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Toward a More Value Focused Forest Sector

Keynote Address to the BC Forum on Forest Economics & Policy Symposium
March 1, 2006

Canada's Forest Industry: Difficult Times...

- We have all heard the bad news about the forest industry lately:
 - Weak financial returns
 - Pine Beetle
 - Capacity closures
 - Aging workforce
- Does the solution lie up the value chain?

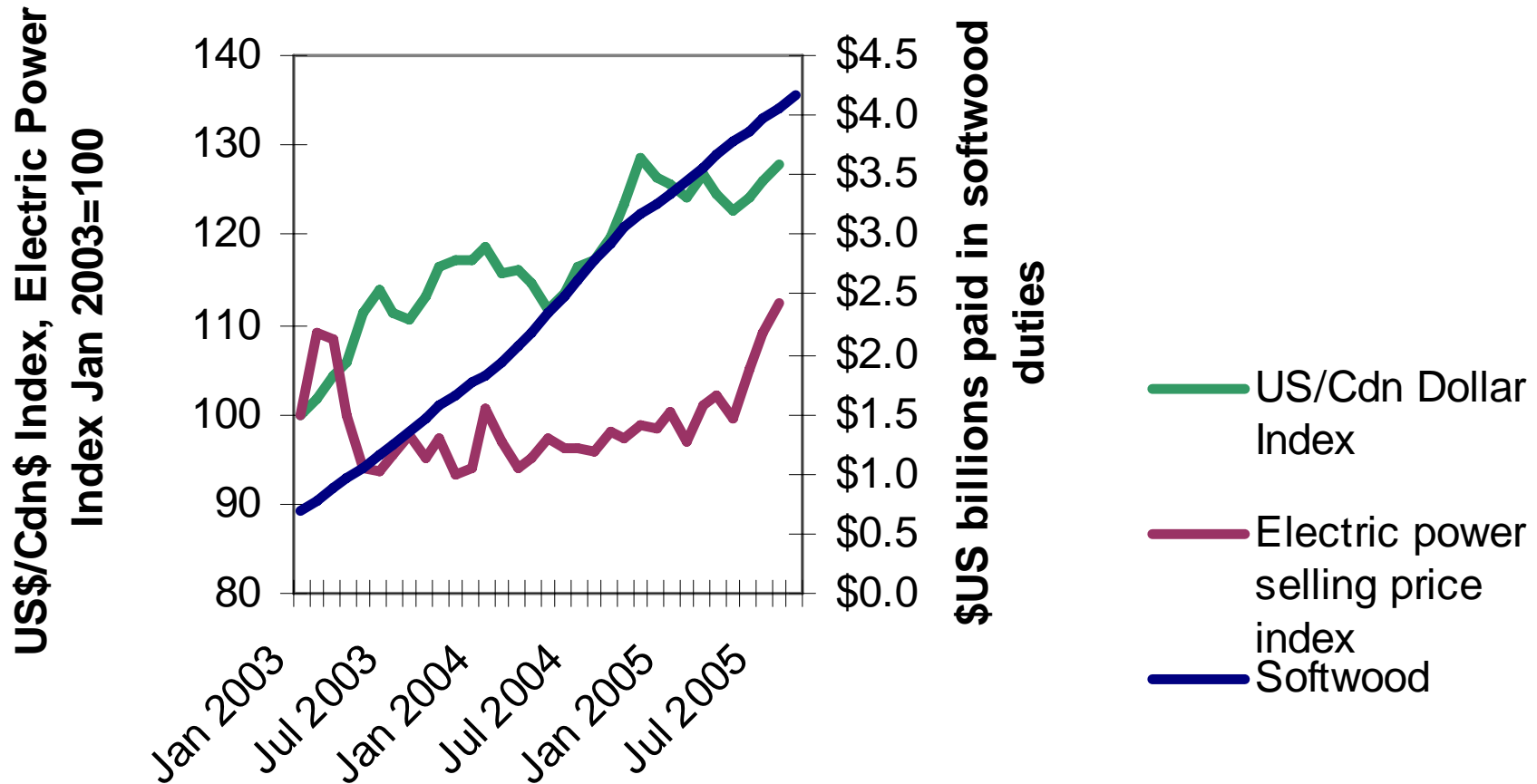
Perhaps, But It Is Not That Simple...

