



Minister's Task Force Report on Forest Sector Competitiveness



October 26, 2006

The Honourable John Nilson, Q.C.
Minister of Environment
Room 361, Legislative Building
REGINA SK S4S 0B3

Dear Minister Nilson:

In July of this year, in consultation with your colleagues, The Honourable Eldon Lautermilch, Minister Responsible for the Forestry Secretariat, and The Honourable Eric Cline, Q.C., Minister of Industry and Resources, you appointed the undersigned to serve on the Minister's Task Force on Forest Sector Competitiveness. You asked us to urgently identify the most serious challenges facing the province's forest industry and to recommend measures to address them.

Our Task Force has met on five occasions and each of its members has additionally spent many hours and days individually and in groups complementing the efforts of the task force.

We have identified issues facing the industry which, if not treated, spell its downfall. We have made a set of 24 recommendations. We believe that a prompt response to these recommendations in the form of affirmative government action will restore a positive competitive business climate within which the forest industry may once again prosper to the benefit of all who depend upon it.

Please find attached our report "Minister's Task Force Report on Forest Sector Competitiveness".

Minister, we thank you for this privilege and for your individual commitment and that of your entire government to address this critical element of Saskatchewan's economic future.

On behalf of all the communities, workers, businesses and the host of others who depend upon the forest industry of Saskatchewan, we hope you find our recommendations instructive and worthy of your immediate action.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim J. Millard", written in a cursive style.

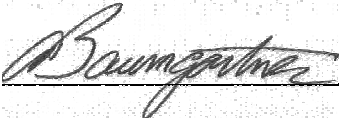
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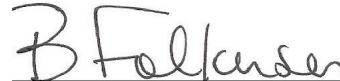
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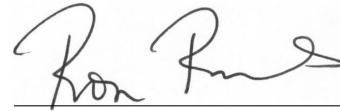
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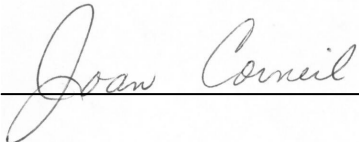
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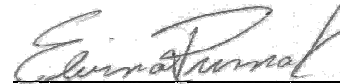
Larry Chambers
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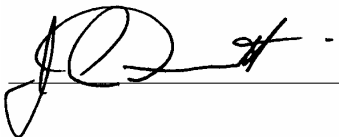
Ron Rucks
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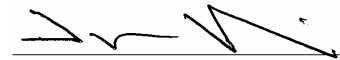
Joan Corneil
City of Prince Albert



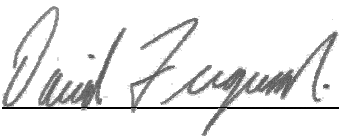
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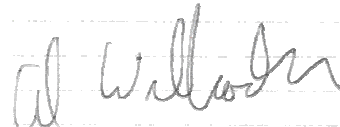
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Executive Summary

Saskatchewan is made up of more than 50 percent forested land. Forestry is a significant industry which, after potash, is Saskatchewan's largest manufacturer. Saskatchewan can be proud of its forest management regime. In a highly transparent and accountable fashion, government and industry collaborate in ensuring that its forests are managed sustainably and in an ecologically sound manner for a wide array of uses and products enjoyed by all residents of Saskatchewan.

Government, industry and community are all integral players in a highly developed strategy to ensure stewardship of forest ecosystems, sustainable use of forest resources, multiple benefits, environmental protection, public involvement, aboriginal participation, and state-of-the-art decision-making and information management.

Within this context, the forest sector contributes over \$1.1 Billion a year to Saskatchewan's provincial economy with a direct real GDP of almost \$400 Million.

Saskatchewan has some 300 forest industry firms, including two pulp and paper mills, two Oriented Strand Board (OSB) plants, one plywood mill, five large sawmills, pole and post manufacturers and a number of smaller wood processing plants.

Its key products include: dimensional lumber, pulp and paper, plywood, oriented strand board, treated posts, as well as secondary products, such as fine paper, furniture, cabinets, millwork and flooring.

Saskatchewan has been a pioneer of invention and innovation. It is the site of the first waferboard plant in Canada and the world's first closed-loop, liquid effluent-free hardwood pulp mill.

The forest sector last year employed some 10,000 people directly and indirectly with a combined estimated annual payroll of some \$658 Million. The industry has been a source of well paid and highly skilled jobs and is a significant source of local employment for aboriginals. It is estimated that income tax, capital tax, corporate tax and product taxes from the industry annually generate some \$131 Million in government revenue.

There are more than 50 forest dependent communities in the north and central areas of the province. These communities rely on the forest industry for jobs and revenue. For some, the forest industry is the only major employer.

The industry processes approximately 5.59 million cubic metres of wood fibre from Crown land annually and pays on average \$17.43 million in Crown charges for access to Crown timber.

All of this is in imminent peril.

Four mills in Saskatchewan have closed within the last 9 months alone. The loss of these production facilities has reduced employment in the province by 1317 direct jobs and 2636 indirect jobs. If operation of these facilities does not resume soon, the lack of markets for chips and other by-products is likely to result in the imminent closure of 2 sawmills and the loss of 70 to 180 direct jobs and 210 to 540 indirect jobs. Others will follow.

The lives of workers and their families and entire communities have been devastated.

From a global perspective:

- the declining value of the American dollar
- a slowing housing market and weakening demand for lumber in the U.S
- continuing world decline in demand for fine paper and newsprint
- a “softwood lumber deal” that penalizes Saskatchewan producers
- increasing imports of wood products into North America from countries that have faster growing trees and inexpensive labour

are creating a global business environment that is battering the Saskatchewan forest industry.

From a domestic perspective:

- mill delivered wood costs that are becoming uncompetitive with most U.S. and many other foreign jurisdictions
- escalating transportation costs that are not sustainable by industry
- increasing energy costs and the lack of meaningful opportunities to co-generate electricity
- administrative requirements in need of review and streamlining
- public uncertainty regarding fibre supply
- increased industry costs
- waning investor confidence

cumulatively contribute to diminished competitiveness of Saskatchewan’s forest industry.

Many of the global pressures besetting the industry are beyond provincial control. This makes it even more important that the province act swiftly where it has the opportunity to improve the competitive business climate within which its industry operates.

Immediate action is required to save communities, businesses and workers. The forest industry is the key economic driver in Northern Saskatchewan but the present crisis threatens the economic well-being of all Saskatchewan. After petroleum and mining, the forest sector represents the next largest contributor to the balance of provincial trade.

The Minister's Task Force has developed a suite of complimentary recommendations that will address the most critical barriers standing between the forest industry and a prosperous future. Government action and investment is required to realize this future which includes a diversified profitable and competitive forest sector that supports workers and their families in vibrant northern communities.

The Task Force urges comprehensive and prompt action in the following areas:

Transportation:

Transportation costs now comprise almost one third of the mill delivered wood costs. Fuel costs are soaring. One hundred percent of forestry road building costs are now borne by industry. Highway construction and maintenance are lagging and transportation regulations have fallen out of step with the times. Some measures identified to respond to these issues include:

- immediate re-instatement of the exemption for the forest industry to use tax free fuel to haul logs to its mills, in milling operations, and to transport chips
- payment by the Government of Saskatchewan of an appropriate portion of the cost of constructing and maintaining the two main classes of resource access roads
- the immediate formation by government and industry of joint committees to incorporate forest industry needs into future highway improvement plans and transportation regulation reforms.

Energy:

The cost of electricity for a mill producing newsprint from thermo-mechanical pulp is approximately one third of total operating costs. While other mills require less than this, energy costs are still significant. At the same time, wood residue in the following form and quantity is annually produced by the industry.

- | | |
|---|--|
| 1. slash | 200,000 – 400,000 green tonnes each year |
| 2. softwood chips | 500,000 green tonnes each year |
| 3. hog fuel from sawmill operations, including bark, sawdust etc. | 500,000 green tonnes each year |

4. And finally, it is estimated that 2.5 million dry tonnes of stockpiled material exists.

This begs for action by government to implement policies and programs consistent with its announced Green Strategy to stimulate the use of wood “waste” to co-generate clean electricity by:

- instituting a policy to purchase wood residue co-generated electricity at above-market prices and/or
- construct its own wood residue co-generation facility in the commercial forest belt and/or
- provide financial incentives for private construction of wood residue co-generation facilities.

