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## Standing Committee on Natural Resources

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EVIDENCE

**Thursday, June 22, 2006**

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**Chair**

**Mr. Lee Richardson**

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• (1110)

[English]

**The Chair (Mr. Lee Richardson (Calgary Centre, CPC)):** Good morning. We will get started.

As witnesses today, from the Department of Natural Resources, we have Jim Farrell, a director general, who, if required, will be assisted by Paul Bailey, the deputy director of the softwood lumber division at the Department of International Trade. From the Forest Products Association of Canada, we have Marta Morgan.

Marta, you also have Jean-Pierre Martel with you, I understand.

And from the Canadian Boreal Initiative, we have Mary Granskou.

Thank you for being here.

I guess we don't have someone here from the World Wildlife Fund, as expected, but you're going to—

**Mrs. Mary Granskou (Senior Policy Advisor, Canadian Boreal Initiative):** He was not able to make it today and sends his apologies.

**The Chair:** Thank you.

From J. D. Irving, Limited, we have Christopher MacDonald, the director of government relations, and Mark Bettle, the director of corporate planning.

I think we're ready to begin. Have you had discussions with the clerk as to the order? Maybe we will go in the order as on our orders of the day.

We're going to try to keep the opening statements to 10 minutes, and we're going to have to be fairly firm because we are starting a little late.

Catherine, did you have a comment?

**Ms. Catherine Bell (Vancouver Island North, NDP):** I don't have an agenda. I wondered if you had one.

**The Chair:** I'd better get you one.

Essentially the agenda is as usual. We're going to hear from the witnesses for 10 minutes each, without a break, then we'll go to questions by the committee for all of them. We're going to start the questions with Mr. Cullen today, after we've heard from the witnesses. And we have agreement that we're going to go with seven minutes in the first round and stick pretty firmly to it today, as at our last meeting.

We'll begin with Mr. Farrell, from the Department of Natural Resources.

**Mr. Jim Farrell (Director General, Policy, Industry and Economics, Canadian Forest Service, Department of Natural Resources):** Thank you very much, Mr. Chair.

Good morning, *bonjour*, committee members. Thank you very much for the opportunity to be here today.

It's a pleasure to present issues affecting the forest sector with my colleagues from the Forest Products Association of Canada, the Canadian Boreal Initiative, and J.D. Irving, Limited.

My discussion this morning, my brief remarks, will focus on the future of the forest sector in Canada.

Nature has given Canada a forest resource of staggering size and variety. We have 10% of the world's forest cover and 30% of its boreal forests. Canadians recognize that with great gifts comes great responsibility, and they expect that Canadian governments, federal and provincial, will meet exacting requirements of social, economic, and environmental stewardship on behalf of the citizens who own the resource.

In fact, this is the mission and mandate of the Canadian Forest Service of Natural Resources Canada: to employ our scientific resources, which are amongst the largest in the world, to ensure that our forests are used sustainably and that we extract wealth from our forests in ways that meet high environmental and social expectations.

[Translation]

We feel that industry, governments, communities, aboriginal groups and non governmental organizations work well together to oversee a forest that directly and indirectly supports 900,000 jobs in over 300 forest-dependent communities across Canada.

Canada now has the largest area of third party independently certified forests in the world—120 million hectares of forest lands as of December 2005.

[English]

But as Charles de Gaulle observed, writing in the 1930s, the only way to stay the same is to change. Applied to the forest, this means two things.

First, it means recognizing that we can always do a better job. We can always work with our partners to meet higher and higher standards that will be expected of us. We need to embrace change in a framework of continuous improvement.

Second, it means that the business of the forestry sector will need to change if it is to survive, and some of these changes will no doubt be painful. We are in the midst of a restructuring from a period when our resource and its infrastructure were enough to secure our place in the market. This is no longer necessarily true. Issues such as increasing global competition, weak markets for some key products, combined with changes in fibre supply, increasing input costs, and the appreciation of the Canadian dollar are challenging the industry's ability to remain competitive. I suspect you'll hear more about that from my colleagues of the Forest Products Association of Canada.

This means that for the industry to stay the same, that is, continue to be a big contributor to Canada's economy, it will need to focus on technology, innovation, and skills, as well as on the forest endowment. Ten years from now, it will not only be producing paper, 2x4s, and other panel products, it will offer a range of products from energy and bio-products to a variety of specialty services.

The array of products and services will be determined by our determination to seize opportunities, which are grounds for optimism when talking about this huge renewable resource. But we are at the beginning of a revolution in understanding what the forestry sector can do for us. One thing is a given: Canadians and customers will demand that whatever we do meet the highest standards of environmental, social, and economic performance.

The Canadian Forest Service of Natural Resources Canada is not just talking about these issues. We spent the last year restructuring our internal resources to focus our efforts on five strategic directions to support them: promote sectoral competitiveness, ensure forest sustainability, pursue a sustainable future for rural Canada, promote a culture of innovation and R and D, and expand our international influence.

• (1115)

[*Translation*]

This has not been easy but will pay dividends in helping the sector increase the economic value of Canada's wood fibre assets.

[*English*]

Canadian forestry has a bright future, but the future will look different from the past. I believe that Canada's forest sector has the courage to change and the talent to succeed, creating more value and expanding opportunities by harnessing Canadian innovation and ingenuity. Natural Resources Canada is here to support this.

This concludes my formal remarks. I look forward to responding to any questions you might have.

Thank you very much, Mr. Chairman.

**The Chair:** Thank you, Mr. Farrell.

We'll now move to Marta Morgan from the Forest Products Association of Canada.

**Ms. Marta Morgan (Vice-President, Trade and Competitiveness, Forest Products Association of Canada):** Good morning, Mr. Chairman and members of the committee.

On behalf of the member committees of the Forest Products Association of Canada, let me first say that we greatly welcome this

very important opportunity to provide the committee with our perspective on the key challenges and opportunities for Canada's forest products industry.

By way of background, FPAC is the national and international voice of Canada's wood, pulp, and paper producers in government trade and environmental affairs. Our 20 member companies include the largest integrated producers of pulp and paper, lumber, and other wood products. We're responsible for 70% of the working forests, and we have operations in every province of the country.

FPAC members are strongly committed to the principles of sustainability. As a condition of membership, all FPAC members ensure that their forest lands will be certified to independently monitored standards for sustainable forest management by the end of this year, and we're well on our way to meeting that goal.

FPAC has a range of partnerships with civil society to work on issues of common concern, including with our colleagues who are here today from the Canadian Boreal Initiative. We've recently launched the sustainability initiative, under which we've committed to a range of sustainability principles and to report regularly on the progress of our members in achieving them.

[*Translation*]

With annual sales of more than 80 billion dollars, the Canadian forest products industry accounts for 3 percent of Canada's GDP, employs directly some 320,000 people in well-paid high productivity jobs and is the major economic contributor to over 300 communities from coast to coast. Every year, the industry exports over 45 billion dollars' worth of products, which makes it the largest forest products exporter in the world. Obviously, our industry not only underpins the rural economy of Canada but is also a major player in Canada's overall economy.

[*English*]

This industry is unique in its broad reach across rural Canada where the industry provides high-tech, high-wage employment to many Canadians.

With that as a backdrop, I would like to now address the subject at hand and provide the committee with a sense of the challenges currently facing Canada's forest product sector. I'd like to talk about three things: the outlook for the industry, what the industry is doing, and how the government can support industry efforts.

For Canada's forest products industry, the challenges are significant. The industry is in a period of rapid transformation. Indeed, over the last few years, Canada's forest products companies have faced a confluence of challenges that some observers have referred to as the perfect storm: high and rising energy prices, increasing competition from low-cost overseas producers, declining demand in some market segments, and a softwood lumber dispute that has drained \$5 billion out the industry.

It is very likely that if these were the only components of the perfect storm, the industry could ride through the rough water with little difficulty, but the magnitude and impact of these challenges have been amplified by the rapid rise in the value of the Canadian dollar. This alone is arguably the single most critical challenge affecting this sector today. Consider that the dollar has risen by nearly 46% in a mere four-year period and the significant consequences this increase has for an industry and indeed a national economy that's almost entirely export oriented. While the dollar's rise certainly affects all Canadian manufacturing, its impact on the forest sector is particularly acute because the industry's input costs are almost entirely in Canadian dollars, while the majority of the industry's sales are in U.S. dollars.

This has created intense pressure for the industry to adapt, and adapt quickly. There are real and growing opportunities in this sector. Global demand for forest products has been increasing steadily over recent years. By way of example, paper and paperboard consumption has increased by 3% per year globally over the past decade. In addition, in the solid wood sector, markets have been strong and considerable opportunities exist to create new markets for traditional products in countries such as China, and new applications for traditional products in our largest market of North America.

With this in mind, Canada's forest products industry has substantial strengths that can be used as building blocks for renewed and revitalized industry. Taking immediate action will allow the industry to capture its share of growing world markets, revitalize its capital stock, sustain rapid productivity growth, and provide high-quality jobs in communities across the country.

So what has the industry done?

• (1120)

[Translation]

Canadian forest products companies have continued to diversify and to invest. The industry spends 500 million dollars every year for research and development, which makes it one of the largest private sources of innovation in the Canadian economy. Furthermore, it invests 4 billion dollars yearly in improving its capital assets. This is how it was able to reach a productivity level that compares favourably to that of the Canadian economy as a whole and of our American counterparts.

