



CANADA'S FOREST PRODUCTS INDUSTRY GETS TOP GRADE

PRODUCTIVITY REPORT CARD

*A summary of *A Detailed Analysis of Productivity Trends in the Canadian Forest Products Sector*, prepared for the Forest Products Association of Canada (FPAC) by the Centre for the Study of Living Standards (CSLS).*



Forest Products
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About FPAC

The Forest Products Association of Canada (FPAC) is the voice of Canada's wood, pulp and paper producers nationally and internationally in government, trade, and environmental affairs. Canada's forest products industry is a 57 billion dollar a year industry that represents 12% of Canada's manufacturing GDP. The industry is one of Canada's largest employers, operating in 200 forest-dependent communities from coast to coast, and directly employing 235,000 Canadians across the country.



To learn more visit fpac.ca

Executive summary

Canada's forest products industry has registered strong productivity improvements pre and post-recession. This is good news for the broader Canadian economy. The forest products industry accounts for \$19.2 billion of Canada's gross domestic product (GDP) and 9.2% of overall manufacturing GDP — making it a cornerstone of Canada's manufacturing sector.

The stage is set for a bright future. Leveraging productivity growth by investing in innovation will help the forest products industry continue to play an important role in Canada's economic growth and international competitiveness.

The people who work in the industry are preparing for this bright future. **It is a future defined by new prospects for growth as the Canadian forest products industry moves from an established, process-driven commodity industry to a nimble and green industry serving wider markets.** Indeed, the 21st century forest products industry is developing new value-added products and pursuing new markets like never before. From cross-laminated timber, suitable for high-rise buildings, to bio-products that can be used in auto manufacturing, the face of Canada's forest products industry is changing dramatically.

are being developed as part of a plan to generate \$20 billion in economic activity from new innovations and growing markets.

The exceptional productivity gains seen in Canada's forest products industry are key markers to realizing the promise of Vision2020. Improved productivity also shows that the forest products industry is competitive on the world stage. This productivity performance also means the forest products industry is walking the talk when it comes to helping Canadians compete globally. Together, we can work to leverage these productivity gains and ensure a better quality of life for Canadians now and in the future.

The recommendations outlined in this report will help ensure that our forest products industry continues to deliver on Canada's natural

It is a future defined by new prospects for growth as the Canadian forest products industry moves from an established, process-driven commodity industry to a nimble and green industry serving wider markets.

Vision2020 is the industry's strategy to harness these changes and help maximize opportunities. Workforce renewal and recruiting at least 60,000 people are part of the strategy. As an environmental leader, the forest products industry is working to deliver a further 35% improvement in its environmental footprint under Vision2020. New products

advantage when it comes to people, environmental performance and products. By the end of the decade, Canada's lean, green and productive forest products industry should be celebrating its accomplishments, its bright future and its growing role in Canada's economy.

A productivity primer

This report refers to three sources of labour productivity growth: one from physical capital, one from human capital and one from multi-factor productivity.

Physical capital is the investment in capital goods that determines the size of the capital stock and, hence, the amount of machinery, equipment and structures available to workers.

Human capital is the investment that determines the overall quality of the workforce, with better trained and better educated workers being, in general, more productive than the average worker.

Multi-factor productivity reflects the investment in technological progress and innovation, whether it comes through research and development (R&D), better ways of organizing production, creative business decisions or other means. It helps firms produce goods and services in more efficient ways. It can be thought of as a way of explaining how the whole is greater than the sum of its parts when it comes to explaining productivity growth.

Lean, green and productive

The case for investing in Canada's forest products industry

As industries around the world grappled with the grim realities of the 2008-09 recession, Canada's forest products industry responded by continuing to improve its productivity growth.

This is significant news for the broader Canadian economy. The forest sector accounts for \$19.2 billion of Canada's GDP and 9.2% of overall manufacturing GDP.

These productivity findings come from *A Detailed Analysis of Productivity Trends in the Canadian Forest Products Sector*. This analysis was prepared for the Forest Products Association of Canada (FPAC) by the Centre for the Study of Living Standards (CSLS) and released in May 2014. **To download the full report, visit www.csls.ca/reports/csls2014-01.pdf.**

The forest products industry has emerged from the recession leaner, greener and committed to ongoing innovation. The stage is set for a bright future.

At FPAC, we are helping industry embrace this future. Our strategy to get there has four pillars:

1. *Enhancing competitiveness*
2. *Diversifying markets*
3. *Capitalizing on green credentials; and*
4. *Maximizing value extraction.*



