



Corporatization and Privatization as Elements of Tenure Restructuring in BC: Old Ideas for a New Set of Problems

TENURE REFORM IS NOT A NEW IDEA IN BRITISH Columbia. Given its history, it's not surprising that two approaches raised as possible options in the current discussion—corporatization and privatization—are not new ideas.

Oftentimes opposition to these approaches, especially privatization, is based on either ideological grounds or preconceived notions of what is being suggested rather than on the merits of any specific proposal. In order to better understand what is being proposed, it is important to review what these concepts mean, how they work, how they differ and why they are being proposed.

What Does Corporatization Mean?

Corporatization involves retaining public ownership of forestland but placing it under the authority of a public corporation. In Canada this is often called a Crown corporation. Such organizations are autonomous in their business strategies and are mandated to maximize commercial returns within the constraints of the broader public interest. They have the authority to raise funds in capital markets but cannot sell equity.

The History of Corporatization in BC

In 1991, the BC Forest Resources Commission (the Peel Commission) recommended that approximately one-third of the province's forestland be managed by a Crown corporation, another third in long-term Crown forest tenures and the final third in small tenures held by individuals, communities and First Nations (British Columbia Forest Resources Commission 1991). These recommendations were intended to create market driven incentives for efficiency in timber production, diversify the tenure system and help create viable competitive timber markets.

In the 2003 policy changes, the province subsequently adopted some aspects of those recommendations. The government developed BC Timber Sales (BCTS), a quasi-autonomous profit centre in the Ministry of Forests and Range. The BC government

committed to direct public management of a substantial area of Crown forestland accounting for about 20% of the provincial annual allowable cut or over 14 million m³ per annum.

How is Corporatization Used Elsewhere?

In Quebec, the government has proposed a similar type of agency, charged with overseeing competitive sales, as part of its broader goal of breaking the link between forest management and forest product manufacturers. Under those changes, timber would be made available to those manufacturers that previously held those timber rights through a mix of long-term supply agreements managed by forest management authorities and short-term timber sales through an entity similar to BCTS.

Other jurisdictions involved in the use of corporatized state entities operating on public forestland include Sweden and most of the different state authorities in Australia.

What Does Privatization Mean?

Privatization involves the transfer of some form of ownership rights from government to private interests. What is transferred and who receives it are key questions. In British Columbia, we have experience with various forms of land alienation. In the past, this included the outright granting of Crown land and the use of long-term timber leases. Subsequently, the forms of tenure we are familiar with today were established including volume and area-based tenures and renewable, short-term or long-term (Community Forest Agreements) leases.

A popular misconception is that privatization involves alienating public land or selling forests and their many important nonmarket attributes to private interests. Oftentimes, it is also assumed that privatization will involve relinquishing the safeguards of public control and that ownership will necessarily involve private firms. However, this is not necessarily the case. While privatization does involve the transfer of some form of ownership rights

from government to other interests, it need not necessarily involve outright land sales.

The History of Privatization in BC

The issue of whether or not a portion of Crown land should be transferred to private parties was discussed at the Royal Inquiry conducted by Commissioner Sloan in 1945 (Mahood and Drushka 1990). Commissioner Sloan subsequently proposed two types of management units. The first had private working circles that combined private land with Crown land. These subsequently formed the basis for TFLs. The second had different kinds of public working circles based on public land. These units would provide timber either to the market or to firms with management rights within these units. They both would be formed based on ensuring that they could be managed on a sustained yield basis. (Sloan had concluded underlying ownership of the land did not matter in achieving this outcome.)

How is Privatization Used Elsewhere?

In New Zealand, the government privatized its state forests but it retained ownership of the land. It sold the rights to the standing timber plus rights to the productivity of the land itself for a defined period of time. However, the owners of those timber rights must maintain public access to their lands for recreational purposes. A similar approach has been followed in South Africa. Nordic countries with private forestland have protected public access for a range of purposes through common law (Saastamoinen 1999).

In the United States, as well as in other jurisdictions with private forestland, there are regulations that govern forestry practices and are designed to ensure that sustainable forest management is practiced. In these cases, privatization doesn't diminish the right to regulation.

How Would These Approaches Work?

Both corporatization and privatization have a common objective—the desire to improve the economic return from Crown forests. Under



Photo: Randy Waterous RFT

We should note that one of the main changes in forest policy in BC in recent years, the diversification of ownership and shift of decision-making authority to local authorities and First Nations, is not incompatible with corporatization or privatization.

corporatization, government is potentially able to generate higher returns from timber sales that then flow to government coffers. Under privatization, governments seek to realize the returns from selling whatever rights are offered, as well as indirectly through the increased value generated through taxes, land rents, etc.

Both approaches are designed to reduce political intervention within the tenure system. Corporatization restructures the political relationship in a more transparent and predictable fashion and develops a more commercially focused organization. Privatization removes government directly from decisions over how to allocate and utilize the forest resource.

In both approaches, the public interest in the important social and environmental aspects of Crown forests must be recognized. Under corporatization this means the appropriate regulatory relationships have to be established between the corporatized agency and the regulatory body that resides elsewhere in government. Under privatization government has to ensure that the appropriate safeguards will be in place as it will lack direct oversight.

