

Forest Industry Competitiveness

Recommendations for Enhancing Alberta's Business Model

Submitted by
the Forest Industry Sustainability Committee

Final Report
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1.0 Introduction

At no time in Alberta's history have the competitive challenges of the forest industry been more acute and systemic.

Alberta's forest industry currently faces serious, unprecedented competitive pressures. Dramatic changes in markets, economics, domestic and international competition and changes to the local operating environment threaten all sectors of the forest industry, and jeopardize the long-term benefits that Albertans have come to expect. 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. The rising value of the Canadian dollar, increasing input costs (e.g. energy prices, cost of transportation), competition from lower-cost offshore producers and domestic competition for labour and materials have reduced profitability, placing some industry sectors at risk.

In response to this situation, the Minister of Sustainable Resource Development struck the Forest Industry Sustainability Committee (FISC), and mandated the FISC to make recommendations for improvements to Alberta's forest business model that would enhance industry competitiveness and improve the delivery of public policy. The FISC is comprised of three Members of the Legislative Assembly (MLAs) and three senior forest industry sector representatives with support from a Secretariat comprised of technical professionals (a complete membership list appears in Appendix 1). The FISC relied on previous work undertaken and received presentations from a variety of experts (see Appendix 5). More specifically, FISC reviewed the report entitled "Recommendations for Enhancing Alberta's Business Model" completed in April 2007 and submitted to the Minister by the Alberta Forest Products Association (AFPA). The vision, drivers, shifts and outcomes identified in that report form the foundation for the FISC's work. Many of the specific recommendations from this and other reports have been, or are actively being, worked on by the Government of Alberta (GoA).

The growing range and complexity of challenges faced by the forest industry, and its capacity to address them, is at the heart of the competitiveness issue. Changing social values, conflicting land uses, certification, ever increasing demand for access to public land and resources, climate change, increasing recreational use of forests and a host of other external demands have increased the complexity of doing business in Alberta and abroad. Government and the public have growing expectations of industry; however, the capacity of the industry to address these challenges has significantly eroded. Threatened annual allowable cuts, diminishing landbases, declining capital, insecure fibre supplies and increasing costs have placed the industry

in a challenging competitive position. If the industry is expected to remain competitive it must have sufficient capacity to address the full range of issues, or limit the issues within which it must contend.

In December 2007, the FISC provided the Minister a series of recommendations entitled “Recommendations for Immediate Consideration”, which focused on near-term issues requiring attention. In this report, the FISC shifted its focus to issues of strategic importance for the forest industry and the province in general, considering ways to enable effective and efficient delivery of shifting public policy objectives, while supporting and maintaining a vibrant and competitive forest industry over the long term.

It is important to note that the Softwood Lumber Agreement (2006) (SLA) between the U.S. and Canada provides some key policy context for Alberta’s forest management model, and contributes context for the development of recommendations. Under the SLA, no action may be taken to circumvent or offset the commitments of the SLA, including any action that would reduce or offset the Export Measures (e.g. taxes or quotas), timber pricing (e.g. stumpage or allocation) or forest management systems (e.g. costs of delivering tenure obligations). More information about the SLA can be found in Appendix 2.

The FISC believes that the SLA should be respected and supports continued compliance. The strategic direction outlined in this document is consistent with the current provisions of the SLA.

2.0 The Alberta Business Model – Change is in Order

The pressures on Alberta's landbase continue to grow. With this growth come challenges to all users of public land, including the forest industry. Government, and industry, must respond to this changing business environment and ensure that the policy environment continues to be responsive to the demands of the resource owners—the citizens of Alberta.

This requires a significant shift in perspective. With the rapid pace of change in the local, national and global business environment, improvements to the business model are required. Maintaining the status quo is not an option. Improvements to the business model need to reflect the challenges facing the industry, and a clear vision for forestry in Alberta's future.

The vision, drivers, shifts and outcomes identified in the original report entitled "*Recommendations for Enhancing Alberta's Business Model*" were discussed and modified, and provide important policy direction for the recommendations contained in this report (see Appendix 3). Appendix 4 provides a complete analysis of the current business model.

Maintaining the status quo is not an option.

3.0 Business Model Reforms – Key Strategies for Enhancing Competitiveness

The FISC generally accepts the key recommendations of the previous report and strongly supports continuing the work already underway. Additional advice was received from a wide array of presentations by industry and subject matter experts. Based on this review the FISC concluded that enhancing the industry's competitiveness requires specific new directions and business model reforms. From a strategic perspective, seven broad strategies were determined to improve industry competitiveness and to position Alberta's forest industry to capitalize on emerging opportunities. The seven primary strategies are:

Strategy 1 – Rationalizing the Planning and Management System

Strategy 2 – Bringing Tenure into Alignment

Strategy 3 – Managing Strategic Costs

Strategy 4 – Addressing Infrastructure Needs

Strategy 5 – Capitalizing on Alberta's Energy Interests

Strategy 6 – Diversifying Products and Markets

Strategy 7 – Enhancing Communications and Branding

Strategy 1 Rationalizing the Planning and Management System

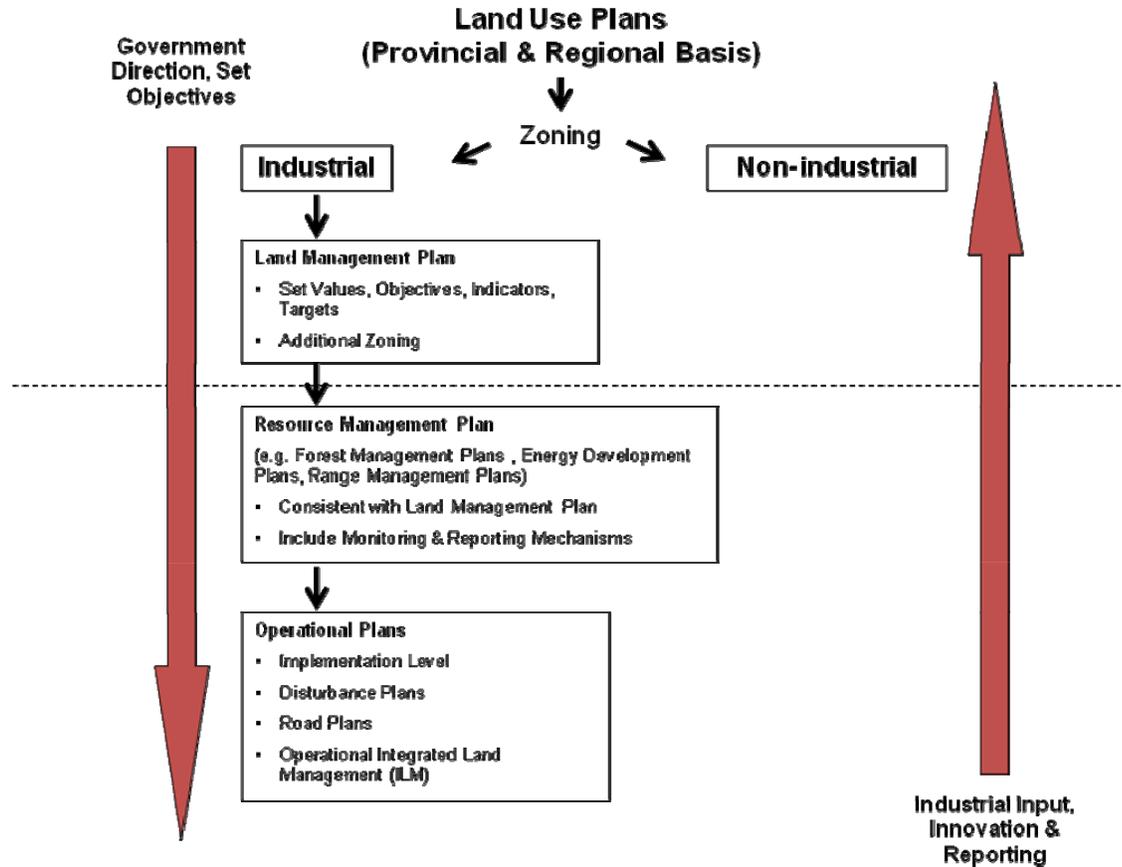
Alberta is blessed with an abundance of natural resources; their progressive development has positioned the natural resources sector as the backbone of the Alberta economy. At the same time, the use of natural resources must be managed wisely to ensure the sustainable flow of benefits and services that does not compromise future opportunities. Management systems have evolved over time to reflect the interests of Alberta's resource based industries on an industry- and project-specific basis. As demand for access to public land and resources increases, the need to plan for and address multiple and complex land use and management decisions also increases. Current management systems were not designed to deal with these complexities. Consequently, there is a need to develop integrated resource management systems that facilitate government and industry alignment and deliver optimal value to Albertans and resource developers.

