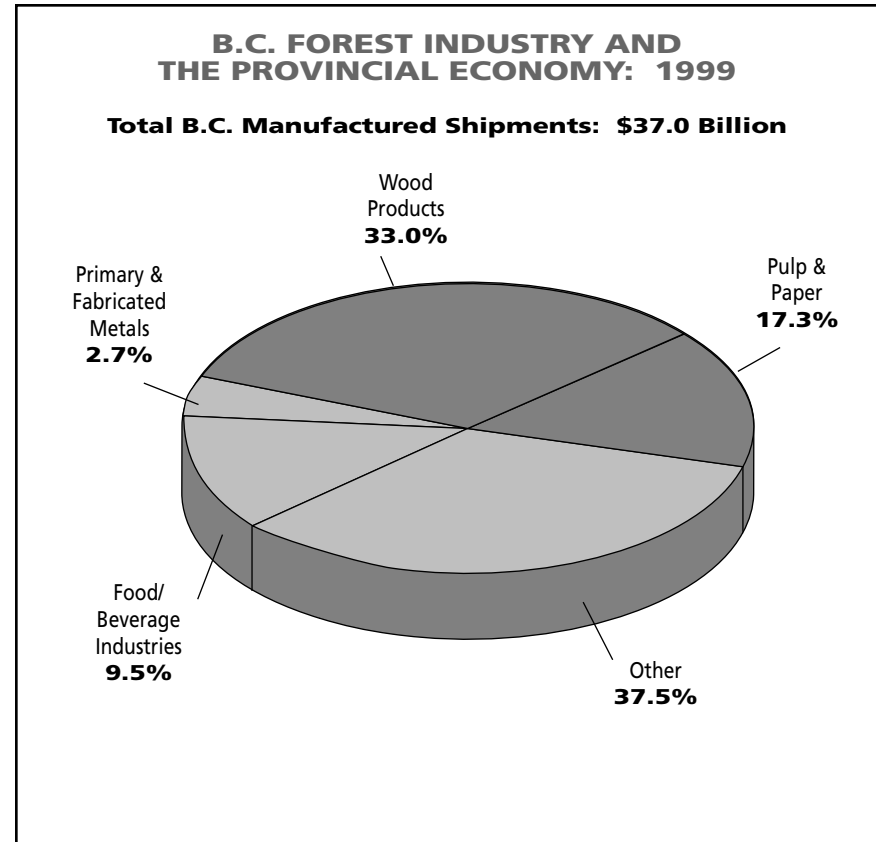


Part IV

B.C. FOREST INDUSTRY AND THE PROVINCIAL ECONOMY

The B.C. forest industry is a key contributor to the provincial economy. In 1999 it made up over 50.3 per cent, or \$18.6 billion, of total manufactured shipments. Wood products accounted for 33.0 per cent, up slightly from the previous year, and pulp and paper products accounted for 17.3 per cent.



GROSS DOMESTIC PRODUCTS OF GOODS-PRODUCING INDUSTRIES IN B.C.

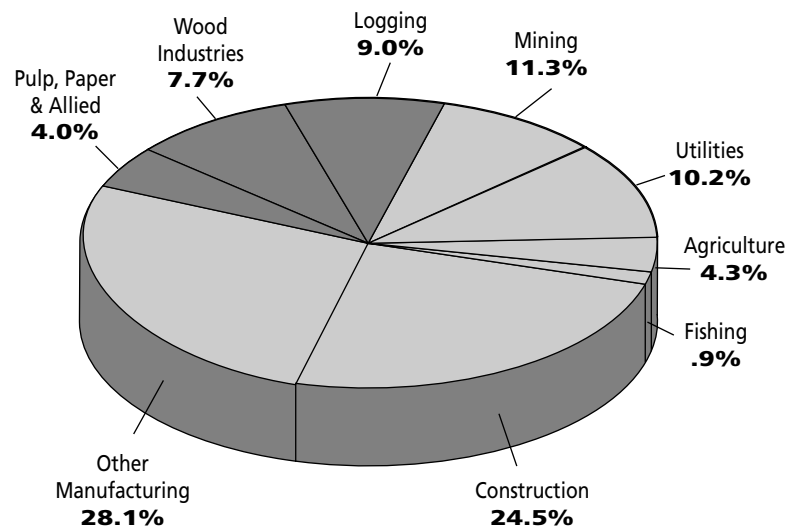
Economic performance is commonly measured in terms of Gross Domestic Product or GDP. A portion of the GDP is made up of the goods-producing sector.

