

# **Government Subsidy and Program Support for Nova Scotia's Forest-Based Industries: Overview and Summary**

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## Overview

This report was commissioned by the Ecology Action Centre to describe and quantify the support and money that the provincial and federal governments have given and continue to give to the forestry industry in Nova Scotia, and how this support affects the quality of forest management in the province. In answering these questions, the report helps shed light on the root causes of the current economic and ecological crisis in Nova Scotia's forest. Through legislation and financial support, Nova Scotia's government has and continues to foster a forestry industry dependent on clearcutting and softwood fibre growth, and, as a result, a forestry economy vulnerable to global competition and dependent on a limited number of products exported to a limited number of markets (largely paper and construction lumber to the United States).

Based on the information provided in this report, the Ecology Action Centre calls on the government to re-direct its support of forestry in three ways:

- (1) shift public silviculture funding away from treatments that support clearcutting (*i.e.*, post-clearcut site preparation, post-clearcut planting and herbicide application), while increasing silviculture funding for uneven-aged treatments (*i.e.*, selection harvest, crop tree release and restoration planting);
- (2) provide funding for management planning on private woodlots, as is done in much of New Brunswick, and require management plans (by a forest technician or forester) as a pre-requisite for silviculture funding; and
- (3) invest in a value-added forest products industry that utilizes high-value trees of a diversity of species, with particular focus on developing the small and medium-sized business sector.

## Report Summary: Recommendations

- Federal and provincial policies and programs since the turn of the 20<sup>th</sup> century have favoured industrial uses of the forest, resulting in a forest-based sector of the economy that is dominated by pulp and paper and softwood lumber producers. The Nova Scotia softwood-based forest industry is well established and continues to influence economic policy, to the detriment of the Nova Scotia's native Acadian Forest.

- The terms of trade, with free trade agreements and globalization, appear to be turning against the pulp and paper industry, as currently structured, in NS. The tax, wage and power rate cuts may not be sufficient to compensate for the structural problems faced by forest product producers in NS - disappearing local wood supplies, more cost-efficient foreign competition and the rising Canadian dollar. The only choice is to adapt and find new places to generate value from Nova Scotia's resource base.

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- It is prudent at this point to examine if the current direction of public support to the forest-based sector is in the best long-term interests of the economy of NS. This is not to say that the current forest-based sectors should be abandoned. It is to say that it is time to challenge conventional wisdom and notions of what the best form of forest management is for the material well-being of the province.

- Perhaps what is needed is a return to public sector support, but this time with the goal to develop a forest sector that supports a wider range of values, and produces more value in the long term and sustainable value. Such a change may not likely occur without significant amounts of material support because it would require a fundamental structural shift in the NS economy.

- Programs that continue to support forest products producers whose input requirements lead to the dominance of even-aged management and softwood plantations need to be assessed via social benefit/cost analyses to determine if they bring a net benefit to Nova Scotia.

- Should the current structure of the forest products sector lead to closures, the province must have alternative value-producing uses for the forest resource not just waiting in the wings but operating and ready to fill gaps.

- This approach, rather than being radical, is the ultimate in prudence and conservative management. Many forces acting on the current structure of the NS forest products sector are beyond local control. NS must try to influence forces that it does have some ability to affect if it wishes to improve its economic and ecological prosperity.

