

Presentation to Special Committee on Timber Supply

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I know you have received Canfor's detailed written submission, and I will be touching on it briefly. But I felt the best use of our time together would be a discussion about what brought Canfor to the conclusions detailed in our submission, rather than reiterating the points we make there.

What I have to say today reflects just how much the forest industry has changed. Twenty years ago, it would probably have been inconceivable that the CEO of one of the largest wood products companies in North America would stand in front of a legislative committee looking to increase available timber and say "proceed with caution." But that is the message that Canfor wants to deliver to you today. Be careful with what you do; the viability of our business is at stake.

The land use conflicts we endured in the 90s compromised our ability to access global markets for our products. Protests and discord tarnished our reputation and hurt our ability to compete on the international stage.

We learned the hard way that our social licence to operate in public forests is paramount, and we earned it back through detailed bottom-up land use planning processes where everyone was invited to define what they wanted from their forest resources – environmentally, socially and economically.

And we built sustainability into everything we do – we support it through our business models, through our independent forest certification, through our customer relationships.

We have achieved a fantastic model of sustainability here in British Columbia, one that is recognized and valued worldwide. This is not something to be taken lightly.

Without a doubt, our greatest strength is our commitment to sustainable forest management. This has allowed us to tap into a new environmental paradigm in green building, which is opening doors for wood products globally and generating demand for the materials we produce.

So while we certainly welcome opportunities that might improve the mid-term timber supply, we first must be convinced these actions are well thought out, fair, and inclusive – and fit with our vision of sustainability. Let me give you a few examples:

- Canfor does not support actions that would overturn landscape objectives set through public planning processes unless there is full public consultation and support.
- We will not support actions that impact parks, riparian areas or areas that provide critical habitat for species at risk, or other important environmental values such as biodiversity and old growth.
- We will not support actions that put us at odds with obligations of our registered professional foresters to uphold the public trust by managing forests sustainably.
- And we will not support actions that jeopardize our third-party forest certification, and risk access to domestic and international markets.

It would not be an overstatement to suggest the recommendations of this committee can impact the viability of British Columbia's forest sector as a sustainable industry.

Industry accountability

Beyond our concerns with the impacts this committee's recommendations could have on our environmental credentials, we also have concerns around compromising a fair business environment in the province.

It's a fact that the mountain pine beetle infestation will have a significant impact on the mid-term timber supply in the central interior.

It's also a fact that there will be over-capacity in BC's primary lumber manufacturing. And while it might be possible to increase the fibre supply, it's also a fact that mills will close. We have to acknowledge that there is simply not enough timber to run all the mills in the interior.

This is something Canfor accepted years ago. We made some tough choices to reconcile our operations as the reality of the post-beetle mid-term timber supply became clearer.

We analyzed our fibre supply and used that information to make strategic investments in some mills . . . and to close others we knew would not be viable. We faced some hard decisions, but they were necessary to keep our company competitive.

We cannot support actions that would diminish this difficult work and the value of the significant investments we have made in BC. Any attempt by government to pick winners and losers is not only unfair, it jeopardizes our industry's competitiveness and BC's reputation as a sound place for investment.

Canfor will continue to do what is necessary to get through the aftermath of the beetle infestation. We will continue to work with communities, with First Nations, with government, and with the public to moderate the impacts wherever we can.

However, we feel any discussion of broader action needs to be guided by principles that protect both our social licence to operate and our right to operate in a fair business environment, given the investments we have made in this province.

Actions Canfor Supports

This doesn't mean that nothing can be done. But we need to take a thoughtful approach that is fair to businesses and the public, and mindful of our collective obligations for protecting the environment and sound business operating conditions.

Of the five potential actions identified in the Committee's discussion paper, Canfor supports four. . . with some qualifications.

