

Crisis and Opportunity in Canada's Forest Products Industry

The forest products industry, one of Canada's leading manufacturing sectors and largest net exporter, is slowly recovering from a state of crisis. From 2004 to 2009, the market value of Canada's forest products fell by 47 per cent as a result of the dramatic decrease in North American housing starts, falling commodity prices and a rising Canadian dollar. Demand has also decreased, for paper and pulp due to the global recession, and for newsprint as a result of declining readership and advertising shifts to the internet.

The value of Canada's forest products decreased by \$21.1 billion during that time. The industry faced six years of soaring costs, declining earnings, shutdowns and layoffs; and is now emerging from the crisis in a position of unique opportunity.

Workers and industry itself must take the lead in being competitive; however, government hosting conditions play a central role in determining how competitive the forest products industry can be in the global marketplace. Both the provinces and the federal government have taken steps in the right direction, but several challenges continue to create barriers to the industry's competitiveness.

Housing Crash

From 2006 to 2009, U.S. housing starts fell by 69 per cent, and Canadian housing starts by about 34 per cent, which caused near-record low prices for lumber and panel board products. In 2010 the market began to show signs of recovery, but analysts predict that full recovery is still several years away.

High Canadian Dollar

An upsurge in the Canadian dollar's value against the U.S. dollar has slashed forestry revenue. From 2002 to 2010, our dollar strengthened by 66 per cent. Each annualized one-cent rise in the Canadian dollar compared to the U.S. dollar reduces Canada's forest products industry revenue by about \$40 million.

Mountain Pine Beetle

Since 2006, the provincial governments of both British Columbia and Alberta (2007) have declared States of Emergency in response to the pine beetle infestation in Western Canada's forests. With the support of provincial and federal governments, forest companies in both provinces have invested heavily in both the time and resources required to aggressively harvest at-risk pine, mitigating the potentially devastating effects of the pine beetle epidemic in Western Canada and reducing its eastern spread.

U.S. Pulp Subsidies

From 2007 to 2009, the U.S. government provided an estimated \$7 billion dollars in subsidies to the pulp industry for the renewable energy source produced and used in kraft pulp mills ("black liquor"). As a result, U.S. mills received \$200-\$300 per ton on pulp that costs \$500 per ton to produce. The subsidy put Canadian mills at a competitive disadvantage to U.S. mills during an already challenging time for the industry.

Infrastructure Needs

Transportation costs, for both the delivery of raw materials to mills and finished products to market, play an increasing and substantial role in the competitive position of Canada's forest companies. Critical infrastructure needs include roads and rail.

Impact and Importance of the Forest Industry to Canada

Although recovery has begun, industry experts are predicting recovery to take several more years. So long as the United States remains the largest net importer of Canada's forest products, this industry will continue to be at the mercy of factors such as the drop in U.S housing starts and value of their dollar.

Through diversification and the aggressive pursuit of new markets, risk to this industry sector, and the value it provides to Canadian economies can be mitigated:

- Canada's forest products industry generated sales of \$57.1 billion in 2010, representing 12 per cent of Canada's manufacturing GDP
- In the same year, export sales exceeded \$26 billion and contributed a positive trade balance in excess of \$16.6 billion
- Canada's forest industry provides close to 236,700 jobs in 12 of 13 provinces and territories. These are well-paying jobs that in 2009 averaged \$46,882 per employee, a figure that is 9 per cent above the national average and combines to contribute more than \$11 billion in household income in our nation
- Over \$1 billion in corporate, personal and property tax and other fees are paid annually by forest producers and employees in each province where the industry is active. These support our nation's schools, hospitals, social services, infrastructure and overall well-being
- The forest industry is a leader in sustainability. By law, all lands harvested in Canada must be reforested. In 2008, more than 447,000 hectares were replanted and 34,600 hectares of forest were seeded. More than 60 per cent of energy used by the forest industry in Canada is bio-energy.

Since 2006, 86,900 forest industry-related jobs have been lost in Canada. More than 200 mills have closed permanently in the last two years alone, and many more have closed temporarily or curtailed operations. The present situation has far-reaching effects that go beyond production curtailment, job losses and mill closures. Municipalities across Western Canada are experiencing devastating economic hardships - particularly the 192, predominantly rural, forest-dependent communities.

The long-term viability of Canada's forest products industry is threatened, and while the Canadian Chamber of Commerce understands that our federal government cannot influence some of the factors causing this situation, we believe it does have an important role to play in recovery. The Canadian Chamber of Commerce maintains that continued government attention is imperative to the forest industry's ability to weather this downturn.

Timely response by government is essential to harness opportunity for renewal

Forestry is based on a renewable resource, with the ability to provide ongoing sustainable contributions to our country's economy if it survives its current challenges. Although diversification of the industry presents many opportunities in the emerging bio-economy, these opportunities are dependent on the continued renewal and overall strength of the primary forest products industry.

The support of our provincial governments to-date has helped to mitigate some of the challenges faced by forest producers and their communities. Federal support for these initiatives will help to secure the long-term sustainability of our forest industry, the health of our forests, and the livelihood of more than 236,000 Canadians - while maintaining Canada's position as a worldwide leader in environmental sustainability and resource management.

Recommendations:

That the federal government:

1. Continue action to improve the competitiveness of the forest industry and the sustainability of forestry communities through continuation of the 'Green Transformation Program', set to end in March 2012.
2. Address the industry's transportation needs by collaborating with Provincial and Municipal jurisdictions to invest in bridge upgrades and key strategic resource roads.

3. Work collaboratively with the forest industry and Canadian municipalities to effect positive changes for the industry.
4. Aggressively pursue potential new markets for Canadian forest products in emerging economies such as India and China.
5. Coordinate a National Forest Road Map initiative, providing a long-term strategy that supports a coordinated approach by government and the industry to promote new product innovation, research, development, and the pursuit of new markets in emerging global economies.
6. Continue to financially support provincial efforts to control the spread of Mountain Pine Beetle.