[English]

The industry is investing in capital and R and D and is aggressively reducing costs. As we look ahead, the key factor is where future investment is going. This will determine the future of the industry, and this is where the public policy framework that the industry is operating in can make a real difference.

I'd like to move now to what governments can do. The public policy framework within which the industry operates is a critical competitiveness factor. Governments are central players in establishing the industry's business climate or hosting conditions. As the industry keeps pace with global competition, government must also keep pace to ensure that hosting conditions are equally, if not more, competitive than the hosting conditions faced by the industry's international competitors.

Before the dollar faced its free ascent, addressing these hosting conditions was perceived as something that was important but perhaps not of the greatest urgency. However, with the dollar's unchecked rise and showing few signs of abating, ensuring that Canada has the most competitive domestic policy framework becomes an absolute imperative.

With this in mind, the industry is urging the government to take action in the following areas:

First, ensure that Canada's investment climate is as attractive as possible. A recent C.D. Howe study concluded that while Canada's overall tax rates are middle of the pack among OECD countries, our tax on capital investment is among the highest. Canada is not competitive when it comes to capital investment, and it is capital investment that will allow our manufacturing industries to thrive over the longer term.

Second, federal competition policy needs to be reviewed and impediments to market-based adjustments removed to allow the industry to achieve further economies of scale. Canadian producers need to be able to achieve the same world-class scale as foreign-based competition and major North American customers. Just to give you an example, Canada's largest company is Abitibi-Consolidated. It's our largest forest products company, but it's only the 21st largest forest products company in the world. Its top three competitors in North America are five times as big. Another example, Canfor, a west coast lumber producer, is 20 times smaller than Home Depot, one of its major customers. We are competing with, and selling to, giants. Further consolidation in the industry will help lower the industry's cost of capital, increase R and D capacity, accelerate the deployment of new technologies, and improve the sector's capital investments.

Third, there needs to be more competitive pricing in Canada's rail sector. As the largest user of railways in Canada, the forest products industry is particularly affected by the high freight rates and inferior levels of service that are the result of lack of competition throughout significant parts of the rail system. Where competition exists, freight rates are up to 50% lower than they are where only single freight rate carriers are available. The government needs to look at ways to introduce more competition into the system.

Fourth, Canada's forest products industry takes great pride in its record of domestic and international leadership on sustainability issues ranging from sustainable forest management to air quality and climate change. For example, the pulp and paper sector has reduced its greenhouse gas emissions by 30% since 1990, while increasing our volume of production by 28% over the same period. This progress has been made possible in large part by the industry's unique ability to self-generate energy from renewable carbon dioxide-neutral biomass, mostly derived from wood wastes and other by-products of our production processes.

Our industry already has 1,700 megawatts of renewable electrical generation capacity, roughly enough to power a city the size of Vancouver. But we can do more. FPAC believes that a robust national renewable energy strategy should be a centrepiece of Canada's response to addressing climate change and clean air issues. It should be market-based, where equal treatment is afforded to all low-impact renewable energy technologies.

Finally, the government can partner with industry on transformative R and D to create new leading-edge products and processes, and to diversify Canada's export markets into more non-traditional geographic and end-use markets for Canada's forest products.

By undertaking action in these five priority areas, governments will help to provide positive hosting conditions for the industry that will ensure the long-term competitiveness of the industry.

• (1125)

In conclusion, I'd like to leave you with three messages.

First of all, this is an industry in transformation. The industry is working hard to address the challenges facing it.

It continues to have tremendous potential. There are new markets, new opportunities, and new products under development that will keep Canada's forest products industry vital.

Third, as is the case in many Canadian manufacturing industries, both government and business have to act quickly in order to sustain our advantages in the face of accelerating change.

Mr. Chairman, that concludes my formal remarks. I look forward to exploring in detail any issues of further interest to the committee.

**The Chair:** Thank you.

We'll now hear from Mary Granskou from the Canadian Boreal Initiative.

[*Translation*]

**Mrs. Mary Granskou:** Thank you very much. It is a real pleasure for me to make this presentation here today.

[*English*]

Our three recommendations are for the committee to study and to look at in the coming months. We would like to focus your attention today on three areas. One is federal support for land use planning; the second is climate change in forests; the third is natural capital accounting.

You have our brief in front of you in both languages. Today I am going to touch on some of the highlights of our brief and try to maximize the time we have in our question-and-answer period.

Before I give you an overview, I want to tell you about the Canadian Boreal Initiative. You could look at us somewhat as an all-party committee on Canada's boreal forests. We span across industry, first nations, and conservation groups. We have formal agreements with industry associations, which we are very proud of, with the Forest Products Association of Canada, with the Mining Association of Canada, and others. We are reaching out to the banks. We are bringing the investment sector on board. We are reaching out to develop consumer demand for sustainably managed and marketed forest products. We stand behind the concerns of the industry that

they be sustainable over the long term, and we are working toward a vision of balance across our boreal region in Canada, which spans over half of the country.

That is a balance across community sustainability, industry, and conservation. We blend all of those interests together around our table, and we're moving forward together.

I hope that gives you a good context for our focus here today.

Before we speak to our recommendations, we'd like to spend a few moments on the overview of the boreal region in Canada, which Jim Farrell began quite nicely.

There is growing international and national recognition of how important our boreal region is for communities. There are over 600 aboriginal communities that find this region their home. It spans an area from Newfoundland to Yukon. It's uniting to Canadians through many of the symbols of our nation, the art of our nation, and the culture of our nation, and it is the backbone of the industry, our economic sustainability, and it is very much an area of opportunity for conserving a region that is internationally celebrated.

Our boreal region is home to billions of migrating songbirds and some of the largest caribou herds in the world. I'm not sure if you are aware of this, but while the tropical rain forests get a lot of attention as being carbon reservoirs, in fact—and this has been studied—the northern boreal forests around the world are actually the largest land-based reservoir of carbon internationally. That is very significant for climate change in terms of what we can offer the world.

The three countries that have the largest intact areas of boreal forest are Canada, Russia, and Brazil. We all know which country has the best chance. Because of our stability and what we are committed to socially and otherwise, and because of our commitment to sustainability, Canada has the best opportunity in the world to advance a strategy for balance across this region.

The Canadian Boreal Initiative was formed to work across parties and to move forward more proactively on solutions because we don't have the benefit of time. The land base is changing very rapidly. The dynamics are changing very rapidly. And we call ourselves a living lab for solutions, to put solutions forward at a time in Canada where the region is in transition. We are working in partnership with resource companies.

Some of our leadership companies are Suncor, AlPac, and Domtar, and in the midst of this tough economic time that particularly the forest sector has been facing, our forestry companies remain committed to forest certification and have certified 42 million acres collectively in Canada. So to be able to certify and change logging practices is also a tool for sustainability.

We have over 15 first nations partners across Canada. The reason I am here solo today is that we have a first nations partnership meeting actually right now, this morning, in Edmonton. They are moving forward on some very exciting work, and the keystone of that work is called comprehensive land use planning. I will get to that in a moment. We are working very much in partnership with them to advance how they design across their traditional territories road maps for balance. We are working very closely with them.

We have agreements in development or finalized with various governments. In Newfoundland and Manitoba we're working with two federal agencies. We're working actively in all provinces and jurisdictions across the boreal region and we work very closely as well with conservation organizations, which are focused a great deal right now in terms of advancing protected areas.

● (1130)

One of the major regions we're focused on right now is the Mackenzie Valley and how we can bring balance collectively in the Mackenzie Valley. These decisions are being made now in advance of the proposed pipeline in that region.

I'd like to focus on three recommendations we would proactively support the committee in studying. We feel you have a very important role to play. We would very much like to work with you in the months ahead.

The first is restoring federal support for land use planning. One of the best solutions the Boreal Initiative and our partners are supporting is regional land use planning. This is where aboriginals—first nations and Métis—work on a government-to-government basis with the provinces and territories and at the federal level to design the future look of the landscape. Where do we develop? What do we protect? Where are the culturally significant areas?

Many of our industry partners are engaged proactively and say to us that this is a tool for business certainty. This is a way to map for the future, where we operate and where we do not. There are very positive initiatives in many jurisdictions, and we are supporting those very actively in a number of ways.

About 60% of Canada's boreal region is under some form of planning right now. The challenge there is that many of these exercises require significant costs to do well. The provinces are struggling to cover that. They feel the federal government has supported more in the past than they are now. We are working in partnership with a number of jurisdictions to try to bring the federal government back to the table more actively. It very much fits under the duty to consult. That is a responsibility at the federal level as well. We would really encourage you to look at this issue because it's a very important one. The jurisdictions and the first nations would like to see the federal government back at the table in a stronger way.

The second area is climate change and forests. We're not sure if you're aware of this, but under the Kyoto Protocol a decision needs to be made in 2006. That decision is whether Canada decides to include forests in its climate change plan or not. This is an issue right in front of us right now, and we would encourage the committee to look at this. This has been an ongoing issue for FPAC as well and many players from many sectors. We feel you can have a very interesting analysis of this, and it really has not captured the kind of attention it needs. It's an issue that has certain complexities. You can't just take energy solutions and apply them in the forest. Certain gains have been made by the forest sector in terms of renewable energy. We would like to look at how we incentivize taking that out into the field.