Summary of Public Sector Support of the Forest-Based Sector, 1899 - 2006		
Year	Type of Support	\$'million
1899	It allows large leases at generous terms. Signed the "Big Lease".	N/A
1928	20s, provincial forester reports that the rent was "ridiculously small".	N/A
1940	er mill granted concessions on power rates.	N/A
1956	more than 3.5 times normal rate to buy-back 30% of Big Lease.	N/A
1957	buy-back remaining 5 years of 'Big Lease' above market rates.	N/A
1965	NS Pulp Limited (now Stora-Enso) the right to build pulp mill, lower power rates, stumpage at d, reduced taxation & forest inventory assistance.	N/A
1965	per (now Neenah Paper Company of Canada), given 100,000 hectare lease, 5-year income tax h ax break on land owned or leased, \$5 million operating subsidy, & NS commits to own and ope aste treatment facility.	N/A
Late 1960s--77	II and III provide funding for forest inventory, Crown Land purchases, Group Ventures', and re.	N/A <sup>1</sup>
1977 - 82	vides federal and provincial funding for private and Crown land silviculture, Group Ventures, m re contractors and forestry consultants, additional provincial government staff, spruce budworm and silviculture programs, research and education programs	N/A <sup>1</sup>
1978	the Spruce Budworm Salvage program	\$35.6
1982-89	NS FRD Agreement provides for intensive forest management, silviculture & Native Lands prog	\$92.6
Early 1980s	eives capital assistance.	\$10.0
1984-87	vides to expand Group Venture Program, increase nursery capacity and support Budworm Salv	\$25.5
1987-89	ontributes to 127 projects in primary forestry	\$3.8
1981-91	rovides for silviculture, forest management, training, student employment & GIS forest invento	\$45.0
1991-95	xtended to 1995 with \$98 million (\$87 million spent) for forest land management, research and nent, model forest programs, wildlife integration, technology transfer, information and training.	\$87.0
1995-present	ite Land Program (budgeted at about \$3.0 million/yr.)	\$34.8
1993	so receives capital assistance.	\$15.4
1995 - Mid-2000	and its predecessor agencies, contribute to a 69 lumber and value added wood product productio (11% grants, 89% loans)	\$5.2
1997-2002	orporate income tax credit for investments in manufacturing and processing plant and equipme led manufacturers eligible).	N/A
1995-present	des for Crown Land management (silviculture, build or maintain roads on unlicensed lands) (\$3 r.) (Offset by about \$51.9 million in stumpage revenue.) tion and maintenance of logging roads on Crown Land used by the public and for public service ention and fire fighting.	\$- \$3.22
2006 - 2013	y, over seven years, Stora-Enso in lieu of 81,000 hectares of Crown land the province had agree ailable, providing both paper machines operating	\$65.0
2006	Bowater Mersey for purchase from company of high conservation value forests.	\$26.0
Approx. Total	Includes only types of support for which dollars values were available.	\$449.1 \$53.4 (2006)
Mid-1970s	Commission recommends that municipal tax rates be set according to the use of the land, not its as the case.	N/A
Other	t-based sector corporate tax credits and other deductions. (Also available to other sectors)	\$31.0/year

<sup>1</sup> Retention of detailed records typically 7-10 years, many records no longer possessed.

### Report summary: Background

- The Acadian Forest of NS has been subjected to a long history of exploitation, arguably more so than any other area in North America. Land clearing and high-grading by early European settlers began in the 17th century. With the increasing dominance of the pulp and paper industry, by the mid-to-late 1900s clearcutting, combined with even-aged softwood silviculture, became the dominant forest management paradigm. The volume of cutting in NS has doubled between 1980 and 2000. In the 1990s, the annual area harvested by clearcutting doubled. For the period 1994 – 2004 clearcutting averaged 520 km<sup>2</sup> per year. Of the 6.5 million m<sup>3</sup> of wood harvested in 2000, 95% was harvested by clearcutting. The forestry sector maintains a strong dependence on clearcutting and silviculture oriented towards softwood production, thus continuing the degradation of the native Acadian Forest.

- The first Department of Lands and Forests inventory in the 1950s confirmed even then that the quality of the province's forests had substantially declined. Major losses in age-class diversity have continued to occur since the 1950s, with an increasing percentage of forests in younger age classes, and the loss of almost all the province's older forests. Natural tree species diversity has also declined, especially long-lived, shade-tolerant trees such as the eastern hemlock and sugar maple. White and red pine and red spruce occupy less than 50% of their former range in this region.

- Federal and provincial actions have served as *de facto* subsidies to forest-based sectors in NS. From 1899 to mid-2006 there have been at least 23 major policy and program actions that have influenced the use of NS's forest resources toward lumber and paper production that depend on softwood resources. Since the late 1970s, provincial and federal support to the forestry sector equal approximately \$650 million (in 2006 dollars); this support includes payments to companies, including \$25.4 million in direct support to Stora (now NewPage).

- public sector support for forest management expenditures in excess of stumpage revenues does exist and influences the behaviour of private landowners. The Nova Scotia government recently increased spending from approximately \$3 million per year on private land silviculture to \$9 million, approximately 97% of which goes to even-aged softwood treatments (Categories 1 – 6). Many woodlot owners believe that the Forestry Sustainability Regulations resulted in a form of indirect encouragement of commodity-based forestry instead of value-added forestry because Category 7 credits:

- are not sufficient to cover costs and therefore encourage silviculture that favours softwood; and
- do not give enough recognition of the investment required to switch from even-aged softwood silviculture to a more ecologically sound approach.

