

Economic Comparison of FSC and SFI Certified Companies on Vancouver Island: Isaak Forest Resources and TimberWest

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Abstract

Forest Stewardship Council (FSC) and Sustainable Forest Initiative (SFI) forest certifications require forest products companies to perform responsible and sustainable forest management practices throughout the world. Iisaak Forest Resources Ltd., (Iisaak) a First Nations led company on Vancouver Island, has struggled with FSC certification and profitability, and has many issues surrounding its practices with harvesting, riparian management, and stakeholder involvement. TimberWest Forest Ltd. (TimberWest) is a forest products company with operations on Vancouver Island and is certified under SFI. The company follows more conventional harvesting practices than Iisaak and is able to remain competitive with other large forest products companies in the surrounding area. Iisaak appears to have a poor business model with its FSC certification, while TimberWest's strategies under the SFI certification seem more favorable economically. Currently it is more sustainable financially for forest products companies to practice SFI rather than FSC certification on Vancouver Island, since there are fewer restrictions put on forest management.

Keywords: Clayoquot Sound, First Nations, Long-Term Harvesting Levels, Riparian Forest Management

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1.0 Introduction

Vancouver Island is located in the southwest corner of British Columbia, Canada. It has an area of 3.4 million hectares, and is 91% covered with temperate rainforests. As shown in Appendix A, the general composition is 84% Coastal Western Hemlock zone, 12% Mountain Hemlock zone, and 4% Coastal Douglas-fir zone. As shown in Appendix B, less than 50% of the forest is old growth, which is mostly located in higher elevations and further north on the Island. The second growth component is located in more accessible, low elevation areas on the southeastern part of the Island (The Government of British Columbia, 2000).

Vancouver Island has a significant forest industry. Although industrial logging still occurs, the public has put increasing value on non-timber forest products and services such as wildlife, Aboriginal cultural values, recreation, aesthetics, and biodiversity (The Government of British Columbia, 2000). Due to the shift in forest products and companies harvesting less valuable second growth stands, employment in the industry has decreased significantly since 1980. Forest dependent communities have reacted to the cycles of the timber market with high unemployment rates and decreased populations in these communities (The Government of British Columbia, 2000).

To ensure that the Vancouver Island forest industry meets environmental and social responsibility criteria, forest products companies use a voluntary instrument called forest management certification. Forest certifications are sustainable forest management standards that are enforced by non-profit, independent organizations. Managed forests are evaluated on economic, environmental, and social criteria, which are examined, measured

and declared certified by an accredited third party. These standards set criteria and indicators that attempt to exceed what is legally required from forest products companies. Forest certifications that currently exist on Vancouver Island are the Forest Stewardship Council (FSC), the Sustainable Forest Initiative (SFI), and the Canadian Standards Association (CSA) certifications. All three certifications are widely recognized in forest products markets in North America (FPAC 2010). Appendix C shows the areas that have attained FSC, SFI, and CSA certifications in Canada as of December 2010.

FSC was established in 1993 after First Nations, consumers, Environmental Non-government organizations (ENGO's), forest professionals, and labor unions were upset with the results of the 1992 United Nations Conference on Environment and Development (the Earth Summit) in Rio de Janeiro. These groups believed that there needed to be a more credible way of practicing forest management (FSCC, 2010). FSC began in Canada in 1996 with a few companies certified in the Maritimes and British Columbia (FSCC, 2007). Today, FSC's "vision is healthy forests providing an equitable sharing of benefits from their use, with respecting natural forest processes, biodiversity and harmony amongst their inhabitants" (FSCC, 1996). FSC currently has over 30 different standards in North America, with Vancouver Island using the *Forest Stewardship Council Regional Certification Standards for British Columbia*. The British Columbia FSC standard has 10 principles and sets many quantitative requirements (FSCC, 2007).

The American Forest and Paper Association launched SFI in 1994 as a North American forest certification standard. SFI is a charitable organization that was created from multi-stakeholder input from professional foresters, ENGO's, industry scientists,

and other related parties after the 1992 United Nations Conference on Environment and Development. The Programme for the Endorsement of Forest Certification (PEFC) acknowledged the SFI standard in 2005. SFI wants a cooperative balance between social responsibility, conservation, and business from companies that are declared certified. SFI has only one standard in North America and relies more on the forest professional's knowledge and experience than a set of quantitative guidelines. The SFI standards have been updated approximately every five years with the most recent revision in 2010. The 2010-2014 standard contains 14 objectives that each company that is certified must follow (SFI, 2010).

Currently there are varying financial performances between companies on Vancouver Island that hold FSC certification rather than SFI certification due to its operational costs. This essay will explain the economic differences between two companies: Iisaak Forest Resources Ltd. (Iisaak) which holds FSC certification in Clayoquot Sound and TimberWest Forest Ltd. (TimberWest) which has SFI certification with operations on Southern Vancouver Island.

2.0 Background

2.1 Iisaak Forest Resources

Iisaak was established in 1998 as a joint venture between the Nuuchahnulth Central Region First Nations and forest products company Weyerhaeuser. The original agreement had the First Nations hold 51% ownership of the company while Weyerhaeuser held the remaining share. In 2005, the First Nations purchased Weyerhaeuser's share of the company to claim 100% ownership, after Weyerhaeuser decided to sell all of its coastal

forest operations (Iisaak Forest Resources, 2005). Currently, Iisaak has operations on over 87,400 hectares of Crown land throughout Clayoquot Sound. Iisaak's principle asset is held in Tree Farm License (TFL) 57, which is an area-based tenure, and was formerly Macmillan Bloedel's TFL 44. Besides TFL 57, Iisaak holds Crown land in six Timber Licenses that make up 3,800 hectares (Mychajlowycz, 2010). Its accredited third party certification auditor is the Smartwood program of the Rainforest Alliance (Wedeles & Flood, 2010).