Among the goods-producing industries, the forest industry contributed 20.7 per cent to B.C.'s GDP. The forest industry is comprised of the wood industries, pulp, paper and allied industries and the logging industry. Other resource based, goods producing industries, such as mining, accounted for 11.3 per cent, utilities 10.2 per cent, and agriculture and fishing which made up 5.2 per cent.

Construction contributes 24.5 per cent, and other manufacturing accounted for 28.1 per cent.

From this information one can conclude that the B.C. economy still depends heavily on its natural resources and their development. The importance of natural resources to the B.C. economy has also impacted the composition of the province's service sector. The transportation industry, for example, depends heavily on moving manufactured products to markets in Canada, the United States and around the world.

GROSS DOMESTIC PRODUCT OF GOODS-PRODUCING INDUSTRIES IN B.C.: 1998



Source: Statistics Canada. Data based on 1986 constant dollars.

FOREST EMPLOYMENT IN B.C.: 1990-1999

The B.C. forest industry accounted for 90,600 direct jobs and a further 181,200 indirect and induced jobs in 1999. The industry suffered a loss of 800 direct jobs over 1998. The forest industry is a source of livelihood for 271,800 British Columbians and represented 14 per cent of the total provincial workforce in 1999.

Employment in the logging sector in 1999 accounted for 28,750 jobs, or 31.7 per cent of the total. This sector in the past few years increased by 12.7% peaking in 1996 at 30,500 reflecting the impact of the Forest Practices Code. But recently employment has slipped to 28,750 due to market conditions.

Employment in the lumber/sawmilling sector accounted for 20,300 or 22.4 per

cent of total. The pulp and newsprint sector employed a total of 9,000 representing 10 per cent of total, down from 10,000 in 1998. In 1999 the plywood and veneer sector employed 3,450, representing 3.8 per cent of the total. Value-added or secondary manufacturing in 1999 employed 13,000, up from 12,500 in 1998 and represents 14.3 per cent of total. Overall, the manufacturing sector of the forest industry represents 50.5 per cent of total.

The provincial government employed 4,500 people in 1999, including Ministry of Forests, Forest Renewal B.C., and the Forest Practices Board.

Silviculture in 1999 employed 4,400, accounting for 4.9 per cent of total, down from 4,600 in 1998.

All other forest industry sectors accounted for 7,200, or 8.0 per cent of total forest industry employment.

Source: PricewaterhouseCoopers

FOREST EMPLOYMENT IN B.C.: 1990 - 1999

Direct Employment

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Logging	23,500	23,200	25,050	26,300	28,200	29,400	30,500	29,650	28,200	28,750
Lumber	26,900	25,400	24,450	24,100	24,300	24,100	23,700	23,000	21,000	20,300
Market Pulp	8,200	8,100	7,950	7,900	7,700	7,700	7,500	7,400	6,900	6,000
Groundwood Papers (Newsprint)	4,900	4,900	4,600	4,200	4,000	3,900	3,700	3,300	3,100	3,000
Value Added Sector	11,500	11,500	11,500	11,700	12,500	2,500	13,000	13,000	12,500	13,000
Plywood	4,500	3,900	3,200	3,250	3,200	3,200	3,300	3,300	3,200	3,450
Ministry of Forests	3,500	4,000	4,500	4,500	4,800	4,900	4,500	4,400	4,400	4,500
Silvicultural	2,000	2,000	4,000	4,000	4,600	4,600	4,400	4,600	4,600	4,400
Other Operations	8,800	7,700	6,950	6,250	6,600	7,200	7,800	8,000	7,500	7,200
Total	93,800	90,700	92,200	92,200	95,900	97,500	99,100	97,250	91,400	90,600

GOVERNMENT REVENUES FROM THE B.C. FOREST INDUSTRY, INDUSTRY EARNINGS

The B.C. forest industry contributes substantial revenues to all levels of government.