Administration:

Within the context of the government and industry’s overarching commitment to ensure stewardship of forest ecosystems and sustainable use of forest resources, both are committed to 100 percent compliance with sound scientifically-based regulatory requirements in the most efficient and cost-effective manner possible. As both have refined the way they carry out their responsibilities, consultation and collaboration with each other assumes even greater importance. Both parties need to collectively review their policies and practices to ensure that duplication and inefficiencies are identified and removed where feasible.

Many of these issues can be addressed by:

- developing a joint government/industry/community forum for ongoing dialogue, issue identification and dispute resolution
- government, industry and community representatives jointly reviewing administrative requirements and determining whether more efficient scientifically sound alternatives are available
- eliminating overlaps and obtaining efficiencies and economies.

Wood Supply and Cost:

While Saskatchewan’s mill delivered wood costs are low compared to other Canadian provinces, Saskatchewan forests have low productivity. Saskatchewan companies rank in the bottom quartile in Western Canada for average tree size and in the lower two quartiles when compared across Canada.

In the Spring of 2006, The Council of Saskatchewan Forest Industries (COSFI) commissioned a special report from PricewaterhouseCoopers (PWC) on the general cost trends in the forest industry. This report indicated that:

- a. In 2002, the Canadian Prairie region had the best sawmilling earnings in North America;
- b. By 2004, that advantage had slipped to the number 3 spot;
- c. By 2006, PWC estimated that the Prairie region had slipped to number 5; from a competitive perspective it was ahead only of Coastal B.C. and Eastern Canada.

In addition to the issue of wood cost, certainty of wood supply and the calculated amount of wood available for harvest are also of concern. When there is disagreement over wood supply calculations, public confidence in industry and government erodes. Accurate, transparent and verifiable wood supply calculations will inspire the public confidence that is vital to the future of the industry, forest communities and the ecological health of the forest.

As important to the public as the calculation of allowable cut is the forest inventory. Where it once was funded by government it is now funded by industry. The inventory is a comprehensive tool for assessing the sustainability and state of forest ecosystems under a multiple-use regime. The adequacy of the inventory as a tool for sustainable ecological management is critical to public confidence and is very much in the public interest. It is in this vein that a commitment should be made to public purchase of that share of the forest inventory that is used for public purposes.

Saskatchewan must restore competitiveness to its wood cost structure and must ensure that all parties have confidence in its wood supply estimates.

Business Climate:

Canada is one of the few countries where extensive management of its forest resources makes economic sense. We have vast intact forests where we manage for ecological integrity and biodiversity. Saskatchewan has a forest management environmental track record that is the envy of many parts of the world and has a well deserved “green” reputation.

This view reinforces the belief that the Saskatchewan boreal forest is now and will continue to be a significant competitive advantage for our forest industry in the future.

Government, industry and community envision a future wherein a highly trained, efficient and modern primary industry moves wood from the forest to mills at costs competitive with global competitors and further locally processes that wood and all of its associated materials into products that add maximum value before being shipped to market.

In the meantime, the industry in Saskatchewan needs to survive the current downturn by achieving cost competitiveness and then adding as much value as possible.

The government must directly invest in improving the business climate.

Government investment is required to:

- Stimulate and enable value-added investment
- Advance the co-generation of clean electricity
- Drive research and development particularly as it relates to value-added production
- Re-attract, retrain and retain forestry workers and particularly young aboriginal workers
- Assist communities responding to consolidation and dislocation within the industry
- Promote the Saskatchewan forest industry and its products.

On behalf of the forest industry, its workers, their families and the communities within which they live the Task Force urges the Minister to implement this report immediately.

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1 Introduction

In July 2006, Minister of Environment, the Honourable John Nilson, Q.C., in consultation with his colleagues, The Honourable Eldon Lautermilch, Minister Responsible for the Forestry Secretariat, and The Honourable Eric Cline, Q.C., Minister of Industry and Resources, appointed the Minister's Task Force on Forest Sector Competitiveness to bring together a diverse cross-section of representatives from industry, labour, municipal government, environmental non-governmental organizations, tourism, and government (appendix 1) to develop recommendations to address critical issues imperiling the future of the forest sector industry and the workers and communities who depend upon it.

Because of the urgency of the crisis confronting the industry, the Task Force was asked to report its findings to the Minister within four months. The first meeting of the Task Force took place on July 13 and the last occurred October 25.

The Task Force's terms of reference were sufficient in scope to allow a broad ranging examination of issues all the way from the forest to the manufacturing facility to the market. In addition to meetings of the Task Force, committees were established to examine the specific subjects of transportation, energy and administration. Reports of these committees were brought to the Task Force at large for review, revision and finalization of recommendations.

The Task Force worked by consensus to develop recommendations acceptable to all the constituencies of interest at the table.

2 The Issues Confronting Competitiveness

2.1 The Global Business Environment

The competitiveness climate has changed because of a number of important global factors, including the decline of the U.S. dollar, the ongoing softwood lumber dispute, and the globalization of the forest products market.

U.S. Economy

A weak U.S. dollar is driving up the Canadian dollar, making all of Canada's exports more expensive and thus less competitive not only with U.S. products but also with the products from jurisdictions around the world whose currency has been either static or decreasing relative to the greenback.

The U.S. dollar is not predicted to strengthen in the near future. A continued expansion of the U.S. current account and near term deceleration of U.S. economic growth augurs for further relative appreciation of the Canadian dollar.

Demand for lumber in the United States is beginning to show weakness after record high levels during the past few years. As the housing bubble deflates demand will weaken further and this will be exacerbated by any increases in U.S. interest rates or market corrections. Capacity in lumber mills in North America is expected to continue to exceed demand.

Increased electronic communication has reduced U.S. demand for white or fine paper and newsprint. The decline is expected to continue.

Softwood Lumber Dispute

The combination of export quotas and/or export taxes associated with the softwood lumber "deal" recently announced, is likely to have a depressing effect on Saskatchewan producers' access to the U.S. market. During the base period used for calculation of export quotas, other provinces' exports rose in proportion to those of Saskatchewan producers and thus Saskatchewan is faced with an artificially low share of export quota to the U.S. market for the term of the agreement. With expected significant softening of softwood lumber prices, softwood lumber producers will also face punishing taxes on exports to the U.S.

Global Trade

Canada exports almost of its wood products to the United States which is at the same time pursuing global trade liberalization.

As impediments to global trade are eliminated, low-cost competitors in forest products are entering the market, particularly from Latin America and the former Soviet Bloc. They have an increasing supply of wood fibre and they have inexpensive labour rates. In jurisdictions with warmer climates, large plantations of faster growing tree species can be expected to contribute to an increasing portion of the global annual fibre supply.

In Latin America, for example, hundreds of thousands of hectares of tree species are now being cultivated in plantations. The rotation periods for some of these species are 50 to 80 years shorter than those that grow and mature in our northern climate.

After almost two decades of confusion and dislocation associated with transition to a market economy, timber production in the former Soviet Bloc is predicted to increase from less than 200 million cubic metres presently to more than 300 million cubic metres over the next decade. The U.S. is already experiencing greater imports of forest products from these nations and this will continue to increase.

Competition is not just in the forest. China, with inexpensive labour and advanced technology, has now leapt ahead of Canada as the largest exporter of wood furniture into the U.S.

It must be noted however that in Canada we have large intact forests where extensive forest management makes economic sense.

With the appropriate public policy interventions by the provincial government, the Saskatchewan boreal forest is now and will continue to be a significant competitive advantage for our forest industry in the future. We envision a future wherein a highly diverse, trained, efficient and modern primary forest industry moves wood from the forest to mills at costs competitive with global competitors and further locally processes that wood and as much as possible of its associated materials into products that add maximum value before being shipped to market.