Iisaak has been a leader in ecosystem-based management (EBM) and FSC certification in coastal British Columbia forests. EBM is an adaptive methodology that ensures low environmental degradation during timber harvesting activities (Ecotrust Canada, 2008). The company exceeds most FSC regulations because it follows stringent restrictions set from the Clayoquot Sound Scientific Panel (CSSP). The CSSP protects more land from harvesting and puts more constraints on harvesting than what is legally required of most other forest products companies practicing on Vancouver Island (Mychajlowycz, 2010).

Unfortunately, Iisaak has generally lost money since it began harvesting in 2000. In 2007, its best year to date, Iisaak made \$2.1 million in net revenue from \$20 million in sales (Mychajlowycz, 2010). The company created 43 jobs in 2007 consisting of approximately half First Nations and two-thirds local residents. Due to the constant instability of timber cut, many of the workers have been laid off which has hurt the economies of local communities (Mychajlowycz, 2010).

Iisaak has also had problems sustaining its FSC certification. The company was temporarily suspended from its certification in 2006 because it was not meeting FSC's standards of business management performance. About one year later Ecotrust helped the company earn its FSC standard back (Ecotrust Canada, 2008). In its 2008 annual audit report, the company had 11 Corrective Action Requests (CARs) from 2006 that had not been adequately met. Three CARs out of 14, were still open in 2009 and the certification was temporarily suspended again until the CARs were addressed. Some of the most recent issues for the CARs were First Nations not being adequately trained, poor consultation with rights holders in the TFL, and Iisaak not representing the publics and ENGO's interest in protecting intact watersheds from harvesting (Wedeles & Flood, 2010).

2.2 TimberWest

TimberWest is the largest private timber company on Vancouver Island, holding over 322,000 ha in private timberlands. TimberWest harvests approximately 2.3 to 2.5 million cubic meters a year in its private lands, which is mostly composed of Douglas-fir stands. The company also has an annual allowable cut (AAC) of 700,000 cubic meters from its public lands in TFL 47 and two Forest Licenses (FL) (Ridley-Thomas, C., Bebb, D., & Macintosh, G., 2009). The company has been independently certified by SFI in its private lands since December 2000 and public lands since 2007 (Ridley-Thomas, C., Bebb, D., & Macintosh, G., 2010). KPMG Quality Registrar Inc. (KPMG) is the company's third party auditor that assesses adherence to the SFI standards (Ridley-Thomas et al., 2010).

In recent years, the company suffered from a high Canadian dollar relative to the American dollar, labor union disputes, and low housing starts in the USA and Japan

(TimberWest, 2008). The company had losses of \$31.8 million and \$55.8 million in 2007 and 2009 respectively (TimberWest, 2010). In 2009, the company closed a Campbell River planer mill and also laid off 8% of its salaried workers (TimberWest Forest Corp., 2010).

Even though the company has suffered financially in recent years, TimberWest is still in good status with its SFI certification. As shown in Table 1, TimberWest has not had any major non-conformities through its audits with KPMG. A major non-conformity is a significant or consistent problem in meeting an SFI objective that if not addressed immediately can impede the company from renewing its certification. Minor non-conformities are not as critical, but do require an action plan to be made within 30 days and the area must be fixed within three months of the audit. Opportunities for improvement are general comments that the company should follow to become better forest managers (Ridley-Thomas, et al., 2010). The company has been in good standing with its SFI certification for over 10 years (TimberWest Forest Corp., 2010).

Table 1: TimberWest Results from Forest Certification Reports from 2005-2010
Sources: Extracted from TimberWest Forest Corp. SFI Surveillance Audit from 2005 to 2010 on the SFI website

Year	Major non-conformities	Minor non-conformities	Opportunities for Improvement
2005	0	8	8
2006	0	2	7
2007	0	3	4
2008	0	0	3
2009	0	0	4
2010	0	2	4

3.0 Selected Criteria

This essay will evaluate the economic performances of Iisaak and TimberWest under three criteria. Firstly, the companies should obtain long term sustained harvesting levels under its certification requirements while not sacrificing employment, and financial gains in the short-term. Secondly, the organizations should meet certification standards for water quality in streams, lakes, and other water bodies at a relatively low operational cost. Finally, the two companies should involve First Nations and the public, without the stakeholders having a considerable negative effect on the economic returns to the companies. Since forest harvesting practices are a major determinant of economic returns, the long-term harvesting levels criterion will be weighted twice as much as water quality and stakeholder involvement. Since TimberWest is a much larger company than Iisaak in terms of AAC and total assets, the companies will be evaluated by the strategies it takes to minimize costs and maximize revenues while still meeting its certification objectives.

4.0 Long-Term Harvesting Levels

4.1 Iisaak Forest Resources

Under the *FSC Regional Certification Standards for British Columbia*, principle 5 states that “forest management operations shall encourage the efficient use of the forest's multiple products and services to ensure economic viability and a wide range of environmental and social benefits” (FSC, 2005, pp. 22). In order for a certified company to meet these standards it must develop accurate long-term sustained yields to provide for the economy and sustain environmental and social values. Companies must determine

these yields with the best forest inventory data available (FSC, 2005).

Iisaak has a complex history of balancing these values with its sustainable harvesting practices. Table 2 shows the breakdown of harvest volumes in Clayoquot Sound and for Iisaak from 1988 to 2007. From 1988 to 1995 MacMillan Bloedel primarily logged the area. Due to highly publicized protests in 1993 from nearby communities and First Nations, MacMillan Bloedel stopped operating in the area, and over 100 workers lost their jobs. Layoffs of many contractors set off major socioeconomic problems with the largest impact on the communities of Ucluelet and Port Alberni (Mychajlowycz, 2010). Harvest volumes decreased significantly after the 1996 CSSP guidelines were established because there was more variable retention harvesting and more protection of old growth stands. From 2000 to 2004 Iisaak had an AAC in TFL 57 of 110,390 cubic meters. The AAC switched from volume based to area based in 2005, which was approximately the same as prior AAC volumes. Currently TFL 57 is allowed to harvest 381 hectares and Iisaak is able to harvest 340 hectares. The remainder of the AAC was allocated to small businesses through BC Timber Sales (Mychajlowycz, 2010).

