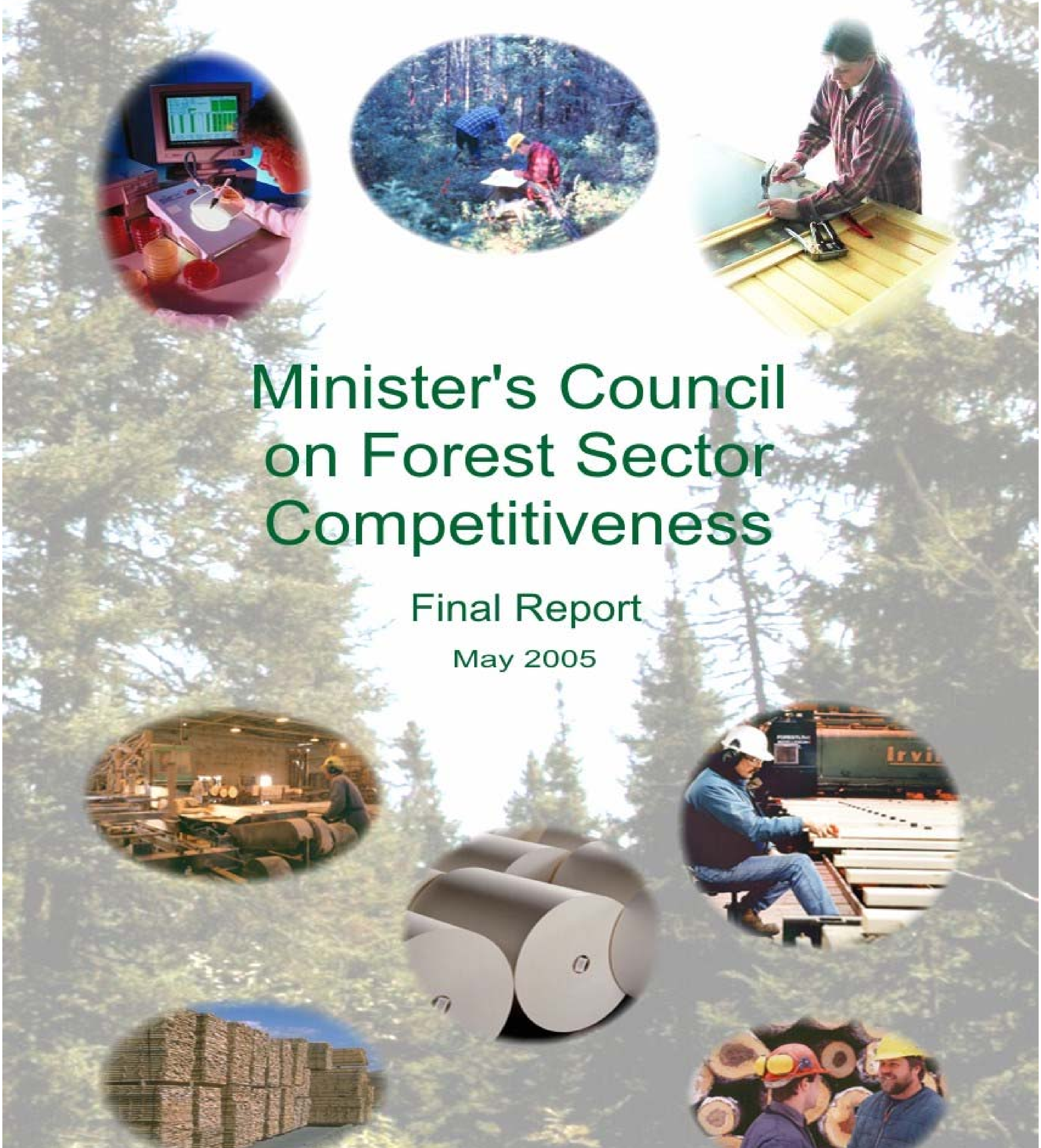

Minister's Council on Forest Sector Competitiveness

Final Report

May 2005

The Honourable David Ramsay
Minister of Natural Resources
Room 6630, Whitney Block
99 Wellesley Street West
Toronto ON M7A 1W3

May 27, 2005

Dear Minister Ramsay:

In November 2004, you appointed the undersigned to serve on the Minister's Council on Forest Sector Competitiveness. In requesting our participation on the Council, you pointed to the serious challenges facing the province's forest industry and the need to identify measures to be taken in order to avert significant adverse economic and social consequences.

Our Council has met on five occasions and also engaged in active communications beyond the face to face meetings. Collectively, we have worked hard to provide you and all the key stakeholders with our recommendations on how best to restore the sector's competitiveness and long term viability.

We recognize, as do you, that while the problems confronting the industry threaten its very survival, they are not insurmountable. Easy solutions rarely solve difficult complex problems. We have, following considerable discussion and evaluation developed a set of twenty-six recommendations. We believe that if timely action is taken on these recommendations, the environment in which the industry is operating will improve and the forest economy's downward spiral will reverse course.

Our recommendations are attached hereto in the Minister's Council on Forest Sector Competitiveness – Final Report.

Minister, as a Council we applaud your initiative to establish the Council and we thank you for the opportunity you have afforded this group to contribute to the re-vitalization of industry, its workers and dependent communities.

You will note from the report our commitment through a committee of Council members to continue to support the implementation of our recommendations.

Sincerely,

Tim Millard
Executive Director
Minister's Council on Forest Sector Competitiveness

Ken Buchanan
Buchanan Forest Products Ltd.

Don Campbell, on behalf of
Arnold Nemirow
Bowater Inc.

Mayor David Canfield
The City of Kenora

Mayor Lynn Peterson
The City of Thunder Bay

Frank Dottori
Tembec Industries Inc.

Norman Rivard
Industrial Wood and Allied Workers of Canada

Tim Gray
Canadian Parks and Wilderness Society

Don Roberts
CIBC World Markets Inc.

**please see attached letter*
James Kroeker
Wabigoon Lake Ojibway First Nation

Bernard Routhier
Kruger Inc.

Cecil Makowski
Communications, Energy and
Paperworkers Union

Raymond Royer
Domtar Inc.

Geoff Meakin
Meakin Forest Enterprises Ltd.

Mayor Roger Sigouin
The Town of Hearst

Chief Roy Michano
Ojibways of the Pic River First Nation

Dr. Gordon Surgeoner
Ontario Agri-Food Technologies

Peter Woodbridge
Woodbridge Associates Inc.

Executive Summary

The forest industry in Ontario is in crisis. Action is urgently required to prevent predictable and irreversible consequences for communities, businesses and workers. The forest industry is the economic bedrock of Northern Ontario, but the crisis in the industry threatens the prosperity of all of Ontario. After the auto sector, forest products are the single largest contributor to the provincial balance of trade.

There are a number of global pressures facing the industry, many of which cannot be controlled by Ontario's government or industry. However, Ontario does have the capacity to respond to domestic issues with appropriate public policy, and it is imperative to act as quickly as possible.

Some 12 mills across Northern Ontario have been identified at risk. The loss of these production facilities would reduce employment in the north by 7,500 direct jobs and 17,500 indirect and induced jobs. Southern Ontario would lose an additional 13,000 indirect jobs. The fiscal consequences for the three levels of government would be significant, as follows:

Annual Revenue Loss to the Federal government:	$555 million
Annual Revenue Loss to the Ontario government:	$340 million
Annual Revenue Loss to Municipal governments:	$ 75 million

While it is not likely that all 12 mills would permanently close in the near term, it is clear that without changed circumstances, some portion of the 12 will be lost. Five mills are viewed as high risk and widely recognized as vulnerable in the months ahead. These affect 2,200 direct jobs and an additional 8,900 indirect and induced jobs province-wide. The annual fiscal revenue loss under this scenario remains significant.

Annual Revenue Loss to the Federal government:	$160 million
Annual Revenue Loss to the Ontario government:	$100 million
Annual Revenue Loss to Municipal governments:	$ 22 million

Northern Ontario communities have already been battered by mill closures. A total of 2,200 direct jobs have been lost over the past two years. Further mill closures will be economically devastating on top of the losses to date.

The Council challenges all levels of government to seriously examine measures to assist in the restoration of the industry's competitiveness not simply to prevent revenue losses in their own treasuries, but to avoid significant further damage to the future of many Northern Ontario communities and businesses that are central to the society and economy of almost 80 percent of the geographical area of the province.

The Council on Forest Sector Competitiveness has identified very real prospects for growth, diversification and prosperity for the industry in Ontario. It has identified the issues standing in the way of those prospects. It has identified feasible solutions and has developed a compelling business case for public policy initiatives to realize the immense benefits that can flow to all Ontarians through investments in the forest industry.

The Council is urging swift action in the following areas:

Wood Supply:

Because the availability of wood for industry is ambiguous, companies and their investors cannot be confident of a continuing supply of raw material. To create greater certainty about wood supply, Ontario must appoint an independent Chief Forester, advising the Minister of Natural Resources, to:

- carry out an immediate review of the existing forest inventory with a focus on its accuracy, completeness and currency;
- develop and set of effective standards to ensure consistency and reliability of the forest inventory;
- review the models and tables employed in the determination of available wood supply and establish standards which give rise to confidence in the volumes of wood supply determined; and,
- review the adequacy of science employed in the development, implementation and application of forest management guidelines.

Delivered Wood Costs:

Delivered wood costs in general are higher in Ontario than in many competing jurisdictions. These costs must be brought into line with the global average. The Council has identified several initiatives, including:

- In recent years, the costs of road building and maintenance were transferred to the industry. These roads have multiple users, but a single payer. The Province must assume an appropriate share of costs (100% of primary road costs and 50% of secondary road costs).
- A number of regulatory processes are causing unnecessary delays and barriers. A Process Streamlining Task Force must be appointed immediately to review issues that have been identified and government should act to resolve them.

Energy:

The industry is a major energy consumer. Rising energy costs are killing forestry operations for which electricity is more than a third of operating costs. The Province must remove barriers to creation of new supply, including co-generation, and create the conditions for a reliable energy supply at reasonable prices.

Climate for Investment:

Governments must directly contribute to improving the business climate with financial incentives provided through a Business Climate Competitiveness Fund. The Fund should be available for value-added facilities, worker training and transition, First Nations capacity-building, green energy alternatives, upgrading existing facilities, and community diversification initiatives. Governments should also help to promote Ontario forest products at home and abroad, and increase market access for Ontario-based exports.

The Council has made the case for government investment. Ontario cannot afford to stand by and passively watch the primary forest industry and the communities it supports sink into decline. The potential for future private sector investment and growth in secondary manufacturing is high, but it depends on a viable primary industry.

The Council urges the Minister to implement this report to immediately improve the competitiveness of Ontario's forest industry, and to ensure the long-term sustainability of the sector.

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1 Introduction

In November, 2004, Hon. David Ramsay, Ontario Minister of Natural Resources, appointed the Minister's Council on Forest Sector Competitiveness to bring together industry, labour, communities and government to develop recommendations to ensure a secure future for the forest products industry, communities and workers.

The Council's membership includes municipal leaders, forest industry representatives, First Nations representatives, labour delegates, environmental delegates, and independent experts.

At the inaugural meeting of the Council on January 11, 2005, the Minister emphasized the challenges and opportunities facing the forest sector and the need for all stakeholders to be involved in solutions. The Council was asked to submit a report by the spring of 2005.

The Council's mandate was broad, including consideration of a range of issues in the forest and in the marketplace. Because the Council had a full agenda of issues to consider and a limited timeframe, task groups were convened to zero in on specific policy areas: energy policy, front-line regulatory approval of forestry operations, transportation and aggregates. Their reports were brought to the Council for discussion.

In March, 2005, the Council submitted an Interim Report, at the request of the Minister, who asked for recommendations that could be implemented relatively quickly to respond to urgent pressures facing the industry and all those who depend upon it. Among the recommendations, the Interim Report urged the Ontario government to establish a fund to provide incentives for growth and innovation through investment in the forest sector and its workers and in the economic sustainability of communities.

Members of the Council have worked by consensus to develop a set of recommendations acceptable to all the interests represented around the table – which speaks to the commitment of all those concerned to a healthy and sustainable forest industry, a healthy and sustainable forest resource, and healthy and sustainable forest-reliant communities.

An inter-ministerial committee of Assistant Deputy Ministers has attended meetings and supported the work of the Council. The Ministries are: Natural Resources, Finance, Energy, Northern Development and Mines, Economic Development and Trade, and Environment.

This Final Report provides a brief overview of the competitiveness challenge, which is driving the need for action. The report then discusses each of the major areas for which the Council has developed recommendations. This report incorporates the recommendations from the Interim Report.