2.2 The Domestic Business Environment

There are a number of domestic issues adversely impacting the competitiveness of Saskatchewan's forest industry. They fall into the categories of Transportation, Energy, Administration, Wood Supply and Business Climate and each is treated substantially in the following section.

3 Responding to the Challenges

3.1 Transportation

Transportation costs now comprise almost one third of the industry's mill delivered wood costs. Fuel costs are soaring. One hundred percent of forest-road building costs (except for provincial and municipal highways) are now borne by industry. Highway construction and maintenance is of concern and transportation regulations need to be reviewed to ensure that they keep pace with modern transportation practices.

1. PROVINCIAL FUEL TAX

The cost of diesel fuel used in forestry operations has escalated over the past several years, along with the world price of oil. These increases have especially impacted Saskatchewan companies because of the long average haul distances for raw fibre, resulting in fuel costs adding 10% to overall costs of providing timber to the mill.

A significant volume of this diesel fuel is used in hauling the timber from the forest to the mill and much of that distance is traveled on bush roads and company logging roads, which are built and maintained by industry.

Saskatchewan currently collects \$0.15 per litre in tax from all diesel fuel sold in the Province. The original purpose of this tax was to collect revenue from road users to defray the cost of building and maintaining provincial roads.

Current Provincial regulations allow tax-free (or "marked") diesel fuel to be used:

- a. by farmers in their unlicensed farm machinery and in their licensed farm vehicles (registered as "Class F") in their direct farming activities; and,
- b. by commercial loggers in their unlicensed equipment used in direct logging activities.

Marked diesel fuel cannot be used by the forest industry:

- a. to operate any licensed vehicle hauling logs from the forest to the mill;
- b. in equipment maintaining logging roads (but can be used in equipment used to construct logging roads);
- c. in internal combustion engines used to generate electricity for logging camps;
- d. in equipment used in any activity at a fixed or portable mill site.

In many cases this means that forestry companies must also purchase and use different sets of costly fuel tanks – one set for marked diesel and another set for taxed fuel.

At one time, the forest industry was permitted to use marked diesel fuel in its licensed hauling operations, but this exemption was removed in the early 1990's in order to generate a revenue stream, at a time when the Province was in severe economic distress. With the province now seeing enhanced revenue benefits from oil royalties we believe it is time to review this policy.

The estimated cost to the forest industry for the loss of this exemption is:

- a. transportation of logs: \$0.70 / m³
- b. processing mill use: \$0.10 /m³

The estimated cost to the forest industry for the loss of this exemption (based on an annual harvest of 5 million cubic metres of timber) would be:

- a. transportation of logs: \$3.5 Million
- b. processing mill use: \$0.5 Million

RECOMMENDATION #1:

As is the case with other primary industries, allow the forest industry the same exemption which it previously enjoyed to use marked logging fuel in its forestry operations including hauling logs from the forest to its mills, in its milling operations and in the transportation of its wood chips.

2. ROAD CONSTRUCTION AND MAINTENANCE

Forest Companies typically build three types of roads¹:

1. Major Improved Bush Roads (also called Forest Resource Roads) which are permanent all-weather primary access roads to multiple operating areas containing long-term timber supplies;
2. Minor Improved Bush Roads which are Winter or Summer roads accessing one or more operating areas, with a normal life expectancy of 5-20 years; and
3. Bush Roads which are winter or summer roads typically accessing one or more harvest blocks in an operating area, with a normal life expectancy of 1-15 years.

¹ The description of these roads is taken from the FMA Standards and Guidelines, approved by Saskatchewan Environment.

Examples of Major Improved Bush Roads are:

- a. The Mistik East – West Road – 85 kilometres
- b. The Upper Cummins Road – 30 kilometres
- c. The Vermette Road – 60 kilometres
- d. The Stewart Lake Road – 30 kilometres.

Forestry companies in Saskatchewan now pay 100 % of the cost of building and maintaining forestry roads. The law requires the company to allow unrestricted use of these roads to the public and to commercial and industrial users, although commercial and industrial users are required to pay a road user fee to the forest company. Typically fees are now only paid by oil and gas companies and those fees are a small fraction of the costs of construction and maintenance.

In many cases, these forestry roads, especially the permanent Major Improved roads are used as the main access roads by First Nation and northern communities, by hunters and outfitters, and by tourists accessing the north.

The truth is that these are not forestry roads. They are resource and community access roads used at will by the public. As soon as they are built they become non-specific to forestry use. Recently in Ontario, this recognition resulted in the province funding 100% of the cost for Major Improved Roads and 50% of Minor Improved Bush roads.

The average cost² across the Prairies of building and maintaining these roads is \$2.50 per m³ per year. Yearly maintenance of these roads depends on a number of factors such as use and weather. An estimate of the yearly maintenance is \$10,000 per kilometre.

RECOMMENDATION #2:

That the Saskatchewan Government pay a portion of the costs of constructing and maintaining the two main classes of these resource and community access roads in Saskatchewan. The apportionment of costs should be based on the public use of those roads and the benefit to the Province generally.

3. TRANSPORTATION POLICY

The Department of Highways and Transportation has produced a new 10-year plan for Saskatchewan's highways which details the Province's 10-year vision for Primary Weight Roads, Strategic Corridors and its Northern Economic Infrastructure Strategy.

² Pricewaterhouse Benchmarking Study, 2005, Prairie average cost for Roads.

The plan lacks proposed future highway infrastructure for industry generally in northwest Saskatchewan and in particular for the forest industry on the north-west and the north east of the Province. This may have been, in part, due to insufficient industry participation on the northwest Area Transportation Planning Committee.

An example from the forestry perspective is Highway 903 which runs north from Meadow Lake into the Mistik Forest Management License area, which accesses almost 1.6 million hectares of commercial forest and serves as the main transportation artery for two large mills. In excess of one million tonnes of raw forest product is transported each year over this road which has deteriorated significantly in the last 10 years.

Log trucks at times have difficulty in negotiating this road which has also become a safety issue. Industry estimates that the deterioration in this highway has added \$2.00 per cubic metre to the wood costs of the local mills.

This road also accesses northern tourism, oil and gas potential and three First Nation reserves. There are no improvements identified in the new 10-year plan for this highway.

As well, given the potential for forestry trade with Alberta, there is also a need for a direct primary road connecting this area to Alberta. On the east side of the Province, there are major issues with the highways that service the forest industry including:

Highway 55 – Shoal Lake to Bainbridge

Highway 23 – Somme to Carrot River

Highway 9 North of Hudson Bay to Manitoba Border

Highway 9 South of Hudson Bay – Clemenceau Grid to Preeceville.

The Department of Highways has formed a committee, which is tentatively being called the 'Weight Advisory Committee' to advise the Department on:

1. applications for changes to the proposed master plan for the future construction and up-grades of highways in Saskatchewan; and
2. the scheduling of the application of new money into those projects.

This Weight Advisory Committee does not include industry representation. At the recent invitation of the Department of Highways, the Task Force will contact industry groups in mining, oil and gas, forestry and manufacturing with a view to selecting one person to represent those industries on the Weight Advisory Committee.

Road Closures: The Department of Highways must ensure that existing highways that service the forest industry be maintained where there is sufficient industrial

activity. For example, the Department of Highways has recently indicated that it intends to close a portion of Highway No. 904 and in doing so will remove two water crossings. Mistik Management indicates that this road now provides access to over 1 million cubic metres of timber that it intends to access over the next 10 -20 years. Consultation appears to consist of advising industry of the closure and accommodation of industry's concerns is not given sufficient weight. Consultation with the industry also requires accommodation of legitimate concerns.

Short Line Rail: The short line rail system in the Province is critical to the movement of both manufacturing inputs and finished forestry products. This rail is as critical to forestry as it is to the movement of agricultural products and Provincial policy should recognize this importance.

RECOMMENDATION #3:

That a committee made up of the Forest Industry, SARM forest belt communities and the Departments of Highways and Transportation, Environment and Industry and Resources and led by the Department of Inter-Governmental Relations carry out a long term strategic economic assessment of the required infra-structure to move goods in the north and make recommendations to mitigate against the inappropriate closure of roads and short line railways.

and

That the Department of Highways and Transportation ensure that no Provincial Highway is closed within or adjacent to the Saskatchewan commercial forest without first undertaking an effective consultation process with the forest industry, which would include accommodation of legitimate industry concerns.

