Recommendations for Immediate Consideration

Submitted by
The Forest Industry Sustainability Committee
December 31, 2007

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A. INTRODUCTION

The forest industry is a globally competitive business and like other Canadian jurisdictions Alberta's forest industry is facing many challenges including the rising value of the Canadian dollar, increasing input costs, competition from lower-cost offshore producers and competition for labour and materials. These and other factors have resulted in declines in competitive position and reduced profitability, placing some industry sectors at risk. The current situation is critical.

Consequently, the government and industry have partnered to investigate immediate actions that could be taken to assist the industry in the short term. In the longer term, new forest business model options that address the effective and efficient delivery of shifting public policy objectives, while supporting and maintaining a vibrant and competitive forest industry sector, will also be investigated and will be the subject of a separate report.

B. ACTIONS TAKEN TO DATE

In response to this critical situation, the Government of Alberta (GoA), through Alberta Sustainable Resource Development (ASRD) and the forest industry sector, through the Alberta Forest Products Association (AFPA), embarked on a cooperative effort to improve the competitiveness of Alberta's forest industry**.** The **Forest Industry Competitiveness Project** was initiated in the spring of 2006. Recommendations were developed after extensive consultation and submitted for consideration the following spring. During the time these reports were being prepared, market and financial circumstances continued to worsen.

At the request of the AFPA, the **Forest Industry Sustainability Committee (FISC)** was established in November 2007 to make recommendations to the Minister of Sustainable Resource Development (ASRD) regarding improvements to Alberta's forest business model that would enhance industry competitiveness and improve the delivery of public policy. The FISC was appointed by the Minister and is comprised of elected members of the GoA, as well as forest industry executives (see Appendix 1). During its deliberations the FISC received, reviewed, and considered presentations and options as well as a host of other relevant ideas provided by government and industry. The FISC also provided each of the industry sectors the opportunity to present their views on the current state of their sector. The FISC is also supported by a Working Group chaired by the Assistant Deputy Minister of the ASRD Forestry Division, along with senior members of the government and forest industry. The Working Group provided the FISC with many additional ideas and analysis that assisted in decision making.

C. SITUATION DESCRIPTION

Alberta's forest sector currently faces serious competitive pressures that are unprecedented—dramatic changes in markets, economics, competition and the local operating environment that threaten all sectors of the forest industry and jeopardize the long-term benefits that Albertans have come to expect from the forest resource. At no time in Alberta's history have the competitive challenges of the forest industry been more acute and systemic. The "Alberta Advantage" that originally attracted and retained forest industry investment has since eroded and a wide range of factors that determine the health of the forest industry have worsened. Throughout our current review, industry and government representatives have identified the following contributing factors:

1. **Inflation:** Alberta is experiencing an annual inflation rate above the national average.
2. **Labour**: Alberta has developed a chronic shortage of skilled labour. Labour cost increases have averaged 8% annually since 2004. Last year wages rose 10%. Alberta now leads the country in hourly wage rates for skilled labour.
3. **Energy**: Alberta is the only truly deregulated energy market in Canada. Manufacturers now pay higher energy costs than other provincial forestry jurisdictions.
4. **Transportation**: Trucking prices have outpaced inflation by 6% annually for the last three years. Alberta has a marked disadvantage in getting product to market when escalating rail costs are factored into the sharp increase in truck transportation costs. Many forest product producers must truck their product to Edmonton, Calgary and Shelby, Montana to get product on rail cars.
5. **Taxes**: Alberta's total combined taxes are no longer the lowest in the country. Several jurisdictions such as B.C. and Manitoba have reduced provincial and local government taxes significantly in a bid to attract industry. Generally, Alberta's municipal tax burden has risen significantly in recent years, which has restricted the industry's competitiveness relative to other jurisdictions.

The net effect of these cost pressures has increased manufacturing and transportation costs in Alberta by 25% since 2004. These costs, combined with external pressures, are jeopardizing the sustainability of the forest industry in Alberta.

D. SELECTION PRINCIPLES

Throughout discussions the FISC consistently heard that the forest industry sector was in serious difficulty. Recent mill closures and shutdowns are clear evidence that the situation is dire. Cash is in short supply and the industries possess limited ability to respond successfully. While the need is immediate, the choices are difficult. Factors such as market conditions and international agreements significantly limit the available options. To assist in defining possible solutions, the FISC adopted the following principles:

1. **The market is the best place to make business decisions.** The Government should not be in the business of business.
2. **The Softwood Lumber Agreement (SLA) should be respected.** While many creative ideas were considered, many would not be in compliance with the SLA and would generate significant risks if implemented (**See Appendix 2)**. Desirable recommendations should be consistent with the exemptions as outlined in the SLA:
   - timber pricing or forest management systems as they existed on July 1, 2006, including any changes that maintain or improve their reflection of market conditions;
   - other programs as they existed and were administered on July 1, 2006;
   - actions for the purposes of forest or environmental management, protection or conservation, including reducing wildfire risk, protecting watersheds, protecting, restoring or enhancing forest ecosystems; facilitating public access and use of non-timber forest resources, provided that those measures do not involve grants or other benefits that undermine or counteract the market pricing of timber; and;
   - measures that are not specific to the forest products industry.
3. **The focus in the longer term should be to get Alberta's policies right.** The fundamentals must be right to address competitiveness.
4. **Subsidies, bail-outs and interventions in the market place are not suggested alternatives.**

These principles were applied by the FISC in discussing and determining desirable actions that could reasonably be taken in the short term.

E. RECOMMENDATIONS

In consideration of the urgency of this matter, the FISC offers the following recommendations for near-term, immediate actions.

1. Enhancing Provincial Competitiveness

Recommendation: The GoA should immediately undertake a comprehensive review of Alberta's competitiveness and take appropriate actions to ensure equitable tax treatment, a competitive business climate and elimination of disincentives to investing new capital. This review should embrace all industries and be led by the Alberta Economic Development Authority (AEDA).

The AEDA, with ASRD involvement, should be charged with the responsibility of leading a provincial competitiveness strategy that addresses broad, systemic competitiveness issues that will have a positive and material effect on business in Alberta. Matters such as labour, energy, and rail should be addressed through this multi-sector forum with concrete recommendations made to the GoA within a six month period. To support this effort, Alberta's manufacturing industry competitiveness should become a "cross-ministry" initiative in the context of the GoA's business planning process. Necessary resources should be dedicated to ensure prompt and meaningful action is taken.

2. Cost Accountable Policy Processes

Recommendation: The GoA should establish a comprehensive system to ensure that all administrative and management actions are cost accountable. All departments must be accountable. Policy decision making should be informed by an impact assessment addressing productivity, competitiveness, impact on assets and other pertinent factors for all industrial sectors.

As a highly regulated industry operating on public lands, the forest products industry has a cost structure that is largely impacted by government policy and regulations. Forestry regulations, policies and operating approval conditions continue to be added to the operating environment and are growing more "prescriptive". Prescription reduces the flexibility of industry to meet expectations in an innovative and cost effective manner. Currently, policies and new regulations are being developed in isolation based upon immediate perceived need. New regulations should not be implemented without consideration of the costs and impacts on industry. The GoA should consider appointing a "gatekeeper" to screen new policy, regulation and legislation initiatives from all branches of government that potentially impact the forest sector.

In addition, government responsibilities continue to be off-loaded beyond what tenure holders should be responsible for, driving up the cost of doing business. A more complete review of roles and responsibilities for tenure holders in the province will be determined during the second phase of the FISC mandate.

3. Transportation Leadership

Recommendation: The GoA should form a Transportation Committee chaired by a Member of the Legislative Assembly consisting of senior government and industry officials for the purposes of addressing a wide range of long-standing Alberta-based transportation issues. The mandate of the Committee should be politically sanctioned and include:

- **a)** Province-wide infrastructure planning including public road and bridge development and upgrading, classifications, ownership and maintenance responsibilities;
- **b)** Support for the forest industry self regulating monitoring system;
- **c)** Meaningful disciplinary action for poor performers;
- **d)** "Winter Weights" program for hauling pulp chips and hog fuel; and
- **e)** Support for innovation in transportation.

Government is responsible for infrastructure planning and the setting of priorities for the development of public roads and bridges. It is in the government's best interest to make those investments in a way that provides maximum utility to the broadest range of users. Government is responsible for protecting public infrastructure from damage as well as ensuring appropriate health and safety policies protect the interests of labour and the public at large. While industry supports this perspective, there are some policies that could be adjusted to better reflect the long standing commitment of the industry to ensure a safe and efficient truck transport system. For example, "Winter Weights" programs currently do not exist for hauling chips and hog fuel. Opportunities exist to increase payloads without compromising public safety. Imminent requirements to address Mountain Pine Beetle (MPB) infestations will require the need to manage increasing truck traffic and increasing costs to access and deliver endangered wood. Innovation in transportation requires priority attention by the Department of Transportation and Infrastructure.

4. GoA / Industry Lobby on Rail Transport

Recommendation: The GoA should partner with industry to address rail transport issues including amendments to the *Canada Transport Act* and interventions during the Federal Service Review. It is further recommended that the GoA should immediately apply for intervener status.

