



House of Commons
CANADA

Standing Committee on Natural Resources

RNNR • NUMBER 017 • 2nd SESSION • 39th PARLIAMENT

EVIDENCE

Thursday, February 28, 2008

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Chair

Mr. Leon Benoit

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• (1120)

[English]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)):
Good morning, everyone.

We're here today to continue our study of the forestry industry, looking at the unique opportunities and challenges facing the forest products industry. We started this study two meetings ago. We've had a break and we're back today looking forward to the witnesses here.

We have as witnesses, from FPInnovations, Ian de la Roche, president and CEO. From the Fédération des producteurs de bois du Québec, Pierre-Maurice Gagnon, president, and Jean-Pierre Dansereau, director general. From Communications, Energy and Paperworkers Union of Canada, we have David Coles, president; and we have as an individual, Emilio Rigato, who was a mill manager in the past. He may talk about that in his presentation, but I'll leave that to him.

We'll start with the presentations for up to 10 minutes each and then we'll go to the questions and comments.

We will starting with Mr. de la Roche.

Go ahead, please, for up to ten minutes.

Dr. Ian de la Roche (President and CEO, FPInnovations):
Thank you very much, Mr. Chairman.

I must say that I'm very pleased and I find very commendable the fact that this committee is spending the effort, time, and seriousness in looking at the forest sector, and looking at it not so much from a perspective of the crisis we're having, but the possible future direction this sector can take. We're very excited about the possibilities. I think if there's a willingness to move forward on this by all parties, and that includes government as well as industry and labour, we can have a bright future. I want to take a few minutes today to outline some of the thoughts I have on that.

I believe you all received a copy *en français et en anglais* of the "Technology and Innovation" piece. I'll highlight a few of those points, but within the next 10 minutes I'll hope to perhaps leave you with a feeling of hope and a clear indication of some of the things you might consider doing as parliamentarians.

Let's look, first of all, at the forest sector from an R and D perspective and at FPInnovations. We all know it's been several years now since the industry and two levels of government have been looking at ways to revitalize the Canadian forest sector. I think it's fair to say we've had limited success on that. What's different today? Well, specifically what we're seeing today is a serious attempt

by both industry and governments to tackle the underlying issues that drive competitiveness.

At the meeting two weeks ago, Mr. Chairman, Avrim Lazar was here as well as Hugues Simon and Michel Vincent to talk about some of the things the industry was looking at doing and at some of the things they felt that government should do. I'm not going to dwell on that aspect, but perhaps take a little more time to discuss the key role of technology.

I think we all have realized that if we're going to transform, we'll move the industry from the state we're in now to a future desired state. Technology and innovation is going to play a very key role. I think we have to say the forest sector also recognized that the way we did research had to change. You have heard the expression of silos, of fragmentation in the R and D community, and the need to bring people together on a common focus that was directed towards problem-solving solutions for the current situation we're in.

It was with that spirit that FPInnovations was created. They took three national institutes, one in the pulp and paper side, one in the wood product side, and one in the forest harvesting and engineering side and brought them together. In bringing them together they added a fourth division. They added what is called the Canadian Wood Fibre Centre, which is really a novel approach to taking public sector research and bringing it into a different model of delivery. I know Cassie Doyle and Jim Farrell talked a bit about that when they were here the last time.

Basically what this has meant is that with those four divisions we are now an organization with a budget of around \$100 million and with about 675 employees. That positions us to be the largest private, not-for-profit research organization in forestry in the world. Now, that sounds nice, but there's a lot of expectation that goes with that. That is something we have to deliver on. As a result, we are now in a position to address sector-wide issues along the entire value chain, from genetics to forestry, production to manufacturing, all the way to market intelligence, market development, and performance of products in the marketplace.

It's truly a private-public partnership. It involves funding, investments from both levels of government—federal, provincial—as well as industry, and it is focused very much on applied research and demonstration and implementation of research. This organization has been set up. There is some excellent progress. For instance, if you're from the island, you'd be quite interested in the coastal strategy that's under way that's being led by FPInnovations. We can talk at some length on that off-line perhaps. If you're in Prince George, you're of course very concerned about the mountain pine beetle, and there is some excellent work that we're in a position to do, and that we are actually doing. So we're quite excited about that.

The next step of the strategy that the industry and governments wanted was to say, okay, we have FPInnovations together; how do we integrate the university capacity? I mentioned we're doing applied and application. Universities are a hotbed of activity for more fundamental work and training of people. How do we bring this in? What we're currently doing is trying to work...and when I say "we", I'm talking about a very senior board of FPInnovations involving senior government officials from the provinces and from the federal government as well as industry. So that's where we are currently, and we're quite excited about the progress.

Let's look closer at the industry. We've been in the past primarily in the commodity business. That means we've been price-takers in the marketplace. That's made us particularly vulnerable to price pressures in the marketplace and to stiff global competition. The world has changed, and at the same time, we've had a tendency, because of our business model, to be disconnected from the end users, our customers. Now, I believe—and I can see it—that the industry is accepting the need to change the business model, moving from a commodity product focus, moving from two-by-fours to providing housing solutions. It's a completely different approach. That kind of approach requires more knowledge, more technology, more training, and more innovation.

We know the recent public concern about greenhouse gas emissions, climate change, and the depletion of non-renewable resources. That has triggered, as we can all recognize, a global movement towards the new bioeconomy, which is based on renewable fibre sources. Growing trees sequesters carbon dioxide. That continues to be stored when you cut that tree down and make a product, whether it's a desk of wood or a house of wood. In fact, if you take a typically wood-framed house, it stores between 28 and 32 tonnes of carbon dioxide in its wood. That's equivalent to driving a family SUV for seven or eight years. In the future this planet will look to renewable feedstocks for energy, shelter, packaging, and even to other bold uses like chemicals that we currently produce from fossil fuels.

We're also working on nanomaterials for application and structural biocomposites. Some of you involved in southern Ontario are well aware of BioAuto and the goal of having a car made out of material that's 50%-plus renewable, and cellulose is the answer in that capacity. So where are we as Canada? We're talking about trees becoming the building blocks of an emerging bioeconomy. We're incredibly wealthy. We have the land, we have the water, and we have an abundance of fibre. Along with that, I believe we have the infrastructure and experience to convert trees into products as well as being a world leader in sustainable forestry.

There are barriers to overcome. That's what I think this committee is very interested in following up on. There's obviously a resistance to change. There's limited investment in technology and innovation from the Canadian forest sector. We've seen, because of the poor economics in the market, slowdowns, terminations, and so on in the area of the people responsible—the technical people in the mills who are the receptors of technology. We don't have the same number as we had before.

I mentioned the fragmentation and the lack of focus of the R and D community and the poor business climate that addresses these factors. How do we overcome these barriers? First, I have to applaud the investments from the Government of Canada recently on forest sector innovation. That was announced last year—an investment of \$55 million over three years to help create and move FPInnovations forward in terms of transformative technologies. It's a good start. We've been able to leverage considerable investments from provinces and companies to co-invest in this fund.

More needs to be done. We're suggesting the creation of perhaps a national innovation trust for the Canadian forest sector that focuses on transforming the sector with transformative technologies and applications using the same private-public partnership approach. The initial investment could perhaps come from the Government of Canada. We're convinced that with that kind of leadership we can absolutely guarantee that the industry and the provinces will be quickly willing to come in line. In fact, they've also given that indication.

We have an excellent track record, as you're probably aware, in bringing together and leveraging shareholders for forest sector research. The trust fund would support technology and innovation that's relevant to the industry, improve information and technology uptake, improve focus and coordination of university R and D, support national demonstration projects in locations like Thunder Bay, or in the Quebec City or St-Felicien area—these are things that are currently under discussion—and support sector-wide industry-led technology and innovation fora; in other words, find ways to really profile the importance and the application of R and D and incent industry as well as other players to invest more in that.

Quickly, take-home messages. The sector is weathering an unprecedented crisis. Technology and innovation are key to helping us cope with today's problems as well as positioning us to take full advantage of new opportunities. Sustaining current product streams and moving into new advanced products and applications require new knowledge and technologies. The Government of Canada can help in several ways that I've mentioned: increase receptor capacity for companies; help by being an investment partner in industry-led sector-wide initiatives; incent companies to implement new technologies through fiscal and regulatory means; and create the national innovation trust. The key success factor, of course, is building around a public-private partnership.

We're going through tough times as a sector, but we have, I believe, an incredibly promising future if we work together and we harness the full potential of technology and innovation.

Thank you, Mr. Chair.

The Chair: Thank you very much, Mr. de la Roche.

We go now to the Fédération des producteurs de bois du Québec, to Mr. Dansereau, the director general, for up to 10 minutes.

Go ahead, please.

[Translation]

Mr. Jean-Pierre Dansereau (Director General, Fédération des producteurs de bois du Québec): Thank you, Mr. Chair.

