TERMS OF REFERENCE

FOREST INDUSTRY COMPETITIVENESS AND STRATEGY STUDY

ISLAND PORTION OF NEWFOUNDLAND AND LABRADOR

Department of Natural Resources

BACKGROUND

The Island portion of the Province of Newfoundland and Labrador has a total land area of slightly more than 11 million hectares. Of this approximately 3 million hectares are considered suitable for timber production i.e., capable of producing at least 35 cubic meters per hectares (m^3/ha) at a rotation age of approximately 60 years. Various harvesting restrictions, combined with relatively slow growth rates results in a sustain harvest of approximately 2 million m^3 per year of softwood and 0.25 million m^3 of hardwood. When compared to other Atlantic Provinces, forest productivity on the Island is low(2.25 million m^3 / 11 million hectares). Comparing this to Nova Scotia(6.7 million m^3/ 5.3 million hectares of total land area) and New Brunswick(11.0 million m^3/7.1 million hectares of total land area) reflects a challenging forest harvesting environment.

Technically speaking forest land tenure of the Island is almost totally (99%) Crown owned. However, timber and property rights to 69 percent of Crown land on the Island has been conveyed to the 2 pulp and paper companies through 99-year licenses. Therefore, the Province's financial and legal systems treat this licenced land as private property. These long term licences have long presented challenges with reallocation of cutting rights.

In terms of wood use, the Industry is dominated by 2 newsprint mills, followed by 700 commercial sawmills (plus 700 tiny domestic sawmills), and a small but developing value-added sector. The newsprint industry, consisting of a mill in Grand Falls-Windsor and a mill in Corner Brook, produce approximately 560,000 tonnes of paper using modernized vintage paper machines dating between 1924 and 1967, and selling mostly to markets in the US, Western Europe and Latin America. Both mills have hydro-electricity generation capacity within their respective organizations, while the Corner Brook mill has some co-generation capacity. The 1400 sawmills together produce about 130 million board feet of lumber per year with 110 million board feet of this being produced by the 9 largest mills. Even the larger mills are small compared to those in the rest of Canada with capacity of the largest 2 of the 9 at 30-40 million the next 2 at 10-15 million and the remaining 5 at 5-10 million board feet per year. In any given year 30-50 percent of this lumber goes to the US market while the remainder is used locally. Both the newsprint and lumber sectors utilize softwood almost exclusively; the Island having an approximate 40:60 mix of black spruce and balsam fir. The small hardwood value-added sector produces kitchen cabinet boards, stair treads, flooring, various millwork and even guitars. Markets for these products are for the most part local with some penetration of the Mainland Canada and US markets.

The Forest industry operates almost exclusively in the more rural parts of the Province. With problems in other resource sectors, most notably the fishery, unemployment rates in these areas are very high. With various estimates of direct and indirect employment ranging up to 12,000 full time and part-time jobs, the forest industry is considered a very large contributor to many local rural economies on the Island.

The Province's forest industry operates within a sustainable forest management framework with a large portion of the industry meeting ISO 14,000 international environmental standards, both of which set the environmental integrity bar at a very high level. While compliance with these standards represent a significant cost, Industry is still subject to extraordinary environmental scrutiny from the public and special interest groups. This can result in loss of land base and modified operations thereby increasing costs to industry with its resultant effect on competitiveness.

Government allows public access to timber in selected areas for personal(domestic) use for lumber and fuelwood. The 700 domestic sawmills together officially produce less than 3 million f.b.m. of softwood lumber and hence represent a relatively insignificant factor in resource allocation. Fuelwood, however is a more significant factor, with individual cutting for home heating and some commercial cutting also supplying this market accounting for nearly 300,000 m^3 of timber annually. While there is indication that some softwood suitable for pulpwood and sawlogs is going to fuelwood, hardwoods appear to present a more significant problem. Traditionally, pressure for softwood fuelwood has been eased somewhat by directing cutting of underutilized hardwoods. In recent years this is problematic in that there is increasing demand for hardwoods in the developing value-added sector.