I have some basic statistics on this. Forests are now responsible for about 25% of all emissions worldwide. That's largely due to changes in forest practices. There are ways you can manage. As

Marta said, you can manage your forest practices for climate change benefits. As an example, the Innu Nation, which is a partner of ours, has a forest management plan where they've reduced their carbon dioxide emissions by half—very fascinating. We think you could be very interested in that story. There also is a place for protected areas as carbon reservoirs. So it's very much a tool and an area of focus that can be applied across the board.

The third area is natural capital accounting. Of all the provinces and territories, Alberta has done the most work in this area. It looks at how nature provides an economic benefit, how we can protect those capital reserves for the future, and what kind of capital preservation and accounting strategies we should follow to make those a standard part of our decision-making framework. Right now, the recognition of ecosystems and the wealth that they generate for Canada is not accounted for on the balance sheets in our accounting systems at Statistics Canada, and we would very much support your looking at that. It's a very interesting area.

● (1135)

We did a study over the last two years. We contracted an environmental economist who actually advises China and Alberta most closely, and we came up with our own system of natural capital accounting, which showed—and this is preliminary—that there's roughly two and a half times greater overall non-market value from boreal ecosystem services than from capital extractions. So that's flood control, and that's carbon sequestration. We're not trying to denigrate the value of the other activities in the forest but just show you that there's a great value of, for instance, birds for pest control. That's a very interesting area.

There are real data gaps. There are fiscal and monetary policies that could be looked at in this area. It actually aligns with accountability to Parliament in terms of proper reporting. So we think this could be a fruitful area for you as well.

In closing, I just want to recognize that one of our partners, the World Wildlife Fund, has also sent in a letter encouraging the committee to look at issues in and around the Mackenzie Valley, an area of great importance that I referred to earlier. What we might suggest is that this could fit neatly into an exercise where you look at a live case study in a region—the Mackenzie Valley could be one—in terms of how you could look at forest practices, other activities, and protected areas, and how they could contribute to the greenhouse gas emission reduction agenda.

So thank you very much. I probably didn't save any time here, but thank you for allowing me the time to give you an analysis of the boreal region.

● (1140)

**The Chair:** Actually, you went three minutes over.

We'll now hear from Chris MacDonald, from J.D. Irving, Limited.

**Mr. Christopher MacDonald (Director, Government Relations, J. D. Irving, Limited):** Good morning, Mr. Chairman and members of the committee.

My name is Chris MacDonald. My colleague Mark Bettle and I are both employees of J.D. Irving, Limited. We're here today to talk specifically about biological sequestration and, in particular, forest management in the context of climate change.

I believe everybody has a copy of the presentation. We're hopefully going to go through that quickly.

**The Chair:** Apparently not. They were sent to the offices, but sometimes the system doesn't work. Okay, I think most of them have it.

Mr. MacDonald, would you like to continue?

**Mr. Christopher MacDonald:** Thank you, Mr. Chairman.

I'll quickly go through the table of contents on page 2, just to let everybody know what we're going to be talking about.

I'm going to give a little overview of J.D. Irving, Limited, a backgrounder on our company. Mr. Bettle will talk about what biological sequestration is and why it is important. He'll also speak to forest management, what we're doing and what the impact is, and he will speak to the current situation and potential opportunity. I'll wrap up with policy implications.

Certainly Mr. Moore and Mr. Allen know a lot about our organization, being from New Brunswick, but we weren't sure how much the other committee members would know about us. So we thought it was a good idea to quickly cover what's involved in our organization.

We're a large group of companies based in Saint John, New Brunswick. We have diverse operations, including forest products, shipbuilding, retail, transportation, and construction. We employ approximately 10,000 people in several provinces and states. We're known as the tree-growing company, and as a result, as you can tell from that, we're fairly heavily involved in the forest products sector.

Our forest products group is made up of three divisions. I just want to cover these so you understand exactly where we're at.

As indicated on page 4, in our woodlands division, we manage six million acres of property, made up of 3.4 million acres of freehold land and 2.6 million acres of crown land. We are the largest private landowner in Canada.

We have a sawmills division, made up of 15 sawmills and four value-added mills in New Brunswick, Nova Scotia, Prince Edward Island, Quebec, and Maine.

We also have a pulp, paper, and tissue division. We operate a kraft pulp mill and a specialty paper mill in Saint John, New Brunswick; a corrugating medium plant in Lake Utopia, New Brunswick; and tissue mills in Saint John and Moncton, New Brunswick, Toronto, Ontario, and Fort Edward, New York.

I'll now hand the presentation over to Mark.

• (1145)

**Mr. Mark Bettle (Director, Corporate Planning, J. D. Irving, Limited):** Thank you.

I'm on page 5, on biological sequestration. By way of background, I want to talk about a couple of ways to reduce greenhouse gases, of which carbon dioxide is the main one.

One way we can do this in Canada is to reduce the emissions of carbon dioxide into the air. That can be achieved in a number of different ways: cleaner fuels, energy efficiency, and technological and process improvements. Marta mentioned the success story of the forest products companies in Canada as a whole; since 1990 our companies, our pulp and paper operations specifically, have reduced carbon dioxide emissions by over 20%, while increasing production by over 50%. If you do the math, that is a dramatic decrease in emissions intensity over our operations. We're quite proud of that, but the fact of the matter is that to get from where we are—and probably where we're going to be—in terms of energy consumption to where we want to be in terms of emission reductions, there needs to be another factor in the equation. Emissions reduction won't do it on its own.

The other factor in the equation is the capture and sequestration of carbon dioxide from the air. That can be achieved in two ways. One way is through geological sequestration, which is basically pumping carbon dioxide from the air into the ground. It's a dramatic and kind of cool way of doing it, but there's another way that is every bit as effective, although perhaps not quite as dramatic: biological sequestration. Biological sequestration is the capture of carbon dioxide into our natural resources—agriculture, oceans, forests. We are the tree-growing company, as Chris mentioned, so I'm here to talk about trees.

During its lifetime a tree will breathe in carbon dioxide and breathe out oxygen, sequestering over a tonne of carbon dioxide over the life of the tree. Forest management, as has been mentioned by Mary, is a way of increasing the amount of carbon dioxide sequestered by the forests.

I'll move on to page 6, forest management. What is it? There are a couple of ways of increasing the number of trees on a piece of land and thereby decreasing the amount of carbon dioxide in the air. One is to take a parking lot and plant trees on it. You would increase the number of trees on the land.

Another more subtle approach is what we're doing, which is taking the forested land we already have and increasing the intensity of forest, the intensity of trees, on that given piece of land. J.D. Irving is the leader in the industry in forest management.

There are many things you can do that I won't spend a lot of time talking about in terms of forest management. We've made substantial investments in such things such as tree planting; tree improvement, which is creating faster-growing trees through breeding; vegetation control; fire and pest control; and pre-commercial spacing of our natural forests.

We've also planted over 750 million trees, more than any other private company in Canada. The result is that there are clear and quantifiable benefits to the environment happening now and projected into the future.



I'll go on to page 7. We say it's quantifiable; what does that mean? You can't measure the amount of carbon dioxide that's being sucked out of the air by a tree with a meter. There is scientific research that has shown the extent to which certain forest management activities will increase the carbon stock and thereby increase the amount of carbon dioxide that is being and will be sequestered by trees.

Since 2003 our company has been working closely with the Canadian Forest Service on a model that will assess the future net decrease of carbon dioxide in the air. We've used this model, a carbon budget model, with the Canadian Forest Service to estimate on our land—the land we own and the land we manage—how much carbon dioxide we are taking out of the air through forest management. We're planting trees and we're harvesting trees, but on a net annual basis we are taking 1.2 million tonnes of carbon dioxide out of the air. That's the amount of carbon dioxide we are taking out of the air on a net basis.

I'll move now to page 8. We've done a lot—we're industry leaders, as I mentioned—but we can do more, and we intend to. There are other countries that lag behind us in what they have done and what they can do, so there's a lot of low-hanging fruit out there yet to be picked. There's a lot more that can be done in Canada in terms of forest management and carbon dioxide sequestration. There's enormous untapped potential to achieve additional greenhouse gas reductions through forest management in our company and, more significantly, across the national forest inventory.

• (1150)

I'll move to page 9 now. Just yesterday—hot off the presses—there was a report released by the National Round Table on the Environment and the Economy. They looked at the potential role of land use, land use change, and forestry. It predicts that in the next 40 to 50 years these things could contribute a net sink of over 100 million tonnes of sequestered carbon dioxide per year. That's an enormous potential. The report goes on to say that this impact could make a significant contribution to achieving overall climate change policy objectives.

With that, I'll turn it back to Mr. MacDonald to close.

**Mr. Christopher MacDonald:** In a nutshell, at the end of the day, what are we suggesting? What I would like to focus on for a brief period of time are some of the government policy suggestions that we have. They're addressed on page 10.

First of all, we suggest that you capitalize on Canada's natural resource base by emphasizing the role of biological sequestration.

Second, we should recognize the unique nature of the Canadian forests and their potential to reduce greenhouse gas emissions and address climate change by rewarding and incenting superior forest management performance. We have demonstrated the potential for this ourselves, for our own company, and for the industry as a whole.