Table 2: Volumes of Timber Cut in Clayoquot Sound and for Iisaak Forest Resources from 1988-2009
Source: Mychajlowycz, 2010, pp. 5-12

Year	Clayoquot Sound Volume Harvested (m³)	Iisaak Annual Allowable Cut (m³/ha)	Iisaak Volume Harvested (m³)
1988	959,000	-	-
1989	958,000	-	-
1990	763,000	-	-
1991	777,000	-	-
1992	467,000	-	-
1993	456,000	-	-
1994	406,000	-	-
1995	323,000	-	-
1996	106,000	-	-
1997	84,000	-	-
1998	17,000	-	-
1999	32,000	-	-
2000	25,000	110,390 m ³	15,600
2001	81,000	110,390 m ³	16,500
2002	145,000	110,390 m ³	45,000
2003	70,000 (estimated)	110,390 m ³	35,800
2004	153,000	110,390 m ³	16,500
2005	94,000	340 ha	89,900
2006	66,000	340 ha	66,000
2007	120,000	340 ha	90,000
2008	158,000	340 ha	67,000
2009	-	340 ha	39,500

Table 2 shows that Iisaak has harvested considerably lower than its AAC since it began harvesting in 2000. The company is having difficulties achieving economies of scale like MacMillan Bloedel did in the late 1980's since its AAC is about one tenth of what was harvested during that period. The company had a slow start in 2000, likely due to a lack of capital and experience within the company. 2007 had the company's largest cut, and was also the year that Ecotrust had donated funding and management expertise to Iisaak (Mychajlowycz, 2010). After the 2008 economic downturn, the company had experienced another significant drop below its AAC. In Iisaak's first ten years, it has harvested 66 cutblocks totaling 1,453 hectares, where 681 hectares and 481,800 cubic meters of timber was accumulated as retention (Mychajlowycz, 2010).

Iisaak will continue to struggle to attain profits in the long-term unless watershed areas discussed in a 1999 ENGO Memorandum of Understanding (MOU) are made available for harvest. The ENGO's believe that these watershed areas were a fundamental issue protected under the MOU and advocate that the areas should never be harvested. The First Nations within Iisaak, on the other hand, believe that it was not a commitment under the MOU and believe it has the right to harvest these areas. Iisaak made a 20-year plan that indicated that the intact watersheds were operable and developed an AAC that included these areas in the timber harvesting land base. The disagreement was one of the major causes for the suspension of the FSC certification in 2009 since Iisaak was not properly incorporating the public's or the ENGO's opinions in its management plans (Wedeles & Flood, 2010). If the company is unable to harvest these areas in the future, Iisaak will have to lower its AAC and will not attain profits and employment opportunities it had predicted.

Iisaak has also incorporated a few methods into its harvesting practices that end up costing it more money than most other companies practicing on Vancouver Island. Iisaak's practices focus on leaving the forest in roughly the same size and age structure after harvest. These practices include protecting old growth forests that have little or no disturbances from forest operations and not high grading cedar. This is some of the area's most valuable timber and Iisaak is missing a market that other companies on Vancouver Island depend on for business. The company also focuses on selective harvesting which requires more roads and skid trails than does clearcutting. Helicopter yarding operations are used in environmentally sensitive areas which are much more expensive than ground based or cable yarding. Iisaak is also focused on recreation and tourism, so the company

takes extra precautions in making the forest look aesthetically pleasing to its viewers after harvesting (Iisaak Forest Resource Ltd., 2008). By adopting these practices the company requires much more man-hours to develop detailed plans and requires a higher level of training for skilled workers.

The British Columbia FSC standard also restricts all certified companies to be dependent on one forest product (FSC, 2005). Therefore, Iisaak's commercial products include timber, pulp, and paper. From 2000 to 2005, Iisaak's logs were usually sent to Weyerhaeuser mills when Weyerhaeuser was part owner of the company. Now Iisaak sends most of its logs to mills in Ucluelet and Vancouver, log brokers, and direct customers. Recently Iisaak has been sending its logs to Triumph Timber in Prince Rupert to obtain FSC Chain of Custody certification. The company has struggled with value-added wood products since it has not been able to build proper infrastructure due to a lack of capital. This has caused problems for the company since it has not able to maximize the value of its wood products to help pay for its certification. Most of Iisaak's logs are sold domestically, but the company has shipped raw logs internationally in periods of low demand for its products (Mychajlowycz, 2010). Iisaak is spending excessive money in direct costs from its audits and indirect costs from its environmentally sensitive harvesting and are not seeing positive net revenues in most years.

4.2 TimberWest

Objective 1 under the *Requirements for the SFI 2010-2014 Program* is “to broaden the implementation of sustainable forestry by ensuring long-term forest productivity and yield based on the use of the best scientific information available.” (SFI, 2010, Section 2 pp. 4). Best scientific information is generally accepted by the broad scientific

community through peer review articles from various sources. There usually has to be significant field-testing in order for the method to be considered viable, but it essentially allows broader implementation for forest operations. The certified SFI companies must provide adequate growth and yield models, forest inventory analysis, maps, and other documents to justify its harvest rates (SFI, 2010).

As opposed to Iisaak, TimberWest has relatively conventional harvesting practices and development costs. The company's audits take place in both public and private lands where KPMG audits TimberWest on management plans, falling, road development, silviculture, and other forest management activities. The company's revenues are highly dependent on its harvest levels so it looks for significant cost reductions by creating efficiencies through economies of scale, the learning curve, and the experience curve (TimberWest Forest Corp., 2010).

