

The Fédération des producteurs forestiers du Québec

**Written Submission for the Pre-Budget Consultations in Advance of the Next
Federal Budget**

August 4, 2020

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The Fédération des producteurs forestiers du Québec (FPFQ) is a provincial organization advocating for the interests of 134,000 forest owners from all social backgrounds, 30,000 of whom are registered as forest producers. Its 13 unions and affiliates are active at the regional level, working to protect and develop private forests in Quebec, support forest owners, and ensure the orderly marketing of wood from Quebec's regions.

As part of the pre-budget consultations for the next federal budget, the FPFQ has two recommendations that would maximize the silvicultural potential of private forests and help stimulate the Canadian economy:

Recommendation 1 That the government develop a tax system that encourages silvicultural activities to ensure a supply of timber for the wood processing industry.

Recommendation 2 That the government implement a Canadian program for reforestation and forest management work that would contribute to the fight against climate change and, incidentally, would secure a supply of timber for the wood processing industry over the long term.

Recommendation 1 That the government develop a tax system that encourages silvicultural activities to ensure a supply of timber for the wood processing industry.

Every year, tens of thousands of forest owners help generate structural economic activity in rural communities by developing the silvicultural potential of their woodlots.

In 2018, the PPFQ calculated that the forestry activities of Quebec's private forest industry generated \$567 million before processing (harvesting, transport, forest management, marketing and more). If wood processing activities are included, this figure increases to \$4.3 billion and generates close to 25,000 jobs.¹

Developing private forests provides a primary or supplemental income to thousands of forest owners in Quebec. Every year, 15,000 of them bring wood to market. In 2019, the value of deliveries from forest producers to wood processing facilities was \$397 million.²

Forest management is essential to ensure that this timber can be marketed, because forest owners need support to plan and carry out their silvicultural activities. Silviculture work includes harvesting activities, as well as replanting harvested sites and improving treated stands. These silvicultural activities ensure the timber supply for the wood processing industry, and ultimately they help ensure the long-term sustainability of forest resources.

However, a number of factors, including low profit margins for forest management projects, discourage most owners from making silvicultural investments. Governments of industrialized countries must therefore step in and provide funding for developing private forests. Programs typically seek to reduce the cost of forest management for private investors.

Tax measures could be a useful tool to motivate woodlot owners to maximize the silvicultural potential of their woodlots. It would significantly increase the volume of timber delivered to wood processing facilities and spur economic activity in rural regions on a permanent basis, while also increasing the environmental benefits of these woodlots.

Currently, the federal tax regime does not encourage owners to develop their woodlots, because it does not take into account:

1. **Profit expectations that are uncertain and over a long term**, since a production period that stretches over decades is unique to the forest sector. The discount rate for harvest revenues reduces (or eliminates) the profitability of the silvicultural work necessary to grow the forest.
2. **Forest income that is significant only in a harvest year**, as the majority of woodlot owners do not earn an income from selling timber every year. Since harvesting timber on a property happens periodically and all in a given year, owners see their overall income increase significantly in that one year. This supplementary income is therefore taxed at a higher marginal rate, which makes silviculture less attractive financially for many woodlot owners.

¹ Fédération des producteurs forestiers du Québec. *Portrait économique des activités sylvicoles et de la transformation du bois des forêts privées : emplois directs et revenus d'affaires*, 2020, 23 p.

² Fédération des producteurs forestiers du Québec. *La forêt privée chiffrée*, 2020, revised June 2020, 36 p.

3. **Income and costs that occur in different production years**, where the costs associated with forest management occur mostly at the beginning of the production period, and the income is generated at the end, when the mature trees are harvested. As a result, they have a higher taxable income within one fiscal year, which discourages many woodlot owners.