In 1999 the B.C. provincial and municipal governments received payments of \$2.1 billion, slightly higher than \$1.9 billion in 1998. However, over a twelve-year period, significant increases were realized as contributions rose from \$596 million in 1986 to \$2.1 billion today.

Stumpage, royalties and rents totalled \$1.4 billion in 1999 basically unchanged from the previous year reflecting the fifth year of stumpage rates under the Forest Renewal Plan. Overall stumpage, royalties and rents have more than trebled from \$574 million in 1991 to \$1.8 billion in 1997 to \$1.4 billion today. Logging taxes declined significantly from \$62 million in 1995 to \$6 million in 1997 and rose significantly in 1999 to \$24 million.

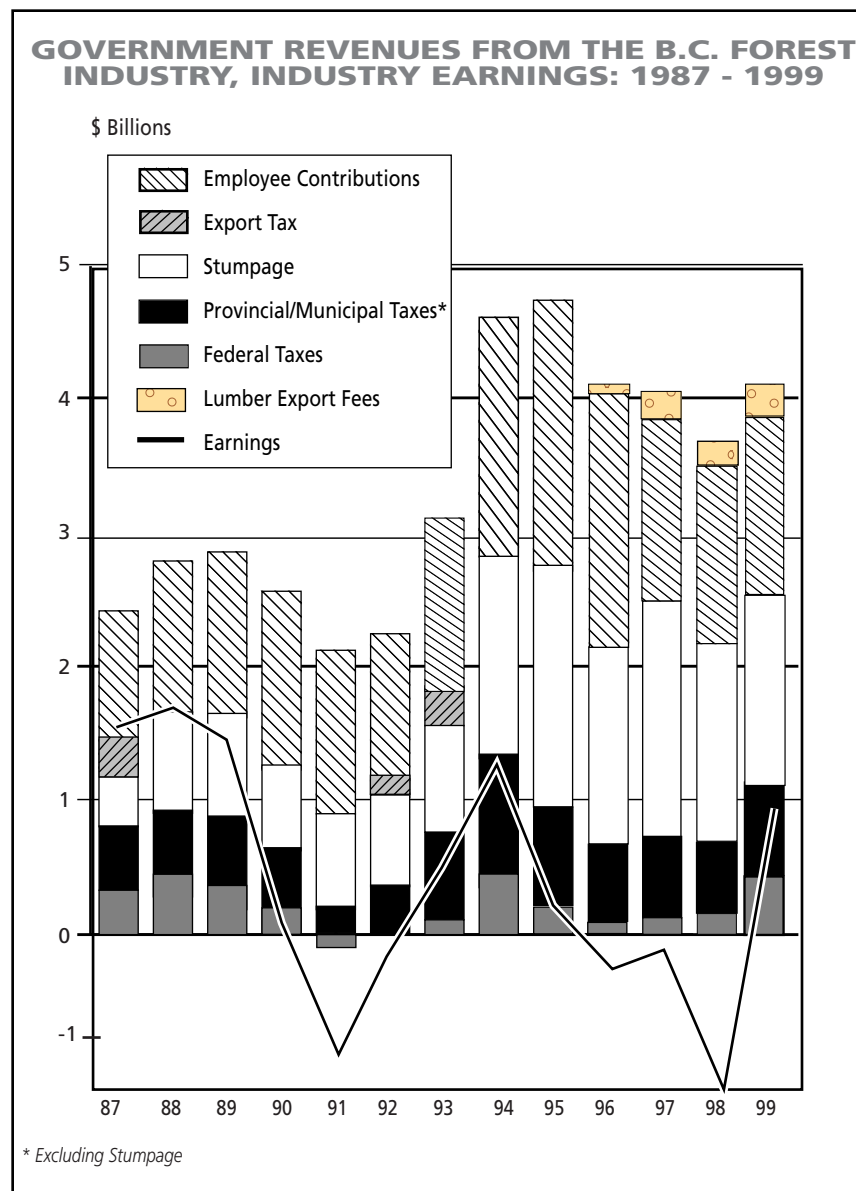
Direct employee income tax payments in 1999 totalled \$1.8 billion, compared to \$1.6 in 1998.

