



PWC Report Finds Problems Continue to Plague Coastal Forest Industry

**FOR IMMEDIATE RELEASE
TUESDAY, NOVEMBER 8, 2005**

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VANCOUVER, BC – A PricewaterhouseCoopers economic impact report released today, summarizing the financial results of seven coastal B.C. forest product producers, shows the problems facing the coastal forest industry are trending downward. Coast Forest Products Association, which commissioned the report, is calling on the provincial and the federal governments to act quickly, in collaboration with industry, to help the coastal forest industry foster productivity and increase competitiveness.

The PWC report shows an alarming trend of decline for the B.C. coastal forest industry. From January to June 2005, the seven companies surveyed generated -1.4% return on capital employed (ROCE) with a combined recorded loss in net earnings of \$77 million from their Crown land operations (which includes pulp and paper operations).

“In light of this report, we believe that provincial and federal government investment is required to help B.C.’s struggling coastal forest industry recover from this decline. If steps are taken to reverse this trend, industry could recover in the next five years rather than continue to sputter along like it has for the last 10,” says Coast Forest’s President & CEO R.M. (Rick) Jeffery.

Jeffery adds: “Currently, we are unable to adequately fund our operating activities, exit those operations that are no longer viable, or attract investment capital for new facilities. The coast requires \$1 billion in new investment but continued economic losses preclude industry’s ability to achieve this goal. Not willing to stand pat, we have developed a strategy that creates the economic and policy framework required to attract this capital and ensure a viable future for coastal communities that depend on forestry.”

As world leaders in the manufacture of structural lumber and OSB, the Interior forest products industry has recognized record profits in recent years. However, the coast’s performance is dismal in comparison. “Most people don’t realize that there are virtually two distinct forest products industries in B.C.,” explains Jeffery.

According to Coast Forest, the decline started in the early 1990s and is accelerating. 2004 is the only year in the past five that shows recorded positive net earnings for the coastal forest industry. Over the decade, the industry has only recorded four years of positive net earnings. However, each of these years had a ROCE which ranked far below the generally accepted target return of 12%. The coastal forest industry currently generates the lowest ROCE in Canada, at less than 5%.

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“As the PWC report illustrates, the situation on the coast continues to worsen,” says Jeffery. “We have a classic economic failure on the coast that requires government investment, in collaboration with industry, to revitalize the industry and shorten the recovery time.” He notes that the federal government announced an aid program last month for Quebec to boost its struggling forest industry and the Ontario government has also provided their industry with assistance. A similar approach must be adopted in coastal B.C.

The federal government is working with the Canadian industry on a national forest strategy. This strategy must take in the needs of the coastal forest industry as outlined in the recommendations made last month when Jeffery visited Ottawa. Coast Forest says the federal government can assist the financially beleaguered coastal forest industry by providing industrial and community adjustment funding, incentives for investment in productivity and new technology, expanded funding for market diversification and product innovation, and funding for using biomass as an alternative energy source.

Coast Forest is asking the provincial government to continue the implementation of the Forestry Revitalization Plan, to refine market-based pricing for pulp and saw logs, and to remove policies that create unnecessary costs for the coastal industry.

“Minister Coleman understands the challenge and is working with industry to improve our competitiveness while ensuring that communities and workers are assisted through the transition,” says Jeffery. “Working together industry and government can ensure these measures facilitate recovery of the coastal forest industry and help mitigate any future community impacts.”

The coastal forest industry contributes more than \$2.3 billion per year in revenues to federal, provincial and municipal governments and directly employs more than 32,000 British Columbians. Indirect employment, created through forestry activity on the coast, brings total industry employment to nearly 100,000 jobs.

“While facing considerable economic and market challenges, the B.C. coast has a great future,” stresses Jeffery. “Working together we can implement a plan that will drive productivity and competitiveness in the coastal forest industry and deliver continued economic prosperity for our province and our country.”

Companies surveyed in the report are: Canfor Corporation, Cascadia Forest Products, Catalyst Paper, Delta Cedar Products, International Forest Products, Terminal Forest Products, TimberWest Forest Corporation and Western Forest Products.

Coast Forest Products Association represents 26 forest and paper companies in coastal British Columbia engaged in the harvesting and manufacturing of primary and added-value forest products. Together these companies manufacture 95% of the lumber on the coast and are responsible for 65% of the total harvest. The Association works to ensure that the five coastal species and their product lines have fair access to the global marketplace.