- We need to recognize:
 - Market size & proximity
 - Labour costs
 - Commodification

But Value Extraction has been and Needs to be our Passion

- Pulp and Paper
 - Panels
 - Bioenergy
 - Economic Spinoffs
-
- All depend on viability
of our core business

Our Capacity to Extract Value is Threatened



How Do We Continue to Extract Value from Our Forest Resources?

- **Reduce Costs**
- **Add Value**
- **A Better Cost-Benefit Ratio in the Global Marketplace**

How Do We Continue to Extract Value from Our Forest Resources?

✓ Reduce Costs

➤ Add Value

➤ A Better Cost-Benefit Ratio in the Global Marketplace

Reducing Costs Requires Action by Both Industry and Government

- **Industry: Increasing Productivity**
- **Government: Better Hosting Conditions**

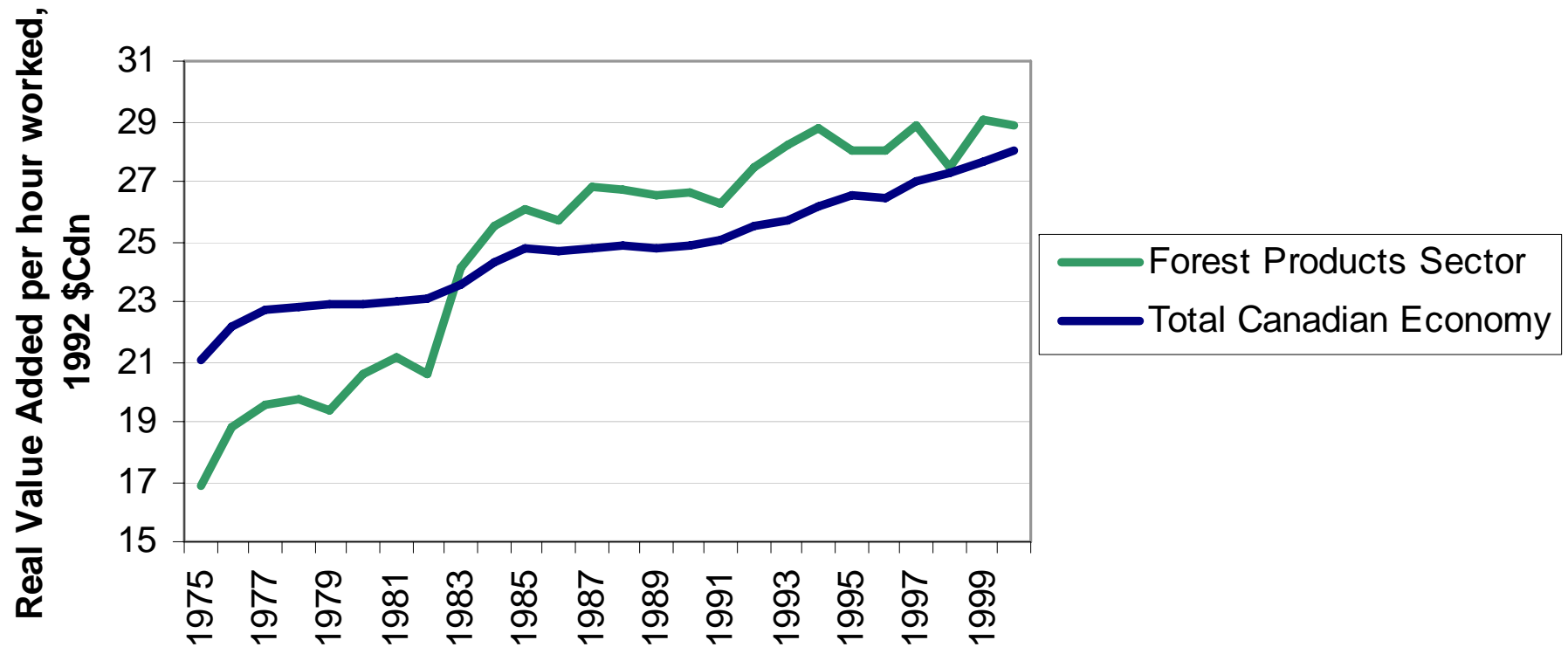
Reducing Costs Requires Action by Both Industry and Government