Property taxes at the municipal level totalled \$148 million in 1999, down from \$152 in 1998. Corporation capital taxes were \$44 million, compared to \$42 million in 1998.

Payments to the federal government in 1999 totalled \$363, up significantly from \$133 in 1998.

Over the past ten years, total payments to the municipal and provincial governments have more than doubled from \$1.0 billion in 1990, to \$2.1 billion in 1999.

Overall, total taxes including the forest industry and employee taxes amounted to \$4.2 billion in 1999, or 23 per cent of industry sales, and up from \$3.7 billion in 1998. Total industry sales in 1999 were \$18.2 billion, up from \$15.0 billion in 1998.



B.C. FOREST INDUSTRY RETURN ON ASSETS

During the early 90's, the B.C. forest industry experienced three consecutive years of financial losses. In 1993 and 1994 the industry's net earnings had rebounded. By 1996 the forest industry again suffered three consecutive years of net losses of \$290 million in 1996, \$132 million in 1997 and \$1.1 billion in 1998. In 1999 the industry recovered to profitability in the amount of \$923 million.

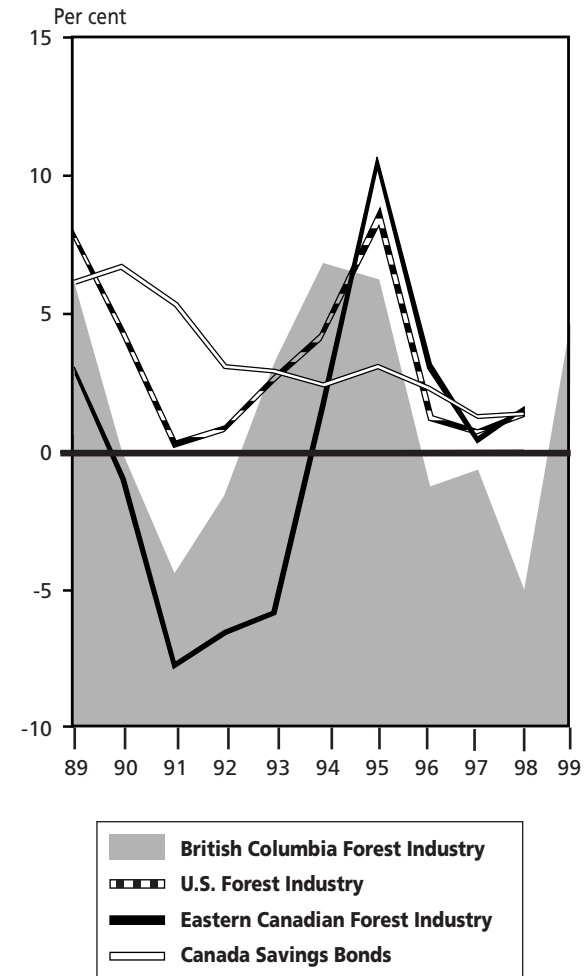
In 1998, return on assets in the B.C. forest industry compared to other jurisdictions (after tax) was reported as Eastern Canada at 1.9 per cent, U.S. at 1.6 per cent, B.C. at (5.4) per cent and Canadian Savings bonds at 1.6 per cent.

In 1999 B.C. returned to a positive position of 4.8 per cent. Data was not available for the other jurisdictions at time of printing.