4. VEHICLE WEIGHTS AND DIMENSIONS

Saskatchewan law prescribes the weights and dimensions that are normally permitted on highways and makes allowance for the issuing of special permits for overweight or over-dimension situations.

The cost of hauling logs from the bush to the mill represents approximately 33% of a company's total delivered wood cost and represents an ideal opportunity for finding efficiencies to reduce that cost.

The cost of transportation is a function of volume and distance. On a general basis, savings are based on increasing the volume on a trailer unit. The larger

the volume the greater the unit cost diminishes. However, there are both practical limits on volume and there are regulatory requirements as to weight and dimensions that also limit volume.

Nevertheless, there are potentials for increasing volume through the use of multi-trailer units, through increased heights of loads and through the allowance of reasonable over-hang limits. For example, Saskatchewan allows only 3.2 metre overhang measured from the centre of the back axle while Alberta in some cases allows an overhang of 9 metres.

Harmonization of these rules between Provinces, especially adjacent Provinces who often share workforces, should be a priority. The forest industry believes that changes can be made either in specific circumstances or generally that would have no detriment to public safety.

There may also be safety benefits arising from the creation of efficiencies. For example, increased log volume on each log trailer or configuration of trailers could also mean fewer log trucks on the road.

A study carried out by the Saskatchewan Department of Highways and Transportation on the collision rate for those vehicles with special permits to exceed the normal dimension requirements under the Saskatchewan Transportation Policy Partnership (TPP) indicate that the collision rate for the "TPP Trucking Fleet" compared to the general collision rate of the Canadian commercial trucking fleet is 1:5 in favour of the TPP trucking fleet.³ The TPP trucks have 5 times fewer collisions than the general Canadian trucking industry.

Transportation Policy Partnership: By special permit, Saskatchewan now allows some highway configurations which do not conform to the standard regulations. Examples of this include arrangements with the uranium industry and the transportation of fuel. In some cases, there are also limited examples of this in the logging industry.

These unusual circumstances are permitted under the provisions of the TPP which requires additional safety measures, such as slower speeds but there is a further requirement that the company share any cost saving equally with the Province.

This profit sharing was introduced by the Department of Highways in the early 1990's as a revenue stream during a time when its budget was less than 50% of what it is today. The experience of the forest industry is that the increased cost of complying with the program, together with the payment of 50% of any "savings" to the Department has resulted in only minor savings to industry and little interest in the program.

³ See Saskatchewan Budget Performance Plan 2006-07, Saskatchewan Highways and Transportation, p.33.

The Department of Highways indicates that:

- a. the TPP produces approximately \$2 Million each year in revenue from industry to a Highways budget of \$370 Million;
- b. 50% of this TPP revenue comes from the uranium industry; and
- c. 40% of the TPP revenue comes from the transportation of fuels by one company.

The Department of Highways assures that it will work with individual companies on the matters identified by the Task Force with a view to creating efficiencies.

The Department's view is that the cost sharing function of the TPP is important both for the revenue generated (\$2 Million per year) and also on the basis that this revenue represents a general "barrier to entry". If there were no payments required, then the use of special permits would be extensive and become an excessive burden on the highway system.

However, the Task Force is of the view that this revenue sharing is a significant barrier which should be removed.

RECOMMENDATION #4:

That the Province of Saskatchewan eliminate the revenue sharing aspect of the Transportation Policy Program (TPP) as a significant barrier to change.

5. MUNICIPAL ROADS

Part of the road system used by forestry companies are roads lying within the many rural municipalities across the commercial forest belt. While 70% of the cost of these roads comes from Provincial transfers to the municipalities, each municipal government has the authority to regulate its own road use.

Among these municipalities there is no single regulatory system. Each Council sets their own road use policies which are often based on local priorities. As well, there is often, from some Councils, a belief that use of their roads by the forest industry should be an income generator for the Municipality.

The forest industry needs a uniform structure of access to municipal roads based on connectors to the provincial highway system and use of overweight permits during the winter season when road beds are frozen and road damage is not an issue.

The Saskatchewan Association of Rural Municipalities (SARM) has undertaken an initiative called "Clearing the Path" which is designed to develop municipal

primary weight corridors to connect the existing Provincial highways system. However the process has stalled.

The Province of Saskatchewan and the forest industry should form a committee with the SARM forest belt communities of Saskatchewan in order to develop a comprehensive roads policy within those municipalities for transportation of forest products and report back to the Forestry Task Force within 3 months.

RECOMMENDATION #5:

That the Province of Saskatchewan establish a municipal roads committee made up of the Forest Industry, SARM forest belt communities and the Departments of Highways and Transportation, Environment and Industry and Resources and led by the Department of Inter-Governmental Relations in order to develop a comprehensive and consistent roads policy within those municipalities for transportation of forest products.

6. FUTURE ACTION

There is considerable consultation yet to be done on initiatives that will take additional time and effort by the forest industry, such as on the Weight Advisory Committee and in negotiating weights and dimension permits under the Transportation Policy Program.

There needs to be a reporting procedure for these consultation processes so that the Task Force can determine the effectiveness of these consultations.

RECOMMENDATION #6:

That the Minister authorize the Transportation Committee of this Task Force to continue for a sufficient period time to receive reports and provide comments on the progress being made in the consultations recommended by this report.

3.2 Energy

The cost of electricity for a mill producing newsprint from thermo-mechanical pulp is approximately one third of total operating costs. While other mills require less than this, energy costs are still significant. At the same time, the forest industry produces huge quantities of wood residues and is constantly seeking outlets for them. This problem has been compounded by the closing of the pulp mill. Wood residue is generated by the Saskatchewan forest industry in the following forms and quantities:

1. Recoverable Harvesting residue – limbs, tops and other residue resulting from in-bush harvesting activities, normally burned on site. The volume each year is estimated at 200,000 – 400,000 green tonnes (based on a harvest of 5 million m³);
2. Softwood Chips – 500,000 green tonnes each year;
3. Hog Fuel from sawmill operations, including bark, sawdust, shavings, trim ends, fines and trim blocks – 500,000 green tonnes each year;
4. Current stockpiles – 2.5 million dry tonnes.

Potential uses for this wood residue include wood pellets, cellulignin briquettes, combined heat and power applications, bio-fuels and ethanol production.

While it seems obvious that this should be an ideal electricity co-generation scenario, a number of barriers have been identified.

Third party generators of electricity are not able to sell electricity back to the provider of the wood waste – unless the wood waste provider is an owner of the generator and the transmission is on site. This is however allowed in the transmission of natural gas and SaskEnergy simply charges a “transmission fee”.

SaskPower does at times purchase power at rates up to 5.5 cents per kilowatt hour – but only for that power that is available 85 % of the time.

The present technology for generation of power using wood waste is simply not profitable at existing power prices. One selected business plan reviewed was a 50 megawatt plant using 340,000 BDT (850,000 m³) of feedstock which delivered electricity at \$0.07 kwh. The facility proposed to use a blend of wood fibre which included mill waste residues provided at no cost (other than transportation) and wood chips at an average cost of approximately \$25.00 per bone dry tonne. The capital cost of the facility was \$110 million. A solution for the proper use or disposal of wood waste is required. Current stockpiling and or burning of wood waste are not long-term (or even medium-term) solutions to the issue. The Province generally needs a solution to the generation and use of wood waste in the forest industry.

However, the barriers earlier identified provide a current disincentive for all but the largest companies from entering the bio-energy business. Any solution must work for the provider of the wood waste, for the company investing capital in a bio-energy facility and for the energy and social needs generally of the Province.

The complexity of the issues surrounding bio-energy requires a greater level of expertise than currently rests with the forest industry generally in the Province.

Forest companies do not in this Province have the capacity and expertise, by themselves, to overcome the barriers.

An ad hoc approach, whereby each company assesses its own requirements and attempts to find a solution to its particular situation is not the most efficient method for dealing with the specific or the general challenges of the wood waste issue.