The FISC heard complaints about the rail system from all presenters. It is apparent that Alberta producers do not receive competitive rates, reasonable service, or ready access to rail. The decreasing availability of rail service and subsequent increase in rail costs have long been serious issues that affect costs from three perspectives. First, the lack of reasonably priced and reliable rail service places increased demand on the trucking industry. Secondly, where rail is required to move product long distances, the cost is not responsive to the forest industry's needs and remains a significant cost pressure. Thirdly, there are inequities (access and cost) that exist between products shipped by rail that should be addressed. The issue is most serious in Alberta owing to the province's landlocked location, distance to market and lack of rail alternatives.

5. Public Road Maintenance

Recommendation: The GoA should ensure adequate maintenance funding is available so that municipalities can properly maintain existing multi-use roads. Industrial users should not be charged for use or maintenance of public roads.

There are many roads in the province that are under the control and management of the local municipal districts (MDs). The MDs have experienced difficulty keeping up with adequate maintenance and upgrading to support the increase in industrial activity. As a result, many MDs have put additional controls on road use and are insisting on industry maintaining the roads. This cost directly impacts industrial sectors by significantly increasing the cost and decreasing the efficiencies of hauling raw materials.

The GoA should ensure that the MDs have adequate funding to maintain public roadways for industry and public use and safety. All industrial sectors should be treated equally and not be charged for specific use of public roadways in the province.

6. Municipal Tax Sensitivity

Recommendation: The Department of Municipal Affairs should be asked to review the assessment modifiers and methods of depreciation for forest manufacturing facilities in light of current market conditions.

Alberta is now one of the highest taxation jurisdictions in the country. This, coupled with other factors, has seriously eroded the industry's ability to operate profitably and maintain local/regional employment opportunities. One of the reasons for the increased municipal tax burden is the method by which industrial facilities are assessed. Current assessments are based on facility replacement costs, re-assessments when new capital is employed, and general rate increases. The employed methodology should be reviewed, as it does not appear to coincide with market value.

7. Alberta's Financial Management Practices

Recommendation: The GoA should make changes in financial management to treat all outstanding debt at commercial lending rates. The Timber Management Regulation interest rate would be changed from 1% compounded monthly to commercial lending rates.

Individual companies should be able to access or make application to the Minister of ASRD as permitted under regulation to treat outstanding debt at commercial lending rates.

8. FireSmart and MPB Projects

Recommendation: The GoA should enhance funding for existing FireSmart, other forest protection, and healthy pine forest projects to replace high risk stands.

This program is required immediately to deal with the risk to communities, watersheds and forest sustainability in Alberta. Given the current state of the forest sector, there are considerable efficiencies to be gained utilizing available harvesting equipment. The government would set up tendering criteria to complete prescribed work, while ensuring that any merchantable fibre generated from these projects would be competitively sold. Any projects planned on Forest Management Agreement (FMA) areas will require consultation with the tenure holder.

This program would also be expanded to deal with high risk MPB stands in critical areas (i.e. thinning programs in critical wildlife and/or watershed areas).

9. Government Building Standard

Recommendation: The GoA should adopt new or alternative building certifications to encourage the utilization of Alberta-grown wood in government funded projects.

Government infrastructure policy conforms with Leadership in Energy and Environmental Design (LEED) architecture requirements. There is strong concern that LEED gives preference to cement and steel structures over wood. LEED also requires that wood used in projects is sourced from forests and forest companies that have Forest Stewardship Council (FSC) certification. There are currently no FSC certified solid wood producers in Alberta, nor does the GoA have any plans to require FSC certification. There are other certification systems used by Alberta's forest industry such as Canadian Standards Association (CSA) and Sustainable Forestry Initiative (SFI) standards and these should be equally acceptable.

10. Biomass Eligibility for Carbon Offset and the Elimination of Biomass Utilization from Large Emitter Threshold

Recommendation: The GoA should formally recognize woody biomass as carbon neutral and utilization of woody biomass (heat generation, power production etc.) as eligible for carbon credits. Carbon emissions produced from biomass generated power should not be considered emissions for the purposes of tracking or reporting.

Managing the effects of climate change has become an important business proposition in Alberta and elsewhere. Alberta has a vested interest in finding technological solutions and eligible offsets within Alberta. Under the climate change convention, afforestation, and reforestation are recognized as being eligible as credits. Where biomass is used to replace hydrocarbons in new or existing plants and in all instances where biomass is used, it should be eligible for carbon credits.

The GoA recently passed the *Climate Change Emissions Management Act*, making Alberta the first province to regulate the accounting and reporting of emissions by large emitters. Regulations have been developed but a recent guideline change is in conflict with the regulation and commonly understood international protocols, including the Kyoto Accord. All large emitters (100,000 ton) are obligated to account for and publicly report their annual emissions. Carbon from woody biomass should be considered carbon neutral for reporting purposes. The current guidelines proposed by Alberta Environment include the carbon from biomass electrical generation as part of carbon budget. The N0x and CH4 emissions resulting from burning biomass is considered part of the targeted emission reduction. If emissions from biomass are included, the number of forestry manufacturing facilities required to account for emissions will grow significantly and the cost of compliance (offsets) will also be significant. Alberta Environment should review their proposed guideline change.

11. Human Resources

Recommendation: The GoA should take a lead role in facilitating industry access to federal programs and funding available for human resources assistance.

There is a policy interest in having individuals stay in the community, particularly during a shut down of mill operations. Government resources could cover the costs of apprenticeship training, costs for retraining individuals who are on short work weeks/temporary layoffs and/or provide resources to cover a portion of labour costs. This would position the individual to make adjustments if necessary, keep the individual in the community and provide assurance that human resources would be available to restart operations when required.

The GoA should provide the leadership necessary to access available federal resources. Programs could be modeled after those available in British Columbia. MOUs may be necessary between the two levels of Government and this should be initiated immediately. Also, under existing Employment Insurance regulation, "Work Share" arrangements can be negotiated which allow individuals to earn above the weekly amounts through a combination of wages and EI payments. The GoA should support applications by companies who pursue this program.

F. ADDITIONAL POSSIBILITIES

In preparing this report, the FISC considered all written materials, presentations from a number of industry representatives and independent ideas generated by committee members and advisors. While further deliberations are needed to adopt recommendations for longer term initiatives, the FISC agreed upon the urgency of submitting a set of short term immediate recommendations.

Long-term recommendations identified in the development of this report are presented in **Appendix 3** and will be discussed further in the second phase of this project. Industry sector presentations are also presented in **Appendix 4.** These ideas will be more fully considered in the next phase of this project.

It must be noted that all sectors of the industry were consistent in expressing their immediate challenges regarding short term operational cash requirements. All sectors requested the **consideration of bridge financing**, through loans or loan guarantees by the GoA. The FISC understands and accepts the facts behind this request. The FISC also recognizes that this request is a significant departure from the forest industry policies of the GoA and, if done, would have to be applied very carefully. A program of this nature could require significant resources; there is no guarantee it would keep mills operating in the long run, it may exacerbate the supply side of our current market challenges, and government monies could be at risk if mill failures arise after funding is provided.

Consequently, the FISC offered some additional perspective should the GoA determine that financial assistance to the industry is appropriate. It was suggested that the following conditions could apply:

Loans would be

- Available for a short period of time (i.e. one year);
- Offered at commercial lending rates;
- Capped at a relatively low amount that minimizes the risk to government; and
- Restricted to instances in which lending is required to maintain operations.

If the GoA chooses to support some form of bridge financing, the program must be made available immediately to serve its intended purpose.

It also came to the attention of the FISC that in order for the government to practice Integrated Land Management (ILM) and to manage Land Use (LU) the Minister should **consider the acquisition of resource inventory**.

The GoA, through ASRD, retains the ultimate responsibility for managing land use including forest resources in Alberta. Part of that responsibility includes reporting, at a variety of scales, on the state of this publicly owned resource to provincial, national and international audiences. Other responsibilities within the department include managing infestations of insects, diseases and weeds, reporting provincial level forestry statistics, and carbon budget modeling. The current situation where the industry (FMA holder) owns the inventory has prevented the government from meeting its obligations and needs to be rectified.

The GoA should also invest the funds to acquire and enhance resource inventory data on land not held under FMA (i.e. Crown managed forest lands). The GoA should enhance its ability to collect, store, maintain, and distribute this data to ensure the ongoing maintenance and industry's ability to use. Details of standards, marketability, confidentiality, and distribution would have to be established to ensure adequate security measures are in place to protect the integrity of the data and use.

While this initiative will be dealt with in the context of clarified roles and responsibilities between government and all industry, it is timely and requires immediate direction by the Minister.

G. CONCLUSION

At no time has Alberta's forest industry been in a more difficult situation. Global markets, increasing competition, trade agreements, strengthening Canadian dollar and operating costs are having a significant impact on the sustainability of the forest industry. While the industry is in a difficult position, it is important to ensure that Government actions do not exacerbate that situation. Opportunities must be considered carefully to ensure that the right steps are taken and the public's interest is being served.

The FISC is pleased to provide these recommendations for consideration by the Minister.