FOREST INDUSTRY RETURN ON ASSETS: 1998

U.S.	1.6%
Eastern Canada	1.9%
Canada Savings Bonds	1.6%
B.C.	-5.4%

B.C. FOREST INDUSTRY RETURN ON ASSETS: 1988 - 1999



B.C. FOREST INDUSTRY CAPITAL EXPENDITURES

In 1999, the B.C. forest industry capital expenditures were \$800 million compared to \$729 million in 1998. Excluded from this total is the amount spent on repairs and maintenance.

Capital expenditures in the pulp and paper sector were \$196 million in 1999.

The lumber sector spent \$233 million in 1999, up from \$180 million in 1998. Most of the expenditures were in the Interior and went to mill expansions, modernization and value enhancement projects.

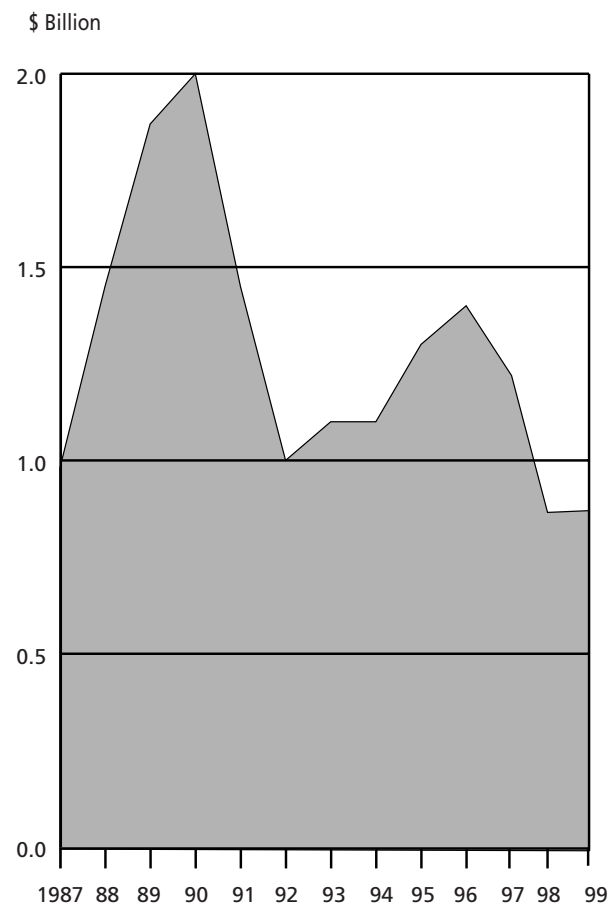
The plywood and veneer sector spent \$41 million in 1999 on capital projects. This was up from \$33 million spent in 1998.

Capital employed in the manufacturing sectors of the forest industry was \$16.5 billion in 1999, compared to \$16.8 billion in 1998. The B.C. forest industry earned a return on capital employed of 7.6% in 1999, up from (3.9) in 1998; and during the past five years has earned an average of 2.9%, down from the 1998 5-year average of 3.4 per cent.

RETURN ON CAPITAL EARNED BY SECTOR

Lumber	15.8%
Plywood	31.7%
Market Pulp	1.0%
Newsprint	0.8%
Total	7.6%

B.C. FOREST INDUSTRY CAPITAL EXPENDITURES: 1987 - 1999



B.C. FOREST INDUSTRY NET EARNINGS

The start of the 90's witnessed three successive years of financial losses followed by three years of profit. In 1993 the industry's net earnings were \$520 million, rising to \$1.4 billion in 1994 and dipping to \$1.3 billion in 1995. In 1996 earnings crashed primarily as a result of pulp prices and the year ended with a \$290 million loss for the industry as a whole. This was followed by net losses of \$132 million in 1997, which escalated, to \$1.1 billion in 1998. In 1999 net earnings saw a return to profitability of \$923 million.

