

# FOREST ECONOMICS

## BACKGROUND

Canada is a nation of forests. From hardwood forests in eastern Canada to softwood forests across the western provinces, Canada has all kinds of forests. In Alberta, forests cover 60% of the province, generating annual revenue of more than \$8 billion making forestry the third largest industry in the province, behind oil & gas and agriculture. Alberta's forests belong to Albertans; therefore forest product companies pay taxes and 'stumpage fees' to the government for the right to use them.

Alberta trees are turned into a wide variety of products:

- Lumber for building
- Pulp (*which makes paper*)
- Engineered wood products- including oriented strandboard (*OSB*) and plywood - which are used to make walls, floors and roofs; and
- Newsprint – newspapers all over North America are printed on paper made from Alberta's trees.
- Engineered wood products - mass timber buildings are on the rise

Also more than 500 companies in Alberta make value added wood products, such as cabinetry and furniture. The products are often sold at a higher cost than lumber and pulp (*which are known as 'primary' wood products*).

Forests also have many economic benefits for Albertans from tourism and recreation. Each year, thousands of people come from around the world to enjoy Alberta's vast forest wilderness. Forests also contribute to Alberta's environment by providing wildlife habitat and clean air. It is difficult to put a dollar figure on factors like these, but they are important considerations when thinking about our forests.

## EXPORTS

Canada is the largest exporter of forest products in the world. 86% of our total forest products exports go to the United States and Asian countries (Japan, China and others) receive most of the rest. Just think, a product created from a forest near you may be sent around the world.



## JOBS AND COMMUNITIES

In 2018, 40,000 Albertans were employed in forestry generating over \$1.6 billion in household incomes for families across Alberta. Careers in forestry varied from operating heavy equipment to research and teaching forest management at colleges and universities.

More than 50 communities around Alberta rely directly on the forest industry. If you've ever been to Cochrane, Hinton, Edson, Whitecourt or Peace River you've probably seen the forest industry first-hand.

Having an active forest industry influences communities in different ways. Direct benefits include jobs, revenue from taxes and local spending by people living in the community. It also draws other businesses to a region – sometimes secondary or “spin off” industry in these areas. As forestry workers and their families come to a community, restaurants, stores, schools and hospitals are needed – resulting in growing communities.

However, having a community dependant on one industry, as is the case in some Alberta communities, is not always easy. In ‘one-industry-towns’, when things are going well for the industry, the community is successful. When things aren't as good for the industry, it can be difficult for the community. This sometimes even results in families leaving and moving to other communities.

We sometimes hear Alberta being described as a “prairie province”. With over 60% of our land covered by forests, and with so many Albertans working in the forest, we might just need a new description. Alberta – the forest province.



## CASE STUDY: EYE ON AMERICA

Earlier we said that over 86% of Alberta's forest products exports are sold to the United States. Since Alberta is next door to the United States and its 325 million people, all of whom rely on forest products in their daily lives, it is not surprising that the U.S. is Alberta's major market.

Over time, the relationship between Canada – specifically Alberta – and the United States market was mostly a happy one. Since the American dollar has been more valuable than the Canadian dollar, Americans purchased our forest products, for quite a good price.

**And then things changed...**

### SOFTWOOD LUMBER DISPUTE

Producers of forest products in the United States started to become unhappy with what they saw as an unfair advantage for Canadian forest producers. As a result, the American government introduced a 'tariff' – a type of tax – on Canadian forest products; meaning the Canadian forest products 'deal' was gone. A long battle ensued, resulting in an agreement that still sees Canadian forest products currently facing a 15% tariff. This means Canadian forest products cost Americans 15% more than they ordinarily would.

### CANADIAN DOLLAR

Since the 1970s the Canadian dollar has traditionally been lower compared to the American dollar. One American dollar was worth more than one Canadian dollar. The Canadian dollar reached as low as 63¢ in comparison to the US dollar.

This meant that Americans could buy Canadian goods at what amounted to a huge discount for them – some would argue this was a very good thing for selling Canadian forest products to the U.S. In the early 2000's the Canadian dollar gained value very quickly, eventually overtaking the American dollar. When the two currencies are about equal - you may have heard the phrase "at par".

That change in dollar value, coupled with the tariff on forest products basically removed any price advantage Canadian forest products might have once held. In 2006, both sides entered in a Softwood Lumber Agreement in order to provide some stability to the industry and market place.

### AMERICAN HOUSING CRISIS

The year 2007 and into 2008 were not good for American real estate. Records were set across the United States for low numbers of new housing starts. This means new homes were not being built as often as would ordinarily be expected in normal years. Fewer new homes meant less demand for wood products, which meant Canadian forest products were not being purchased as often. While certainly not the only reason, the relationship between Canada and the United States resulted in very difficult times for Alberta's forest products industry.

### DISPUTES CONTINUE

In 2010, four years after the inception of the Softwood Lumber Agreement, the disputes and arguments between the two sides have not slowed. The problem remains the same, the Americans continue to find issue with Canadian pricing systems for harvested logs. Despite the continuing issues, in 2012 both sides agree to extend the deal until 2015. As of 2018 no definitive movements have been made to sign a new agreement. The two sides continue to negotiate and disagree, leading to one of the longest ongoing trade disputes between these two countries.



## GLOSSARY

**Softwood lumber** – term usually used to describe wood from conifers or needle-bearing trees. Softwood is the wood used as the prime structural material in most building projects.

**Stumpage fees** – money charged to companies that harvest timber on Crown (*government*) land. The amount is determined by paying a rate for the volume of wood harvested.

**“Spin Off” Industries** – industries created to support a (*usually*) larger, more established industry. Usually involves providing support services.

**Tariff** – a tax imposed on an exporting country by the country importing its products.

**Value-added products** – the value created along as a product is processed. Paper is a value added product, as the value of wood has increased through processing.

## DISCUSSION QUESTIONS

1. Explain how Alberta’s forests benefit the tourism and recreation industries in Alberta. Give specific examples to support your answer.
2. Alberta’s forest products companies are hiring professional staff! In fact, a huge majority of graduates of Alberta’s two forestry schools usually get jobs very quickly after graduating. Does this surprise you? Why do you think this is so? Think about who is going to manage our forests in the future in your discussion.
3. Debate – *Alberta’s economy depends too much on the United States.* Use examples from the discussion in the ‘Eye on America’ case study to defend your position.

## WEBQUEST

### **Alberta Forest Products Association**

[www.albertaforestproducts.ca](http://www.albertaforestproducts.ca)

### **Canadian Forest Service – Forest Sector**

<https://www.nrcan.gc.ca/forests/resources/13507>

### **Careers – the Next Generation**

[www.nextgen.org](http://www.nextgen.org)

### **Government of Alberta**

[www.alberta.ca](http://www.alberta.ca)

### **Your Forest**

[www.yourforest.org](http://www.yourforest.org)