2 The Competitiveness Challenge

The forest sector contributes to the wealth of Ontario and the well-being of its communities. It supports 275,000 jobs for Ontarians, directly and indirectly. In 2003, the forest sector generated $19 billion in sales, including exports of $8.5 billion. After the auto sector, it is the single largest contributor to the provincial balance of trade.

The forest industry is the economic bedrock of Northern Ontario. There are more than 40 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 industry is the only major employer.

The sector provided $4.8 billion in total labour income in 2003, with an average wage, including benefits, of $68,000 for some 85,000 people working directly in the industry. These are *good* jobs for Ontarians. The sector also pays all levels of government $2.3 billion in annual tax revenues that support the public services that Ontarians value and the public infrastructure that helps make our communities good places in which to live.

The primary forest-based industries in Ontario produce lumber, pulp, paper, veneer and composite panels and indirectly support numerous secondary value-added manufacturing industries. The industry consumes approximately 22 million cubic metres of wood fibre from Crown land annually and pays on average $240 million in Crown charges for access to Crown timber. Approximately three million cubic metres more is harvested from private land.

In a report in 1993, entitled *Hard Choices – Bright Prospects,* the Steering Committee of the Forest Industry Action Group described an industry that directly employed about 64,000 workers in 1991 and was generating sales of approximately $9 billion, with exports of $2.4 billion. At the time, Ontario was suffering from the effects of a deep recession, and there were short-term challenges, particularly related to the investment climate, globalization and technological change. But the Steering Committee, which had senior industry, labour and government members, saw strong growth potential for the future, particularly based on robust wood supply and growing demand for forest products.

The sector has clearly capitalized on that growth potential, more than doubling sales by 2003 and increasing total employment. New opportunities were developed from more efficient use of available fibre, application of new technologies, harvesting of birch and poplar, greater utilization of fibre that had previously been left behind in the woods, and expansion of secondary manufacturing (e.g. oriented strand board facilities) and value-added products (e.g. specialty papers).

There was also a breakthrough during this period in relationships among industry, government and the conservation movement to end the so-called “war in the woods”. In 1999, the Ontario Forest Accord was signed by representatives of industry, conservation organizations and government, enabling a significant expansion of parks and protected areas under Ontario’s Living Legacy. The Accord made a number of commitments to industry, including enhanced forest productivity, improved utilization of Crown timber, mitigation measures to offset wood supply reductions from the Living Legacy, and review of the forest management guidelines.

While the Forest Industry Action Group was bullish about growth potential in 1993, it also expressed concerns about maintaining the "competitive fundamentals" of the industry over time, including:

- an assured wood supply;
- competitive delivered cost of wood;
- competitive energy costs;
- competitive unit costs of production;
- public policy based on well-accepted science and socio-economic analysis;
- a positive investment climate; and,
- continuing modernization, both of industrial infrastructure and labour-management government relations.

While action was taken by industry and government on some issues raised by the Action Group – such as new product development, legislative reform, a provincial wood supply strategy, and forest research partnerships – there remain serious issues related to the competitive fundamentals in 2005. In fact, so much has changed in the competitive environment in which the industry operates that the sector's competitiveness is more at risk than ever.

In a very short period, the industry has gone from being highly competitive to a position of decline in profits, jobs and capacity. In the last two years, industry profits have languished. Just since December, 2004, there have been mill closures announced at two pulp and paper mills, one veneer mill, one particleboard mill, four sawmills in Ontario, and one company has stated its intention to sell a paper mill.

The forest industry has been a mainstay of the Ontario economy for almost two centuries. There are still "bright prospects" for the sector in this new century. It has the potential to continue as a major engine of wealth and job creation if action is taken to overcome or reduce key barriers to competitiveness, particularly in the fundamentals – wood supply, delivered wood costs, energy, the investment climate for modernization and value-added product development, and cooperative ways of resolving problems.

Ontario needs a strong and viable industry to capitalize on the emerging opportunities that will fuel growth and prosperity in this sector for the future.

2.1 The Global Competitive Environment

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

U.S. Dollar and Demand

A weak U.S. dollar is driving up the Canadian dollar, making Ontario's exports more expensive, and therefore more vulnerable to foreign competitors. Because of its size and proximity, the United States is the main market for Ontario wood and paper products. It is estimated that every cent of increase in the Canadian dollar costs the Ontario forest industry approximately $80 million annually.

Many analysts are forecasting that the U.S. dollar will not be strengthening any time soon. The U.S. current account deficit is still expanding and there are indications that U.S. economic growth will slow in the near term. It is forecast that tighter monetary policy, higher energy prices and a weakening consumer market south of the border will affect exports from Canada.

Demand for lumber in the United States was at a record level in 2004, driven by a buoyant housing market and supported by low interest rates. But demand is expected to weaken if interest rates rise in the United States, while capacity in lumber mills in North America is expected to continue to exceed demand.

The increasing use of electronic communication is affecting the paper markets. U.S. demand for white or fine paper is in decline. Newsprint has also been affected by the increasing reliance on electronic media sources, reducing newspaper demand for newsprint.

Softwood Lumber Dispute

The softwood lumber dispute with the United States continues to have an adverse impact on Canadian lumber producers and those who depend on sawmill byproducts for their raw materials. Duties collected since 2002 amount to nearly $4.3 billion in Canadian dollars. This dispute creates continuing uncertainty for one of Ontario's major exports.

This protracted dispute began in 1982 when the Coalition for Fair Lumber Imports in the United States filed a petition with the U.S. Commerce Department on behalf of the American lumber industry, alleging Canadian softwood was subsidized by federal and provincial governments. The petition was denied, but a new one was filed in 1985, based on a change in U.S. law. This time, the U.S. Commerce Department found in favour of U.S. lumber interests in a preliminary decision.

On the day that a final decision was due in 1986, Canada and the United States reached a Memorandum of Agreement (MOU) settling the dispute, without prejudice to the position of either government. Canada agreed to add a 15% *ad valorem* tax on its exports to the United States. The export tax was removed when provincial governments agreed to raise fees (stumpage) for use of timber on Crown lands. The MOU was terminated by Canada in 1991 on the basis that fees had been increased, affecting nearly all softwood lumber exports.

Under the Canada-U.S. Free Trade Agreement and subsequently the North American Free Trade Agreement (NAFTA), a bi-national panel review mechanism was put in place for unfair trade remedy cases. The Commerce Department reinitiated a countervailing duty investigation, and determined that Canadian exports were subsidized. A series of appeals ensued, culminating in an Extraordinary Challenge brought by the United States. The challenge was lost and the countervailing duty order was dismissed.

In 1996, a softwood lumber agreement was reached between the two nations, this time for five years. The United States agreed not to initiate trade actions and Canada agreed to reduce lumber exports to the United States. Two days after the expiry of that agreement, the U.S. industry filed a new countervailing duty petition, this time accompanied by an anti-dumping petition, claiming that Canadian lumber was being sold below its fair market value. The U.S. Department of Commerce determined that Canada was dumping lumber and subsidizing the industry. The U.S. International Trade Commission found that Canadian lumber was threatening injury to the U.S. industry. These findings led to the imposition in May, 2002 of duties of 27% on Canadian softwood crossing the border.

Canada, the provinces, and the lumber industry, appealed all three of the U.S. decisions (dumping, subsidy and injury), both under the provisions of NAFTA and at the World Trade Organization (WTO). NAFTA panels have the authority of U.S. courts and their decisions are retroactive. The United States must respond to a NAFTA ruling. WTO decisions are not retroactive, and also have no effect until adopted by the United States.

On August 31, 2004, the NAFTA Injury Panel issued a final remand to the U.S. International Trade Commission (ITC) instructing the ITC to revoke its earlier finding of threat of injury and replace it with a finding of no threat of injury within 10 days. A finding of “no injury” renders the entire U.S. softwood lumber dumping and countervail orders invalid. This ruling was by far the most powerful in a series of WTO and NAFTA decisions favouring Canada. It left the United States with only two options: terminate the imposition of duties and return all amounts collected to date; or exercise one final course of appeal, an Extraordinary Challenge.

The United States officially requested an Extraordinary Challenge on November 24, 2004. It is anticipated that this process will be resolved sometime in the fall of 2005. In the meantime, there are concerns that the U.S. Congress will liquidate the billions of dollars in duties and distribute them to the companies that launched the latest complaint.

While Canada, the industry, and the provinces have successfully used the dispute resolution process over and over again to challenge the U.S. case and its imposition of duties, most often, Canada has succumbed to the unbearable financial pressures of these protected processes and has negotiated a settlement.

Global Competition

The United States is Canada’s main market for wood products. Despite the protectionist leanings evident in the softwood lumber dispute, the United States is pursuing trade liberalization around the world, including negotiations on a Free Trade Agreement of the Americas (FTAA) and a proposal at the WTO to eliminate all global tariffs by 2015.

As trade barriers are reduced, new low-cost competitors in forest products are entering the global market, particularly from Latin America and the former Soviet bloc. They have an increasing supply of wood fibre and they have low 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 Brazil, for example, the rotation periods for some species are 50 to 80 years shorter than trees species that grow and mature in the climate of Northern Ontario. Uruguay, previously a relatively small nation in terms of forestry, planted 42,000 to 60,000 hectares a year between 1993 and 2000. By comparison, Ontario's average annual harvest is approximately 210,000 hectares. In addition, new facilities that are being built to handle the new supply under development in Latin American plantations will generally be more cost-effective than older plants elsewhere.

The use of plantations is being marketed as an environmental benefit because natural forests are left undisturbed. In Ontario, some major forest companies are using forest certification as a marketing advantage. Major U.S. office and home improvement retailers are committed to buying certified wood products, which mean that the products come from forests that are being managed sustainably. The Ontario government is requiring all public forests to be certified by 2007.

When the Soviet Union collapsed, the economies of the newly created nations went through a very difficult transition to a market economy. As these economies virtually halted and restarted, timber production plummeted. Resource Information Systems Inc. (RISI) estimated that harvest levels in the late 1980s were 577 million cubic metres per year, compared to about 200 million cubic metres per year in the late 1990s. RISI has predicted that timber production for the former Soviet Bloc will increase to 320 million cubic metres by 2024. Russia has begun shipping lumber into the eastern United States via European sawmills. These shipments are likely to expand, putting pressure on Canada's traditional share of the U.S. lumber market.

Competition is also increasing in finished products. U.S. imports of furniture made in China increased more than 30% per year for six straight years from 1995. Chinese manufacturers operate with technology and machinery more advanced than that found in the average U.S. furniture factory. They are no longer limited to the low-end of the market. Between 1994 and 2000, Canada ranked first in exports of furniture to the United States. In 2001, China surpassed Canada.

2.2 The Domestic Competitive Environment

While the global challenges are many, Ontario has strengths and opportunities on which to build. The industry is well-developed and well-integrated and has a well-educated workforce. The Ontario forest industry is a leader in sustainable forest management. There is an opportunity to expand market share by promoting Ontario as a supplier of products from a renewable resource by an industry that uses environmentally sound forestry practices.

A number of domestic issues are having an impact on the competitiveness of the forest sector. Industry restructuring and opportunities in value-added manufacturing are changing the face of the sector in Ontario. Cost pressures that are undermining competitiveness include: wood supply, increases in the costs of delivering wood to the mills, rising energy costs and the cumulative impact of all these domestic and global factors on the investment climate.

Wood Supply

Inventory Issues

There is concern that, for a number of reasons, estimates of what is out there in the forest, by region, volume and species are based on outdated and/or inaccurate information. Thirty-five million hectares of Crown forest are classified as production forest to be managed for a full range of values and benefits, including timber production. This is a huge area to inventory. Much of the provincial Forest Resource Inventory (FRI) is based on interpretation of aerial photographs of tree species, stand composition and height at a certain point in time. Computerized modelling is used to predict growth and yield of the forest over time.

Until relatively recently, the inventory was the responsibility of the Ministry of Natural Resources (MNR). In 1995, the government began the transfer of this responsibility to the forest industry as part of realignment of public services. Forest resource inventories are now undertaken on nearly 50 different management units in Ontario by different contractors to different forest products companies.

Forest Management Plans are prepared by industry and approved by MNR. Some forest management units are relying on inventory information that is up to 20 years old. The forecast volume of trees may not be there on the ground when industry goes to harvest it. Stands of trees may have declined since the inventory, for example.

Past practice, encouraged by MNR, has been to cut the older forest before the quality of the wood deteriorates from age, insects, blowdown, etc. But that means that the yield per hectare in Ontario’s forests is declining because much of the older forest, with its larger trees, has been harvested. Regeneration is taking place, but it is not a rapid process in this climate.

MNR recognizes that some mills are suffering shortages of supply of the species they need, and many mills have limited ability to substitute different tree species in manufacturing their product. For example, supply may differ between poplar oriented strand board logs and poplar veneer logs or conifer sawlogs vs. conifer pulpwood.