- In addition, woodlot owners have stated that timber buyers provide the silviculture and therefore hold control of the type of harvesting and planting, which usually favours a commodity-based management approach that is in the commercial interest of the buyers.

- Nova Scotia DNR has an annual Crown Land management budget of approximately \$3 million to conduct silviculture on Crown Land and build or maintain roads on unlicensed lands. On occasion, it has also had to be used to fund protection programs against insect pests, such as tussock moth, blackheaded

budworm or pale wing grey moth or salvage of storm damage. Total spending for the period 1995-2006 was about \$41.8 million, for an average annual expenditure of about \$3.48 million.

- The Crown land management budget includes about \$269,000/year for road construction and maintenance on Crown Land managed by the Department directly. Total expenditures from 1995 to 2006 were about \$3.22 million.

- Overall, the government does not provide direct support to forestry companies to the same level as it did prior to 1995, perhaps as a result of softwood lumber tariff issues with the United States.

- Low-wage foreign competition, lower costs for primary inputs, the rising Canadian dollar and the liberalization of world trade will continue to put stress on the traditional forest-based economic sectors in NS. However, even in the face of unprecedented foreign competition, there appears to be little planning for alternative and globally competitive uses of the province's forest-based resources.

- In 2007, APEC reported that in Atlantic Canada:

- the number of firms in the forest industry dropped by 11% between 2004 and 2006;
- closures included several large pulp and paper mills
- the forest industry's:
- output fell 9% in 2005
- employment dropped by more than 8,000 jobs, 24%, between 2004 and 2006, which was more than double the 11% drop nationally.

- There are over 500 logging contractors in NS. Over 90% are strictly harvesters and the remainder harvesting and carryout silviculture work. About 85% of the contract harvesters use mechanized cutting techniques. In addition, there are about 100 silviculture firms in NS.

- As of early 2006 the largest of the sawmill operators, processing more than 70,000 m<sup>3</sup> of timber per year, include:

- BPMC Oakhill Sawmill (owned by Bowater Mersey), Oakhill Rd., Lunenburg County;
- Ledwidge Lumber Co. Ltd, Enfield, Halifax County;
- Elmsdale Lumber Co. Ltd., Elmsdale, Hants County;
- Harry Freeman & Son Ltd., Greenfield, Queens County;
- J.D. Irving Limited-Weymouth Sawmill, Weymouth, Digby County (closed at the time of writing);
- Ligni Bel Ltd., Scotsburn, Pictou County;
- MacTara Ltd., 9156 Highway 224, Halifax County; and
- Truro Lumber Limited, 529 Valleydale Road, Colchester County.

- There are no hardwood veneer, plywood manufacturing or oriented strand board firms in NS.

- The three largest pulp and paper firms in NS are

- Bowater Mersey Paper Company Limited, Brooklyn, Queens County;
- Neenah Paper Company of Canada, Abercrombie Point, Pictou County; and
- Stora-Enso (NewPage) Port Hawkesbury, Point Tupper, Richmond County.

Minas Basin Pulp and Power Company Limited is the smallest producer and 100% of its product is derived from recycled fibre.

- The forest-based sectors make up a major portion of NS's domestically produced exports, standing at \$1.04 billion in 2004. Exports of forest products accounted for about 20% of NS foreign exports. The value of exports held at \$1.0 billion in 2005.

- Much of the sectors' activity is based in the rural areas of NS. Nova Scotia's economic development strategy includes maintenance and development of the rural economy. Therefore, community, political and economic influences ensure that forest sector issues and related policies and programs will remain prominent in NS.

- Nova Scotia's first newsprint mill was built in Liverpool by the Mersey Paper Company in 1928. The company received a concession in the price of power and was guaranteed 1.0 million cords of pulpwood from Crown Land.

- In 1957, the Stora Kopparberg Corporation formed NS Pulp Limited (NSP) and with the NS Pulp Limited Agreement 520,000 hectares were leased to NSP. The following inducements helped Stora commit to build a pulp mill:

- revised tax laws (e.g., the payment of grants in lieu of taxes);
- stumpage rates set at \$1 per cord, the same rate given the Mersey Company 30 years earlier;
- a 131 hectare site for the mill;
- forest inventory surveys for NS Pulp;
- low electricity rates; and
- the assurance of transferability of the new lease.