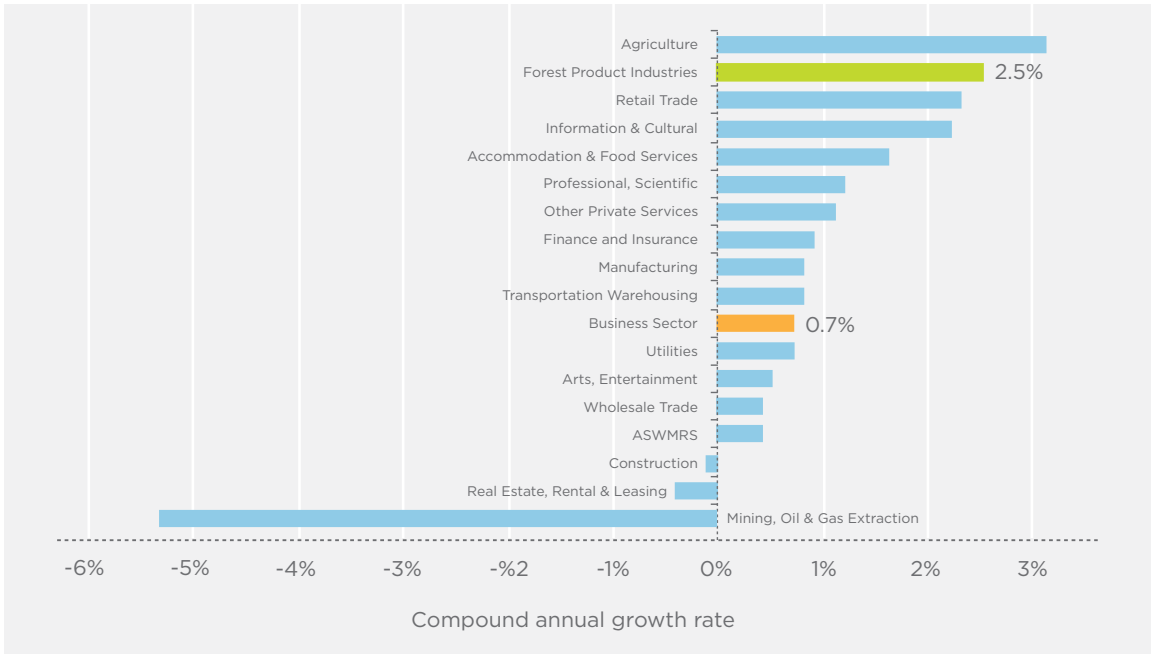
Corporate leadership on productivity

"Tembec is making major investments in productivity improvement projects in our manufacturing operations. We are also pursuing a blue sky R&D project with potential in new markets. Approximately two-thirds of our planned capital investments are earmarked for our specialty cellulose operations, Temiscaming in Canada and Tartas in France, with the goal of making them among the most modern of their type."

- James Lopez, President & CEO, Tembec

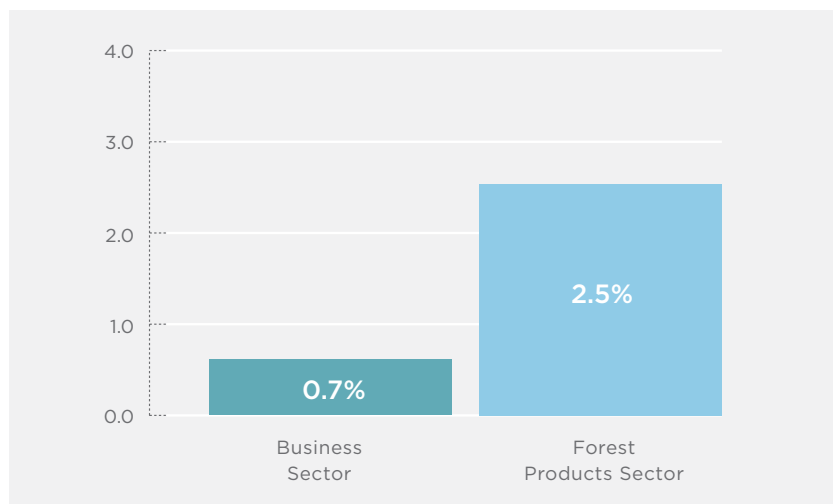
Industry building on its strong productivity record

Labour Productivity Growth in the Forest Products Sector, 2000-2012



Labour productivity growth in the forest products industry, 2000-2012

(compound annual growth rates)



Why the forest products industry matters

Almost 200 communities in Canada rely on the forest products industry. Most of these are far from urban centres. In 2012, average wages per employee were \$68,575 — 26% above the national average. **In 2012, close to 600,000 Canadians relied on the forest products industry for direct and indirect employment.**

Why productivity matters

Countries with higher productivity generally have higher standards of living. Falling productivity means that a country will experience lower standards of living in the future.

Leveraging productivity growth by investing in innovation will help the forest products industry enhance its competitiveness so it can continue to play an important role in Canada's economic growth and international competitiveness.

FPAC and its member companies are also actively working to define what the future will look like. Vision2020 includes some important metrics that industry will measure itself against.

- **Performance** — deliver a further 35% improvement in the sector's environmental footprint.
- **Products** — generate an additional \$20 billion in economic activity from new innovations and new markets.
- **People** — renew the workforce with at least 60,000 new recruits including women, Aboriginals and new Canadians.

The CSLS productivity trends report is an important example of how FPAC is using hard data to shape its decisions as we work towards achieving

Vision2020's ambitious goals. Our commitment is to report every two years on our progress towards meeting this Vision challenge.

A proud history of productivity growth

The Canadian forest products industry has generated excellent productivity performance in the last 50 years, outperforming Canada's overall business sector by far. The forest products industry's labour productivity quadrupled between 1961 and 2012, while overall business sector productivity registered a 2.5-fold increase.

The forest products industry takes a silver in productivity improvement

Canada's forest products sector had the second-highest labour productivity growth rate from 2000–2012 of 18 Canadian industry sectors.

From 2000 to 2012, the forest products industry saw labour productivity grow at a compound annual rate of 2.5%. Over the same period, Canada's business sector posted a 0.7% compound annual growth rate. The Canadian forest products industry's major labour productivity gains are even more impressive when one considers the poor productivity performance of the paper manufacturing sector. The proliferation of electronic media has put downward pressure on prices in the paper manufacturing sector. This in turn has made it difficult for the sector to enhance labour productivity.

Wood product manufacturing saw average annual labour productivity growth of 3.7% between 1961 and 2012. In the same period, forestry and logging posted annual labour productivity gains of 3.1% and labour productivity in paper manu-

facturing grew by 2% per year. In comparison, overall labour productivity in Canada's business sector grew by 1.9% per year.

Labour productivity growth in the forest products industry between 2000 and 2008 was largely driven by wood product manufacturing, which saw posted average annual gains of 5.9%. Forestry and logging also benefited from strong annual labour productivity gains of 3.6%. We also saw very strong lumber pricing during this period up to 2006. Then prices collapsed and mills closed, a trend that continued into 2009. The labour productivity performance of paper manufacturing lagged but was still in line with overall labour productivity gains in Canada's business sector growth of about 0.8% per year.