- Canfor supports exploring options to increase harvesting in some areas currently constrained from timber harvest provided it does not impact parks and protected areas, or areas that provide critical habitat for species at risk or other endangered or threatened species. I'm sure you can appreciate that, as a company, we would have grave concerns about any government directive that would see Canfor cede our legitimate harvesting rights to support a competitor's mill in one area in exchange for timber made available from established old growth or wildlife habitat reserves in another.
- Canfor would be supportive of exploring options to increase the harvest of marginally economic timber. However, there must be clear criteria to identify marginally economic timber, and it absolutely must be kept separate from existing replaceable volume, and have an open bidding process to access it.
- Canfor supports the move toward area-based tenure as we believe it would provide more security and encourage intensive management.
- Further to this, Canfor supports increasing the level of advanced silviculture and fertilization but with one huge qualification – we need evidence that the cost is justified, and that there is a reasonable economic return. We know from experience that these types of programs are expensive and the economics on an 80 year harvest rotation often don't make sense. Furthermore, there should be no timber supply adjustments without solid proof of mid- or long-term timber supply benefits.

Oppose Change to Timber Flow

The one action we do not support is to change the flow of timber by adjusting administrative boundaries. Canfor's opposition is based largely on the points I made earlier.

We have known for some time that there would be a timber shortage because of the beetle infestation. At Canfor, we addressed this through strategic acquisitions and investments – and by closing facilities where we knew the timber supply would eventually be inadequate.

As far as I am concerned, amalgamating timber supply areas just prolongs the inevitable – and it could wind up being highly unfair to some companies and some communities. It would defer manufacturing rationalization, destabilize the fibre supply, and jeopardize our ability to run our operations efficiently.

This type of engineering of a transfer of allowable annual cut reductions and shifting the impact of the infestation puts government in an inappropriate position of picking winners and losers – between companies and between communities.

We have to be clear: as far as timber supply impacts of the mountain pine beetle epidemic, the writing has been on the wall for a number of years. Companies like Canfor have invested substantially to respond to this significant and looming challenge, and we have done so based on the clear existing regulatory framework in the province. For government to step in now, so late in the game, and invalidate those investments with sweeping and arbitrary changes to forest tenure administration would send shockwaves through the industry and our communities.

Instead of amalgamating timber supply areas, government should use unallocated and undercut volumes as a mid-term mitigation tool. This is something we could support as long as the volume is disposed of in a timely and competitive manner as non-replaceable licences.

Additional Options to Explore

Finally we would like to make note of several issues which were not in the Discussion Paper but that we feel are important elements for the Committee to consider.

- Canfor encourages government to invest in more accurate and reliable forest inventories so there is better information to support community stability, investments and land use decisions.
- We would also encourage government to increase the level of investment in transportation infrastructure – this would increase the economic potential of remote timber stands, while supporting other resource industries and industrial development.
- Finally, Canfor encourages government to continue working with industry to evaluate and fast-track opportunities to reduce costs and improve payloads to improve the economics of transportation of forest products, including logs.

Summary

So, in conclusion:

At Canfor, we are committed to maintaining an aggressive, but mindful, approach to market development in promising economies around the world.

Obviously there is no point in building demand for products that we cannot supply, so we have been working for some time to find ways to limit the impact of the beetle infestation on our operations. That is our responsibility.

It is government's responsibility to ensure we are able to operate in a fair, competitive business environment, backed by regulations that give British Columbians and global buyers the assurance we are managing our forests sustainably.

It is not government's responsibility to determine which mills should survive or which community should bear the greatest impact.

Canfor cannot – and we will not – support unilateral actions that would diminish our existing harvesting rights. And we certainly will not accept actions that only allow us to replace this volume by turning our backs on the principle of sustainable forest management and the wishes of the people of British Columbia.

We worked for decades to build an industry that British Columbians can trust and be proud to have in their communities. The mountain pine beetle impact means that our industry must rationalize production in the mid-term – this is an unavoidable reality.

Government needs to focus its efforts on diversification of economies in the interior, and not attempt to support an overcapacity in primary lumber manufacturing– much of which was predicated on short-term uplifts in timber supply to address beetle-killed stands.

Canfor welcomes the opportunity to work with government to bring economic stability to communities in the north – both through our efforts to run globally-competitive facilities in BC as well as contributing to efforts to diversify local economics to mitigate impacts of reduced lumber manufacturing.