Appendix 1

Forest Industry Sustainability Committee

Committee Membership

a. Frank Oberle—MLA for Peace River (Chair)

b. Doug Griffiths—MLA for Battle River-Wainwright

c. Dr. Neil Brown—MLA for Calgary-Nosehill

d. Joe Constantino—Senior Vice President, Lumber, Millar Western Forest Products Ltd

e. Wayne Clogg—Vice President Woodlands, West Fraser Mills Ltd.

f. Ken Higginbotham—Vice President and Chief Forester, CANFOR

g. Brad Pickering—Deputy Minister, Alberta Sustainable Resource Development (ex-officio)

Committee Advisors

a. Cliff Henderson
b. Helmut Mach
c. Dan Wilkinson
d. Wayne Thorp
e. Ray Luchkow
f. Kirk Andries

Appendix 2

Softwood Lumber Agreement Facts and Considerations

The SLA (2006) was signed by the Governments of Canada and the United States as a negotiated settlement to the most recent litigation surrounding the softwood lumber dispute. This paper attempts to provide a simplified summary of a province's obligations and what might occur were a province to violate the conditions of what is recognized as a very complicated agreement.

A Province's Obligations – Anti-Circumvention

No action may to be taken to circumvent or offset the commitments of the SLA, including any action that would reduce or offset the Export Measures (i.e. taxes or quotas), timber pricing (e.g. stumpage or allocation) or forest management systems (e.g. costs of delivering tenure obligations). Any grants or other benefits provided shall be considered to be circumvention if they are provided to producers or exporters of softwood lumber products.

Exceptions

There are a few exceptions provided for in the Agreement that allow the province to undertake measures that do not circumvent the SLA. They are:

- timber pricing or forest management systems as they existed on July 1, 2006, including any changes that maintain or improve their reflection of market conditions;
- other programs as they existed and were administered on July 1, 2006;
- actions for the purposes of forest or environmental management, protection or conservation, including reducing wildfire risk, protecting watersheds, protecting, restoring or enhancing forest ecosystems; facilitating public access and use of non-timber forest resources, provided that those measures do not involve grants or other benefits that undermine or counteract the market pricing of timber; and
- measures that are not specific to the forest products industry.

Notification of Changes

The SLA spells out a number of transparency provisions, which require the province to inform the U.S. of any provincial policy changes within 45 days of the measure being adopted or amended, allowing for significant U.S. oversight over provincial stumpage systems. Any changes that impact the costs incurred by the forest industry must be notified including changes to stumpage, export tax levels or the costs related to holding tenure or manufacturing softwood lumber products.

Consequences of Non-Compliance

If either party believes the other has failed to enforce its legal requirements, the SLA provides for dispute settlement, including:

- Consultation, exchange of information, and full examination of concerns, in an attempt to arrive at a satisfactory resolution. Consult within 20 days of request; issue referred to arbitration if not resolved in 40 days;
- Possible third party non-binding mediation; or
- Arbitration. Parties each nominate an arbitrator, then the two arbitrators agree to a third arbitrator and a chair. A tribunal is formed within 55 days of the issue being sent to arbitration. The Tribunal's ruling is final and binding. The Arbitration Tribunal may recommend how to cure the breach or determine an adjustment to the Export Measures to compensate for the breach. Panel is to "endeavor" to issue award within 180 days after a tribunal is established (Panel could take longer than this). If Tribunal determines there has been a breach of the Agreement, it can issue direction on how to cure the breach within a short period of time (i.e. 30 days). The Tribunal will also determine the adjustment of the Export Measure (the tax) to compensate if the breach is not cured. The amount of remedy can be a specified "region" (i.e. province specific). If the remedy is not done, the US has the right to impose duties itself, in the amount specified. The entire process will take approximately one year.

Appendix 3

Additional Recommendations

(for consideration during the development of the long-term report)

The following itemizes a list of all ideas identified at FISC meetings and by other participants. The Working Group added several ideas for the FISC to consider, which the FISC split into two categories. The first list of ideas in the body of the report are considered immediate priorities that could be acted on immediately as they are viewed as being in the realm of possibility. The second is the following list that is considered much more difficult to execute or that will require more time. These ideas are provided as information and will be discussed in more detail in the report due in the spring of 2008. The FISC makes no comment or recommendations with respect to these issues at this time.

1. Fuel Tax

Recommendation: Fuel taxes on diesel and gas should completely or partially be eliminated on all forest products transport.

The removal of fuel tax for Alberta's industry would involve a change to the *Fuel Tax Act* or expand the exemption to allow the forest industry and the other industries to get an exemption under the exemption to purchase clear fuel.

Most of Alberta's industries enjoy a partial reduction of fuel tax on and off public road. The *Fuel Tax Act* allows specific consumers to apply for certificates, issued by Alberta Finance, Tax and Revenue Administration or Alberta Agriculture and Food, which allow the consumer to purchase fuel exempt from tax. There are two types of certificates available to consumers. T he first type of certificate permits consumers to purchase clear fuel exempt from tax. The second type of certificate permits consumers to purchase marked fuel exempt from tax. The AFPA are in the process of asking for new rebate levels. Government has attempted to remove the rebates for the forest industry on several previous occasions.

2. Ancillary Surveys

Recommendation: Ancillary surveys (historical resources, archaeological, traditional land uses) required for authorization of timber harvest should be absorbed by the GoA.

The forest industry operates on large landscapes and may impact a wide range of interests. The industry is currently expected to conduct a number of ancillary surveys prior to operating. In many cases these surveys are predominately designed to provide information to serve the public interest and as such should be conducted by the GoA or be cost recoverable by industry.

3. Raw Material Inventory

Recommendation: The GoA should provide mechanisms to ensure adequate front end inventory of logs are available for continued operations and/or for resuming manufacturing after shut-downs. In critical areas of the province, the government could provide assistance for log inventories as follows:

- **i) GoA would pay for the delivery of existing bush inventory; and/or**
- **ii) GoA would carry and provide a log inventory after a shut down; and/or**
- **iii) GoA would retain supply, retain ownership of the logs and charge industry at cost when the wood has been processed.**

Some operations in the province may or will be shut down because of current economic conditions and inability to provide for adequate log inventory to sustain the operations. A significant cost of doing business in Alberta is the cost of delivering raw materials to mills. In some areas this is compounded by the fact that some may have to deliver a full year of log requirements in winter only (3 months) to sustain their operation for the full year (12 months). The associated up front cost in association with low cash flow places some operations in jeopardy and can defer the harvesting of log inventory. When mills are forced to curtail or shut down it is extremely difficult to resume operations when log inventory is minimal or non-existent. This can result in the loss of contracting forces and extended periods of shutdown until winter harvesting can be resumed.

4. Cap Electrical Rates

Recommendation: Power rates should be based on the average pool rate in effect in 2004 ($0.05/kWh) and increases indexed to the annual CPI rate for a three year period beginning in 2008. In effect this is capping the annual energy cost at the national CPI average. This cap should be implemented in a way that does not affect the market place.

Alberta is the only truly deregulated electrical generation market in Canada. This has positioned Alberta to attract capital for new electrical generation. Many other provinces can only attract new power generation with incentives and loan guarantees.

Unfortunately, Alberta manufacturers are currently, and for the foreseeable future, at an energy cost disadvantage in comparison to other provinces. Alberta is the highest cost jurisdiction in Canada today, 3–4 cents/kWh higher than Ontario and New Brunswick. Power rates are expected to double again in the next ten years.

The government would have to provide a rebate for electricity prices above the 5.0 cent level. This rebate would be funneled through the electrical pool provider and allow a cost neutral rebate for the specific company.

Electrical pool price base rates are forecasted to increase from current base pool rate of 8.0 cents/kWh to the 11.0-18.0 cents/kWh range by 2010. This projection is based on current electrical generation and transmission capacity. Peak load rates in 2006 averaged $0.135 to $1.27/kWh and will increase to $0.20 to $3.50/kWh range over the next few years unless further power generation with adequate transmission infrastructure is put in place.

5. Public Consultation – Scope of Responsibilities

Recommendation: The capacity building requirements (human resources, funding) of the GoA consultation processes should be provided by the GoA. Secondly, the GoA should compensate the FMA holders for services provided in public consultation processes (i.e. Watershed PAC's, ILM, LUF etc) where their participation is required.

Public consultation has been a long standing requirement of GoA regulatory processes. Under policy, the forest industry is required to consult with interested stakeholders with respect to their plans and operations. Industry supports these requirements. Normal consultation costs include traveling to communities, information production and distribution and hosting meetings. Where Forestry Advisory Committees are formally established honoraria, travel expenses, accommodations and meals are normal costs of operations. However, certain costs incurred are considered beyond industry responsibility. These costs include exceptional payment for stakeholders to participate in consultation processes. Extraordinary expenses include professional fees, participation fees, training costs, third party independent review/analysis and other expenses related to the cost of capacity building. Ontario has a program paying $150 per person per meeting plus expenses. In addition, Alberta's Bill 46 has been passed, and reaffirms stakeholder rights, ability to intervene and to receive funding.