It is these circumstances that have stimulated the development of Alberta's Land Use Framework (LUF). Albertans have recognized the growing challenges emerging from the province's robust economy, and Albertans want the government to take a stronger leadership role in balancing economic, social and environmental interests. The primary instrument for balancing interests and establishing direction will be the implementation of land use planning. Alberta has been without a formalized province-wide land use planning system. The LUF presents an opportunity to rationalize Alberta's land use planning system and establishes the means to address "value choices" at appropriate scales. A formal institutional structure for implementing the LUF is now being established and the LUF is expected to become operational this fall. Additional clarity regarding roles and responsibilities is required at all levels of the management system.

The LUF, once operational, will have to be supported by a planning hierarchy that ensures seamless integration across all scales of planning. Lower level plans, and actual industrial operations, will have to be consistent to ensure that land use decisions are translated into on-the-ground actions.

Figure 1 presents a proposed planning hierarchy, which would be consistent with both the LUF and current surface resource planning. Such a hierarchy will be necessary to ensure that industries can manage and control their own operations, while ensuring the Government is able to meet its own stewardship responsibilities.

Figure 1: Land Use, Land Management and Resource Management Planning Relationships



Land use planning must incorporate both top down and front end planning requirements. Top down planning should be multi-scale, with emphasis on strategic and tactical planning, supported by effective operational procedures or guidelines. To date, planning has generally utilized operational guidelines in an attempt to solve strategic and tactical problems. Front end planning will include multi company and industry coordination, to allow pre-development planning to adjust and integrate tactical procedures.

Large scale land use plans will assess options, define outcomes, zone landscapes and conduct assessments of the social and economic tradeoffs required. This process will occur at a variety of scales and most certainly at the regional and sub-regional levels. As planning becomes more detailed, more detailed value assessments and resource based tradeoffs are required. During management planning, the determination of values, objectives, indicators, and targets will be completed and will provide essential direction

for resource management and operational plans. This approach provides a balance between environmental objectives and socio-economic values.

Individual resource users will need to develop resource specific plans indicating how they will meet identified objectives. Resource Management Plans will describe broadly the intentions for development of that particular resource allocation and an assessment of potential impacts on other values over a set period of time. In the forest industry, this work is currently done through the Forest Management Plan, but has been constrained by not being fully integrated with other resource sectors' plans.

Finally, Operational Plans are prepared to identify the timing, location and practices involved in operational delivery. Operational Plans are typically the instrument used to provide the final approval to conduct operations. An Annual Operating Plan is a good example in the case of the forest industry.

Establishing a planning system provides the framework necessary for clarifying roles. Clarifying the role of government and industry in land use management and planning lies at the heart of building a new forest business model. With increases in conflicting landbase uses, social value shifts, greater demand for sustainable forest management and increasing energy activity, the current model no longer works. With a renewed commitment from government in the role of land use planner and land manager, resource based industries can focus on improving their competitiveness, developing innovative means of mitigating impacts on other values, and working in partnership with government.

Recommendation 1

The GoA should implement the LUF and assume full responsibility for land use and land management.

This LUF creates an appropriate land management model, under which the variety of regional and resource management plans, as well as implementation plans can be developed to fully integrate users of the landbase. The Province must assume full responsibility for stewardship at this level. The need for sub-regional or management planning must also be acknowledged. Land use plans should be outcome based, not prescriptive.

- The GoA should be responsible for all stewardship functions and costs that are not considered core to the development and delivery of resource management and operating plans.
- Industry should develop resource management plans that are consistent with the LUF. In consideration of the forest industry's role as delivery agent, industry must be afforded considerable flexibility to develop innovative ways to achieve desired outcomes and report accordingly.

Recommendation 2

A land use zoning system should be developed to enable the achievement of different management objectives.

- A land use zoning system should be developed to support the implementation of the LUF. Zoning should be used to increase certainty and security, minimize conflict on the landbase, improve integration amongst resource users and reduce the environmental footprint of development.

Recommendation 3

The GoA should establish a comprehensive resource information system and acquire the data necessary to accomplish its land use, management and stewardship responsibilities.

Good land use decisions require accurate, timely and accessible information. Greater collaboration between land users, sharing of information and a sound system of monitoring, evaluation and reporting is needed for proper land management. The LUF sets this in motion. An important component of the information, monitoring and knowledge system will be the Biodiversity Monitoring Program, carried out by the Alberta Biodiversity Monitoring Institute.

In order to implement adequate land management planning effectively and fulfill its role as land steward, the GoA should establish a comprehensive resource information system with quality information/data. Quality information is critical in the delivery of good planning and, at present, the Province lacks the quality data required.

- With respect to the forest resource, the GoA should initiate acquisition of relevant data for planning and other purposes. Alberta Sustainable Resource Development (SRD) already has access to certain vegetation data layers; however, many forest inventory data sets are held and owned by forest companies. SRD only has access through data sharing agreements, which restricts the use and distribution for management purposes. This has placed the land owner (the government) in a role that limits its ability to assume its role as steward effectively. Up-to-date data (current state of the forest) is a prerequisite for any level of planning.
- In implementing the planning hierarchy, Alberta should continue to use the CAN/CSA-Canadian Standards Association X809-2002 Sustainable Forest Management to guide the development of integrated Land Management Plans.
- The GoA should consider assuming responsibility for achieving Sustainable Forest Management third party certification for land use and land management planning.
- The GoA should encourage industry to have credible third party certification of their operations.

Recommendation 4

The GoA should align legislation, regulation and policy to enable implementation of the proposed planning hierarchy.

- Both the Public Lands Act and the Forests Act must be amended to provide the legislative foundation for the proposed land management structure and to enable progressive change. Wholesale changes are needed to mandate sustainable forest management, the recognition of the new roles and responsibilities, restructuring and rationalization provisions, compensation and other relevant issues. The current legislative framework also lacks the flexibility to allow for the challenges of the future, such as bio-energy, the provision of many non-timber ecological goods and services (EGS), carbon ownership and valuation issues. Currently, both Acts focus on the allocation of resources, rather than their management (e.g. the Forests Act is fundamentally about timber development). The legislative framework must address sustainable forest management and the provision of non-timber values. Consideration should be given to consolidating relevant existing legislation into an omnibus resource management act.

Recommendation 5

The GoA should mandate appropriate integration at all levels of the planning and management hierarchy.

Integrated management should be a mandatory requirement of all resource managers. The goal of integrated management must be to have full integration at all levels of the planning and management hierarchy (policy to operations). The current planning model allows competing and often conflicting users to plan independently. Under the proposed planning model, all resource users would be required to plan within the relevant land use plan for a particular region, providing each land user common policy direction. All land users should be accountable for operating within and jointly delivering management objectives. This should be supported by alignment and integration of government departments and their administrative and management functions. This alignment of resource users would foster more efficient operations and enhance environmental performance, through a reduction of the industrial “footprint”. Examples include joint access planning, coordinated access management, joint approaches to addressing aboriginal issues / opportunities, forest reclamation, data management and information sharing.