Third, we should recognize future reductions in greenhouse gases from forest management, within the context of an overall climate change policy, by recognizing biological sequestration within offset and trading systems. In the past few years, the inherent potential of our natural resources to address the challenge of climate change has fallen off the table. Recognizing biological sequestration and, more specifically, forest management as a key component of an overall

climate change action plan will put it back on the table and tap into Canada's natural advantages.

Those are our formal submissions. If there are any questions, we'd be happy to answer them.

**The Chair:** Thank you, Mr. MacDonald, and thanks to all of you.

We're back on track. We're going to start the first round with Mr. Cullen, who is going to keep it to seven minutes today and astound us all.

**Hon. Roy Cullen (Etobicoke North, Lib.):** Thank you, Mr. Chairman.

Thanks to all the presenters. There was a lot of interesting material there, and I thank you for that.

You could go on forever on a bunch of these things. I want to really get into the softwood lumber agreement

Ms. Granskou, you threw out a statistic that flies in the face of everything I've ever learned. I thought I heard you say that the forest sector globally produces 25% of the world's carbon dioxide greenhouse gas emissions. Is that what you said?

**Mrs. Mary Granskou:** To clarify, it's 25% of the carbon dioxide emissions that are currently being emitted from forest regions. It's not the forest sector, but emissions that are coming from forest regions, from a variety of activity.

**Hon. Roy Cullen:** Do you mean the boreal forest regions?

**Mrs. Mary Granskou:** No, I mean forests internationally.

**Hon. Roy Cullen:** Generally. Okay, that helps.

**Mrs. Mary Granskou:** I'm sorry about the confusion.

**Hon. Roy Cullen:** That's okay. I think the forest industry has a pretty solid performance in terms of greenhouse gases, so that puzzled me.

I'd like to go to the softwood lumber agreement. I see we have someone from International Trade here, Mr. Bailey.

The Free Trade Lumber Council made a presentation to the international trade committee. I'd just like to read a couple of excerpts from their brief. They say that the second paragraph of the softwood lumber agreement, in a preamble, says:

...Canadian softwood lumber that the United States has found to be dumped and subsidized and threatening material injury to the softwood lumber industry in the United States.

They go on to say:

...we cannot build a long-term durable peace on the foundation of a lie.

We know that the NAFTA panels have consistently shown that there is no subsidization. They go on to say:

The current design of the deal, as we understand it, does exactly what the Coalition wants. We face absolute quotas or, alternatively, graduating export taxes. The tougher the market, the more we pay. The U.S. industry becomes completely insulated from competition in down markets. So, we want free access, and they want protection in down markets. The deal imposes trade restrictions that get tougher on Canadians the more the market slows down.

They go on to summarize:

...we want our legal victories, they want them erased. We want all our money; they want a lot of it. We want free trade; they want trade restricted and managed. We want to manage our forests according to our own rules and ways, and they want significant oversight over our forest policies.

So I ask you—and I want to get into the anti-circumvention clause, because I think that's an area where I have some big concerns—how would you respond to those statements?

• (1155)

**Mr. Paul Bailey (Deputy Director, Softwood Lumber Division, Department of International Trade):** Thank you for your question, Mr. Cullen.

I think the Free Trade Lumber Council is perhaps overstating its case, to say the least. They're drawing on an earlier draft of the legal text, which has changed. This is the back and forth of negotiations and fleshing out of the agreements. The U.S. puts forward text, Canada puts forward text, and that's—

**Hon. Roy Cullen:** Just on that point, then, the current agreement in the second paragraph, you're saying that particular statement is no longer in there?

**Mr. Paul Bailey:** I don't have the text with me, but I don't think that's in there anymore.

**Hon. Roy Cullen:** That's good. Okay. But that's where they're coming from and that's their premise, and the point still remains: how do we build a durable peace on the basis of a lie?

**Mr. Paul Bailey:** To address the more general point, the reality is that the U.S. still believes they're facing unfair competition from Canada in spite of the legal victories we've won. For Canada, the choice isn't between free trade and the agreement in principle we have, and frankly I wish it were, because I think we all know which we would choose. But the reality is, in spite of our legal victories, we still would face two years or more of continuing litigation before we got to the end of the litigation process. Then after that, nothing would prevent the U.S. industry from launching another round of litigation.

When we talk to stakeholders, both provincial governments and industry stakeholders, they've told us they want predictability and certainty so they can address some of the competitive challenges they're facing. These are the challenges FPAC alluded to earlier on, the strong Canadian dollar being one of the big ones, but also questions of fibre supply, energy costs, transportation costs, a whole series of challenges facing the industry. This agreement does deliver that stable, predictable environment that will allow the industry to tackle some of those challenges. One of the features that will help them significantly in addressing those challenges is the refund of 80% of the deposits—\$4 billion U.S. flowing back to Canadian companies, which will then be invested into making their operations more productive, thereby helping their communities and their workers.

So we think it's a good deal.

**Hon. Roy Cullen:** Okay. I'm glad you think it's a good deal. I don't.

Where can one get a copy? I guess it's a rolling draft, as you call it, of the agreement, because I've tried through various channels to get

the latest version and I can't get one. Is it just not available to parliamentarians?

**Mr. Paul Bailey:** It is, as you say, a rolling process. There's back and forth, and frankly a lot of it is in bits and pieces, where we exchange text on one provision or another. It will be provided to Parliament once we finalize the agreement.

**Hon. Roy Cullen:** So that's the problem. We don't really have a way of finding out what's going on in the meantime.

The concern I have, first of all, on a broad question is that the dispute resolution process was meant to deal with disputes. That was set up in the NAFTA process. If it doesn't work for something like softwood lumber, where the NAFTA panels, on appeal, even with U.S. panellists, still are challenged, we know what the problem is. It's this huge U.S. producer lobby that goes totally political. But if we can't win it on this, where the panel judgments have been totally clear, I think it says something really nasty about NAFTA and its future.

Mr. Emerson has said that the devil is in the details, and one detail that I think is still lurking is this anti-circumvention clause. I wonder if you could explain. When I talk to people about the anti-circumvention clause—in fact, I talked to Minister Emerson, and I was down in Washington, at the embassy—they talk about the anti-circumvention clause within the context of possible stumpage changes in British Columbia or other provinces. My understanding is—and you can correct me if I'm wrong—that in general terms, the anti-circumvention clause is there to say, look, we signed an agreement, and this is the spirit and the intent of the agreement, and if the provinces or the federal government move in certain directions that are basically seen as trying to get around the agreement...

I know there are many ways of trying to do that. So that's put in there to stop that.

We heard FPAC talking about the need for the federal government to play a role in terms of technology and innovation. The concern I have is, what's to stop these producers basically lobbying their government to say that if the federal government, or even provinces, acted in a certain way to help the industry or to encourage the industry in terms of innovation, in terms of value-added, a whole range of things, they would say that's circumventing? So they basically have a veto on forest policy in Canada at the federal and provincial levels.

Secondly, I'm a little puzzled on the stumpage issue. If a province is going to increase stumpage, I don't know how that could be a concern to the U.S. producers; and if they are moving to more of an auction system, that's what the Americans have asked for. They pray at the altar of an auction system for timber. So that's fine, but if we go to an auction system, you may know—I certainly know—the actual delivered wood costs could go down. Is that what they're saying? Are some provinces actually thinking about decreasing stumpage?

How is the anti-circumvention clause seen as an issue within the context of planned or possible stumpage moves by provinces, and isn't the issue broader than that?

Those are my questions.

•(1200)

**Mr. Paul Bailey:** Again, thank you, Mr. Cullen.

As to the anti-circumvention provisions in the agreement, this is very typical of trade agreements, whether they're bilateral or multilateral. Virtually all trade agreements have anti-circumvention provisions and dispute settlement provisions in them, although obviously, from the American side, they have in mind things like us or the provinces arbitrarily reducing stumpage fees or otherwise providing what they would consider to be an unfair advantage to Canadian producers. But the anti-circumvention provisions apply going both ways. So they're not just there for the U.S.; they're also there for Canada.

As far as the ability of provinces to make policy reforms is concerned, that is a key issue for us, and British Columbia in particular, because British Columbia has introduced a market-based pricing system for the coast. It has been in place for about three years now, and they've announced that they will be implementing a market-based pricing system for the interior starting July 1.

So we're very much aware of the importance of this policy reform to British Columbia, and also the need for all provinces to be able to make adjustments to their forest management practices over time as circumstances require.

So although the U.S. will certainly take an interest in any such changes and may even try to take us to dispute settlement if they think the changes circumvent the terms of the agreement, they don't have a veto over such changes, and we'll deal with these if and when they arise under the agreement. But in the negotiations themselves, we're paying a great deal of attention to these provisions to make sure we get them right, and we're consulting very closely with the provinces and the industry on this point.

**Hon. Roy Cullen:** If the British—

**The Chair:** Roy, we're now at twelve minutes. We have an established policy, so in fairness to the rest of the committee, we'll pick it up in the next round.

Mr. Cardin.

•(1205)

[*Translation*]

**Mr. Serge Cardin (Sherbrooke, BQ):** Thank you, Mr. Chairman.

Ladies and Gentlemen, welcome to the Committee.