Mr. Gagnon, the president of the Fédération des producteurs de bois du Québec, and I were delighted to take you up on your offer to discuss with you the unique challenges and opportunities surrounding the forestry sector. We were particularly pleased to be invited because we represent private woodlot owners and, unfortunately, the voice of those that we represent is not being properly heard at this time of crisis.

There are some 450,000 woodlot owners across Canada. I am the secretary and treasurer for the Canadian Federation of Woodlot Owners, an organization that represents eight provincial associations. Private woodlots make up around 10% of Canada's forestlands and supply around 15% of our industrial wood requirements. Woodlots, therefore, play an important economic role.

I would like to begin by apologizing for not having submitted a written brief. I hope that you will accept our apology and believe me when I say that this is indicative of the difficulties that we are currently facing. Our resources are limited and somewhat thinly spread. We try to focus on putting out fires, and, consequently, we were not prepared early enough to submit a brief to you.

Woodlot owners face multiple challenges.

Firstly, they must try to weather the current storm. The woodlot owners that we represent are facing declining market share and a significant drop in prices. The crisis is seriously affecting families, communities and businesses that depend on woodlots for their livelihood. As we have said in our press releases and in communiqués that we have sent to members of Parliament, woodlot owners are the forgotten foresters. It is imperative that they be provided with support immediately. I will address solutions in which you could be involved later on in my presentation.

You must also keep in mind the challenges that the industry will face when the crisis is over and normal activities resume. There will be two major challenges for woodlot owners. Firstly, how to make both a bigger and better contribution to Canadian society. Woodlot owners can contribute in a number of different ways: We are involved in the production of traditional forest products, with which we are all familiar; we could supply the new industry that Mr. de la Roche discussed; and we could be able to play a role in providing Canadians with forest-based environmental goods and services.

One such example would be carbon sequestration, which has already been mentioned. It is a little-known fact that the forests with which Canadians are the most familiar, the ones that they visit most regularly, are private woodlots. Private woodlots are generally situated near inhabited areas of Canada.

The second major challenge is to implement a legal, administrative and economic framework to encourage the woodlot owners active involvement in developing and managing their land, and looking for ways to use both land and the resources it provides sustainably. The federal government could help develop a legal framework to this end.

What can be done in a short time? You could start by simplifying tax policy to make it easier to deduct forest management expenses.

We also recommend that recognize prescribed forest management plans for woodlots be considered proof of a reasonable expectation of profit. I do not want to get into all of the details, but we have provided you with copies of the IT-373R2 bulletin. I hope it has been distributed to you. At point number 7, on page 3, you will find a list of the dozen or so factors that the taxation authorities use to determine whether there is a reasonable expectation of profit.

• (1125)

Growing trees takes decades, and the current taxation regime does not reflect this. I would be delighted to answer any questions you may have should you wish to give further consideration to the problems that this causes. At the end of the day, however, we are suggesting a simple amendment. Rather than using a dozen factors to determine whether there is a reasonable expectation of profit, we believe it should simply depend on whether a prescribed forest management plan for woodlots exists and is being followed. Furthermore, we have a precedent to support our argument. I believe that we provided you with documents on the matter. There is a federal regulation setting out what is required of the prescribed forest management plan that is used for intergenerational transfers of woodlots.

Our second recommendation would be to allow income averaging. Woodlot owners pay higher taxes on revenue earned compared to other taxpayers as they tend to receive a large, single payment and are restricted in what they can deduct as expenses. This means that they are often in the highest tax bracket. We would like to see income averaging introduced, particularly to deal with income shocks related to epidemics and natural disasters that force woodlot owners to harvest their forest stands earlier than expected. The pine engraver outbreak that is currently ravaging British Columbia is a very good example. It means that our colleagues in British Columbia are having to harvest their forest stands in the space of a few years rather than over the course of 10 to 20 years as would normally be the case.

My next point primarily concerns Quebec, but it is one on which you could all work together. The logging operations tax is a strange mechanism of uncertain origin. Foresters earning \$10,000 or more have to pay a provincial tax and then ask for a tax credit at both the provincial and federal level. We have provided you with an example of a logging operations return. As you can see, it is a number of pages long and has to be filled out by all foresters in the aforementioned category, often with the help of an accountant. Clearly, it involves administrative costs, yet this is a tax that only earns the provincial government some \$7 million. It would be both worthwhile and affordable for both levels of government to simplify this procedure, thus making life easier for these taxpayers.

With regard to the current crisis, we are aware that a sizeable trust has been set up. The money is to be used to help the forestry sector and affected communities weather the storm. However, no money has been earmarked for, or is available to, private woodlot owners. I cannot give you figures for the entire country, but I can tell you that, in Quebec, thousands of private woodlot owners are estimated to have lost almost \$100 million over the past two years. What is more, 2008 is expected to be the most difficult year yet.

If you want woodlot owners to be able to step up to the table and help the industry recover by providing wood resources as well as environmental goods and services, now is the time to help them. With markets at a low, now is the time to invest in our forests so that planning and silviculture activities can be undertaken. This would allow us to ensure that we have access to high-quality, abundant resources. This would be the best way for private woodlots to contribute to the recovery of the forestry sector.

Thank you for your attention.

• (1130)

[English]

The Chair: Thank you very much.

We will now go to the next witness, as listed on the orders of the day, who is Mr. David Coles from the Communications, Energy and Paperworkers Union of Canada.

Welcome, Mr. Coles. Go ahead, please, for up to 10 minutes.

Mr. David Coles (President, Communications, Energy and Paperworkers Union of Canada): Thank you very much, both you and the panel, for inviting us.

Before I start, seated beside me is Mr. Keith Newman, who is my assistant. He also is an economist who has spent at least the last 20 years dealing with forestry and pulp and paper issues for our union and our predecessor unions.

Some of you have heard this about me: I am the president of the Communications, Energy and Paperworkers Union, but I am also a fourth-generation forestry worker, probably the last of the chain. Most of my family, since immigration from Europe and from Great Britain, have worked both in the United States and Canada as forestry workers or pulp and paper workers. I myself worked in sawmills and plywood plants, and for 18 years in a newsprint mill on Vancouver Island.

We have given the clerk a copy of our brief. I am going to read from it. Because of the seriousness of the crisis in the industry, I want to make sure that your committee has, for the record, our position on the situation in the forest industry.

The Communications, Energy and Paperworkers Union of Canada, the CEP, is Canada's forest union. We represent 55,000 workers in pulp and paper mills, sawmills, board and box plants, and forestry operations. Most work in small, forest-dependent communities. Our union also represents approximately another 100,000 workers in a variety of different industries right across Canada. We're a multi-sectoral union, both private and public sector.

Our forests—Canada's and Quebec's forests—are the foundation of an \$80 billion industry that provides direct employment for approximately 300,000 people. More than 300 communities rely on forests for their very existence. Unfortunately, the industry is faring very poorly. In the past we have faced cyclical ups and downs, but this time is different.

Today the industry faces a perfect storm of difficult challenges: strong competition from Asia and Latin America; a currency that has appreciated beyond all expectation and that now sits somewhere at or above the U.S. dollar; permanent decreased demand for newsprint, which was the cornerstone of the industry until recently, and this decrease applies for western Europe as well; a cyclical reduction in the demand for lumber resulting from the U.S. housing crisis—everyone has heard, of course, about the subprime debacle that has hammered the housing industry in the U.S.—and, as was alluded to by the previous speaker, wood shortages in some parts of the country; in particular in Quebec there are fibre shortages.

Thousands of jobs have disappeared over the last four years, endangering dozens of single-industry communities across the country. Since the middle of 2004, 17 paper mills represented by the CEP have closed, as have at least 40 sawmills and board plants. At least as many other locations have been partially closed. In all, more than 20,000 good jobs have been lost.

And these numbers are just affecting us. This is not the non-union group and the other organized mills that are represented by other unions across Canada and Quebec; it's just what affects us. Those are conservative numbers on the number of jobs we've lost. If nothing is done and we just wait for the crisis to pass, thousands more jobs will be lost and dozens more communities will turn into ghost towns.

A time of crisis is also a time for change. We should seize this opportunity to recast our industry to face the future. The industry's biggest asset is its forests, and they're renewable. It should be the perfect green industry. It is essential that the industry be sustainable, both environmentally and economically. A healthy forest is the basis of a dynamic and prosperous forest industry, one that will provide stable employment for our communities.

● (1135)

We absolutely reject that the forest industry is a sunset industry. I'm thinking now, in conversations with the industry, that more and more of the CEOs of the industries across Canada are agreeing with us on that issue.

The key to a healthy forest is to manage it in harmony with its ecosystems and to ensure its long-term survival. Biodiversity and the multiple needs of its users are important. We need to honour international treaties for the protection of the environment—including those relating to global warming—and the UN convention on biodiversity, which requires the creation of protected areas that total 12% of our territory.

Indeed, environmental issues are more present than ever on the public's mind, and the demand for green products is increasing. We believe the environmental certification of our forests is a major asset for selling our forest products here and abroad.