✓ Industry: Increasing Productivity

- Government: Better Hosting Conditions

While Our Productivity Record is Good We Need to Do Better

Forest Products Labour Productivity

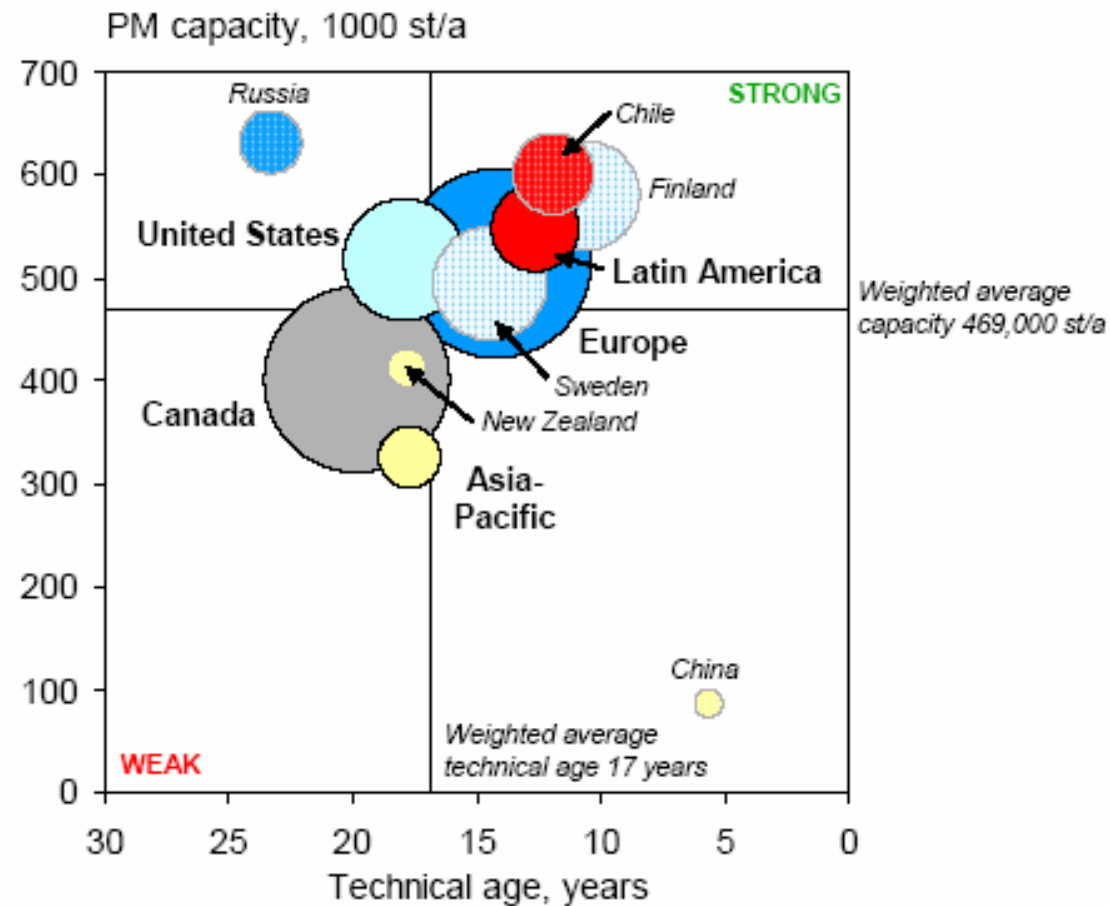


This Will Require Billions in New Investment

Bleached Softwood Kraft Pulp

Q3 2004

Canada has 37% of global capacity but its mills are older and smaller than many competitors, including Europe, the US, and newer producers in Latin America.



Source: Yaakko Pöyry, 2005

