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YUKON DEVELOPMENT STRATEGY

FORESTRY

YUKON · 2000

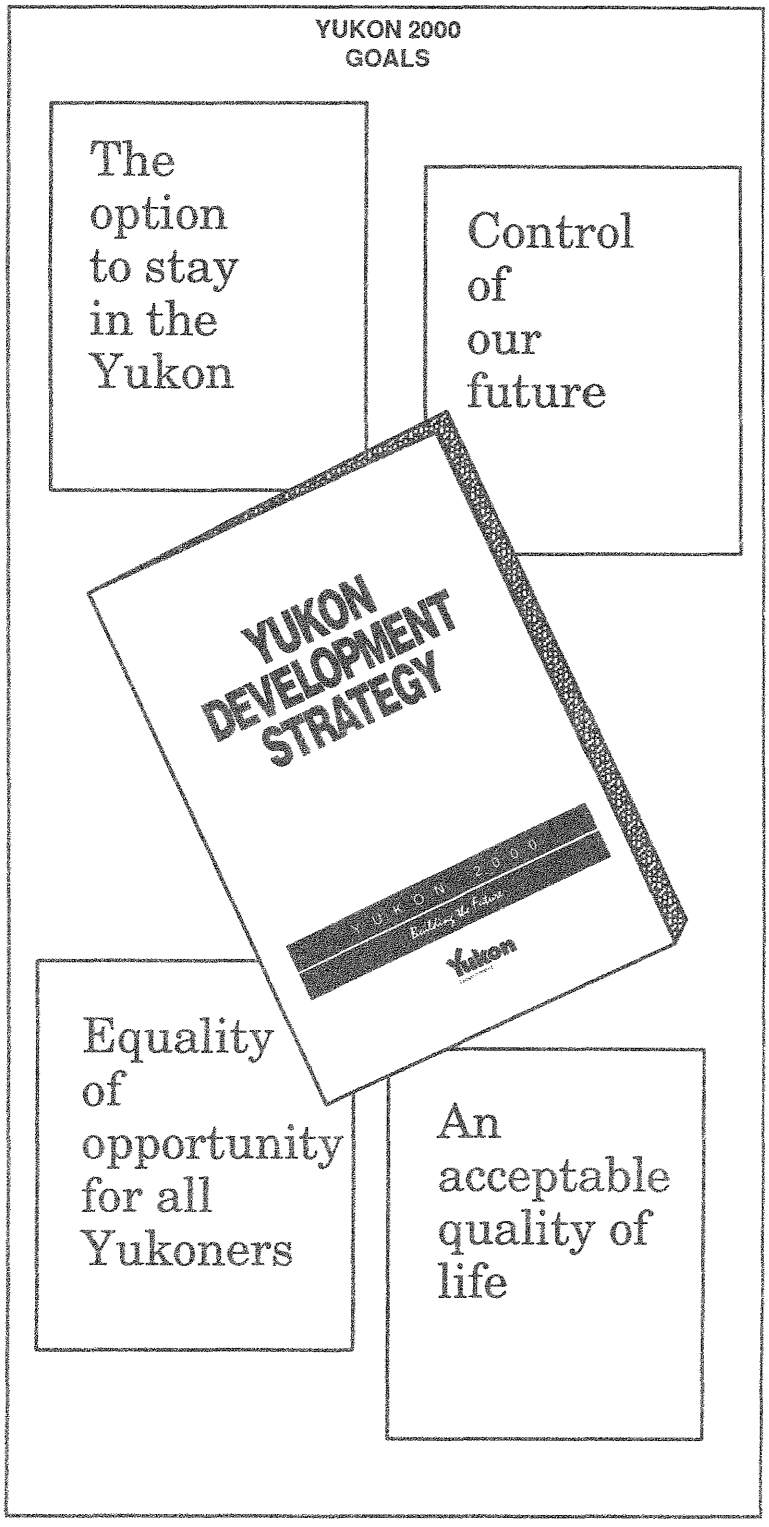
Building the Future

Yukon
Government

Forestry Strategy

A Progress Report ■ April, 1987

The Forestry Industry consists of primary producing and manufacturing components. The primary producing component includes logging, cone-picking and commercial fuelwood production. The manufacturing component includes the processing of logs into lumber and other by-products such as wood chips.