Forest products industry productivity increased despite serious headwinds

The 2009 recession had a major impact on the Canadian forest products industry. GDP, employment and capital investment all recorded double-digit declines. Direct employment in the Canadian forest products industry peaked at 370,000 in 2000. Since then there has been a gradual decline in the number of workers. During the recession, the numbers took a dramatic drop of more than 10%. The workforce has now stabilized around the 235,000 mark and is expected to grow again.

**Pre and post-recession
Compound annual growth rates**
Canadian Forest Products Industry

	2000 to 2008	2009	2009 to 2012
GDP	-1.2%	-18.8%	2.8%
Employment	-4.5%	-10.4%	-0.3%
Capital investment	-7.2%	-40.3%	18.7%

Sources: Statistics Canada and CSLS calculations based on Statistics Canada data

The recession slowed labour productivity gains in the Canadian forest products industry. From 2008 to 2012, the industry recorded annual average productivity gains of just 0.3% versus 0.7% in the overall business sector. However, a closer look at the data shows how parts of the forest products industry continued to outperform on labour productivity measures even in the wake of the recession.

From 2008 to 2012, forestry and logging outstripped labour productivity gains in the broader economy by a wide margin, with annual average gains of 2.6%. Meanwhile, labour productivity in wood product manufacturing grew at an annual average rate of 1.7%. But labour productivity losses in paper manufacturing, at -2.3% per year, held the overall sector back.



Overall, improvements in technology seem to have played a major role in driving the industry's labour productivity gains. In order to regain ground and remain competitive, however, Canada's forest products industry must continue to improve on its labour productivity growth. This is especially true for the paper manufacturing sector.

Recession generates a perfect storm for the forest products industry

The problems faced by the Canadian forest products industry also went beyond dealing with the fallout from the 2009 recession. A strong Canadian dollar and increased international competition have affected not only the forest products industry, but the entire manufacturing sector in Canada. In fact, the past decade has not been kind to Canadian manufacturing. With few exceptions, manufacturing subsectors in Canada saw real GDP decline over 2000–2012. In addition to falling GDP, most manufacturing subsectors suffered weak, and in some cases, negative productivity growth, further complicating the situation.

Despite experiencing a recovery after the recession, the forest products industry's real GDP, employment and capital stock are still significantly below their pre-recession levels. This is a reflection not only of transitory factors such as the strong Canadian dollar and the weak post-2009 economic recovery in the United States, but also of deep structural changes in the demand for newsprint and other paper products as the world shifts towards electronic media.

To increase global competitiveness, deal with a stronger dollar, sluggish U.S. growth and structural changes unleashed by electronic media, the Canadian forest products industry must maintain high rates of labour productivity growth. **A renewed focus on leveraging productivity gains through investment and innovation is the key to ensuring the forest products industry remains a vibrant part of Canada's economy.**

The innovation story behind the productivity numbers

Most interestingly, the CSLS productivity study demonstrates that the driving force behind rapid labour productivity growth in the forest products industry is multifactor productivity growth. This means increases in output that are not directly tied to increases in inputs. Multifactor productivity growth reflects a wide range of things such as improvements in technology, the decisions that drive how a business is run and how close a business is to running at full capacity.

Multifactor productivity has played a big role in the success of forestry and logging and wood product manufacturing. From 1961 to 2012, multifactor productivity doubled in the forest products industry. This underlines the industry's ability to foster innovation and channel it into new products. It also suggests that the forest products industry can continue to build on this strong tradition and make it the foundation of its future prosperity.

Significantly, the forest products industry managed to post this performance in a period of stagnant multifactor productivity growth in the overall business sector. Indeed, Statistics Canada figures show that from 1980 to 2011, Canada registered a 0% increase in multifactor productivity.

Embracing change and fostering innovation

The role of multifactor productivity in the labour productivity performance of the forest products industry speaks directly to the industry's willingness to embrace change and foster innovation. It also shows that tough and creative decisions business leaders made during the last few years are paying off.

To help leverage these tough and creative decisions FPAC — with support from FPIInnovations, the Canadian Forest Service and scores of economic and scientific experts — is driving transformation with the Pathways Program.

The first initiative, the Future Bio-pathways Project, was undertaken in two phases from 2010 to 2011

Construction Value Pathways

This initiative identifies the key growth opportunities for the forest products industry in the construction industry now and over the next 10 years. It also provides a lens into what the future may look like for the construction industry in 20, 30 and 40 years. The future of Canada's forest products industry will be bright if it embraces the idea of diversifying and transforming its products — for example producing more cross-laminated timber and engineered wood products.

fpac.ca/valuepathways

It is a future defined by new prospects for growth as the Canadian forest products industry moves from an established, process-driven commodity industry to a nimble and green industry serving wider markets and driven by opportunities emerging in the 21st century bio-age.

“ Selling renewable power

“We have a growing green energy profile with eight biomass energy facilities that contribute to the onsite production of wood products. Two are cogeneration assets that also sell power. Together the facilities can produce 28 megawatts of green power — that's enough electricity to power over 18,000 homes for a year. All the power sold is generated from renewable wood biomass, primarily bark from sawmill operations.”

- Brad Thorlakson,
President & CEO, Tolko Industries

and is a comprehensive investigation of the opportunities to produce a wide range of bio-products from wood fibre. The second initiative, Construction Value Pathways, was launched in 2013. It identifies the key growth opportunities for the forest products industry in the construction industry now and over the next 10 years.

The pathway to industry transformation is becoming clearer all the time. Consider how Canada's forest products industry is already starting to extract more value from wood fibre. Yesterday's waste stream is fast becoming tomorrow's revenue stream — with a potential global market opportunity of around \$200 billion, according to the Future Bio-pathways Project.