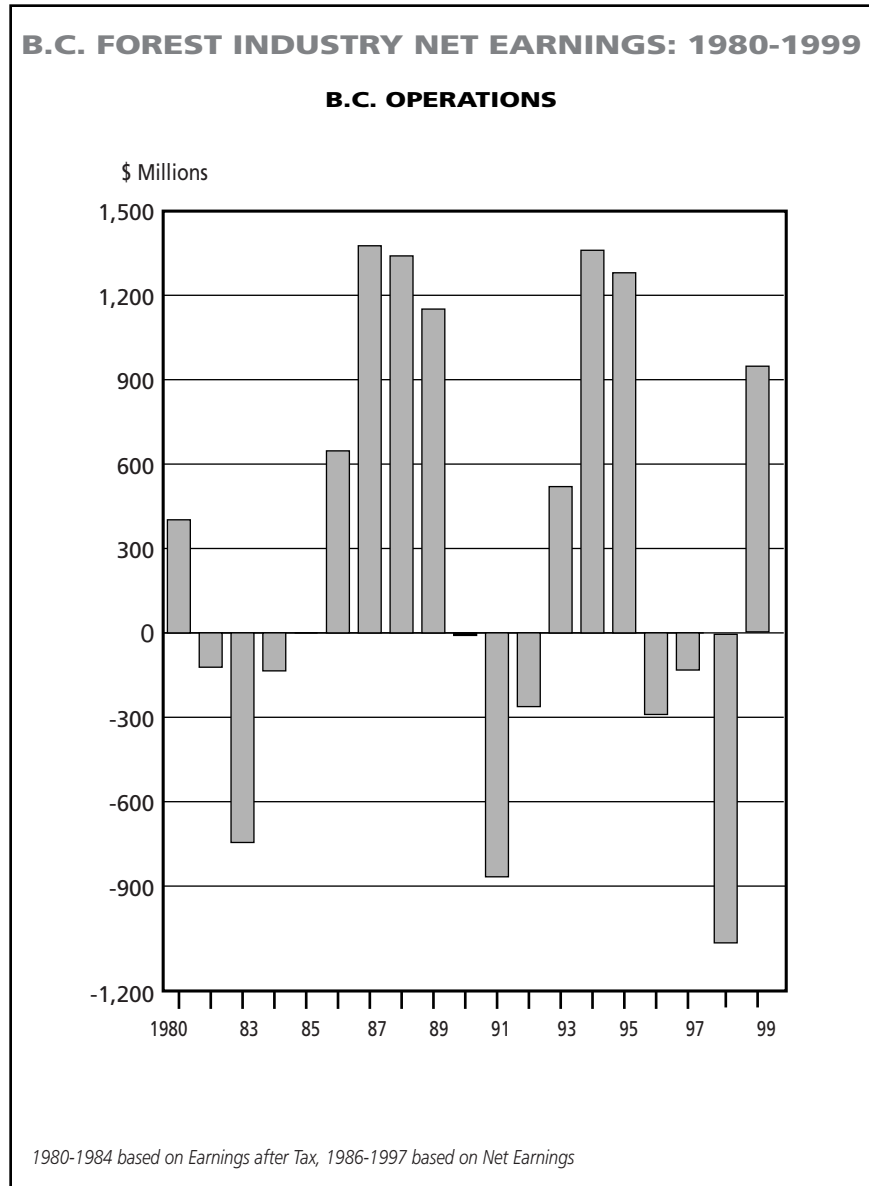
The weakest sector in 1999 was pulp and paper. Market pulp is in its fourth year of net loses and in 1999 had losses of \$72 million, down significantly, compared to losses of \$373 million in 1998. Attributing to last years improvement were stronger pulp prices (rising from US\$500 to US\$610 by the end of 1999), and an increase in shipments.

Market sales increased 18 per cent to \$2.7 billion in 1999, from \$2.3 billion in 1998. Total costs of producing pulp dropped 7.5 per cent to \$593 per tonne in 1999 from \$641 in 1998.

The uncoated groundwood paper (newsprint) sector suffered a net loss of \$22 million in 1999, compared to net earnings of \$46 million in 1998. Sales of newsprint were \$1.4 billion in 1999, up from \$1.3 billion in 1998.

