Council of Forest Industries of British Columbia

This self-dumping log carrier moves timber from the remote Queen Charlotte Islands down the B.C. coast to the mills, where it unloads by taking on water and tilting to a 30-degree angle.

Stumpage Fees

"Canada has a large natural resource base, relative to a small domestic market . . . . U.S. policies limit cutting even during periods of high demand. Supply has held at a fairly constant level in recent years. Intense, competitive bidding drives prices up." **ITC Report.**

"Actual stumpage price trends of (U.S.) forest-industry-owned timber are hard to determine . . . . Lumber producers that own timberland . . . generally use market prices in accounting . . . rather than original costs." **ITC Report.**

Stumpage fees—the amount of money paid for the tree as it stands on the forest floor—are, on the average, lower in Canada than in the United States.

This reflects a basic fact—Canada has a relatively large supply available to a relatively small market. Canada has 544 million acres of productive forest land, some 61 million acres more than the United States, and one-tenth the population.

There are other factors. Much of Canada's timber is far from markets. Generally speaking, the higher the costs of producing and moving lumber the lower the stumpage fee.

Almost all of Canada's timber is government-owned and the income from forest leases is a significant part of provincial income. The governments lease the land on long-term contracts, primarily to make sure that the forests give them a continuing income. The long-term tenures attract the large timber users which, without a guaranteed wood supply, would be unable to invest the large sums required. In exchange the leaseholder assumes many of the costs of road-building, reforestation and forest management.

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The stumpage fees paid in British Columbia are based on market appraisals at time of harvest. The end-product selling price is calculated and then milling costs and operating costs are deducted from it. The sum remaining is the stumpage fee.

(The actual methods are much more complex than this capsule formula suggests.)

In the other nine provinces timber prices are set by regulation or statute and are adjusted to reflect market prices and to provide a fair return to the governments involved.

In the United States the price-setting mechanisms and the prices paid vary widely, reflecting, among other factors, the variety of ownership. In general timber from public lands brings higher prices than timber from private, non-industrial lands.

The price for industry-owned timber is the hardest to pin down. The book value of such timber—the price at which it was acquired—is far below current market values. In many instances, however, the companies fix the cost for accounting purposes as high as is legally permissible, to take maximum advantage of the United States capital gains tax opportunities.

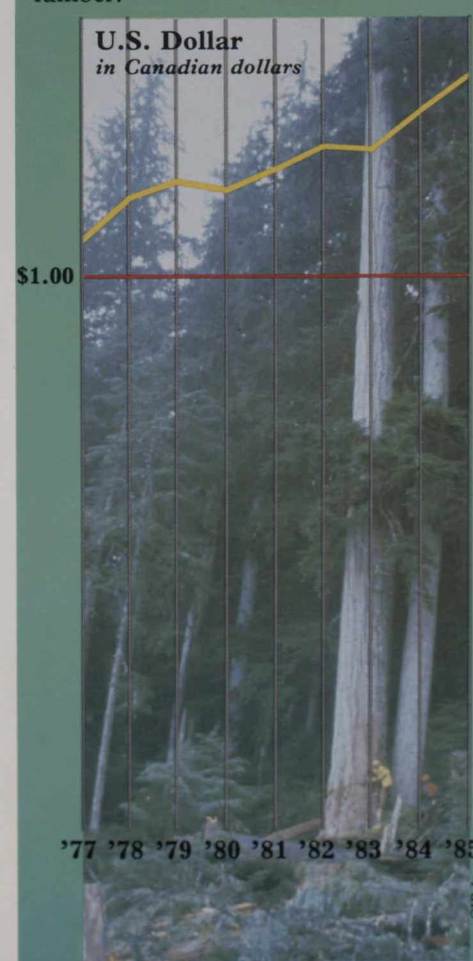
In general the United States timber with the lowest recorded prices comes from firms and other non-industrial, private owners. The prices, however, vary widely from region to region—in 1984, when softwood in the North sold for

Exchange Rates

Canada's dollar—which in the 1970s was at par with the U.S. dollar—has been notably weaker in recent years.

By late 1985 it could be exchanged for about 71.5 American cents.

The comparative weakness of the Canadian dollar works to the advantage of Canadian sellers and buyers in the U.S.—in effect, $100 U.S. buys $140 worth of Canadian lumber.



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