Directions

The potential value of the forestry industry to the Yukon economy has not been fully explored or realized. Its value can be increased by:

1. Developing forestry-management legislation, policy and regulation to enable the ordered development of the forestry industry to take place. Progress in this area is linked to:

- The transfer of responsibility from the federal to territorial government;
- The development of a land-claims agreement.

2. Ensuring that the maximum income is derived from the industry by:

- Maximizing the use of all products, including wood chips and sawdust;
- Assisting increased productivity by providing financial assistance for the development of technology and specialization.
- Encouraging production to meet the Yukon's market requirements for construction, manufacturing and energy (including space heating and steam).

3. Conduct research on the industry:

- Carry out an inventory to identify the nature and quality of the resource.
- Determine the potential for the development and manufacture of value-added products.
- Determine the potential and requirement for reforestation.

Constraints

* production inefficiencies
* underutilization of the forest resource
* high transportation costs
* uncertain markets
* lack of access to capital
* insufficient baseline data on the industry
* lack of forest management policy
* complex regulatory system
* isolation from major markets

Options

1. Increase the effort to educate forest operators on business management practices, and provide training in other areas relating to forestry industry management.

One of the most critical requirements for the future development of the forestry industry is an emphasis on quality, reliability and efficiency. The availability of a better quality product should help to reduce the negative image of the forestry industry which has developed from previous business failures and inconsistent and unreliable products.

The Department of Education will be increasing the availability of business training in communities outside Whitehorse by the increased use of mobile trailers for program delivery. Discussions have taken place also with respect to the delivery of lumber grading and forestry management courses.

2. Provide assistance to improve productivity through new technology and increased specialization.

This would improve utilization of the resource, reduce wastage and production costs and increase capacity.

Some of the Yukon forestry industry is undercapitalized, using outdated equipment and technology. This can result in high maintenance and production costs, along with increased inaccuracies in dimensional lumber production and a subsequent decline in the market share. The majority of the small operators run fully integrated logging/sawmilling operations on a part-time basis. The part-time nature of the operation, added to the variety of machinery that must be maintained for a combined operation results in increased production costs and a deterioration of skills, markets and equipment. These inefficiencies can be greatly improved through the specialization of activities between logging and sawmilling.

The proposed amendments to the Business Loans Act will increase the amount of available funding, will modify the eligibility criteria for assistance, and will provide loan guarantees. These programs will reduce the costs of restructuring and renovating operations, and facilitate access to capital.

The Opportunity Identification Program offered through the Business Development Office could assist operators to hire technical consultants to advise on the streamlining and improvement of their businesses.

The Yukon Forest Development Project, to be completed by the end of 1987, and supported by DIAND, The Canadian Forest Service and the Yukon Department of Renewable Resources, will provide suggestions to improve the viability of the forestry industry.

3. Provide funding to assist with inventory acquisition

An inventory assistance component to the Business Loans Programs would provide assistance to cover the interest charges incurred to build up an inventory.

Small operators in the Yukon generally go into production when they receive orders, and do not maintain a significant amount of inventory. They therefore have difficulty meeting surges in demand. Southern

companies can usually fill orders from their inventory placing Yukon companies at a significant disadvantage in this respect. Related to this is the fact that larger southern businesses can extend 90 day credit to purchasers of lumber. Yukon-based builders and other lumber-users may often experience cash flow problems of their own, rendering a 90 day credit more attractive. The increased range and applicability proposed for the financial assistance programs offered through the Yukon government should be able to assist the forestry operators as well as the purchasers.