Reducing Costs Requires Action by Both Industry and Government

- Industry: Increasing Productivity
- ✓ **Government: Better Hosting Conditions**

The Role of Government: Better Hosting Conditions

- **Two Elements**
 - **Social Rents**
 - **Economic Efficiency**

The Role of Government: Better Hosting Conditions

- Two Elements

- ✓ Social Rents

- Economic Efficiency

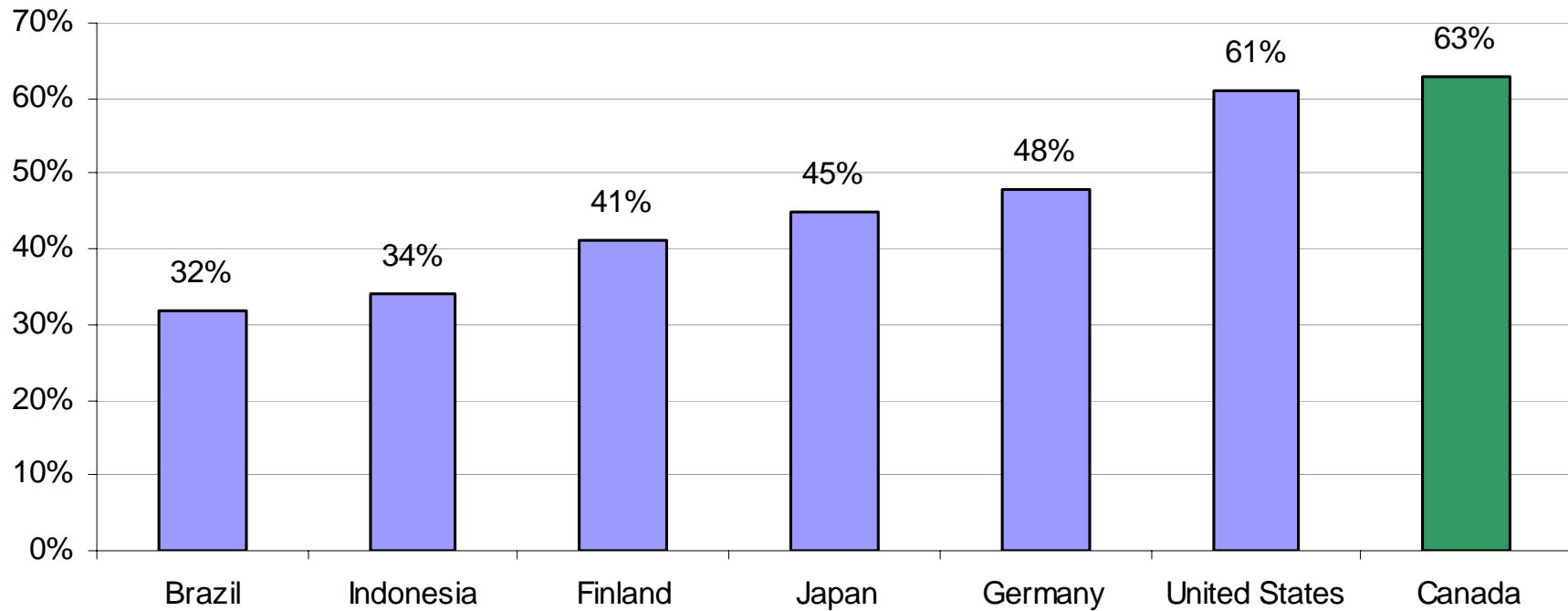
Cost Competitiveness and Better Hosting Conditions