The Bio-pathways Project is a blueprint towards an exciting future for Canada and the forest products industry. **It is a future defined by new prospects for growth as the Canadian forest products industry moves from an established, process-driven commodity industry to a nimble and green industry serving wider markets and driven by opportunities emerging in the 21st century bio-age.**

Canada's forest products industry has overcome enormous challenges over the last decade. To move from surviving to thriving, the industry is internalizing the message that innovation

and competition define it from now on. For instance, the construction industry represents a tremendous opportunity for the forest products industry to transform itself into a truly value-added industry and to continue to serve as a primary driver of Canada's economy.

Forest products companies are also considering how they can work with trends, such as the growth of multifamily residential units in urban areas. Companies are engaging governments to revise building codes to allow higher wood-frame buildings.

Bio-Pathways lead to innovation

The Forest Products Association of Canada's Bio-pathways Project encourages integrating current operations with new add-on processes to create bio-energy, bio-chemicals and bio-materials that add value and jobs.

Imagine a conventional forest industry operation. You would see piles of timber or wood chips waiting to be processed, a building housing a sawmill or pulpmill and stacks of processed wood or pulp waiting to be shipped.

In the near future, some of these traditional operations might be bio-refineries that produce renewable fuels, plastics and chemicals for the pharmaceutical and food industries while also generating electricity that can be added to the wider grid and used in people's homes. The site would produce little, if any, waste while generating higher income.

This vision is becoming reality faster than most Canadians realize. For example, FPInnovations, Canada's leading forest sector innovation centre and research and development institute, is working with industry partners to produce more energy from biomass at mills.

fpac.ca/valuepathways

R&D helps to drive productivity gains

A commitment to research and development and adopting technology continue to help drive labour productivity growth in the Canadian forest products industry. Canada conducts state-of-the-art research in several areas related to forest products.

In 2012, according to the Council of Canadian Academies, Canada's forest research was ranked second in the world by top-cited researchers, and Canada accounted for more than 10% of the world's research papers in this subfield. Canada also had high R&D intensity — the measure of a company's R&D spending to increase productivity and output — in wood product and paper manufacturing. Canada placed well above the international average and in-line with the R&D intensity of countries such as Norway, Sweden and Finland, all of which have major forest product industries.

Nine storeys of innovation

The Stadthaus apartment building in Murray Grove London is made of solid timber walls and floors using a proprietary system from KLH UK. It features panels of solid spruce strips glued under high pressure. Cross-laminated timber provides much of the structural support. Using prefabricated wood products meant that no cranes were needed during construction.

Cogeneration comes on-line

Fortress Paper specialty cellulose mill in Thurso Quebec is partnering with Hydro Quebec to produce power. The cogeneration plant passed its 100-hour electricity grid test and comes online in September 2013. Fortress Paper has a 15-year contract with Hydro Quebec for about 18.8 MW in sales.

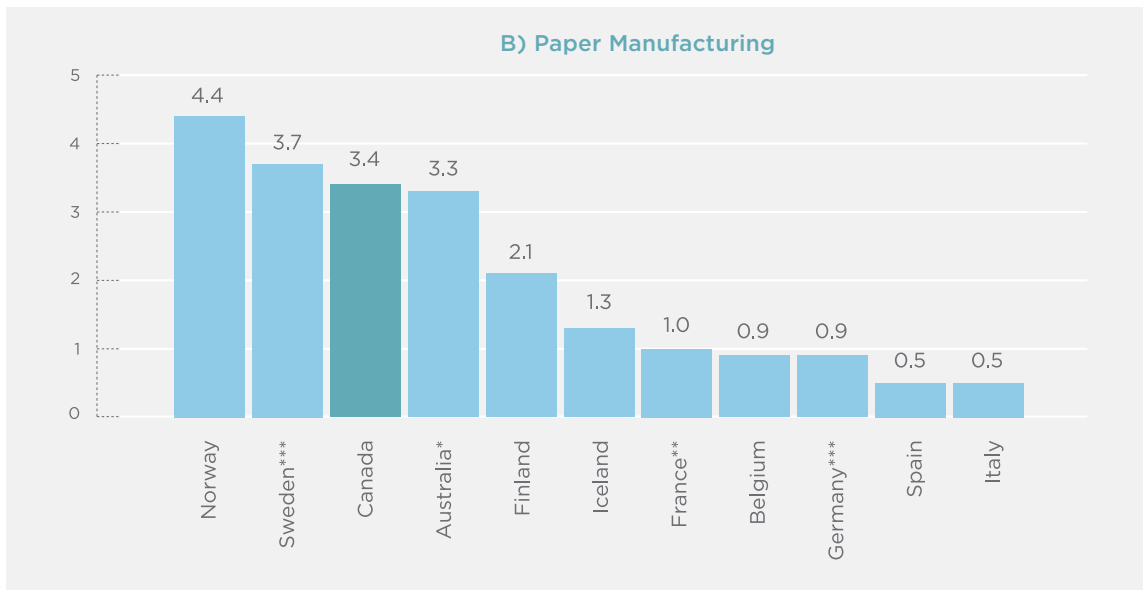
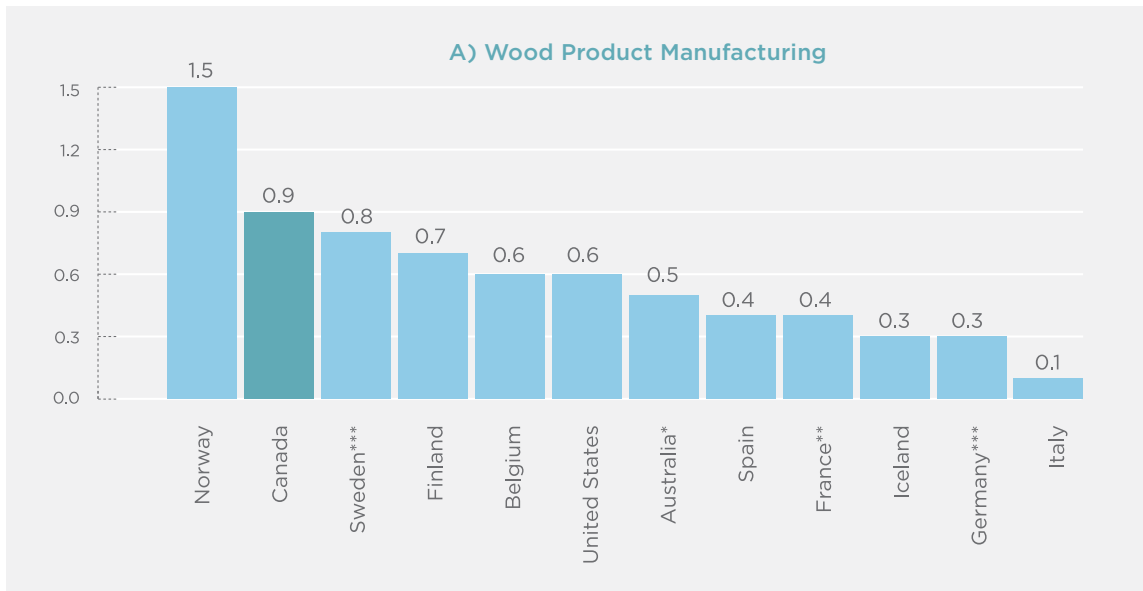
It is important to keep in mind that significant improvements can still be made. As an example, falling levels of investment in physical capital within the paper manufacturing sector suggest that a number of firms in the Canadian forest products industry are using outdated capital assets that do not embody the latest technological innovations.

