

FOREST PRODUCTS ASSOCIATION OF CANADA

**Forest Industry Seeks Federal Partnership to
Support Jobs, Innovation and Our
Environment**

RECOMMENDATIONS FOR 2017 FEDERAL BUDGET

AUGUST 2016

Executive summary

Canada's innovative forest products sector

Canada's forest products sector has a track record 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 transform itself for future success, leading our industry to move beyond innovations in products to include geographical market diversification, productivity and evolving forest management practices.

Today, it's a \$65 billion industry that saw \$33 billion of exports to 180 countries in 2015. The forest products sector directly employs 230,000 Canadians and thousands more indirectly in hundreds of communities across the country. Our sector is one of the largest employers of Indigenous Peoples in Canada, including 1,400 indigenous-owned forest businesses. As the third largest manufacturing industry, it is a cornerstone of the Canadian economy. We lead the greenest workforce in Canada, and work jointly with governments on environment and climate change priorities such as our 30 by 30 Challenge to reduce greenhouse gas emissions. Our experience working in the federal-provincial-territorial landscape is second to none. In the words of the Innovation Minister, we are an industry of innovators.

Canada is well-positioned to lead the global revolution in game-changing technology from wood fibre by leveraging our unique innovation system of strategic partnership alignment, pooled resources, and targeted research which involves governments, industry, research bodies, academia and others.

The Forest Products Association of Canada is the voice for Canada's wood, pulp and paper producers nationally and internationally. Maintaining our innovation momentum is critical if we want to continue to maximize sector contributions to economic growth for Canadian businesses and communities. More critically, federal financing policies must remain predictable and stable if transformative investment projects are to be successful. In order to truly drive investments in innovative clean technology and climate friendly opportunities, government policies must be aligned, transparent and predictable across priorities such as carbon mitigation and adaptation. Uncertainty in policy creates uncertainty for project financing which stalls investment.

On behalf of our members, FPAC is seeking federal government support in the 2017 budget for better commercialization and adoption of clean technology, investments in science networks and business clusters and closing gaps in market access.

An investment in the forest products sector means an investment in Canada's future prosperity.

Summary of recommendations:

- **\$200 million over four years to help commercialize clean technology**
- **\$250 million over four years to support replication of technology under the Clean Resources initiative**
- **\$100 million over four years to support FPInnovations core funding**
- **\$140 million over four years for fundamental and applied science networks and business clusters**
- **Update building codes and standards to address carbon footprint**
- **Renew Expanding Market Opportunities program and funding for Canada Wood**

Commercializing and Accelerating Clean Growth

Canada's forestry and forest products sector is a global leader in adopting new technology and embracing clean technology. As a recent international survey by Leger found, Canada's forest products industry has the best environmental reputation in the world. We understand the critical need to address climate change—that's why FPAC recently launched its 30 by 30 challenge to reduce 30 megatonnes of greenhouse gas emissions per year by 2030. By implementing strong environmental standards and helping to build a green economy, our members are contributing to a sustainable commodities sector.

The government's support for commercialization of clean technologies is vital if our sector is to remain competitive and generate high-value jobs. The following recommendations, if implemented, will create jobs in urban, rural and remote communities and allow Canadians to contribute to the economic growth of our country while allowing business to expand domestically and internationally.

Recommendation 1

Support commercialization of advanced wood products, bioproducts and clean technology with \$200 million over four years

The federal and, to varying degrees, provincial governments have played a critical role in helping to de-risk the commercialization of new, clean technologies, which enable the manufacturing of new bioproducts and advanced wood products. The most substantial support has been at the federal level through the Investments in Forest Industry Transformation (IFIT) program.

The program objective has been to support forest industry transformation by accelerating the deployment of highly innovative, first-in-kind technologies at Canadian forest industry facilities. According to the government's own program evaluation, 57 per cent of funded projects were "world firsts." This is significant given the fact that the program only required "Canada firsts." In addition, new innovations under this program generated \$66 million of revenue per year while at the same time reducing 60,000 tonnes of greenhouse gas emissions.

The IFIT program is set to expire in 2018, but should be renewed because of its success. We know that for every dollar invested by IFIT, \$2.60 is generated. Moreover, the number of innovators who want to access the program goes far beyond the initial \$100 million investment. Doubling investment in IFIT means more innovative companies working with partners such as FPInnovations will be able to commercialize technology our sector relies on to foster transformation.

Continuing to take risk out of the commercialization of clean technology is critical for a more prosperous sector, and the economic well-being of the communities it supports.

Recommendation 2

Support for subsequent replication of technology across the forest products industry under the Clean Resources initiative with a \$250 million investment over four years to address our sector's unique needs

The forest products industry is on a unique transformation path unlike other natural resources sectors. Replication of technologies is an important step in the transformation process of our industry. Once products and innovative technologies are commercialized, there must be a system in place to help streamline their subsequent replication across the industry more broadly. The investment of \$250 million over four years will be used by companies that are looking for demand-driven solutions over supply push efforts and for expanding markets. The government can help bring potential partners together, including FPInnovations, and support product testing and any associated standards and approvals work. Government support can accelerate replication and ensure the sector keeps pace

with international competition in wide-spread adoption of emerging clean technology that will also contribute to tackling climate change.