Social Rents

- Governments have traditionally extracted significant rents from the sector through such means as:
 - Fibre Allocation
 - Energy Costs and Policy
 - Support for uneconomic capacity
 - High taxes at the federal, provincial and municipal level

Uncompetitive Tax Rates are Enormously Damaging

Domestic Paper Manufacturing Total Effective Tax Rates



Tax Regime Should be Structured to Encourage Investment

All Levels of Government Have a Role to Play:

- 10% Refundable Investment Tax Credit
- Better CCA rates
- Capital Tax
- Sales Tax on Capital Inputs
- Property Taxes

The Role of Government: Better Hosting Conditions

- Two Elements
 - Social Rents
 - ✓ Economic Efficiency

Better Hosting Conditions Through Economic Efficiency

Priorities for Reform:

- Transportation
- Industry Structure
- Labour Relations
- Regulation

*Hosting Conditions That Were
Affordable at a 70 Cent Dollar Invite
Disaster at an 87 Cent Dollar*

How Do We Continue to Extract Value from Our Forest Resources?

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- ✓ Add Value
- A Better Cost-Benefit Ratio in the Global Marketplace

Reducing Costs Necessary, But Not Enough

Need a New Value Focus:

- **Customer Orientation**
- **Environmental Pedigree**
- **Non-Traditional and Derivative Products**

Reducing Costs Necessary, But Not Enough

Need a New Value Focus:

- ✓ **Customer Orientation**
- Environmental Pedigree
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A More Customer Focused Culture

- From “supply- push” to “demand pull”
- Examine market best practices in consumer products and other industries
- Realize the potential of collective marketing in branding and market development

Approaches to Adding Value: Enhanced Service Provision

- Other industries have found ways to add value through greater service provision to customers.
- In the forest industry, this could mean a variety of things:
 - Specialized Delivery
 - Product Tracking
 - Product Warranties
 - Long-term contracts & pricing
 - Fibre traceability

Reducing Costs Necessary, But Not Enough

Need a New Value Focus:

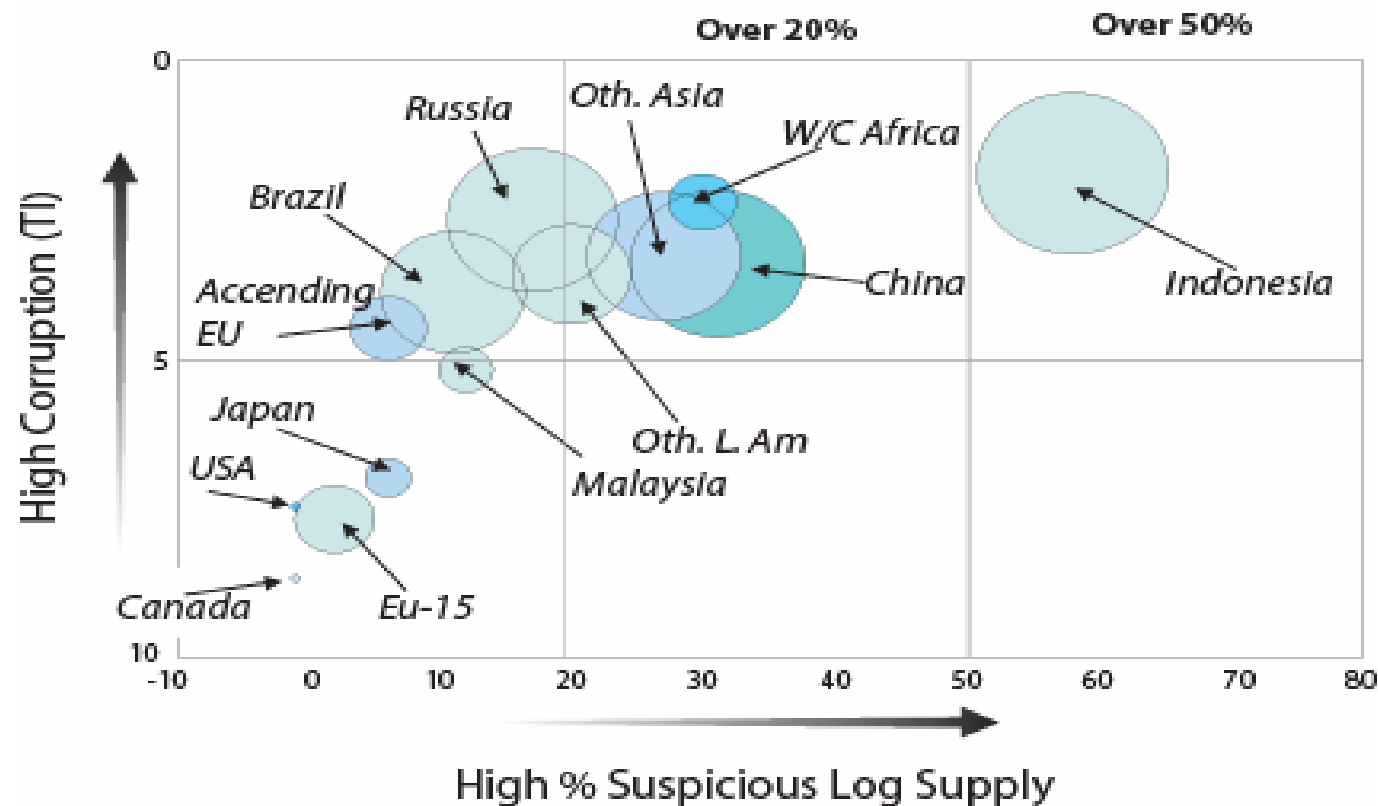
- Customer Orientation
- ✓ **Environmental Pedigree**
- Non-Traditional and Derivative Products

Approaches to Adding Value: Environmental Pedigree

- Canada's forest industry has a distinguished record of leadership on sustainability
- Major customers (and their customers) are increasingly preoccupied with the environmental attributes of the products
- Wood and paper products are environmentally preferable to many substitute materials
- By recognizing ecological services, public policy can encourage environmental excellence

