

Forest Sector Message to House Finance Committee re: Pre-Budget Consultations

High Level Economic Impact

- The Canadian forest products industry remains a cornerstone of the Canadian economy.
- The industry represents about 2% of Canada's GDP, is a source of 600,000 direct and indirect jobs, and sustains some 200 forest-dependent communities from coast to coast.

Industry under Transformation

- While recent years have been difficult for the industry, as evidenced by many mill closures and job losses, the industry has been working hard to transform itself and transition towards a higher value, more economically sustainable, next generation industry.
- In terms of transformation, the industry has made significant strides in a number of areas including:
 - » Diversifying and expanding markets.
Fact: The forest products industry is now Canada's #1 sector exporter to China and #1 to India as well.
 - » Increasing productivity and operating efficiency.
Fact: The industry's labour productivity is over 20% higher than the Canadian average.
 - » Setting the gold-standard for environmental leadership and forest stewardship.
 - » Integrating bio-energy and high-value-added bio-products into the traditional lumber, pulp, and paper product mix.

Partnership with Government has Paid Dividends

- Although the industry has been doing the heavy lifting to transform itself, critical to our efforts has been our partnership with government in the development of a supportive policy framework to accelerate this transformation, power the economic recovery and sustain jobs in rural Canada.

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- While significant progress has been made, we must continue to work together to ensure that we can consolidate our gains and to make sure that momentum is not lost.

Global Economic Context and Need to Stay on the Right Track

- With the global economy under continued stress and uncertainty, primarily as a result of ongoing challenges in the US and Europe, the Committee's 2011 pre-Budget consultations come at a critical period for the Canadian economy and the forest products industry.
- We are cognizant of the difficult fiscal situation facing the government and understand future investments must be focused, strategic and impactful.
- However, now is not the time to abruptly withdraw support for programs that are clearly helping spur the growth of Canada's rural economy.
- Doing so would put rural jobs at risk as well as the progress industry and government have made together in building a next generation forest products industry.
- By continuing to work with the industry to support transformation in Budget 2012, the government can help sustain the economic recovery and create jobs in Canada's 200 forest-dependent communities across the country.

Recommendations for Budget 2012

- With an aim to helping the Committee meet its stated priority of "achieving a sustained economic recovery, and creating quality, sustainable jobs," the forest products industry has a number of recommendations.

Don't Cut Successful Programs

Continue funding the basic programs under the Forest Industry Long Term Competitiveness Strategy (\$64 million/year, declining over 5 years)

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- These programs include the Canada Wood Export Program, the North American Wood First Initiative, Leadership for Environmental Advantage in Forestry (LEAF), Value to Wood and the Transformative Technologies Program.
- The existing programs have proven to be very effective in supporting the industry's successful market expansion and diversification undertakings as well as development of transformational technologies.

Examples of Market Diversification Success

- » Since the year 2000 the industry has increased its wood exports to China by 46 times.
- » 28 mills have reopened in BC because of the success of the market export programs in China

LEAF and Boreal Agreement

- » The LEAF program has been instrumental in helping the industry tell its positive story on its environmental leadership in a world that increasingly demands strong green credentials for forest products.
- » Going forward, the LEAF program will be critical not only in terms of branding the industry and Canada as a responsible steward of natural resources, but also in terms of the actual implementation of our world-class forest management planning.
- » The LEAF program should be extended and the terms and conditions expanded to include the implementation of the Canadian Boreal Forest Agreement, a land mark conservation accord reached by FPAC members and leading environmental groups in 2010.
- » The CBFA can also be used as a vehicle to support the government in the implementation of its National Conservation Plan.

Support for the Industry's Transformation

Unleash the potential of the \$500M SDTC Next Generation Biofuels Fund.

- Open up the terms and conditions to support full range of bioproducts without requiring the production of biofuels. This move will facilitate a broader adoption

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of conversion technologies and will support market decision-making on which biomass projects have the greatest economic potential.

- On the biofuels side, FPAC has investigated 5 technology platforms for its production. We were unable to identify any platform that supported economic generation of biofuels. All options had returns well below the cost of capital needed to produce biofuels.

Replenish the highly successful IFIT (Investing in Forest Industry Transformation) program to a level of \$100M/year for 3 years.

- The IFIT program has to date been a remarkable success. The first \$100M has seen the industry propose projects worth well over 52 times the program level. These projects are highly transformative and move the sector towards capturing new markets estimated to reach \$200B/year in the next 3 years.
- Canada's forest products industry is ideally positioned to excel in this new dynamic, high growth global marketplace for bio-products such as such as fuels, power, plastics and value-added chemicals from biomass. Technological advances and partnerships with bio-tech companies are creating viable transformational pathways for the industry that will allow it to take advantage of the emerging bio-economy and to diversify revenues, create new jobs and foster economic independence.
- Indeed our analysis with the biopathways project identified that we could create 5x more jobs by integrating bioproduct production onto the existing forest industry and positioning Canada to serve this dynamic new market.
- Our global competitors are already getting on with it- competing jurisdictions such as the US and Europe are providing massive government support to accelerate their domestic industries into the 21st century bio-economy.
- Should we fail to act, the Canadian industry is at serious risk of falling behind and losing jobs.
- Offering capital support through IFIT is one way to help level the playing field so these opportunities can be exploited and so we can keep the jobs here in Canada