World-leading partnerships in fundamental science, research and development

The forest products industry innovates through collaboration, partnerships and science networks with government, businesses and the academic community. Long-term and stable investments in private-public partnerships such as FPInnovations, research and development projects and business clusters will strengthen Canada's innovation capacity and contribute to economic growth.

Recommendation 3

Renew FPInnovations core funding of \$100 million over four years

Funded by industry and governments, FPInnovations is one of the world's largest private-public partnerships that helps develop leading-edge technologies, processes, products and applications in Canada's forest industry which resulted in landmark projects and game-changing outcomes. It is a unique Canadian construct which is seen as an innovation exemplar around the world and by other Canadian sectors.

A government evaluation of its funding to FPInnovations shows the results. A sample of FPInnovations results include 10 of the recent 14 pilot-scale demonstration projects utilized previous FPInnovations research and patented technologies. Moreover, four projects (two pre-commercialization and two pilot scale demonstrations) evolved to become IFIT implementation projects.

FPInnovations' current federal funding has unfortunately been decreasing and will expire in March 2018. An early signal on renewal is critical to maintain Canada's leadership in the global forest industry. FPAC encourages a renewal of provincial funding in parallel with the federal funding. FPInnovations should be provided with long-term, stable and sustainable funding to ensure that innovation development and deployment can continue to enhance the forest sector competitiveness and fast-track its transformation.

Recommendation 4

Invest \$100 million over four years for fundamental and applied science networks related to industry

The government role on forest science is critical to helping companies stay informed of new scientific knowledge, including long-term climate change impacts. Our sector regularly works in collaboration with private sector businesses, academia and governments to partner on leading innovative research and development.

The Natural Sciences and Engineering Research Council of Canada (NSERC) has played an important role by providing an average of \$25 million a year over the last four years to R&D for the forest industry. This includes the 'flagship' Forest Innovation By Research and Education (FIBRE) Network, for which funding expired in 2015. There is an urgent need to maintain this research funding. 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 in research and development would help maximize engagement in the forest sector's innovation agenda, align research capacity and link research to commercial needs and industry priorities.

Recommendation 5

Invest \$40 million over four years for business clusters

Clusters can bring like-minded companies together for the purpose of joint projects in technology transfer, export development, skills development, and experience exchanges. Forest clusters can include incumbent forest companies, technology developers, equipment manufacturers, companies from other sectors, research institutes, universities, consultants and more. Future forest-based clusters will expand to include a broader array of partners across different sectors, markets, and geographic areas. Funding to support such clusters will strengthen Canada's overall innovation performance, thereby creating jobs as a result.

Market Access and Ease of Doing Business

The forest products sector is a key driver for the Canadian economy, but the government could take action on a number of other fronts to ensure that businesses in our industry are meeting expansion, innovation and prosperity goals to better contribute to economic growth.

Recommendation 6

Update building codes and standards to incorporate consideration of the carbon footprint

Current building codes are a barrier to lowering the carbon footprint of the built environment. Updating building codes to recognize the growing capabilities of mass timber, engineered wood products and other wood-based building materials in modern building design and construction will reduce emissions. Expanding the height limit of wood structures from four to six stories was a positive step but taller wood buildings—such as the 18-storey residence building at the University of British Columbia and a 13-storey timber tower in Quebec City—have a lower carbon footprint than competing construction materials such as energy-consuming concrete and steel and should be encouraged more. It's a win-win for both the economy and the environment.

Recommendation 7

Renew the Expanding Market Opportunities (EMO) program and its funding for Canada Wood

EMO funding expires March 31, 2018 and should be renewed at current levels, \$44 million over four years. This will keep growing Canada's foreign markets for wood products, including via product diversification, and accelerate the low-carbon economy due to wood's low-carbon footprint and carbon-storage capabilities.

Conclusion

The Canadian forest products industry, led by FPAC, is diversifying into higher-value niche areas such as bio-energy, bio-chemicals, nano-technology and advanced construction materials. More than ever, this kind of innovation is fundamental to improving the competitiveness of Canada's forest sector in the global marketplace.

In its June 2015 report, the Standing Committee on Natural Resources recommended that the Government of Canada continue to provide leadership to the forest sector by making strategic investments that promote product commercialization, research and development of innovative technologies and market and export diversification. We agree. Continuing to fund programs such as IFIT and FPInnovations, to support replication of innovative and clean technology, to invest in fundamental and applied science networks and business clusters, and to open up market access by updating building codes and renewing the EMO program are all essential to the forest products sector's transformation. These strategic investments in Budget 2017 will also contribute to Canada's economic growth and modernize how we innovate as a country.