However, as the forest products industry shifts to more value-added products, paper production will represent a smaller percentage of the industry's overall product mix leaving the industry less vulnerable to this problem.

Nevertheless, the industry as a whole must still work to address falling levels of physical capital. This point becomes all the more relevant given the looming possibility of a lumber super-cycle. With the U.S. housing market heating up again and the strong demand for wood from Asia, Canadian forest products firms will have to redouble their efforts in investing in state-of-the-art capital assets, particularly machinery and equipment, in order to reap the benefits from this growing global demand.

R&D Intensity in the Forest Products Sector, International Comparison, 2000–2008 Average

(Business enterprise R&D expenditures as a % of nominal value added)



* Last data point in 2005, ** Last data point in 2006, *** Last data point in 2007

Source: For Canada, estimates were constructed by the CSLS using Statistics Canada data; for all other countries, data from the OECD STAN Database

The skilled workforce behind the productivity numbers

The 21st century forest products industry is full of sharp minds who care about their future, the environment and quality of life. The industry that helped to shape Canada's history has an important role to play in this country's future. For much of the past century, the forest products industry was Canada's largest exporter, employer and contributor to GDP. Ian Keay, a Queen's University economist, values the contribution of the forest products industry to the Canadian economy between 1900 and 2000 at almost \$2 trillion. Today, the industry is proud to be forging an innovative path to a green and growing future. Business decisions to shift to new products and new markets are spurring labour productivity growth and also changing the composition of the forest products industry's labour force.

By 2020, 60,000 new workers will be needed to help fill a long list of jobs, such as millwrights, electricians, engineers, sales staff, truck drivers, foresters, chemists, biologists and many more. To encourage people to consider a career in the forest products industry, FPAC developed thegreenest-workforce.ca. It is a resource tool that provides

information on the dynamic direction of the forest products industry and career opportunities on offer right across the country.

Canada's forest products industry is committed to innovation. New products such as renewable bio-fuels, green bio-plastics, bio-pharmaceuticals, bulletproof vests, car parts and airplane wings are part of the dynamic new face of the Canadian forest products industry. Producing many of these products will require using workers with advanced degrees.

Productivity and the future of Canada's forest products industry

FPAC's Vision2020 Challenge highlights three main goals for the Canadian forest products industry to reach by the end of the decade. Productivity gains can help the Canadian forest products industry achieve these three objectives:

