

doubtless been encouraged by our labour laws. Associations of a similar character are common in this industry in other countries—presumably for similar reasons. At the same time it has to be remembered that price competition among local producers has by no means been eliminated. There are apparently a number of producers in each of the timber areas who stand outside any association and who fix their prices quite independently. Moreover, there is always the potential competition of mills which might readily be established if prices were raised much above a reasonable level.

The most satisfactory test of the reasonableness of prices (and the test laid down by law) must be based upon a consideration of profits. The profits of a number of sawmilling companies have been investigated, and the inquiry discloses a wide variation between the financial results of the different undertakings. Fourteen sawmilling undertakings in the Main Trunk district whose accounts were closely examined show that ten may be classed as financially successful, while four showed quite unsatisfactory results. The average net profits of five profitable mills (located in the Ohakune district) during the two years ended March, 1926, represented 13 per cent. on the capital employed. This profit figure has been calculated after allowing for income-tax and royalty. All these mills, however, are relatively well situated, and generally have been in operation for a considerable period of years. On the other hand, as already mentioned, the accounts of some of the mills in that area showed losses in recent years. This is more particularly true of mills established only a few years ago. Similar conditions are disclosed by investigation of profits in other districts.

It is accordingly quite clear that the influence of associations has not been such as to make profitable the operations of all mills. It will be agreed that prices of this as of other commodities tend to be fixed on a competitive market at a level which will satisfy the "marginal" or least profitable undertaking the product of which is required to meet the market demand. All more advantageously situated producers may be expected to secure higher profits by reason of those relative advantages. It seems clear, therefore, that the relatively high profits of certain mills have been secured as a result of their satisfactory location and relatively low royalty (or "stumpage") costs—conditions which arise from the fact that these mills are now cutting standing timber purchased or leased years ago at the low values which then prevailed for standing timber comparatively easy of access. To state the position in other words, it may be said that these profitable milling enterprises are securing their eminently satisfactory profits not from the industry of sawmilling as such but from the increase in value which has taken place in respect of their holdings of standing timber. The profit so made is increased by the lower capital cost of plant equipment, and developmental assets (e.g., semi-permanent tram-lines) purchased or laid down prior to the increase in prices and wages which has taken place in the past decade or more.

It would manifestly be incorrect to base any decision in regard to the profit position of the industry either on the facts in relation to mills such as those above mentioned or upon the financial results of mills at the other end of the scale—viz., those which, with relatively high royalty costs and high transport and production costs, have been drawn into the industry as a consequence of the strong demand for timber in recent years. Viewing the matter in its long term aspects, it seems inevitable that costs and prices in this industry must tend to increase. Even if wages and prices of all necessary supplies and services were still at the level existing ten or fifteen years ago, costs would be higher by reason of the greater distance from the market of the bulk of the supply now as compared with earlier years, coupled with the inevitable tendency for production to take place first from level and easily worked country, and later from rougher sections of the timber-bearing lands. This general tendency towards increased costs had not until quite recently appreciably affected the industry in its competition with overseas supplies. Now, however, when imported timber prices have fallen the margin of profitable local production has contracted, and milling undertakings previously able to carry on must now find themselves outside the possible competitive field.

There must still be in the Dominion a vast quantity of standing timber which under present conditions has no royalty or stumpage value. The necessary cost of milling and transport would leave no margin of value payable to the owner of the standing timber. In other areas it is doubtless commercially possible to mill *some* of the best trees and species, while in closer areas reasonably full utilization of the forest is possible.

These general propositions lead to the conclusion that a need for some increase in tariff protection arises rather from long term considerations than from the present exceptional market conditions. If the tariff on timber be not increased it may well mean that large portions of our timber resources cannot be utilized for very many years to come, and some (if import prices be not increased or local production costs be not substantially reduced) will never come within the reach of market possibilities. The tariff should not, however, be used as an instrument to place upon standing timber unreasonable values, or to make possible production from areas not yet reasonably required to meet national needs.

Bearing the foregoing considerations in mind, the Commission believes that the importance of the industry, its relation to the general economic welfare of the Dominion, and the necessities of the position justify a moderate increase in the tariff on timber. The existing duties are relatively low in amount, and almost any increase would therefore appear substantial in relation to the existing tariff.

It is recommended that the duty on rough sawn timber be increased to 4s. per 100 sup. ft., provided that on timber of a minimum sectional area of 150 square inches or more and also of a length of not less than 25 ft. the duty shall be 2s. per 100 sup. ft. This latter provision is recommended to meet the position in relation to large sized timbers required for special uses.

It is further recommended that the duty on sawn dressed timber be increased to 7s. per 100 sup. ft. The increase of 3s. per 100 sup. ft. in the case of dressed timber (as compared with the increase of 2s. recommended in the case of rough sawn timber) is suggested for the reason that dressed timber is usually imported in comparatively thin sizes, and consequently on a superficial footage basis bears a duty relatively low in relation to its finished value.