A more inclusive process that brings to the table the forest companies, Saskatchewan Environment, the Saskatchewan energy Crown Corporations – SaskPower and SaskEnergy and one or more technology companies, all with a mandate to effect a solution that meets the needs of all of the players is required.

Some factors that might change this profit picture:

- a. Co-generation produces two units of heat for every unit of electricity and if a project is able to use this heat, the economics would improve. Again, however few mills could make use of the significant heat generated, especially given that heat is usually only a seasonal requirement.
- b. SaskPower is interested in co-generation for the northern communities which are served by long transmission lines – for example, power generated in Estevan and delivered in La Ronge results in line losses due to distance. Overall however, line loss in Saskatchewan is less than one third of one percent of total power generated.

CONCLUSIONS:

1. Co-generation of electricity using wood waste under the present policy regime is not economical.
2. A supply of feed stock to a facility would ideally involve multiple mills delivering wood waste to a central generating facility in order to allow:
 - a. enough feed stock to permit a facility to achieve a sufficient size;
 - b. continued operation of the facility if one or more of the mills experiences shut down times during the year.
3. Most forest management companies burn slash in the woodlands. Most mills generate wood waste. This feed stock is available for co-generation but there must be a profit attached to its sale. Co-generation facilities cannot depend on feedstock to be provided at no charge, especially where the facility requires long term feed stock supply agreements.
4. SaskPower currently generates two-thirds of its electricity using lignite coal. This process produces a variety of pollutants, including particulate matter, sulphur dioxide, nitrogen oxides, carbon dioxide and mercury.

While the coal may at present be economical to burn, the environmental effects will be costly for future generations.

5. The elimination of wood waste, from an environmental perspective, is also becoming a sensitive issue.
6. Saskatchewan requires a solution that eliminates this wood waste in a proper manner while at the same time reducing the amount of pollutants that are produced from the burning of lignite coal.

RECOMMENDATION #7:

That SaskPower be authorized to either:

- a. **institute a policy for the long-term purchasing of 50 mega watts of “green” electricity produced from wood waste and at a sufficient out of market premium to allow for profitable co-generation from wood waste;**

and/or

- b. **construct its own co-generation facilities in the commercial forest belt of northern Saskatchewan, using wood residues and with a capacity of 50 mega watts;**

and/or

- c. **government provide low interest loans or grants for capital costs associated with private construction of wood residue co-generation facilities.**

MILL ELECTRICITY COSTS

While the cost of electricity from SaskPower is not out-of-line with other jurisdictions, the “Demand Charges” can dramatically increase industrial power bills.

This demand charge is a monthly charge based on the maximum electrical demand over 50 kV.A registered between the hours of 7:00 a.m. and 10:00 p.m. Monday through Friday on a rolling 11 month average. This charge can account for up to 17 % of the total electricity costs for a mill.

The apparent basis of the charge is for the capacity that the utility must maintain on a stand-by basis to service a particular mill.

The issue identified is the length of the rolling average which puts in place a monthly demand charge for 11 months because of a one-time electrical surge occurring during that period.

RECOMMENDATION #8:

SaskPower should review with industrial consumers its 11-month time frame in its “Demand Charge” formula with a view to reducing that time period.

3.3 Administration

Within the context of government and industry’s commitment to ensuring stewardship of forest ecosystems and sustainable use of forest resources, both strive for 100% compliance with sound scientifically-based regulatory requirements in the most efficient and cost-effective manner possible.

Emphasis should be placed on attempting to avoid overlap by combining programs and protocols that were developed at different times and for different purposes when experience shows this is possible without compromising protection of the health of the forest.

Following are some issues requiring action.

1. SAMPLE SCALING

Scaling is the measurement of harvested timber to calculate the payment of dues and fees. Dues and fees are paid based on cubic metres harvested. All FMA holders measure wood by weight, and then convert this weight to volume. The weight-to-volume conversion ratio for hardwood and softwood was set in each FMA. However, the weight of wood varies according to factors such as season, species, amount of rainfall, and the amount of time between harvest and scaling.

Since 1999 all forest licensees using weigh scales for measuring timber volumes have been required to file scaling plans which set out the their process for determining a weight-to-volume conversion for their harvested timber. This process requires the manual scaling of a certain number of “sample” loads for timber harvested from different areas of each license during each harvesting season.

This has been a large undertaking with some licensees collecting data from as many as 50 different “strata”, each stratum being slightly different from the

perspective of area, season or type of timber and each stratum requiring a specific number of samples taken during the year.

The cost of sample scaling for industry each year is approximately \$300,000 not including mill yard costs for machinery and people, administrative costs or delays at year-end in correlating the yearly data calculations to determine wood delivered.

RECOMMENDATION #9:

That the Forest Industry and the Province establish a committee to review the data collected since 1999 to:

- **determine whether an acceptable accuracy level can be achieved with fewer samples.**

and if so, identify efficiencies that may be achieved by:

- **consolidating strata;**
- **reducing intensities; and**
- **streamlining the reporting, collection and verification processes.**

2. FOREST MANAGEMENT EFFECTS MONITORING PROGRAM

The Forest Management Effects Monitoring Program was established following the advice of the Provincial Science Advisory Board, to provide a way of doing long-term monitoring of ecosystem responses to forest harvesting. As a condition of Forest Management Plan approvals, for the past four years FMA holders have been required to monitor and report on 30 indicators of forest health, including vegetation, avian populations, aquatics, and soils. The program costs industry approximately \$500,000 per year for the field component. The program is to monitor effects on these indicators, to provide background rationale for forest management standards and guidelines.

The main purpose of the program is to assess the effectiveness of forest management standards, and to use the results to adapt these standards.

When the program began, Saskatchewan had no operational standards. With the development of standards over the past few years, many components of the monitoring program may no longer be necessary, but other components may need to be added. The program should focus on whether the standards are protecting attributes placed most at risk by harvesting practices. It is not intended to be a cumulative effects monitoring program, but to focus on understanding the effects of forest management activities.

The time may be right for a review of the current monitoring program, to see if some components are no longer necessary, if other components should be added, and if elements could be linked into other processes, with the objectives of eliminating duplication, obtaining efficiencies and reducing costs, without giving up the objective of evaluating the long term effects of forest management activities.

It is also noted that other industries such as oil and gas should be included in the monitoring program, given that this industry is likely to have an increasing effect on the forests in the future.

RECOMMENDATION #10:

That the objectives of the monitoring program be preserved as a strong public value;

That the Forest Effects Monitoring Program be amalgamated into the 20-year planning process where it can be linked to plan values, objectives, indicators and targets with a view to eliminating overlaps, obtaining efficiencies and reducing costs.

That other commercial users of the forest such as the oil and gas and mining industries should share in the costs of monitoring on the principle that all users should share in long-term monitoring of their impact on forest values.

3. ENFORCEMENT OF STANDARDS - DISPUTE RESOLUTION

Section 78 of The Forest Resources Management Act allows the Minister to levy an administrative penalty against a forest licensee for infractions of forest legislation or policy. There is no appeal from an administrative penalty although the licensee has the right to make representations to the Minister on the fairness in assessing the penalty.

Notwithstanding that the number of administrative penalties levied is not out of proportion to the size of the industry and its forest operations, the existing process whereby the branch reviews appeals of its own decisions is open to criticism.

Industry and other legal observers believe the current administrative penalty enforcement process is out-of-step with other government decision-making processes that provide a transparent process for dealing with disputes. The Forest Service effectively argues that the low number of penalties levied does not merit the investment in a costly system of appointing administrative tribunals.

The above is one example of how relationships between industry and the Forest Service can deteriorate when there is insufficient dialogue, consensual dispute resolution, and general relationship building.

Most disputes should not reach this stage. Every effort should be made by industry and government to resolve disputes in a professional and mutually respectful fashion before resorting to formal appeal processes.

Enforcement of the Acts and Regulations applying to the forest industry in Saskatchewan is also carried out by two branches of government, sometimes resulting in apparent inconsistency of interpretation and application.

RECOMMENDATION #11:

That government, industry and community representatives develop a provincial level forum for ongoing and regular dialogue, issue identification and joint dispute resolution.