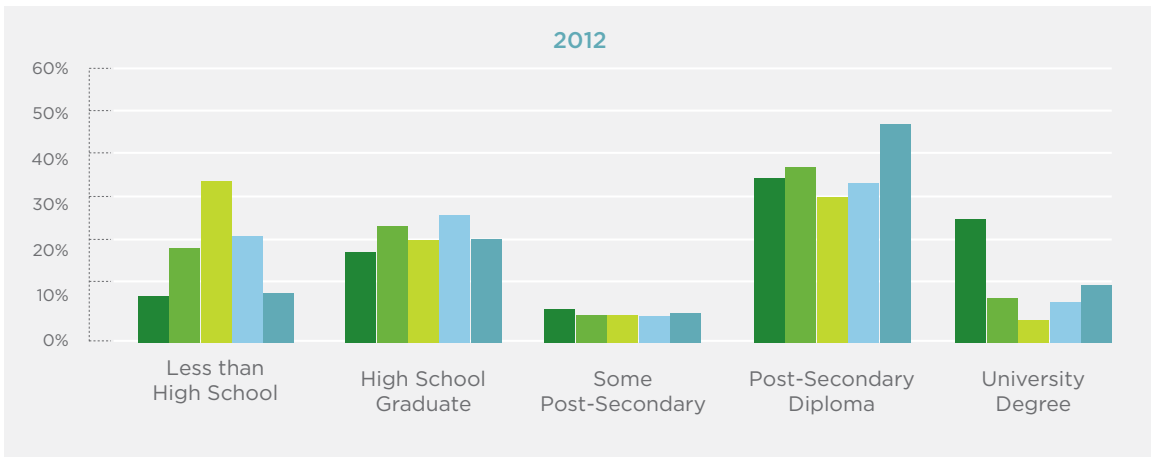
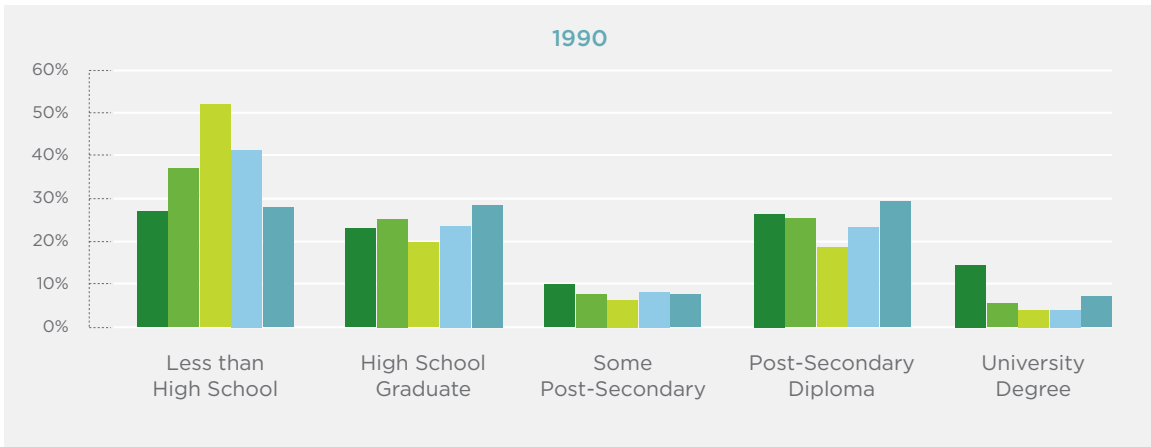
- 1. Reduce** the industry's environmental footprint by 35%.
- 2. Generate** an additional \$20 billion in economic activity with new innovations and new markets.
- 3. Renew** the workforce, hiring 60,000 recruits, including women, Aboriginal people and new Canadians.



"The growth and expansion in Canada's wood products sector means that the industry is now focused on finding enough skilled millwrights, engineers, pipe fitters, truck drivers, heavy equipment operators, technologists and more. This represents a tremendous opportunity for young Canadians — particularly for Aboriginal and non-Aboriginal youth in rural communities — to obtain work in high-paying jobs in an industry globally recognized as innovative and responsible."

- **The Honourable Greg Rickford**, Minister of Natural Resources

Increasing levels of education for forest products industry workers (1990, 2012 – percent of workforce)



All industries
 Forest Products Sector
 Forestry and Logging
 Wood Products Manufacturing
 Paper Manufacturing

Source: Statistics Canada Labour Force Survey, special data order



Reducing the environmental footprint of the forest products industry

More efficient use of energy can reduce the forest products industry's dependency on energy input, thereby reducing its environmental footprint. This is already happening. Energy productivity, defined as the ratio between real gross output and an index of energy input use, has improved substantially in all three forest products subsectors — forestry and logging, wood product manufacturing, and paper manufacturing — over the last 50 years.

Between 1961 and 2000, energy productivity growth was particularly impressive in forestry and logging, where it averaged 2.9% per year. In the other two forest products subsectors, energy productivity growth averaged 1.1% and 1.2% per year, respectively. This was only slightly less than the energy productivity gains in the manufacturing sector as a whole, which were 1.6% per year.

More recently, wood product manufacturing saw marked improvements in its energy productivity, which grew at an average annual rate of 2.5% per year between 2000 and 2008 (the last years for which data were available). In paper manufacturing, energy productivity growth was less impressive at

0.9% per year. But this was still significantly above the energy productivity performance of the manufacturing sector as a whole, which was -0.1% per year.

At the same time, across all segments of the industry, from forestry to pulp and paper and manufacturing, the industry has embraced the importance of harvesting legally; regenerating promptly; reducing waste and recycling; reducing greenhouse gases and welcoming independent scrutiny. The industry has invested more than \$9 billion since 1990 in becoming greener, and it is also working toward being carbon neutral across the value chain without the purchase of carbon offset credits by 2015.

Generating more economic activity

Productivity improvements are allowing firms to produce the same quantity of output by using fewer inputs, something that reduces costs and increases profits. This, in turn, can create opportunities for investments in new technology and process improvements.

Research as part of the Bio-Pathways project concluded that traditional lumber mills and pulp and paper mills could indeed add on the production of high-value bio-energy, bio-chemicals and bio-

materials, and it identified a potential global market of \$200 billion for these products by 2015. FPInnovations has been in the lead in researching groundbreaking innovations, resulting for example in the world's first demonstration plant for nanocrystalline cellulose, which can be used in such varied applications as bone replacements, auto parts and cosmetics. Canadian forest products companies are also in the process of producing innovative products such as rayon, methanol and thermal energy.

Productivity can reduce barriers to competitiveness

The Canadian forest products industry offers decent wages and a healthy lifestyle. But this, along with a strong Canadian dollar, makes it harder for the industry to compete internationally with low-wage countries such as Russia, China, and Brazil.

Part of the solution is to use innovation to lower production costs. The resulting productivity gains can help Canadian firms to better compete with international firms, and thus regain some of the lost market share. Increased productivity is already allowing the forest products industry to become more competitive and expand its market share. The forest products industry has also been aggressively tackling new markets and is now Canada's number one exporter to Asia, including China.

Renewing the workforce

Almost 200 communities in Canada rely on the forest products industry and most of them are in rural settings. Nearly 100 of these communities are single-industry towns. These communities play a key role in promoting the economic health of Canada's rural areas. The average wage per employee was \$68,575 in 2012 — 26% above the

national average, enhancing the economic viability of communities across Canada. Almost 600,000 Canadians relied on the forest products industry for direct and indirect employment in 2012.

