

## FOREST PRODUCTS ASSOCIATION OF CANADA RECOMMENDATIONS FOR 2015 FEDERAL BUDGET

AUGUST 2014

### EXECUTIVE SUMMARY

The Forest Products Association of Canada (FPAC) welcomes the opportunity to present its views to the Standing Committee on Finance Committee's pre-budget consultations for Budget 2015. Our brief focuses on the theme "Increasing the competitiveness of Canadian businesses through research, development, innovation and commercialization."

Our recommendations support our industry's Vision2020 objectives, particularly the goal of generating an additional **\$20 billion in economic activity from new products and new markets by 2020**. They are also consistent with the federal government's commitment to our sector mentioned in the 2013 Speech from the Throne. Briefly, FPAC recommends that the federal government:

1. **Establish a dedicated innovation fund of \$60 million over 5 years to expand and accelerate university and college Research and Development (R&D) to advance the forest sector's innovation priorities.**
2. **Develop promotion plans to highlight the economic, employment and environmental benefits of the Canadian forest sector domestically and in international markets.**
3. **Redirect all undeployed capital from SDTC's \$500 million NextGen Biofuels Fund to a biorefinery fund that would cover the full spectrum of bio-energy, bio-chemical and bio-material opportunities.**

Additional detail on each of these recommendations is included in our brief.

## ABOUT FPAC

- The Forest Products Association of Canada (FPAC) is the voice of Canada's wood, pulp and paper producers nationally and internationally in government, trade, and environmental affairs.
- FPAC members include the largest manufacturers of forest products in Canada, and are present in communities across the country.
- FPAC members are global leaders in the sustainable management of one of Canada's most valuable *renewable* resources.

## HIGH LEVEL ECONOMIC IMPACT

- The forest products industry is a cornerstone of the Canadian economy, the third largest manufacturing industry the country, and generates \$58 billion dollars a year in economic activity.
- The sector provides 235,000 direct jobs in 200 forest-dependent communities across the country.
- The sector has traditionally been a large exporter – \$28.5 billion in 2013. Changing trade relationships are opening new opportunities as the industry diversifies and expands into new markets, particularly in Asia, and especially China.
- The sector's labour productivity growth is much higher than the average business sector in Canada in the last decade, and high by international standards.
- The industry has moved beyond just producing lumber, pulp and paper, to developing a variety of new products such as energy, fuel, pharmaceuticals, chemicals and advanced cellulose fibres.

## VISION2020

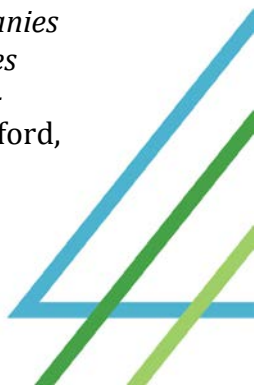
- In May 2012, FPAC unveiled an industry-led vision for the future that outlines where the forest products industry sees itself by 2020.
- Vision 2020 challenges companies and their partners to find innovative ways to transform the sector and help it reach its full potential.



- Vision2020 sets out **3 aspirational goals for the industry:**
  - **Products:** Generate an additional **\$20 billion in economic activity** from new products and new 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 immigrants.
- In June 2014, FPAC released a **report card on the first two years (2010-2012) of the plan**. It showed that the Canadian forest products industry, coming off the steep downturn of the previous decade, achieved progress on the three parameters including a modest gain of **\$0.5 billion in economic activity**; a **6% improvement in environmental performance**, and **8,000 new recruits** to the sector.

## INNOVATION MUST CONTINUE

- The forest products industry must embrace innovation – by way of **transformation** – to ensure its long term prosperity, especially in rural communities. Transformation takes the form of **new management practices, new products and new markets**.
- The industry is committed to doing the “heavy lifting” to transform itself, but **government partnership is necessary for success**.
- **The industry is grateful for the significant support provided by the federal government in recent years** (e.g. Leadership for Environmental Advantage in Forestry (LEAF) program; Pulp and Paper Green Transformation Program (PPGTP); and the Investments in Forest Industry Transformation (IFIT) program which was replenished with \$90.4 million in Budget 2014). In many rural communities, jobs and economic prosperity are more secure today as a result of these initiatives.
- **The federal government remains committed to our sector as mentioned in the 2013 Speech from the Throne:** *“Forestry remains essential to Canada’s rural economy, supporting almost 200,000 jobs across the country. (...). And our Government will continue to support innovation and pursue new export opportunities for Canadian companies.”*
- **And the sector delivers:** *“From an innovation perspective, Canadian forestry companies are now leading the world in demonstrating the viability of advanced new technologies aimed at improving efficiencies, reducing environmental impacts and creating higher-value products from Canada’s enviable forest resources.”* (The Honourable Greg Rickford,



Minister of Natural Resources).

- While significant progress has been made, industry and government must continue to work together to maintain the momentum on innovation. Collaboration will help create new opportunities and jobs, particularly in rural areas, to ensure Canada has a competitive, world-class forest products sector well into the future.

## RECOMMENDATIONS FOR BUDGET 2015

FPAC offers the following three recommendations to support the economic, environmental and employment goals of Vision2020.

