

REMARKS BY JOHN ALLAN

PRESIDENT AND CEO

COUNCIL OF FOREST INDUSTRIES

COFI COMMUNITY DINNER

KELOWNA

MAY 26, 2004

ON BEHALF OF THE COUNCIL OF
FOREST INDUSTRIES, I WOULD LIKE TO
THANK YOU FOR ATTENDING
TONIGHT'S COMMUNITY DINNER.

FIRST, A WORD OR TWO ABOUT COFI –
NEWLY RESTRUCTURED IN 2003, COFI IS
THE VOICE OF THE INTERIOR FOREST
INDUSTRY.

COFI REPRESENTS:

- 60 MEMBER COMPANIES
- OPERATING 120 PRODUCTION FACILITIES
- IN OVER 60 FOREST DEPENDENT COMMUNITIES
- 80% OF BC SOFTWOOD LUMBER SHIPMENTS
- 35% OF CANADA'S EXPORTS OF SOFTWOOD

- \$10 BILLION IN ANNUAL SALES
- 50,000 EMPLOYEES
- 150,000 DIRECT AND INDIRECT
EMPLOYEES
- AND, OF COURSE WE HAVE AN
OFFICE HERE IN THE BEAUTIFUL
CITY OF KELOWNA

SECOND, A FEW FACTS ABOUT THE
CONTEXT IN WHICH COFI MEMBERS
OPERATE.

LAST YEAR ON MARCH 26TH, THE
PROVINCIAL GOVERNMENT AND THE
FOREST INDUSTRY (BROADLY
DEFINED) EMBARKED ON AN
UNPRECEDENTED AGENDA OF
MASSIVE CHANGE TO THE WAY WE DO
BUSINESS IN THE FOREST SECTOR
(NOW 20 NEW BILLS AND 29 NEW OR

REVISED REGULATIONS THAT CREATE
OR REVISE LEGISLATION) - FROM
TENURE TAKEBACK AND
REALLOCATION TO AUCTION BASED
TIMBER PRICING TO NAME TWO HIGH
PROFILE ISSUES, ALL OF WHICH FALL
UNDER THE UMBRELLA OF MARKET
BASED POLICY REFORM.

THE GOVERNMENT'S THINKING WAS
THAT IN A WORLD WHERE THE
FOREST INDUSTRY COMPETES ON A

GLOBAL SCALE, WHERE MARKET FORCES DOMINATE AND WHERE LUMBER TRADE LITIGATION OR MANAGED TRADE IS A WAY OF LIFE, WHERE ACCESS TO TIMBER IS DIFFICULT FOR MANY AND WHERE EFFICIENCY GAINS ARE MANDATORY, PARTICULARLY ON THE COAST, THEN A RADICAL OVERHAUL OF OUR FOREST POLICY FRAMEWORK WAS REQUIRED.

SPEAKING OF MARKET FORCES - AND
THEY ARE BEYOND OUR CONTROL –
ON MARCH 26TH, 2003 THE CANADIAN
DOLLAR STOOD AT \$1.48 IMPROVING
TO \$1.27 BY JANUARY BUT TODAY IT IS
BACK DOWN AT \$1.37.

THIS RUN UP IN EXCHANGE COST THE
INDUSTRY ABOUT C \$650 MILLION IN
2003.

AND OF COURSE OUR SO-CALLED
FRIENDS SOUTH OF THE BORDER
HAVE ALSO NEGATIVELY IMPACTED
OUR INDUSTRY GREATLY.

WITH THE IMPOSITION OF
COUNTERVAILING AND ANTI-
DUMPING DUTIES OF 27% ON OUR
SOFTWOOD LUMBER EXPORTS TO THE
US, THE CANADIAN LUMBER
INDUSTRY HAS PAID U.S. \$1.0 BILLION
IN CASH DEPOSITS SINCE MARCH 26,

2003 AND U.S. \$2.2 BILLION SINCE MAY
2002. ABOUT \$1.2 BILLION HAS COME
FROM THE BC FOREST INDUSTRY.

HOWEVER, LARGELY DUE TO LOW
INTEREST RATES, RECORD HIGH
DEMAND AND TRANSPORTATION
BOTTLENECKS, LUMBER PRICES AS
MEASURED BY RANDOM LENGTHS
FLCI HAVE SURGED FROM U.S. \$285 IN
MARCH 2003 TO \$457 AS OF LAST
FRIDAY, FOR A HUGE 60% INCREASE.