The Ministry’s regional-scale wood supply information, which is based mainly on data from Forest Management Plans, indicates that there is sufficient fibre overall for industry. However, representatives of industry contest MNR’s conclusion and provide examples, mostly in the context of discrepancies in wood volume at the level of tree stands, as evidence of a shortfall.

Availability and Utilization Issues

There is more to this issue than the inventory of the forest. The amount of wood available for harvest is also affected by the application of forest management guidelines that are intended to protect non-timber values in the forest, such as wildlife habitat, cultural heritage sites or remote tourism features.

Where such values are identified, application of the guidelines can have the effect of removing potential wood volume from harvesting. Application of the guidelines may also result in isolating wood for harvesting, making it difficult to access. Distances to available wood may make a forest stand uneconomic to bring in equipment and workers to cut. Some guidelines prohibit activity in the vicinity of certain wildlife habitat during periods of the year.

In 1999, Ontario significantly expanded parks and protected areas through Ontario's Living Legacy. Under the Ontario Forest Accord, which was signed by representatives of industry, conservation groups and the government, the loss of industrial supply was to be fully mitigated. The Ontario Forest Accord Advisory Board (OFAAB) stated in its final report in 2002, that the mitigation to offset lost industrial supply caused by the creation of the new parks and protected areas was successfully completed.

However, some members of industry are expressing concern about the effects on industrial activity in adjacent areas. There have been suggestions from industry that the wood volume calculated from the Available Harvest Area is being over-estimated by MNR due to the use of non-spatial forest management models, which generally fail to account for constraints on harvesting from adjacent areas.

One of the items that was agreed to under the Forest Accord in 1999 (Article 27) was a consolidation and streamlining of the forest management guidelines. There are 36 of them. The process of consolidation is proceeding, but at a pace that is frustrating industry. Concern was raised at the Council that new science, that could mitigate some of the impacts on wood availability for harvesting, is not being applied because MNR is waiting for the new landscape-level guideline to be ready.

Information on mill utilization levels is also contested. There have been mill capacity increases in recent years that may not be accounted for in wood supply estimates. Other constraints may involve pricing disputes between companies for secondary product harvesting for their mills.

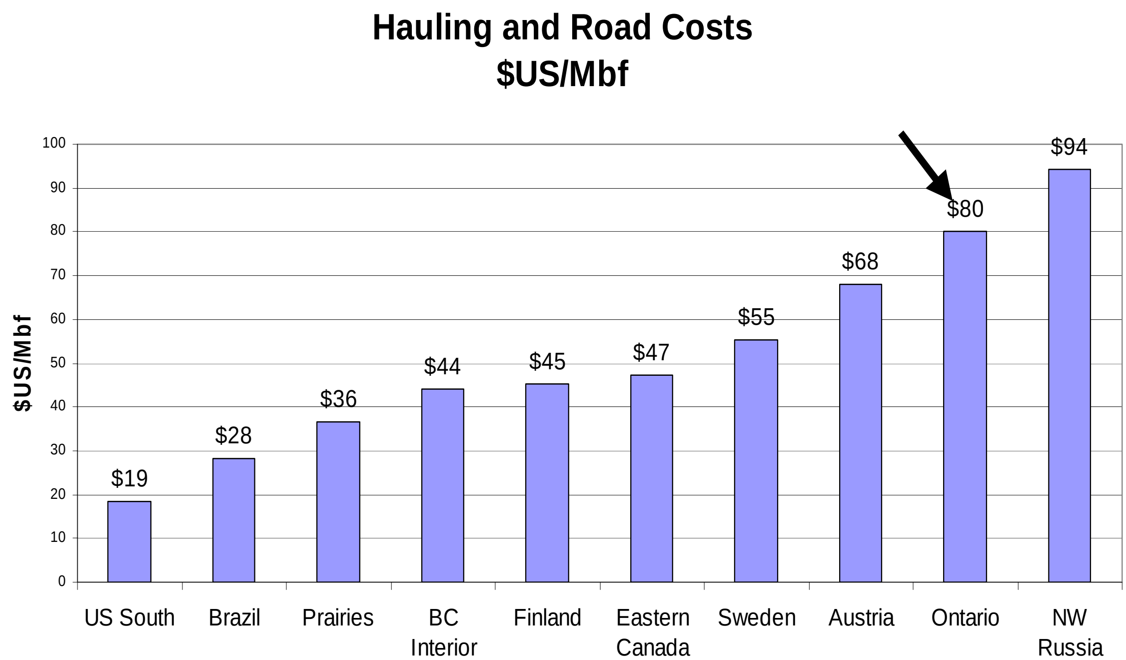
Delivered Wood Costs

Ontario's delivered wood costs have gone – in the space of only three years – from being among the lowest in the world among competing regions to among the highest. The average world cost per cubic metre of wood delivered to the mill is estimated to be $35 compared to Ontario's average of $55.

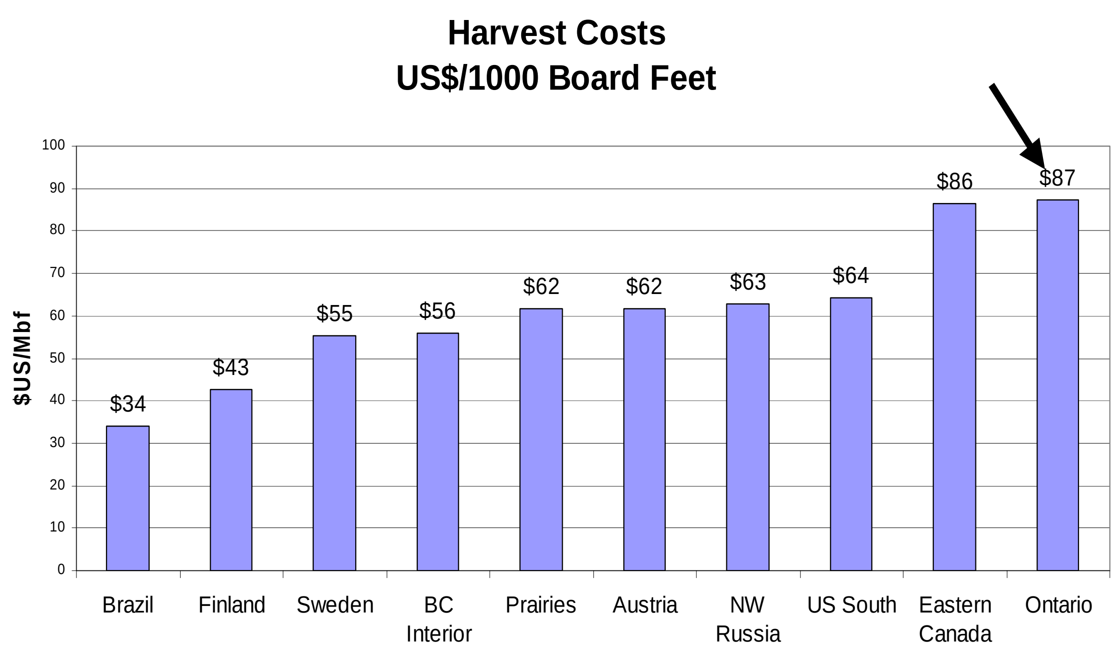
The forest industry in Ontario is having difficulty maintaining the viability of existing investment and attracting new investment because its costs are so out of line with its major competitors. Ensuring that there is a competitive cost structure today is an important first step in ensuring that there will be a sustainable industry for future capital investment.

Delivered wood costs include those costs incurred by industry bringing wood from the forest to the mill. Components of those costs include building and maintenance of roads, hauling costs, and harvest costs.

The following graphs illustrate Ontario's position vis-à-vis key competing jurisdictions.



From presentation: "Minister's Council Issues: Ontario Forest Sector Competitiveness"; March 8, 2005. Paul Krabbe, Tembec



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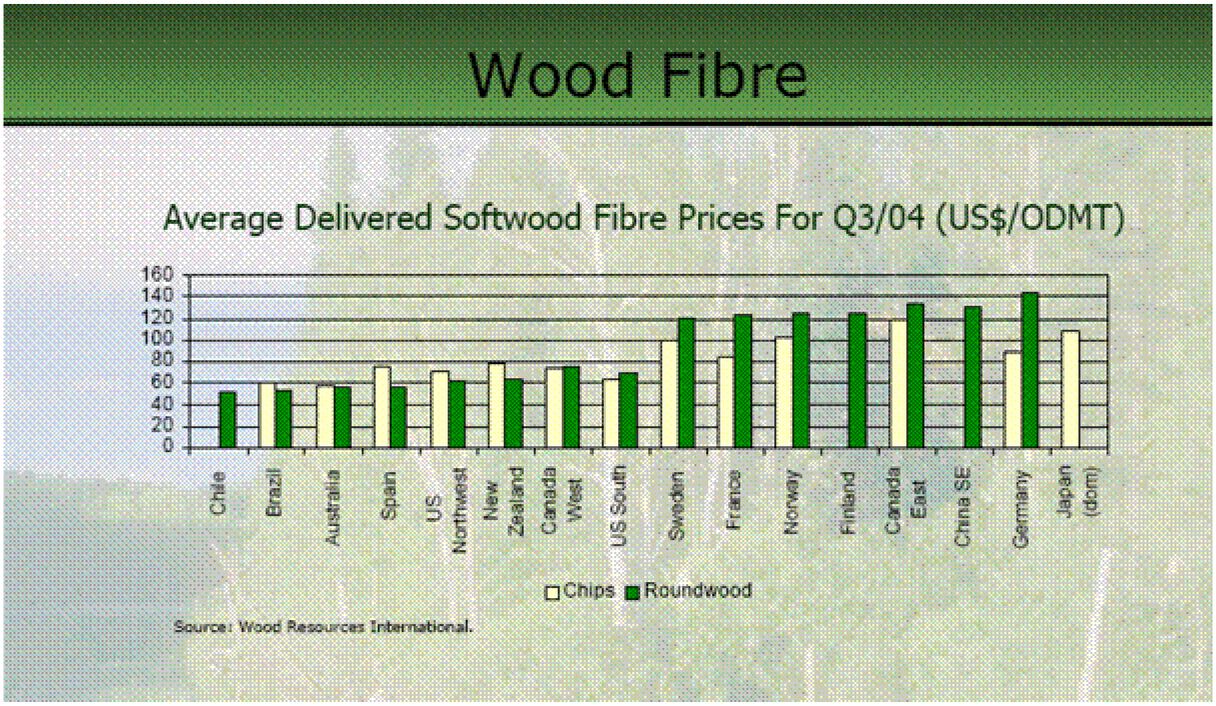


Provided by Don Roberts, CIBC World Markets, March 8, 2005; some data provided by Wood Resources International.

Energy Costs

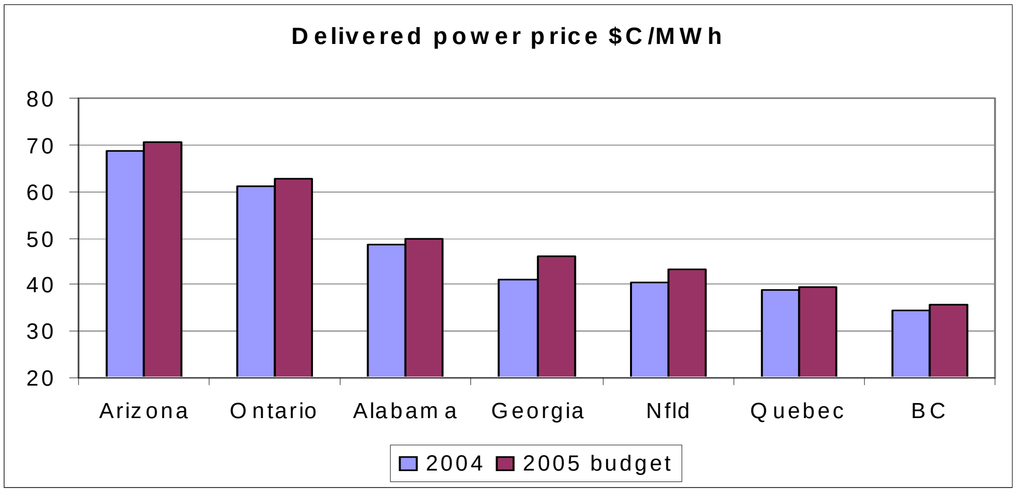
Between 2000 and 2004 some large industries experienced electricity cost increases of an estimated 30% as previous "special rates" were phased out, and all industrial users moved to full market pricing. The forest products industry is the largest user of electricity in the province's manufacturing sector. Ten of the 20 largest electricity purchasing facilities in Ontario are forest products facilities.