To support a healthy forest, the federal government must or should increase the funding for research into forest ecosystems and into the natural and man-made disturbances they face. Better control of insects, diseases, and especially the impact of climate change should be priorities. Funding for research into management systems best suited to our many forest ecosystems should be expanded in consultation with all the stakeholders, first nations, environmentalists, and the like. The federal government should support the most environmentally sound third-party certification for forest products right across Canada and Quebec.

For the last century, the forest industry has been oriented mainly to the export of commodity products such as market pulp, newsprint, and lumber. Competition for these products has become intense, and many countries can now produce them more cheaply than can happen in Canada. To survive in the new commercial environment, the industry must develop better synergies between industry and subcontractors in order to make more efficient use of the entire resource. The waste from one part must be the raw materials of the next. It should redirect itself toward high-value-added products for sawmills, the pulp and paper industry, furniture, doors, windows, pre-fabricated homes, wood-based insulation, sanitary products, etc.

Also, there should be investment in new equipment for more efficient production, for example, cogeneration facilities for electricity production and the most up-to-date equipment to reduce atmospheric and water pollution.

To support a dynamic and prosperous forest industry, the federal government should or must offer financial incentives for research in biotechnology, nanotechnology, innovative products in construction and bioenergy to develop new wood-based products.

It must also improve financial incentives for the commercial development of new products and the development of new production technologies that ensure forest products companies can effectively take advantage of existing incentives.

It should provide targeted incentives for more rapid capital renewal. Those of you who have been around our industry will know that our industry is very old, and in relative terms our most modern mills are other countries' oldest mills. We should include processes to reduce emissions of pollutants by reducing the effective tax rate on new capital investment, through an accelerated capital cost allowance on machinery and development.

We should develop a renewable energy strategy that provides incentives for more rapid conversion from fossil fuels to green biomass energy. We should provide assistance for export and development of new markets for Canadian forest products. We should stop producing the cheapest products we can and start developing high-grade, high-profit products.

● (1140)

I'd like to talk a little bit about the softwood lumber agreement. The softwood lumber agreement with the United States also needs to be reviewed. In the current economic circumstances, many sawmills have curtailed their operations or shut entirely until the situation improves. Under the "use it or lose it" quota system under the softwood lumber agreement, companies will lose their quota for the next year as a result. We understand some lumber companies are buying wood from other producers and selling it in the United States just to maintain their quota allotment. This makes no sense to us and should be corrected.

I understand in Ontario there's the example of the Buchanan Lumber Company, for which we have a number of certifications. All their operations are down. We're informed it appears they will lose all their quota because they can't afford to run; they're on the verge of bankruptcy. There's a flaw in the softwood lumber agreement.

I want to talk a little bit about communities and workers. The CEP is working to support forest workers and their communities. When a mill shuts down we do whatever we can to find a new buyer who either modernizes the mill or produces a new added product.

Starting this Friday—and I think this is important for the committee to understand—we are meeting with AbitibiBowater, the biggest producer of newsprint in Canada, to look at ways of providing security for our members and the industry. We're going to the bargaining table a year early to sit down with AbitibiBowater to see if we can find a solution. The CEP is taking steps and doing what it can to find a way to resolve this.

Nonetheless, the magnitude of the crisis has severely restricted what we can do and what the employers are able to do. For a century this industry has been the mainstay of hundreds of our rural communities; now it's helpless.

In the event of plant closures, special programs must be established that provide financial assistance for workers, especially older workers, and their communities. A transition fund to assist communities to diversify their economies must be a priority.

If you take a look at the brief, you'll see it speaks more and more about the support for workers.

I'd like to close by saying we need to have the federal government call a national summit of all the stakeholders in Canada—the industry, the workers, the communities—to deal with this crisis. We've been asking the Prime Minister; I've spoken to him personally. We need to ensure the stakeholders are at the table to find a way through this crisis. We don't accept that it's a sunset industry. We think if we put all the minds together we can find a way of rejuvenating this industry and moving forward.

Thanks a lot.

The Chair: Thank you, Mr. Coles.

We will go, finally, to Emilio Rigato, appearing as an individual. Go ahead for up to 10 minutes, please, Mr. Rigato.

Mr. Emilio Rigato (As an Individual): Thank you very much. I'm very pleased to be here.

When I got the notice, I must confess I thought we could finally make our point. But in doing a little bit of the research that's required, I want to present the industry in a bit of a different context. I must admit that you forced me to look at it through different eyes. So bear with me just a couple of minutes while I tell you how I've seen it.

The industry, in my lifetime of 30 years, has always had cycles. They were three to five years. They always happened. The cycles were tied to negotiations in Canada or the U.S., to labour agreements, and the 30 days of inventory that the publishers always carry. So if they wanted a price reduction, they upped the inventory to 45 days, etc. The power in those years was with the producer. Demand for newsprint products was increasing 1.5% to 2% a year, so we weathered the cycles and we did what we had to do.

In those days, there were five manufacturers of paper machines in Canada. The newsprint industry was invented in Canada in the 1900s. All of the paper machines in North America, the original ones, were built between 1908 and 1918, 1920. The technical session of pulp and paper in Canada in the 1960s and 1970s used to attract 15,000 people. Margins were double digits, and they used to start with twos and threes.

Everything started to change in the 1970s. The power—if I can call it power—shifted to the consumer, and the consumer was also the purchaser. There are probably only 12 or 13 individuals in North America who buy 75% of the newsprint produced in this country. The publishers became protectionists, because of the cycles, and they started to build and own their own mills.

Another fact was that because margins were so high, newsprint and paper was a commodity that was sold FOB the purchaser's dock. What did that mean? We shipped it anywhere in North America, price of freight included. But remember that in North America the infrastructure is built from east to west and we do business from north to south. There's a huge cost. It's three times more expensive to ship to San Francisco than it is to Japan.

The environmental groups in the 1970s started to ask for elemental-free pulp, recycled newsprint, and to get rid of the sulfide mills. So TMP mills were built. The technology by then had switched to Scandinavia and Europe. The industry was only some 60 years old and already the technology had switched to Europe. All of us went to Europe and Scandinavia to buy our new paper machines.

The policy—if there was a policy in Canada—was to facilitate the extraction of the fibre resource. I say that tongue-in-cheek because I was part of the process. We got loans for capital and grants to increase production. Provincially, the policy was that we had a hundred years' supply of the world's best fibre and it was renewable, so use it. Because of the grants and because of some of the environmental pressures, the job creation program said, "Let's have a policy on how we use this fibre. We're going to force it through a sawmill to make better use of it, and that's going to create jobs." So the program came in the 1970s where stumpage was tied to the price of the product and how it was used. It was a windfall for the provincial governments. It created jobs. It created wealth. In those years, there were 24 newsprint machines being built in North America in one single year, all of them costing around \$200 million. It was a huge industry with very significant jobs and capital. Fibre was plentiful.

Then a little bit of a bug came, and the bug was South America.

• (1145)

We invented hardwood pulping in northern Ontario, believe it or not. It was one of the first jurisdictions in the world to use poplar for pulp. The South Americans discovered it right away, and immediately, because technology moves faster than people nowadays, they built pulp mills that were twice as big as ours. So there was a challenge on price.

In the 1980s the industry responded. Dave is quite correct; they responded with five-year contracts. Increases were twos and threes. There was more tonnage being built everywhere to drive down unit cost. That's the way Canada responded. Industry started to consolidate. Offshore shipments came into North America for the first time. Most of the mills converted because of low energy; electrical costs became unstable. Plants were being started up all across Canada and the U.S. There was U.S. protectionism. That was the idea: if you were a Canadian manufacturer, you should have a plant in the U.S., and we were all doing that.

The problem was that in the mid-1980s the capital cost was not being met. Returns were single digits and always below ten. In the 1990s and 2000s—and this will wrap it up—the 100-year supply of fibre was not so realistic any more. South America drove down pulp prices to the very bottom. Cycles were one and two years now. Consolidation and going back to core business became the norm. Publishers pulled out, and the demand for newsprint started its negative slide and never stopped. Every year from the mid-1990s it decreased 2%. In the last few years it has actually exceeded that, at 2% and 3%.

China started to build two machines a year, and it now had almost two times the North American capacity to make newsprint. Europe and Scandinavia reinvented themselves, going out of newsprint and into printing grades. Their national policy of being competitive through innovation, writeoffs, and technical support are all integrated. All the North American paper machine builders disappeared in the 1990s. The technology was very firmly planted in Scandinavia and Europe. North America became totally focused on cost-cutting, outsourcing, flexible work practices, longer contracts, and 25% recycling—all the things that drove our prices down—but in Canada and the U.S. all the mills except for a few shifted to the right-hand side of the cost curve. We started the downward trend that can't be stopped.

What I'd like to say now is that the pulp and paper industry is what it is. We need to build on our strengths; our strengths are that we have the best fibre in the world. No one can take that away from us. No, we cannot compete with the Asians and the South Americans. Their mills are 10 years old; ours are probably, on average, about 50 to 60 years old. We can't compete with them on costs. Power is no longer 3.5¢; it's 6.5¢ across the country.