4. Encourage the use of residue for space heating requirements and steam generation.

The use of forestry residue such as wood chips would decrease costs of lumber production by providing income. It would also reduce the costs associated with the forest clean-up required by regulation. In a wider context, the use of residue for heating and other energy purposes would reduce the amount of money leaving the Yukon to pay for petroleum-based heating products. There may also be opportunities for smaller operators to reduce their costs through energy co-generation.

Petroleum products cause leakages to the Yukon economy of over $75 million per year. There is, therefore, a substantial opportunity to use residue from the forestry industry to fill space heating and other energy requirements.

In British Columbia the forestry industry obtains a significant amount of its revenue from the sale of wood chips. In British Columbia, however, wood chips are sold for pulp as well as for heating purposes. In the Yukon, the sale of wood chips for pulp may not be a practical proposition because of transportation costs, but the increased use of wood chips and other waste for energy purposes may well be practical. The failure to make full use of the tree means that the maximum amount of income is not derived from the resource.

Wood chips for energy purposes could be obtained from sawmilling and logging operations. An additional source of chips could be obtained from the forest thinning associated with proper forestry management. This could increase the potential supply of chips while preserving and improving the forestry habitat for wildlife.

5. Increase activity in Research and Development, for example in seed and seedling production and the development of specialty products.

Yukon trees produce high quality seeds which have been exported to the Scandinavian countries. The size and future of this market is not fully understood.

In 1985, there were 2,386 hectolitres of cones collected in the Yukon, which amounted to $191,000 in value. The value of the seeds themselves, as opposed to the unprocessed cones, is much greater - amounting to approximately $800 per kg of seeds, at least double the value of the unprocessed cones.

The potential benefits to the industry and the cost for the development of Yukon seed-processing facilities should be seriously examined. The Yukon Forest Development Project will include an analysis of the potential market for Yukon products.

An additional advantage of Yukon seed production would be the potential for the development of Yukon-grown seedlings. Locally grown seeds and seedlings are much more suited to the Yukon climate and day-length than others. There may exist a significant opportunity to grow seedlings for Yukon reforestation purposes as part of a forestry management and regeneration program. Seedling production may contribute significantly to the economy as it is very labour intensive in nature.

There may be significant opportunities for the development of specialty products such as wood-siding and panelling, sawdust-and-concrete blocks for construction purposes etc. Specialty products may be particularly appropriate for the Yukon because of the value added to the product through reprocessing. Local specialty products could have an advantage over out-of-territory products because of the lower transportation costs and the reduced product-damage which can result from long-distance trucking.

6. Develop comprehensive forestry management legislation, policy and regulation.

The development of legislation to govern forestry management should facilitate the proper development of the forest resource.

Neither the federal or territorial governments has specific legislation under which it can derive authority to carry out

forestry management functions in the Yukon. This is compounded by the existence of overlapping federal legislation such as the Quartz Mining Act which permits individuals who have staked land for mineral exploration to harvest the forest resources in that area.

The transfer of the forestry program from the federal to the Yukon government is under negotiation. This transfer of responsibility will permit the Yukon Government to develop its own legislation to regulate the development of the forestry resource. It is expected that Yukon legislation will be ready to implement when the transfer takes place. This legislation will cover aspects of forestry management such as tenure, stumpage rates and cutting and regeneration requirements. The Yukon Forest Development Project will investigate several systems across Canada.

7. Complete an inventory of the forest resource to assist in planning its development.

The completion of an inventory is in the planning stages, and should make it easier for forestry operators and the government to make decisions about future development.

Forestry companies have limited information about the quality, size and type of the forestry resource available to them within their production areas. In order to start a business, companies have to bear the expense of doing their own surveys and forest inventories. This can make it more difficult to obtain capital for development, because of the perceived risk.

The completion of an inventory is linked to the transfer of the forestry program from the federal government (Option 6) as well as to the completion of land claims agreements.