It is estimated that the all-in cost of electricity, including debt recovery, transmission costs etc., is higher than competitors in the rest of Canada and also in the United States. Compared to competitors in paper products located in U.S. southern states, Ontario's energy costs are 40-50% higher.

Different parts of the industry are affected differently. For example, for facilities producing newsprint from thermo-mechanical pulp, the cost of energy can be up to one third of total operating costs. For these operations, electricity costs are a major factor in making Ontario producers uncompetitive.

Other parts of the industry (kraft pulp, fine paper, boxboard, solid wood, veneer, wood composites etc.) are not as hard hit because power costs are a lower percentage of total operating costs, but they are still a significant contributing factor to the competitiveness gap. Sawmills and smaller paper mills are more likely to be connected through a local distribution system and face higher delivery costs.

Power price in different jurisdictions



From the Energy Task Group final report "Revitalizing the Ontario Forest Products Sector – The Critical Role of Electricity Policy", March 7, 2005

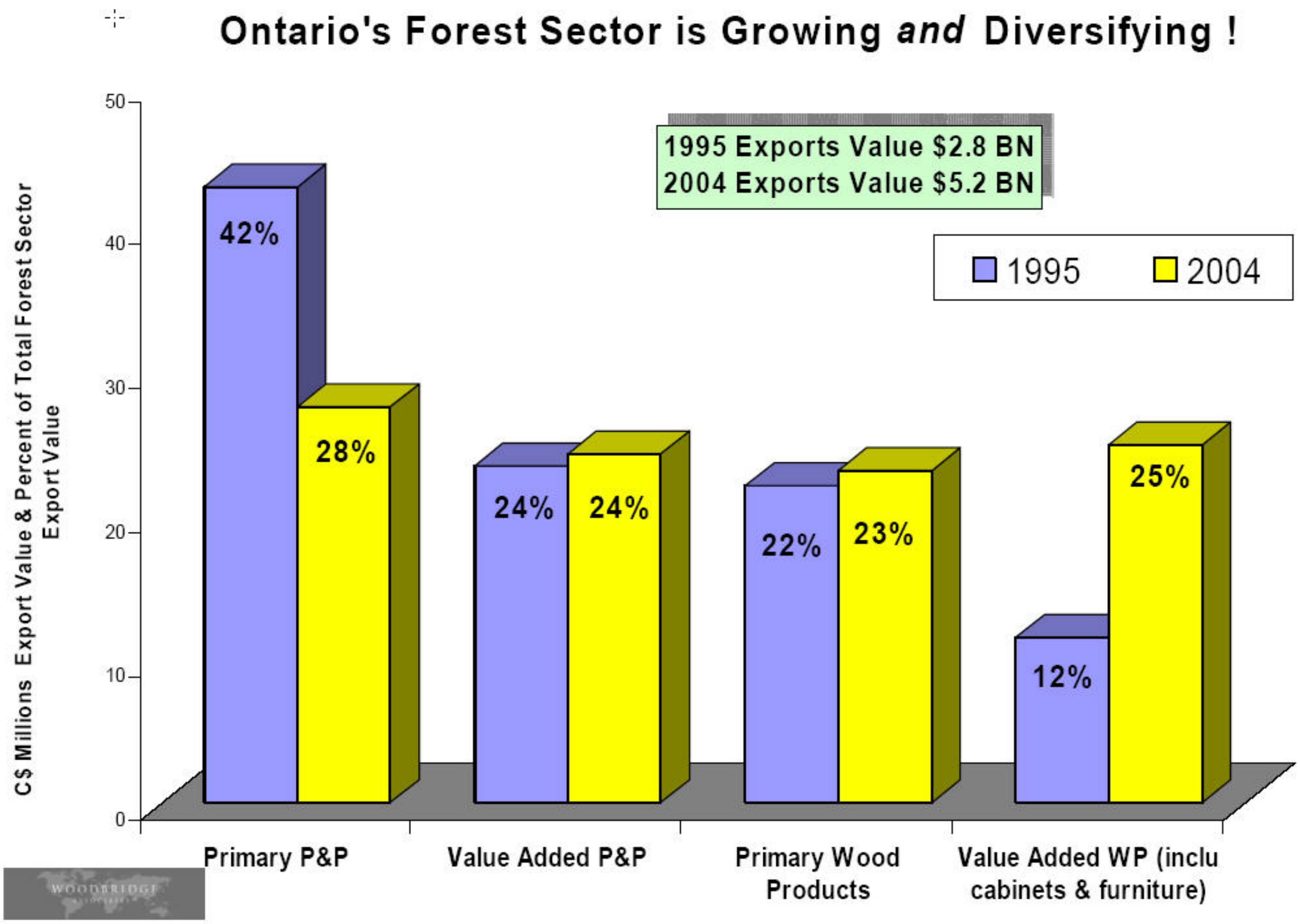
In addition, if Ontario pulp mills curtail production costs because of electricity or other costs, the market for wood chips becomes smaller, decreasing revenue sources for sawmills and making them less competitive.

Climate for Investment

Global industry consolidation is underway. Some analysts predict that the eventual result will be a handful of world forest sector giants. The Ontario industry has already undergone considerable restructuring. In 1990-91, 24 companies processed 90% of the wood harvested from provincial Crown forests. Today, eight major companies use approximately 90% of the fibre harvested from Ontario's Crown lands.

The industry also expanded in the 1990s. Three new oriented strand board mills and a timber strand engineered lumber mill, a poplar sawmill, four softwood sawmills, two new medium-density fibre plants have been built in Ontario since the early 1990s, in addition to several expansions at existing plants.

Ontario's forest sector is diversifying. In 2004, Ontario's value-added wood products almost matched primary wood products in value of exports. Value-added grades of paper and paperboard, for example, now account for 47% of total pulp and paper exports.



Graph provided by Peter Woodbridge, March 8, 2005 Data source: Statistics Canada/Strategis

Living Legacy Trust studies by Jaakko Poyry and Woodbridge Associates Inc. show that there is long-term growth potential in value-added products. Prefabricated housing is seen as a promising opportunity for Ontario, along with engineered wood products and upgraded lumber products (e.g. finger-joint).

Ontario can take a leadership position in knowledge-based, engineered wood and building systems. However, nurturing this growth potential depends on having a strong and viable primary industry in Ontario.

There are many opportunities for growth and innovation for the Ontario forest sector, but the likelihood of investment that will stimulate growth and innovation is severely curtailed by the lag in industry profits and the uncertainty created by the current uncompetitive cost structures.

Global competition from jurisdictions with new state-of-the-art facilities creates a disadvantage for Ontario industry where it is operating with older facilities and equipment.

Companies have invested hundreds of millions in operational upgrades, new mill capacity and forest management in Ontario. In recent years, however, a significant portion of capital investments in mills has been directed towards meeting changing environmental regulations, rather than maintaining the competitiveness of the facilities.

But obtaining investment to upgrade and modernize is difficult in a period when the profit picture is not good. Conversion to co-generation and implementation of conservation and other energy efficiencies would potentially create major cost-savings in the future, particularly in the paper sector, but those projects require major infusions of capital.

In addition to investment capital, industry could benefit from greater promotion. Industry and governments are working to identify new markets and promote the use of wood and wood products.

The softwood lumber dispute has highlighted how heavily Canada’s industry relies on American markets. The federal government, through Natural Resources Canada, initiated a $35 million “Canada Wood” program in 2002. The main thrust of the program is to increase shipments to other markets, but it also focuses on branding Canada’s wood products internationally and improving market access by addressing issues of building code and product standards in foreign markets.

The Wood WORKS! program is an industry-led initiative of the Canadian Wood Council. In Ontario, the program has successfully promoted expanded use of Ontario’s forest products in the under-developed non-residential building market.

2.3 Social and Economic Impacts

The human impacts of changes in the competitive environment are felt in the communities that depend on the forest sector for their economic viability, many of them in Northern Ontario.

While total employment in the forest sector increased in the 1990s, jobs in different parts of the industry were affected in different ways. Continuing mechanization is generally reducing the number of workers needed for logging per hectare. Automation in sawmills is also decreasing employment per unit of wood.

The recent rash of layoffs and closures, however, is more related to decisions by forest companies operating in Ontario that certain of their operations are simply not competitive in the current environment. Industry points to both global factors and the home-grown cost pressures described above.

When mills close, regardless of the reasons, in small northern or rural communities in central Ontario, 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.

While the Ontario population continues to grow, Northern Ontario actually lost population (about 5%) between 1996 and 2001. Of particular concern for the future is the out-migration of youth who see few opportunities for themselves in the northern economy. While job losses are the dominant issue today, there is a longer-term prospect of skills shortages as highly-trained forest and mill workers retire from the job market, creating demand for new workers who have been trained in the latest technologies.

Both the provincial and federal governments have programs to support adjustment and transition.

For example, the Northern Ontario Heritage Fund Corporation (NOHFC) is directing its efforts toward job creation, youth internships and co-op programs, support for young entrepreneurs, small business energy conservation, emerging technology, and infrastructure and community development. Through the Enterprises North Job Creation Program, the NOHFC provides loans to small and medium-sized businesses for investments that will create new jobs and economic benefits in northern communities.

FedNor, the Federal Economic Development Initiative in Northern Ontario, is emphasizing a community-based approach to building community capacity, helping small businesses grow and encouraging innovation. The Northern Ontario Development Program, for example, works with not-for-profit community development organizations, invests in municipal and economic infrastructure, supports university and non-profit research, and provides business development services such as trade promotion.

Community Futures Development Corporations, funded and administered by FedNor, are arm's length entities that provide access to micro-capital and business services in Northern and rural Ontario. The average loans are in the $35,000 to $40,000 range. There are 27 of these development corporations in the North and 34 in rural southern Ontario.

2.4 First Nations Perspective on Capacity-Building

NOTE: The following section is provided by the First Nations to reflect their particular point of view. While Council agrees it is important that this perspective should be provided to the Minister of Natural Resources, it is also important that the Minister understand that this perspective and the "First Nations Proposed Recommendations" are not recommendations of the full Council.

In 1994, the Timber Class EA was established to provide a new direction for forest management on Crown lands in Ontario. It contained a Condition 77 (now Condition 34) that required the Ministry of Natural Resources to conduct negotiations at the local level with Aboriginal peoples, in order to identify and implement ways of achieving a more equal participation by Aboriginal peoples in the forest industry in the vicinity of their reserve lands. These negotiations were to include, among other things: the provision of job opportunities and income associated with bush and mill operations; the supplying of wood to wood processing facilities such as sawmills in Aboriginal communities; the facilitation of Aboriginal third-party license negotiations; the provision of timber licenses to Aboriginal peoples where un-alienated Crown timber exists in the vicinity of reserves; and the development of programs to provide jobs, training and income for Aboriginal peoples in timber management operations.

Since the inception of the Class EA, little progress has been made in implementing the requirements of Condition 34. For example, in northwestern Ontario (Thunder Bay to the Manitoba border), new projects have generated investments in excess of $1 billion with new round wood supply totaling 2.5 million m^3 annually. During this eleven-year period, First Nations have not achieved "more equal participation" and, in fact, have fallen further behind on a proportional basis.

- *In order to effectively reverse this practice and meet the requirements of Condition 34, MROL (Ministry Recognized Operating Levels) volumes that are attached to mills that shut down, or are downsized, should be made available (through a Request For Proposal process) to projects that are in the local community affected by the shutdown, with first preference being given to First Nation proposals/projects.*

First Nations have also called for assistance in capacity-building so that their communities and workers can benefit from economic development opportunities in forestry. They want to be supported in their efforts to be involved effectively in forest management planning and in responding to requests for consultation on forest-related issues.

First Nations' capacity issues include the need for:
- more technical and professional training and experience in forest management activities;
- employment opportunities for Aboriginal workers;
- greater respect for and use of traditional knowledge held by Aboriginal communities;
- infrastructure development in First Nations forestry organizations to ensure they can manage programs on First Nations land and also participate in provincial Crown land forestry activities;
- increased access to capital for First Nations entrepreneurs for investment in modern harvesting equipment to become more cost-effective; and,
- increased access to timber resources for new economic development ventures by First Nations.

The last point bears elaboration, particularly in relation to value-added projects. Wabigoon Lake Ojibway Nation (WLON) has for many years attempted to participate in significant economic forest-based opportunities. Recently, in response to the closure of a local stud mill, WLON sought to obtain the wood supply (400,000 m^3) for a value-added project that would have generated 50 new direct jobs with significant foreign investment. The Ministry of Natural Resources reallocated this volume to another mill owned by the same company that had shut down the local mill. This was done even though research shows that value-added projects typically create 2.5 to 3 direct jobs per million dollars invested whereas major commodity-based mills create only .5 jobs per million dollars invested.