Dave is quite right, and I commend him for what they have done. We used to be five man-hours a tonne for newsprint; now we're around two, so labour has brought itself up to the table.

In the future, what I think we need is both a national and a provincial policy for the forest industry. An example is the beetle infestation in British Columbia. It is the largest in North American industry. The technology does exist to control it, but it's not applied.

In five to seven years there probably will be a 20% to 30% drop in the allowable cut in British Columbia alone. Quebec has decreased its allowable cut by 30%. Ontario—and I say this a bit tongue-in-cheek—would like to drop its allowable cut, but hasn't yet announced it, which will probably be in terms of 20% to 25%.

●(1150)

The Scandinavians, through their national policies, grow two to three times the amount of fibre on the same hectare; same climate, same topography.

We need a national policy that converts us from a pulp and paper industry to a biofibre industry in Canada. Canadian companies cannot do this on their own; their balance sheets don't allow it. At best, they can provide depreciation capital—and some, indeed, are—but they sure can't convert to biofibre based on their balance sheets. And oil has to stay at \$60 to \$70 to permit this.

And there's the Chinese and Asian industry, a huge industry right now, dependent on insourcing all of its fibre, as it doesn't grow any of its own trees—or very little.

The technology is not in North America to make pulp and paper. It's not. We are not the world leaders, okay? China, Asia, and Scandinavia are, and we have to recognize that.

I think we have to start the process of reinventing the industry, leapfrogging the technology to biofibre industry, and do it quickly. There are some alliances in North America, which we need to build on, but I also think what we need to do in Ontario and Quebec is to build on our strengths, not our weaknesses. We do have the best fibre in the world. Why not increase its yield through national and provincial policies? Why not leak the technology in pulp and paper to biofibre through the centres of excellence that we have and use the talent that still exists in North America before it disappears? We do have the people who invented some of the industry.

Last, I think our strength, which most people think may be a weakness, is the one-industry towns that Dave talked about. They have the infrastructure to collect this fibre. They're destitute, but their outlook is a strength that can be focused to do this differently. I think we need to provide the leadership and the policies to light the way towards this—not necessarily pave it.

That's all I wanted to say. Thank you very much.

●(1155)

The Chair: Thank you very much, Mr. Rigato.

Thank you for all of your presentations; they were very helpful to the committee.

We'll go directly to questioning, starting with the official opposition, Mr. Boshcoff, for up to seven minutes.

Mr. Ken Boshcoff (Thunder Bay—Rainy River, Lib.): Thank you very much, Mr. Chairman.

And thank you, presenters. Input such as yours will go a long way to helping us produce a much stronger set of recommendations to Parliament, leading to a national strategy. So I want you to know that your time here is extremely well spent.

I have two questions, and those of you who choose to answer may do so.

On the human side of the restructuring, this committee was instrumental in getting the government to advance the community development trust. Once we heard from the deputy minister of natural resources that it would simply be sent as cash to the provinces, we were somewhat dismayed, as well as surprised.

Question one: do you think this should have some federal earmarking so it could be directed specifically to something such as biofibre for forest industries and its workers, whether employed or laid off?

The second is a general question. Within the federal government's role of understanding provincial jurisdictions in natural resources, what would you suggest to help us drive a policy that will allow us to make these kinds of biofibre technological leaps?

David, please.

The Chair: I'd just like to say there are about five and a half minutes for all of you to answer. So if you could each keep your answers brief, we'll get to as many of you as possible in the time that is available.

Go ahead, please, Mr. Coles.

Mr. David Coles: On your first question, about giving the support for the communities to the provincial governments, if it helped one forest community or one forest worker, we'd like to know about it. It has not been our experience. It was disappointing that it wasn't targeted to forest communities.

The issue of intervention in the industry is big. You need to go to Scandinavia, South America—anywhere where capitalism is successful. The federal government plays a key role, whether the provincial governments or territorial governments are in place or not. We need intervention on the issues of research and development and encouragement to go to biodiversity.

Capital can't do it; it doesn't have the wheels. It doesn't matter where you are on the political spectrum; you need to look at the world and why we are getting the can kicked out of us. It's by intervention by the state, not in subsidy—I agree with my friend beside me that it's not in subsidy—but in pointing the light in research and development, in technological advances, things that corporations cannot, under these current circumstances, afford.

That's our position on those issues.

• (1200)

The Chair: Thank you.

Mr. Rigato.

Mr. Emilio Rigato: I agree, and the comment I'd like to make is that community-based control is an excellent program, but it would be a superb program if the federal government policy said, "We're going to fund biofibre projects only. We're not going to use it to prop

up an industry that is past; we want to be ahead. Let's reinvent what our forefathers did in 1908." I think that's very much doable.

The Chair: Thank you very much, and thanks for being concise.

Monsieur Dansereau.

Mr. Jean-Pierre Dansereau: On your first question, whether the federal government should earmark funds or decide what the development trust should be used for, from our point of view it certainly should be done, because we are resource producers. I don't want to object to Mr. Rigato's position, but if it's earmarked only for the industrial side, our people once again will be left out. We're very much afraid that this is what will be happening if the provinces are left to decide by themselves: they once again will forget about us.

About what should be done to help leapfrog, I would strongly support Mr. Cole's proposition for a national summit on forestry. I had the opportunity to visit Finland some years ago. That country decided that forestry isn't a sunset sector, but it was one of their main industrial sectors and they should be building and making policies to decide that it would be one of the foremost pillars of their society. They did that some years ago, and it's actually happening.

It would be an interesting thing for the federal government to be the leader of such a national forum, but the forum should focus on policies to make forestry a future sector, not a sunset one.

The Chair: Merci.

Mr. de la Roche.

Dr. Ian de la Roche: Thank you very much, Mr. Chair.

I personally have had a lot of long-term experience, when I was in government before, in dealing with provincial-federal areas of cooperation. I think the question you asked really impacts on that.

With the community trust of \$1 billion, the question could be whether it is enough money. The way it was done has posed some very interesting dimensions. It has actually forced the provinces to decide what the priorities are.

I can say from personal experience recently—and this is talking about Nova Scotia, Quebec, Ontario, British Columbia—that the feedback we're getting is challenging us to say that we see forestry as being key with this money that has come in, and that it will be involved. It really fleshes out where the provinces stand on issues, when you go across that, which is a different dimension from what I've heard most people talk about.

On the other issue, concerning the \$1 billion, I would say based on the magnitude of the problem, particularly since the money could go to other sectors also, that it's probably not enough money. But having said that, it's a start, and I can tell you that I've seen a very positive response by the provinces I've mentioned to looking at that money in a partnership way, whereby we'd also come in with industry money to move ahead certain agendas.

On the respective roles of the provinces versus the federal government, I believe when it comes to forestry—granted that the provinces, you can say, own the resource, and there's a jurisdictional issue there—that truly it is a federal-provincial partnership again. The provinces might own the resource, but both are ultimately concerned with manufacturing, small communities, job losses, wealth creation, etc. And when we talk about markets—market access, developing new markets, new applications, support of R and D—the federal government is in there in spades. That's a mandate.

So I see it as that there's so much in common on which we can be working together that it's not, to my mind, a jurisdictional question of one versus the other. It truly should be a partnership arrangement.

Thank you.

The Chair: Thank you, Mr. Boshcoff.

We will go now to the Bloc Québécois and Mr. Ouellet for seven minutes.

[*Translation*]

Mr. Christian Ouellet (Brome—Missisquoi, BQ): Thank you Mr. Chair.

I will be asking short questions, and I would appreciate short answers, since that will allow me to ask all of my questions.

Mr. Coles, you said, and rightly so, that the forestry sector is currently in crisis. You spoke of a number of things that could be done to improve the situation: developing renewable energy, foreign markets, research, etc. Do you think that the \$10 million budget announcement will manage to cover everything that you have listed?

•(1205)

Mr. Keith Newman (Director, Research, Communications, Energy and Paperworkers Union of Canada): Thank you, Mr. Ouellet. I will respond on behalf of the union and of President Coles.

The billion dollars that were supposedly allocated to all of the industries is far from adequate. In no way does this amount meet the needs of the forest industry. Because of the huge scope of the problem, the tens of thousands of jobs that have been lost in this industry, not to mention the hundred of thousands of jobs that have been lost Canada-wide in other manufacturing industries, these amounts are essentially laughable.

Mr. Christian Ouellet: Mr. Newman, you mentioned the \$1 billion, and we knew that it was not enough, but the budget provides for \$10 million. Would you not agree that this is simply a drop in the bucket?

Mr. Keith Newman: It is not even a drop, but a molecule. It is very little. It makes a mockery of the situation. Frankly speaking, I would say that the amount is so laughable that it is really just a joke.