TimberWest ensures sustainable harvests by not logging over the annual incremental growth of the forest. From 2005 to 2009 the company had an average AAC of 2.1 million cubic meters in private lands, which is likely going to decrease to an average of 1.8 million cubic meters per year for 2010 onward. The lower AAC is due to the company losing much of its old growth stands from previous harvesting activity and many of its second growth stands have not reached maturity. There has also been a significant decline in logging since 2007 because of lower housing starts in the USA. TimberWest expects to increase harvesting once the housing market and log prices return to prior 2007 levels (TimberWest Forest Corp., 2010).

From 2005 to 2010 TimberWest received many positive reviews in terms of its long-term sustained yield from its SFI audits. In 2004, the company was noted for establishing a well-developed 5-year plan that balanced social, environmental, and economic values (Alexander, M., Bebb, D., Ridley-Thomas, C., 2005). In 2006, the company came true to its word that the low profit producing stands that were harvested at a higher than average rate were growing back effectively (Alexander, M., Bebb, D., & Ridley-Thomas, C., 2006). In 2009, the company was regarded highly for its use of road networks that were built around ecologically sensitive areas (Ridley-Thomas, C., Bebb, D., & Macintosh, G., 2009). In addition, the company practices intensive silviculture with selective breeding of seedlings, and late rotation fertilization, which enhances the productivity of its second growth stands (TimberWest Forest Corp., 2010).

Although the company has performed well with its certification audits there are still some areas for improvement. In June 2009 the company needed improvement in viewscales for cut-block design in the Southern Island operations (Ridley-Thomas et al., 2009). In June 2010, KPMG found that there were some inconsistencies with fallers meeting the requirements that were indicated on the harvesting maps. The maps also contained material that was conflicting with other documented information (Ridley-Thomas et al., 2010). These faults have not been difficult for the company to fix and have not caused suspension of TimberWest's certification.

There have been some constraints put on TimberWest due to its audit performance. In 2005, KPMG recognized that a significant amount of TimberWest's land needed to be variable retention and predicted that 35% of its forest would be managed in this way in the long term. TimberWest was asked to secure more area for deer winter

range for long-term biodiversity requirements and to do proper monitoring for its reforestation of Douglas fir leading stands (Alexander, M., Bebb, D., & Ridley-Thomas, C., 2005). These restrictions are beyond what is legally required of the company and leads to an increased cost.

TimberWest attempts to capitalize on sales of high value logs by selling to both domestic and international markets. International sales are mostly to the USA and Japan, but there are also emerging markets in China. In 2009, the company exported 0.8 million m³ of logs, and on average sold for \$28 more per m³ than domestic sales. Domestic sales are usually made on Vancouver Island or areas surrounding Vancouver (TimberWest Forest Corp., 2010). By selling its logs internationally, TimberWest is able to sell to markets that pay higher prices for logs instead of being dependent on local markets. Overall, it seems as though TimberWest is maximizing its economic returns while not including practices that increase its costs in the long term under the SFI standards.

5.0 Water Quality

5.1 Iisaak Forest Resources

Principle 2 in the *FSC Regional Certification Standards for British Columbia* states that “forest management shall conserve biological diversity and its associated values, water resources, soils, and unique and fragile ecosystems and landscapes, and, by so doing, maintain the ecological functions and the integrity of the forest.” (FSC, 2005, pp. 27). Under this general principle, FSC sets requirements for endangered riparian species protection, management of erosion, ensuring low impact stream crossings, and many other factors that dictate the integrity of the riparian area. Some of the specific examples

include a minimum seven-meter machine free zone on all streams that should not be entered by any machine unless there are specific circumstances. These conditions include machinery that is used to develop a crossing over the stream or used to restore the ecosystem, but must have little or no disturbance to the ecosystem when operating. FSC also requires that the stand structure around riparian areas be left relatively similar to prior harvesting conditions so that there is little impact on the flow of water (FSC 2005).

In its *2006-2011 Sustainable Forest Management Plan*, Iisaak showed increasing concern for the hydro-riparian areas and attempted to reduce the impact that harvesting has on these streams. Iisaak conducted surveys to classify its stream networks to the CSSP hydrologic classification system and provided strategies that could be used to manage the streams for its quality and integrity. Iisaak also supports restoration strategies that will help reduce the impacts of water bodies damaged by harvesting and other activities (Iisaak Forest Resources Ltd., 2006).

Iisaak follows rate-of-cut requirements that were set out by the Clayoquot Sound Watershed Plans and the CSSP recommendations. Listed below are a few restrictions the company has implemented in terms of water quality management:

- Watersheds greater than 500 hectares must cut less than 5% of the area in a five-year period and if harvested must do a sensitivity analysis every 5 years to make sure there are no long-term alterations to the stream.
- Watersheds between 200 hectares and 500 hectares must harvest less than 10% in a ten-year period, which allows for variation in smaller watersheds. Audits will take place every 5 years for streams in primary watersheds.

- If the audits notice harvesting impeding the hydrological cycle of the stream, operations will be stopped (Iisaak Forest Resources Ltd., 2006).

By setting these standards above what is required by FSC, it significantly reduces the timber harvesting land base for the company and Iisaak will likely lose some of the TFL's most valuable timber areas. The 1999 ENGO MOU also reduces the amount of logging that will occur in watershed areas if it remain inoperable (Wedeles & Flood, 2010). Furthermore, these standards may make some cutblocks less favorable for harvesting because of the high levels of retention. If the company cannot make a profit after road building, operations setup, and other fixed costs, it may be too costly to operate in these areas.

