

STANDING COMMITTEE

ON NATURAL RESOURCES

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**John Allan
President and Chief Executive Officer,
Council of Forest Industries
President, BC Lumber Trade Council**

Thank you Chair and members of the committee for initiating this most important study and for inviting me to appear before you today.

My name is John Allan and I am the President and CEO of the Council of Forest Industries (COFI), President of the BC Lumber Trade Council (BCLTC) and Secretary of the Canadian Lumber Trade Alliance (CLTA).

COFI represents the interests of the BC interior forest industry. BCLTC represents the Canada/US Softwood Lumber trade interests of the BC forest industry while CLTA does the same on a national basis. I should also disclose that as a former Deputy Minister of Forests I hope I bring a certain perspective to the presentation that respects the needs of government.

The industry is encouraged by government's recognition of the economic difficulties confronting Canada's forestry sector. We welcome recent announcements aimed at stimulating the economy and most importantly, initiatives to assist laid-off workers find job training.

We also applaud the support of all Members who have worked tirelessly on behalf of the employees, families and hundreds of entire communities dependent on the forestry sector.

While the recent federal budget will be of some assistance to the forest sector, today, I will propose additional measures that require consideration in tackling the historic challenges faced by our forest industry.

COFI member companies operate 100 production facilities in over 60 forest dependent communities in the interior of British Columbia, accounting for approximately 80 percent of all BC softwood lumber shipments and 35 percent of Canadian softwood lumber shipments. BC forest companies employ approximately 75,000 Canadians and over 150,000 families directly and indirectly depend on our companies for their livelihood and well-being.

However, a confluence of adverse economic forces, largely beyond anyone's control has impacted BC's forestry sector, threatening its continued viability.

Firstly, the rapid appreciation of the Canadian dollar has had a profound impact on the forest industry. A one cent annualized appreciation in the Canadian dollar reduces the annual sales value of BC forest products (the majority of which are exported) by approximately \$130 million. Since 2002, the Canadian dollar has risen by about 40 cents as compared to the US dollar and on an accumulated basis this appreciation has stripped \$15 billion from the sales value of all forest products from BC. On an approximate basis this impact could at least be doubled for all of Canada. It is important to note that this escalation in the value of the dollar has been accompanied by increased costs of production.

Secondly, the weakening of the US economy and the subprime mortgage issue have negatively impacted the US housing sector, a major export destination for BC lumber. US housing starts which peaked at just over 2 million units in 2005 are projected at 1.2 million for 2008, their lowest point since 1995. As a result, lumber prices have fallen to extremely low levels such that on a cash basis, today's lumber price results in a \$73/mfbm loss for a typical interior sawmill.

You might ask: “why stay in business?” For the immediate term sawmills are running primarily for cash to pay the bills and to produce chips for pulp and paper mills. In this respect, the industry is extremely integrated and sawmills and pulp mills cannot operate without each other.

Thirdly, the Mountain Pine Beetle infestation in the interior (and now spreading to Alberta) has destroyed close to 600 million cubic metres of valuable timber and has led to a significant increase in manufacturing costs and a reduction in product value.

Finally, all lumber the BC industry ships to the US is subject to a 15 percent export tax under the Softwood Lumber Agreement.

In short the industry is in crisis of unprecedented proportion. As Hank Ketcham, CEO & Chair of West Fraser recently said, “It’s a bloodbath out there.” In response we are of the view that neither a hands off approach nor an interventionist approach based on subsidies is appropriate. Further, the role of government should be to ensure that the correct policy framework is in place to enable a competitive industry.

Accordingly, while the government recognizes the challenges to the viability of the BC forestry sector, and has recently implemented or announced the implementation of some much needed measures, we have five additional proposals for your consideration.

We applaud the government’s decision to reduce current corporate taxes by one percent in 2008, and government’s goal of further reducing the corporate tax rate to 15 per cent by 2012. However, we encourage you to accelerate these reductions, especially as the

US economy continues to weaken. Reducing corporate tax rates will allow all industries to invest in physical and human capital, and improve efficiencies, and will temporarily insulate export dependent sectors from the negative effects of the rapid appreciation in the value of the Canadian dollar.

