

Standing Committee on Finance
Pre-Budget Consultations Submission
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Forest Products
Association of Canada
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Executive Summary

In recent years Canada's forest products industry has been undergoing a transformation. The federal government is and has been an important partner in this process during what many consider the most difficult period in our long history. With focused and strategic investments in the industry through Canada's Economic Action Plan and Forest Industry Long Term Competitiveness Strategy the government has helped accelerate the industry's transformation and in doing so has helped catalyze the economic recovery and job creation in rural communities across the country.

The transformational and economic momentum these investments have created is clear – forest companies are investing in new technologies, partnering with other sectors, and selling into new markets. Maintaining these critical programs will help ensure that the industry's transformational momentum and the economic recovery in Canada's forest dependent communities are sustained.

Countries and companies with the right policy framework, the desire to foster innovation through R&D and the ability to deploy the resulting technology will be poised to grab market share in the new economy and enjoy growth rates far above those being generated by the traditional forest products industry. Competing jurisdictions like the U.S. and Europe are moving aggressively to accelerate their domestic industries into the bio-age with massive government investment in key areas such as bio-energy production and clean technologies. If government and industry continue to work together with a view towards strengthening competitiveness and winning the future, we can build on the gains achieved to date and leap ahead of global competitors.

By taking action to support the industry's transformation in Budget 2012 the government will also help sustain the economic recovery and create jobs in Canada's 200 forest-dependent communities from coast-to-coast. Specifically the federal government should:

- 1. Extend funding to the basic programs under it Forest Industry Long Term Competitiveness Strategy**
- 2. Provide access to a repayable "accelerator fund" that would help companies take advantage of new, clean energy and technology-based opportunities**
- 3. Support the implementation of the *Canadian Boreal Forest Agreement***

At a time of economic uncertainty strategic government intervention remains essential to keeping the economy on track, sustaining the recovery and protecting jobs. Working together with industry, government can help ensure the Canadian advantage and momentum is sustained, the progress we have made to date is not lost and that Canada remains an attractive place to invest.

Smart Government Investments Have Us on the Right Track

The Committee's pre-Budget consultations come at a crucial time for Canada's economy and the manufacturing sector. Economies globally continue to be in a fragile state as the debt crisis spreads to other countries including other G-8 countries. Correspondingly, the government is clearly faced with the challenge of ensuring fiscal responsibility while also ensuring the economy remains stable and jobs are not in jeopardy. In this context, the industry strongly supports the Committee's stated key priority for this consultation as identifying ways to "*achieve a sustained economic recovery, and create quality, sustainable jobs*".

From the industry's perspective, there is no question that government's response to the 2008 financial crisis and recession allowed the Canadian economy to weather the economic downturn and positioned it ahead of other G-8 economies. In particular, the government's approach to smart, focused and strategic investments as part of Canada's Economic Action Plan have greatly helped accelerate the economic stabilization and recovery which has helped to secure jobs in all parts of the country. Moreover, Canada's relatively strong fiscal position gives government the flexibility to continue to make strategic investments to maintain the country's competitive position.

The Committee and the government are certainly aware of the nature and impact of the economic challenges the industry faced through the economic downturn. However, over recent years Canada's forest products industry has been undergoing a transformation as it moves to recover from the recession by actively moving into new product lines and markets. The federal government is and has been a vital partner in support of these efforts by the industry to reposition itself for the future and sustain jobs in rural Canada.

The industry has had some early success in its drive to renew itself, but its transformation is still in its nascent stage. Persistent economic uncertainty and market volatility around the globe continue to threaten Canada's fragile economic recovery and also puts the industry's progress at risk. The industry's recovery and economic gains are further endangered by the persistently high value of the Canadian dollar and the massive government subsidies in competing jurisdictions, mostly in the area of bio-energy production, that have dramatically skewed the playing field to the advantage of competing forest products industries in other countries. In this context, **the industry recommends that the Committee urge that the government maintain its ability to act swiftly, strategically and definitively, as it did in 2008, to help ensure that the Canadian economy remains in a position of strength.**

Working Together to Sustain Jobs and the Economic Recovery

Canada must ensure that a sound policy framework is in place to level the competitive playing field between Canada and its competing forest industry jurisdictions, improve the industry's competitive position in global markets, and create and sustain jobs in rural communities across Canada.

Canada's Economic Action Plan (the Plan) has proven to be an effective policy response to the 2008 credit crisis and subsequent recession. The Plan's long-term investments in the forest

products industry have secured jobs and helped level the competitive playing field by partially offsetting the effect of damaging bioenergy and production subsidies in other countries. Moreover, the Plan helped spark interest from investors, customers, suppliers and stakeholders who recognize the tremendous potential for the use of wood fibre to produce a range of new, high-value products which resulted in stimulative economic effect and provided significant spinoff benefits.

For example, the Pulp and Paper Green Transformation Program has supported approximately 90 projects at an average cost of \$11 million dollars in 34 communities across the country. In addition to helping position these companies and communities for the future by improving their economic competitiveness these investments are supporting 12,000 full-time, direct forestry jobs as well as thousands indirect jobs in rural, forest-dependent communities. In addition, the investments have resulted in enough new renewable energy being brought on-line to power 200,000 homes, or a city the size of Quebec City. The investments have also helped the industry reduce its annual CO₂ emissions by 1.375 million tonnes – the equivalent of taking 100,000 cars off the road.