AND THE STRUCTURAL PANEL
COMPOSITE INDEX WAS AT \$510 LAST
WEEK, UP FROM \$252 A LITTLE OVER A
YEAR AGO AND DOWN FROM A PEAK
OF \$610 ON APRIL 23.

NEEDLESS TO SAY THESE INDUSTRY
PRICES HAVE GREATLY ASSISTED OUR
ABILITY TO WEATHER TRADE AND
CURRENCY ISSUES.

YOU CAN SEE THIS EFFECT IN PUBLIC
COMPANY QUARTERLY AND ANNUAL
STATEMENTS AND SHARE PRICES.

FOR EXAMPLE FROM A 52 WEEK LOW,
CANFOR SHARES ARE UP 95%, WF UP
42%, TEMBEC UP 63% AND RIVERSIDE
UP 121%.

WHAT A DIFFERENCE A YEAR MAKES
IN THE MARKET!

ON THE OTHER HAND,
INTERNATIONALLY, LITTLE PROGRESS
HAS BEEN MADE TO LIBERALIZE
TRADE PROTECTION AND EUROPEAN
LUMBER PRODUCERS AND RUSSIAN
LOG SUPPLIERS ARE POISED TO
CAPTURE AN EVER INCREASING
GLOBAL MARKET SHARE, ALTHOUGH
CURRENCY ALSO PLAYS A ROLE.

NOW I AM NOT UP HERE TO SAY
HAPPY DAYS ARE HERE AGAIN. AT

THE COMMUNITY LEVEL THERE ARE CONCERNS OVER MILL CLOSURES, MODIFICATIONS TO CUT CONTROL, MERGERS AND CONSOLIDATIONS AND POTENTIAL IMPACTS FROM CHANGES TO TIMBER PRICING.

ON THE US TRADE LITIGATION FRONT, THESE CANADIAN COMPANIES THAT I JUST REFERRED TO, AND ALL OF US, ARE IN THE FIGHT OF OUR LIVES.

THE IMPACTS OF PROVINCIAL FOREST
POLICY CHANGES PALE IN
COMPARISON TO THE IMPACTS OF
UNFAIR IMPORT DUTIES LEVIED ON
OUR SOFTWOOD LUMBER EXPORTS
FROM THE U.S.

NOW WHERE DO WE STAND ON THE
SOFTWOOD LUMBER DISPUTE? WE
HAVE ONE “HOME RUN” PROSPECT –
THE “THREAT OF INJURY” APPEAL AT
NAFTA.

ON APRIL 29, THE NAFTA PANEL ON
THREAT RULED THAT THE
INTERNATIONAL TRADE
COMMISSION'S (AND I QUOTE)
"REMAND DETERMINATION THAT THE
[U.S.] DOMESTIC SOFTWOOD LUMBER
INDUSTRY IS THREATENED WITH
MATERIAL INJURY BY REASON OF
SUBSIDIZED IMPORTS AND DUMPED
IMPORTS FROM CANADA IS NOT IN
ACCORDANCE WITH THE LAW AND IS

NOT SUPPORTED BY SUBSTANTIAL
EVIDENCE.”

THIS IS CRITICALLY IMPORTANT
BECAUSE IN THE ABSENCE OF A
“THREAT” FINDING THERE CAN BE NO
DUTIES LEVIED AGAINST US.

IN SHORT, IF WE WIN THIS APPEAL,
THE CASE GOES AWAY. BUT THERE IS
SOME BAD NEWS.

A WIN IS SOME 12 MONTHS AWAY AND
I EXPECT WE STILL HAVE TO FIGHT TO
GET OUR MONEY BACK. BY NEXT
SPRING THIS WILL BE A FIGHT OVER
AT LEAST \$3 BILLION U.S. IN CASH
DEPOSITS.