Mr. Christian Ouellet: Mr. Dansereau, you said earlier that the best time to work in the forest was when things were quiet. It takes time and money to hire people. How do you feel about the fact that the accelerated capital cost allowance also known as the accelerated CCA, was not extended for another year when the entire Canadian forest industry had asked to have the program apply for five years? Moreover, after the current year, it will be gradually phased out.

Mr. Jean-Pierre Dansereau: This program was of little benefit to the small scale private woodlot operators. Their investments in machinery are limited and they spend even less on industrial processing equipment. So, for the people whom we represent directly, this measure would have no short-term impact. However, the fact that there are measures to allow the forestry industry to put itself on solid footing and devise new ways to operate, as we stated earlier today, is of some interest to us because...

Mr. Christian Ouellet: What would have helped you in your forestry operations?

Mr. Jean-Pierre Dansereau: It would have been the case if, for example, in the area of taxation, it had already been suggested to the provincial governments that they support programs for private woodlot operators, programs based on silviculture that help to improve the forest without necessarily producing wood to harvest in the short term.

Mr. Christian Ouellet: Thank you. That would have been important.

Mr. de la Roche, I know that FPInnovations is involved with composite materials, which is something that I find quite impressive since the future in this field is quite promising.

Do you think that the \$10 million allocated for research and development in this year's budget will really help to ensure that these materials are developed through pilot projects and eventually brought to market?

Dr. Ian de la Roche: It is true that \$10 million is not enough, but we must not forget that last year, the federal government invested \$50 million in FPInnovations for its work on processing technologies. Moreover, we had an opportunity to increase that amount by another \$10 million per year through the provincial contribution. So, if we add another \$10 million to the \$20 million over three years, that represents \$30 million. Moreover, the members of FPInnovations also provide their own contribution. These amounts are becoming quite significant.

•(1210)

Mr. Christian Ouellet: Do you think that the \$10 million will be handed over exclusively to FPInnovations?

Dr. Ian de la Roche: I was not referring to the \$10 million, but to other funding. That said, we must not forget that the federal government provided us with funding to set up FPInnovations. We are working towards ensuring that universities will take an interest in biocomposites and nanotechnology. Things are starting to happen. NanoQuebec was provided with a large amount of funding. The Quebec department responsible for economic development, innovation and exports is a provincial ministry. I can tell you, Mr. Ouellet, that more is always better, but that does not mean only \$10 million.

Mr. Christian Ouellet: Okay.

Mr. Chevrette, the President-CEO of the Quebec Forest Industry Council said that the forest products industry had a great deal of future growth potential. World markets are growing, and there is increased competition for the land on which these resources are located. It is a matter of deciding how to position the Canadian industry for the future.

Do you have any ideas in this regard, Mr. Newman?

Mr. Keith Newman: Yes. I believe Mr. Rigato talked about restructuring the entire industry, and that is why the amounts are laughable. Our industry was outdated, and now it is beginning to be more forward-looking. We need a considerable amount of money in order to rethink the entire industry, to make up for the time that we have lost over the past 20 to 30 years, and to face the challenges represented by international markets and new products. Construction will continue, and paper products will be used. They must be made in Canada. That is what we want. That is why we have to completely rethink the industry.

Mr. Christian Ouellet: If you were to calculate how much the federal government should contribute to cover those needs, how much would that represent?

Mr. Keith Newman: We would need many billions of dollars for the forest industry alone. It would take \$3, \$4, or \$5 billion to revamp the industry.

Mr. Christian Ouellet: Thank you, Mr. Newman.

[English]

The Chair: Merci, Monsieur Ouellet.

We will go now to the New Democrats and Ms. Bell for up to seven minutes.

Ms. Catherine Bell (Vancouver Island North, NDP): Thank you, and thanks to all the witnesses today on very interesting presentations. I have heard a common thread about research and development. Money has been put in and that's great, but more money is needed. So I'd like to follow on that thread.

The \$10 million announced in the budget the other day is basically for advertising and innovative products throughout the world. But what we're looking for here is money to help the industry become more innovative. From your perspective, how much more money is needed and what do you see from that money.

NRCan has said that almost 30,000 jobs have been lost in the industry. Mr. Coles, you said 20,000 of those were jobs directly from the CEP. So we've lost the bulk of the jobs in the industry, which is quite huge. Mills are closing across the country. I feel that in my communities. There is another mill closing as we speak.

I'm just wondering if you can tell us more about the impact on the communities of the closing of those mills and the loss of the skilled workforces in those communities. What does that mean for the future of the industry? I think the industry is not dead or dying, and it can become sustainable, and I'm hearing that from you as well. So I'd like to hear your points of view on all those questions.

Mr. David Coles: To answer your last question first, the devastation in rural communities is almost indescribable. The last one that I personally experienced was in British Columbia. That was the closure of the AbitibiBowater newsprint mill and sawmills in Mackenzie, British Columbia.

What's so brutal about that story is that it wasn't one of the old mills. It was probably one of the most modern new mills in newsprint we had in Canada. For all kinds of reasons, AbitibiBowater pulled the plug on it. It could not make money. It was bleeding cash. From a community that had employment for about 4,000 workers in the forest industry, it's down to about 400 total. It has ruined the lives of many people.

The answer we get from some is, well, they can move to Alberta. My God, though, you have no idea what it does to a family to pick up your kids, move your grandparents, do all of those things when there's generation after generation just entwined in the forest community.

So it has had a huge impact. And it is a big resource; I agree with Mr. Rigato about these decimated communities.

On the issue of money, we have asked the Prime Minister to put \$10 billion into research and development and advancing biotechnology. Why would we reach a number like \$10 billion? Because people don't understand capital investment. To build a moderate-sized pulp mill in the world today, it costs \$1.5 billion to \$2 billion. And that's one mill, not multiple.

So as to the suggestion that \$10 million is going to lead the light—come on, it can't work. We need real money, not subsidy, for research and development, and we wouldn't mind a bit of money to help communities transition through here.

● (1215)

Mr. Emilio Rigato: Catherine, I'd like to answer your question, and I would also like to comment a bit on Monsieur Ouellet's question on the \$10 million.

We desperately need a policy that says we will convert the forest products industry to a biofibre industry in Canada and then put the right amount of funds in there to make that industry viable. It has to come the other way around or we will always have a debate on whether it's enough funds.

The devastation in the communities—I live in Thunder Bay, and we've lost 12 paper machines in three mills right around us—is incredible. There are no young people in the industry. The average age is 50 years old. There are no apprentices. No one has gone into the bush in the last 20 years. The truck drivers who are driving our transports out of the bush are all around 60-plus years of age. No one is going into the industry. We're not building any talent whatsoever.

To give you one example of where we clash, the provincial government is shutting down coal plants. British Columbia is exporting half a million tonnes of wood pellets to Germany to replace coal. Atikokan has a coal plant that's scheduled to be shut down. Atikokan has huge amounts of fibre, but we clash rather than mesh because the policies aren't there to push that.

The Chair: Mr. Gagnon, I think you also wanted to comment.

[*Translation*]

Mr. Pierre-Maurice Gagnon (President, Fédération des producteurs de bois du Québec): Ms. Bell, you asked for an example. We were referring to private owners. There are 450,000 in Canada and 130,000 in Quebec, 50 of whom are active owners. The forest provides their livelihood. I am an owner, I come from the Saguenay—Lac-Saint-Jean region, but I will give you the example of another region because I am the provincial president of the organization.

Not a single log was delivered to the plant this year by three sawmills in Abitibi-Témiscamingue. Nevertheless, these people are organized. They have woodlots, machines and deadlines to meet, but they were unable to sell any wood. Moreover, Quebec has a law respecting residuality. Nevertheless, the industry gets its supply from public forests, and the wood from private forests comes second. There is not even any political will.

I don't know what they do in other provinces, but these people are at the end of their rope, they are in despair. That is what is happening in Quebec, Ms. Bell, and I imagine that the same thing must be happening in other provinces. They take the wood from the public forests, and ignore the private owners.

[*English*]

The Chair: Ms. Bell, your time is up.

We'll go now to the government side, to Mr. Harris for seven minutes.

• (1220)

Mr. Richard Harris (Cariboo—Prince George, CPC): Thank you, Mr. Chair, and thank you, gentlemen, for all of your presentations.

I want to perhaps start with Mr. Rigato. I think in your presentation, sir, you really accurately described the problem we've encountered with outdated technology in our pulp and paper industry as well as for a large part in our softwood and wood-producing industry.

There were times, and I know you gentlemen remember the heady days of the industry, when the mill owners didn't have to get out of bed in the morning and they made \$50,000 that day. Those were good days, and we had lots of employment. But, and you said it yourself, we weren't updating the mills, and we got caught. So

instead of blaming—it's easy to blame everything on the government, but you know what, in reality the industry has to take a lot of the responsibility for that as well.

I know you're quite right when you talked about some of the technology in our paper plants being from the 1950s and 1960s, whereas South America and Scandinavia have become up-to-date and are cutting our grass big time on the world markets.