RECOMMENDATION #12:

That government and industry cooperate in the development and delivery of joint compliance training workshops for Forest Service and forest industry personnel.

RECOMMENDATION #13:

That only one branch of government (Saskatchewan Environment Forest Service) be responsible for enforcing the Acts and Regulations that apply to the forest industry.

RECOMMENDATION #14:

That a process be established for allowing appeals of administrative penalties to an independent board, either through amendments to The Forest Resources Management Act and regulations or by a process that makes recommendations to the Minister on the disposition of such appeals.

4. STANDARDS AND GUIDELINES

Saskatchewan Environment is in the process of establishing standards and guidelines under the authority of The Forest Resources Management Act. In some cases these standards and guidelines have not yet been completed and in their place individual standards have been approved for each Forest Management licensee through the annual planning process.

While these standards and guidelines are reviewed on an annual basis, the reviews have not always adequately addressed the extent to which the standards are tied to and their efficacy measured against the achievement of scientifically sound objectives.

Although the Task Force determined that it was, in the competitiveness review process, unable to deal with the many issues surrounding standards and guidelines, it did review one standard – the Regeneration Standard.

The regeneration assessment standards require the licensee to complete two surveys: an establishment assessment, completed 4-5 years post harvest to determine the density and species of the regeneration on the block, and a free-to-grow survey completed 8-14 years post harvest to determine when the regeneration is past all of the competing vegetation.

The establishment assessment is valuable as it determines the type and density of regeneration at an early stage and whether or not treatments are necessary to increase the stocking levels.

The purpose of the free-to-grow survey is to determine when the regeneration is past all of the competing vegetation so that the block can be included back into the inventory for harvest volume calculations.

The question arises whether an equally scientifically sound assessment of regeneration can be achieved without as great an investment in the free to grow survey.

Some argue that since the FMA license areas will be inventoried every 10-20 years the block is captured at that point in time and once a forest is established it is only a matter of time and succession until a mature forest is reached. Again, as a detailed forest inventory will be completed every 10-20 years all of the successional pathways in each of the age classes will be captured over time by the inventory.

Others argue that the free-to-grow survey must be carried out in the interim because it is the responsibility of industry to take corrective action if the free to grow standard has not been met, and waiting for the next inventory may be too late for industry to take appropriate corrective action if required.

The cost of the second free-to-grow survey is estimated by industry at \$23.00 per harvested hectare over a yearly harvest of approximately 30,000 hectares - for a yearly cost of \$690,000.00.

RECOMMENDATION #15:

That government and industry commence a process to determine whether the above-mentioned objective can be more cost-effectively met through an alternative scientifically sound method.

5. SECTION 35 AUDIT

Section 35 of the Regulations to The Forest Resources Management Act requires that every Forest Management Licensee conduct an independent sustainable forest management audit every 5 years which is to assess:

- a. the implementation of the forest management plan; and
- b. compliance with the license agreement, the Act, the regulations and any ministerial approval under The Environmental Assessment Act.

This requirement was effected at a time when none of the FMA licensees were certified to any sustainable forest management (SFM) standard. Since that time all of the FMA licensees have attained certification under one or more SFM systems – including the Canadian Standards Association SFM standard.

Each of the SFM standards, including the CSA certification, require yearly audits which in many respects investigate many of the same issues that the Section 35 audit requires. The requirements of Section 35 are sound and should stand but there is considerable overlap among the audits which occasion unnecessary expenditure by industry.

RECOMMENDATION #16:

Saskatchewan Environment, together with industry, should examine the areas covered by the SFM and the Section 35 audit with a view to determining the extent to which the certification audit satisfies the requirements of Section 35 and duplicate effort and expenditure can be eliminated.

6. AUDITING FOREST MANAGEMENT FUNDS

Each of the FMA and Term Supply Licensees (TSLs) in Saskatchewan maintain forest management funds into which are paid the applicable forest management fees that are used to renew harvested areas.

From time to time, Saskatchewan Environment will audit these funds to ensure that:

- a. the required fees have been paid into the funds, and
- b. the expenses paid from the fund are proper.

Saskatchewan Environment is unable to audit every fund each year and generally an audit will take place every 4 -5 years. This audit requires a company to produce from past years a considerable quantity of documentation on harvesting volumes, production volumes, private timber purchases, timber sale volumes, sample scaling data and payments into and out of forest management funds.

Questions inevitably arise as to issues with respect to this documentation that require someone to remember the details of operations and individual invoices that occurred some years in the past. As well, the results of this audit may require a refund from government or a payment by a forestry company years after the closing of a financial year end.

In May of 2005, COSFI approached Saskatchewan Environment on this issue and proposed several different options for these audits in order to ensure that a forest company achieved closure on Crown fees each year in a more timely fashion.

These options were:

- a. Saskatchewan Environment could invoice industry for dues and fees on a final basis each year;
- b. Saskatchewan Environment and industry could engage an independent auditor to finalize this issue each year;
- c. Each company's independent auditor could provide this audit function each year as part of their normal company audit.

Some consensus was reached between Saskatchewan Environment and COSFI on allowing these audits to be completed by a company's independent auditor, which in the case of the FMA licensees are all national accounting firms.

Industry was advised by Saskatchewan Environment that auditing protocols had been developed and were being reviewed, but this issue seems to have been side-tracked.

RECOMMENDATION #17:

That Saskatchewan Environment implement a process for the annual auditing of forest management funds and dues to ensure timely closure on payments into and out of these funds.

7. Small Operators

Another area of administration requiring attention is that of the small third party operators with tiny allocations assigned to the FMA.

They are critical employment generators and many of them are leaders in value added. The problem is that for each FMA there may be 50 to 100 of these small companies. Each are requesting harvesting plans and places to harvest. At least 75 % of Saskatchewan Environment's operational staff time is allocated to this group. Since 2001, Saskatchewan Environment and the FMA holders have been trying to get these companies to develop longer term TSL cutting plans. This has helped the work load for both the FMA holder and Saskatchewan Environment. It has also given the small operator some tenure and security.

This process needs to be developed further to develop TSL's that incorporate more than one small operator, possibly even leading to one cooperative TSL for most of the operators on a FMA. This would give the small operators some flexibility in using surplus volumes between operators and for trading wood to assure best "end use."

RECOMMENDATION #18:

The Saskatchewan small operators association, COSFI and Saskatchewan Environment develop a program to streamline the approval and implementation of small operator permits to ensure the best "end use" of logs.

3.4 Wood Cost and Supply

Wood Cost

Saskatchewan has the lowest delivered wood costs in Canada. They are marginally lower than in Alberta and decidedly lower than in Ontario where the

provincial government has recently launched an all out attack to reduce those costs.

However, the cost of delivering wood to the mill is misleading as a single indicator of cost effectiveness as it is only one part of the equation. The species mix, quality and size and thus mill recovery rates for our timber must also be examined to truly analyze the relative competitiveness of the Saskatchewan forest industry.

TIMBER QUALITY

Saskatchewan's soft wood forests contain 59 % spruce and 37 % jack pine. Especially towards the western border with Alberta, the jack pine component increases to 50 % for the NorSask Forest Products sawmill at Meadow Lake and to 80 % for the L & M sawmill at Glaslyn. Jack pine as a species is not as well-suited to lumber production as is white spruce or the lodgepole pine found in large quantities in Alberta.

For the most part, Saskatchewan has smaller diameter trees than other western provinces and this impacts negatively on lumber production.

Some factors of Saskatchewan timber quality are:

1. Mill recovery rates are lower in Saskatchewan than its nearest competitors.
2. Saskatchewan companies rank in the bottom quartile in Western Canada for average tree size⁴ and in the lower two quartiles when compared across Canada. On average, Saskatchewan has small diameter timber.
3. White Spruce produces 40 % more lumber than an equivalent volume of Jack Pine;⁵
4. In a comparison between the Weyerhaeuser sawmills in Big River and Grande Prairie, the Grande Prairie mill produced 40 % more lumber using the same volume of timber. The difference was the species mix in Alberta with larger diameters and better quality.