BUT WATCH THE NEWS THIS WEEK ON
THURSDAY WHEN THE ITC IS TO
RESPOND TO NAFTA.

SO IN SUMMARY, WE HAVE A STRONG,
RESILIENT, HIGHLY EFFICIENT AND
COST COMPETITIVE INDUSTRY.

IMPOSITION OF TARIFFS AND THE
APPRECIATION OF THE DOLLAR HAVE
DRIVEN THE INDUSTRY TO SEEK
FURTHER COST REDUCTIONS
THROUGH ADDED SHIFTS, MERGERS
AND INVESTMENT IN TECHNOLOGY
TO IMPROVE RECOVERY FACTORS.

THIS IS THE NATURE OF ANY
COMMODITY BUSINESS IN TODAY'S
GLOBALLY COMPETITIVE
ENVIRONMENT.

AS FOR THE FUTURE, I AM CONFIDENT
WE WILL PREVAIL IN THE TRADE
LITIGATION AND EVENTUALLY WE
WILL NEGOTIATE A SETTLEMENT
AGREEMENT, THE BACKBONE OF
WHICH WILL BE, AT LEAST IN B.C.,

OUR MARKET BASED FOREST POLICY
REFORMS.

THE WAY AHEAD WILL NOT BE EASY.
ON THE DOMESTIC FRONT CHANGES
TO TIMBER PRICING PRESENT MANY
TECHNICAL CHALLENGES AND ON
THE INTERNATIONAL FRONT, THE U.S.
LUMBER LOBBY WILL CONTINUE TO
FIGHT US WITH TRADE LITIGATION.

ON THE MARKET SIDE THERE ARE CONCERNS THAT AN INCREASE IN INTEREST RATES TOWARDS THE END OF THE YEAR WILL BRING THESE PHENOMENALLY HIGH FOREST PRODUCT PRICES TO AN END – BUT THAT’S THE CYCLICAL NATURE OF THE FOREST PRODUCTS BUSINESS.

HAVING WEATHERED THE STORMS OF CURRENCY APPRECIATION, TRADE LITIGATION, DUTIES, LAST SUMMER’S

DEVASTATING FIRE SEASON AND
TRANSPORTATION DISRUPTIONS, OUR
INDUSTRY IS READY TO MOVE AHEAD
AND CONTINUE TO PLAY THE ROLE OF
ECONOMIC DRIVER OF THE B.C.
ECONOMY.

COFI'S VISION FOR THAT FUTURE IS
OUTLINED IN OUR RECENT
PUBLICATION "REALIZING THE VISION
– 2010 AND BEYOND".

THAT DOCUMENT OUTLINES THE
INDUSTRY'S VIEWS OF THE EIGHT KEY
ELEMENTS TO SUSTAIN A VIABLE
INDUSTRY, ECONOMY AND
COMMUNITIES IN THE FUTURE.

1. DEVELOP A STRATEGY TO
STABILIZE AND INCREASE THE AAC
OVER TIME.
2. MOVE TO A MARKET BASED TIMBER
PRICING SYSTEM.

3. LOOK FOR ADDITIONAL
OPPORTUNITIES FOR RESULTS
BASED REGULATION.
4. INCREASE FIRST NATIONS'
PARTICIPATION IN THE SECTOR.
5. CONTINUE TO AGGRESSIVELY
DEVELOP NEW MARKET
OPPORTUNITIES.

6. FURTHER DEVELOP SECONDARY
MANUFACTURING.

7. PROVIDE SUPPORT FOR R&D.

8. PROVIDE SUPPORT FOR INDUSTRY
RELATED EDUCATIONAL
PROGRAMS

ARMED WITH A SHARED VISION AND
SUPPORTIVE BUSINESS CLIMATE, I AM
CONFIDENT THE B.C. FOREST

INDUSTRY WILL STEP UP TO THE
PLATE AND DO ITS PART.

THANK YOU.