In order to maximize economic opportunities and improve competitiveness:
- new value-added projects must be given first priority for utilization of wood supply volumes, including MROL volumes from mill closures and downsizing; and,

- wood supply should be reallocated on the basis of best end and highest value use of both timber profiles and volumes.

This would be in keeping with the new Strategic Directions Policy recently issued by the Ontario Ministry of Natural Resources where it is stated in *Strategy 2.3* – “Stimulate Economic Development and Community Stability Particularly in Northern Ontario”

First Nations Proposed Recommendations:

- All MROL volumes that are attached to mills that shut down or downsize be made available (through a Request For Proposals process) to projects that are in the local community affected by the shutdown, with first preference being given to First Nation projects and proposals; and,

- That new value-added projects be given first priority for utilization of wood supply volumes, including MROL volumes from mill closures and downsizing with priority being given to reallocation on the basis of best end use and highest value use of both timber profiles and volumes.

3 Closing the Competitiveness Gap

This section addresses the cost factors that the Minister's Council believes must be addressed in Ontario to remove key barriers to competitiveness in the forest sector. The Council believes that these serious issues can and should be addressed within the context of long-term sustainability of the forest resource. With that in mind, the Council proposes this goal for Ontario:

> Consistent with the requirements of the Crown Forest Sustainability Act, Ontario will strive to ensure a competitive forest products industry that strengthens the economy of the province, while providing stability and employment to the communities within which it operates.

The sub-sections that follow deal with the following issues:
- Wood supply;
- Delivered Wood Costs;
- Energy Costs; and,
- Climate for Investment.

3.1 Wood Supply

Challenge: To ensure there is accurate information on the wood supply, in which all parties have confidence.

No other issue was raised as often around the Council table as wood supply. There are mills, especially those in northwestern Ontario, that are experiencing shortages of the fibre they require to operate at full capacity. There is no disagreement about the difficulty that some mills are having, but there is lack of trust in the overall numbers for current and projected wood supply. The Council believes this matter urgently requires resolution.

There is much debate about the extent of the impact of a number of different factors on the volume of wood available for Ontario mills to produce their forest products. But there is general agreement among Council members about the importance of having accurate data and a transparent process in which everyone can have confidence.

Disagreements over inventory and allocation are not new. The current tightness of supply is exacerbating the problem. When supply was more plentiful, if the trees were smaller than estimated, reducing the yield from part of a management unit, or if a mill used more wood than estimated, for example, the harvesters could usually make up the difference somewhere else. That is seldom an option now.

Timing is also a factor. Because of the age profile of the Crown forest in Ontario, long-term forecasts have shown a dip in supply occurring this century. Industry representatives say, however, that the current supply crunch was not expected at this time and is attributable to factors other than normal growth and decline of the forest.

Over and over again, industry leaders said that they cannot run their mills efficiently without secure supply. Some companies are augmenting their supply of Crown timber with timber from private land and in some cases timber from outside Ontario. Some mills have had shifts reduced and are struggling to find enough fibre to keep running. Other mills have been shut down.

Wood supply is not just an issue for industry and government. Communities and workers have an important stake in the future of these mills and the jobs and revenue that go with them. The public of Ontario also has an interest in sustaining a healthy forest and a healthy forest industry. The location, extent and timing of predictable future shortfalls must be established to allow mills, communities and workers to prepare in advance for the impacts on the local economy.

Strategic Direction: An independent process is required to settle the current debate over supply and oversee the inventory for the future.

RECOMMENDATIONS

Recommendation #1:

The Council recommends that the Ontario government establish an independent position of *Chief Forester* for Ontario, reporting to the Minister of Natural Resources, with the following responsibilities:

- **undertake an immediate audit of projected and actual wood supply based on current forest resources inventory information, reporting to the Minister no later than December 31, 2005;**
- **carry out an immediate review of the existing forest inventory with a focus on its accuracy, completeness and currency;**
- **develop a set of effective standards to ensure consistency and reliability of the forest inventory;**
- **review the models and tables employed in the determination of available wood supply and establish standards which give rise to confidence in the volumes of wood supply determined; and,**
- **review the adequacy of science employed in the development, implementation and application of forest management guidelines.**

Recommendation #2:

The Council recommends that the Ministry of Natural Resources undertake an immediate forest resources inventory, and a full inventory of parks and protected areas, to be completed no later than March 31, 2007.

Notwithstanding concerted effort by the Council, we are unable to gain consensus on one subject. That is the allocation of wood supply when a mill closure occurs.

Our forest industry must be as efficient as possible if it is to compete in the global market and maintain and grow its contribution to the prosperity of the people and communities of Ontario.

It is inevitable in the course of pursuing efficiencies that some companies will have to consolidate operations resulting in the requirement to redirect at least some of their wood supply from inefficient mills to those that are more efficient. Many argue that this process will result in a healthy primary industry which will in turn serve as the backbone for more value-added enterprises dispersed widely and evenly across the province.

It is equally inevitable that this will cause immediate disruption to the affected communities and employees. It is also argued that these communities, First Nations and employees do not believe that the rationalization of the primary industry will return benefits to them in a timely manner. They demand opportunities to mitigate their disadvantages in such circumstances. Most often, the opportunity requested is a locally driven decision-making process resulting in preferential allocation of wood supply to local endeavours with the goal of maintaining or restoring and adding value to their community immediately. First Nations, in particular, argue that this provides the only real chance to secure supplies of wood necessary for their business plans to develop local value-added enterprises and thus share in the prosperity generated by the forest industry. First Nations feel that "next generation value-added projects" servicing export markets will require wood cut to different dimensions than are available from Ontario's primary industry and propose specific policy directions that include initiatives to meet the wood supply needs of "next generation value-added projects". Unions also argue that a public review process for mill closures will result in more favourable outcomes for local communities and employees.

The public forests of Ontario are Crown resources and the *Crown Forest Sustainability Act* is explicit that it is the responsibility and the prerogative of the Provincial Government to allocate this resource and this may not be relinquished.

Minister, in exercising this onerous responsibility, we encourage you to continue to consider all points of view and irrespective of your decision, that you engage communities, First Nations, employees, unions, companies, appropriate cabinet colleagues and federal departments in developing appropriate mitigative measures for those affected.

3.2 Delivered Wood Costs

Challenge: To bring the delivered cost of wood in Ontario into line with the global average.

Delivered wood costs include those costs incurred by industry bringing wood from the forest to the mill. Costs of mill operation, specifically energy costs, are discussed separately. The delivered wood costs are discussed in three areas: road and hauling costs, regulatory issues related to harvesting and transportation, and efficient distribution of wood/wood products.

Roads and Hauling

For the past several years, the forest industry has been bearing the full cost of building and maintaining access roads and bridges in Ontario's Crown forests. These roads and bridges are built to government standards, and are owned by the government. Many of these roads are public access roads, used by tourists, campers, hunters, other industries like hydro and mining, and other users.

Putting the full burden of costs on the forest products industry is inappropriate. Road costs are a major drag on competitiveness and are making harvesting in some areas uneconomic. At a time of supply shortages, this is counter-productive. Hauling and road costs per cubic metre are well above the competition not only in Canada, but also in other jurisdictions such as Finland and Sweden.

Strategic Direction: There should be greater fairness in the way road costs are shared between government and the forest products industry.

Reducing transportation costs in the forest sector is important not only because of rising costs of construction and fuel, but because loggers are having to build roads and haul loads farther because of where the available wood supply is located. The Transportation Task Group argued that the implementation of changes to the forest management guidelines in recent years is indirectly related to higher transportation costs because smaller cut blocks are being made available for harvest. More roads are required and haul distances are increased. It noted that in some instances, industry may opt to use a less efficient route for short-term savings rather than building a new, more direct road for the low volumes associated with a smaller cut block.

RECOMMENDATIONS

Recommendation #3:

The Council recommends that the provincial government assume its proportional share of the costs of building and maintaining the public access road network in provincial Crown forests; and that proportion be defined as 100% of primary road costs, and 50% of secondary road costs.

Cost-sharing of roads and bridges between industry and government would be proportional with usage by the industry and other users on the public access road network. In addition, the Council is proposing a remedy for fuel costs directly related to hauling fibre to the mills to reflect the fact that the forest industry makes a direct contribution to roads that benefit multiple users.

Recommendation #4:

The Council recommends that the forest industry be made eligible for a fuel tax credit amounting to 50% of the provincial fuel taxes paid when hauling fibre from the forest to the mill.

The Council's understanding is that the intention of the fuel tax is to collect funds from road users to cover the costs of maintaining the road network built by government across Ontario. In Northern Ontario, when trucks haul wood from the forest to a mill, a significant portion of the fuel (estimated at 50%) is consumed while driving on access roads which are built and maintained by industry. In southern Ontario, many trucks operate on private lands using self-loading equipment that is powered by fuel subject to the same tax.

The proposed fuel tax credit should be available across the province for all trucks hauling wood from forests to mills. The program should be administered through the operators directly, and does not need to involve the mills.

Regulatory Issues

Challenge: To remove barriers to efficiency, avoid job losses and eliminate unnecessary business costs due to administrative red tape and delays in the approvals process.

The Council does not dispute the need for government regulation and policy to balance the various uses and protect multiple values in the province's Crown forests. What the forest sector is looking for is:

- greater efficiency in the regulatory process;
- faster timelines for decision-making related to approvals; and,
- greater consistency in application of the rules.

Three Task Groups – the Front-Line Approvals Task Group, the Aggregates Task Group, and the Transportation Task Group – identified irritants that members felt could, and should, be resolved by government without compromising protection of the natural environment and other values in the forest.

Strategic Direction: A review of irritants in the system is required to create a more cooperative spirit, to speed up the approvals process and to deal with unduly burdensome requirements.

RECOMMENDATIONS

Transportation

Much of the attention of the Transportation Task Group was directed to the cost burden of transportation. But there were some important regulatory issues that were discussed.

Members were concerned about the slow pace at which proven technologies such as Central Tire Inflation (CTI) and configuration changes are accepted by government regulators.

Indications from many forest industry firms are that it would be possible to increase payloads by using different truck and trailer configurations that are allowed in other jurisdictions, but not in Ontario. Allowing wider axles, or double trailers with the same tire pressure, should not cause further deterioration to the roads than do the restrictive configurations that are currently allowed.

If the provincial government were to move more quickly in adopting new technologies, such as the CTI systems, it would be the first step in encouraging industry to conduct research and development to seek out other advancements. For example, efforts to build lighter trailers that are capable of handling a comparable load to heavier trailers would allow for heavier payloads while maintaining overall weight.

The Task Group also highlighted the issue of the government's plan to implement regulations which would require trucks to use steering axles. The intention is to minimize the damage caused to the roads network from trucks hauling fibre to mills. However, government has not conducted studies that show decreased damage to roads, the safety of the axles, or the maintenance costs of the axles in forest operating conditions.

The Forest Engineering Research Institute of Canada has estimated, based on Quebec testing, that the additional capital costs associated with changing equipment will be approximately $10,000 per trailer and the increase in the annual operating costs will be $11,000. Costs may be much higher, and durability much lower in typical forestry operations in Ontario. Further testing must be done on the safety and durability of the Safe, Productive, Infrastructure Friendly (SPIF) vehicles in harvesting conditions before they are approved for use in Ontario.

The Task Group also proposed that the government develop a measurement system to determine when half-load truck rules should apply, and remove the difficulties in planning road systems between two forests on different time schedules, involving different MNR offices or different Sustainable Forest Licence (SFL) holders.

The impact of wood supply directives on transportation was also raised. In some instances, these directives specify that a given mill is expected to receive fibre from an SFL. The directive may prevent the rationalization of wood flow that would minimize transportation distances for all parties. Further efforts should be made to eliminate these types of situations.

Recommendation #5:

The Council recommends that a Processing Streamlining Task Force be appointed to review guidelines, regulations and policies affecting the forest sector. The Task Force should report by August 10, 2005, on specific areas where unnecessary delays and impediments can be removed. These would include:

- **removing barriers to business in the forest sector;**
- **continuing to actively encourage a rationalization to minimize haul distances;**
- **avoiding the creation of further regulatory costs such as the proposed steering axles regulations;**
- **speeding up the acceptance of proven technologies such as Central Tire Inflation (CTI); and,**
- **reviewing the new Crown Land Bridge Policy in consultation with the forest industry.**

Aggregates

The forest industry is involved in aggregate extraction to build forest access roads. It uses approximately four million tonnes annually. Industry builds the roads to MNR standards. The industry is not in the aggregate business and does not directly profit from the aggregate it uses. Aggregate extraction is a direct cost to the industry in harvesting timber.

Current legislation governing aggregates is under review, and the report of the Aggregates Task Group has been submitted to contribute to that process. The proposals are intended, in the words of the Task Group, to "streamline the process of building and maintaining forest access roads while minimizing costs and reinforcing the industry's commitment to progressive rehabilitation and minimizing environmental impacts related to aggregate extraction."