- The legislative, regulatory and policy framework should be designed to deliver integrated management and ensure optimal alignment and cooperation.
- The GoA should consider organization and structural changes to integrate all departments. A dispute resolution mechanism should be designed to address conflicts and resolve policy issues.
- Government should establish a long-term sustainable funding mechanism and governance structure to support integrated landscape management. Funds collected from all forms of Crown land use dispositions would address new or enhanced requirements for jointly operating on the landbase. The structure could be similar to other delegated administrative organizations already supported by the GoA, with funding made available to a broad range of landscape managers for various integration activities.

Strategy 2

Bringing Tenure into Alignment

Unprecedented growth in Alberta's natural resource industries has led to cross-sectoral conflict and public concern over cumulative effects on the environment. With an investment of over \$100 billion in new energy developments projected for northern Alberta over the next 20 years, and with the province's timber resource now almost completely allocated, the impacts of these projects on the environment, infrastructure and other values must be carefully managed. Albertans have come to recognize that there are multiple business and environmental values attached to the land. Whether it's a job in the energy industry or wildlife habitat, it all takes space and one value impacts another. This reality is challenging our conventional notions of tenure.

Forest tenure is the primary government instrument to allocate timber resources. Alberta's forest tenure system has been in place, essentially unchanged, since 1966. In 1966 the tenure was designed to meet a suite of objectives such as enhancing the security of fibre, providing for community stability, enhancing investment in mills and timber extraction infrastructure, and providing for sustained yields of timber. The tenure system has been extremely successful in meeting these objectives; however, current political, economic and social circumstances have brought the system into question. Today's political and operating environments are significantly different than they were in 1966, and tenure systems need to be driven by current objectives more reflective of today's realities.

There are new and compelling challenges emerging out of the political and business environment. These include:

- 1) **Enabling the planning hierarchy to become fully operational**—Aligning with the LUF and implementing the proposed planning hierarchy is seen as a progressive and clarifying step. A clear and rational planning hierarchy will ensure land use decisions are made at the right scale, trade-offs are appropriately made and implementation completed to minimize the impact of one resource use on another.
- 2) **Clarifying the roles and the distribution of land management and stewardship responsibilities**—Clarification of responsibilities and expectations is required to provide necessary certainty and to manage business costs successfully. With a

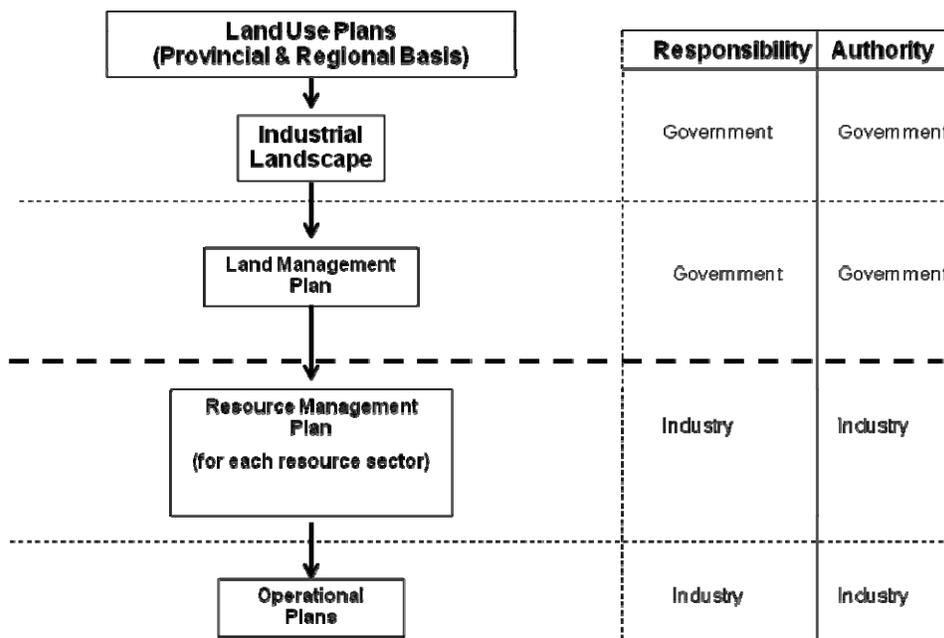
commitment of government to the role of land manager, the forest industry can focus on core business, improving competitiveness and working in partnership with government. It is expected that cooperation between tenure holders will improve considerably, as industry looks to find the most competitive way to access and rationalize fibre flows.

- 3) **Enabling the achievement of new objectives in the future**—The provision of a broad range of non-timber values and EGS is a desirable outcome. Potential opportunities exist to address carbon management, biodiversity, and bio-economy to name a few. The tenure system needs to be aligned to enable the achievement of these objectives.
- 4) **Responding to changing public values and expectations**—Albertans value their forests and have expectations of its management and utilization. These expectations change with time and the system must be flexible to adapt to these changes in a timely fashion.

The planning hierarchy envisioned in Figure 2 would provide a mechanism to ensure that management of public lands could be done in a sustainable and consistent fashion between all resource users. Unfortunately, the current tenure system does not contemplate such a hierarchy, and does not clearly define the responsibilities or authorities associated with management.

Figure 2 again presents the planning hierarchy, but with additional detail regarding responsibility and authority at each level of planning. It is clear that government must conduct land management planning, because no singular industry can be charged with setting objectives for other industries.

Figure 2: Proposed Land Use, Land Management and Resource Management Planning Responsibilities



Alberta's energy sector is also a major user of the forested land base. Energy companies' interests in subsurface resources require surface access. In many cases, the annual allowable cuts have been reduced as energy sector access withdraws lands from timber production. The new business model must recognize the significance of the energy sector on ecological sustainability (vegetation management) and must align the interests of both the energy and forest sectors when making land use and land management decisions. This is even more important when considering a new focus on overall integrated management. The two industries must work together as strategic partners in areas such as biodiversity, ecological sustainability, innovation, effective mitigation measures, and adaptive management to ensure long term access to the resource.

New objectives and changing social, environmental and economic circumstances point to the need to fully assess Alberta's current forest tenure system and adjust those systems to enhance competitiveness and sustainability. As well, the assessment of the tenure system must include changes that will make Alberta less vulnerable to trade action from the U.S.

While the committee is unanimous in the need for change, it wishes to stress that changes must be made in full consideration of the impacts of other stakeholders.

Recommendation 6

The GoA should ensure the forest tenure system is aligned to deliver the land use planning and management model.

The GoA should undertake a review of current forest tenure instruments and make recommendations on improvements designed to achieve alignment with the LUF and better management of business costs or opportunities arising from the use of Alberta's forested land base. The scope of this work should include but not be limited to roles and responsibilities, rights and obligations, dispute resolution, compensation, cooperation and other relevant matters. Stronger tenures should support areas identified for intensive management.

Recommendation 7

The GoA should consider immediate changes to the tenure system that will enable industry to rationalize fibre supply and reduce costs.

Some changes should be made immediately to improve the ability of the forest industry to respond to the current challenges, be less vulnerable for trade action, and position the sector well into the future. These changes could also serve to facilitate the entrance of new operators into the market.

The government, while maintaining Ministerial oversight, should:

- Eliminate appurtenancy requirements on all forest tenures (with due consideration of existing FMA requirements) – remove requirements that tie wood fibre use to a particular facility to allow fibre to flow to its highest or best use. Appurtenancy results in a captive wood supply, which skews incentives for investment in manufacturing facilities, and subdues rationalization of forest industry interests.
- Make forest tenures openly transferable - Forest tenures in Alberta are not fully transferable. Transferability creates incentives to reallocate wood to highest value uses.
- Make forest tenures divisible provided it is compatible with sound forest management principles - Allowing tenure holders to partition their forest tenures would result in realization of comparative advantages individual companies may have.
- Align management and operational strategies to short- and long-term objectives - Cut constraints, harvest profiles and other parameters should be flexible to enable achievement of management

and market objectives.

Recommendation 8

The GoA should ensure the relevancy of compensatory funding guidelines and their use.