Several other federally supported public-private programs are also playing a critical role in supporting the industry's transformation and rural jobs. These programs, which are central to the government's Forest Industry Long Term Competitiveness Strategy, have helped market diversification to the point where the industry has become Canada's largest exporting sector to China and India. They have also assisted technology piloting and demonstration which is critical to extracting maximum value from every tree the industry harvests and pursuing lucrative, value-added opportunities in the global bio-economy – a key pillar of the industry's transformation strategy.

These investments are having a profound impact in communities across the country. They are helping the industry build for the future while creating and sustaining jobs and helping to power the economic recovery. Their spinoff effects help advance the government's agenda on a number of fronts, most notably the environment and job creation.

The transformational and economic momentum these investments have created is clear – forest companies are investing in new technologies, partnering with other sectors, and selling into new markets. Maintaining these critical programs, in addition to Export Development Canada's enhanced domestic lending authorities, at a time of economic uncertainty, will help ensure that the industry's transformational momentum, jobs and the economic recovery in Canada's forest dependent communities are sustained.

Countries and companies with the right policy framework, the desire to foster innovation through R&D and the ability to deploy the resulting technology will be poised to grab market share in the new economy and enjoy growth rates far above those being generated by the traditional forest products industry. Competing jurisdictions like the U.S. and Europe are moving aggressively to accelerate their domestic industries into the bio-age with massive government investment in key areas such as bio-energy production and clean technologies. If government and industry do not work together with a view towards strengthening our competitiveness and winning the future, we put at risk the gains we have made to date and will fall behind our global competitors.

Recommendations for Budget 2012

The industry is cognizant of the difficult fiscal situation facing the government and understands future investments must be focused, strategic and impactful. However, now is not the time to abruptly withdraw support for programs that are clearly helping spur the growth of Canada's rural economy. Doing so would put rural jobs at risk as well as the progress industry and government have made together in building a next generation forest products industry. In the context of the current state of the global, FPAC proposes three recommendations to the Committee that, if implemented, will help address its stated objective of sustaining the economic recovery and creating quality and sustainable jobs. The industry urges the Committee to recommend to the government that Budget 2012:

1. Continue funding the basic programs under its Forest Industry Long Term Competitiveness Strategy (\$64 million/year, declining over 5 years)

These programs include the Canada Wood Export Program, the North American Wood First Initiative, Leadership for Environmental Advantage in Forestry (LEAF), Value to Wood and the Transformative Technologies Program. These programs are critical to the industry growing its export advantage in emerging markets and in the burgeoning \$200 billion bio-economy.

2. Provide access to a repayable "accelerator fund" that would help companies take advantage of new, clean energy and technology-based opportunities (\$300 million, individual contributions would be repayable).

Technological advances and partnerships with bio-tech companies are creating viable transformational pathways for the industry that will allow it to diversify revenues, create new jobs and foster economic independence. For example, the industry is a major source of clean energy – already generating enough renewable power to replace 3 nuclear reactors – and with some government support the industry can triple its clean energy output. Every region of the country has unique opportunities but seizing them means Canada has to be on a level playing field with its international competitors who have been providing their industries with significant financial incentives and support for clean energy production. Offering low-cost, repayable capital is one way to help level the playing field so these opportunities can be exploited.

3. Support the implementation of the Canadian Boreal Forest Agreement including the participation of Canada's First Nations (\$4 million a year for 2 years).

The Canadian Boreal Forest Agreement (CBFA), signed in 2010, is a world-leading conservation accord negotiated and signed by industry and the environmental community that that will help the parties address sometimes conflicting social, economic, and environmental imperatives in a way that captures the economic opportunities that are emerging for forest products of the highest environmental quality. It is a shining example of how industry-civil society partnerships can address environmental challenges. The industry stands to benefit greatly in the marketplace as sustainability and environmental performance are increasingly becoming important criteria for buyers. In addition, Canada's global reputation as a sustainable resource extraction economy stands to benefit significantly from the continued recognition of the CBFA in countries around

the world. To this end, modest government support will help ensure that agreement reaches its full potential and benefits the country in general.

Conclusion

Although the Canadian forest products industry has faced intense economic challenges in recent years, the industry has been working hard to transform itself and has begun to show some positive economic signs. The industry's transformation strategy has begun to bear fruit and in 2010 the industry posted gains in total exports, total revenues, and GDP. The industry and government must continue to work together to ensure that we do not lose our global advantages. If industry and government succeed in putting in place the right policy framework, the industry will create jobs and flourish to the benefit of the Canadian economy, society, and our natural environment.

About FPAC

The Forest Products Association of Canada (FPAC) provides a voice for Canada's wood, pulp, and paper producers nationally and internationally in government, trade, and environmental affairs. The \$57-billion-a-year forest products industry represents 2% of Canada's GDP and is one of Canada's largest employers operating in hundreds of communities and providing 600,000 direct and indirect jobs across the country.