- The lease at the low stumpage rate had serious financial implications for small private pulpwood producers, who were the most significant source of wood, because cheap Crown stumpage set the price ceiling for private stumpage.

- In the early 1980s, Stora received federal and provincial funding support through federal/provincial agreements to salvage budworm-killed wood and the provincial government contributed \$10 million towards an on-site electrical generator.

In 1993, Stora threatened to close its mill due to the combined effects of new pollution laws and the recession. Stora received a \$15.4 million loan from the provincial government to help it cope with new pollution laws and the recession.

- In 1965, Scott Paper, through the Scott Maritime Pulp Agreement Act, was given a:

- lease of 100,000 hectares;

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- five-year income tax holiday;
- 20-year tax break on all land owned or leased by the company and on its mill site;
- \$5 million subsidy to Scott's new operations; and
- commitment that Nova Scotia would own and operate Scott's waste treatment facility.

- Forest inventories were revised upward before the agreement with Stora to build a pulp mill on Cape Breton Island. In 1964, on the eve of the establishment of the Scott Paper pulp mill at Abercrombie in Pictou County, forest inventories were again revised upward by 74%.

- In 1969, when Stora expanded its sulphite mill from 135,000 to 175,000 tons per year and installed a 160,000 ton newsprint facility the annual allowable cut was increased from 30 to 62.5 feet<sup>3</sup>/hectare/year.

- By 1965, Bowater Mersey resorted entirely to clear-cutting. As of 1966, Stora and Scott Paper continued to use clearcutting as their dominant harvesting method, as they have done since beginning their operations.

- From 1982 to 1989, the Canada/NS Federal Resources Development Agreement (FRDA) provided funding for a more comprehensive program of intensive management of the forest resource. The Agreement directed about 75% of its funding to silviculture on private and Crown land. The FRDA ran until 1987 providing \$49.9 million in federal money and \$42.7 million in provincial money to forest-related development.

- The federal/provincial Forest Renewal Agreement (FRA) ran from 1984 to 1987. It provided \$25.5 million to complement the FRDA. It expanded the support of the Group Venture Program, helped increase nursery capacity and provided funding to the Budworm Salvage Program.

- In combination, the FRDA and FRA supported 48,280 hectares of replanting, primarily softwood, and 47,400 hectares of stand improvement with the objective to maintain and then raise sustainable annual allowable cuts.

- In 1989, the federal/provincial Cooperation Agreement for Forestry Development (CAFD) was signed, providing \$45 million over 1989-91, with about 73% of funding directed at silviculture. Nearly 20,000 hectares were planted and 11,800 hectares of stand improvements completed.

- During the 1990s federal and provincial government contributions to the forest-based economic sectors totalled at least \$153 million. The thrust of the majority of the programs supported by the funding was to enhance the capacity of the NS forest to provide timber and fibre to the lumber and pulp and paper industries at costs competitive with other jurisdictions.

- Major public funding support ended in the mid-1990s due to the pressure of rising federal and provincial government debts; and from the federal government's desire to eliminate programs in areas of provincial jurisdiction, especially natural resources of all kinds.

- The Utilities and Review Board (URB) gave approval for a new extra-large industrial interruptible power rate structure, reducing annual electricity costs to the mill by about \$9 million. The new extra-large industrial interruptible rate was also made available to other large power-using industries. (Stora-Enso, in June 2002, threatened to eliminate 350 jobs at the mill unless it got lower power rates.)
- In May 2006, the provincial government announced that it would pay Stora-Enso \$65 million over seven years in lieu of 81,000 hectares of additional Crown land the province had agreed in 1970 to make available to Stora by 2013.
- Later in the month, the government announced it would pay Bowater Mersey \$26 million in return for lands of high conservation value.
- By July 2006, Stora-Enso had won agreement from its unions to roll back wages 10%. It also received a reduction in municipal taxes. It continued to press for electricity price reductions from NS Power Inc. Its appeal to the Utility and Review Board (URB) resulted in the URB refusing to consider any price agreement that would be subsidized by the ratepayers.