Recommendation #6:

The Council recommends that the attached report from the Minister's Council Task Group on Aggregates be accepted in its entirety, and acted on immediately.

Front-Line Approvals

The Front-Line Approvals Task Group identified a number of irritants in the system, but it did not just focus on the negatives. Rather, the Task Group called for a "Team Ontario" approach that would recognize that it is in our collective interest to ensure a smooth, fast and effective regulatory process.

A huge issue is time – time spent on site in the forest with equipment idle and workers waiting for approval to proceed and, in the meantime, mills not getting wood.

Better, more up-to-date information on the multiple values in the forest would help. The Council believes that the independent audit by the Chief Forester will provide a resolution. Better information will allow for better planning and fewer surprises when harvesters arrive to cut a stand of trees. However, there will always be features discovered on the ground in the forest that were not included in the original planning for the management unit. There will continue to be a need for government approvals. The issue is how to make the process faster and more efficient and effective.

The Front-line Approvals Task Group suggested that delegation of decision-making to specific people in the field and district offices of MNR would help to expedite processing of approvals. There was a general feeling among industry representatives that too much time is spent sending paperwork through lines of authority when the government official closest to the action is in the best position to make the decisions.

One example that came up several times in the Task Group discussions as a major irritant for loggers was stream crossings and the time it takes to get an approval to build. Industry representatives said that they are not looking to violate the stream crossing guidelines; they just want to be able to get on with the job.

Recommendation #7:

The Council recommends that the Minister build a Team Ontario approach in dealing with the front line approval process, reducing costly delays and promoting a positive attitude and accountability. This would include:
- **joint field inspections – (industry, SFL, MNR);**
- **an individual at each district or field office to expedite the rapid processing of industry approvals, including delegation of authority in cases of absence; and,**
- **an independent provincial level representative/panel to provide recommendations to the Regional Director on planning and operational issues that cannot be resolved through district or regional channels.**

Recommendation #8:

The Council recommends that the Ministry of Natural Resources provide updated values information for the forest management planning process.
- **the Ministry of Natural Resources must adhere to the Forest Information Manual obligations to provide all non-timber values in a timely manner for use in the forest management planning process; and,**
- **the provincial government should provide a complete survey of streams (including fisheries values) in the area of the undertaking.**

Recommendation #9:

The Council recommends that the Ministry of Natural Resources commit to developing a process that will ensure timely decisions in the following areas:
- **crossings on unmapped or incorrectly mapped streams (48 hours); and,**
- **approvals to change the site for a crossing (48 hours).**

Recommendation #10:

The Council recommends that the Ministry of Natural Resources extend the Annual Work Schedules to 13 months and allow overlap of 2 schedules for a one month period to allow completion of approved operations.

Another regulatory issue that was discussed at the Council level was Environmental Assessment "bump-ups". A person or organization who objects to MNR approval of a forest management plan has the right to ask the Ministry of the Environment (MOE) to undertake an individual environmental assessment. The average for bump-up requests is approximately 10 per year. The time taken by MOE to make a decision on bump-up requests ranges from several months to several years. During this period of time, the areas in the forest that are the subject of the request are not harvested.

It is recognized that the appropriateness or validity of these requests tends to be in the eye of the beholder (i.e. the company may consider the request frivolous; the objector does not). But the main complaint from the industry side is timing. Because bump-up requests can only be made after all efforts to resolve the dispute have been exhausted through the forest management planning process, the requests are often halting work when equipment and workers are on site, in the forest, ready to roll. This necessitates last-minute contingency planning, resulting in additional costs and time delays.

It was suggested that a solution would be to start the forest management planning process earlier so that these disruptions could be avoided. The MOE should also undertake to render its decisions within the time allowed by this change in the process.

Recommendation #11:

The Council recommends that the timelines for the development of forest management plans be adjusted to allow for earlier resolution, by the Ministry of the Environment, of requests for bump-ups for individual environmental assessments.

Recommendation #12:

The Council recommends that the Ministry of Natural Resources and the Ministry of Environment (MOE) identify key barriers to timely decisions on requests for individual environmental assessments and implement a plan to address the barriers. Furthermore, the Council recommends that the resolution of bump-ups be delegated to the MOE Director level.

Cost-sharing and Distribution

The Council considered the impact of business-to-business relationships within the industry. These relationships have become increasingly complex, with multiple demands for wood/wood products within a single forest management unit. When these relationships do not work well, they prevent efficient distribution of wood products and increase costs.

Strategic Direction: Industry should show leadership in fostering a cooperative approach to sharing of harvesting costs and efficient distribution of wood/wood products.

In the past, there tended to be one company which held the timber licence for harvesting in a forest management unit. Now, there are usually multiple companies involved. In some instances, a Sustainable Forest Licence (SFL) is held by more than one company (shareholder company), which can work well. In other management units, the licence-holder negotiates with other timber users who have rights to harvest some of the allowable cut.

Disputes arise between companies over sharing the costs of harvesting and ensuring efficient distribution of wood products. In some cases, the SFL holder feels that other companies are not willing to pay their fair share of the costs of harvesting. On the other hand, there are other instances where non-licence-holders feel the SFL holder is not providing access to their fair share of wood product.

The Council believes this is an area where industry can and should show leadership. It was argued at the Council that shareholder company SFLs can be one option, but that government should not force companies to follow this route. Where efficiencies can be achieved in flow of wood/wood products, they should be explored by industry. Government should be the facilitator.

The bottom line is that all wood supply agreements must be honored efficiently and effectively, and where industry is not able to make this happen, it is appropriate and necessary for government to enforce remedial action.

RECOMMENDATIONS

Recommendation #13:

The Council recommends that the Ministry of Natural Resources create a process to convert single entity Sustainable Forest Licenses (SFLs) to Shareholder SFLs where the following benefits can be reliably anticipated:

- **more efficient management of disputes between companies dependent on the wood supply from the SFL;**
- **increased wood availability (of all species and products) beyond that achievable through beneficiary participation in the Ontario Forest Management Planning (FMP) process;**
- **reduced delivered wood costs beyond those achievable under the FMP process;**
- **equitable sharing of costs amongst Shareholders (forest management, road construction, harvest, renewal and maintenance, etc); and,**
- **increased wood supply and reduced management costs through SFL amalgamation, where ecologically appropriate.**

3.3 Energy Costs

Challenge: Ensure competitiveness in energy costs and utilization.

Rising energy costs are affecting both industrial and residential users in Ontario. What sets the forest sector apart is the level of consumption. The industry consumes 6500 gigawatt hours of electricity annually at an estimated cost of $500 million. These costs are particularly problematic for some parts of the industry for which energy represents up to one third of operating costs.

It should be emphasized that the challenge involved in ensuring competitiveness in energy costs and utilization is not the result of some temporary dip in the business cycle. The problems are systemic and are the result of a complex set of measures and counter-measures that have been instigated by successive Ontario government administrations.

When the previous government attempted to create an open market, the expectation was that private sector participation would create new supply to fill the gaps and would stabilize and even reduce prices. However, the transition to an open market has not been a smooth one, and the anticipated new sources of supply have not materialized. A number of factors have contributed to this failure, including post-Enron re-evaluation of risk premiums needed to attract new private suppliers and uncertainty about market rules. Other cost pressures include high natural gas prices and the high costs of refurbishing idle nuclear plants.

In 2004, the current government put forward a restructuring proposal that includes contracting new supply, Market Power Mitigation Agreement (MPMA) rebate elimination, and heritage asset price regulation.

Strategic Direction: Government should remove barriers to the creation of new supply of electricity and create the conditions for reliable supply at a reasonable cost.

The forest sector's position as the largest buyer of electricity in the manufacturing sector in the province should be taken into account in considering mitigation measures.

RECOMMENDATIONS

Co-generation, especially biomass-fuelled co-generation, has many advantages, including environmental benefits, lower costs, and better efficiency. But there are barriers to constructing or expanding co-generation capacity. The Task Group on Energy Policy documented barriers in the "Renewables" Request for Proposals (RFPs) issued by the Ministry of Energy:

- the requirement for proponents to finance connections with the electrical grid is a problem for more remote projects; and,
- unnecessarily limited definition of qualified waste biomass which may have inadvertently disqualified black liquor fuelled boilers or turbines.

Similarly, there were barriers to cogeneration in the 2500 MW Clean Energy Supply RFP:

- for some areas of the Province, the penalties associated with any new transmission capacity required to deliver the proposed new generation capacity; and,
- extremely high interruption penalties.

Gross transmission rates are also a disincentive. Facilities that build their own generation capacity for self-use and go off the grid are still charged transmission costs. A network service charge is removed with fully-embedded generation (a “net” basis), but a line connection service charge and transformation connection service charge are applied to the sum of power served from the transmission system, plus power served from the self-generation (“gross” basis).

In addition, if a facility installs embedded generation and no longer draws from the grid, it has to continue to pay the Debt Reduction Charge (DRC) on electricity consumed.

The appropriate allocation of forest residue is also an issue. Biomass/wood waste should be used for energy purposes if there is a buyer who will pay a delivered price the same as or higher than landfilling cost.

It is hoped that the appointment of a Co-generation Commissioner will assist in removing barriers and encourage implementation of viable co-generation opportunities.

Recommendation #14:

The Council recommends that government take action to remove barriers for co-generation, especially biomass co-generation, including:

- **implementation of "net" transmission rates;**
- **waiving of the Debt Reduction Charge for electricity not drawn from the grid;**
- **elimination of high interruption costs in RFPs; and,**
- **encourage the use of forest residue for energy purposes where appropriate.**

Removing barriers will not be enough to encourage significantly more co-generation by forest sector facilities if the industry cannot raise the capital to invest in the necessary changes. The Council sees a role for the provincial government in encouraging more “green” energy alternatives that will serve to increase electricity supply for the province, as more large users go off the grid.

Recommendation #15:

The Council recommends that the government provide incentives for “green” energy alternatives, including co-generation, energy efficiencies and conservation.

There is a follow-up recommendation in Section 3.4 *Climate for Investment* that speaks to incentive funding for “green” alternatives.

Getting new supply on line is a major issue, and it will take some time. In the meantime, parts of the forest sector are suffering major losses because of increased electricity prices.

Much of the electricity system public debt is held by the Ontario Electricity Financing Corporation (OEFC), and is serviced by Ontario Power Generation (OPG) and Hydro One surplus funds, with the residual burden, including defeasement, by the DRC. The DRC was set in 2001 with the expectation that the residual debt would have a 16-year amortization period. The financial structures and processes were set up so that the DRC was fixed at $7 per megawatt hour.

In February, 2005, the government announced changes in rate regulation of OPG heritage asset production and the rebate mechanism applied to OPG non-heritage asset production. The Task Group's analysis is that if the government were, in addition, to fix the residual stranded debt amortization and allow the DRC to "float", there would be little impact on total delivered costs of power. But because the DRC remains at an historic rate, it is not clear whether total delivered costs net of the rebate will be any different than if the OPG assets had stayed in the market and the MPMA rebate had remained.

The Task Group proposed that the government lengthen the amortization period to make the residual stranded debt perpetual debt. The impact will be lower electricity rates in the first 16 years, but higher after that. For large electricity users who are operating close to the edge because of high electricity costs, lengthening the amortization period might allow survival. There should be consultation with electricity users on the best mechanism for allowing the DRC to float.

The advantage to eliminating the MPMA rebate is that the three-month delay between DRC collection and rebate is removed, effectively keeping DRC funds in the hands of electricity users a little longer. But elimination of the MPMA rebate must be matched by a reduction in the DRC.

The Task Group was supportive of the thrust of the government's restructuring proposal, but expressed serious concern about adequacy of supply at reasonable cost when Ontario's remaining coal plants are closed. The Task Group was not only worried about cost and supply; it also expressed concern that substitute U.S. supply would add, rather than abate, the smog problem in southern Ontario.

Recommendation #16:

The Council recommends that the Ontario government:

- **adjust the amortization period to make the residual stranded debt perpetual debt and allow the DRC to float;**
- **adjust the DRC payments to correspond with the elimination of the Market Power Mitigation Agreement rebate that was eliminated April 01, 2005; and,**
- **ensure that adequate and competitively priced replacement generation is in place prior to the scheduled shutdown of coal-based generation facilities in 2007.**

The Task Group on Energy Policy was supportive of the 5% rate set by the government for OPG heritage assets, but suggested that controls should be put in place to encourage efficiency improvements and requiring reliability standards and objectives.

<u>Recommendation #17:</u>

The Council recommends a renewed and intensified focus on efficiency at both Ontario Power Generation and Hydro One.

3.4 Climate for Investment

Challenge: To create a more favourable climate for investment that will benefit industry, communities and workers.