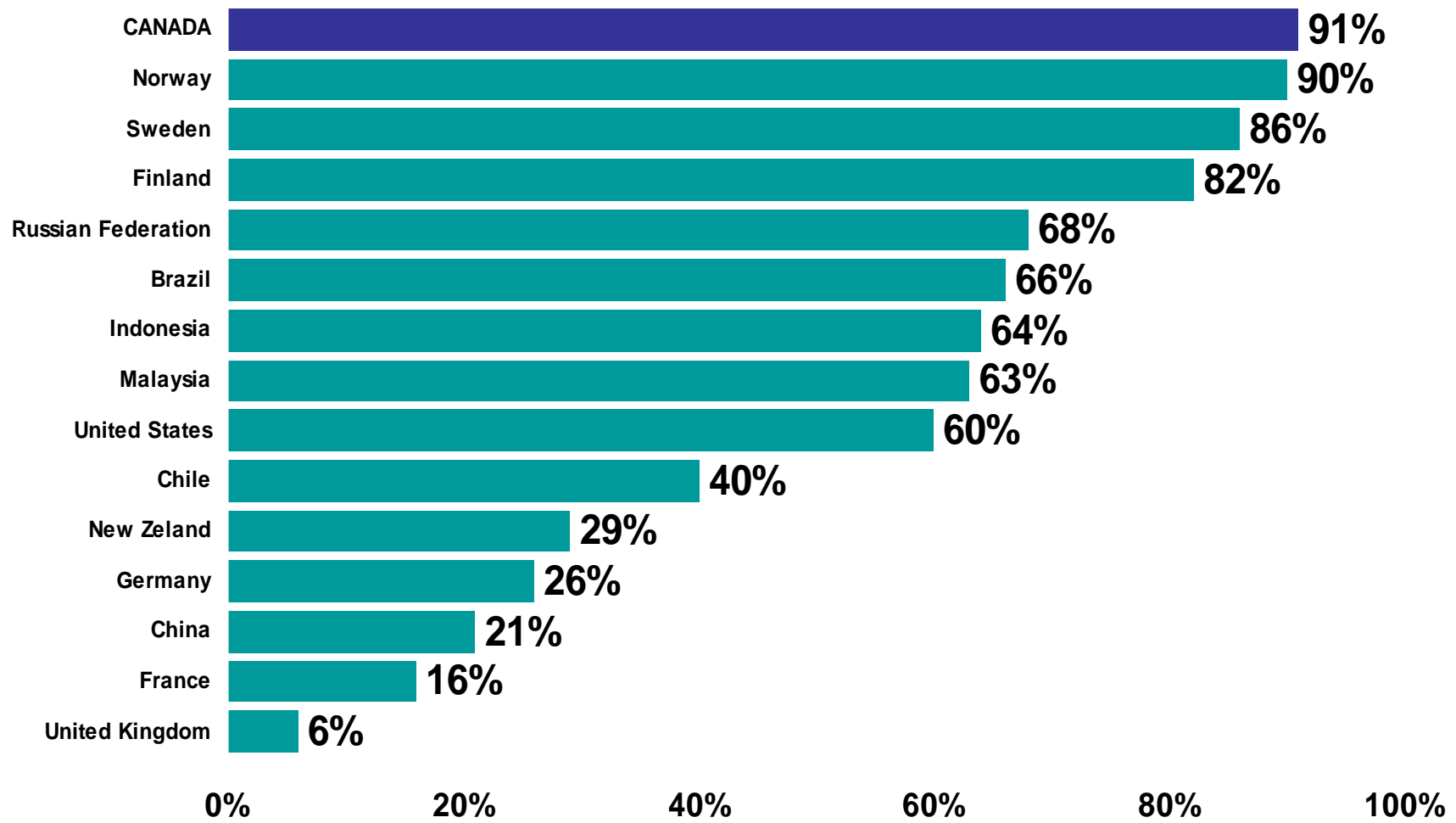
Many Emerging Market Rivals Troubled by Questions about Sustainability Practices

Corruption and Illegal Forest Activity (AF&PA, 2004)



Note: Size of bubbles represents volume of suspect roundwood, including imports. Sources: Transparency International; WRI/SCA estimates of illegal logging, in American Forests & Paper Association 2004