5.2 TimberWest

Objective 3 in the *Requirements for the SFI 2010-2014 Program* is “to protect water quality in rivers, streams, lakes, and other water bodies” (SFI, 2010, Section 2 pp. 7). This objective does not set specific quantitative indicators for water quality management since many of the indicators depend on best management practices. This SFI objective mainly requires companies to document ecological and operational classifications relevant to water quality (SFI, 2010).

TimberWest meets many regulations that exceed the requirements of the SFI standard. On its private timberlands, the company follows the Private Land Forest Practices Regulations that were established in 2000 (TimberWest., 2010). This has given TimberWest a results-based code to meet its water quality standards while still acquiring the benefits of harvesting on private land. TimberWest's public land operations follow

the Forest and Range Practices Act and the Forest Practices Code (TimberWest Forest Corp., 2010). The Forest Practices Code *Riparian Management Area Guidebook*, for example, defines best management practices for buffer zones around classified stream (Forest Practices Code of British Columbia Act, 1995).

Considering the various regulations, TimberWest has had many acceptable reviews in its water quality audits. In 2009, TimberWest exceeded SFI standards when it created wide buffers on non-fish bearing streams and created large culverts for fish passages in case a peak flow event occurred (Ridley-Thomas et al., 2009). In 2010, the company was reported for having better construction of bridges over fish bearing and non-fish bearing streams than most other licensees operating on Vancouver Island (Ridley-Thomas et al., 2010).

However, TimberWest has experienced a few non-conformities in recent years under objective 3 in the SFI regulations. In 2006 the company obtained a minor non-conformance for underestimating the size of culverts that had been constructed which led to higher soil erosion into streams that were unacceptable under the environmental laws and regulations for the area. Although the company took measures to fix the culvert and roads, the company was ordered to pay \$30,000 in fees to the Private Managed Forest Council (Alexander et al., 2006). A few instances in 2007 reported that there had been excess debris left in the streams after harvesting that were damaging culverts and impeding the flow of water in some streams (Alexander, M., Bebb, D., Ridley-Thomas, C., & Macintosh, G., 2007).

Since the company is mostly restricted under the Forest Practices Code and the Private Land Forest Practices Regulations, TimberWest is able to capitalize on its operations near water bodies. The SFI standards do not have significant impacts on costs, besides the price the company has to pay for its audits. TimberWest does not lose any of its competitive advantage in water quality management under SFI. For example, TimberWest is able to harvest as close to water bodies as companies not certified under SFI since it follows the same regulations. TimberWest also does not set any additional measurements for protecting riparian species more than what is declared in its appropriate legal regulations. Water quality standards under SFI are not a major restriction for TimberWest's economic returns relative to other companies operating on Vancouver Island.

6.0 Involvement of First Nations and the Public

6.1 Iisaak Forest Resources

The *FSC Regional Certification Standards for British Columbia* under principle 3 states that “the legal and customary rights of indigenous peoples to own, use and manage its lands, territories and resources shall be recognized and respected” (FSC, 2005, pp. 13). Under this FSC principle, companies must discuss management options with its First Nation neighbors and stakeholders. Moreover, the companies must use First Nations input to come to balanced decisions on forested land (FSC, 2005).

The five Central Region First Nations each hold a 20% share of Iisaak. The company focuses heavily on its operations to not infringe the legal and traditional rights of any of the five First Nations bands. If working in the traditional territory of any band,

it must consult with the band to ensure that cultural values and significant sites are appropriately protected. Iisaak incorporates each First Nation's chief and council in the management process and each band is expected to receive dividends from the company to provide towards its communities (Iisaak Forest Resources Ltd., 2006). Iisaak has shown continued dedication to its First Nations involvement with around 50% employment (Wedeles & Flood, 2010). The transformation of Clayoquot Sound forestry has been remarkable towards First Nations in the past decade, when few employment opportunities were given to First Nations at all (Mychajlowycz, 2010).

Although there is high involvement of First Nations in Iisaak, there have been many complaints from the staff that there was not adequate training provided for the workers. Some of the past training programs that were established ceased because there was low profits and low harvesting levels. One of the issues was that Weyerhaeuser was no longer a stakeholder in the company and it was part of its agreement with the First Nations to provide adequate training (Wedeles & Flood, 2010). By having untrained employees it is costly to give workers enough experience to become productive in forest operations. By having a small business, employment rates fluctuate and there may not be enough time for the workers to achieve the cost benefits of the experience or learning curve.

Principle 4 under the *FSC Regional Certification Standards for British Columbia* suggests, "forest management operations shall maintain or enhance the long-term social and economic well being of forest workers and local communities" (FSC, 2005, pp. 17). British Columbia's FSC standard considers the public to be a stakeholder for the forest since 95% of the province's forests are held in Crown land. The public is allowed to have

participation in management plans while keeping some of the information confidential to the company. Strict rules are followed for handling people who have been directly affected by FSC certified harvesting operations. The FSC standards have protocol to handle disputes and come to decisions much more readily than the SFI standard (FSC 2005).

Since Iisaak practices on Crown land its intent is to consult with the local public under its FSC obligations. The province of British Columbia holds all other property rights unless negotiated by the provincial government and the Central Region First Nations. Iisaak success relies on outside investors and the provincial government for funding. Public programs and Iisaak's corporate earnings have helped the company generate finances while preserving its cultural and social values from the forest (Coady, 1999). In 2008 the company uploaded a summary of TFL 57's tree planting efforts onto its company website, but was criticized for not publicly releasing a Forest Stewardship Plan and for not releasing monitoring results for 5 straight years (Moore & Dunsworth, 2009).

Iisaak is also having difficulties with other stakeholders that have rights on its management area. Iisaak's staff has not consistently consulted with the other right holders in the TFL and has been reported by Smartwood to be difficult to contact or had limited information to provide to other stakeholders. The other stakeholders are being separated from discussions between ENGO's and Iisaak, and are not involved in discussions involving the harvesting of intact watersheds. The poor consultation was a major CAR in the 2010 audit report and was one of the reasons for suspension of Iisaak's FSC certification (Wedeles & Flood, 2010).