I have done some reading, I have listened to you and I have quite recently met with the association. I am finding more and more that forestry is a fascinating world. The challenges are immense. It is often said that our qualities are matched by our faults, or vice-versa, or that there are always two sides to every story.

On the one hand, forestry is an important component of the Quebec and Canadian economy. We are told that it is the largest industry. We have some statistics: 81 billion dollars in sales, 36.8 percent of our GDP and 34.4 percent of our trade balance. We therefore also trade a lot with other countries. We must, for forest operators and those in the forestry sector, make greater and greater competitiveness gains, in terms of technology and research and development, if we want acceptable performance levels.

On the other hand, forestry represents duties, tremendous responsibilities, because we must think in terms of the forestry ecosystems, of biodiversity. It is said that the forests are the lungs of the planet. They are also carbon sinks and, if we take into account the water table, they are also water.

From an economic standpoint, it is fascinating to see the gains that our forests can produce. From an ecological or environmental standpoint, there is a heavy responsibility.

I hear you talk about biological sequestration and forest management. I would like to know if everyone is in agreement that we are far from having done what we should be doing. We can obviously look at the issue from a strictly economic perspective, but we must also look at it from the environmental perspective.

As a matter of fact, this is what people talk to me about. In my riding, there may not be many forestry producers, but there are quite a few of them not very far away. People tell us, when they see the truckloads of wood on the roads, that it is difficult for them to believe that forest operators do manage to replace the resource.

I would like each one of you to tell me where we are at with regard to resource replacement and environmental protection.

**Mr. Jean-Pierre Martel (Senior Vice-President, Sustainability, Forest Products Association of Canada):** Thank you for your question, Mr. Cardin.

My name is Jean-Pierre Martel and I am Vice-President for Sustainability with the Forest Products Association of Canada. I have worked within the industry as a forestry engineer for 23 years now.

You bring up a very important issue. I believe that generally speaking, in Quebec and in Canada, one of the important things that must be recognized is the fact that the forest is a public good, which is very different from the situation of our neighbours to the south. Forestry is a science that is not always exact. Forestry has evolved as the values and needs of society have evolved.

When my ancestor came from France in 1668 as a lumber merchant, his values were very different from those of my children, in our world of today, and this evolution will continue in the future. People's expectations with regard to the forest have greatly changed, as have the various players. Our knowledge of the forest and of eco-science has evolved tremendously. In the context of my own knowledge of forestry, I believe that there has been a greater evolution over the last ten years than over the course of the 20 previous years. We must recognize that many things have changed. We have made many improvements, but there is still so much to learn.

Third party certification, through which there is a recognition of all of the different values that forests offer, commercially speaking as well as in areas such as the ecology and wildlife habitat, and which provides for reconciling all of these values within a sustainable and integrated forest management approach, is one of the major developments of the last few years.

My answer is perhaps long-winded, but if you are looking for a short answer, I would say that yes, we have changed, but we are not perfect. We will continue to change as the values of society and our knowledge of the forest environment change. I nevertheless believe that we have made good progress and that, if we compare ourselves to other countries throughout the world, we are one of the leaders in the field.

• (1210)

**Mr. Serge Cardin:** With regard to the protection of the resource, do those people who espouse another opinion remain optimistic?

**Mrs. Mary Granskou:** I apologize for not being able to answer in French.

[English]

There's a third issue in our resources that I really encourage you to add to renewal and replacement, and it's the preservation side of the agenda. We're hopeful that interests are coming together to collaborate. It's great to see the presentation here today from our largest corporate private holder in Canada focus largely on carbon sequestration. That is a real advancement, so we celebrate that.

What we're really advocating is the need for a balance on the landscape in order to sustain our cultural, ecological, and economic futures. In terms of the ledger right now, when you look at the balance, there's not enough focus on the preservation, whether you call it natural capital preservation, or ecological, or biological. About 10% of the boreal region is under some form of preservation. All our leadership companies, our first nations, and our conservation groups collectively support a goal of 50%, so we're far from a model that we can celebrate to the world.

The reason we need to balance this equation is that you need large interconnected areas in order for your full complement of biological diversity and wildlife to be sustained over the long term. We need to incentivize what can be done within our forest operations, and not starve that side of the agenda. A great deal of innovation can be done there that helps support the triple bottom line of the social capital, the economic, and the natural.

The other thing I'd add is that live planning for the future is now going on in about 60% of at least the boreal landscape. It's that planning that will help us reconcile all the uses. We really are supporting that; it's way up there in terms of our agenda. It also is recognizing the government-to-government relationship between aboriginal peoples and government, because that's a long-standing.... It's a patchwork across the country in terms of how those rights are recognized and respected.

I hope that's helpful.

[Translation]

**Mr. Serge Cardin:** Let us now talk about the competitiveness which is attributable to the development of certain species, given that we know that it takes decades for some of them to reproduce. Does research and development work on new species, capable of producing quality products and that are easier to reproduce, allow you to be competitive? There are countries that are involved in this kind of research and are giving you stiff competition in this area. Is the development of these types of species allowing you to improve your competitiveness?

**Mr. Jean-Pierre Martel:** That is a very good question. In fact, each species has its own very different life cycle. We can attempt to change this cycle through genetic improvement. The idea is not to change the genetics of trees, but simply to choose specimens that grow more quickly and then to produce seedlings, young plants to improve growth performance and therefore produce a tree that presents better characteristics, not only physically, but also growth-wise. This is being done throughout Canada for major species such as black spruce, white spruce, Douglas fir, alpine fir, etc.

There are certain species that we call high-end, like the hardwood in your region. In this area, maple and oak come to mind. These are species that have a very long life span; in some cases, these trees can live for a 150 to 200 years. There are however very rapid growth species, what we call light-demanding species, that often grow after a cut, such as birch and, especially, poplar. A lot of work has been done in Canada to improve poplar growth. In developing countries and in countries with major plantation projects, there is eucalyptus. For us, poplar is a species that grows very quickly. Some work will have to be done with the provinces as well as with the Canadian Forest Service, but this is a very fast growing species with a great future. Markets for products produced from this tree are being developed. I am thinking, for example, of oriented-strand or OSB board, a product that has replaced veneered panels.

• (1215)

[English]

**The Chair:** Mr. Bettle, did you want to have a brief comment?

**Mr. Mark Bettle:** Yes, thank you.

To follow up on what you were saying, you had mentioned earlier seeing trucks go by with cut wood. We've beaten our own drum a bit about being the tree-growing company. The fact of the matter is that we cut trees as well; we harvest trees. There's no denying that. At the end of the day, based on projections of our growth curves and our harvesting projections, we are net growers of trees. We grow more trees than we cut. So that's why, on a net basis, our sequestration of carbon dioxide is greater than if we didn't do anything.

In terms of biological diversity, there's kind of a myth that by reforestation, you get a monocultural type of wood stand. The fact is that our plantations are more genetically diverse than natural stands. We plant more than one species. In terms of wildlife, our studies have also shown that there's more diversity of wildlife in areas that we have reforested as well.

To follow up on what you were saying, we've done a lot of things, and we can do a lot more. Most of our decisions are based on an economic model. We grow and cut for economic reasons. We and other companies can do a lot more, if properly motivated, in terms of a climate change or biological sequestration model. If rules are put in place that incentivize the types of things we've been talking about here, then there's tremendous potential in our natural resources.

**The Chair:** Thank you.

Ms. Bell.

**Ms. Catherine Bell:** Thank you all for your excellent presentations. It's always very interesting.

To preface some of the questions I'm going to ask, I grew up in a managed forest. My father was a tree cutter, a logger. So I grew up in that atmosphere on Vancouver Island. Of course, you probably know that the British Columbia forest sector is a very large player. So the impacts of what's happening with the softwood lumber dispute are going to affect us and are affecting us.

Also, I wanted to touch on one little issue with that, about the value-added industry that is also being charged a tariff, and about the impacts on the small industry that is very concerned about this deal that's going to see the large corporations get a return of some money eventually, if this deal goes through. I'm wondering about the support for the value-added small industry that's being charged a tariff. I understand that they are being dealt with through an independent arbitrator, and I wondered how that's moving along. Could you add anything to that?

Because of the softwood lumber tariffs, we're seeing more and more raw logs exported from lands in B.C., and we have big concerns about that and about what impacts this has on the fibre supply for our pulp and kraft mills, and also on jobs and communities. I don't know if you can touch on that.

I've met with operators in mills and in kraft pulp mills. I understand the perfect storm that you're talking about. I understand the impact of the dollar. They need to diversify. They've done so much with research and development, but they're still at this crisis point and are wondering if they can survive, because of the lack of fibre supply. For one thing, they have to buy it on the open market because we don't have it in British Columbia, which is quite bizarre.

We're also seeing extremes. I think somebody talked about balance, and yet we're seeing these extremes of more and more raw log exports and the exploration of oil and gas, and destruction and development in the boreal forest with the oil and gas industry. All that's taking place there. I'm wondering what a federal government policy would look like in your eyes. Maybe you can expand on some of the things. I think with the Forest Products Association of Canada, you have in your document some points you would like to see from the government, but I didn't really hear much from other folks.

I'd love to get into the minutia of the research and development, because I have a whole lot of questions there, but I don't have a lot of time. Maybe you could comment on some of those points.