Both approaches also require government to ensure these changes yield the appropriate benefits. In addition to protecting social and

environmental values, government also has to establish the appropriate safeguards to protect competition. Competition is ultimately what drives the efficiency gains and realization of higher economic values under both systems.

How Would These Approaches Differ?

Government ownership means that even under corporatization there is still the potential shadow of government intervention. Governance, how the organization is structured and managed, is key if the efficiency gains are to be realized. This is particularly important as the discipline imposed on private firms by shareholders is lacking.

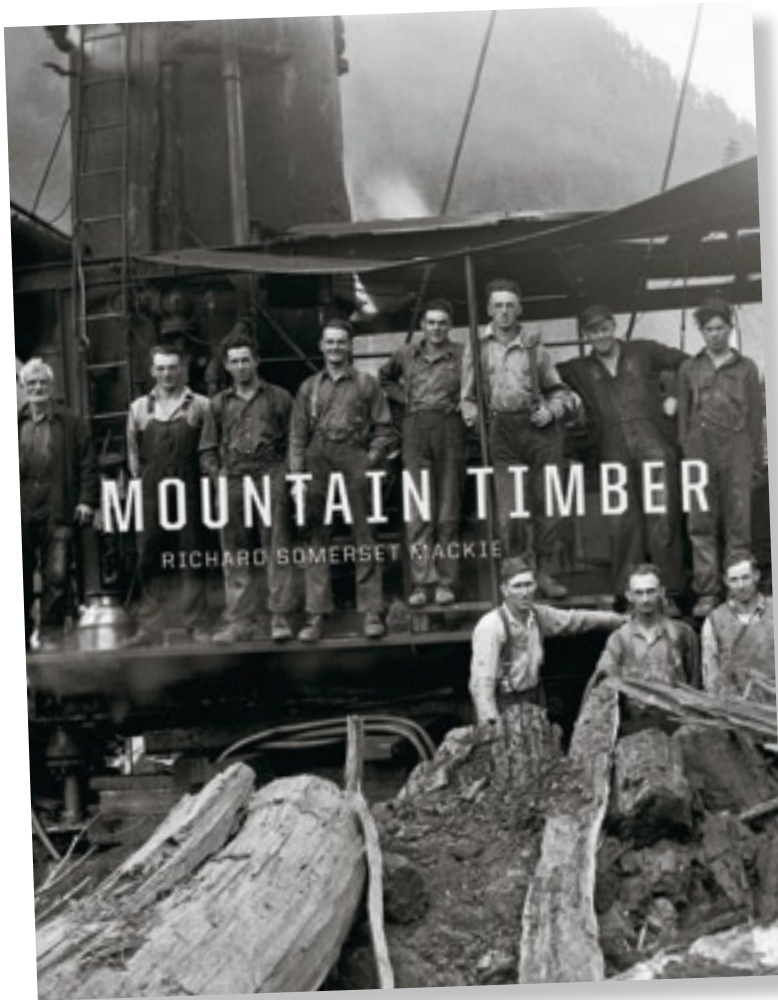
Privatization reduces the risks of political intervention. However, it also raises legitimate concerns over whether private interests begin to supersede public interests when ownership rights are transferred. Privatization may help unlock private capital—a key ingredient in sustaining the resource as well as the industry that relies upon it. However, it may not be sufficient to overcome the limitations imposed by resource conditions, productivity or market access. It can help enable a healthy industry but it can not ensure one.

Each of these options has to be considered

in the context of what problem we're trying to solve. They should not be considered as the only options or even as exclusive options. They can coexist with other models and approaches. We should note that one of the main changes in forest policy in BC in recent years—the diversification of ownership and shift of decision-making authority to local authorities and First Nations—is not incompatible with these options. Indeed, if one steps back from the discussion of whether or not either of these approaches might be politically acceptable to the public, we can see that we are already making these kind of changes. There is no theoretical difference between privatization and the settlement of treaties where First Nations receive ownership rights over land and resources. 🌲

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Mountain Timber

The Comox Logging Company
in the Vancouver Island Mountains

By Richard Somerset Mackie

SonoNis Press. 2009

320 pp, 350+ b/w photos & maps

ISBNs: 978-1-55039-171-8 and 1-55039-171-2

THIS PROFUSELY ILLUSTRATED SEQUEL TO THE AUTHOR'S EARLIER book, *Island Timber*, tells the story of the Comox Logging Company through the first half of the last century. Three threads are intimately interwoven: developments in timber harvesting as logging moved from easily-accessible valley bottom lands to smaller timber on more challenging adjacent slopes; the lives of loggers and their families; and, a lesser topic, the inner workings of the company.

A long introduction is, in effect, a précis of the book with amplification in subsequent chapters fleshed out by instructive and entertaining side bars which recount personal reminiscences and events, including the 1939-45 war years. This results, perhaps inevitably, in some repetition, and the occasional lists of names will be of real interest only to readers with a personal stake in this region of Vancouver Island.

The several diagrams and maps are clear and informative although some maps lack a direction arrow. Someone ought to have told the author or editor that Douglas-fir should be hyphenated.

Nevertheless, this very readable account is a valuable addition to the literature on BC's forest industry, its history and changing logging technology through the years 1910 to 1950. I look forward to the third volume of the promised trilogy.

Reviewed by Roy Strang, RPF (Ret)

RANKING: 4.5 OUT OF 5 CONES



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