Today's forest as a % of original forests



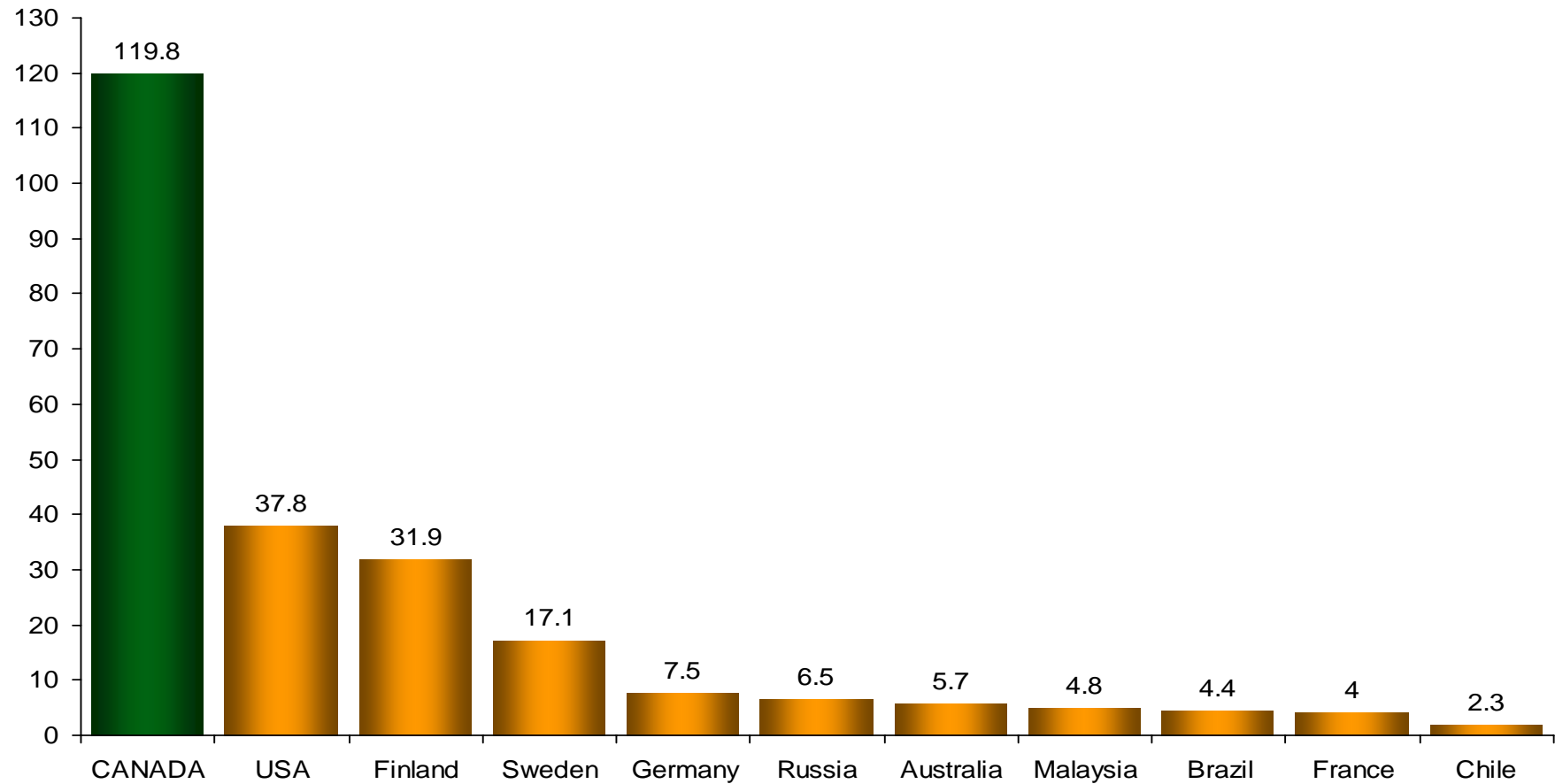
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Will the Marketplace of Tomorrow Reward Excellence in Sustainability?

SFM Certification in Canada and Internationally: December 2005 (millions of ha)

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Reducing Costs Necessary, But Not Enough

Need a New Value Focus:

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- ✓ **Non-Traditional and Derivative Products**

Approaches to Adding Value: Non-Traditional and Derivative Products

- Fibre is tremendously versatile:
 - Bio-energy
 - Food additives
 - Pharmaceuticals
 - Bio-fuels
 - Chemicals
- Technological innovation and changing economics open up tremendous possibilities

Things Will Continue to Change

- **How We Respond Will Determine Our Future**
- **Industry & Government Have Been Working Hard To Reduce Costs and Add Value**
- **We Need To Accelerate**