style="list-style-type: none"> Crown-determined planning and reporting processes, approves plans and reports Company and Crown regularly monitor operations Independent Forest Audit every five years, findings considered by Minister re: extension 	
Management Company Ownership	<ul style="list-style-type: none"> Domtar was previously licensed under an SFL to manage the forest; closed White River mill in 2007 after several closures/ re-openings in previous 5-year period In June 2009, a partnership consisting of Pic Mobert First Nation, Town of White River, Mr. Jeff Butler and an unnamed investor purchased the mill and assets from Domtar; intent is to obtain SFL licence and convert mill to a wood pellet and co-gen facility, with a longer term plan to re-enter lumber production 	
Governance	No. of Board Members: TBD	Board Structure: TBD
Board Qualifications	Requirements for Board Membership: TBD	
Industry mgmt Role	TBD	
Staff	Total: TBD	Unionized: TBD
Operations		
Mission or Goal Statement	Mission: No mission statement developed yet, but reason for ownership to purchase the mill was to maintain employment/viability of the two communities	
AAC	Forecast average annual harvest (2008-2018): 5,150 ha (approx 609,000 m ³) Five year average actual annual harvest from 2003 to 2007: approx 3,000 ha/yr (305,000 m ³ /yr)	

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Financial	Further financial details unavailable at this time.
Links to Processing Facilities	SFL Appendix E had two commitments; one to an OSB mill that is not operating and a second to a plywood mill. Status of commitments unclear
Comments	White River Forest was formerly certified under the Forest Stewardship Council boreal standard; certification has lapsed.

Case Study 13: TimberWest Forest Corp.

Model Type	For-profit corporation/management and marketing/industry		
Entity (inception)	TimberWest Forest Corp. (1997)	Address: Suite 2300, 1055 West Georgia St., Vancouver, British Columbia V6E 3P3 Web: http://www.timberwest.com/index.cfm	
License/ownership	Tree Farm License (TFL)		
Contact	Web-based; no interviews		
Status	Profitability: Not currently. Lost about 3 million in current year. Moving to more real estate, but down markets have slowed this.		
Features	Interesting aspects: Broader than a timber company. Western Canada's largest private land management company. Company owns approximately 322,000 hectares/796,000 acres of private land on Vancouver Island and meets all Sustainable Forestry Initiative standards.		
Governance	Board number: 8 with 4 officers. Board structure: Very formal, as a publicly traded company, must have transparency.		
Board Qualifications	Requirements for board membership: http://www.timberwest.com/content/Board%20Terms%20of%20Reference.pdf Chair: Edward Daughney, Director and Chairman Nominating Committee rules for selection to Board: Governance and Human Resources Committee. A majority of directors comprising the Board must qualify as independent directors.		
Industry mgmt Role	In a basic TFL relationship with Government of BC		
Staff	#: Large, mostly contract	Unionized through contractors: YES	
Operations	Company has contracted the remainder of its harvesting and road building activities to unionized contractors on a competitive-bid basis, effective January 1, 2005.		
Mission or Goal Statement	Letters patent, Board Approved, Other: Best and highest use of its lands, identifying strategies for both sustainable forest management and real estate.... unlocking opportunities for conservation and preservation of special lands,... help communities achieve their goals, and ensuring that only high quality, conservation-minded developments.		
Financial	Product: Logs, real estate sales (small) Sales: 30 million (loss of 3 million) Almost 80% of the Company's annual private land logging is done in second-growth stands. TimberWest also owns renewable Crown harvest rights to 0.7 million m3 of logs per year. 54,000 hectares / 134,000 acres (17% of the land base) have been identified as having greater value as real estate properties and will progressively be made available for higher uses over the next ten to fifteen years. Stock has dropped from ~\$20 to less than \$5 in slide over 3 yrs. Small dividends paid regularly.		
Land base	Gross: Unspecified on public land	Forest:	Production: Other:
AAC	Base AAC (from wood supply models, FMP): .7 million cu m from a TFL/ plus private land wood Economic AAC: Five-year average annual harvest 2002-2006.		
Location	North Vancouver operations. Office in Vancouver.		
Comments	SFI certified "Access to TimberWest property may be obtained through an ATV Club that carries liability insurance. An example is the Cowichan Valley ATV Club. " Couverdon, the real estate business of Timberwest		

Case Study 14: Hancock Timber Resource Group

Model Type	Timber Investment Management Company	
Entity	Hancock Timber Resource Group (HTRG) Pennsylvania Office	Address: Smethport, PA Web: http://www.hancocktimber.com/about_philosophy.htm
Contact	John Levasseur, General Manager, New York and Pennsylvania holdings, (814)887-9135	
Important Features	<p>Complete separation of forest management from downstream mills.</p> <p>Develop and manage timberland portfolios for pension funds, insurance companies, taxable corporations, endowments and family offices.</p> <p>The company is focussed on investment within prescribed environmental standards, seeking FSC certification.</p> <p>Rigorously follows Manulife Financial Code of Business Conduct and Ethics.</p>	
Mission or Goal Statement	Mission: HTRG paraphrase—focussed on meeting its commitments to its investors while operating within the MFC Code which includes a wide array of social and corporate responsibility.	
Land base	Location: Northwestern Pennsylvania, southwestern New York Gross Area: 127,000 Acres HTRG manages.	
AAC:	Confidential	
Tenure Type	Tenured Resource: Fee simple ownership Overlapping licences held by oil and gas interests in Pennsylvania	
Management Company Ownership	HTRG is owned by Manulife Financial Corporation for the purpose of managing timber investments for-profit for their clients. HTRG is a management company and does not own the lands directly—MFC clients own the lands under management.	
Forest Manager Responsibilities	<ul style="list-style-type: none"> • Determines sale value and conducts sale • Leads operational planning, reporting, manages harvesting, renewal and maintenance; compliance, pest control 	
Operations	<ul style="list-style-type: none"> • Forest management is carried out by successful bidders • Supervision by HTRG based on the contractual requirements of the sale 	
FP Industry Mgmt Role	None	
Links to Processing Facilities	None	
Governance	Board Members: HTRG is a wholly-owned subsidiary of Manulife Financial Corp. The Board of MFC provides governance for HTRG.	
Gov't Oversight	State government oversees environmental laws, primarily water-related.	
Timber Pricing/ Costs	Sales are set up by the local managers. Property contains valuable veneer cherry and sales can reach >\$10,000 per acre. Company puts up sales but has a reserve price/no obligation to sell. Attempt to maximize sale value by timing sales with markets.	
Financial	HTRG is managed on a strictly for-profit basis. Financial statements for this operation are private. FROM HTRG main website: "Institutional investment in timberland accounts for more than \$40 billion according to Hancock Timber Resource Group year-end 2007 estimates. Historically, investments in timberland have provided total real returns (net of inflation) of 6-10 percent, and nominal returns of 9-15 percent."	