- The methodology of Timber Damage Assessment (TDA) calculations should continue to be reviewed and adjusted where necessary, to ensure it remains up to date and relevant to the current situation in Alberta. Thresholds should be established to recognize the point at which land use impacts erode the forestry operation's sustainability.
- All funds collected through compensation (i.e. TDA) by Forest Management Agreement (FMA) holders on their FMA lands, and by government on non-FMA lands should be reinvested back into the forest resource (e.g. reforestation of natural or anthropogenic disturbances).

Recommendation 9

The GoA should ensure the tenure system enables the realization of the carbon economy.

There is a need to align government climate change and forest policy regarding a clear and sustainable role in Alberta's carbon and energy market. The most pressing carbon issues facing the province are the matter of carbon ownership, methods of generating credits, and how credits can be used. These require immediate attention and direction. An interdepartmental Working Group should be established immediately to investigate and determine the best way to enable and engage responsible carbon management. Tasks must include resolving the ownership of carbon and carbon credits, clarifying the role of forest management as a carbon management tool, researching opportunities for regional power generation and removing regulatory impediments to stimulate necessary investments.

Strategy 3

Managing Strategic Costs

Controlling costs and using low cost production as a competitive advantage has been a fundamental business strategy for Alberta's forest industry. In the past, government and industry have worked together to maintain cost leadership when compared to other jurisdictions. This strategy was

particularly important when considering Alberta's unique challenges such as distance to markets, distance to deep-sea ports, and productivity of the forest.

Alberta's competitive position has eroded over the years due to more favourable cost structures established in other jurisdictions and increasing cost pressures experienced in the province. These costs are largely systemic. The same cost pressures are being felt throughout Alberta's economy; therefore, addressing these pressures will likely require joint efforts by Alberta-based industries, supported by the GoA.

Since 2004, Alberta has experienced a combination of provincial, national and international economic forces that has significantly eroded Alberta's advantage in comparison with other Canadian jurisdictions. 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 industry have worsened. Throughout this review, industry and government have identified the following contributing factors:

- 1) **Inflation**—Alberta is experiencing an annual inflation rate 4 to 6% above the national average. Alberta inflation rate started to deviate from the fairly consistent national rate of inflation of 2.5% in 2004.
- 2) **Labour**—Alberta has developed a chronic shortage of skilled labour. The forest industry has a history of training apprentices and losing them to competing industries, and has struggled to keep the workers lured by the much higher wages offered by oil companies. Labour costs in Alberta have risen higher and quicker in comparison with other forestry jurisdictions. 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. Other jurisdictions continue to protect their manufacturing industry from true energy market prices. The result is that Alberta manufacturers now pay 10 to 30% higher energy costs than other provincial forestry jurisdictions.
- 4) **Truck Transportation**—There is a shortage of trucks and drivers. Trucking prices have outpaced inflation by 6% annually for the last three years. In addition, strategic infrastructure development has not kept pace with Alberta's economic growth.
- 5) **Rail**—The decreasing availability of rail service and subsequent increase in rail costs have long been serious issues and affect costs from three perspectives. First, the lack of reasonably priced and reliable rail service adds demand onto the trucking industry. Secondly, where

rail is required to move product long distances, the cost can be prohibitive. 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. 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 or Shelby (Montana) to get product on rail cars.

- 6) **Taxes**—While Alberta's provincial tax has been reduced, municipal taxes have increased. Alberta total combined taxes are no longer the lowest in the country. Many Municipal Districts have imposed sharp mill rate increases on the forest industry mills located in their boundaries. On average, assessment rates appear to have increased 8% annually since 2004. Several jurisdictions such as B.C. and Manitoba have reduced provincial and local government taxes significantly in a bid to attract industry to those provinces.

The net effect of all these cost pressures has increased manufacturing and transportation costs in Alberta by 25% since 2004.

Much work has already been done on the near term recommendations presented in both the "Recommendations for Enhancing Alberta's Business Model" (April 2007) and the FISC's earlier report entitled "Recommendations for Immediate Consideration" (December 2007). This work has helped to address many of the competitive issues facing the forest industry (such as transportation costs), and will continue. Nonetheless, the following additional recommendations are offered for consideration.

Recommendation 10

The Alberta Economic Development Authority should accelerate its efforts in 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 and concrete recommendations made to government within a six month period. This initiative should address issues of common concern to many industries within Alberta.

Recommendation 11

The GoA should adopt a cross-ministry approach to resolving strategic cost issues, and ensure industry in Alberta maintains its competitive advantage over other North American jurisdictions.

The GoA should establish a process to co-ordinate initiatives, measure performance and work in the interests of ensuring that Alberta industries enjoy the lowest cost environment of any competing North American jurisdictions.

Recommendation 12

The GoA should encourage production efficiencies and modernization through competitive tax regimes.

While capital investment is primarily the responsibility of industry, government can encourage capital investment in technology across Alberta's manufacturing sectors to increase efficiencies and modernization (capacity, quality and production efficiency). Examples could include municipal tax treatment of plants and equipment and accelerated capital cost allowances.

Recommendation 13

The GoA should revise Holding and Protection charges.

The assessment of holding charges should continue and should be applied in a consistent and equitable fashion. Protection charges should be eliminated, as those costs are part of the Province's stewardship role and benefit all users of the forest.

Strategy 4

Addressing Infrastructure Needs

Alberta is isolated from almost all of its forest product customers. Transportation costs play an increasing and substantial role in the competitive position of Alberta's economy. Both the delivery of raw materials to the mills and the delivery of finished products to market are critical to the business model and must be managed carefully in terms of service and cost. It is critical for all Alberta industry to maintain a competitive advantage against other jurisdictions.

Currently, infrastructure development is driven by industry priorities and generally occurs in an incremental fashion. Planned and organized primary infrastructure is required to facilitate organized growth, enable integration of all uses, and ensure a minimal footprint. Critical infrastructure needs in Alberta include roads, rail and access to the power grid. It should be noted that the jurisdiction for rail rests with the federal government and that rail issues have been addressed in the Immediate Considerations report submitted to the Minister in January, 2008.

Recommendation 14 *The GoA should make necessary resource road infrastructure investments.*

The government should facilitate primary infrastructure development by reinvesting in the "Resource Road Program" to improve public and industry access, environmental management, integration and cooperation between sectors, public safety and forest health by providing capital funds for construction and upgrades of resource roads in Alberta. Government and industrial resource users should consult when determining construction and maintenance priorities; however, construction responsibility should remain primarily with the government.

- When the industry constructs or upgrades primary roads, they should be eligible for cost recovery based on the proportion of public use.
- Consideration should be given to the establishment of a resource road authority responsible for planning and development of resource access throughout the province.

Strategy 5

Capitalizing on Alberta's Energy and Bio-economy Interests

Alberta's woodland and agricultural lands offer a rich and abundant supply of renewable biomass resources. Innovative producers are researching and pursuing the production of heat, power, chemicals, health and wellness products, new building materials and composites and new ways of manufacturing buildings. The opportunity to stimulate growth in this sector of the economy is enormous and the forest industry is well positioned to capitalize on it; however, Alberta lags behind other Canadian jurisdictions in assessing the total biomass available for "bio-economy" opportunities.

New technologies are being developed and implemented to produce a variety of chemical feedstocks, liquid motor fuels (ethanol and bio-diesel), and pharmaceuticals from wood biomass. Alberta has a number of good strategies available to implement a bio-economy in Alberta. These strategies require GoA and Federal Government support to be realized.

As noted above, the development of a cellulose-based bio-economy would provide an alternative revenue source to increase the forest industry's competitive position, as well as improving the overall health of northern and rural Alberta economies. The successful development of a robust bio-economy will be a key to maintaining and enhancing industry competitiveness.

Recommendation 15

Alberta should seize on the opportunities available to generate bio-products from Alberta's forests.

There is tremendous potential to produce a wide range of bio-products from Alberta's forests. The feasibility of each of these opportunities will need to be determined.

- Fund and complete detailed technical and economic viability study of bio-economy potentials to identify opportunities and barriers to full scale implementation;
- Support the implementation of research elements contained in the Fibre Road Map, a study completed by the Alberta Forestry Research Institute (AFRI) in 2005;
- Support the establishment and funding of a Bio-Products Centre of Excellence in concert with other like-minded partners.