6. Grants to Transition to New Value-added Opportunities

Recommendation: The GoA could offer grants to allow operators to adopt new technology for short term, high-return projects that allow operators to transition from commodities to value added non-commodity products and new market opportunities.

Some forest companies do not have a sustainable future in the North American commodity forest product market. The government could assist in the transition from these markets through introduction of new technology that allows the mill to produce non commodity forest products for niche markets and/or offshore markets. The new products would allow a higher return in comparison with existing returns as a marginal commodity producer. For example, the milling and drying of high quality, low defect cants for furniture grade, metric sawmilling and other high valued remanufacturing is a possibility.

7. Stumpage Paid When the Product Is Sold

Recommendation: Stumpage should only be paid when the product is sold.

Alberta's tenure system relies on payment of stumpage once logs are scaled. This 'pay at the gate' approach was adopted last year, after years of stumpage being owed when the product was sold. Lumber and pulp production is reported monthly. All producers have 30 days after assessment to pay before interest accrues on the amount owing. OSB production is reported quarterly, and dues are calculated on the previous 3 months worth of production. The Auditor General would likely be concerned with changing back to the old procedure and would report those concerns publicly.

8. Holding and Forest Protection Charge Removal

Recommendation: The Holding and Forest Protection (H&P) charge should be eliminated from all forms of forest tenure.

Forest tenures are the only disposition type explicitly charged for H&P. These charges should be eliminated to align with other industry charges. The GoA could draft and implement an amendment to the Timber Management Regulation as well as an omnibus Order in Council to strike all H&P clauses from existing FMAs. The H&P portion of the charges are not differentiated and apply only to the forest industry. Other surface disposition holders pay rent to occupy public Crown land. The FMA holder is considered an occupant of the land under the *Surface Rights Act*.

The government has implemented a uniform H&P charge for all FMA holders with FMA renewals under the new FMA Renewal policy.

9. Defer Forest Management Planning

Recommendation: ASRD should defer re-submissions of Forest Management Plans (FMPs) for a three year period.

FMA holders are required to submit FMPs, as per their tenure, to reflect current resource management issues, situations and approaches. FMP development is a significant cost for a tenure holder.

ASRD has asked a number of FMA holders to amend their FMPs to address MPB conditions within their FMA. These amendments are over and above the timely plan submissions specifically described in the FMA.

10. Remove Reforestation Performance Check off Requirement

Recommendation: Industry's obligation for reforestation should be met at "establishment" rather than "free to grow". As a second option, this could apply only to areas that are subject to natural disturbances like fire and insect infestations. A third option would be to remove the reforestation requirement in its entirely from salvage areas.

Under current reforestation standards there is both a plantation establishment requirement at Years 3-8 as well as performance check off at years 8-14. The performance check off often requires vegetation competition control and perhaps other intensive forest management practices to ensure plantation growth is on track to meet performance targets.

11. Compensation for Quota Holders

Recommendation: Compensation collected from the energy sector would be provided to quota holders rather than to the General Revenue of the GoA. In addition, the deciduous operators requested that the charges should be revised to reflect the cost of salvaging or the requirement of salvaging should be removed.

The energy sector currently pays the GoA/FMA holder compensation when removing lands from forest production. The intent of the compensation and subsequent cost is intended to recognize the costs of replacing fibre on the forested land base. In the case of quotas or deciduous timber allocations (DTA), which are not land base tenures, the GOA collects the money. The GoA does not use the money to offset the impact and simply puts the money into General Revenue. Quota and DTA holders should collect this compensation as they will be impacted with future reductions in Annual Allowable Cut (AAC) or volumes. The monies would be used for appropriate programs as is required of FMA holders to replace the lost forest areas, including purchase wood.

12. Reduce Lumber / Increase Chip Production

Recommendation: The GoA should pay a sufficient chip price for "incremental increase" of chip production to sawmills to incent lower lumber production and higher chip production.

The industry is experiencing not only economic difficulty from a variety of factors but also inability to actually sell their full lumber inventory. As a result many lumber mills have curtailed production resulting in an increase in unit cost while trying to maintain cash flow by trying to sell fewer products. The objective of this initiative would be to reduce overall lumber production in Alberta because of the market, while at the same time maintain or increase pulp chip production.

The GoA would pay the lumber mills to increase their chip production incrementally, with the same amount of log input. It is anticipated that mills could do this without capital expenditures, with as much as a 15% increase over the current lumber conversion. The result would be less overall lumber being produced in the province, thereby providing some relief in the current lumber market situation. The current market value of residual chips does not come close to the value of the lumber so this would not happen in the normal market without intervention.

There would have to be rules applied to this to prevent a reduction in integrated pulp mills internalizing their chip production (i.e. cap the % incremental increase of chips, ensure overall % internal chips stays the same and the market value of chips in the province remains the same).

13. Using FMPs for Other Government Planning Purposes

Recommendation: FMP's should be used to assist in developing watershed and land use plans on a fee for service basis.

The government is contemplating a number of plans such as Watershed Basin Plans and Integrated Land Use plans. As these plans potentially overlap the FMA areas and the Forest Management Planning Manual requires the FMA Holder to address other resources in the development of the FMP, there is a potential to use the FMP data for other planning purposes. The FMA holder would make the data and analysis available on a cost recovery basis.

14. Retire Land from Production

Recommendation: Recommend that GoA acquires AAC from commodity forest product producers for the purposes of assuring other forest values.

Government would remove lands from existing forest tenures to assist in resolution of major conflicting land use decisions, assist in recovery plans for endangered species, critical watershed management or to kick start the bio-energy and bioproduct industry in province. This would be linked back to the pending land use framework that the Government is working on. The acquiring of land would result in compensatory damages owing, calculated using existing Timber Damage Assessment tables for evaluation. This could be done under existing policy, but historically, Government has been resistant to compensation for resolving land use conflicts.

15. Quota Holders Planning

Recommendation: Government would fund Quota Holders strategic and operational planning costs.

In the past ASRD prepared FMPs and did the operational planning and reforestation work for the quota holders. As the industry matured, and as the Government cut back on programs and services, the quota holders were given additional forest management responsibilities. Small quota holders are especially impacted in terms of cost and capacity to handle these extra responsibilities.

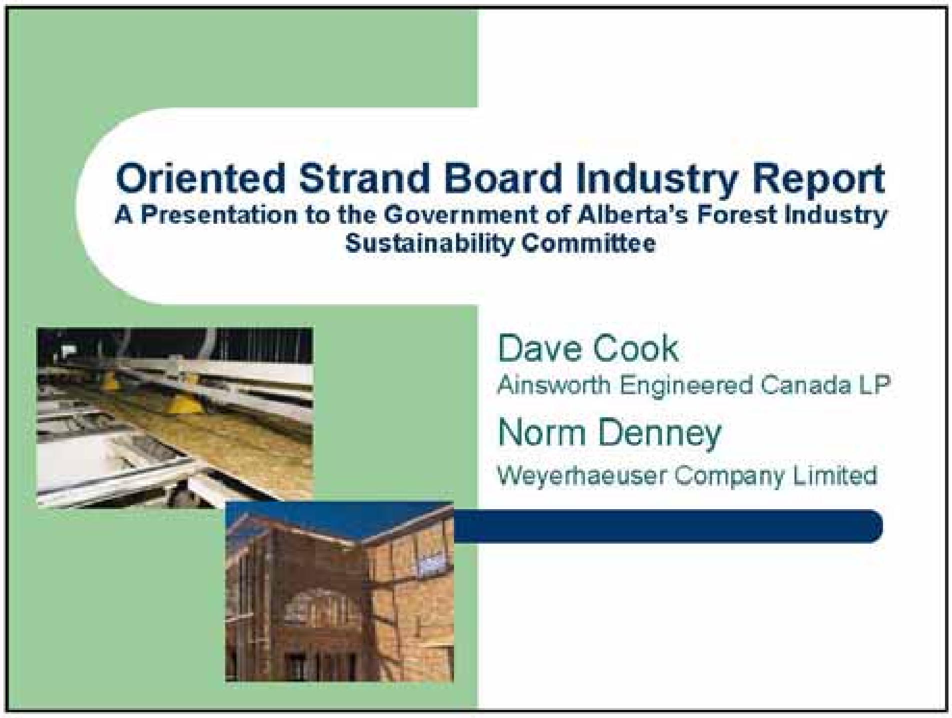
16. Suspend Incidental Harvest Requirement

