



July 29, 2011

Ms. Jamie Lim
President and CEO
Ontario Forest Industries Association
300 - 10 King Street East
Toronto, Ontario
M5C 1C3

Re: Response to Ontario Forest Industries Association (OFIA), Northwestern Ontario Municipal Association (NOMA), Northwestern Ontario Associated Chambers of Commerce (NOACC) and Federation of Northern Ontario Municipalities (FONOM)

Dear Ms. Lim:

Thank you for your letter regarding Ontario's forest sector. Ontario Liberals value the competitiveness of the forest sector and believe in supporting communities in Northern Ontario. We are investing in a strong, viable and sustainable primary forest industry and we are helping the sector and others, diversify products and markets as part of our plan to move Ontario forward.

Ontario Liberals are focused on fundamentals that are key to the industry — a long-term, stable supply of cost-competitive fibre, competitive input prices, a well-trained workforce, and a solid transportation system for both raw materials and finished products.

We believe it is in everyone's interest to have Ontario's forest resources used sustainably and to its full potential. That means supporting the existing primary industry and providing additional effort to pursue the establishment of the next generation of forest products.

Today, Ontario's economic recovery is on track. In June, we created more jobs than all other Canadian provinces and the U.S. combined. In the last year, we've created more jobs than the rest of Canada. Ontario's unemployment rate is down to 7.7 per cent, lower than it was before the recession hit in 2008.

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We made tax restructuring a priority so that our corporate tax rates strengthened, rather than hindered, our economic strength and growth. The HST is a part of that. Since it came into effect a year ago, we've created 114,000 jobs. Economist Jack Mintz predicts our tax plan will create 600,000 jobs over the next 10 years.

Our schools are now rated among the best in the world, our health care ranks first in Canada, old jobs are coming back while new jobs are being created in emerging industries like advanced manufacturing and clean energy. The Hudak PCs would take us off track and put our fragile recovery at risk. Families need to know that Ontario Liberals are working to move Northern Ontario forward and that we are committed to job creation, better healthcare and education as our key priorities. That is what we are striving for and what Ontario Liberals will continue to do in the future.

While we cannot control global factors like reductions in demand in the United States where housing starts and industrial and commercial construction have plummeted, we must ensure we are doing everything we can that is within our control to provide opportunities to our forest industry. Our focus is relentless and will concentrate on getting results for Northern Ontario communities.

One of the key challenges for these communities is ensuring a secure and predictable wood supply for Ontario's forest industry. Ontario Liberals successfully completed the largest Wood Supply Competitive Process in North American history. We have offered over 5.6 million cubic meters of wood to 46 proponents. This will put Ontario's wood and people back to work, creating over 600 new jobs and protecting more than 2,300 jobs — a huge step in helping to build a stronger forest industry. This was a key component of our last budget — to create and support 10,000 new and existing jobs for Ontario families, and to strengthen local Northern economies.

In these tough economic times, we have focused on dealing with the tough challenges facing the forestry sector. The Provincial Wood Supply Competitive process was a bridge to a more long-term strategy to maximize the use of our forest resources. More efficient use of these resources means more jobs in

Northern communities. Through our tenure reform initiative, we will facilitate a transition to better industry practices in collaboration with communities, forest industry and Aboriginal peoples. The number of Local Forest Management Corporations (LFMC) that can be established in the next five years will be limited to two. This was at the request of the industry and we listened carefully to its concerns. In five to seven years, it is expected that the majority of Crown forests will be managed by Enhanced Shareholder Sustainable Forest Licenses and up to two LFMCs.

Under the NDP, employment plummeted in forestry, fishing and mining industries in Northern Ontario. Also under its tenure, 14 mills were closed and hundreds of people were put out of work in the forest industry — and that was prior to the global recession. The NDP also showed that its against improving the Northern Ontario economy when it voted against modernizing the pricing system and tenure reform for the forestry industry. The PCs have proven time and again that they would rather vote against constructive solutions than vote to improve the lives of Northerners. The PCs have voted against: better roads for rural and northern municipalities, increasing support to municipalities for land ambulances, increasing the province's share of public health funding, and modernizing the forest tenure and pricing system to benefit the Northern economy.