Bio-Energy and "Green Power"

Alberta's forest resources contain a huge potential for the development of "green power" initiatives (e.g. use of wood biomass for electrical generation, production of synthetic gases as a replacement for natural gas, and production of transportation fuels such as syn-diesel and cellulosic ethanol). These opportunities are still economically uncertain in the Alberta context.

While some positive progress has been made in stimulating the beginnings of a bio-energy program, Alberta's Nine Point Bio-energy Plan is slated to end in the next couple of years. Many forest companies are contemplating projects but need additional time and financial support to reach fruition.

The establishment of forest biomass-based energy systems at primary manufacturing facilities provides an innovative revenue source for the forest industry and can help offset the challenges of rising energy costs. While Alberta's deregulated energy market provides a good investment market for electrical producers, it has been disastrous for Alberta's manufacturing industries. The GoA should provide incentives to move Alberta's forest industry to energy self sufficiency and ensure they become an important player in Alberta's emerging bio-economy.

Recommendation 16 *The GoA should capitalize on the opportunities available from bio-energy.*

There is tremendous potential to achieve energy, products and carbon management opportunities arising from the forest and from forest management. The presence of the energy sector on the landscape and their compelling need to offset carbon emissions is a driving force on Alberta's landscapes. However, capitalizing on this potential has been slowed by the uncertainty of public policy, ownership and rights. If this opportunity is to be exploited, these barriers must be addressed.

- The GoA should undertake a comprehensive review of the potential for forest bio-mass generation and utilization. This analysis should be comprehensive with short term emphasis on biomass at risk from Mountain Pine Beetle (MPB) and over-mature deciduous resources that are not currently being utilized by the commodity forest industry.
- The GoA should extend Alberta's Nine Point Bio-Energy Plan for an additional 5-year period and add significant new resources to stimulate additional investment. The criteria for eligibility should encourage maximum participation by all forest companies.
- The GoA should ensure Alberta bio-energy programs are competitive with other jurisdictions. Opportunities and incentives for bio-energy projects including transmission infrastructure requirements should be comparable.
- The GoA should align energy and environmental policies (e.g. GHG emission management) to provide incentives for the expansion of the bio-economy. Current policies across the GoA are working at cross purposes. This review should be coordinated by Department of Energy with participation by other departments that have mandates in the bio-energy and bio-product areas.
- The GoA should expand the funding of current programs aimed at making bio-energy plants self-sustaining in the long term.
- The GoA should encourage the use of wood and wood residue in coal fired power plants. This would afford coal plants some GHG reductions and stimulate the more complete utilization of wood and wood residues in Alberta.
- The GoA should accelerate research and commercialization of state-of-the-art syngas production technologies using woody biomass. Support should be provided to pilot community based bio-energy projects associated with existing forestry mill infrastructure.

Strategy 6

Diversifying Products and Markets

Over its long history, Alberta's forest industry has developed with an aim to maximizing primary production. Alberta companies are amongst the most efficient producers of dimension lumber and other forest products. Value-added manufacturing has evolved as well; it has been driven largely by the primary industry. Value added is considered to be the exploration of incremental opportunities or secondary values arising from primary manufacturing. In many respects primary and value-added manufacturing are similar; both require the same basic ingredients for success: access to cost effective feedstock, access to markets, support from research and development, capital and return on investment.

Albertans are looking at value-added manufacturing opportunities across all sectors in order to secure and sustain the provincial economy. Alberta's strategic policy framework *Securing Tomorrow's Prosperity* cites several key initiatives that focus on maximizing value-added opportunities. Building / wood products, energy and bio-industries are identified as priority sectors for growth.

Innovation and adaptation are cornerstones of the forest industry. The development of new products, markets and revenue streams is fundamentally important to a healthy and progressive forest industry. The forest sector has been instrumental in the tremendous improvements in fibre recovery, manufacturing, engineered wood products, technology and a host of other initiatives. The potential exists for even more value extraction, looking at expanding the value chain and looking toward non-traditional fibre products. Canada has fallen behind in its commitment to research and development, at a time that a number of innovations (in areas such as biochemicals, bio-energy and building products) hold the potential to revolutionize the forest industry. The high capital cost and long lived nature of many production technologies make it difficult for any single private firm to undertake the costs of commercialization. Governments in many other jurisdictions have recognized the "public interest" value in these investments and have established creative partnerships to address this challenge. Strengthening the forest industry's innovation system is one of the most effective ways government can invest in the development of the industry.

The Alberta's forest products' sector must diversify its markets beyond the United States. Industry and government must, together, enhance the ability to capitalize on value added markets throughout the world. Industry must

continue to forge relationships where they make business sense, and to be supported by government policy to enable and forge greater industry / economic diversity in global markets.

Industry and government must strengthen their commitment to maximizing value from the value chain. Value maximization through the development of secondary values is a desired outcome and should be developed on business terms where real opportunities exist. These opportunities should be facilitated based on principles of market identification and development, product research and development to meet emerging and new markets, fibre availability from the primaries on business terms (non-subsidized), government assistance in establishing incentives to encourage value maximization and value chain development. New entrants to the forest products sector should be encouraged in the context of these principles.

Recommendation 17 ***Government policy should support value maximization.***

Government policy should enable and encourage maximum utilization of wood and wood residues to ensure the maximum value is extracted from Alberta's fibre resources. Rights, fibre ownership and the public interest must be taken into consideration.

Recommendation 18

The GoA should strengthen market intelligence and market access.

Existing government programs that support identification of new and emerging markets such as the Canadian Wood Export Program should be strengthened, emphasizing research and innovation to develop niche markets for new products. A forest product and market development fund, managed by a small arms-length board, should be established with a rigorous process employed to support new or niche products, new technologies or business ideas. Access to funding would be provided based on criteria such as technical and commercial feasibility, the existence of a market, and competitive access to customers.

Recommendation 19

The GoA should strengthen research and development investment.

Strong infrastructure and leadership exists through the AFRI to support a coordinated forest industry research and development program, but the program has been chronically under-funded. The current direction and funding levels (\$40M) described in the AFRI business plan should be supported by the GoA. In addition, the GoA should support the renewal and expansion of FPIinnovations activities in Alberta.

Strategy 7

Enhancing Communication and Branding

The forest management system plays an increasingly important role in providing a broad range of EGS; environmental objectives such as clean water, and carbon management; risk management with respect to climate change and insect infestations; products, employment and quality of life. As a result, a sustainably managed working forest is a critical delivery strategy for achieving Alberta's economic, environmental and social objectives and forest companies will continue to be the primary means to deliver government and business objectives.

Alberta remains committed to world class performance and continuous improvement in sustainable forest management. As a nation, Canada is unparalleled in third party certification of sustainable forest management

practices. Very few countries in the world have the landbase needed to help the world meet its growing needs for wood fibre products and none are better positioned to provide assurances that forest products have been sustainably produced, a fact increasingly demanded by global markets. Alberta has the capacity to derive competitive advantage from sustainability performance, both in relation to international rivals but also producers of competing materials. This will become increasingly important with time. Alberta's established reputation should be strengthened and maintained.

Recommendation 20

Government and industry should cooperate in communicating the value of forest management to Albertans, Canadians and global markets

There is a need to demonstrate successful performance of Alberta's forest management system and the Alberta forest industry. Industry and government should cooperate in branding that will position Alberta's industry favorably in the domestic and international market place. Current programs such as Alberta *WoodWorks!* should continue to be supported. Alberta has representation at a number of offices in important jurisdictions throughout the world and is currently contemplating additional locations. The forest industry should work with Alberta offices in international jurisdictions to assist in establishing a global presence and a brand that is attractive and factual.