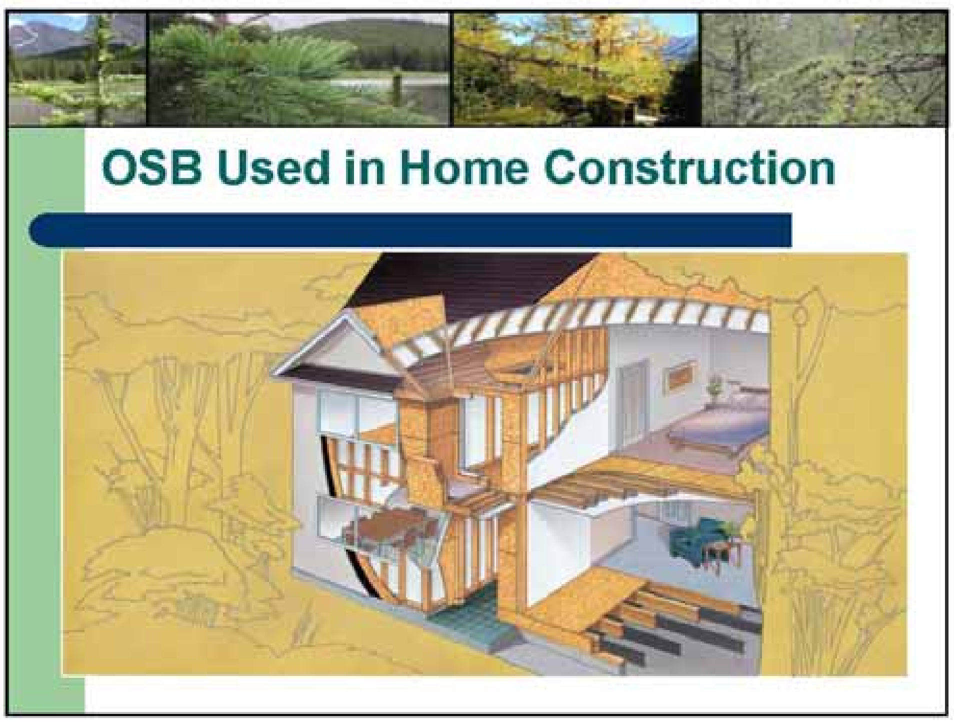
Recommendation: Government should suspend the incidental timber harvesting requirement for a minimum of three years.

Some quota holders are forced through quota conditions and Annual Operating Plan conditions to take incidental species as first priority. In some instances quota holders would achieve some relief by focusing their harvest operations on pure stands closer to the mills. The quota holders are directed to mixed wood stands where the other operator is harvesting, resulting in longer hauls and higher harvest costs in some cases. There are many issues related to operational and reforestation planning for the mixed wood Boreal areas if this was implemented broadly. There has been some localized implementation of this recommendation in response to specific groups of companies requesting incidental volumes being left on stump.

Appendix 4

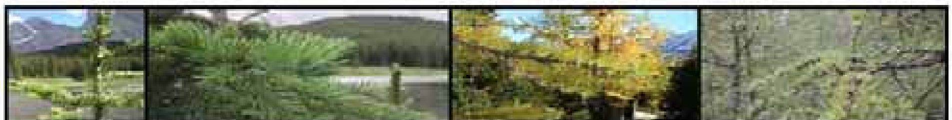
Presentations from Sectors


Oriented Strand Board Industry Report
A Presentation to the Government of Alberta's Forest Industry Sustainability Committee
Dave Cook
Ainsworth Engineered Canada LP
Norm Denney
Weyerhaeuser Company Limited


OSB Used in Home Construction

Mill Closures/Project Delays 2007

- **Ainsworth Engineered Canada LP**
  - January: Announces delay of $350 million expansion of Grande Prairie operations
  - Fall: Announces three-week curtailment in Grande Prairie
  - November: With partner Grant Forest Products, announce indefinite closure of Footner Forest Products OSB mill in High Level
    - Largest and most modern OSB facility in Alberta
    - Also ceased all logging and delivers effective December

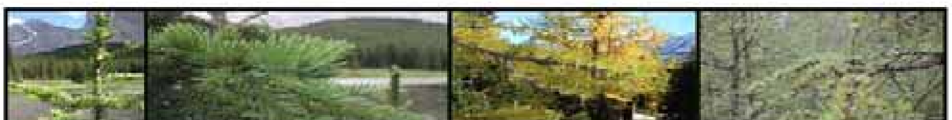


Mill Closures/Project Delays 2007

- **Tolko Industries Ltd.**
  - March: Announces indefinite closure of Slave Lake OSB facility
  - Summer: Announces 50% reduction in High Prairie OSB mill and curtails all logging and deliveries for 2007/08 operating year
  - November: Curtails High Prairie operations until market conditions improve

Mill Closures/Project Delays 2007

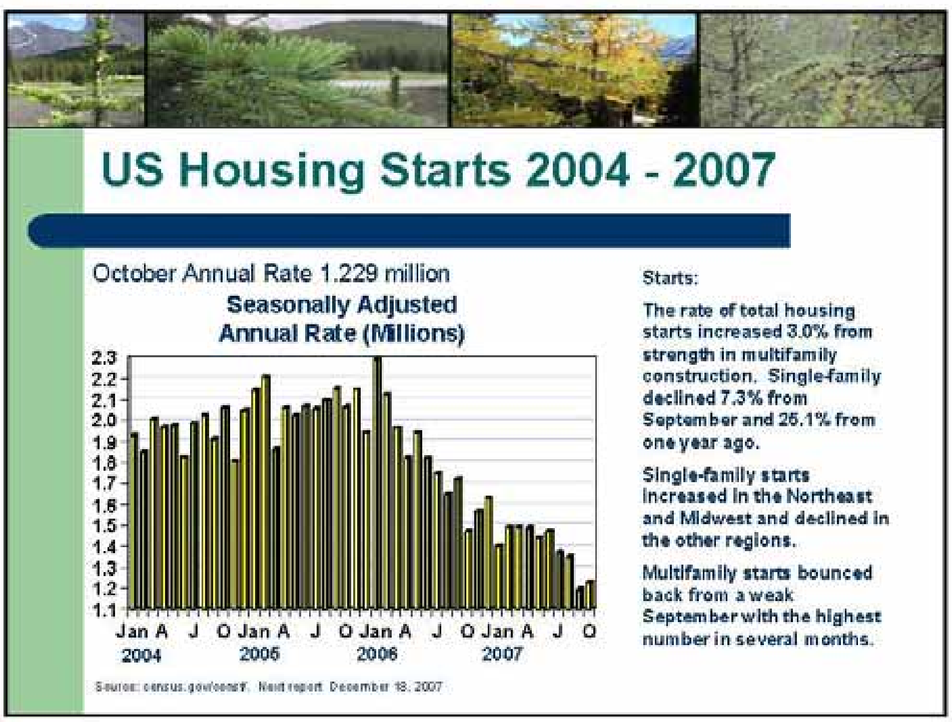
- **Weyerhaeuser Company Limited**
  - Summer: announces curtailments
  - Fall: announces indefinite closure of Drayton Valley OSB mill

