

Forest Products Industry Recommendations for Budget 2014

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Forest Products
Association of Canada
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Association des produits
forestiers du Canada
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Recommendations for Budget 2014

Executive Summary

The government can support jobs and growth, accelerate the industry's transformation and help the sector attain its goals under Vision2020 by supporting the following measures:

- I. **Renew and replenish the highly successful IFIT (Investments in Forest Industry Transformation) program**
 - IFIT helps the industry further develop new, breakthrough technologies, diversify revenues through non-traditional products, create new jobs and enhance the sector's economic viability. By supporting first-of-kind commercial-scale demonstration and market applications, it is positioning Canada to access new global markets.
 - The program has been highly successful – but is scheduled to sunset on March 31, 2014.
 - The program should be replenished with \$500 million over the next 6 years at an ascending scale of \$25 M /25/75/75/150/150.
 - **Renewal of this program would support the following commitment from the recent Speech from the Throne: “*And our Government will continue to support innovation and pursue new export opportunities for Canadian [forest sector] companies.*”**

- II. **Extend support for forest industry Research and Development (R&D)**
 - The Forest Innovation by Research and Education (FIBRE) organization supports forest sector R&D and transformation through eight university networks.
 - Funding for FIBRE, which is currently provided by the Natural Sciences and Engineering Research Council of Canada (NSERC), ends in 2015.
 - Beginning in 2015, the federal government should dedicate \$60 million over three years to NSERC, or other appropriate body, to continue R&D work for the forest sector through FIBRE.

- III. **Expand the eligibility criteria of Sustainable Development Technology Canada's (SDTC) NextGen Biofuels Fund**
 - Eligibility for support through SDTC's NextGen Biofuels Fund is currently restricted to biofuel projects.
 - Fund is undersubscribed
 - Other sectors of the bio-economy, including forest products, could benefit from similar support to allow them to de-risk bio-based projects, and ultimately better position Canada in a rapidly growing market.
 - The eligibility criteria for this fund should be expanded to cover the full spectrum of bio-energy/bio-based opportunities.
 - There is no incremental cost for this measure

Background

High Level Economic Impact

- The Canadian forest products industry remains a cornerstone of the Canadian economy.
- \$57 billion dollar industry, and third largest manufacturing industry in Canada (behind transportation equipment and food)
- \$26 billion in exports – including Canada’s top export to Asia
- Source of 234,000 direct jobs (very few seasonal), plus 360,000 indirect jobs, in 200 forest-dependent communities from coast to coast.

Vision 2020

- Our industry-led vision states that “by 2020 the Canadian forest product industry will power Canada’s new economy by being green, innovative and open to the world.” Vision2020 sets out 3 ambitious goals for the industry:
 - **Products** – generate an additional **\$20 billion in economic activity** from new innovations and growing markets.
 - **Performance** – deliver a further **35% improvement** in the sector’s environmental footprint.
 - **People** – renew the workforce with at least **60,000 new recruits** including women, aboriginals and new Canadians.

Innovation is Necessary

- Innovation is key to ensuring Canada’s future productivity. We believe the forest products industry must embrace innovation – by way of **transformation** – to ensure its long term prosperity, especially in rural communities.
- Industry is committed to doing the “heavy lifting” to transform itself, but **government partnership is necessary for success** – particularly to bring innovation to the final stage of commercial readiness. The high-risk nature of these initiatives make financing from capital markets difficult, which is why government support is needed to de-risk this critical step of innovation adoption.
- The industry is grateful for the significant support provided by the federal government in recent years (e.g. Pulp and Paper Green Transformation Program, forestry innovation and market development initiatives). In particular, the **Investments in Forest Industry Transformation (IFIT) program, has been very successful** in supporting innovation adoption by the forest sector. In 15 rural communities, jobs and economic prosperity are more secure today as a result of this program.
- We are cognizant of the difficult fiscal situation facing the government and understand future investments must be focused, strategic and impactful.
- By continuing to work with the industry to support transformation, the government can help create new opportunities and jobs, particularly in rural areas, to ensure Canada has a competitive, world-class forest sector well into the future.