4.0 Putting Ideas into Practice – A Commitment to Implementation

This report provides a framework to position the forest industry to take advantage of current and emerging opportunities. It is built on the optimism that forestry has a long-term positive future and is a welcomed and respected part of Alberta's diversified economy. Implementing the recommendations found in this report will require dedication, focus and follow-up. Extensive consultation with industry leaders, government managers and MLAs, as well as additional consultation with MLAs representing forest-based constituencies suggests the need to establish a mechanism to engage in ongoing dialogue and to monitor implementation of the recommendations. To assist in the timely and successful implementation of these recommendations it is recommended that:

- 1) A "Political Champion" should be assigned to act as leader, advisor, issue manager and the go-to person to address ongoing responsibilities.
- 2) A Transition Committee should be established with a mandate to ensure the recommendations contained in this and the previous reports are fully executed. The committee would review progress and manage performance.
- 3) An Interdepartmental Working Committee should be established to deliver the strategies and be accountable to the Transition Committee and the Minister. Each of the strategies contained in this report will require dedicated resources on behalf of the government and industry. Each of the strategies should be treated as projects, with appropriate project management undertaken, work plans developed and accountabilities established.

5.0 Conclusion

Alberta's forest industry must be better equipped to compete successfully in a global marketplace. 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 factors and others have reduced profitability and placed all industry sectors at risk.

Industry restructuring provides Alberta's forest industry the opportunity to renew and regain forward momentum. Competitiveness fundamentals extend well beyond simply being a low cost producer. These fundamentals include public policy barriers, unclear roles and responsibilities, expectations of the industry, intensity of technological development and transfer and a host of other matters. Government can assist by putting the elements in place that will help industry respond in a decisive and businesslike manner.

The industry is destined to change. It will not be the same in ten years time. Relying on the status quo is not an option. The industry has the ability to adapt and, with the policy direction of government, Alberta's forest industry can be very competitive. Success will require more cooperation between industry, governments, and other supporting institutions in the areas of forest policy, regulation, labour, transportation, taxation, energy and research and development.

Appendix 1: Forest Industry Sustainability Committee

Committee Membership

- 1) Frank Oberle—MLA for Peace River (Chair)
- 2) Doug Elniski – MLA for Edmonton-Calder
- 3) Dianna McQueen – MLA for Drayton Valley-Calmar
- 4) Joe Costantino – Senior Vice President, Lumber, Millar Western Forest Products Ltd.
- 5) Wayne Clogg – Senior Vice President, Woodlands, West Fraser Timber Co. Ltd.
- 6) Ken Higginbotham – Vice President, Forestry and Environment, CANFOR
- 7) Eric McGhan – Deputy Minister, Alberta Sustainable Resource Development (ex officio)

Committee Advisors

- 1) Cliff Henderson
- 2) Helmut Mach
- 3) Steve Janzen
- 4) Dan Wilkinson
- 5) Darren Tapp
- 6) Gordon Giles
- 7) Wayne Thorp
- 8) Ray Luchkow
- 9) Kirk Andries

Appendix 2: Softwood Lumber Agreement Facts and Considerations

The SLA (2006) was signed by the Governments of Canada and the U.S. as a negotiated settlement to the most recent litigation surrounding the softwood lumber dispute. This paper provides 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 be taken to circumvent or offset the commitments of the SLA, including any action that would reduce or offset the Export Measures (e.g. 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 SLA 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. The U.S. must be notified of any changes that impact the costs incurred by the forest industry 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 – Strategic Vision, Drivers and Shifts

The Future Vision – Where Are We Going?

In 2025, sustainable forest management is successfully delivered through a new partnership between government and industry. Government's role as policy maker and land use planner has provided certainty and improved competitiveness. Government is effectively managing Alberta's lands through widely accepted land use plans and supported by well considered policies. Recreation, watershed protection and wildlife management have been effectively integrated with other land uses.

Industry recognizes the government's role as steward of public land, responsible for balancing the interests of all stakeholders. The public, industry and government are partners in the development of timely, effective public policy related to forest management and development. Forest policy is based on outcomes, rather than prescriptions. Administrative systems are efficient. The forest industry is adaptive, cost competitive and is the primary delivery mechanism for managing Alberta's forests and addressing public objectives (e.g. watershed protection, MPB mitigation) within the context of policy and approved plans.

Alberta is recognized as a global leader in integrated landscape management and is respected by jurisdictions around the world. Those using the landbase depend on each other, each bringing their own strengths and needs. Alberta's forests are considered the best managed forests in Canada and are certified by credible third parties. Regional approaches to forest management are driven by local forest characteristics, economics and land-use demands. Healthy, well growing, and high quality timber crops allow for intensive forest management on private and public land, and assist in managing risk to those relying on Alberta's forests.

Alberta's forest industry is seen as a leading producer of a wide range of forest-based products and services that has re-positioned the industry as a dependable cornerstone of Alberta's economy. The industry is thriving, sustainable and competitive and is fully diversified along the value chain. Operators of all sizes are fully integrated, each capitalizing on its inherent strengths and market potential. As a result of production efficiencies, commodity producers are globally competitive. Production of engineered products has significantly grown using technology to overcome market challenges. The pulp and paper industry is taking full advantage of the energy economy. The Alberta industry, recognized for its product innovations, has secured important new and stable markets for specialty products. There is opportunity for new entrants with bright ideas.

Innovation is the cornerstone of the forest products industry. Government and industry have significantly increased their investment in research, product and market development. Value added manufacturing has expanded. The forest industry has emerged as a significant player in the energy economy. Government leadership has assisted the industry in making this transition seamless.

Innovation and adaptation to the bio-economy has strengthened the industry's presence in the community. The industry is deriving more value from the forest resource, enhancing its long term viability by developing new and innovative revenue streams. Partnerships with other biomass producers have strengthened the industry's place in Alberta's economy.

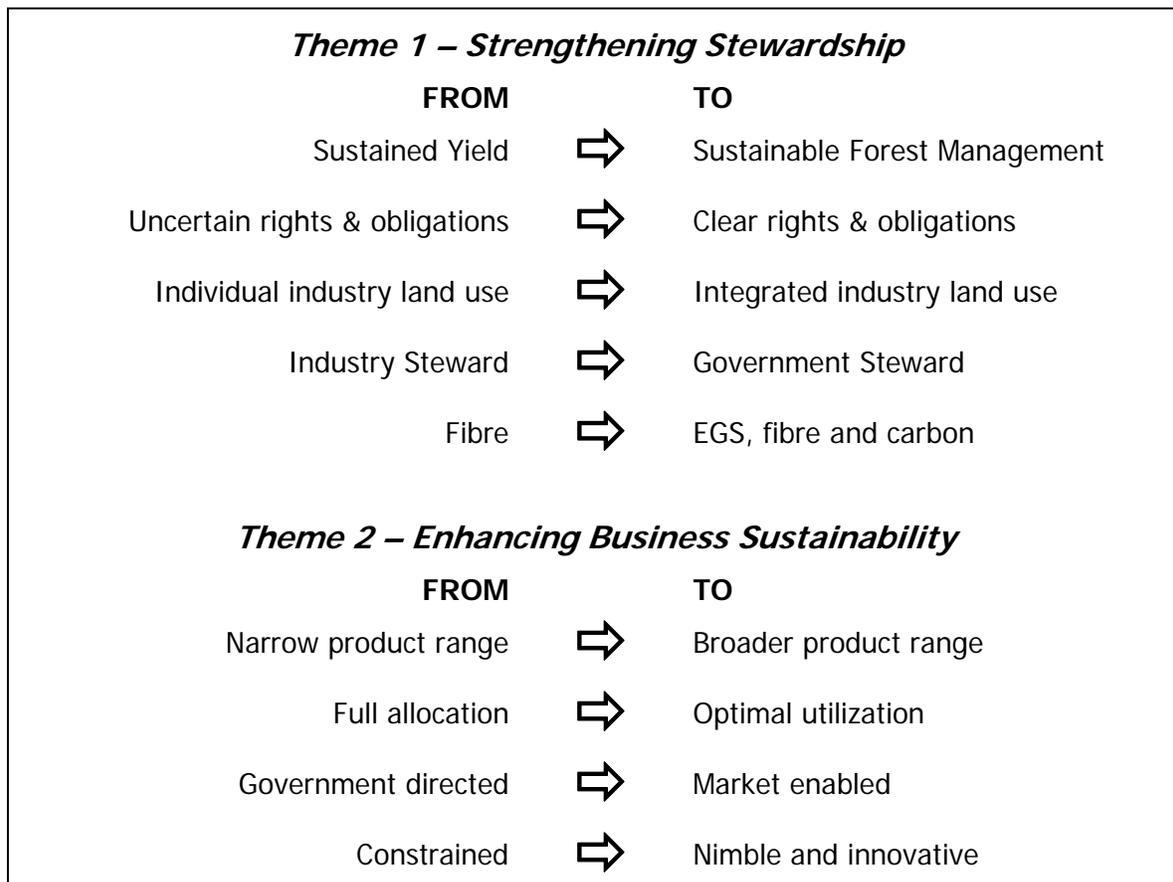
Pursuing the Vision by Making Strategic Shifts

