



Community Leaders Conference Call
June 7, 2006
9:00 am

Coast Forest Products Association's President Rick Jeffery invited coastal community mayors and Chamber of Commerce leaders to discuss the pressing issues facing the coastal B.C. forest industry on Wednesday, June 7, 2006.

Describing Coast Forest's intention to increase efforts to improve its communication with communities, Jeffery reiterated the need for dialogue because the future of our communities is tied so closely to the future of forestry in coastal B.C.

The following topics were discussed:

1. Softwood Lumber

A basic Term Sheet was signed on April 27 by the U.S. and Canada which is the framework for the new deal. The U.S and Canada have both forwarded their input and a merged document is in circulation. Regretfully, there is strong disagreement on a majority of items in the draft agreement document.

Coast Forest sent a letter to Minister of Industry David Emerson on June 6, expressing concern about how far apart the two countries are on the critical issues, and urging Canada to push harder on the negotiations. (See Vancouver Sun June 7 Business section.) An arbitrary federal deadline is viewed as impairment to negotiations. By June 15 the Ways & Means Bill is set to be put in front of parliament at which point there must be at least initial agreement so the minority government can pass the bill with enough detail that it can be discussed and make it through. Our concern is that government will sacrifice certain subjects, ones that are essential to the agreement in order to meet this deadline. The main issues are with coastal market share/quota, anti-circumvention language, running rules, remanufacturing definition and cash deposits. There remain big gulfs on these important issues with only seven days left to solve them. The Coast is extremely concerned about the outcome.

The federal government seems to be taking the position that the relationship between the U.S. and Canada is paramount and that softwood lumber is impairing the relationship of our two countries. It is our concern that the reparation of this relationship will override the trade irritant, regional concerns as well as Canadian concerns. However, the provincial government is standing strong and delivering a powerful message about the relationship between B.C. and Canada. Premier Campbell is clearly telling the Federal government that the deal must be good for B.C. or the Province will not support the deal.

Q. Can B.C. opt out of this agreement? What happens if B.C. voices its opposition?

A. Premier Campbell has moral suasion and it is difficult to imagine Prime Minister Harper would go ahead without B.C. onside.

Q. Are tariffs continuing to be collected in Washington?

A. Yes. Companies continue to pay tariffs going forward although this was not our understanding of agreement. The Coalition stands to get \$500 million which will go directly to its members.

2. Competition Council Report on the Wood Products and Pulp & Paper Sectors

The Council reports were divided into two regions: the coast and the Interior. The coastal section has seven recommendations and some subsets, with a total of 18 recommendations in all.

The report identifies a lack of understanding of the pressures facing the coastal forest industry. The coast is a fourth quartile producer which means, when compared across the world, our cost to produce lumber is \$54 per m³ higher than first quartile producers. This is a significant gap and means the coastal industry isn't competitive with the Pacific Northwest, Baltic States and other wood producing regions. The coast needs to address this cost differential. Why?

For the last decade and longer Return on Capital Employed has averaged 2.5%. Capital markets – where we go to get money – aren't keen on investing in the coast given the risk factors: labour costs; First Nations issues; land use uncertainty etc. Investors are looking for a 12% return. The second source of capital comes from the companies themselves in the form of net earnings, but companies have been operating at a loss and don't have the funds to reinvest. It's a Catch 22.

The report sets out to identify things we can do collectively to turn around this bleak financial picture and facilitate investment in industry:

- 1) Resolve softwood lumber dispute
- 2) Increase land use certainty (Harvest levels are down 1 million m³ from last year at this same time. 2005 Harvest Level: 15.8 m³ with an AAC of 20 million m³.)
- 3) Transition to 2nd growth harvesting

Q. What would the impact be on old growth harvesting?

A. We are not suggesting that we abandon old growth harvesting, just increase the speed of transition from what has already been modeled by government. We need to spend more time developing markets for second growth (small log/dimension lumber) products and old growth (value added) niche products. AAC loss from old growth can be made up through harvesting of second growth which is all a part of forest management. The contributing land base has to be addressed in changes in regulations.

Q. Can certainty be created by providing longer-term forest tenures and licences?

A. The report recommends that the province pilot new tenure arrangements focused on second growth, giving us the ability to look at longer term arrangements. The second part of the equation is that the existing arrangements need more certainty so that when tenure is taken back there is security created through compensation.

3) Suggestions on How to Improve Communications

- Coastal companies should take a more active role in communications – companies within the towns should be more active and encourage the Chambers to get involved.
- Improve distribution list so we can communicate electronically; Councils need to get this info; summary of call to be distributed so Councils can be briefed.

Q. What is your view of the municipal taxation issues?

A. The reality is the coastal industry is burdened by an uncompetitive municipal tax level compared to the jurisdictions of our competitors. It is one of the contributing factors to our status as a fourth quartile producer with a \$54 gap to fill. We're carrying a tax burden that is too high and the provincial government needs to find ways to replace that revenue so municipalities aren't left in a compromised position to deliver services. We would like to see the transfer of this burden to the provincial government from industry. The forest industry provides a lot of revenue to provincial coffers and it is our belief that government should look at directing some of the revenue back to municipalities.

One of my members had its tax bill increased this year by 14.5% in one community and 7.5% in another lower mainland municipality. We need to find different ways to tackle this problem. Our view is that we can't have a \$26 per tonne tax level on pulp when competitors have a \$4 level, but the alternatives shouldn't be at the expense of municipalities.

All Mayors and Chamber Leaders:

Coast Forest is committed to engaging in discussions with communities and would like you to provide impetus to this dialogue. Please give us your ideas and feedback. We would like to know:

- 1) Are these conference calls helpful? How can we schedule them to better meet your needs?
- 2) What other methods/events would you recommend that could help us improve our communication?
- 3) Any other feedback you would like to offer?

Please email your responses to Coast Forest Administration Manager, Chantal Stark:
stark@coastforest.org