With the number of parties interested in developing the company, it is difficult for Iisaak to focus on its economic viability. Some of the communities are demanding that Iisaak provide employment and increase its harvest so that it can hire employees from nearby communities. This has been a major problem since the change in tenure holder from MacMillan Bloedel (Moore & Dunsworth, 2009). By reporting to the public, Iisaak allows Friends of Clayoquot Sound, the Sierra Club, Greenpeace and many other ENGOS to share its views on harvesting. By having this imbalance in values, it is one of the major reasons the company has had many under performing years.

6.2 TimberWest

First Nations involvement is described under the broader category of “public land management responsibilities” (SFI, 2010, Section 2 pp. 13) in the *Requirements for the SFI 2010-2014 Program*. Performance measure 18.2 states that “program participants with forest management responsibilities on public lands shall confer with affected indigenous peoples” (SFI, 2010, Section 2 pp. 14). The indicators do not thoroughly express First Nations interests and do not guarantee that First Nations people will be consulted in forest management unless it directly affects it on its territory.

TimberWest has made many strides in providing employment to First Nation communities. In its 2006 SFI audit, TimberWest was highlighted for showing improved relations with Cowichan Lake First Nations, providing 24 employment opportunities in silviculture and firefighting that were signed over a MOU (Alexander et al., 2006). In its June 2010 audit, TimberWest was reported for providing more fire management and silviculture opportunities with local First Nations in its traditional region (Ridley-Thomas

et al., 2010). The company is working with the Khowutzun Forest Services to ensure these ventures are taking place (TimberWest, 2010).

Although these accomplishments are meeting the SFI standards, it is not appropriately involving First Nations in anything more than labor jobs. TimberWest had not included the First Nations in any reported higher-level decisions in its audit reports from 2005 to 2010. First Nation's cultural and social values were only a concern for the company when operations took places on the First Nation's territory. Otherwise the company appeared to be mostly concerned about its monetary gains and was not concerned about the First Nations input in areas where it did not have title.

The public reporting is also described under the *Requirements for the SFI 2010-2014 Program* in objective 19: "to broaden the practice of sustainable forestry by documenting progress and opportunities for improvement" (SFI, 2010, Section 2 pp. 14). TimberWest achieves this through its annual audits with KPMG so that the public can understand what the company is continually improving on in order to earn its certification. Unlike the FSC regulations, SFI standards do not oblige companies to consult or be transparent to the public (SFI, 2010). This allows companies practicing under the SFI standards to hold certain information back from the public.

In many ways, TimberWest has exceeded expectations of the SFI standard with its public interactions. In 2008, the company was reported for thorough communication with the public near Mt. Prevost about viewsapes and made visual landscape changes to its harvesting plans (Alexander, M., Bebb, D., Ridley-Thomas, C., 2008). In 2009, the company was noted for excellence in public interactions since it put into practice some of

the issues that had been bothering the public in terms of auditory and aesthetic issues around harvesting and other operational activities (Ridley-Thomas et al., 2009). The company has followed through with annual reports for the past six years which are posted on the SFI website.

The involvement of both First Nations and the public are low in regards to handling consultation and disputes compared to FSC. TimberWest is the entity that makes the major decision-making on its operating lands, and unless mandated by regulations, the company is allowed to follow through on plans without consulting these individuals. In this way there is much less resistance from the communities and there is less time, effort, and money put into agreements. The company can focus on increasing the returns for its shareholders, keeping individuals employed within the company, and creating cash flows by finding solutions that focus more on the economics rather than the social or environmental values while still meeting its SFI criteria.

7.0 Conclusion

The companies currently practicing FSC and SFI certifications on Vancouver Island have significantly different business strategies. The major difference between the certifications is that FSC sets stricter guidelines on protecting environmental and social values, while SFI relies on best scientific information for a particular area.

Lisaak has a strong focus on EBM, and the CSSP guidelines, which have helped the company attain FSC certification. Unfortunately, the company has generally lost money since it began operations, and many workers have been laid off due to the inconsistent volumes harvested. There have also been problems with the company

sustaining its certification status since it has already been suspended numerous times for not addressing its CARs. Iisaak harvests well below its AAC almost every year, which makes it difficult for the company to reap the benefits of economies of scale. Its forest harvesting methods create high costs and it does not cut the most profitable stands. Iisaak's water quality restrictions limit the company from cutting close to riparian areas, constrain the amount that can be cut in certain watersheds, and make harvesting certain areas unprofitable due to high fixed costs. The company has been looking into harvesting some intact watersheds that have caused controversy with an ENGO MOU that was signing in 1999. First Nations and public involvement have also restricted Iisaak's profitability. Iisaak has much more consultation than a typical SFI certified company on Vancouver Island.

TimberWest has been consistently meeting SFI standards and attempting to maximize its profits. TimberWest has more conventional harvesting practices than Iisaak. Its having difficulties with moving from old growth to second growth stands, which lowers its AAC in the future. The company has only been restricted by its SFI standards in a few areas with its long-term sustained yield, but not enough to significantly increase its harvesting costs. TimberWest meets many of the SFI water quality standards through the Forest Practices Code and the Private Land Forest Practices Regulations, which do not cost it more than any other conventional forest products company on Vancouver Island. TimberWest has not appropriately accommodated First Nations in higher-level plans and continues to leave the public out of many of its future plans. In this way the company can focus more on profit potential and not be constrained by what the public or First Nations stakeholders want from the company.