The precipitous decline of US consumption has starkly exposed our vulnerability to single market dependency. We need to develop a balanced customer base, with particular emphasis on emerging Asian markets. Accordingly we encourage government to renew and increase investments in the Canada Wood Export Program (CWEP) administered by your colleague, the Minister of Natural Resources. This program is the central pillar of the solid wood industry's effort to diversify its offshore export markets for Canadian wood products. Since its inception in 2002, the Canada Wood program has substantially expanded Canada's lumber exports in traditional and emerging markets. By way of evidence, Canadian shipments by volume to China have increased 450%, to South Korea 290% and to the UK 320% over the five year period ended December 2007. As welcome as these results are, new market development is an extended task requiring persistence: we urge the government to commit to a minimum five-year renewal at \$10M/yr of the CWEP program out to 2014 to enable sustainable and long-term opportunities to be created.

The BC forest industry heavily depends on Canada's rail network to transport lumber. However, our rail rates are among the highest in the world. Any government measure to encourage competitive rail rates and reduce transportation costs will contribute to the industry's competitiveness. I am reasonably informed that rail service to interior lumber shippers is poor to non-existent on many occasions.

BC's forest industry is at the forefront of environmental stewardship. In an effort to increase our environmental performance and reduce our carbon footprint, BC forest companies have upgraded facilities and implemented innovative processes in a continued effort to limit the sector's climate change impact. We are encouraged that the recent federal budget recognizes the industry's advanced environmental efforts and accepted our suggestion to profile the industry as leaders in this effort. The federal budget committed \$10 million over two years to NRCan to promote Canada's forestry sector in international markets as a model of environmental innovation and sustainability. The Canadian industry has pledged to become carbon neutral by 2015 and has reduced its greenhouse emissions by 50% since 1990. Most importantly, we encourage government to value these efforts in any future government action plan on climate change. In short, we should, manage the climate change agenda to improve our competitiveness.

We strongly believe the biomass industry holds enormous potential benefits for the environment as well as the forestry sector and in this regard the BC pulp and paper sector has reduced fossil fuel use by 60% since 1990. Biomass is a clean, renewable energy resource and recent studies have demonstrated that biomass fuels can reduce natural gas consumption by up to 75 percent. We strongly encourage the federal government to work with all stakeholders in further developing the biomass industry. COFI and its members are willing to assist the government in this endeavour.

In our view the five above-mentioned proposals do not contravene the Softwood Lumber Agreement of 2006 and, if implemented, will go a long way to alleviating the convergence of economic forces that has had an overwhelming impact on the viability of BC's (and the rest of Canada's) forestry sector.

Finally, I want to say a few words in support of the Softwood Lumber Agreement of 2006. Starting with the premise that we will never achieve free trade between Canada and the US in softwood lumber because of the continuing political and legal activities of the US Coalition for Fair Lumber Imports, Canada's softwood lumber exports to the US will be governed by either managed trade or litigation. The Agreement provides a far superior alternative to litigation and the Canadian government, the Provincial governments and the forest industry should collectively strive to ensure that the Agreement runs its full course.

Chair, the global demand for forest products is growing as a result of emerging markets in developing countries. This growth is concurrent with an ever increasing global awareness of the need to purchase products that are produced in an environmentally responsible manner. The simple fact is that the environmental qualities of wood products deem them the best building products in the world, bar none. When manufactured in an environmentally responsible manner, wood products, which are not only recyclable but continue to sequester the carbon stored in the trees they were produced from, can play a significant role in the climate change battle.

The fact that our industry has evolved into the most environmentally responsible supplier of forest products on the planet deems that Canada deserves to be the global supplier of choice. I mention this to ensure that government appreciates that our forest sector in Canada can continue to be a major contributor to the economic stability of our country but that we need to carefully manage this period of significant challenges. We need your active participation in surviving the perfect storm of issues we are currently facing and

your support in reshaping and rebranding our industry to take advantage of the opportunities ahead of us.

Thank you and I would be pleased to answer your questions.