Therefore, we are proposing that a new **Personal Silviculture Savings and Investment Plan** be created to stimulate private forest development. This would ensure that woodlot owners could put aside part of their forest income to be used for necessary investments to manage their woodlots (replanting, education and protecting stands). This measure would:

1. Encourage more forest owners to harvest wood and develop their woodlots, which would generate more economic activity in rural areas;
2. Invest income from harvesting wood into work to improve the resiliency and yield of forest stands;
3. Synchronize forest management expenses with harvest income;
4. Encourage woodlot owners to invest more in their woodlots by reducing their marginal tax rate;
5. Address the uncertainty about the profitability of silviculture investment;
6. Contribute to stimulating the economy by supporting the forest management and wood processing industries;
7. Ensure that income earned in urban areas is transferred to rural areas, since silviculture would become a tax shelter for owners who earn a salary in the city;
8. Improve the forest capital held, and eventually capital gains and personal investment; and
9. Reduce tax evasion associated with wood sales by creating an incentive for owners to declare all their income.

Recommendation 2 **That the government implement a Canadian program for reforestation and forest management work that would contribute to the fight against climate change and, incidentally, would secure a supply of timber for the wood processing industry over the long term.**

Quebec forest owners can be active participants in the fight against climate change and can help the federal government reach its greenhouse gas (GHG) reduction targets.

Quebec's 134,000 forest owners hold a significant portion of the province's forest capital. While they account for only 16% of productive forest areas, private Quebec forests account for nearly one third of the province's potential harvests and provide 19% of the wood supply for the forest industry in Quebec.³

Since 1974, private forest owners in Quebec have planted over 1.4 billion trees as part of their reforestation efforts. Today, this essential forest capital is an important resource for the future in rural areas.

³ Fédération des producteurs forestiers du Québec. *La forêt privée chiffrée*, 2020, revised June 2020, 36 p.

Productive forests contribute to capturing and sequestering carbon by increasing forest density. Using silviculture treatments accelerates forest growth and increases the volume of carbon captured.

Harvesting wood for processing also means that carbon is stored in the finished product, such as wood construction materials or pulp and paper. Silviculture treatments improve forest stands to ensure that they meet the supply needs of the forest industry.

The measure we are requesting would ensure that more owners could develop their woodlots by providing funding for reforestation, education and protecting forest stands. The measure should include funding for forest management plans for woodlot owners, since this is a crucial prerequisite for becoming a forest producer and benefiting from management grants.

In addition, there is a spruce budworm outbreak damaging the forests of thousands of forest producers. The infestation leads to a significant volume of dead wood, which becomes a source of carbon emissions. While woodlot owners are encouraged to harvest infested forest stands before they become a source of emissions, owners want to ensure that forest regeneration will occur in the harvested areas.

Forest management requirements exceed the funding currently on offer. For example, during a previous spruce budworm epidemic in the 1980s, the reforestation rate was more than 80 million trees planted each year, compared with barely 10 million today, while an outbreak is in full swing.

While there are existing federal programs, their criteria do not account for the unique situation of forest production on private land. Forest owners and organizations therefore cannot benefit.

This request is important not only for owners, but also for rural communities, which rely on forest resources to support their development. Silvicultural investments affect the region's forest capacity, the species available for future harvests, the quality of wood for processing and the predictability of the wood supply for processing facilities. In short, these investments will help stimulate the economy while supporting the forest management and wood processing industries.

Quebec's forest sector has the expertise required to implement this type of program for woodlot owners. Existing structures, resources and treatments would ensure that these measures can be implemented easily and that their impact can be assessed.

A network of approximately 100 forest consultants, which in turn employ engineers and forest technicians and silviculture workers, is available to help woodlot owners in their forest development and reforestation efforts. In addition, regional marketing offices help woodlot owners deliver their wood to processing facilities.

Therefore, we propose that a **Canadian program for reforestation and forest management work be established to contribute to the fight against climate change**. The program's standards and criteria should ensure that forest producers can benefit. That would mean forest producers could maximize the silvicultural potential of their woodlots, the Government of Canada could make progress toward

achieving its GHG emissions targets, and the Canadian forest industry could secure a supply of wood over the long term.