Finding the balance between social, environmental, and economics is difficult for forest products companies on Vancouver Island. Companies want to add to local economies' GDPs and lower the rate of unemployment, but also want to preserve the forests for future generations. Although there is optimism from local communities for FSC certification on Vancouver Island, it is a tough business at this point and should not be used as a model until it can be proven viable economically. Until log prices and the economy act favorably to the forest industry on Vancouver Island, it is safe for forest products companies to choose SFI certification if it is interested in becoming certified.

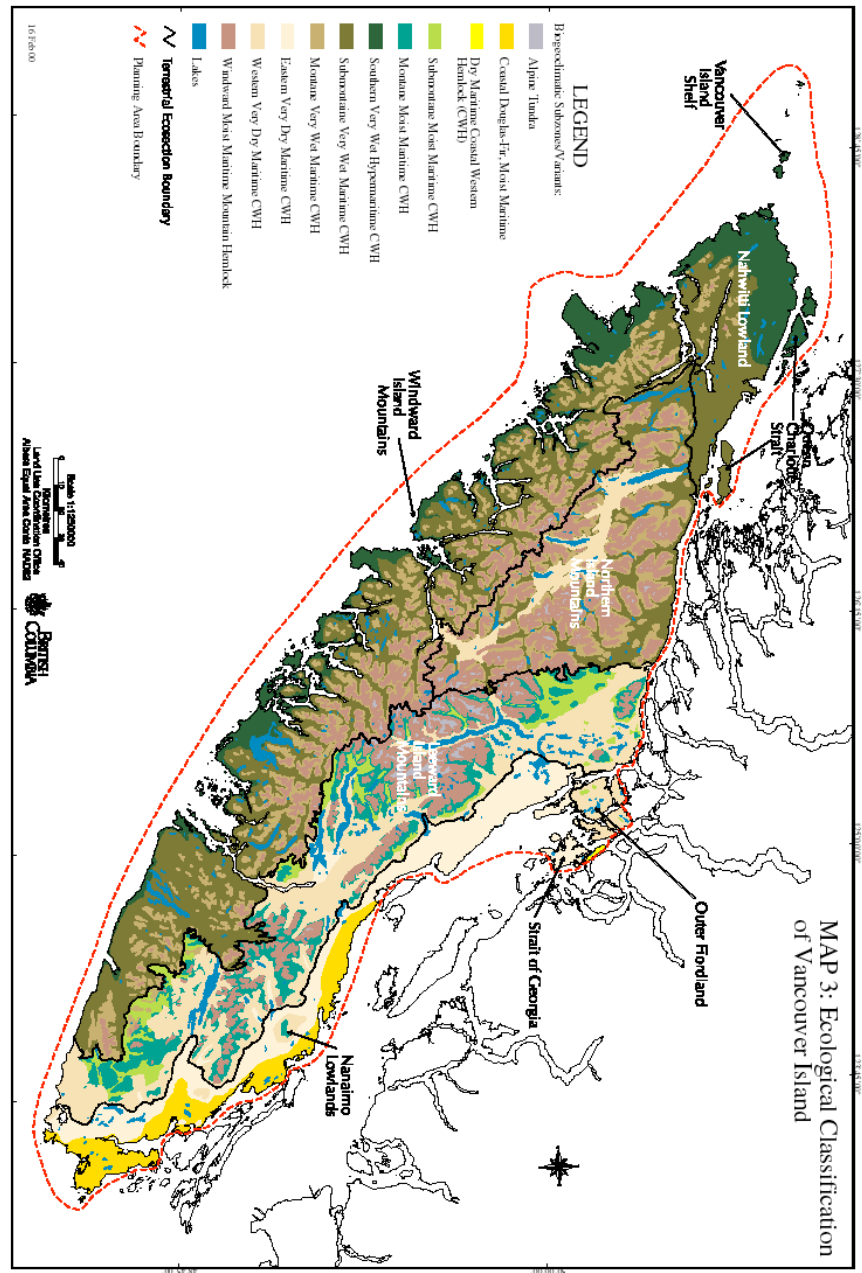
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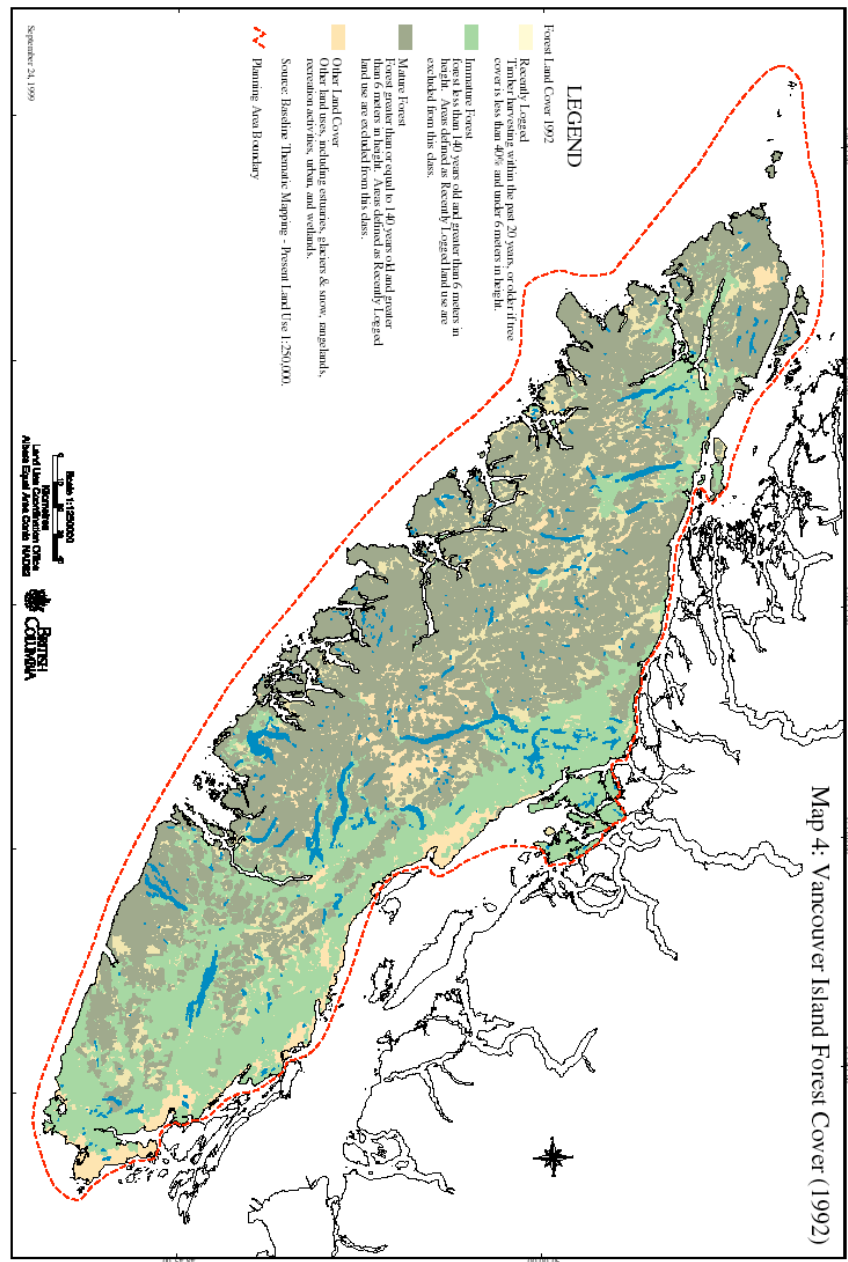
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Appendix A: Biogeoclimatic Zones on Vancouver Island