Recent events have come together with almost cataclysmic impact on the Province's forest industry with the closing of one newsprint mill and the two others struggling for survival with resultant negative impacts on the harvesting sector and the sawmill sector (chip markets). The newsprint industry which has dominated the forest industry on the Island, is operating in a high labour cost environment, is faced with increasing wood costs and energy costs on the supply side with world demand for newsprint dropping and the value of the Canadian dollar rising in value against the currencies of sale(most often the US dollar). To a lesser extent the softwood lumber dispute between Canada and the US as well as the strong $CAN are having a negative impact on the Province's lumber industry.

This vulnerability has led government to initiate a review of the current state of our industry and develop a new forest industry strategy in relation to terms of changing world demand for various forest products, the configuration of our resource, industrial synergies such as newsprint/lumber/energy, geographic opportunity such as water access to various markets and new technologies. As part of this new strategy, Government is also interested in receiving recommendations on an on-going review process and a list of various indicators and/or resources that might serve as an early warning system for potential changes in the various forest industry sectors.

OBJECTIVE

Government wishes to have an analysis of the Province's forest industry prepared including its competitiveness in relation to current and emerging markets, the compatibility of our forest resources in terms of quantity and quality to our current industry and to value-added development, synergies that might exist or be emerging in terms of strategic location or other developments, i.e., energy and identification of potential strategic direction for the industry.

IMPLEMENTATION

Issue 1 - Structure and Bench marking of Current Industry

- Provide an overview of the current industry with respect to production, raw material use and employment.

- Provide a comparative evaluation(benchmark) of the sawmill sector against the sawmill sector in eastern Canada.

- A Competitive Manufacturing and Delivery Cost Benchmarking Study of the newsprint industry will be obtained through an outside contract with Resource Information Systems Inc, (RISI) and will formulate a discussion document for this study.

- To what extent has all levels of government provided direct financial support through loans, guarantees, interest reduction, debt forgiveness etc. to each of the forest industry sectors over the past 20 years (or available time period) present on an aggregate basis for each sector as a whole and for the major mills (as a group) remaining in the sector.

- What is the value of direct services provided to the forest industry i.e., roads, protection, inventory, silviculture, etc. compared to the amount of royalty collected over the past 20 years (or available time period). Benchmark against programs and services in eastern Canada.

- What are the direct employment (person hours and jobs) currently associated with each major sector?

Issue 2 - Industrial Incentives

Power Consumption/Production

- Provide a summary of power rates in the Province as it relates to the Pulp and Paper Industry and the Sawmill Industry and make comparison to rates paid by the Industry in other eastern Canadian provinces. Discuss how other jurisdictions structure power rates to encourage forest industry development.

- In the case of the newsprint industry provide details of involvement in electricity generation including:.

    - Ownership arrangements i.e., included in mill operations, wholly owned, partnerships, etc.

    - Capacity of each and value of sales to NL Hydro or sales within Industry.

- To what extent are each of the facilities dependant on operation of a paper mill i.e., which function independently of forest resources tenure and associated water rights.

- If a given paper mill reduces or stops production, is there any requirement to relinquish water rights?

- Are electricity profits credited to the paper mill? Are they credited against the cost of electricity to the paper mill?

Corporate Tax Structure

- Review the corporate tax structure in the Province as it applies to the forest industry and provide a comparative evaluation to tax structures in other eastern Canadian Provinces.

Forest Management Incentives

- Provide a comparative analysis of current forest management incentives with forest management incentives in other Canadian jurisdictions.

Issue 3 - Forest Management

Wood Supply

- Provide a competitive overview of the current wood supply on the Island on an individual species or species group basis as it applies to other eastern Canadian provinces. This overview should consider in general terms all harvesting factors relating to delivered wood costs such as:
    - stem size
    - stand volume and dispersion
    - resource access
    - general topography and terrain classification

- Provide a basic mensurational analysis of the available wood supply from existing data relative to the resource utilized by the Industry in other eastern provinces.