The vision of forestry in Alberta's future is derived by aiming to resolve some of the key challenges facing the forest industry today and by challenging the form and function of the current model. The vision points to business model drivers and strategic shifts that are required to achieve the outcomes described.

The primary drivers for the new business model are **Strengthening Stewardship** and **Enhancing Business Sustainability**. Strengthening stewardship means forest sustainability policy will be strengthened, provision of EGS will be sustained and a greater range of benefits derived from the forested land base will be provided to Albertans. Enhancing business sustainability means Alberta-based forest businesses will become increasingly competitive by driving down the costs of doing business, becoming best-in-class, achieving efficiencies through rationalization and finding new sources of revenue through innovative products and services.

Strategic shifts are required to support the required evolution of the business model. Each of the shifts is deemed relevant in the Alberta context and will require specific strategies to support their realization. The desired shifts are highlighted in Figure 3.

Figure 3: Strategic Shifts



The new forestry business model must launch Alberta into a new era of sustainable forest management that supports environmental, social and economic objectives. Social values will become increasingly important and will be addressed through comprehensive policy development and land use planning. An evolution from sustained yield of fibre supply to sustainable management of the forest will be a dominant policy driver. This evolution will be supported by a change in the roles and responsibilities of government and industry. Government must function as steward; industry will be the primary delivery mechanism for achieving public objectives.

The new model will also improve the cost structure for industry and enable adaptation and rationalization. It is anticipated that smaller scale specialty mills will naturally move in to fill some of the voids left as a result of consolidation. Niche and specialty markets will become increasingly important. Managing and capitalizing on the carbon economy will become a successful new direction for the industry. A viable “green economy” will emerge adding depth and resilience to the Alberta’s forest communities. Innovation will be a cornerstone to enable capitalizing on all the forest has to offer, improving Albertans’ quality of life and diversifying Alberta’s economic base.

Appendix 4: Evaluation of the Current Business Model Strengths and Weaknesses

Since the mid 1980s the private sector has provided over \$4 billion in investments in state of the art pulp, newsprint, saw and oriented strandboard mills. Alberta is only now seeing the end of new investments that resulted from the diversification strategy from the mid 1980s.

The expansion of the forest industry in Alberta in the last two and one half decades appeared to place Alberta in an excellent position with an efficient and internationally competitive forest products industry for the future. However; in the later half of this time period, Alberta's forest industry began facing many challenges including the rising value of the Canadian dollar, increasing input costs and competition from lower-cost offshore producers and competition for labour and materials.

This was also a time when the GoA decided it would address government spending. Commitment to eliminate the provincial debt was made and new legislation was passed to ensure there were no deficit budgets and the debt would be systematically eliminated. Industry was asked to assume greater responsibilities during this time period, and functions previously conducted by government were passed on to the forest industry yet most of the key elements of the business model remained unchanged.

Rapidly changing social and economic pressures bring into question the future relevance of current policies. These pressures include the softwood lumber dispute with the U.S.A., maturation of the Alberta forest product sector, global competition, the economic needs of rural Alberta, independent environmental certification, pressures in the market place and increasing demands on Alberta's forestlands for other uses including gas and oil, agriculture and recreation.

Business Model – History and Description

The Alberta business model was initially developed when the transfer of resources from federal to provincial jurisdiction took place in 1930 formally established the GoA as the owners of the forest resource and recognized the authority of the Province to develop and manage its forest resources. It was at this time that the interface of the government and business model emerged.

Alberta's business model has evolved over time as Alberta's circumstances have changed. The first era, 1880 to 1966, was characterized by Canada's need to exploit the timber resource in support of the development of western Canada generally and Alberta in particular. **Exploitation** was accomplished by identifying suitable stands of timber, conducting timber sales through auctions and administering the process of timber harvesting.

The second era, 1966 to 1986, was characterized by Alberta's need to regulate the exploitation of the timber resource and to provide for longer term benefits through sustained yield management of timber. **Sustained Yield** timber management was accomplished by establishing annual allowable cuts for forest management units, reforesting all cutover areas, and regulating the process of timber harvesting to achieve sustained yield objectives.

The third era, 1986 to present, was characterized by Alberta's need to diversify Alberta's economy while moving towards a higher level of forest management. **Economic Diversification** and **Improved Forest Management** was accomplished in parallel—actively promoting the development of Alberta's timber resource coupled with the development of more extensive forest management requirements. Outputs of this era included the establishment of a greater number of Forest Management Areas and the requirement of FMA holders (and to some extent, other tenure holders) to fulfill a number of forest management obligations related to timber and non-timber resources.

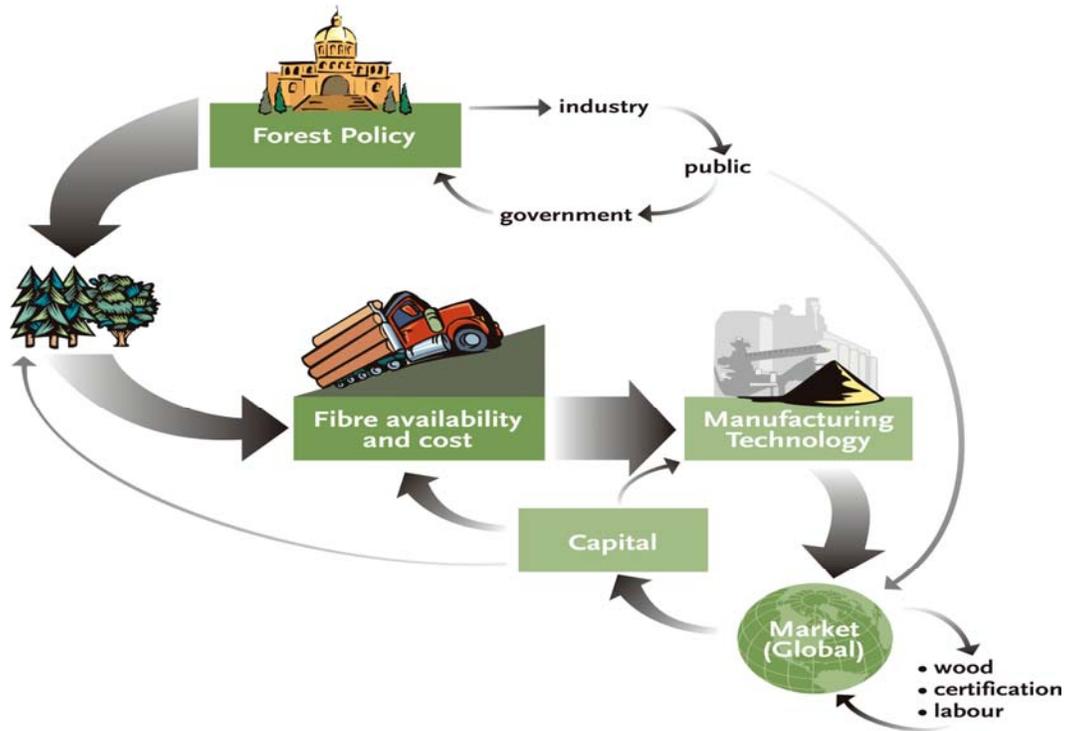
While the basic tenets of the model have remained relatively constant, the model has been influenced by increasing populations, changing social values, developing provincial infrastructure (roads, rail etc.), technological advances and markets for products produced.