In the Spring of 2006, COSFI commissioned a special report from PricewaterhouseCoopers on the general cost trends in the forest industry. This report indicated that:

- a. In 2002, the Canadian Prairie region had the best sawmilling earnings in North America;
- b. By 2004, that advantage had slipped to the Number 3 spot; and

⁴ See Pricewaterhouse 2005 Forest Industry Study where Mistik ranked 9th out of 11 companies in Western Canada for average tree size.

⁵ In 2001 NorSask conducted a study that followed equal volumes of bush run Jack Pine and White Spruce through its sawmill. The recovery rates were 181 and 247 fbm/m³ respectively and the volume of top grade lumber was 64 % and 82 % respectively.

- c. By 2006, PWC estimated that the Prairie region had slipped to number 5 spot, and from a competitive perspective, was ahead only of Coastal B.C. and Eastern Canada.

CONCLUSION – COST AND QUALITY

In assessing the competitive qualities of Saskatchewan forests, it is fair to conclude that both the cost and the quality of our timber are below the Canadian average. However, while Eastern Canada also deals with small diameter timber, it is important to place these factors in context. Saskatchewan competes in both a North American and in a global marketplace for our products. For the most part, Alberta and Eastern Canada are not our competitors.

On softwood lumber, Saskatchewan's main competitors are the U.S. mills and the PricewaterhouseCoopers study, referred to above, places the Canadian Prairie Region, from a competitive perspective, in 5th position in North America ahead only of the B.C. coast and Eastern Canada.

From a pulp and paper perspective, the main competitors are in the Third World countries where companies have natural advantages such as low labour costs, large plantations of fast-growing trees, and mills situated close to ocean ports.

Wood Supply

When discrepancy arises between government and industry regarding the annual allowable cut calculations during the forest management planning process, public confidence in both government and industry is eroded and the public begins to question the quality of the stewardship of their forests. In addition, security of wood supply becomes uncertain in the mind of investors thus diminishing their willingness to invest in the industry.

In 1997, the government began the practice of independently auditing the allowable cut calculations and forest management plan assumptions. This process needs to be reflected in standards and policy and implemented with consistent terms of reference.

RECOMMENDATION #19:

That government institutionalize its practice of having the Annual Allowable Cut calculations independently audited and reported to the Minister during the approval of the forest management plans.

When the FMA's were first granted to Saskatchewan forest companies the cost of the forest inventory was borne by government. Subsequently that cost was transferred to FMA holders.

Both industry and government recognize the need for accurate, timely, and relevant information to ensure sustainable natural resource management.

It was transferred to the companies as they were responsible for the management of the forests. Inventory costs were also borne by industry across Canada for the same reasons. Industry was responsible to determine the allowable cut based on an accurate inventory. Government was responsible to set the inventory and allowable cut calculation standards and regulate implementation of the allowable cut. The detailed forest inventory would not have been completed without the need to determine accurate allowable cuts for the forest company.

The base maps used to place the forest inventory and other resource layers on are used by many forest users. Unfortunately funding for that government responsibility has been sporadic at best causing serious timing issues with the forest industry and other stake holders.

One disagreement over the years has been the free use of the forest inventory layer by government and their other clients. Industry insists that they own the data. At times government needs that data for use beyond its regulatory needs. There needs to be an agreement between government and industry regarding public use of this data. Ontario has decided to create or buy this data in whole in order to allow it to be used in the public domain.

For the forest industry, it is the basis for determining the age and species composition of the forest, general state of the forest, amount of fibre available for harvest; and it provides a template for planning and mapping harvest areas, access road construction, environmental monitoring and protection, etc. Government forest industry regulators use it as the basis for reviewing, modifying and approving all forest management plans submitted by industry. Government uses it as the basis for calculating the annual amount of fibre that may be sustainably harvested by industry. Government uses it as the basis for assessing the quality and quantity of wildlife and fisheries habitat and prescribing measures for their protection. Parks planners use it for mapping and designating areas requiring special regulatory protection. Government forest fire managers use it for planning and operations.

Where government uses the detailed forest inventory for other than regulating the forest industry a public benefit accrues and it is consistent with good public policy that government should expect to pay for the data that supports those other uses.

The oil and gas and mineral exploration industries also use the inventory extensively for planning and carrying out their activities.

It is evident that there is both a private benefit (that of the FMA holders and other resource extraction industries) and a public benefit (that of the Forest Service, fisheries managers, wildlife managers, environmental planners, parks managers, etc.) that flows from a timely, accurate and dependable forest inventory.

It is also evident that a number of other forest users and observers, both commercial and non-commercial, are uncomfortable with the shift in responsibility for the inventory and question its independence from commercial self-interest and therefore its dependability.

It is for all of these reasons that the Ontario government recently assumed the cost of the inventory.

RECOMMENDATION #20:

The government immediately commence a process with FMA holders for determining what inventory information the government requires for public purposes other than regulating the forest industry and developing a process for compensating the FMA holder for that information.

3.5 Business Climate

Global industry consolidation is underway. Some analysts predict that the eventual result will be a handful of world forest sector giants. The Saskatchewan industry has already undergone considerable restructuring.

The industry has also expanded with new value added investments, many of which have been financially supported by the government.

Saskatchewan's forest sector is diversifying. Saskatchewan's value-added wood products must continue to increase as a proportion of primary wood products in value of exports.

The existing primary industry must move its products incrementally up the value chain. A simple example is where an OSB commodity mill moves part of its production into "tongue and groove" panels. The primary industry must find value added uses for its by-products, such as bark, sawdust and shavings. Examples could include wood pellets, bio fuels and co-generation of electricity. We must find new value-added industries to complement the primary industry. Examples of this might include floor joists plants which combine lower grade lumber with OSB to produce a product used in every newly constructed house.

This is not an invitation to turn our back on the primary wood products sector. Far from it. Without a strong, vibrant, community centred primary sector, there can be no value added sector. It is incumbent on government to ensure through sound public policy that the primary sector thrives as the basis for stimulating further value added expansion.

Saskatchewan should have an opportunity to at least export 70 to 80 % of its production to the U.S. as was previously the case. We have an industry that is tied to a commodity product that is now significantly restricted by a federal treaty ("the softwood lumber agreement"). The crisis this causes means that with low prices, not only is our lumber industry affected but so is every other component of our industry because of the integration. Value-added production can re-tap this market.

RECOMMENDATION #21:

That government work with industry, academia, and independent experts to develop a single window institute for the provision of research, technology transfer, financial incentives, industry promotion, market access assistance, etc., with a specific goal of assisting the forest industry to further its expansion into production and marketing of value-added products.

That this same institute be used to develop a systematic approach to the development and application of government financial incentives for value-added diversification proposals supported by a sound business case reviewed and approved by the institute.

That government create an innovation center that brings together research, development, inventors, entrepreneurs and investors in a collective drive to locally maximize the value from wood and wood by-products.

That government explore a comprehensive incentive program that would assist in the conversion of the commodity lumber industry into a value-added industry. These incentives could include low interest loans, capital grants, capital tax incentives and a revised stumpage system favouring non-commodity producers.

That government implement a policy of reducing stumpage charges for value-added proposals.

The Saskatchewan Forest Centre is presently about to engage in a review of its mandate.

RECOMMENDATION #22:

That the “sunset review” of the Saskatchewan Forest Centre be used as an opportunity to determine the feasibility of building the Centre into an institute (as described above), highly focused and exclusively dedicated to advancing the expansion of the forest industry into forward looking, innovative and profitable value-added endeavours.

Training and adjustment

The recent mill closures combined with an ageing work force and a sense of despair regarding the future of the industry among many aspiring young workers has led to an acute shortage of skilled workers. Until recently the Saskatchewan forest industry has rightfully prided itself on having a dedicated highly trained workforce as one of the cornerstones of its economic success. This cornerstone faces the prospect of eroding beyond repair if concerted action is not taken to re-attract, re-train and retain a skilled forest industry workforce.

When mills close, regardless of the reasons, in small northern or rural communities in Saskatchewan, workers are often forced to leave their communities to seek jobs elsewhere. The communities are left with an economic base that has been seriously eroded. Retraining or other transition supports for workers are a major concern, as are supports for communities struggling to create new and more diversified economic opportunities.