Lumber net earnings were \$816 million in 1999, compared to a \$58 million loss in 1998. Lumber sales were \$7.3 billion in 1999, up from \$6.4 billion in 1998. By-product revenues, including wood chips, were \$613 million, compared to \$577 million in 1998.

Plywood and veneer net earnings were \$100 million in 1999, compared to a break-even performance of the past three years. Sales in this sector including by-products totalled \$912 million in 1999, up from \$691 million in 1998. The improvement in sales was attributed to increase demand for building products in North America, which helped boost plywood prices in 1999.



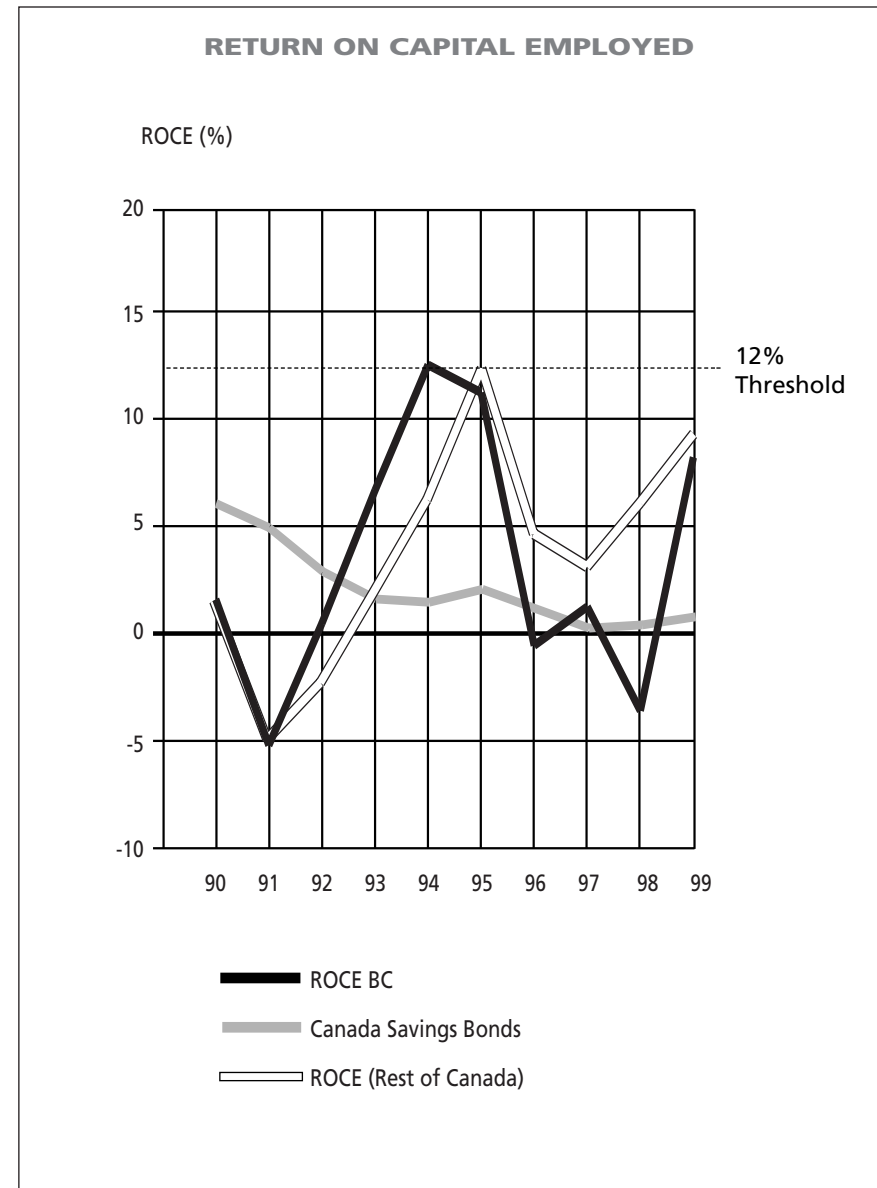
COMPETITIVENESS

RETURN ON CAPITAL EMPLOYED (ROCE)

B.C.'s return on capital employed in 1999 was 7.6 per cent compared to 9.6 per cent in the rest of Canada. Return on capital employed for B.C. in 1998 was negative 3.9 per cent compared to positive 6.5 per cent in the rest of Canada.