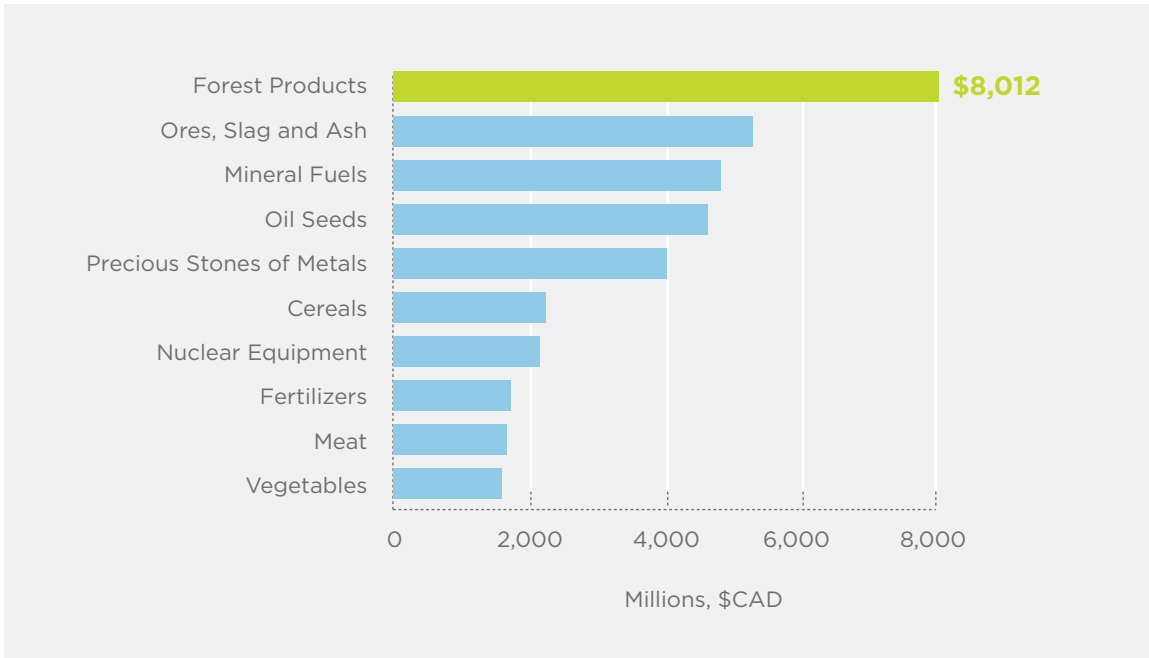
The forest products industry is now hiring and facing a skills shortage. About 60,000 recruits, including women, Aboriginal people and new Canadians, will be needed before the end of the decade. Following a difficult decade in which mills were closed and jobs were shed, the industry has turned the corner. There are now huge career opportunities for those with the skills, knowledge and desire to work in the industry. And as companies continue to find new ways to use wood fibre, they will also need more innovators, bio-chemists and high-tech specialists.

Leveraging productivity to build a bright future for Canada and its forest products industry

The Canadian forest products industry is moving from the production of traditional goods such as newsprint to the development and commercialization of new technologies such as bio-energy and bio-chemicals. To capitalize on productivity gains and stay competitive, Canada's forest products industry must maintain or even improve high rates of productivity growth. For this to happen, two key issues must be addressed.

First, falling levels of investment in physical capital suggest that a number of firms in the industry are stuck using outdated capital assets that do not embody the latest technological innovations. Second, skill shortages are a key concern of forest product firms, and have the potential to

Canada's Forest Industry Number One Exporter to Asia: 2013



significantly hinder productivity growth if not dealt with properly. A renewed focus on both human and physical capital investment, as well as on R&D spending, is essential to leveraging the important productivity gains the industry has made despite the enormous economic challenges it has faced since the 2009 recession.

Industry and government have important roles to play in the transformation of the forest products sector. Industry must accept that transformation requires a rejection of the status quo and instead a redoubled effort to capitalize on the productivity gains made to date.

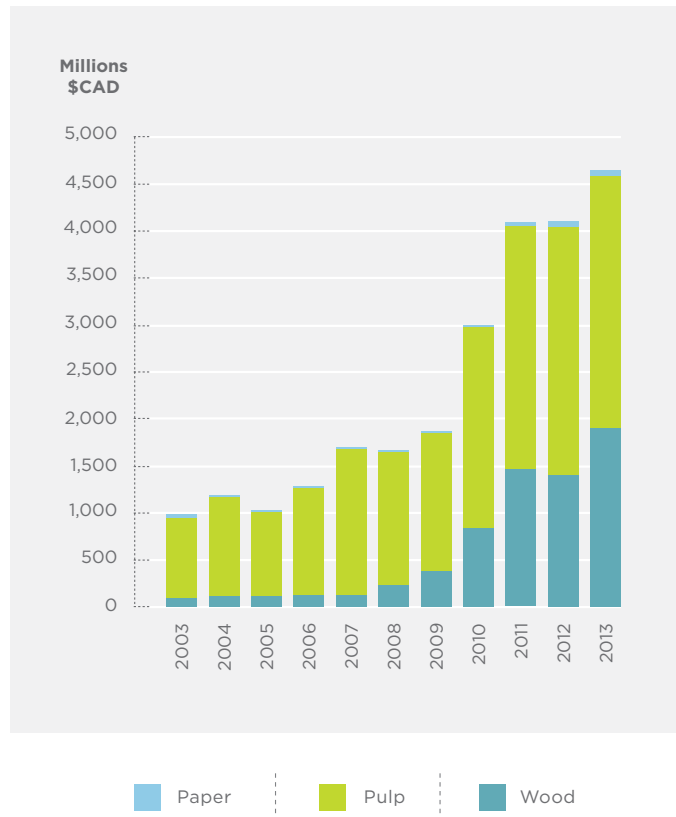
Governments can act as a catalyst for change by using infrastructure development, encouraging facilitation and collaboration between public and private partners, standardizing regulation and offering incentives to target specific areas and policies focused on innovation.