Thank you.

• (1220)

**Mr. Paul Bailey:** Thank you very much for your comments and your questions.

Let me begin with the points specifically related to the lumber agreement. First of all, we've spent a great deal of time with the value-added producers and we're working very closely with them to make sure their interests are reflected in the final terms of the agreement.

With regard to the point about an independent arbitrator, there are provisions in the agreement for independent arbitration if an issue goes to dispute settlement once the agreement is in force; that's in the future. What we have done, though, is hire some consultants specifically to help us address the issues of relevance to the value-added remanufacturing sector. We've brought extra expertise to bear on that issue.

One of the provisions in the agreement that will be very helpful to them is a provision whereby, when border measures do apply—that is to say, when the price is below \$355 per thousand board feet—the remanufacturers will be charged on a first mill basis. That way they don't get charged on their value-added production, the value that they add to the final product that they ship to the U.S. These remanufacturers, to the extent that they've been shipping to the U.S. and paying these duties along with everyone else, will also get 80% of that money back; that will help them going forward.

As for raw log exports, there's no provision in the agreement relating to log exports, so I'll leave it to others to comment on that.

In terms of the link to the pulp and paper industry and fibre supply, the agreement should also be helpful from that perspective. I know it's a concern, particularly in coastal British Columbia. Again, the producers will receive this influx of cash as a result of the refunds. This should help them to be more competitive and maintain their operations, and thereby maintain the fibre supply—basically the chips—that go to the pulp and paper producers on the coast. I think it should be helpful all around.

**Mr. Jim Farrell:** Maybe I could just add one thing, as well.

Outside of the agreement itself, our department has been working for the last four or five years with almost every province in the country; with a number of other federal departments; with three or four universities across the country, from UBC in the west to UNB in the east; and with Forintek, the forest products research organization, essentially to provide on-site industry advice in terms of industrial advisers. We have a network of 35 of them across the country who go into small and medium-size manufacturers of secondary wood products. It is essentially designed to improve their productivity and their competitiveness.

We've just gone through a fairly rigorous evaluation of that in terms of return on investment, measured in terms of their own improvements in productivity, whether that's measured in sales or costs around technology or labour cost per value produced. At this point we're assessing that it's somewhere between 8:1 and 10:1 in terms of return on investment. It's been very effective. There's been a strong demand for this kind of expertise. As I say, it's a parallel program initiative, parallel to the trade policy discussions going on right now.

• (1225)

**The Chair:** Ms. Morgan.

**Ms. Marta Morgan:** Thank you for your questions.

On the issues of raw log exports and the availability of fibre, the key issue from our perspective is sustaining a robust and competitive domestic industry. That's why we are really pushing for an improved tax regime on capital investment, for example. To the extent that our own domestic industry is strong, to the extent that we are investing in capital and can use the fibre domestically, then the jobs will stay here in our communities.

In terms of what a federal policy would look like, I did go over a few suggestions. There are three areas, when you think about it.

One is a competitiveness strategy. It's our view that we, as an industry, have developed a vision of our own future, where we see the industry going and where we want to be. We think, given the strong role of government in many aspects of our industry, we want to work with government to develop a shared strategy to help move us forward with a common sense of vision and purpose.

The second category of things I talked about fairly at length is really business climate, including R and D, but also business climate issues that aren't directly reliant on government expenditure, but more on making sure the climate is there, and the regulatory structure and framework allows the industry to change.

The third area is market development. This is something Natural Resources Canada does a lot of work on as well, particularly looking at market development abroad. We've also been saying that one of the key opportunities for market development is within North America, to try to expand the use of lumber in non-residential construction, in small commercial buildings, schools, clinics and that sort of thing, where wood is not generally used. There is a huge opportunity, even within existing building codes, to expand the use of wood. If we can grow the pie within North America, we can ease some of the pressure on the market, and I hope that could be one contributor to even some of these trade tensions over the long run.

**The Chair:** Thank you.

Mr. Paradis.

[*Translation*]

**Mr. Christian Paradis (Mégantic—L'Érable, CPC):** Welcome. Thank you for your presentation.

As you are aware, Mr. Martel, I represent a Quebec riding that has a lot of mills situated close to the border. These mills are smaller than those of companies like Tembec or others.

During the softwood lumber dispute, which lasted too long, these people slipped back compared with the Europeans, the Chileans and the Americans. Please correct me if I am mistaken.

I would like to know the Forest Products Association of Canada's view on this. How do you see the situation? In Canada, we always prided ourselves in being the leader in the forestry sector. Does this position still belong to us or did the dispute affect us in this regard? I am talking here of the smaller mills.

I will ask you a second question later. For now, I would like an answer to that one.

**Mr. Jean-Pierre Martel:** I am not the trade specialist. My colleague might be better able to answer your question than me.

We are still the leader as far as world exports are concerned. Canada is by far the largest exporter of forestry products. We export mainly to the United States, but also to Europe and Asia.

When we are talking about softwood lumber in the United States, Canada's market share has dropped off somewhat because of the ever-growing value of the Canada dollar and because of restrictions. The other countries, that are smaller exporters, for example Chile, other South American countries and even Europe, entered the market because there were no restrictions targeting them. This nevertheless accounts for a market share that is small compared with Canada's exports. For those smaller producers who have niche markets, the impact is perhaps greater still.

My colleague is the trade specialist.

• (1230)

**Ms. Marta Morgan:** I do not have much to add, except that global competition in this sector, as in many others, is more intense. When producers enter our North American markets, that exerts pressure on the prices. Often, this pressure falls upon those producers whose costs of production are higher. That is perhaps what is happening in your riding.

**Mr. Jean-Pierre Martel:** As a matter of fact, we have a graph showing the growth of exports from other countries, for example Chile. We could show it to you.

**Ms. Marta Morgan:** One of the consequences of the problems that we encountered with the Americans in the area of softwood lumber is that the portion of the American market that is in the hands of our competitors has doubled over the last four or five year. We believe that that share is going to continue to increase if there are barriers and restrictions between our two countries. We must work together as a North American industry facing the rest of the world.

**Mr. Christian Paradis:** Thank you.

I understand that considerable efforts have been made over the course of the last few years. You talked of 5 billion dollars per year in research and development and 4 billion dollars for equipment upgrades.

Once again, my intervention will have a local flavour. The reality is that there are a lot of border-zone mills in the ridings of Beauce, Mégantic-L'Érable and in the Sherbrooke region. The people there tell me that there is a serious technological transfer problem. I understand that your statistics cover the entire industry.

What might the industry do in this particular case? What is it expecting from the government? Clearly, if what is being asked for are major investments... These people have told me that they do not want subsidies, but rather support. What could that be translated into in order for us to be on the same wave-length here?

**Mr. Jean-Pierre Martel:** I will answer your fellow citizens' questions at the same time I answer yours.

First of all, we devote 500 million dollars per year to research and development. We would very much like it to be 5 billion dollars, but...

**Mr. Christian Paradis:** I too found that to be a little on the high side.

**Mr. Jean-Pierre Martel:** We therefore devote 500 million dollars to research and development, which is considerable. There is research and technological transfer at the provincial and federal government levels.

As for mills and wood products, Mr. Farrell alluded earlier to Forintec, a former federal institute that was privatized and that has created a real partnership with the industry, the provinces and the federal government. Forintec has a very advanced research program. As a matter of fact, its research centre is in Quebec City. It also has a very developed technological transfer program. As well, it helps mills evaluate their productivity and identify improvements to be made.

At present, therefore, the mills have access to some expertise to help them improve their productivity and identify the products they should be making. However, they must be members of Forintec. I believe there is some cost associated with that.

**Mr. Christian Paradis:** I now have a more general question for you. I found what Ms. Morgan mentioned most interesting. I would like to have more details.

You talk about a policy framework, in other words friendlier rules in order to attract investment. First of all, do I have the right understanding of your statement? Secondly, what are you looking for, concretely?

**Ms. Marta Morgan:** We are really looking for a sectoral strategy for the industry. This would involve several components, including improvements to the incentives...

• (1235)

**Mr. Christian Paradis:** The incentives.

**Ms. Marta Morgan:** ... for investment. We have proposed a tax credit for investment that could help to reduce marginal taxes on investment and align them with those of our colleagues in other natural resource-based sectors.

Furthermore, we are proposing that the competition policy be applied in recognition of the fact that our companies must compete on world markets and not on Canadian or local markets.

We have made recommendations so as to ensure greater competition in rail transportation. We have also made recommendations with regard to research and development, in order to foster the development of technologies that will truly be those of tomorrow, and not simply in view of reducing today's costs. We also hope to develop new products and new processes in order for Canada to be at the cutting-edge of technology in this area.

We have included, in our information package, a summary of the situation of the industry as well as more detailed recommendations. You will find that at the end. If you would like to have more information, we will be pleased to supply this to you.

**Mr. Christian Paradis:** Thank you.

Thank you, Mr. Chairman.

[*English*]

**The Chair:** Thank you, Monsieur Paradis.

Monsieur St. Amand.

**Mr. Lloyd St. Amand (Brant, Lib.):** Thank you, Mr. Chair.

I have just a couple of questions of Mr. Bettle, if I may.

