

FOREST PRODUCTS ASSOCIATION OF CANADA RECOMMENDATIONS FOR 2016 FEDERAL BUDGET

AUGUST 2015

EXECUTIVE SUMMARY

FPAC welcomes the opportunity to present its views on the 2015 pre-budget consultations in anticipation of the next federal budget. Our brief relates to three of the themes suggested by the Standing Committee on Finance in May 2015, namely productivity, infrastructure and communities, and jobs.

Our recommendations are intended to ensure the sector's prosperity, and support our Vision2020 objectives in the areas of products, environmental performance and people. They are also consistent with recent recommendations from the Standing Committee on Natural Resources on the transformation of Canada's forest sector; the Kenora Declaration on Forest Innovation; and the commitment of the Canadian Council of Forest Ministers (CCFM) to the Competitiveness and Sustainability of Canada's Forest Sector.

Briefly, FPAC recommends that the federal government deepen its support for the forest products industry's:

- 1. Innovation agenda particularly as it relates to the IFIT program, FPInnovations, academic engagement and the bioeconomy.**
- 2. Promotion in domestic and international markets.**
- 3. Manufacturing base as the sector moves towards new products, processes and diversified market applications.**

Detail on these recommendations is included in our brief.



ABOUT FPAC

- The Forest Products Association of Canada (FPAC) is the voice of Canada's wood, pulp and paper producers nationally and internationally in government, trade, and environmental affairs.
- FPAC members include the largest manufacturers of forest products in Canada, and are present in communities across the country.
- FPAC members are global leaders in the sustainable management of one of Canada's most valuable *renewable* resources.

HIGH LEVEL ECONOMIC IMPACT

- The forest products industry remains a cornerstone of the Canadian economy. It is the third largest manufacturing industry in the country, and generates \$58 billion dollars a year in economic activity (2012).
- The industry provides over 200,000 direct jobs in hundreds of forest-dependent communities across Canada.
- The sector has traditionally relied on exports for its prosperity. In 2014, the industry exported almost \$31 billion of product to 180 countries. Changing trade relationships are opening new opportunities as the industry diversifies and expands into new markets, particularly in Asia, and especially China.
- The sector's labour productivity growth is much higher than the average business sector in Canada in the last decade, and high by international standards.
- The industry is moving beyond just producing lumber, pulp and paper, to developing a variety of new products such as energy, fuel, pharmaceuticals, chemicals and advanced cellulose fibres.
- The sector is evolving from a sunset to a sunrise industry. It is focused on becoming more productive, expanding markets and products, promoting its environmental credentials, and renewing its workforce.



VISION2020

- In 2012, FPAC unveiled an industry-led Vision2020 for the future that outlined where the forest products industry sees itself by the end of the decade. The industry's **3 aspirational goals** and the **progress achieved** during the first two years (2010-2012) of the plan are as follows:
 - **Products:** Generate an additional **\$20 billion in economic activity** from new products and new markets. Progress: **\$0.5 billion in economic activity**.
 - **Performance:** Deliver a further **35% improvement** in the sector's environmental footprint. Progress: **6% improvement** in environmental performance against 12 parameters.
 - **People:** Renew the workforce with at least **60,000 new recruits** including women, Aboriginals and immigrants. Progress: **8,000 new recruits** to the sector.
- The industry is grateful for the federal government's significant support to the achievement of these objectives. Examples include initiatives such as the Pulp and Paper Green Transformation Program (PPGTP), the Investments in Forest Industry Transformation (IFIT) program, support for FPInnovations, and various market development initiatives. In many rural communities, jobs and economic prosperity are more secure today as a result of this support.
- While the industry is committed to doing the "heavy lifting" to achieve its Vision2020 objectives, additional federal support in some areas would further ensure the sector's long term prosperity.

RECOMMENDATIONS FOR BUDGET 2016

FPAC offers the following three recommendations to support the economic, environmental and employment goals of Vision2020. They are consistent with recent recommendations from the Standing Committee on Natural Resources on the transformation of Canada's forest sector; the Kenora Declaration on Forest Innovation; and the commitment of the Canadian Council of Forest Ministers (CCFM) to the Competitiveness and Sustainability of Canada's Forest Sector.