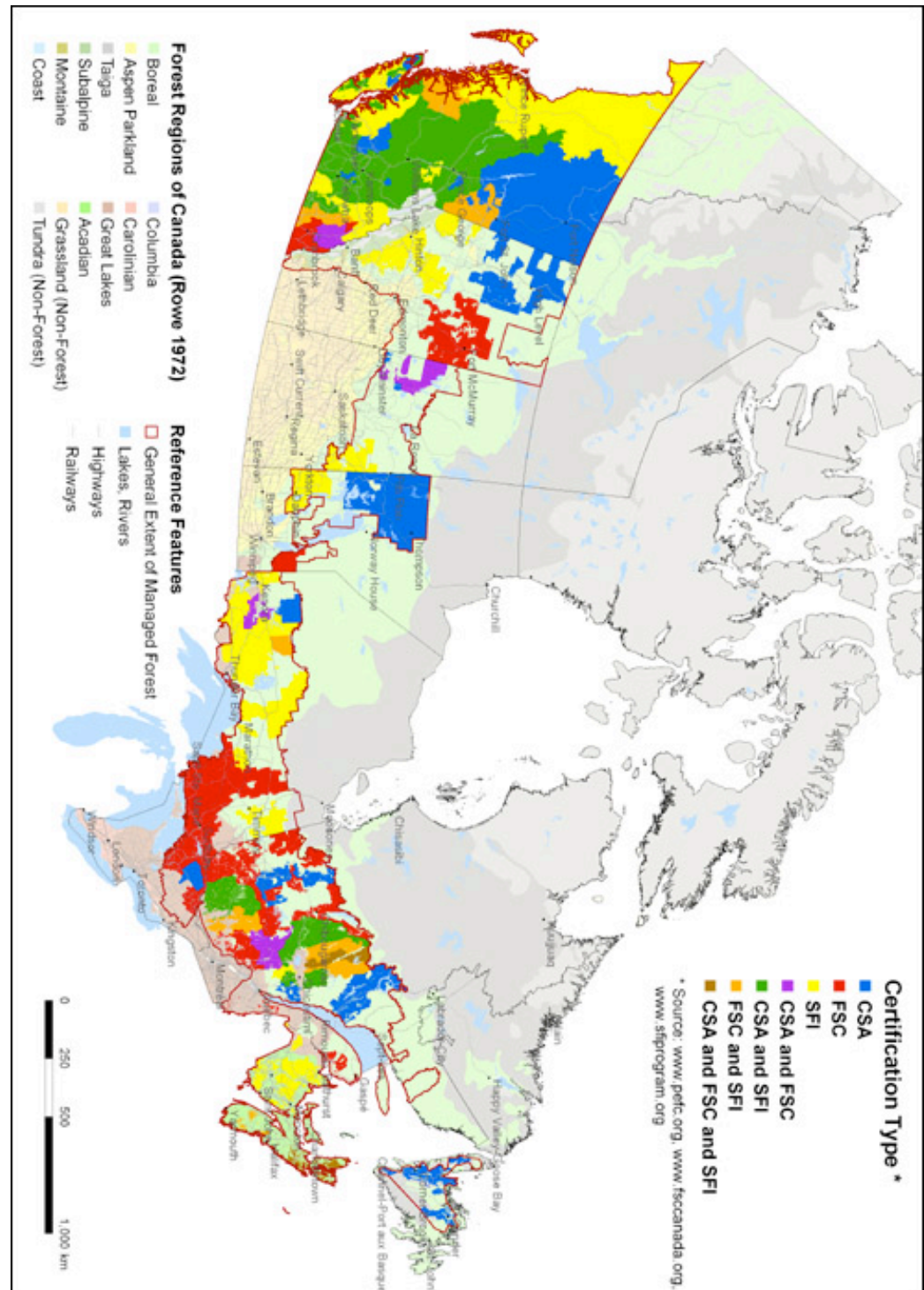
Source: The Government of British Columbia, 2000

Appendix B: Age Class Distribution of Forests on Vancouver Island



Source: The Government of British Columbia, 2000

Appendix C: Forest Certified Areas within Canada at Year-End 2010



Source: FPAC, 2010