I will sound a little flippant here, but it would appear that trees are meeting their own one tonne challenge. I have no idea how long a tree lasts, the average tree. What is that based on?

**Mr. Mark Bettle:** A tree here in Canada takes probably 40 or 45 years to grow. We have done a study on a particular type of tree, and a tree, over the course of that lifetime, would consume probably between one tonne and one and a half tonnes of carbon dioxide, that it will suck out of the air during its lifetime.

**Mr. Lloyd St. Amand:** That's over 40 or 45 years, then. It's impressive that your company has planted, over 50 years, some 750 million trees—more or less 15 million per year. Where are the trees planted principally, from the provincial perspective—more in some provinces than others?

**Mr. Mark Bettle:** That's mostly in New Brunswick. Most of our land holdings are in New Brunswick. I couldn't tell you the particular districts and how it's separated out, but it's principally in New Brunswick.

**Mr. Lloyd St. Amand:** You mentioned that your company is a net grower—that's my phrasing, which is clumsy, maybe, but it's a net grower of trees. You conceded that you are in the tree-cutting business as well. What is the actual ratio? Is it two trees to one, or 10% more grown than cut?

**Mr. Mark Bettle:** I couldn't really tell you. I know it fluctuates over time. One floor down from me, there's a group of guys who do all that kind of stuff, and I get most of my information from one or two of them. But the way we look at it is basically just overlaying, in each district, planting plans that go out for 20 or 30 years and also harvesting plans that go out over that period of time, and we have to submit those both on our land and on crown land that we manage. If you overlay those two, the net is that we're planting more than we're cutting.

It varies. Frankly, I don't know what the ratio would be.

**Mr. Lloyd St. Amand:** If I may, to anyone, with respect to the aboriginal communities, as I understand it from the presentation, virtually every aboriginal community in Canada lives in the designated green belt. Is that correct?

**Mr. Mark Bettle:** Some are in the south as well, but many live in forested regions, for sure.

**Mr. Lloyd St. Amand:** All right. However many, then, live within the forested region, what are the particular challenges that can be overcome to engage aboriginal communities more in your industry? Is that a question that is capable of being answered?

**Mr. Jean-Pierre Martel:** I will try to answer, and Mark may add part of the answer as well.

As a forester, globally in Canada we plant something like 500 million, but by law, every hectare of forest harvested needs to be regenerated, either through plantation or through natural regeneration.

What I mean by natural regeneration is working with Mother Nature. Mother Nature is pretty good. In many cases, as you harvest, there are seedlings and saplings that are ready to grow as well. If you harvest properly, you will basically protect those species. There are also more seeds coming in, and more trees that come in naturally. So it is probably 50% plantation and 50% natural regeneration, but you need to meet some standards, say in terms of number of seedlings per hectare and also in the way they spread through that hectare.

You can have all of them in clumps in one corner. That isn't what you want. You want them to spread throughout that area as well. So we need to meet some of those standards. Obviously standards vary from one province to another, because forest management, by law, is a provincial jurisdiction.

Going back to your very interesting question about aboriginal issues, as an industry, basically we've been a partner in terms of development. We recognize as well that first nations have socio-cultural activities in their region where we do practise forestry. Once again, it varies in terms of consultation and ongoing discussion. In some cases, joint ventures have been developed.

As an industry, we do recognize that if you look at land claims issues and rights, it's very much between the federal government and the provincial governments. As an industry, we are in between, and our role is to maintain the moral high ground and really try to look at economic development and social development and develop partnerships, in some cases, and have proper consultation.

Do we have a proper recipe? I don't think so. There are a lot of things being tested out there, and various consultations. There is an excellent example of proper consultation, joint venture, and actually, in terms of employment, we believe that in the industry a significant part of the employment is with first nations as well. I think we are one of the largest employers of first nations, as an industry, as a sector.

•(1240)

**Mr. Jim Farrell:** Without trying to simplify it too much, I suggest the answer falls into two general categories: one is capacity, the other is access to resources.

Capacity is everything from skills and training, information, and ultimately influence, in terms of how decisions and policies are made. The second is access to resources. If you look at the first nations' land base across the country, even within the forest, it's relatively small. As my colleague has mentioned, there are a number of creative and innovative management schemes to have first nations communities more engaged in the decision-making process and the jobs associated with that, but at the same time I think it's fair to say there's a lot more to be done.

**The Chair:** Thank you.

**Mr. Lloyd St. Amand:** If there is remaining time, I'll defer to Mr. Tonks.

**The Chair:** We'll have to get him in the next round. We will now get to the next round.

Monsieur Lussier.

[Translation]

**Mr. Marcel Lussier (Brossard—La Prairie, BQ):** Upon reading the J. D. Irving, Limited report, I was surprised to see that on page 3, where the various activities of the company are outlined, there was no mention made of oil. I would also like to say that I was very impressed by your results in the area of GHG or greenhouse gas reductions. If I understood correctly, you have reduced these GHGs by 20 percent, while your production has grown by 50 percent.

You are therefore involved in the oil and forestry sectors. Have you ever considered getting involved in biodiesel. And are you involved with methanol?

[English]

**Mr. Christopher MacDonald:** I can answer that question.

Just so everybody understands, you're absolutely correct. We have an affiliated company, Irving Oil Limited, and I can honestly say they operate completely separately and distinctly from our operation. That's why we're not talking about them tonight. They have the largest refinery in Canada, but we're the forest products group and, in fairness, we rarely speak to them on various issues. That may sound strange.

One thing some of our companies are looking at, irrespective of Irving Oil, is biodiesel. We have companies that do waste management, a company by the name of Barrington Industrial Services Limited, that works in both New Brunswick and Nova Scotia. They have a couple of projects on the go right now. One of them is looking heavily at biodiesel and hydrocarbon sludge. I understand Cavendish Farms, which is the french fry operation run out of P.E.I., is also looking seriously at doing something with the oil and possibly looking at biodiesel.

So yes, we're looking at that, looking at biomass, endophyt seedling research. An interesting project to deal with the endophyt seedling project is that we're injecting trees in a research project to see if we can make them resistant to spruce budworm. It's a project we've worked on with ACOA and that goes to some of the other points of research and development. We spend over \$2 million a year on research and development; biodiesel fits into that, and we are looking at a number of things.



• (1245)

[Translation]

**Mr. Marcel Lussier:** Thank you.

Ms. Granskou talked earlier about a very important decision the government will have to make in 2006 with regard to the Kyoto Protocol and carbon sinks.

I would like to hear your views in this area, since it is mentioned in your document. Is your aim to lobby the government in order for carbon sinks to be included in Canada's policy with regard to the Kyoto Protocol?

[English]

**Mr. Mark Bettle:** You raise a very interesting point. Some studies we've heard about suggest Canadian forests are a net source of carbon dioxide rather than a sink, because of trees dying and being cut. That flies in the face of the recent report by the national round table, which shows sequestration of 100 million tonnes per year.

But without debating what's right and what's wrong and where Canada's forests are going to stand in the future—because there's a lot of uncertainty there—my suggestion would be that we don't throw the baby out with the bathwater. If we're looking at a made-in-Canada plan, it should promote, incentivize, and motivate the right type of behaviour that's going to increase the amount of carbon dioxide that's sequestered, irrespective of where we're going to stand ten, twenty, or fifty years from now.

[Translation]

**Mr. Marcel Lussier:** Ms. Granskou, on page 3 of your document, mention is made of lengthy conflicts over environmental issues that cost several million dollars to taxpayers and investors. Are you aware of Mr. Desjardin's Quebec film entitled *L'Erreur boréale*? I would like you to be aware that this film will be shown in Cuba during the month of July and that Mr. Desjardins is promoting his film on the international stage.

Are you part of the coalition of people who are trying to re-establish the balance or to respond to Mr. Desjardin's film by defending the forest industry? Are you part of that coalition that is reacting to the film?

[English]

**Mrs. Mary Granskou:** Thank you for that question.

We have met with Mr. Desjardins. We are not part of his coalition.

We have our own initiative across interests. For instance, in Quebec we're focused across our interests with the province on whether there are barriers to sustainability practices that can be removed to incentivize our goals. We're also engaged with one of the first nations in particular, the Mistissini Cree, who are establishing a major boreal protected area, working in partnership with the province and other interests. We are certainly aware of that. We have our own track of engagement, if that answers your question.

[Translation]

**Mr. Marcel Lussier:** Are you opposed to the film? Are you collaborating with Mr. Chevrette, former Quebec minister?

[English]

**Mrs. Mary Granskou:** There are others in the Canadian Boreal Initiative who are more engaged in the work in Quebec. I personally have not seen the film, so I really can't comment on it, I'm afraid. I try not to freelance where I'm not knowledgeable.

[Translation]

**Mr. Marcel Lussier:** A little earlier, you mentioned that in 2006 Canada will have a major decision to make with regard to the Kyoto Protocol. Could you talk a little bit more about this?

• (1250)

[English]

**Mrs. Mary Granskou:** That's very correct. Canada actually was an advocate to include forests on a voluntary basis under the Kyoto Protocol. It's very true that this year, in 2006, all parties to the protocol need to decide whether they include or whether they do not.

The Canadian Forest Service and NRCan are actually wrapping up the analysis of whether our forests are a net source or a net sink, and then policy options will go to ministers for consideration in the fall plan, if that all stays on track. From our perspective, there are several concerns.