Skilled trades jobs in a thriving competitive forest industry are good jobs. They pay well; they offer reasonable security and they offer pride and dignity.

Saskatchewan benefits from having a growing aboriginal population whose youth seek meaningful opportunities to participate in the mainstream economy of the province while retaining their cultural and spiritual intimacy with the land and particularly the north.

Maintaining a highly motivated and highly trained workforce demands continuous vigil and concerted and coordinated action. It is not a one-time initiative. It requires provincial coordination with local implementation responsive to locally identified specific needs.

While much has been done in this regard by various departments of government, greater coordination among all appropriate departments, industry, educational institutes, and the community is encouraged.

RECOMMENDATION #23:

That efforts be intensified to formally bring together government, academia, industry, labour and aboriginal leaders to address the critical requirements for re-attracting, re-training and retaining a skilled forest sector workforce

Areas for initiative are as follows:

- **the transition of workers and communities where the industry is undergoing restructuring;**
- **integrating the training needs of the industry into the school system;**
- **consolidating and coordinating government training efforts and funding to effectively respond to needs of communities, workers and business;**
- **developing and delivering training programs tailored to the geographic and cultural needs of northerners and aboriginals in particular;**
- **re-invigorating and providing positive incentives for local apprenticeship programs;**
- **creation of an ongoing forum for the parties to monitor, forecast and continuously respond to the training and adjustment requirements of communities, workers and businesses; and,**
- **providing financial support to communities and workers requiring training and adjustment support.**

The task force would like to continue to monitor progress as the government responds to this report and to serve as a continuing source of advice to the Minister regarding interpretation and implementation.

RECOMMENDATION #24:

That the Minister appoint the task force to continue in existence to monitor the implementation of its recommendations and to provide ongoing advice through regular meetings with the Minister.

4 Our Vision for the Future

In 2005 the Saskatchewan Forest Industry produced and exported over \$1 Billion in forest products. In 2006, its production will be only a fraction of that number.

Some of the factors that contributed to this downturn are ones over which Saskatchewan has no control, such as the appreciation of the Canadian dollar, the softwood lumber dispute and low commodity prices in worldwide markets.

In examining our forest industry, one fundamental question is whether there will be a prosperous industry in the future. Is forestry in Saskatchewan trying to overcome a bad downturn in its cycle or is it a dying industry that has little prospect for future recovery? Can we, for example, compete with the southern hemisphere model of plantation forestry?

In examining this issue we have been referred to an article by Booth et. al. entitled "Natural forest management: A Strategy for Canada", (1993), Forestry Chronicle 69 which suggests:

"In Canada we have no shortage of land, a very sparse population, and slow growth rates make returns on intensive silviculture low on many sites. Forest landscape management requires more planning, a lower intensity of land use, but more total area in use. . . . We have one of the few countries where such an extensive forest management approach makes economic sense. It maintains Canada's competitive position and yet is a "green" approach. Canada has been trying to mimic European intensive forest management practices despite having significantly different environmental, social and economic conditions. Unlike other countries, Canadian forests are extensive [and] relatively intact. . . . Much of the intensively managed plantation in Canada requires heavy investment, often yields low financial returns and results in a forest with low biological diversity".

This view reinforces our belief that the Saskatchewan boreal forest is now and will continue to be a significant competitive advantage for our forest industry in the future. Other factors to consider are:

1. Commodity Prices are Cyclic: Low lumber and panel prices today are a reflection of a housing slump in the U.S. Once the existing housing inventory is depleted, there will be a new demand for houses and for building materials;
- 2, Natural Disasters: The huge pine beetle infestation in B.C. and Alberta is producing a surge of lumber that will continue for the next 4 -5 years. After the surge however will come severely reduced annual harvests which are estimated to fall by 20 – 25 %. Both Quebec and Ontario either

have already reduced their annual harvests by a similar amount or are now considering taking such action. The result will be a future need for timber commodities from Saskatchewan.

3. Expansion: Saskatchewan is the only region in Canada which underutilizes its forest resources. As of 2005, Saskatchewan was using only 70 % of its annual allowable harvest.

Clearly however there will be a period of 4-5 years before the commodity cycle will turn and for the decreased harvests elsewhere in Canada to result in increased demand for Saskatchewan wood products.

In the meantime, government can assist industry to survive the current downturn by reducing transportation costs, investing in alternate energy production, reducing overlap and inefficiency, sharing costs where appropriate and enabling industry to relentlessly and unswervingly pursue higher value-added production.

In a similar situation, the Ontario government announced it is making \$900 million available through various programs to assist the forest sector over the next five years. These programs will help stimulate new forest sector investments in value-added manufacturing and co-generation as the industry becomes more competitive and moves into the future.

The initiatives include:

- \$350 million in loan guarantees to stimulate new investment in value-added manufacturing, energy conservation and energy co-generation
- \$150 million over three years through the Forest Sector Prosperity Fund to leverage new capital investments
- \$75 million annually for the construction and maintenance costs of primary and secondary forest access roads
- \$70 million in a one-time stumpage fee refund for 2005/06
- \$10 million per year by 2007/08 to enhance the Forest Resource Inventory
- \$3 million a year for the next three years to reduce timber fees for poplar veneer and white birch, beginning in 2006
- \$1 million per year, beginning in 2006/07, in an Ontario Wood Promotion program to enhance value-added manufacturing
- A commitment to move towards multi-shareholder Sustainable Forest Licences
- Creating efficiencies in the forest management process.

Faced with the same pressures as Ontario and Saskatchewan, the government of Quebec announced on October 20 of this year that it will provide some \$268 million of new funding to help its forestry sector cope with what it calls the worst crisis in its history.

The Quebec government is providing \$54.8 million to help retrain workers losing their jobs, or allow them to take early retirement. Another \$45 million has been set aside for the communities affected.

The government will also invest \$197 million in reforestation, road-building and other measures aimed at better managing the province's forests.

In announcing the measures, Premier Charest said, "We must restructure our forestry sector and change the way we do things."

The government said it will also maintain a previously announced C\$425 million fund to help forest industry companies finance their modernization.

Value-added can take place in several different forms:

1. By the existing primary industry moving its products incrementally up the value chain. A simple example is where an OSB commodity mill moves part of its production into "tongue and groove" panels.
2. By the primary industry finding value added uses for its by-products, such as bark, sawdust and shavings. Examples could include wood pellets, bio fuels and co-generation of electricity.
3. By attracting new value-added industries to complement the primary industry. Examples of this might include floor joist plants which combine lower grade lumber with OSB to produce a product used by every newly constructed house.

The forest industry in Saskatchewan must survive. As Saskatchewan's second largest manufacturer, the industry employs 10,000 people directly and indirectly, most of whom are located in the northern provincial forest and many of whom are aboriginal. For them, there is no alternative for employment. While there is some employment in the northern mines, forestry plays by far the largest role in employing northern people.

On September 27 of this year the Premier's Task Force on Forest Development reported that today's forest sector needs to be competitive and become focused on adding value. It is evident that our Task Force wholeheartedly supports this vision. In addition the Premier's Task Force reported that sustainable forests require active management today, and like other sectors of Saskatchewan's economy, the forest sector merits support. Minister, we believe that our report

compliments that of the Premier's Task Force and provides much of the public policy direction that its report calls for.

We envision a new future for the forest industry:

A future wherein government, industry and community intensify their collaboration to ensure that all residents of Saskatchewan benefit from a well managed forest supporting an efficient, effective and profitable forest industry;

A future wherein a highly diversified, well trained, efficient and modern primary forest industry moves wood from the forest to mills at costs competitive with global competitors;

A future where that wood and its by-products are locally processed by an integrated secondary industry into products that add maximum value before being shipped to market.

We commend this report to you, Minister, as the road map to that vision.

APPENDIX 1

FORESTRY COMPETITIVE TASK FORCE MEMBERS

Dave Archer, Sask. Outfitters Assoc.
Tony Baumgartner, Saskatchewan Industry Resources
Allan Bell, Meadow Lake OSB Ltd.
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