

REMARKS BY JOHN ALLAN

PRESIDENT AND CEO

COUNCIL OF FOREST INDUSTRIES

OMMA CONVENTION

KAMLOOPS

MAY 7, 2004



ON BEHALF OF THE COUNCIL OF FOREST INDUSTRIES, I WOULD LIKE TO THANK YOU FOR THE OPPORTUNITY TO ADDRESS THE 25TH OMMA ANNUAL CONVENTION.

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



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 AND TODAY IT IS AT \$1.37.

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

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 BILLION SINCE MAY 2002.



HOWEVER, LARGELY DUE TO LOW INTEREST RATES, RECORD HIGH DEMAND AND TRANSPORTATION BOTTLENECKS, LUMBER PRICES HAVE SURGED FROM U.S. \$285 IN MARCH 2003 TO \$451 AS OF LAST FRIDAY, FOR A HUGE 58% INCREASE.

INTERESTINGLY, RL REPORTS THE AVERAGE COMPOSITE IN APRIL 2004 AT \$431 VERSUS \$283 IN APRIL 2003 FOR A 52% INCREASE.

AND THE STRUCTURAL PANEL COMPOSITE PRICE STOOD AT \$595, UP FROM \$252 A LITTLE OVER A YEAR AGO.

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 107%, WF UP 49% AND RIVERSIDE UP 111%.

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.

LAST THURSDAY, 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.

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.