I. Support for Innovation Agenda

- Canada's forest sector has a long history of innovation as it continually adapts its operations and practices to meet the demands of changing global markets and consumer preferences. The economic challenges of the last decade accelerated the sector's commitment to innovation to transform for future success.
- The sector must also embrace innovation to deliver on its Vision2020 objectives, and to ensure its long term prosperity, especially in rural communities.
- Innovation in the forest sector takes many forms, including but not limited to new technology adoption, product creation, and partnerships. Many of these elements are interconnected and aligned across the forest sector's value chain. Some of the more valuable innovation initiatives for the forest sector in recent years, whether led by government or industry, include:
 - **Investments in Forest Industry Transformation (IFIT) program:** This federal program was launched in 2010 with a budget of \$100 million to support forest industry transformation by accelerating the deployment of highly innovative, first-in-kind technologies at Canadian forest industry facilities. Funding was replenished in 2014 with \$90.4 million over 4 years.
 - IFIT has been immensely successful with metrics and benefits too long to list in this document. In fact, the program is oversubscribed as industry has proposed projects well beyond the federal government's capacity to fund them.
 - **Increased support for IFIT in terms of scope and scale over the coming years should reap significant dividends for forest companies across Canada and the communities they support.**
 - **FPInnovations:** FPInnovations is one of the world's largest private-public partnerships that helps develop leading-edge technologies, process and products in Canada's forest industry. Funded by industry and governments, FPInnovations conducts scientific research that has resulted in landmark projects and game-changing technologies.
 - Budget 2015 announced that federal funding for FPInnovations would be extended for two years starting in 2016-17. However, federal funding beyond 2018 is uncertain.
 - **FPInnovations should be provided with long-term, stable funding to ensure its scientific research can continue to advance the transformation of the forest sector.**



- **Academic Engagement:** The forest products industry also fosters innovation through collaboration with the academic community. For example, the industry actively engaged in the forest sector research initiative of the Natural Sciences and Engineering Research Council of Canada (NSERC) involving 26 major Canadian universities, 100 professors and 400 students.
- Funding for this successful initiative which began in 2008 lapsed in 2015. While Budget 2015 indicated NSERC would continue its research for our industry, the future remains unclear without dedicated funding.
- We believe there is a need to build on the research outcomes of the NSERC university-led research initiative in support of forest sector transformation. Equally, we believe there is a need to include more players in the forest innovation system, notably colleges which play a critical role in technology transfer and the recruitment of people to our sector. **Overall, greater federal support would help maximize academic engagement in the forest sector's innovation agenda, and link college and university research to commercial needs.**
- **Bioeconomy:** The forest products industry is an enthusiastic supporter of the bioeconomy based on renewable feedstocks. For our industry, the bioeconomy translates into extracting more value from every tree in the form of innovative bio-fuels, bio-chemicals and bio-materials. Other Canadian industries and other countries, including the United States and the European Union, also recognize the bioeconomy for its potential to diversify industries such as manufacturing, agricultural, forestry and energy.
- While the bioeconomy represents an exciting opportunity to boost jobs and future economic growth in Canada, it remains in relative infancy, and largely industry led. **There is an opportunity for the federal government to increase its efforts to understand the bioeconomy and the contribution of the forest products sector within it.**
- The above examples demonstrate that the forest sector and government have a good track record of engagement and collaboration on innovation. While significant progress has been made, both parties must continue to work together to maintain the momentum on innovation. Collaboration will help create new opportunities and jobs, particularly in rural areas, to ensure Canada has a competitive, world-class forest products sector well into the future. **FPAC therefore recommends the federal government deepen its support for the forest sector's innovation agenda in the following priority areas:**
 - **Increased support for the IFIT program in terms of scope and scale.**
 - **Continued funding for FPIInnovations beyond 2018.**
 - **Linking college and university research to commercial needs.**



- **Increasing its understanding of the bioeconomy and the forest industry's contribution to it**