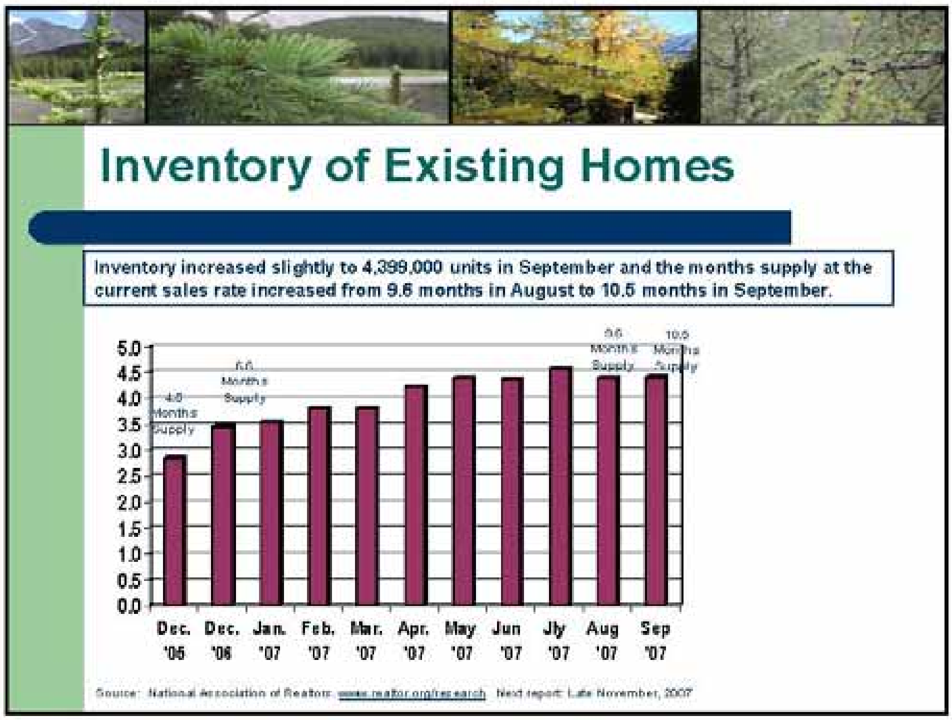


Projected OSB Impacts 2008

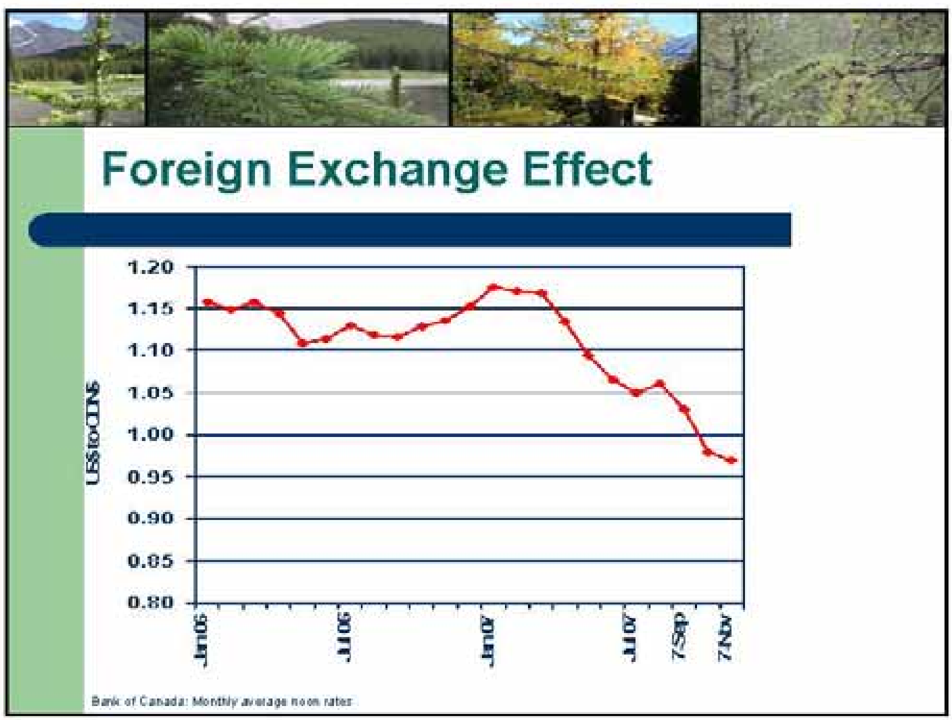
- **2007 a difficult year, 2008 looks no better**
- **Alberta OSB production will decline from 3 billion ft^2 to 1 billion ft^2**
- **More than 1,000 positions have been lost**
  - **Manufacturing and service/supply sectors**
- **Production decline removed > 3 million m^3 of hardwood log consumption**


Impacts on the OSB Sector
• Market downturn expected to last to 2009
• New investment in US South will challenge viability of Canadian facilities
– Low log costs
– Greater proximity to market
– Low taxes
• New capital investment/reinvestment into engineered wood products is a necessity
– To take advantage of superior engineering properties of Aspen


US Housing Starts 2004 - 2007
October Annual Rate 1.229 million
Seasonally Adjusted Annual Rate (Millions)
2.3
2.2
2.1
2.0
1.9
1.8
1.7
1.6
1.5
1.4
1.3
1.2
1.1
Jan A J O Jan A J O Jan A J O Jan A J O
2004
2005
2006
2007
Starts:
The rate of total housing starts increased 3.0% from strength in multifamily construction. Single-family declined 7.3% from September and 25.1% from one year ago.
Single-family starts increased in the Northeast and Midwest and declined in the other regions.
Multifamily starts bounced back from a weak September with the highest number in several months.



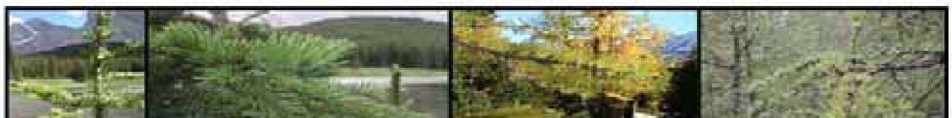
Inventory of Existing Homes
Inventory increased slightly to 4,399,000 units in September and the months supply at the current sales rate increased from 9.6 months in August to 10.5 months in September.
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
4.0 Months Supply
6.6 Months Supply
9.6 Months Supply
10.5 Months Supply
Dec. '05
Dec. '06
Jan. '07
Feb. '07
Mar. '07
Apr. '07
May '07
Jun '07
Jly '07
Aug '07
Sep '07
Source: National Association of Realtors www.realtor.org/research Next report: Late November, 2007



Foreign Exchange Effect
1.20
1.15
1.10
1.05
1.00
0.95
0.90
0.85
0.80
US$ to CDN$
Jan05
Jul 06
Jan07
Jul 07
7-Sep
7-Nov
Bank of Canada: Monthly average noon rates

OSB Will Recover

- Alberta's hardwood resource has superior engineering properties
- OSB **is not subject to** US countervail and duties
- Industrial markets are strong and growing
- US housing market will recover



Long-term OSB Demand

Key Drivers

- **New Residential Construction**
  - U.S. population
  - Home size
  - "Second" homes
- **Repair/remodeling**
  - Aging housing inventory
- **OSB substitution for plywood**
- **Growth in industrial application**

Near Term

Weakness in residential construction
- 32% decline in new home starts from Sep-05 peak to Mar-07
- Inventory of new and resale homes HIGH
- Mortgage rates steady but increased costs for low to mid income households (sub-prime)

- **OSB is a lower cost alternative**

Long Term

- **Fundamentals remain strong**
  - Increase in new home sizes
  - Rise in number of "second" homes
  - Growing population
- **RISI forecasts OSB to have 74% of market in 2011**

Significant long-term OSB growth potential

US Housing Forecast

Single Family and Multi-family only*

*Add approximately 116,000 manufactured homes to get total US housing production

APA U.S. Forecast

2004 = 1.96	2009 = 1.50
2005 = 2.07	2010 = 1.65
2006 = 1.80	2011 = 1.75
2007 = 1.38	2012 = 1.85
2008 = 1.24	

Continued high new and existing home inventories result in a downward revision for 2008 to APA's "Downside Scenario" of 1.24 million units. A bottoming out in mid-2008 is expected to bring a rebound in 2009.

Canada

2004 = .233
2005 = .226
2006 = .227
2007 = .210
2008 = .190

Immediate Opportunities to Restore Competitive Position

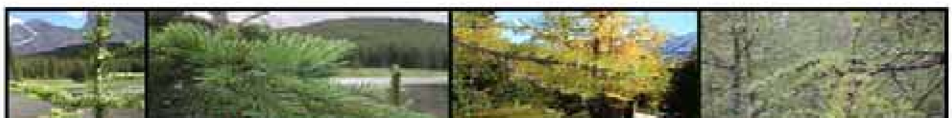
- **ENERGY**
  - OSB industry does not generate power from any facility, Alberta power rates are the highest of any competing jurisdiction
  - NEED: Rebate industry power costs to offset competitive imbalance with other jurisdictions for the next two years


Immediate Opportunities to Restore Competitive Position
• TAXATION AND STUMPAGE
– NEED: Defer municipal taxes and stumpage for two years (interest free)
– NEED: Rebate provincial fuel tax
– NEED: Province cover hidden taxes imposed by municipalities on road use & maintenance fees
– NEED: Municipal Tax Legislation Review
• Mill rates to be linked to markets – like stumpage
• Appraisal factors adjusted to consider depreciation, cost of capital construction in rural Alberta


Immediate Opportunities to Restore Competitive Position
• BRIDGE FINANCING – LOG INVENTORIES
– Required to bring logs from forest to mills
• Paid back when logs are processed
• Provides jobs for haulers impacted by closures
• Allow northern mills to generate immediate cash should markets recover during summer months
• SHARING CURTAILMENT COSTS
– Government invest in forestry employees by sharing labour and training costs during curtailment periods

Immediate Opportunities to Restore Competitive Position

- **MUNICIPAL TAXES**
  - Remove 10-15% Assessment Year Modifier
- **INCREASE HARDWOOD TDA**
  - Current hardwood TDA doesn't cover salvage cost
  - Either increase TDA or drop salvage requirement

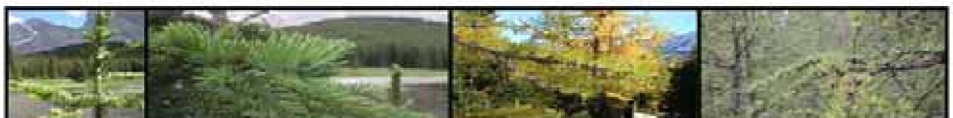


Immediate Opportunities to Restore Competitive Position

- **PROVINCE SUPPORTS PUBLIC FORESTRY ROADS**
  - FMAs overlap municipalities
  - Municipalities use regulatory power – particularly on public roads and bridges
  - Province take over/pay costs on existing forestry roads – maintenance, upgrades, etc