I'm from central B.C., as you know. We have world-leading technology out there. We make wood cheaper than anyone else in the world, from a cost point of view.

The mills that have advanced their technology in the lumber side and the mills that have advanced on the pulp side, those are the ones that will, even though we're in a downturn, remain relatively strong and be in a really good position when the cycle starts to go again. As Mr. Lazar pointed out last week, the industry is going through a transformation, and that's a reality in every type of manufacturing sector. There are always periods of transformation when you have to reassemble your troops and then march down into a few more victories than what we've been experiencing.

I just wanted to make that comment. I think we realize there's a challenge. The government has a role to play, and so does industry. Mr. de la Roche talked about his organization, the technology and the research, and the path they're going down, and there's money from provincial and federal governments going toward technology.

Mr. Coles, I won't go into it, but I have to disagree with you. There's quite a record since 2006 of our government putting money specifically into the forest industry, research and development, and forest health. There was a time in British Columbia, for example, when the Canadian Forest Service used to do the pest control oversight. Back in the early 1990s, the province—I can't remember what government was in power—said it would take it over, just send the money. But in fact it never did start up again. I don't know if they're still getting the money. They shouldn't be, if they're not...but the government has changed now.

I can't disagree with the whole.... You guys have all presented a very accurate picture from your different points of view, and that's going to serve us well.

But before I run out of time, I have to ask you something, Mr. Rigato, because I want to take this back to British Columbia. You made a statement that technology is available to control the mountain pine beetle, but it has not been applied. I have to know what that technology is, sir.

Mr. Emilio Rigato: It's the application of pesticides that can control it, but it's environmentally unacceptable to do it. It's going to devastate the industry. It's moved across the Alberta border unstopped.

Mr. Richard Harris: I know that. So you're saying that there is a pesticide spray available, but the environmental hazard of it precludes the use of it?

Mr. Emilio Rigato: Yes.

Mr. Richard Harris: If there in fact is one, I suppose some would argue that's a good thing or a bad thing. Probably the reason we're not using it is that it is environmentally damaging. However, the mountain pine beetle devastation has served to spark a surge in technology to try to find further uses for pine-beetle-infested wood. I know that at the University of B.C., the University of Northern B.C., and at the University of Victoria there's technology—and I think at Simon Fraser, but I'm not sure—and there is research and development going on, and all of those programs are being provided funding by the provincial and federal governments. We would always argue it's not enough, but there's been some good research done. When I heard you say that, I thought, "Oh, this is good, we have to find out what it is", but if it's something we can't use, then it really isn't important, I guess.

You're not suggesting that we use it, of course.

● (1225)

Mr. Emilio Rigato: No, I'm suggesting that we have to have a policy. Do we want to protect that industry? Three, five, seven years from now British Columbia will have 50% less wood to put out. Then what do we do with David's members?

Mr. Richard Harris: I think the key to it is probably in research and development, in biofuels and bioenergy, and in different value-added wood products that can be developed from the pine-beetle-damaged trees, and that's what's going on right now. There's a lot of money going into research and development. I know that Mr. de la Roche talked about that and—

Mr. Emilio Rigato: Yes, I agree, but—and I say this humbly—some of it's directed to the pulp and paper industry that exists in Asia and China and South America. It doesn't exist in North America as it did. I believe now it has to be a biofuel, biofibre industry. We are not—and no one is—a leader in that yet, but we should be, because we have the best fibre in the world to get us there, and then we can export that technology.

Finland doesn't export paper so much as the paper machines and the technology. They are six million people, and we all buy from them.

Mr. Richard Harris: I think you're right, and this may be part of the transformation that the forest industry is going to go through. There are going to be world markets for wood fibre in many respects.

It was written up a couple of weeks ago. Don Roberts from CIBC World Markets talked about how in South America and in places in Asia and in Europe, indeed where forestry had taken place, because of the need for food and agriculture products, those trees are not being planted any more. Canada is actually in an ideal position if we get ourselves ready to take advantage of that, so you're quite right about the wood fibre. We're going down that road, and I'm sure that provincial and federal governments want to do more where they have this industry as one of their main economic drivers.

The Chair: Thank you, Mr. Harris. Your time is up.

We go now to the official opposition, to Mr. Tonks for five minutes.

Mr. Alan Tonks (York South—Weston, Lib.): Thank you very much, Mr. Chairman.

First of all, I'd like to congratulate all of the deputants. It's not often that we have the full spectrum of stakeholders from the industry. We have private woodlot representatives here. We have representatives of labour. We have those who are involved in innovation and development of a strategic response to what has happened in the industry, in the sector. Last meeting, Mr. Chairman, we had representatives of those that are involved in making suggestions with respect to capital programs and independent business and so on.

I appreciate the analysis that Mr. Rigato has given. I didn't notice anyone nodding this way with respect to his overview. So I take it that his rather clinical analysis is accurate and that we need a very quick stimulant with respect to bridging research and development with the commercialization and the advice that goes out to those who want to invest, those who want to be part of the industry, to make some quick decisions with respect to new markets and new products.

I'm reminded of an analysis that's strong on the analysis but not on the prognosis. Mr. Rigato has referred to the biofibre industry and the questions that have come out, for example, "Yes, in terms of our pulp industry, we are past the point of reinventing that part of it, but there's part of the sector that we can reinvent."

So this is my question. If we had a national summit, would it be possible to accelerate that strategic plan so that the government could buy in, private capital could buy in, existing woodlot owners could buy in, in terms of the proposals that have been made to change the Income Tax Act, in terms of that full gamut of responses? Then we'd have some sense of destination, as opposed to, "Well, you know, we'll just have to let the mills close. We'll put out more EI and change the EI benefit. We'll just keep hanging on." Would it be possible for that national strategy, that strategic plan, to come out of that if we had that summit and could it bring all of you together so that you could come back to this committee and say, "There's the blueprint for action", and everyone would know how to buy in?

● (1230)

The Chair: Mr. de la Roche.

Dr. Ian de la Roche: Thank you for those comments. I think they're very relevant, and the idea of a summit is well taken. I just participated in a Quebec summit with my colleagues, and it brought the parties together to try to get alignment and everybody starting from the same page. I think that is important, because there's clearly a bright future, but there's a tough road to go. I don't think it's a question of forgetting about pulp and paper and moving on to something else. I think the pulp and paper stream is incredibly important, but we have to do different things differently.

For instance, we talked about the highly valued long fibre—black spruce, let's say, if you're in northern Ontario or Quebec. It makes the world's best product. We can take it to our advantage. Eucalyptus from South America cannot make highly filled papers going over 40% or so, or specialty papers that can be bioreactive, but we can do that. Technology is being developed on that. So the transformation of the way we're doing our existing business is a very important thing that we shouldn't forget.

Second, we have to diversify our value streams. When we talk about biofibre and the bioeconomy, we're talking about making chemicals and new biocomposites. There are 1.5 trillion tonnes of cellulose being produced on the planet every year. It's renewable. It's one of the most abundant large molecules you can find.

AV Cell, for instance—one of the members here is from that area of New Brunswick—is making rayon for clothing. It's a joint venture between Tembec and an Indian company, and it's clothing Indians in India.

So there's a whole array of things. We're talking about new shelter systems that will provide relief shelters around the world in some ways. But it does take looking at it, which we haven't done in the past. I think it's one of the big reasons why we've got into trouble.

I heard the statement about not renewing or investing in our mills, but we lost a connect with our customer. Our customer is looking for solutions, not two-by-fours. We need to come up with solutions and packages that are built around the fact that we're the greenest place in the world, in terms of certification and everything else. We're green in our manufacturing. Within five years our industry will be completely fossil-fuel neutral. We will be adding biofuel energy to the grid. So it goes on and on. Wood is the most sustainable building material you can find.

One aspect is water consumption. The number one constraint that's going to impact the world next when we talk about energy is water. We just heard today about the pollution in China, in Hubei province. It's overwhelming. It's going to stop it.

We have 20% of the world's fresh water resource in Canada. If you build a structure in steel versus wood, you use 10 to 11 times more water to produce it than if you had built it in wood. There's such a hell of a future, it just blows me away.

We haven't talked too much about the people who work in this area. How do we empower them? How do we give them a passion so that students will come back into this industry and see this bioeconomy? How do we motivate them? What about the training, the education, the freedom to really think?

My talk today is on technology and innovation. Innovation is people. It's the people on the shop floor all the way to innovative thinkers in the senior management of companies, and what have you. That's what we need to be pushing.

Thank you.

•(1235)

The Chair: Thank you.

Mr. Tonks, your time is up.

Mr. Alan Tonks: We needed a little passion in it and I think we just got some, Mr. Chair.

Thank you, Mr. de la Roche.

The Chair: Very good.

We'll go now to the Bloc Québécois and Monsieur Lemay for up to five minutes.

[*Translation*]

Mr. Marc Lemay (Abitibi—Témiscamingue, BQ): Thank you for being here.