“China must seize pre-emptive opportunities in the new round of the global energy revolution.”

- Former Chinese President Hu Jintao,
describing the role of new energy technology in China's 863 research program, October, 2009

Exports to China: Leading the Pack



“The choice we face is not between saving our environment and saving our economy – it’s a choice between prosperity and decline. The nation that leads the world in creating new energy sources will be the nation that leads the 21st century global economy.”

- U.S. President Barack Obama,
*unveiling his vision for a clean energy economy
 April, 2009*

Consider the government’s positive role in bio-product innovation for things such as green energy and bio-materials. Government policies could create even stronger domestic demand for bio-products. Different levels of government could work to coordinate institutional financing vehicles to facilitate and incent investment from venture capitalists. Fostering domestic talent and expertise is another natural role for government. Building on networks between current institutions focused on innovation and establishing hubs of innovation would be important ways for governments to foster domestic expertise.

Key Recommendations

Support innovation

FPAC applauds the Government of Canada's decision to provide \$90 million over four years to continue to support the Investments in Forest Industry Transformation program (IFIT). The IFIT program has been a remarkable success to date. IFIT has funded 107 project applications worth \$2 billion. Every IFIT dollar invested leveraged \$1.89 of funds from companies, generated about \$0.40 in tax revenues and had an average return on investment of 27%.

FPAC also urges the federal and provincial governments to continue to support FPInnovations. It is among the world's largest private, non-profit forest research centres. FPInnovations continues to keep Canada at the forefront of global forestry R&D.

The Scientific Research and Experimental Development (SR&ED) Tax Credit

Ongoing changes to SR&ED processes and requirements combined with the withdrawal of familiar guidance material, are imposing a steep learning curve, and increasing compliance cost and effort. Claimants wish to avoid noncompliance, but can do so only if the requirements are made clear, and do not change while the work is in progress.

FPAC welcomes the ongoing efforts of the Canada Revenue Agency (CRA) to provide better guidance to applicants but would nonetheless urge CRA to return to its previous policy of working closely with industries to develop SR&ED industrial guides in consultation with industry. This low cost measure will enable SR&ED program users to improve program compliance rates, lessening the administrative burden on all concerned.



"The green energy transition is a big task to which we are committed together."

— German Chancellor Angela Merkel,
in a meeting with German state prime ministers.
May 2012

Support a sustainable energy mix

We believe that by working together industry and government can develop a common vision of the Canadian bio-economy's potential to complement existing industries. We can also foster an inclusive innovation system that promotes a set of common goals and identifies regulatory barriers that can limit investment.

Bio-energy is emerging as a big part of the 21st century bio-economy. While renewables are still a small part of the overall energy picture, the





“We’ve got a real opportunity to drive the green economy to have green jobs, and make sure we have our share of the industries of the future.”

— U.K. Prime Minister David Cameron,
*announcing his government’s commitment
 to cut carbon emissions by 10%.*
May 2010

associated technologies are maturing. Other jurisdictions with more aggressive approaches are making significant headway. It is imperative that Canada continue to foster growth and innovation in bio-energy to remain competitive with the rest of the world. Fostering growth in bio-energy will also help Canada diversify its energy supply in the future.

Enhance workforce skills

FPAC supports the Government of Canada’s decision to introduce the Canada Job Grant and the Canada Apprentice Loan. It also hopes that the Budget 2014 proposal to introduce the Flexibility and Innovation in Apprenticeship Technical Training (FIATT) pilot will lead to a permanent program. Work experience for youth and training programs for Aboriginals are also positive developments for the industry.

FPAC urges industry members to work with these and other government programs to help attract, train and retain workers to reinforce a well-functioning national labour market.

The three-year freeze on employment insurance rates will also help create a positive business climate for the forest products industry. FPAC encourages industry members to redirect some of these savings to enhancing training programs.

Renew capital investment

In the forest products industry, to a great degree, innovation tends to be embodied in physical capital. However, the low levels of investment in physical capital, especially in the paper manufacturing subsector, suggest that a number of firms in the Canadian forest products industry are using outdated capital assets that do not embody the latest technological innovations.

FPAC urges the government to consider extending the temporary Accelerated Capital Cost Allowance (ACCA) beyond its scheduled retirement in 2015. This excellent tax measure enables manufacturing and processing companies to plan, invest, and help create jobs. The ACCA advances the timing of capital cost deductions for tax purposes, defers taxation and improves the financial return from investment in particular assets.

Lean, green and productive — building a bright future for the forest products industry and Canadians

The recommendations outlined here are directly tied to making the forest products industry more productive. They are only a first subset of the larger bi-annual Vision2020 report of 2014.

Vision2020 will help ensure that our forest products industry continues to deliver on Canada's natural advantage when it comes to people, environmental performance and products by the end of the decade. The forest products industry is renewing its workforce and aiming to recruit at least 60,000 people. As an environmental leader, the industry is working to deliver a further 35% improvement in its environmental foot print. New products are being developed as part of a plan to generate \$20 billion in economic activity from new innovations and growing markets.

The outstanding productivity gains seen in Canada's forest products industry shows that it can compete with the best in the world. The industry's globally competitive productivity performance also means it is an example for Canadian industry and government. Together, we can work to leverage these productivity gains and ensure a better quality of life for Canadians today and tomorrow.

MAY 2014

PRODUCTIVITY REPORT CARD

A summary of *A Detailed Analysis of Productivity Trends in the Canadian Forest Products Sector*, prepared for the Forest Products Association of Canada (FPAC) by the Centre for the Study of Living Standards (CSLS)



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