The Council is looking to the future to ensure that there will be a strong forest industry and sustainable, forest-reliant communities down the road. This report includes a number of recommendations that will help to improve the climate for investment – by reducing the delivered cost of wood, by streamlining regulatory processes and by encouraging greater supply of reasonably-priced electricity. Resolution of wood supply issues will also contribute to greater certainty.

However, the Council feels that governments – both provincial and federal – should recognize in a pro-active way the importance of a vibrant forest sector to the Ontario economy and particularly to the communities and workers in Northern and rural Ontario.

Strategic Direction: Governments should play a role in improving the business climate through financial incentives to stimulate investment.

RECOMMENDATIONS

Recently, the Ontario government has materially recognized the contribution of the auto sector to Ontarians' prosperity by providing it with approximately $500 million in financial assistance to ensure its continued competitive position in this province. The forest sector faces many of the same issues as the auto sector and is equally integral to the prosperity of Ontario.

The Council proposes that Ontario contribute an amount comparable to that recently provided for the auto sector in Southern Ontario to create a new business climate competitiveness fund for the forest sector and that Ontario approach the federal government to match its contribution.

The fund should be used to ensure a sustainable and competitive industry. There are mills and harvesting equipment that require upgrading. The current workforce and a new generation of forest workers need to be trained in state-of-the-art equipment to improve productivity. Many of those new workers will come from First Nations communities that are looking for assistance with entrepreneurial capacity-building so that they can share in the benefits of this economic sector.

Incentives for investment in energy conservation and green energy production, production facility modernization, the development of value-added facilities, workforce training and First Nations entrepreneurial capacity-building will be a catalyst for building a competitive and sustainable forest sector.

The fund should support communities to transition toward a more secure economy relying on a continued strong and vital primary industry as their keystone, supplemented by a vibrant, innovative and diverse set of complementary value-added enterprises.

The fund should provide up to 35% of the cost of co-generation projects to make the capital investment economically feasible. Other "green" investment in energy efficiencies and conservation should be considered for funding as well. Taking large power users off the electricity grid in Ontario will have benefits for stability of supply for other users.

The Council is of the view that the fund should be managed by a Board of Directors. Applicants who wish to obtain funds should be asked to present their business cases for evaluation. Funding decisions should take into consideration, among other things:

- the return on investment that will be generated by a project in terms of future corporate and individual tax revenues for all levels of government;
- maintenance and growth of employment;
- Ontario's balance of trade; and,
- contribution to sustainable and diverse economies for communities.

Financial assistance, preferably in the form of grants, should provide incentives for investment in technologically advanced systems such as Central Tire Inflation (CTI) systems, on-board scales, and Global Positioning Systems (GPS).

An example in which the fund could be used to benefit workers and the industry is to address a shortage of drivers available in Northern Ontario for hauling fibre to the mills. Insurance costs are a major barrier to entry for truck operators. Insurers require drivers to have three years of experience in the industry before the level of risk diminishes sufficiently to lower rates. Young people and small business people cannot afford the insurance rates to get three years' experience.

The fund could be used to provide training, perhaps with support from FedNor, and involving a partnership between the insurers and the provincial government. The training would be designed to reduce the risk associated with new drivers. It could target Aboriginal people, other residents of Northern Ontario, and immigrants interested in pursuing opportunities in Northern Ontario. The training would be delivered through the colleges in Northern Ontario.

The Council is not recommending a limit on the size of project or company that may have access to the fund. This is partly in response to what is already available through, for example, the Northern Ontario Heritage Fund Corporation (NOHFC), which is aimed at small to medium-sized businesses which have fewer than 100 employees. NOHFC funding is generally limited to one million dollars.

Analysts predict further restructuring in the Ontario's forest sector to meet global competition. The Council wishes to make clear that the fund is intended to improve the business case for investment in Ontario. Wherever further rationalization and consolidation may occur in the industry, an improved investment environment will help to foster the growth of new industries and jobs to sustain the vitality of forest-dependent communities.

Recommendation #18:

The Council recommends that the Ontario government establish a Business Climate Competitiveness Fund. This Fund should be used to support and stimulate:

- **upgrading and modernization of facilities, harvesting equipment and trucking equipment;**
- **"green" energy alternatives, including co-generation, energy efficiencies and conservation;**
- **promotion of Ontario's forest products, and promotion of the concept that forest management is sustainable and is being currently practiced in Ontario's forests;**
- **projects to promote the expanded use of wood and wood derivatives in non-traditional applications in communities;**
- **diversification projects in communities hit by existing or projected layoffs and mill closures;**
- **worker training and transition;**
- **driver training; and,**
- **First Nations capacity-building.**

Ontario is not a major centre for research on forest products. Research efforts in Ontario have traditionally been directed towards forestry. This is not the case in many other jurisdictions, which invest heavily in research institutes or university programs with a focus on forest products research. Ontario's industry would benefit through the establishment of an organized forest products research organization which engages both the scientific, and the industrial communities.

Recommendation #19:

The Council recommends that one dollar of stumpage (a portion of existing rates, not an increase) should be directed to a Forest Industry Research Fund. The stumpage contributions to the fund would be matched by an equal contribution from the forest industry.

Even with the Business Climate Competitiveness Fund in place, it may still be difficult for firms to secure funding from the private sector, given the perceived level of risk related to the sector because of the softwood lumber dispute with the United States. The U.S. currently holds $4.3 billion in duties paid by Canadian producers, pending resolution of the cross-border dispute.

Recommendation #20:

The Council recommends that, in addition to the Business Climate Competitiveness Fund, the provincial government consider providing loan guarantees with respect to some portion of the countervailing duty deposits held by the United States government related to the softwood lumber dispute.

The Council heard about the potential to market wood products more aggressively as a renewable resource that can be used to make a range of non-traditional products. With a very limited budget to date, the Wood WORKS! initiative has succeeded in promoting a significantly expanded use of wood in Ontario's non-residential construction industry. The Ontario government funds some very successful initiatives for agricultural products. The forest sector should receive similar support.

Recommendation #21:

The Council recommends that the provincial government provide ongoing funding for the Wood WORKS! program.

Seasonal half-load restrictions are a major barrier to business for the forest industry in Ontario. Infrastructure improvements, such as upgrading highways to all-weather roads, would be a great benefit.

Recommendation #22:

The Council recommends that the provincial government invest in secondary highway improvements.

In the past, companies pursuing market opportunities outside North America have benefitted from the knowledge and support from trade experts located in Ontario consulates in other countries.

Recommendation #23:

The Council recommends that Ontario consider reinstating trade consuls in nations that represent key markets for Ontario industries.

4. Working Together

Challenge: To keep industry, labour, communities, government and other interests working together.

The Council is keenly aware of the many factors – globalization, new lower-cost competitors, the dollar, interest rates, trade disputes, to name a few – that will continue to have a variety of impacts on the forest sector and its competitiveness. That means that not only business enterprises, but also communities and workers, will have to adapt to new challenges.

The Council is grateful to the Minister for this opportunity to work together and would like to ensure that positive working relationships are maintained.

Strategic Direction: We should maintain or create ways to keep the lines of communication open.

RECOMMENDATIONS

Recommendation #24:

The Council Recommends that MNR develop a forest sector implementation strategy with consideration given to supporting improved economic performance of traditional resource industries, encouraging diversification of natural resource industries, improving value-added production of forest products in Northern Ontario and exploring increased benefits to aboriginal communities.

There are a number of committees that bring together representatives of industry, the environmental community, labour, MNR and others. While not replacing these, the Council proposes two other vehicles.

Recommendation #25:

The Council recommends that a committee be formed of senior members of labour organizations and senior managers of forest industry firms to facilitate high-level discussions.

Both labour and business leaders on the Council supported the idea of creating a joint committee to work on some issues related to ongoing restructuring in the industry. These discussions would not replace collective bargaining or get into labour-management contractual arrangements.

One of the key areas that this group will look at would be the transition of workers and communities where the industry is undergoing restructuring. Issues will include, for example:

- identification of strategic skill requirements;
- creation of an employment opportunities database;

- retraining and relocation support; and,
- bridge funding for early retirement.

The Council would like to retain a way of monitoring progress on its recommendations and advising the Minister and Council members of the follow-up on such items as the Process Streamlining Task Force.

Recommendation #26:

The Council recommends that the Minister recognize the following delegates, appointed by the Council, to monitor the implementation of its recommendations, meet with the Minister and report back to the original Council members in six months, one year and two years.

Frank Dottori
Tembec Industries Inc.

Ken Buchanan Sr.
Buchanan Forest Products Ltd.

Cecil Makowski
Communications, Energy and Paperworkers Union of Canada

Norman Rivard
Industrial, Wood and Allied Workers of Canada

Mayor David Canfield
The City of Kenora

James Kroeker
Wabigoon Lake Ojibway First Nation

Tim Gray
Canadian Parks and Wilderness Society

Peter Woodbridge
Woodbridge Associates Inc.

APPENDIX 1

Minister's Council on the Competitiveness of the Ontario Forest Products Industry

TERMS OF REFERENCE

Purpose:

The purpose of the Council is to produce a report which contains a series of recommendations for industry, labour, government and communities with the objective of ensuring a secure future for the forest products industry, communities and workers.

Roles and Responsibilities:

The report will be developed through the collaborative efforts of 4 groups.

1. The lead group will be the Minister's Council which will be composed of appointed municipal leaders, industry representatives, First Nation representatives, labour representatives, environmental representatives, and independent experts. The Minister's Council will have the responsibility of collectively developing a set of recommendations for industry, labour, government, and municipalities. The Minister's Council will approve the final document which is to be submitted to the Minister of Natural Resources by March 31, 2005.

2. An Assistant Deputy Minister (ADM) Committee will be formed to support the efforts of the Minister's Council, and it will ensure that Deputies and Ministers are informed of the Council's deliberations. Several Ministries will be represented.

3. A Resource Group will be responsible to provide data, analysis and information to the Minister's Council and the ADM Committee as required, in order to support the development of the report.

4. The Council's efforts will be facilitated by an Executive Director who will head a Council Secretariat. The Secretariat will be responsible for the administration of the Minister's Council and for preparing the records and reports directed by the Council.

Issues for Consideration:

- roles for labour, industry, government and communities
- benefits sharing with First Nations
- Forest Inventory Data
- Value-added opportunities
- energy and bio-energy
- non-timber forest products
- expansion of forest products markets

- regulatory environment
- investment climate
- cost competitiveness
- tenure systems
- research and technology development
- other issues/opportunities

Issues Out Of Scope:

- treaty/constitutional issues
- land use planning
- The Forest Accord
- Far North opportunities

Process:

1. Invitations will be issued to potential Minister's Council members.

2. The Minister's Council membership will be finalized.

3. The Minister's Council will meet (likely a number of times) to determine the list of recommendations.

4. The Secretariat, with the assistance of the Resource Group, will prepare a first draft document on the Council's behalf.

5. The Minister's Council will review the first draft.

6. A writer/consultant will prepare a polished draft.

7. The Minister's Council will review the polished draft.

8. If required, the writer/consultant will edit the document.

9. The final draft will be reviewed and approved by the Minister's Council.

10. The final report will be submitted to the Minister of Natural Resources.

APPENDIX 2

MINISTER'S COUNCIL MEMBERS

Ken Buchanan, Buchanan Forest Products Ltd.
Mayor David Canfield, The City of Kenora
Frank Dottori, Tembec Industries Inc.
Tim Gray, Canadian Parks and Wilderness Society
James Kroeker, Wabigoon Lake Ojibway First Nation
Cecil Makowski, Communications, Energy and Paperworkers Union
Geoff Meakin, Meakin Forest Enterprises Ltd.
Chief Roy Michano, Pic River First Nation
Arnold Nemirow, Bowater Inc.
Mayor Lynn Peterson, The City of Thunder Bay
Norman Rivard, Industrial, Wood and Allied Workers of Canada
Don Roberts, CIBC World Markets Inc.
Bernard Routhier, Kruger Inc.
Raymond Royer, Domtar Inc.
Mayor Roger Sigouin, The Town of Hearst
Dr. Gordon Surgeoner, Ontario Agri-Food Technologies
Peter Woodbridge, Woodbridge Associates Inc.