I represent the riding of Abitibi—Témiscamingue. Need I remind you that we have experienced the softwood lumber crisis? To give you an idea of the context, Abitibi lumber would make its way to the Outaouais region to be processed by the CIP. We emptied out our forests. We have a company called Tembec.

I listened intently to Mr. de la Roche. My position is clear. We don't need a summit. The people around this table who believe we still need a summit are wasting their time. We know about the solutions. The problem is the fear of implementing them. When are we going to stop selling 2X4s to the United States? When will we stop using cement, brick and metal in our buildings?

You were referring to Finland; I will tell you about Sweden and Norway. I went there, as president of the international cycling association. I travelled around, and they are forced to build infrastructure out of wood. Tembec just invented and patented a new product. It takes two to three years to do research and development. I fully agree with Mr. de la Roche. It takes two to three years to set up a new product. Tembec just discovered this. What it needs at this point is to stop selling 2X4s and set up a factory to build wood structures out of biofibre.

We are not trying to blame the current government nor the previous one, but we want it to get involved. The only thing we are asking for is to stop being impervious to the situation in the regions. Clearly more mills are going to shut down, and I think the union is well aware of this.

What do we do in the here and now to stop looking back and start looking forward? What is the solution? That is the question I ask of each one of you: if you had to implement one solution immediately, what would it be? Forget about the cost and imagine there is no limit. What would you like to see implemented immediately, regardless of cost?

[*English*]

The Chair: We'll start with Mr. Newman.

Perhaps everyone can be brief so each group gets 45 seconds to answer.

Go ahead.

[*Translation*]

Mr. Keith Newman: It will come as no surprise to you, Mr. Lemay, that I do not agree with you as far as the summit is concerned. The solutions are indeed widely known: added value, research and development, etc. We've been aware of this for 20 years. I recall that when I started at the union, there was talk of added value and people wondered why we could not produce some. There are psychological reasons why we only did what Mr. Rigato said we had done: tapping the resource in the most basic way possible. I would say that it's that type of attitude which we mainly have to change. It is hard to do when you have a century's worth of thinking in a given direction.

If I may I'd like to draw a small parallel, because we are here before the Standing Committee on Natural Resources. We are currently experiencing exactly what Mr. Rigato said, in the western oil fields. Today, in 2008, we are experiencing the same thing, and in fact it is undermining our manufacturing industry.

Let's get back to the forest industry. People believe mindsets have changed, but I would say that that is not the case. We need a summit to shake things up a little, to get everyone around the table and bury the past, and turn towards the future. Pre-19th century mindsets no longer serve us. That is the reason we believe we need a summit, something major to get people to think differently.

• (1240)

[English]

The Chair: Monsieur Dansereau is next for one minute, please.

[Translation]

Mr. Jean-Pierre Dansereau: I think it is necessary to implement national strategies for the development of the forest industry, but also for the development of forestry circles. We need forests to support this industry. As I was saying earlier we need to support the idea of a summit, on the condition that this summit provide the needed momentum so that we may come up with these strategies.

Over the last few years, I have been very much involved in the national forest strategy. I couldn't help but notice that forests are a shared area of jurisdiction in Canada. This creates difficulties when it comes to coordination. It also complicates things for the federal government which, for all intents and purposes, is practically absent from debates on forestry resources. Could the various levels of government work in a more coordinated way to predict market effects and try to act proactively instead of being subjected to them. That would be a good idea.

[English]

The Chair: Merci. We have to go now to the next questioner.

Mr. Comuzzi, for six minutes.

Hon. Joe Comuzzi (Thunder Bay—Superior North, CPC): Thank you, Mr. Chairman.

I thank the presenters this morning; all of their presentations were excellent. Thank you very much for coming. You represent different aspects of the forestry industry, and that's very important when you're trying to establish where we should go.

As I'm sitting here listening, I have an overwhelming desire to ask all of you what the hell went wrong in this business? It just didn't happen overnight. I can't believe we have three research areas in all of Canada that we've funded at the federal level for several years, and the entrepreneurs and the union people are now in an industry that all of a sudden is in dire straits. I'm going to discipline myself and not ask that question.

A voice: I have an answer.

Some hon. members: Oh, oh!

Hon. Joe Comuzzi: I've changed my method here. The price of pulp this morning is \$880 a tonne U.S. That's pretty good, isn't it?

Mr. Emilio Rigato: The highest it has ever been.

Hon. Joe Comuzzi: And the demand is unbelievable; China wants all the chips we can produce.

Is that basically, Mr. Anderson, what that report says?

Mr. Emilio Rigato: Pardon my interruption, but we have three pulp mills in Ontario that are shut down permanently—three.

Hon. Joe Comuzzi: But if we're talking about the commodity price, and the price is the highest it has ever been, where is our argument? There's something that doesn't make sense.

Mr. David Coles: It really makes sense.

First off, to the question the government side raised about our blaming this government, the answer is absolutely not. There has been a capital strike in Canada by the pulp and paper industry for 30 years. We have been yelling and screaming. So we're not blaming them; they should facilitate the change.

The Canadian dollar was at 65¢, and we had freeloaders. The pulp and paper industry was a freeloader; it did not compete at a dollar value. They're now at a dollar value. The price of short fibre pulp in South America is \$225 on the dock; short fibre pulp costs in Canada, if we're lucky, \$450 or \$500.

Hon. Joe Comuzzi: I have to stop you there, because I'm going to run out of time and you're taking up a lot of time already.

Okay, there's an answer to that question. The commodity price is \$880 or higher than it has ever been in the last little while, and yet we still can't produce, or are unable to produce, or there are some reasons in there why we're not producing to fill the market demand.

Is that a fair statement?

Mr. David Coles: Yes, it's the costs. And we don't make that much pulp in relative terms, except in the west. It's mostly newsprint, fine grade papers, and they're in the tank.

Hon. Joe Comuzzi: I agree with Mr. Tonks. What we need is exactly what you enunciated, and, Mr. Chairman, I don't think we can waste a whole bunch of time in getting to that point.

I hate like heck to.... I wish he'd take off his microphone, but we have here one of the leaders in the forestry industry in all of Canada. He ran Bowater for a good number of years. He knows that business. He knows it so well that they took him out of Thunder Bay and made him part of the Algoma Steel empire, and you know what's happened with Algoma Steel in the last little while. Then he also brought people together to combine our energy policy with St. Mary's power and Algoma Steel, so he's been a facilitator in this business.

We have to get to what you said, Mr. Tonks. If we can impress anybody, Mr. Chairman, we have to do it very fast, because it's a disaster.

Mr. Coles, I handled the softwood lumber issue from the time that we inherited it, when there was a 50% duty, and then we decided that the best deal we could make was a quota system. I can recall vividly selling the quota system to about 20 softwood lumber producers, and they all thought it would never work. I think the quota system during that period of time was 5.5 or 5.6 years. Those were the best years the softwood lumber industry ever experienced in the history of Canada. I was also at the table when the softwood lumber industry decided they no longer wanted the quota system. They thought they should have free trade; the horror stories started from there.

What I found—this is a point I want to make and I want your comments on how the hell we're going to get around it—was that nobody was coming together on the fundamental issue of what was wrong in the softwood lumber industry. I found that the corporations, the owners, the sawmills were spending more time on negotiating with themselves than on negotiating with the United States. They weren't looking after the needs of the communities. As we go down this road again, I want to know that we never make those mistakes again. I want your comments on that.

• (1245)

Mr. David Coles: You've hit the ball right out of the park. It's the same issue in the pulp and paper industry. I have been pleading with it. When I met the Prime Minister of Canada, he whacked me between the eyes and said the industry can't speak with one voice. That's the problem there.

On the softwood lumber dispute, the industry spoke with multiple voices. That's why I think—and it's why I disagree with Mr. Lemay—that we need to have the federal government facilitate and force all the players to the table. I'm not sure what mechanism would stop the softwood lumber producers from making that error again, but they screwed up big time. We were not in favour of open free trade; our union wanted managed trade, and you didn't inherit that—you inherited a mess.

I think it requires some strong leadership, both on the pulp and paper side and on the solid wood side, and it requires that the government force all the players together at the table so that we come out with a solution.

The Chair: Thank you, Mr. Comuzzi. You're out of time.

We go to the official opposition. Mr. Alghabra, you have five minutes.

Mr. Omar Alghabra (Mississauga—Erindale, Lib.): Thank you, Mr. Chair.

I want to thank all of the witnesses for coming here today.

We've been hearing about the struggles and the challenges facing industry, employers, and workers. This committee is trying to come up with a list of recommendations to the government, regardless of which government. We are trying to come up with a list of proactive measures that will help smooth out the cyclical nature of the industry, because as we heard earlier today, it's part of a cycle. Right now it's in need; in the future, I think it will be helping other industries that are in need. I believe the government has a role to play in smoothing out that transitional period.

I think there's a consensus here today about research and development; as well, I'm hearing about a summit that would bring in all stakeholders. We do have some recommendations from FPInnovations about what type of measure is needed for research and development. I'm interested in hearing Mr. Coles give the union's specific recommendations on how the government can help in enhancing research and development.