The forest business model is based on roles and relationships. More specifically, the relationship between government and industry and the relationship of industry to the market place.

Alberta's business model is built on five basic elements – public policy, fibre, technology, markets and capital (See Figure 4). Fibre is sourced and provides the feedstock for manufacturing, products are produced and sold to established markets, and capital is generated that increases wealth, enables re-investment and provides for growth.

Figure 4

Alberta Forest Industry Business Model 1986 – present



The following is an assessment of the respective strengths and weaknesses of each of the elements of the current business model. Many of these observations were sourced from interviews and workshop findings. In some cases the “ideas for improvement” were included as background to the strengths or weaknesses.

Public Policy

The ultimate standard for evaluating public policy is the generation test: how well current policy and enabling legislation align the commitments of yesterday with the needs of the day, and the opportunities and aspirations of tomorrow. Forest policy in Alberta, when viewed from this standard, has scored well.

The forest resource has now been fully allocated. The industry is facing continued pressures on access to the forest for the first time and in some cases coping poorly with pending reductions in allowable cuts. At the same time government is constrained by cut backs in spending and continues to move away from direct management of forests to one of auditing and monitoring.

Strengths:

- There is well established forest policy in Alberta;
- Additional policy guidance is available from documents such as Alberta's Commitment to Sustainable Resource and Environmental Management, The Alberta Forest Legacy, and Strategic Vision and Direction for Alberta's Forest Sector;
- Alberta has maintained public ownership of the forest;
- Tenure mechanisms provide some assurance of stability and predictability; and
- Alberta has a well diversified economy.

Weaknesses:

- Forest law is embodied in a variety of legislative instruments including the Forests Act, the Wildlife Act, the Public Lands Act and other instruments;
- The Forests Act is based on perpetual sustained yield while public values suggest sustainable forest management;
- Perpetual sustained yield and even flow as "drivers" limits flexibility to respond to market and other conditions;
- Government policy currently does not provide incentives for behavior that adds value to forest products in Alberta;
- Rights and obligations have changed significantly, increasing uncertainty;
- Administrative costs can be significant; and
- Forest policy is not well coordinated with other land uses and is sometimes conflicting.

Fibre

As owner, the Crown is entitled to dispose of the timber found in Alberta's forests. However, the Crown's entitlement to dispose of timber is limited by the Forests Act. The only types of timber dispositions allowed by the Forests Act are:

- FMAs;
- Timber quota certificates in combination with timber licenses; and
- Timber permits.

Timber dispositions under the *Forests Act* only grant specific rights to Crown timber; they do not result in outright sales of Alberta's forest lands. While the Forests Act does not regulate outright sales of Alberta's forest lands, such sales can be made pursuant to the Public Lands Act. Fibre is becoming a limiting factor rather than a facilitating factor during the latter years of this period. Most if not all of the resource has been allocated and many factors have emerged that have an impact on the current and future availability of fibre such as environmental issues, First Nations land claims and concurrent land use (oil and gas) activities. Despite tenure arrangements, access to the resource and a long-term secure fibre basket are beginning to be questioned. The existing tenure system offers some strengths and weaknesses.

Strengths:

- The tenure system has been successful in encouraging investment in processing and manufacturing facilities;
- The tenure system has provided access to wood fibre at competitive costs;
- The tenure system is well known and trusted by the industry and government;
- The system provided for good social accountability (i.e. prohibition of over cutting, mandatory reforestation);
- Tenures can be withdrawn in the event of non-performance;
- Facility operating requirements, cut controls, and controlled flow of products, have arguably contributed to stable employment and community stability; and
- Forest tenures are considered a “saleable asset” to the tenure holder.

Weaknesses:

- Tenure is no longer a guarantee of access to the resource;
- Fibre resource allocations are “owned” by the tenure holder and may discourage sharing of standing trees for a multitude of new products;
- There are overlapping tenures requiring multiple and sometimes conflicting management processes for a single area;
- There is limited incentive to develop new uses for fibre;
- Secondary manufacturing has difficulty accessing raw materials;
- Existing tenure does not attract the capital investment required for tree growing;
- The system hinders new entrants, investors and participants;
- Facility investment has resulted in capacity creep without concomitant investment in the forest resource;
- The system does not provide comprehensive compensation for forest land base changes;
- The system could result in less than optimal use of logs or other forest resources;
- The system provides limited information on market transactions to value the fibre;
- The system does not optimize value of logs or other forest resources; and
- Current political constraints limit achieving business efficiencies. For example, cut controls are economically inefficient as they force production in poor markets.

Technology/manufacturing

The forest industry has become high tech both in harvesting and milling. Technological advancements have resulted in higher utilization of the tree, more production and decreased the amount of labour input (jobs/m³) into production. Utilization of the tree harvested has now approached 100% in limited areas of the province. As production has become more efficient, the appetite for additional fibre has grown within a finite supply.

Strengths:

- The Alberta forest industry is relatively new (and hi-tech) compared to other jurisdictions;
- The Alberta industry has relatively few players (i.e. not fragmented); and
- Relative to other Canadian producers, we are efficient.

Weaknesses:

- The model does not encourage development of strategic opportunities in research and innovation (it stifles innovation);
- There currently is a lack of capital generation to implement new technologies (new manufacturing technology is available, but costly. Alberta's forest industry can compete, but needs to invest to do so); and
- The current model does not provide for innovation for use of the resource. The model needs to ensure best log to best end use as well as providing security to the primary sector (i.e. pulp, lumber, panel).

Markets

The market for Alberta based forest products is subject to global market forces. Eighty percent of the value of forest products made in Alberta is now sold internationally. The entry into the global economy has also resulted in many new pressures that have emerged with customers/retailers and competitors that have many natural or induced advantages over Alberta based products. The market forces play a significantly larger role in the business model, affecting accessibility and profit.

Strengths:

- There is a well-established and growing Alberta market for forest products (primarily lumber and OSB) however it is small in comparison to output.

Weakness:

- Markets are a more influential role in capital generation, access to forests and access to market;
- Alberta is highly reliant on the US market;
- There is no premium for certification;
- The current model is weak in the development of products that capitalize on our natural strengths in tree species and log characteristics;
- The current system inhibits market based decision making;
- Alberta is "landlocked" and not well positioned to efficiently deliver products to market;
- Alberta is subject to international and national trade initiatives and issues (e.g. softwood lumber);
- Markets do not provide returns that are sufficient to overcome the inflationary effects of the energy sector boom; and
- There is insufficient investment in establishment of new markets.

Capital (cost and returns)

The current model is characterized by being highly capital intensive, supported by the full allocation of the forest resource. Some parts of the industry, particularly panel products, have done well in this period generating capital for reinvestment. However much of the industry such as pulp is facing global competition that has significantly reduced or eliminated any new capital generation. Other regions of the world are offering greater returns on capital employed and are attracting the investment/reinvestment capital.

Strengths:

- The current stumpage system is designed to be reactive to market conditions; and
- The Alberta forest industry is a low cost producer when compared to other Canadian producers.

Weakness:

- Low or negative returns resulting in no capital to re-invest;
- A weakening U.S dollar thereby reducing the return to Canadian producers; and
- The current system does not provide incentives for those that pursue value added.

Appendix 5: List of Presentations and Presenters

Institute for Agriculture, Forestry and Environment	K. Nichol/ W. Inkpen
AFRI	Steve Price
Nine Point Energy Plan	M. Machielse
Power Generation	Amit Kumar
Bugwood Report	D. Wilkinson
Current Management System	D. Tapp
Land Use Framework	M. Seiferling
Climate Change Strategy	A. Ridge
New Models	M. Luckert
Forest Values	V. Adamowicz