COUNCIL SECRETARIAT

Tim Millard, Executive Director
Nancey Stewart, Administrative Assistant
Bill Kissick, Ministry of Natural Resources, Resource Group
Jeff Walker, Ministry of Natural Resources, Resource Group

ASSISTANT DEPUTY MINISTER'S COMMITTEE

Mike Willick, Assistant Deputy Minister, Ministry of Natural Resources
Michael Williams, Assistant Deputy Minister, Ministry of the Environment
Bob Seguin, Assistant Deputy Minister, Ministry of Economic Development and Trade
Len Koskitalo, Senior Economic Advisor, Ministry of Finance
Jim McClure, Assistant Deputy Minister, Ministry of Northern Development and Mines
Shane Pospisil, Assistant Deputy Minister, Ministry of Energy

APPENDIX 3

Aggregates Task Team
Final Report

Committee Members

Geoffrey Meakin, Meakin Forest Enterprises Inc. - Chair
Keith Ley, Ontario Forest Industries Association
John McLaren, Ontario Lumber Manufacturers' Association
Scott Jackson, Ontario Forest Industries Association
Don Moschuck, Ontario Forest Industries Association

Ministry of Natural Resources Technical Support

Jeff Walker, Strategic Planning Advisor, Forest Business & Economics Section
Maria VandenHeuvel, Policy Advisor, Aggregate & Petroleum Resources Section
Stuart Thatcher, Senior Policy Advisor, Aggregate & Petroleum Resources Section

The Committee met in Toronto on March 4, 2005, and in Sault Ste. Marie on March 21, 2005.

"I would like to thank the committee members for volunteering their time and effort in preparing this report, and I would like to thank the MNR representatives for their technical expertise in assisting us with this report." – Geoffrey Meakin

Purpose of the Task Team (from Terms of Reference)

- Review regulations and the processes related to aggregate extraction for the purpose of constructing forest roads;

- Identify items which are counter-productive, or which increase costs while providing minimal or no benefit in achieving the intent of the government policy and measures; and,

- Recommend changes to streamline the process, policy and measures.

Preamble

The forest industry uses approximately 4 million tonnes annually from Category 9 permits (900 sites) and approximately 3 million tonnes from Category 14 exemptions (1000 sites) to construct a network of forest access roads to MNR standards. Once construction is completed, the forest industry may continue to maintain many of these roads, which are owned by the province. The construction of forest access roads and the use of aggregate is a direct cost to the industry in harvesting timber. The forest industry does not directly profit from the aggregate it uses. Therefore, the industry is seeking special consideration by the Minister when it comes to the Category 14 exemption and Category 9 permits. The forest industry believes they should not be treated in the same manner as the aggregate industry.

The Aggregates Task Team is pleased to present the following 9 recommendations for the consideration of the Minister's Council.

1. **The task team recommends that the new rules related to aggregates have a statement of the spirit of the guidelines as part of the introductory text. We suggest it read as follows:**

   The Spirit of the Guidelines
   The Ministry of Natural Resources and the forest industry recognizes the importance of managing a Crown resource through the regulation and control of aggregate extraction operations, with an emphasis on progressive and final rehabilitation of the site to minimize environmental impacts.

2. **The task team recommends extension of the term for Category 14 pits:**
   - **The proposed 5 year term to be extended to 10 years.**
   - **Insert a provision for a rollover of an additional 10 year period where forest operations continue in the area beyond the initial 10 year period.**

Previous discussion was to modify the lifespan of Category 14 pits to reflect the term of the management plan, and the useful life of the pit. In recognition of the revised forest management planning manual, a 10 year lifespan for Category 14 pits is appropriate. In addition, rather than capping them at the life of the forest management plan, industry should be allowed to roll these over to allow for ongoing use where forest operations are continuing with updated values information taken into consideration. This would provide a first right of refusal for the forest industry on Crown land similar to that of MTO for the construction of highways, to ensure aggregates remain available for the maintenance of the forest access roads system.

The sunset clause may induce industry to close a pit as the deadline falls, and establish a new one nearby in order to avoid having the pit become a Category 9. This means more holes in the ground, and possibly more environmental damage which could easily be avoided.

3. **In administrating the Aggregates Resource Act for the purpose of Category 9, MNR must be more cognizant of speculation in areas where the only apparent use of the aggregate is construction or maintenance of forest access roads.**

4. **The task team supports the proposed waiver for technical reports when converting from a Category 14 to a Category 9.**

5. **The task team supports the proposed expansion of Category 14 exemptions for all construction and maintenance on forest access roads.**

6. **The task team recommends that Forest Management Plans include a 500 metre corridor on each side of center line on existing roads for the purpose of Category 14 pits.**

7. **The task team recommends that the Ministry develop a procedure to permit existing Category 9 Aggregate Permits to revert to Category 14 site.**

8. **The task team recommends that any changes made to regulations on Category 9 and 14 pits should be delivered in a joint information session involving both MNR representative and industry (e.g. SFL holders, contractors, overlapping licensees, and any other front line staff)**

9. **The task team recommends that a new section be inserted to ensure that progressive rehabilitation of the site will be ongoing during the period the site is held by the forest industry.**

<u>Summary</u>

The Forest Industry strongly believes that the costs associated with administrative procedures related to acquiring and maintaining permits for aggregate extraction for forest access roads are excessive. Collectively, the above 9 recommendations streamline the process of building and maintaining forest access roads while minimizing costs and reinforcing the industry's commitment to progressive rehabilitation and minimizing environmental impacts related to aggregate extraction.

APPENDIX 4

Transportation Task Group
Final Report

Committee Members

Faye Johnson, Ontario Forest Industries Association
Claude Perrier, Ontario Lumber Manufacturers' Association
Brian Ballantyne, Ontario Forest Industries Association
Bill Snell, Ontario Forest Industries Association
Troy Stephenson, Ontario Forest Industries Association

Ministry of Natural Resources Technical Support

Peter Hynard, Ministry of Natural Resources
Jeff Walker, Ministry of Natural Resources

The Transportation Task Group met on March 11, 2005, to discuss potential changes that could be made within the province of Ontario to help the forest industry achieve some cost savings, while still achieving the intent of existing government policy and regulations. The Task Group is pleased to present the following recommendations for the consideration of the Minister's Council.

RECOMMENDATIONS

Within One Year

The task group recommends that the provincial government implement a 50% tax credit for provincial road taxes paid when hauling raw forest products from forest to mill.

The fuel tax is intended to have roads users provide the funds required to cover the costs of maintaining the roads network in Ontario. In Northern Ontario, when trucks haul fibre from the forest to a mill, a significant portion of the fuel (estimated at 50%) is consumed while driving on access roads which are built and maintained by the forest industry. In Southern Ontario, many trucks operate on private lands using self-loading equipment that is powered by fuel subject to the same tax. It is important to ensure that the proposed fuel tax credit be available across the entire province for all trucks hauling fibre from forests to mills. The program should be administered through the operators directly, and does not need to involve the mills.

The task group recommends that the provincial government complete an extensive study on Safe, Productive, Infrastructure Friendly (SPIF) vehicles related to durability and costs of operation in harvesting situations.

The Ontario government is in the process of implementing regulations which would require trucks to use steering axles. The intention of the regulations is to minimize the damage caused by hauling fibre to mills on the provincial roads network.

The government has not conducted studies that show:

- decrease damage to roads;
- the safety of SPIF axles; nor,
- the maintenance costs of the axles themselves in forest operating conditions.

The Forest Engineering Research Institute of Canada (FERIC) has estimated that the additional capital costs associated with changing equipment to meet the new regulations would be approximately $10,000 per trailer ($5000 per axle) and an increase in the annual operation costs of $11,000 ($5,500 per axle). This estimate is based on testing that was undertaken using a single steering axle in a 4-axle configuration in the province of Quebec. (November 10, 2004 letter from FERIC to Ron Madill at the Ontario Ministry of Transportation) These tests may not reflect the conditions typical of forest operations in Ontario, and may dramatically underestimate the costs related to the durability of the equipment. A three year test to determine costs associated with maintaining the equipment and durability when used in off-road situations would be appropriate. Studies should also be conducted to ensure the safety of steering axles when used in forest operating conditions. FERIC may be an appropriate partner for these studies.

The task group recommends that the provincial government should provide financial assistance for driver training and education in order to address a shortage of qualified drivers to haul forest products.

There is currently a severe shortage of qualified drivers available in Northern Ontario for the purpose of hauling fibre from the forest to mills. Insurance costs are a major barrier to entry for truck operators, and are preventing young people and businesses from pursuing opportunities within the industry. Insurers require a driver to have a minimum of 3 years experience within the industry before the driver is insurable. This creates a Catch 22 as new drivers are unable to pursue work in the industry because they cannot attain the 3 years experience required.

A partnership between the insurers, the provincial government, and industry to train new drivers may help resolve this issue. The insurers would ensure their concerns are addressed as the training would be designed to reduce the risk associated with new drivers. The provincial government would provide funding for the program, with funding from FEDNOR also a possibility. A program of this nature would target aboriginals, citizens of Northern Ontario, or immigrants interested in pursuing opportunities in Northern Ontario. The training would be delivered through partnerships with colleges in Northern Ontario.

The task group recommends that the construction and maintenance of access roads is to be shared between the various user groups. (e.g. other resource industries, cottagers, other recreational users, not just the forest industry)

The forest industry in Ontario is responsible for the construction and maintenance of access roads and bridges in Ontario’s Crown forests. However, many of these roads are used by the general public on a regular basis. The costs associated with this roads network should be shared among the users. There may be opportunities to access funding through FEDNOR, NOHFC or MNDM.

The task group recommends that the provincial government provide assistance for the industry to access capital through loan guarantees and other projects.

The task group recommends that the provincial government remove barriers to business. The forest industry must be recognized as a customer.

Areas where improvements could be made include:

- increased government funding;
- more cost benefits analyses should be conducted;
- there should be more effective management of bump-ups;
- streamlining the administrative process;
- build a competitive and open market for insurance for trucking operations related to the hauling of raw forest products within the province;
- on forest access roads, the province could consider creating an industrial road classification to allow for greater weight, or axle width; and,
- the government develops a measurement system to determine when half-load rules apply.

The task group recommends that the provincial government continue to actively encourage a rationalization of fibre to minimize haul distances.

In some instances wood supply directives specify that a given mill is expected to receive fibre from a specific Sustainable Forest Licence (SFL). This may in some cases prevent the rationalization of wood flow such that transportation distances are minimized for all parties. Further efforts should be made to eliminate these types of situations.

The task group recommends that the Transportation Task Group continue to function as a body to work with MNR and other Ministries to ensure that the Task Group's recommendations are properly implemented.

One to Five Years

The task group recommends that Forest Management Plans, as well as future guideline amendments, should be developed with present and future transportation and road building and maintenance costs taken into consideration.

Decisions made while planning roads have long term implications. Transportation costs for fuel and maintenance, as well as emissions related to burning fuel will reflect those decisions for many decades.

The following changes could be made:

- increase the block size and decrease the need for leaving more residual trees;

- allow the forest industry to construct cost effective roads that are not changed due to societal agendas that are not related to ecological considerations; and,
- remove the difficulties in planning road systems between 2 forests on different time schedules, involving different MNR offices, or different SFL holders.

The task group recommends that the provincial government invest in secondary road improvements in order to avoid seasonal half load restrictions.

Seasonal half loads restrictions are a major barrier to business for the forest industry in Ontario. Infrastructure improvements, such as upgrading secondary highways to all weather roads would be a great benefit.

The task group recommends that the provincial government encourage and speed up acceptance of new, proven technologies. (such as CTI and configuration changes)

Indications from many forest industry firms are that it would be possible to increase payloads by using different truck and trailer configurations than are allowed in Ontario. This is in fact the practice in other jurisdictions. Allowing wider axles or double trailers with the same tire pressure should not cause further deterioration to the roads networks than do the currently allowed restrictive configurations.

If the Ontario government were to move quicker in adopting new technologies such as the CTI systems, it would be the first step in encouraging industry to conduct research and development to seek out other advancements. For example, efforts to build trailers lighter that were capable of handling a comparable load to their heavier predecessors would allow for heavier payloads while maintaining overall weight.

The task group recommends that the provincial government provide financial assistance, preferably in the form of grants, to provide incentives for investment into technologically advanced systems such as Central Tire Inflation (CTI), on-board scales and Global Positioning Systems (GPS).

CTI systems allow operators to change the pressure in their tires as the vehicle is moving. This means the size of the tires footprint can be varied, resulting in better traction, and decreased wear and tear on the surfaces of roads. Trucks equipped with CTI could be exempt from half load rules. The systems cost approximately $25,000 and include Global Positioning Systems and on board computers. The computers would allow for remote monitoring of trucks to ensure compliance with government standards and regulations. Industry would benefit both from the easing of half load restrictions, and from the decreased maintenance costs that result from the installation of the systems.

Financial assistance designed to provide incentive to install CTI systems could be in the form of grants covering 1/3 of the cost of the system. Mills and operators would each be expected to cover a third of the cost as well.

Tembec is currently working with the provincial government on a series of projects to get a CTI exemption from half loads rules approved. Opportunities may exist to use studies from other provinces to quickly implement exemptions of this nature on a province wide basis.