• (1250)

Mr. David Coles: We may sound like a broken record, but you have to start with a summit. You have to get all the key players...and I'm not talking about low-level players, I am talking about the CEOs of the corporations. I have been phoning them across Canada, and there is a desire to have such a summit. If we could get that together, with the best minds in the government, the opposition, and the environment, that is where you start. It then takes the creative minds of industry, universities, communities to put together a research program that makes sense, that follows some of the models in Scandinavia.

We don't manufacture any pulp and paper equipment in Canada any more because we gave it up. We need to have industry and development look at it on a go-forward basis, not what we did wrong in the past. It has to start with the fundamentals of getting everybody in the room.

We then have to put real money aside. For example, on the west coast there is a tree called hemlock. It is underused. It is a great fibre, but no one is doing good research on it. We need it done. All the speakers on the right know there are areas that need specific research on products we could produce.

So that is where we start from.

Mr. Omar Alghabra: But surely you acknowledge that it is going to be difficult to reach a consensus, even though I agree there needs to be a bringing together of the stakeholders.

Mr. David Coles: I am not so sure there's going to be, because at the time of great danger it's all right to walk across the bridge with the devil—until the danger has passed. With the phone calls I'm having with the CEOs and CFOs of the corporations, there is a desire. They wouldn't be saying that if they were going there just to shake their head.

I think we're in deep trouble. I'm meeting the CFOs and CEOs of AbitibiBowater at two o'clock this Sunday in Montreal. There is a desire to try to resolve this, because the ship is sinking. All we would have to do is move it off course a bit and we won't hit the iceberg.

The Chair: Mr. de la Roche has asked to respond to your first question, Mr. Alghabra.

Go ahead, please.

Dr. Ian de la Roche: Very briefly on the summit, I think the important thing is to get alignment. But I think it's more than bringing the same group together; it has to be something that moves forward.

The future industry is not necessarily going to be the same one we have, or even the same players. We have an opportunity to start bringing the energy and oil people into this meeting. They're looking at alternative fuels: EnCana, Petro Canada, etc. What we are lacking in this industry is cash. It's investment opportunities. They have the money. They know the distribution of these new products that will come out of a biorefinery. We know everything about how to handle fibre, how to move it, and everything else. It's a marriage in heaven, and I think more and more we're going to see that type of thing.

I'm only suggesting, sir, based on your comments on the summit, that maybe we go outside the traditional area, step back, and say, where does this country want to present itself vis-à-vis our forests and our strengths?

The Chair: Mr. Rigato, you indicated you'd like to respond as well.

Mr. Emilio Rigato: Yes. I think the summit is an excellent idea, but the summit should be focused on developing a policy, provincially and federally. It cannot be focused on what we are going to do to the existing pulp and paper industry. It cannot do that.

Pardon me, again, but the best pulp mills in Canada are 1,500 tonnes a day, or 2,000. They're 3,500 in India and China. They're 4,000 in South America. Paper machines in Canada making 700 tonnes a day.... You can't compete with those guys.

The question I heard is what happened. The technology moved faster than the capital, and it did that 10 years ago. The Scandinavians and Europeans exported the technology to build these paper machines because they had the fabrication facilities. They sold technology and they sold metal. That's what moved it around.

We have to do that by getting into biofibre and selling that technology and the metal that comes behind it. We have to.

• (1255)

The Chair: Thank you, Mr. Alghabra.

Go ahead, Mr. Trost, for five minutes.

Mr. Bradley Trost (Saskatoon—Humboldt, CPC): I think I have most of the answer to the question, but if anyone else wants to comment on Joe's remark about pulp prices being basically at a peak and us not being able to compete, go ahead now.

The Chair: Mr. Rigato, go ahead.

Mr. Emilio Rigato: Pulp prices are at a high, but the margins that pulp makers are making in North America leave enough to sustain the industry, not improve it. No new craft mill is going to be built anywhere in North America, ever. Again, the environmentalists won't permit it, but they permit them in South America and China and India and Indonesia.

Mr. Bradley Trost: So it's a mixture of productivity, which is what you were saying in your previous answer, and environmental regulations.

Mr. Emilio Rigato: Yes.

I want to make one point. When you clean your glasses now with Kleenex, it leaves lint. All of us were taught that was really bad. The

South Americans taught us that's soft. Okay, that's eucalyptus, that's the lint. It's the eucalyptus fibre.

Mr. David Coles: Very quickly, I have a buttress remark. The mill I was at in South America processes 1.5 million tonnes a year, one machine, 300 to 305 workers, zero effluent, close-loop burning eucalyptus, at the dock, \$220. We ain't going to build another craft mill like that in Canada.

Mr. Bradley Trost: Does anyone else want to comment?

Mr. Keith Newman: So the question is, why now? Why are these things falling off the edge of the cliff today rather than a few years ago? That is where the value of the Canadian dollar comes in. When the dollar was 60-something cents, these mills could survive. They could do fairly well. If they had had these prices five years ago, they'd be doing great. They'd be minting money. But because the dollar went up so fast and so high, these mills are now just barely sustainable. Therefore, the ones that aren't are toppling over the edge of the cliff, and those that are just sustainable are staying open for now, while the prices are still high. But when the prices go down again—it's a cyclical industry, we presume they will go down—they too will fall off the edge of the cliff. So part of what's happened has been currency driven, especially by the tremendous—

Mr. Bradley Trost: The one remark I would have is that we're always making a comparison with the American dollar, and most of these other competitors...and I realize our currency has appreciated against just about everyone, but not as quickly against many other currencies as it has against the American. So that's one thing.

My final comment or question is this. Some of the problems that were mentioned—the high currency, demand shortage in the U.S., etc.—are cyclical or are things that will work themselves out. My question is, what will be there, and what will revive when those cycles and those things start to come out?

I keep hearing about R and D. R and D is great, but if it takes 10 years and if I live somewhere in B.C. or in northern Ontario, I'm not going to be living there and waiting 10 years until these new jobs come. I need help now, as an individual.

Go ahead, and both of you gentlemen take it away.

The Chair: Dr. de la Roche and then Mr. Rigato.

Mr. Bradley Trost: Take it away and finish it up, gentlemen.

Dr. Ian de la Roche: You're bang on. A lot of the transformative stuff we're talking about, even taking lignocellulose to make ethanol, let's say—trees to make ethanol—is going to take some time. So let's park that a minute, the stuff that's longer-term. And by time, I mean five to ten years.

As to the hydrogen economy, people will talk 25 to 50 years, so that's a long....

But let's talk about today. One of the big things is that there is a lot of low-hanging fruit. There is a lot of technology out there right now. It's not rocket science. It can be implemented right away.

Why isn't it being implemented? We've heard the fact that there is a climate that is not conducive to be investing in, in terms of equipment, in terms of technologies.

The other thing is receptor capacity. If you go to a pulp mill now, these operations don't have the engineers, the people they used to have. That's where they did the cutbacks because of the difficulties.

There are solutions, and we proposed one in our brief, and it's one we've had a lot of experience with. We have a program called the value to wood program, which is targeted to value-added small and medium enterprises.

What we've done through federal investment over the last eight years, leveraged 12 times by provincial investments—it was \$1 million federal, now it's \$12 million with provincial investments—has allowed us to put over 50 industrial advisors all across the country. There are 10 to 12 in Quebec right now and the same amount in B.C., and they're all over the Maritimes.

• (1300)

Mr. Bradley Trost: I announced some in Saskatchewan the other week.

Dr. Ian de la Roche: For the WD thing. Oh, excellent. Okay.

Having said that, these people are hands-on. They go into operations and they help with local problems and they help improve productivity.

We're suggesting the larger primary producers need that kind of help right now. And we have been prepared, tied to universities, and we've been talking about opportunities. For instance, we just put two people in Lakehead University to be outreach workers.

If we can have those kinds of people help implement the technology, that would be one way. It's stuff that's already there.

The second thing would be demonstration technologies. We talk about gasification or refiners. We've got companies like Nexstar in Canada that are producing a product that works. Heffley Creek in British Columbia put in a kiln-drying operation and within a year and a half they got the full return on their investment. So that's a payback of a year and a half on that kind of equipment. And we're now talking about seeing those kinds of things.

So demonstrations, embedding people, will help us make it work, and that's where we've been failing.

The Chair: Thank you.

We are out of time, but perhaps you could just give a one-minute answer, Mr. Rigato.

Mr. Emilio Rigato: I have one little point.

Newsprint is not cyclical. In the last three years it's dropped almost 6% or 7% a year. It will not come back. It's over; newsprint is over.

The Chair: Thank you, Mr. Trost.

Thank you to all members of the committee for recommending really good witnesses, and for the good questions.

To all of you gentlemen, thank you for coming, for your presentations, and for your answers. You've certainly demonstrated there is an understanding that the industry must work together. Thank you all.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

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