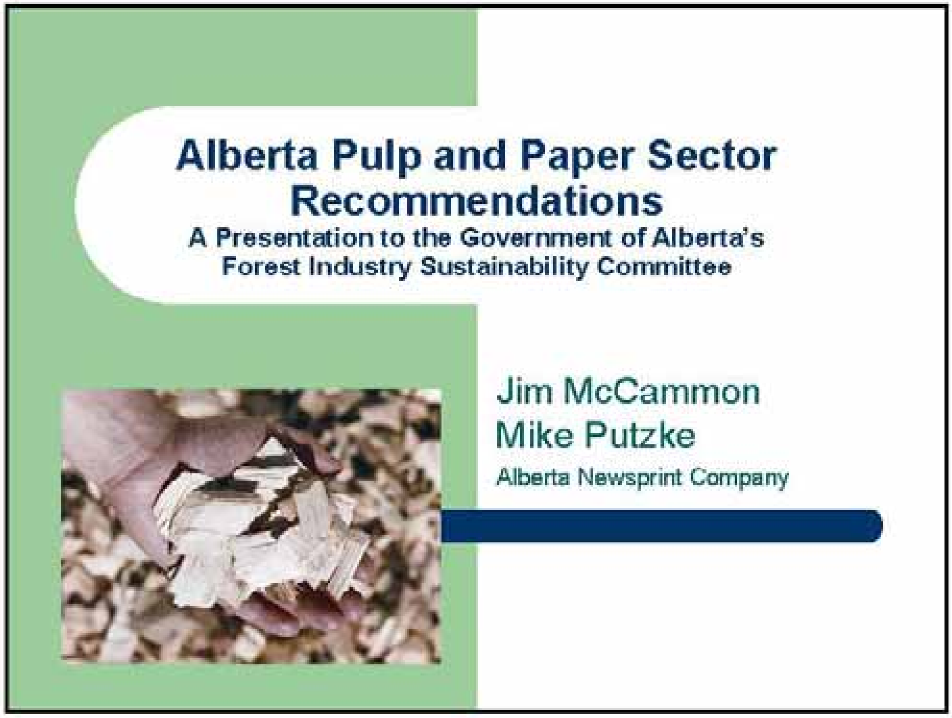
Immediate Opportunities to Restore Competitive Position

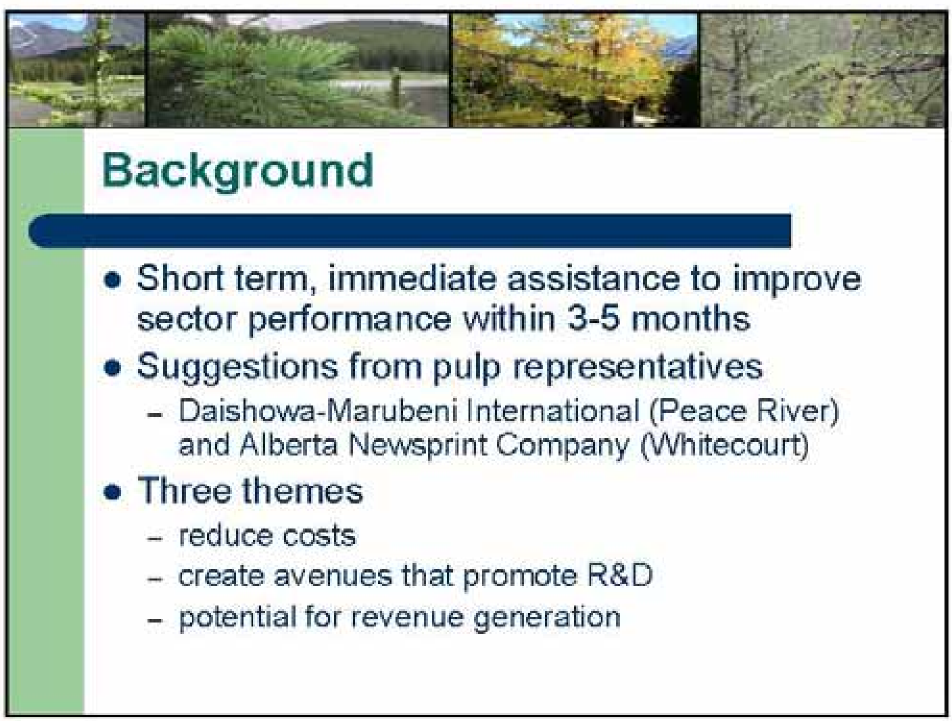
- FIBRE SECURITY FOR BIO-ENERGY
  - Province needs to invest to support a bio-energy economy
  - Incent opportunities to diversify into bio-energy



Mid-Term Needs

- **TRANSPORTATION**
  - Government invests to upgrade and improve rail infrastructure and service
- **FOREST PLANNING/ADMIN EFFICIENCIES**
  - Regionalize planning processes
  - Clarify industry and government responsibilities through policy review
- **PROVINCIAL INCENTIVES FOR CAPITAL**
  - Creative ways to incent industry to invest in Alberta to diversify product mix and produce energy


Alberta Pulp and Paper Sector Recommendations
A Presentation to the Government of Alberta's Forest Industry Sustainability Committee
Jim McCammon
Mike Putzke
Alberta Newsprint Company

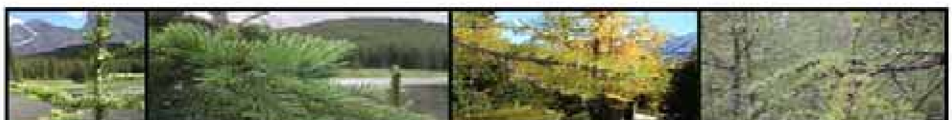

Background
• Short term, immediate assistance to improve sector performance within 3-5 months
• Suggestions from pulp representatives
– Daishowa-Marubeni International (Peace River) and Alberta Newsprint Company (Whitecourt)
• Three themes
– reduce costs
– create avenues that promote R&D
– potential for revenue generation


Immediate Relief Action Items
Fee reductions and Rebates
Increase natural gas rebates over current caps.
Establish rebates for power pricing over specified thresholds.
Refund Electricity Transmission Fee
Taxation
Refund Diesel Fuel Provincial Tax (raw materials to finished product)
Lower Municipal taxes (i.e. Remove assessment modifiers)
Relief on Greenhouse Gas Taxes (C02)


Immediate Relief Action Items
Forest Management
Eliminate holding and protection charges.
Fund integrated industrial road projects (construction and maintenance)
Fund reforestation activities.
Rebate aboriginal consultant expenditures.
Fund R&D for utilization of biomass for energy production.

Immediate Relief Action Items

- Reduce government fees
  - Rebate Health Care premiums for forest sector employers
  - Pay company portion of EI and CPP
  - Rebate Professional dues (RFP, RFPT etc.)
  - Air and water fees for operating licenses
  - Boiler branch fees
  - WCB payments
- Recruitment and training rebates
- Rebate ARC and FP Innovations dues for entire industry



Long Term Strategic Needs

Improve Productivity & Revenue Generation by

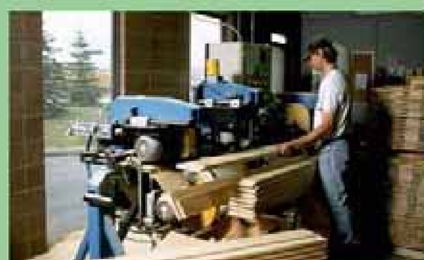
- Allowing changes to truck configurations to improve payload and reduce freight costs
  - While maintaining winter weights for log hauling
- Paying for construction of electricity transmission lines
- Supporting by-product development


Long Term Strategic Needs
• Ensuring cost neutrality for all new regulations
• Incenting new power-generation or energy conservation by industry
• Fostering fuller utilization of forest resource
– value added
– new products and bio-products
– link to R&D, incentives, and new tax policies


Long Term Strategic Needs
• Supporting and recognizing Carbon Credits generated by forest products industry
• Publicly supporting Federal Bill C-8
– for competitive rail service
• Eliminating AB Environment request to include $C0_2$ emissions from biomass burning/effluent in threshold calculations.

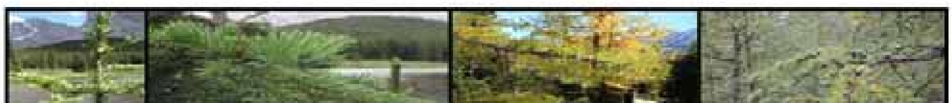
Needs of the Alberta Secondary Manufacturing Sector

A Presentation to the Government of Alberta's Forest Industry Sustainability Committee



Bob Murphy

Palliser Lumber Sales Ltd.



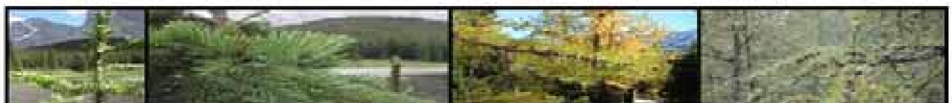
Sector Profile

- Sector viewed as low priority
- Lack of public awareness
- Lack of identity
- Fragmented industry
- Lack of consistent treatment between primary & secondary