The five-year average return on capital employed in 1999 for the B.C. forest industry was just 2.9 per cent versus 8.1 for the forest industry in the rest of Canada.

Since 1995, B.C.'s forest industry has significantly underperformed in comparison with the rest of Canada's forest industry despite the improved results in 1999 which were bolstered by improved products prices and company restructuring.





SUSTAINABLE FOREST MANAGEMENT SYSTEMS – CERTIFICATION

Canada plans to certify 92 million hectares, or 60 per cent of Canada's managed forest lands by 2003. And in British Columbia operations representing more than 40 per cent of the allowable annual cut (AAC) have been certified. The Canadian Standards Association (CSA) has developed a national Sustainable Forest Management Standard based on the International Standards Organization (ISO) certification system – Sustainable Forest Management System - that allows individual companies to do on-the-ground, third-party audits for certification, but has no chain-of-custody tracking and no product labelling system.

The Standards Council of Canada has accredited five organizations to register Canadian companies to ISO 14001. This standard calls for companies to establish and follow an environmental management system (EMS) that allows them to address the environmental impact of their products, services and business practices.

The Forest Stewardship Council (FSC) offers a performance-based on-the-ground audit by accredited independent third-party auditors covering all aspects of forest management. The FSC also provides a chain-of-custody certification, and offers a standardized product-labeling system for forest products.

OCCUPATIONAL HEALTH AND SAFETY

Annual payments made by the B.C. forest industry to the Workers Compensation Board (WCB) grew from \$110 million in 1988 to \$214 million in 1997, up 94 per cent over 10 years. By 1998 payments slipped to \$196 million, and in 1999 declined even further to \$169 million.

Days lost to injuries totalled 404,716 in 1988 accounting for 23,811 claims. In 1999, days lost to injuries declined to 349,716 and the number of claims had also declined to 15,024.

Injury claim costs in 1999 totalled \$145.0 million compared to \$149.0 million in 1998. Injuries by industry sector in 1999 showed sawmilling accounted for the largest portion of injuries at 43.8 per cent of total injuries. Logging was 31.0 per cent of the total forest industry. Pulp and paper was 11.0 per cent, plywood was 10.0 per cent and shake and shingles 3.2 per cent.

In 1999 the WCB completed a complete restructuring of the way employers are classified. The resultant model provides more direct accountability for injury costs and therefore more accountability to individual employers. Companies with low injury costs will no longer be subsidizing those with higher costs and in fact will benefit from a reduction in their assessment rates. At the same time, companies that have higher injury costs will find their rates increasing proportionately.

COFI members will see a base rate reduction in the 10% -- 12% range as the result of an assessment system that is more sensitive to the results of safe workplace programs and practices.

FOREST INDUSTRY WORKER INJURY STATISTICS

Years	Payment to WCB (Millions \$)	Claim Costs (Millions \$)	Number of Claims	Days Lost to Injuries	Wages Lost (Millions \$)
1988	\$110	\$94	23,811	404,716	\$52
1989	\$119	\$91	22,154	398,257	\$50
1990	\$87	\$104	22,494	385,449	\$52
1991	\$107	\$102	20,090	381,216	\$57
1992	\$106	\$116	19,602	414,172	\$58
1993	\$134	\$134	19,012	425,299	\$59
1994	\$153	\$142	20,302	444,126	\$60
1995	\$199	\$118	20,420	407,127	\$49
1996	\$237	\$135	19,395	343,382	\$46
1997	\$214	\$146	19,198	378,233	\$56
1998	\$196	\$149	15,612	361,009	NA
1999	\$169	\$145	15,024	349,716	NA

INJURIES BY INDUSTRY SECTOR 1999