II. Promoting Canada's Forest Sector

- The Canadian forest sector has world leading environmental credentials, including in the areas of certification, conservation and cutting greenhouse gases.
- Beyond our industry's Vision2020 objectives, the industry continues to find ways to improve on its environmental performance by working with environmental groups, scientists and governments.
- But there is a growing threat to the reputation of Canadian forest products, both traditional and emerging. For example, some organizations are campaigning large global customers, including in new product markets, to damage the reputation of the sector and tarnish Canada's brand.
- Left unchecked, these threats will reduce our industry's capacity to export product, and diminish consumer demand for Canadian forest products domestically and abroad. These threats may also negatively impact our sector's ability to attract new workers.
- **FPAC therefore recommends that the federal government deepen its support for forest sector promotion domestically and in international markets. Measures should be designed to achieve three important objectives:**
 - Highlighting the sector's environmental performance in international markets.
 - Attracting new, potential employees to the forest sector, including women, Aboriginals and immigrants.
 - Increasing the understanding of the forest sector's contribution to Canada's natural resources sector and economy, including the value of traditional and new products.

III. Support for the Manufacturing Base of the Forest Products Sector

- Canada enjoys one of the largest and well managed forest resources in the world. It also has a significant manufacturing base to transform trees to valuable products exported to over 180 countries.
- The industry experienced many mill closures and job losses in the mid 2000s due to a perfect storm including the decline in housing starts in the United States; the appreciation of the Canadian dollar; the global financial crisis; and digitization of the news industry. In fact, Canada's forest products industry lost half of its world export



market share over the last decade. Still, there remains significant global growth potential in some manufacturing areas.

- Governments and industry responded by supporting a strong transformation agenda rooted in new technologies and products (e.g., IFIT) and diversifying global markets (e.g. China).
- However, some of the **manufacturing equipment that companies need to support transformative projects is eroding**. Some firms simply do not have the funds required (generally in the tens of millions of dollars) to invest in the capital equipment to remain fully competitive and realize their transformation potential.
- At the same time, competing jurisdictions are investing heavily in their manufacturing capacity to reduce direct costs to industry. **If unchecked, this trend could further reduce Canada's share of the global market**, especially relative to countries whose governments invest heavily in their forest industries. It could also eventually jeopardize Canada's advantage in the area of environmental credentials.
- Taken together, these domestic and international developments suggest the need for additional support to renew the sector's manufacturing base. In other words, government could assist companies become "IFIT ready," and accelerate the launch of new products, processes and market applications. This support would also help maintain and create jobs in rural Canada, and help Canada's forest products industry on the world stage, including the preservation of its world leading environmental credentials.
- **FPAC therefore recommends that the federal government support the forest products sector's manufacturing base for its continued transformation towards new products, processes and diversified market applications.**



FOREST PRODUCTS ASSOCIATION OF CANADA SUPPLEMENTARY RECOMMENDATIONS FOR 2016 FEDERAL BUDGET

JANUARY 2016

This document provides recommendations for Budget 2016 that supplement those FPAC proposed in August 2015, prior to the election of the new government. It should be read along with our official submission.

Briefly, in August 2015, FPAC recommended that the federal government deepen its support for the forest products industry's:

- **Recommendation 1: Innovation agenda** particularly as it relates to the IFIT program, FPInnovations, academic engagement and the bioeconomy.
- **Recommendation 2:** Promotion of **environmental credentials** in domestic and international markets.
- **Recommendation 3: Manufacturing base** as the sector moves towards new products, processes and diversified market applications.

New Recommendations

Innovation / clean technologies (Supplementary to recommendations 1 and 3 above):

- Provide \$265 million of funding over 4 years to support innovation and the use of clean technologies in the forest sector.
 - \$50 million/yr for fund to implement “shovel in the ground projects” with focus on environment and climate change
 - \$15 million/yr for forest products sector research
 - \$1 million/yr to ensure new graduate and youth have the new skills required to work in our industry



Climate change (Supplementary to recommendation 2 above):

- Provide \$33 million of funding over 4 years to deliver a shared vision for the Canadian forest in a climate changed world, and a roadmap / resources to get there.
 - \$3 million for road map
 - \$10 million for provision and verification of climate data (\$3 million for forestry)
 - \$20 million over 4 years to support research to accelerate Sustainable Forest Management (SFM) adaptation
- Apply a “Carbon First” principle to procurement policy and infrastructure spending to transition towards a low carbon economy
- Tax incentives to support climate friendly investments