S.O.S. – Save our Secondaries*

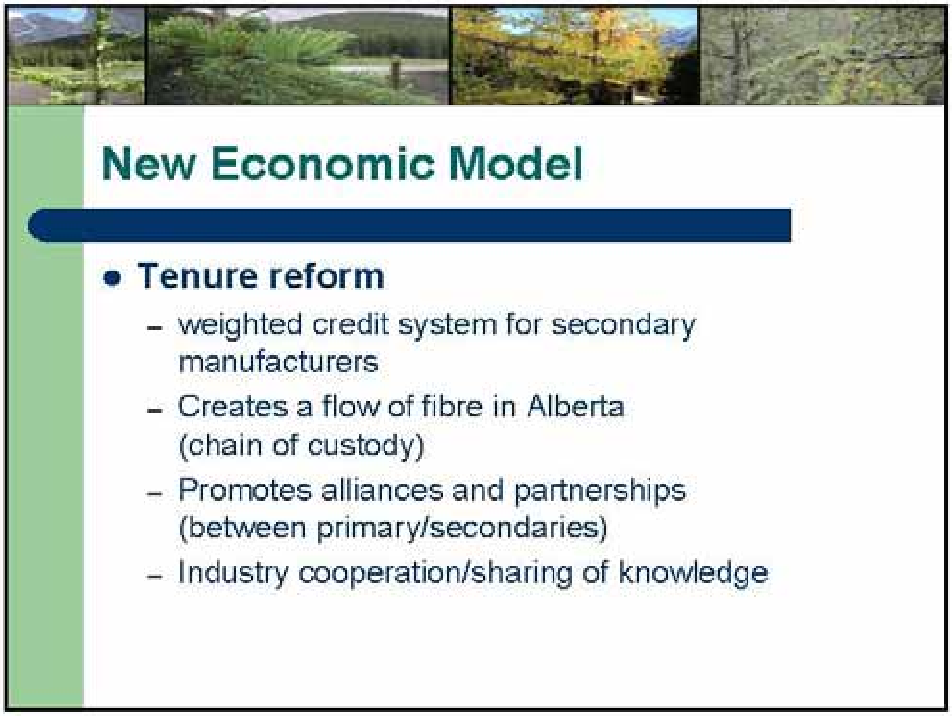
- Limited Fibre Supply
- Weak Market and Product Demand
- Trade Restrictions
- No Industry Cooperation
- High rate of Business Failure
- Consolidation in the Industry
- Ineffective Government Policies
- Weak Sector Profile / Identity

*Source: Alberta Economic Development Secondary Workshop 2005



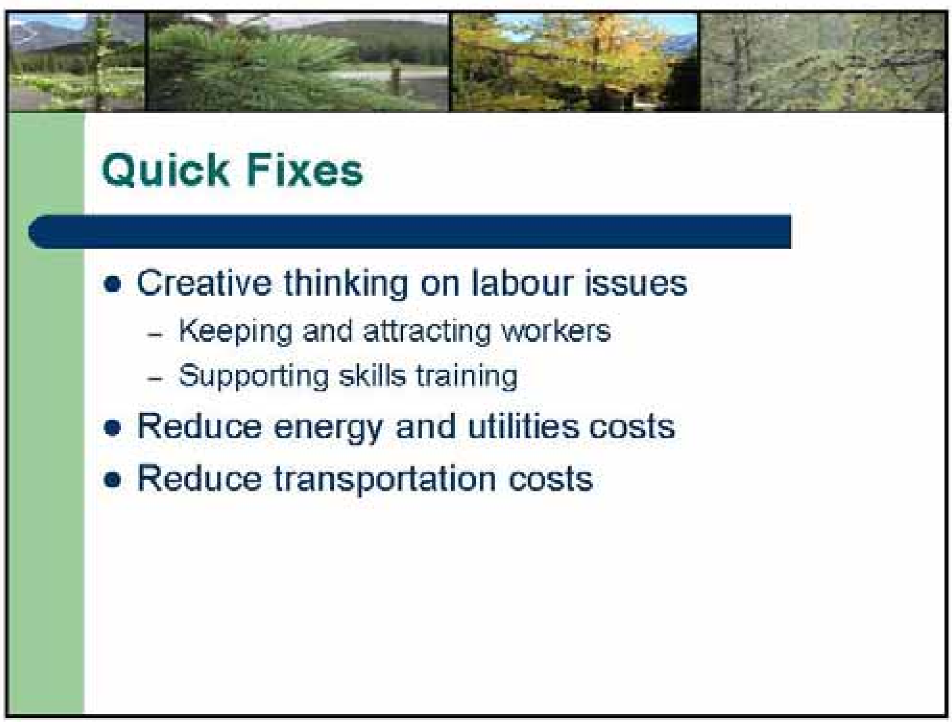
Access to Fibre
Primary vs. Secondary

	Primary (Guaranteed Fibre supply)	Secondary (No guarantees)
Allows facility to produce	✓	?
Access to Capital	✓	?
Creates options for markets	✓	?
Allows for Innovation, R&D strategies	✓	?
Allows for developing people	✓	?


New Economic Model
Tenure reform
weighted credit system for secondary manufacturers
Creates a flow of fibre in Alberta (chain of custody)
Promotes alliances and partnerships (between primary/secondaries)
Industry cooperation/sharing of knowledge


Research & Development
Sector specific initiatives supported and funded by the Province
Focus Areas:
Fibre
Product
Markets
Technology


Current Trade Agreement
Independent remanner status
Protect and expand exempt products
Sector exclusion


Quick Fixes
Creative thinking on labour issues
– Keeping and attracting workers
– Supporting skills training
Reduce energy and utilities costs
Reduce transportation costs

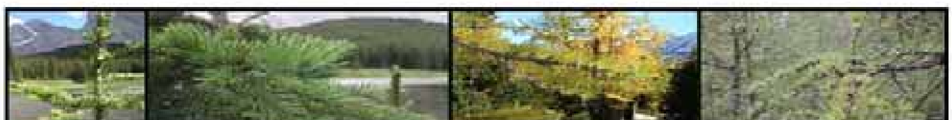
Longer Term Solutions

- Tenure reform
- Partnerships and alliances
- Incentives
- Review of current wood basket
- Secondary Pine Beetle strategy
- Industry/government champion

Short-Term Needs of the Alberta Large Lumber Sector

A Presentation to the Government of Alberta's Forest Industry Sustainability Committee

Ken Vanderwell,
General Manager
Vanderwell Contractors (1971) Ltd.

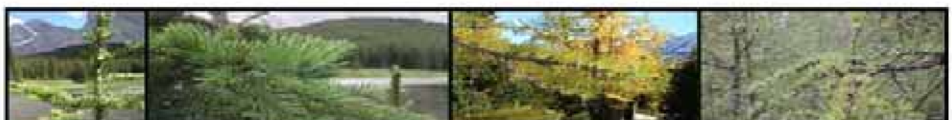


Close Gap Between Costs & Price

- Current gap between **input costs** and **market price** is $60-$70 per MFBM
- To stay in business, need:
  - Reduced Delivered wood costs
  - Reduced Manufacturing costs
- Short-term and longer-term measures needed

Need to Secure Industry Viability

- Close the input cost/market price gap ASAP to maintain industry through next 18 months
  - More shutdowns are coming
  - Market maybe stronger in 2009
- Make structural changes to provide opportunity for Alberta forest companies to regain global competitiveness.
  - Policy and regulatory changes needed

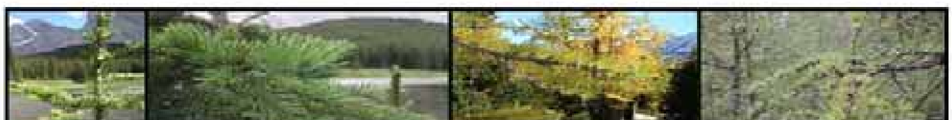


Immediate & Substantial Support

- **Fuel Tax**
  - Rebates for harvesting and transporting forest products
  - Provides immediate relief across industry
- **Energy and Utilities Costs**
  - Alberta pays highest electricity costs in Canada
  - Need utility rebate for electrical power and natural gas to stay in business

Immediate & Substantial Support

- Municipal Taxes on Mills
  - Reduce/eliminate municipal property tax on mills
  - New formula for determining increases
  - Tax credit for new machinery and equipment installations
- Government-guaranteed loans
  - Against inventory until sold
  - Low interest



Immediate & Substantial Support

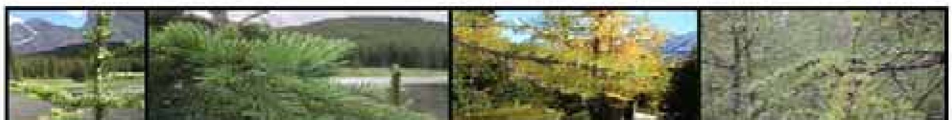
- Timber Dues Reduction
  - Index range of $0.01 - $420.00 on dues does not reflect current market conditions


Structural Changes
• Change Reforestation Obligations
– Industry responsibility to Year 8
– Gov responsibility from Y8 to Free-To-Grow
• Relieve industry's long-term liability
– Gov responsible for financing and reforesting all natural disturbance areas
• Provide incentive to utilize damaged resource
– Simplify policy and obligations for industry


Structural Changes
• Expand Gov financing for Resource Access
– Roads used by more than just the forest industry
– Gov should finance construction and maintenance of resource roads when used by more than just the forest industry
– Gov ownership of roads eliminates industries charging each other

Structural Changes

- **Change/Streamline Regulatory Systems**
  - Gov off-loading to end, start reloading on Gov
  - Rebalance roles and responsibilities to reduce industry costs
  - Eliminate/compensate industry for mandated resource & administrative data collection
  - Cooperative approach, common-sense based, meets Gov requirements and industry ability to resource



Structural Changes

- **Timber Damage Assessments**
  - Change TDA to allow right of first refusal and $ compensation of salvage to go to affected Quota holder
  - Would give Quota holder funds to purchase replacement wood
  - Timber salvage policy must align with AAC and mill needs