- Identify quality issues in each species or species group with respect to solid wood products and assess their suitability for use as engineered wood products, panel products, and for other potential value-added products. Offer recommendations as to which value-added products would be best suited to production in Newfoundland based on the results of the above assessment.

Policy

- In consideration of rising energy costs and a potential energy crisis, provide an overview of current domestic fuelwood harvest drain and corresponding policy, providing comparisons to other provincial and national jurisdictions. This assessment should be carried out with the view to maximizing social and economic benefits from the forest resource of the Province.

- Identify shrinking land base issues relating to non-timber forest usage and discuss ways to minimize long term wood supply impacts.

- Analysis of forest operators providing funds to Municipalities for the right to harvest timber within the town's water supply.

- Analysis of current cutting permitting allocation policy and legislation with recommendations to a permitting structure that supports the long-term viability of the forest sector.

- Identify forest management and administration costs by industrial users and ways to mitigate these costs.

- Identify Government/Industry administration duplication or efficiency issues affecting resource availability and costs that should be addressed through Government's Red Tape Initiative or similar type initiative.

- Identify any synergies that might become apparent at the harvesting level.

Issue 4 - Forest Land Tenure

- Provide an overview of the Province's current tenure system and its potential impact on past and future industry development.

- Provide comparisons to other eastern Canadian models.

Issue 5 - Markets

- Provide an overview of current and emerging markets for products compatible with the resource.

- Provide market forecasts for newsprint, lumber, and solid wood products in North America, Latin America, Europe and Asia.

- Identify any niche markets for traditional and value added products that might be compatible with the Province's industry.

- Evaluate the impact on competitiveness of transportation costs with respect to current and emerging markets. Provide an overview of potential competitive advantages related to rising transportation costs linked to projected higher energy demand.

- If pulpchip markets are negatively affected due to further downturn in the Industry, what markets/opportunities are available for down fall products from the sawmill sector.

Issue 6 - Technology

- Identify any new or emerging technologies that might be compatible with the Provinces resource and industry configuration.

- Make recommendations as to the most appropriate technology to effectively process the timber supply identified in Issue 3.
- Based on the best advice available, discuss energy opportunities for forest biomass.

Issue 7 - Non-Timber and Alternate Forest Use

- Review current non-timber and alternate forest use policy in the Province. Discuss how this policy either impedes and promotes development of non-timber products including a summary of non-timber and alternate forest use policy in other Canadian provinces.

Issue 8 - SWOT Analysis

- Provide a SWOT analysis for each of the following:
    - newsprint mills
    - larger sawmills
    - other sawmill groups
    - traditional markets
- government policy/regulation
- Provide a SWOT analysis for each promising identified opportunity.

Issue 9 - Strategic Plan

- Outline a recommended strategic approach for Government to take in maximizing the sustainable benefits to the citizens of the Province from our forest resource.

- Based on emerging markets and global trends, resource suitability, rising energy and related transportation costs, determine the best arrangement of the forest industry in the Province. Discuss how the Industry should be aligned to effectively utilize the forest resource over the next 20 years and beyond.

- In consideration of the scale of the forest products industry, discuss synergies that might exist in cooperative ventures.

EXPECTED COMPLETION DATE

The completion date for the study will be 24 weeks from the time the contract has been awarded to the successful proponent.

REPORTING REQUIREMENT

The reporting procedure for the study will be as follows:

- progress report end of week 10
- first draft end of week 16
- second draft end of week 20
- final draft and presentation end of week 24

Any delay in submission of the final report beyond 1 (one) week , unless written notice is given and approved by the Project Steering Committee, will result in a reduction of 2% of the total project amount, and an additional 1% for every week thereafter.

PROPOSAL CONTENT

Proposal content does not have to be strictly limited to the issues outlined in the terms of reference. Proposals containing modified or expanded terms of reference will be considered.