One is that the whole forest question is really seen as somewhat of a side issue, yet it warrants its own examination.

Second, whether forests and forest ecosystems are a net source or a net sink, we feel that practices and conservation need to be incentivized under our approach to climate change. We feel it's somewhat of a moot point, because cars emit, and of course they're included; energy sources emit, and of course they're included. We feel that it actually needs to be included.

There's an interesting point on that, if I might digress for a moment. As one moves further north, the trees are very important, but actually the majority of the carbon sequestration is actually in the wetlands and the peatlands. It's very interesting to look at this from the total ecosystem perspective.

**The Chair:** Thank you.

Mr. Allen is next.

**Mr. Mike Allen (Tobique—Mactaquac, CPC):** Thank you, Mr. Chair.

Certainly in New Brunswick it is always an interesting debate as to whether the reforestation, while impressive, is a mixed forest. You can talk to anybody as to whether it is mixed. I'm sure that has concerns on the boreal side as well.

You comment about incentives and incenting superior forest management and performance. What specifically are the types of rewards and incentives that a company like Irving is talking about for this reforestation initiative?

**Mr. Mark Bettle:** Over the last few months we've been having extensive conversations with people within natural resources, within the environment group, and within other sectors as well. We've been talking about a made-in-Canada climate change plan that could include targets for emission reductions and also the recognition of carbon sinks, of which forests would be one. Within the context of that overall plan and within a trading system that allows you to move reductions from the forest sector against your emissions, that would provide value to the reductions from the forest sector.

If you look at our company, for instance, we're an integrated forest products company. We have pulp and paper mills in our front yard and trees in our back yard. Within an overall climate change program, if we're required to reduce emissions from our pulp and paper operations—which we see as a very realistic assumption—then we'd like to use the reductions from our woodlands against the emissions from our pulp and paper operations. These reductions are every bit as valid and every bit as recognizable and verifiable as the emissions. There's that value; it is very real and tangible.

**Mr. Mike Allen:** So it's kind of like an internal cap and trading system within Canada.

**Mr. Mark Bettle:** I've described it as an internal method. Ideally, with a viable and robust trading system, we would be allowed to trade those credits to other companies that need them.

**Mr. Mike Allen:** Secondly, it has been in the news that a couple of our sawmills, not necessarily Irving mills, have shut down for a couple of weeks over the last little while. With that in mind, we are facing tremendous energy costs. I see there are 1,700 megawatts of capacity in biomass in the country now. How aggressive is Irving in going in that direction in New Brunswick?

**Mr. Christopher MacDonald:** To explain, we've been talking to the provincial government—of course, you know that forestry is a provincial responsibility. A week ago we were up talking to a number of the provincial people. I think Marta explained very well the challenges the industry faces as a whole. There is no question; it is the perfect storm.

We are looking at biomass. We're asking for some assistance from that perspective, because it's a substantial investment. In order to make the investment, you need to know that the wood supply is there at the end of the day, which is another issue.

We're looking at a number of things. The provincial government is working with us to look at red tape reduction—anything to save costs. We're in a crisis situation here; there's no question about that. I'm not trying to say that from a fear-mongering point of view. There is no question; there are mills in New Brunswick going down almost every day now.

We're looking at things such as biomass, whether it's going to produce ethanol at the end of the day or whether it's going to go in and be used as an energy source; and cogeneration. You're going to do everything you possibly can to survive going forward, knowing where the cost of energy is going, where it's at in New Brunswick and where it's going to go. So we're looking at all those things.

● (1255)

**The Chair:** Thank you very much for the round.

We have time for one quick question. Mr. Tonks, would you like to wrap it up?

**Mr. Alan Tonks (York South—Weston, Lib.):** Mr. Chairman, I was going to pursue the same line of questioning as Mr. Allen and Mr. Lussier have pursued with respect to sequestration, a made-in-Canada cap and trade regime that would provide the incentives for the forestry industry to reinvest in new technologies, and so on. It seems to me that is the kind of accelerator you are looking for. The multipliers are adding value to the industry and repositioning it at a time when it really needs that kind of boost.

I think Ms. Morgan, or someone, said there is a policy paper being developed. I can only say that I'm sure the committee would like to participate in the acceleration of that report, in view of the relevance.

The only question I have that hasn't been answered is, are there implications with respect to the bonusing provisions under the free trade agreement that would implicate on a cap and trade regime in the industry? Perhaps Mr. Farrell can respond.

I ask you that because I think it would provide incentives, without question, but could it be argued that if there isn't a cap and trade in the American regime, it would be seen as problematic from a policy development perspective?

That's all.

**Mr. Jim Farrell:** Thank you, Mr. Tonks.

Do you mean under NAFTA more generally?

**Mr. Alan Tonks:** Yes, more generally under NAFTA.

**Mr. Jim Farrell:** I have to speculate here, but my sense is probably not, in that Europe already has a very active carbon trading scheme in place. The U.S. has also, under various other environmental regulation cap and trade schemes—not necessarily under carbon dioxide, but certainly under air and water emissions on a regional basis. So it is an accepted market-based mechanism to provide incentives and allow some market flexibility in terms of reaching environmental targets.

In terms of your questions about a report, and it's been mentioned a couple of times, the NRTEE report's forecast for sequestration and some of the work we've done over the last three and a half years seem to suggest that the numbers are a bit different.

I haven't had a chance to thoroughly review the NRTEE report, but on a quick review, my sense is that it's a temporal issue. The work that we've done was specifically around Kyoto and the commitment period of 2008 to 2012. When it takes somewhere from 40 to 60 to 70 years to grow trees, as we said, it's not surprising that the early commitment period doesn't allow us to at least position trees and forest management as a very attractive option in that first commitment period.

If one were to look at a climate change plan that perhaps wasn't nearly as focused on that first commitment period, one would have to think that the whole notion of trees, and the role of forests more generally, might take on a substantially different dimension. To clarify, the work we've done would seem to suggest that in the first commitment period—and again, what we're trying to do is forecast the future—that future is going to be very much dependent upon what happens in terms of the major determinants, which are fire and insects. We've got a huge outbreak of mountain pine beetle in the interior of British Columbia. We have a forecast of spruce budworm outbreaks, certainly in Quebec and in parts of Ontario and the Maritimes. And we have a fire regime that suggests continuing larger and hotter fires, in terms of more fuel on the ground.

Our forecasts are based on a series of risk analyses and runs that seem to suggest there's a stronger likelihood of Canada's forests generally being a source more than a sink in the first commitment period. Again, these are based on what I would say are as rigorous forecasts as we can get. We've worked very closely with provinces, with their data, to do these analyses. If one were to look at a plan that wasn't as focused on that early commitment period, clearly forests could play a fundamentally different role in the broader policy objective.

• (1300)

**The Chair:** Mr. MacDonald, please make your comment really short, since we're going to wrap it up.

**Mr. Christopher MacDonald:** I think it's an important fact to mention. From our perspective, the data we've looked at and the data we've done—we've drilled it down very far onto our own land and to our crown land.... As Mr. Farrell suggests, there are certain factors that go into that equation. We found that our data are much more detailed than what the province has been giving the CFS. When you drill it down, our numbers are very good at the end of the day. We think we've got to be careful about that. I recognize what he's saying; it's the first commitment period. Our numbers certainly show a significant benefit today. I think that has to be kept in mind.

**Ms. Marta Morgan:** I would add one thing, which is that I think it's also important to look at the issue of renewable energy policy across the industry as a whole. There are issues around forest carbon sequestration where we fully support what Mr. MacDonald and Mr. Bettel have been saying. There are also issues on the plant, on the

manufacturing side—better incentives for capital investment, better incentives for power generation through renewable energy, renewable portfolios, standards that allow companies to actually contribute to the grid. There's a whole range of things that Canada could be doing to have a made-in-Canada solution that would really help accelerate what's already going on in terms of that conversion to renewable energy sources.

**Mr. Alan Tonks:** I don't know whether the committee agrees, but it shouldn't be lost that there was a sidebar to the answer Mr. Farrell gave, which was that in the United States there are cap and trade systems in place. These are accelerators to capital creation that are being invested in the new technologies, and so on. It seems to me that if that exists, then it plays at a disadvantage for a very important part of the equivalent sector in Canada. That's just an observation, correct or not.

I would put it out that there seems to be a sense of urgency there. To test your premises, I think the committee should be kept abreast of that issue, because it seems to me that a made-in-Canada approach needs to have the kinds of tools that come out of Kyoto. The emissions trading system is not just hot air. There are aspects of it that could be very helpful to our industry. We're at a disadvantage if those tools are being used in the United States.

Thank you.

**The Chair:** Thank you, Mr. Tonks.

Thank you very much to our witnesses today for their presentations. They've been very useful to the committee, and I hope you've found them to be useful as well. Thank you for your attendance.

To the committee members, over the course of the summer we will work with our clerk and research assistant to put together the information we have gathered. I'll prepare a synopsis for the fall. We're not sure yet as to the makeup of the committee. That may change over the summer. We will have to regroup in the fall to re-elect officers of this committee, so I won't be presumptuous any further than that.

Unless there is some emergency that causes us to convene over the summer, I'll adjourn to the call of the chair.





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