

## **I A 1**

### **Summary of the comment**

Eliminating appurtenancy rules in British Columbia will tend to reduce the price of lumber and logs in the U.S. and hurt most sectors of the U.S. forest industry.

### **Comment**

Appurtenancy imposes costs on the sawmill industry in British Columbia ("B.C."). Eliminating appurtenancy in B.C. will allow the industry to close inefficient mills in B.C. and concentrate production at the most efficient mills. There is no reason to expect that total sawlog production in B.C. will fall as a result of tenure reform. Reductions in sawmill costs may lead to increases in log production. Therefore, eliminating appurtenancy requirements will tend to reduce prices for lumber, and hence for logs, in the United States.

To minimize the chances for misunderstanding and future disputes the policy should acknowledge that there is a real possibility that the policy changes with respect to appurtenancy being suggested by the Department of Commerce would, if implemented by B.C., harm most sawlog and lumber producers in the United States.

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## **I A 2**

### **Summary of Comment**

An optimal strategy by British Columbia (“B.C.”) to maximize the expected net present value of future stumpage is likely to have the same practical effect as minimum cut requirements.

### **Comment**

There is a recurring complaint by the Petitioners that the B.C. tenure system encourages continuation of production under adverse market conditions. This argument is fundamentally wrong since it is based on the assumption that the market can be timed. The price of softwood at any time reflects the consensus opinion of the market participants on the future price of lumber.

If B.C. is selling too much of its available timber at times of low prices the consequence would be that American timber producers have the opportunity to sell more of their timber when prices are high.

B.C. is fundamentally different from private timberland owners. B.C. is such a large timber producer, both in volume of harvest and in geographical scope, that the terms on which it sells timber influences the cost of capital for sawmills in B.C. and how mills organize their production. The price of lumber is volatile. Investors demand risk premiums based on the amount of uncertainty they face. Higher costs of capital would restrict investment in sawmill mechanization and increase total costs which in turn would reduce the residual value of the Province’s timber. Increased volatility for sawmills leads to reduced stumpage over time.

If B.C. adopted a risk neutral strategy to simply maximize the expected net present value of future stumpage it would offer tenures whose term was comparable to the time required to amortize a new sawmill (ten to fifteen years) and the stumpage would be tied directly to an index price of lumber so that the sawmill was left with a fixed spread between the cost of a log and the value of the expected product. The tenures could be offered by auction with companies bidding on the spread between stumpage and lumber prices and low bid being the winner. This type of stumpage maximizing tenure would inherently lead to an almost constant rate of harvest and production as the market price fluctuated.

To minimize the chances for misunderstanding and future disputes the policy should acknowledge that there is a real possibility that a tenure system designed to maximize stumpage for B.C. could lead to an almost constant rate of production despite market conditions.

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## **I A 4**

### **Summary of the Comment**

If British Columbia (B.C.) allows raw log exports it will reduce the value of timberlands throughout the U.S and will harm all those sawmills whose location prevents them from benefiting from Canadian supplies.

### **Comment**

The draft policy renews the attack on Canadian restrictions on log exports by lumping such restrictions into a more general category of “minimum processing requirements”.

If B.C. allowed raw log exports then transport costs would have the consequence that those logs would benefit only some mills located close to the border. Logs would flow to the lowest cost sawmill. Logs would cross the border only if there was a net cost saving as a result. There is no reason to expect that total sawlog production in B.C. will fall as a result of tenure reform. Expanding the market for B.C. logs to include American mills may lead to an increase in log production in B.C. Therefore, eliminating export restrictions will tend to reduce prices for lumber, and for logs, in the United States. The impact on the price of logs will be particularly severe in those areas which gain practical access to competitive supplies from Canada.

To minimize the chances for misunderstanding and future disputes the policy should acknowledge that there is a real possibility that the policy changes with respect to log exports being suggested by the Department of Commerce would, if implemented by B.C., harm most sawlog and lumber producers in the United States.

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