Recommendations for Budget 2014

Support for Industry Transformation

In order to achieve our Vision2020 goal of \$20 billion in revenues from new products and new markets, Canada must remain a world-leading jurisdiction in terms of attracting capital, de-risking first-of-kind commercial applications of technology, and creating opportunities for innovative products. To that end, FPAC recommends the government take action to:

I. Renew and Replenish the highly successful Investments in Forest Industry Transformation (IFIT) program.

- The IFIT program has been a remarkable success to date. The \$100M allocated to the program during its first 4 years has seen the industry propose projects – to which they also financially contribute – far exceeding the government’s funding capacity. Specific measures of success include:
 - 107 project applications worth \$2 billion
 - 15 projects funded across 5 provinces (average project cost of \$21 million, 39% of project costs requested from IFIT)
 - 1,800 jobs secured as a direct result of IFIT projects, including some new direct and indirect jobs
 - Investment occurred in Canada
 - Every IFIT dollar invested leveraged \$1.89 of funds from companies; generated about \$0.40 in tax revenues; and had an average ROI of 27%
- Canada’s forest products industry is ideally positioned to excel in this dynamic, high growth global marketplace for bio-products such as such as fuels, power, plastics and value-added chemicals from biomass.
- Given the abundance of Canada’s forest resource, our focus on innovation and Canada’s global leadership in responsible and progressive forest management, Canada has the potential to become a powerhouse in this space.
- FPAC’s analysis as part of the recent Bio-pathways project suggested that we could create five times more jobs by integrating bio-product production onto the existing forest industry than stand-alone facilities.
- Our global competitors are already getting on with it — competing jurisdictions such as the United States and Europe are providing massive government support to accelerate their domestic industries preparedness for the 21st century bio-economy.
- Should we fail to act, the Canadian industry is at serious risk of falling behind and losing jobs.
- Offering support through IFIT is one way to help level the playing field so these opportunities can be exploited and we can keep the jobs here in Canada.
- **IFIT is scheduled to sunset on March 31, 2014.**
- **FPAC recommends that the IFIT program be replenished with \$500 million over the next 6 years. The annual funding allocation should be as follows: \$ 25 million per year for 2014-15 and 2015-16; \$75 million per year for 2016-17 and 2017-18; and \$150 million per year for 2018-19 and 2019-20.** The proposed program duration and amount are in alignment with the timeframe of the industry’s Vision2020 goals, the government’s short-term fiscal situation, the practical considerations needed to undertake major projects, and the time required to launch new calls for applications.

- **Renewal of this program would support the following commitment from the recent Speech from the Throne: “And our Government will continue to support innovation and pursue new export opportunities for Canadian [forest sector] companies.”**

II. Extend support for forest industry Research and Development (R&D)

- Since 2011, the Forest Innovation by Research and Education (FIBRE) organization has supported innovation and research in the forest sector, and ultimately contributed to its transformation.
- FIBRE ensures coordination amongst eight forest sector university R&D networks on the development and use of next generation forest products. The development of new products is critical in making the industry more profitable and economically resilient.
- Funding for FIBRE, which is currently provided by the Natural Sciences and Engineering Research Council of Canada (NSERC), ends in 2015.
- **FPAC recommends that:**
 - **Beginning in 2015, \$60 million be dedicated over three years to NSERC, or another appropriate body, to continue R&D work for the forest sector.**
 - **FIBRE should continue to act as the coordinating body for the broad system.**

III. Expand the eligibility criteria of Sustainable Development Technology Canada’s (SDTC) NextGen Biofuels Fund

- SDTC’s currently offers a \$500 million NextGenBiofuels Fund to support for the commercialization of renewable fuels. This fund focusses on feedstocks beyond the traditional renewable resources from Canadian farms.
- Eligibility for support through this fund is restricted to biofuel projects – but fund is undersubscribed
- Other sectors of the Canadian bio-economy do not have access to a similar fund to support them through the “Valley of Death” of commercialization. Some of these sectors include, but are not limited to: chemicals, automobiles, aerospace, fuels, forest products and agriculture.
- Commercialization support would enable firms in those sectors to innovate and de-risk bio-based projects, and better position Canada in a rapidly growing global market.
- **FPAC recommends that the eligibility criteria for SDTC’s \$500 million NextGen Biofuels Fund be expanded to cover the full spectrum of bio-energy/bio-based opportunities. The expanded eligibility criteria should be consistent with the broad objectives of the current fund and support the:**
 - Establishment of innovative commercial scale demonstration facilities;
 - Effective use of Canadian biomass feedstocks, including forest biomass;
 - Increase of each project’s chance of success to market; and
 - Innovation and market development of new environmentally sustainable products
- There is no incremental cost for this measure