### I. Academic Engagement in Forest Sector Innovation Agenda

- The forest sector is committed to innovation to meet the demands of changing global markets and consumer preferences, and to deliver the Vision2020 objectives described above. Leveraging the talent in Canadian universities and colleges to support commercial research needs will be a critical success factor.
- As announced in 2008, the Natural Sciences and Engineering Research Council of Canada (NSERC) has an initiative to support innovation and research in the forest sector, and ultimately contribute to its transformation. Funding for this initiative, which involves various universities and their networks, ends in March 2015.
- There is a need to build on the research outcomes of this initiative, and to further coordinate research delivery across the sector's entire value chain, from forests to markets. Equally, there is an opportunity to include more players in the forest innovation system, notably colleges. Colleges also play a critical role in technology transfer and the recruitment of young people to our sector.
- The forest sector is already developing a detailed innovation agenda which lays out its current research priorities in 9 critical areas. This innovation agenda will form the partnership framework upon which interested universities and colleges can build research consortia to deliver practical, commercial results. But more must be done to maximize academic engagement in the forest sector's innovation agenda.
- **FPAC therefore recommends that the federal government establish a dedicated innovation fund of \$60M over 5 years to expand and accelerate university and college Research and Development (R&D) to advance the forest sector's innovation priorities.** This program should:
  - Build on the research outcomes of NSERC's university-led research initiative in support of forest sector transformation.
  - Facilitate academic engagement focused on the sector's research priorities.



- Realize much needed and complementary R&D and innovation across the sector's entire value chain.
- Reward collaboration by capturing synergies across universities and colleges and their forestry schools.
- Support recruitment of young people into the sector, particularly through colleges.
- Other design considerations include:
  - Funding eligibility should be limited to academic institutions including universities and colleges and their forestry schools. Collaboration within and between participating academic institutions should be encouraged.
  - A portion of this fund should facilitate international collaboration to leverage discoveries happening abroad and generate world class R&D results.
  - The program should be delivered by a federal government institution in an efficient manner that avoids duplication with existing initiatives.
  - An oversight/advisory body that includes representatives from industry and government should be established to provide support and direction. This should be done by building on or using the existing national oversight process within the sector.
  - The sector's research institution, FPInnovations, should be an industrial partner to ensure focus on industry priorities, maximum industry uptake, complementarity of R&D activities, proper leveraging of resources, and delivery to commercial objectives.

## II. **Promoting Canada's Forest Sector**

- The Leadership for Environmental Advantage in Forestry (LEAF) program was established in 2008 to help promote the environmental credentials of Canadian forest products in international markets. FPAC was delegated responsibility for the delivery of this \$4 million / year program which ended in 2012.
- During this period, the industry became more competitive, aggressively cultivated new products and new markets, leveraged its world-leading environmental credentials in the marketplace, and vigorously pursued ways to extract more value from every tree.



- But as the industry continues to demonstrate its comeback, there is a growing threat to the reputation of Canadian forest products, both traditional and emerging. For example, the groundbreaking *Canadian Boreal Forest Agreement* has helped provide over five years of relative ‘calm in the woods’ and continues to be tremendously important to Canada’s forest sector. Still, some organizations outside the Agreement are campaigning large global customers, including in new product markets, to damage the reputation of the sector and tarnish Canada’s brand.
- Left unchecked, these threats will reduce our industry’s capacity to export product, and diminish the overall consumer demand for Canadian forest products domestically and abroad. These threats may also negatively impact our sector’s ability to attract new workers.
- **FPAC therefore recommends that the federal government develop promotion plans for the Canadian forest sector to achieve three important objectives:**
  - Increasing the understanding of the forest sector’s contribution to Canada’s natural resources sector and economy, including the value of traditional and new products.
  - Attracting new, potential employees to the forest sector, including Aboriginal people, by profiling the fulfilling career opportunities in the sector.
  - Highlighting the sector’s environmental performance in international markets.
- This program would require modest financing, and the involvement of relevant industry and government organizations.

### 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 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 the fund remains significantly undersubscribed. Meanwhile, other bioeconomy commercialization opportunities are struggling from insufficient capital support.
- Successful biomass utilization requires integrated production of value-added chemicals and materials, and does not always benefit from fuel productions.



- Commercialization support would enable firms in those sectors to innovate and de-risk bio-based projects based upon renewable feedstocks, and better position Canada in a rapidly growing global market.
- **FPAC therefore recommends that the federal government redirect all un-deployed capital from SDTC's \$500 million NextGen Biofuels Fund to a biorefinery fund that would cover the full spectrum of bio-energy, bio-chemicals and bio-materials opportunities.** The objectives of the reprofiled fund should be to promote and enable bio-refinery projects and support the:
  - Establishment of innovative commercial scale demonstration facilities.
  - Effective use of Canadian biomass feedstocks, including forest and agriculture biomass.
  - Development of partnerships between the forest industry and other industrial sectors.
  - Increase of each project's chance of success to market.
  - Innovation and market development of new environmentally sustainable products.
- The fund should not be restricted to biofuel production but be open to all bio-products with commercial potential.
- There is no incremental cost for this measure.

