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Benefits and costs of impeding free trade: Revisiting British Columbia's restrictions on log exports

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ABSTRACT

The government of British Columbia (BC) imposes restrictions on the export of logs from public and private forestlands, primarily to promote local processing and associated employment benefits. Most economists wholeheartedly oppose BC's export restrictions, arguing that BC's citizens are worse off as a result of the government's measures. In this paper, it is shown that, while free trade in logs might well maximise global wellbeing, it might not necessarily result in the greatest benefit to BC. Indeed, both economic theory and a follow-up numerical analysis indicate that some restrictions on the export of logs can lead to higher welfare for BC than free trade. Thus, log export restrictions could be economically efficient from a local perspective, but only if the transaction costs of obtaining necessary permits are not excessive.

Introduction

Regardless of their political stripe (socialist or free market), governments in many jurisdictions attempt to manage or regulate their forest resources to achieve the greatest possible employment. This has resulted in log export restrictions in countries as diverse as the United States, Russia and Canada, which are often viewed as inefficient. In this paper, we examine the case of British Columbia

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(BC), Canada, as economists have generally argued that BC needs to allow free trade in logs, because this would provide large economic benefits to the province (e.g., Fooks et al., 2013). This is true if there are no log exports to begin with, but, given that BC permits some log exports, the case for free trade needs to be made vis-à-vis what exists in the world and not the autarky (no-trade situation) that is assumed. The purpose here is to examine this issue using applied welfare economic analysis. In particular, we answer the question of whether BC should change its policy regarding limited log exports. We begin in the next section by providing a background to log export restrictions in various jurisdictions. Next we develop a theoretical framework for analysing the policy. This is followed by an empirical investigation of the BC policy, and a concluding discussion.

Background

In the United States, Oregon imposed a ban on the export of logs from state owned lands in 1961 in an effort to protect local manufacturing jobs; California followed suite in 1972. Then in 1973 the U.S. Congress prohibited the export of any logs harvested on federal lands west of the 100th Meridian, followed in 1990 by a ban on log exports from Washington's state-owned lands and harvest reductions on all forestlands in the Pacific Northwest (PNW) to protect the Spotted Owl as permitted under the U.S.'s Endangered Species Act of 1973. Log exports from the PNW soared from about 1.0 million m^3 in the early 1960s to 8.7 million m^3, or 24% of the total harvest, by 1988, before falling back down to just over 1.0 million m^3 by the early 2000s (Daniels, 2005). In 2010, 2.6 million m^3 of logs were exported, but this still constituted 19% of the total harvest (Kerr, 2012). Of course, the exported logs came from private lands as exports from federal lands are prohibited.

In Russia, investments in sawmilling and other processing capacity has historically lagged resource availability; by 2001, only two regions processed more than 25% of harvested logs while the other five regions utilised less than 10% (see Simeone and Eastin, 2012). This led the government to incentivize investment in processing capacity by restricting log exports. An ad valorem export tax of 6.5% was imposed beginning January 1, 2007; the tax was increased to 20% on July 1, 2007 and then to 25% on April 1, 2008; and it was set to increase to 80% on January 1, 2009, but this was delayed indefinitely as a result of the financial crisis and pressure from the Nordic countries. The trade measures reduced roundwood log exports from 51.1 million m^3 in 2006 to 25.8 million m^3 in 2012, although some of this decline could be attributed to the global recession (UNFAO, 2013; also see Fig. 3 below). On August 22, 2012, Russia officially joined the World Trade Organization (WTO) and, as part of its accession package, it agreed to reduce tariffs on log exports to 8% by 2015. However, since Russia was permitted to establish a volume tariff rate quota (TRQ), the 8% rate only applied to log exports below the quota. For exports above the quota, an export tax of 80% could be applied.[1]

British Columbia has likewise restricted log exports from provincial forestlands, including private lands that account for only about 4% of the province's commercial forestland (Wilson et al., 1998, p. 13).[2] A total ban on log exports from Crown (publicly owned) land was put in place as early as 1891, but legislation to allow exemptions already came a decade later (1901). The Timber Manufacture Act (1906) extended the ban on log exports from Crown land to private lands that had previously been granted to the private owner by the provincial (as opposed to federal) government; this was followed in December 1907 by Order-in-Council #901 that put a halt to the further transfer of Crown land to private ownership.[3] An amendment to the Timber Manufacture Act in 1909, however, provided a means for obtaining exemptions to the log export ban. Since then, enforcement of the export ban has

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[1] It should be noted that many major timber producing regions such as U.S. South, Nordic countries, and New Zealand (where native forests only produce less than 1% of timber) do not have log export restrictions.

[2] It is important to note that private forestlands are often managed as part of an integrated Tree Farm License that consists primarily of publicly own timberlands (see Wang et al., 2014). This then provides some justification for government control over log exports from private forests.

[3] The federal government had granted land to the Canadian Pacific Railroad (CPR) for constructing a transcontinental railway; National Parks are also federal. Private forestlands were thus purchased from or granted by the province, or purchased from CPR. An example of the latter is the Darkwoods property in southeastern BC that is now owned by the Nature Conservancy of Canada (see van Kooten et al., 2014).