In response to your question about the *Endangered Species Act* (ESA), we are proposing an exemption for forestry that will allow forestry companies that meet the requirements of the Caribou Conservation Plan, to continue harvesting in the working forest without a permit for caribou which will reduce regulatory burdens for the industry. Many Forest Management Plans have been incorporating the principles of this plan even before it was formally adopted, and forestry has been able to continue to do business successfully under the plan. Our approach to the ESA will continue to strike a balance that respects conservation and wildlife based on scientific principles.

Creating jobs and economic opportunity in the North is a priority for Ontario Liberals and is an important part of Ontario's economic recovery — and we are seeing results from the investments we've made. We have established new programs to support the forest sector including:

- \$207 million offered through our Forest Sector Prosperity Fund,
- \$141 million offered through our Loan Guarantee Program,
- \$124 million disbursed through our Northern Pulp and Paper Electricity Transition Program,
- \$399 million in road construction and maintenance.

These measures have flowed over \$826 million in assistance and created or maintained more than 4,000 jobs in the forest sector. Our investments are putting people and wood back to work and we remain committed to doing just that.

Together, we are helping to reduce the cost of electricity for large electricity consumers in the forestry sector. We have implemented a number of energy programs including the Northern Industrial Electricity Rate program, Global Adjustment, Demand Response 2 and the Industrial Accelerator Program.

We are pleased to have earned positive support for our approach from forest sector leaders like Tim Houle, General Manager, Domtar Inc., who said:

“The Ontario government’s help in our efforts to reduce our electricity consumption and costs supports our drive to restore competitiveness to our Ontario pulp and paper operations. This program is helping us move in the right direction.” (June 20, 2008).

Ontario Liberals are committed to reducing electricity costs in a clean and sustainable way. We are still trying to clean up the mess left by the PC government with its attempt to restructure the electricity sector in 1999. They implemented a Debt Retirement Charge (DRC) to every Ontarian’s bill in 2002. It added \$1 billion to the stranded debt from 1999 to 2003. Today, the PCs would add this cost to the bills of corporations and industries — including the forestry sector. In contrast, through strong fiscal management, Ontario Liberals have steadily reduced the stranded debt by about \$6 billion. We have a plan to eliminate the DRC between 2015 and 2018 — and permanently remove it from all bills.

In 2003, we inherited an electricity system experiencing constant brownouts and blackouts. The PC government sat back and watched the electricity supply erode without making any of the necessary investments to maintain a reliable system. We’re not only making these investments, we’re focused on creating cleaner energy and developing an important new economic sector with clean energy jobs. The PC plan puts all of this at risk, including the 50,000 clean energy jobs that will be created in the next few years.

These investments have helped us establish a reliable energy supply but we know that energy prices here and elsewhere are on the rise. So, to help families and businesses mitigate the impact of rising prices, we’ve reduced electricity bills by 10 per cent for Ontario families, seniors, farmers, and small businesses through the Ontario Clean Energy Benefit. We have put in place conservation programs for Ontario’s large industry to help enhance their competitiveness and continue investing in Ontario’s economy and jobs, and we have also established up to \$200 in additional relief for families in Northern Ontario through the Northern Ontario Energy Credit.

You asked about our funding for access roads. We have provided strong support to the forestry sector through the roads funding program we created in 2005. Since then, we’ve committed almost \$400 million to forest-accessible roads. Until this year, funding levels were not reduced — even when provincial harvest levels fell nearly in half. The NDP downloaded the cost of access roads during their administration. The PCs then aggravated this by downloading the construction and maintenance of primary, secondary, and tertiary roads. The Ontario Liberals reversed these negative downloads and took the load off the industry by uploading these costs.

Based on a harvest in excess of 20 million m³, our commitment to this program was \$75 million. We maintained the \$75 million level after the wood harvest fell well below 13 million m³. Even with the reduction this year to \$47.8 million, the per m³ support remains above the original target, based on recent harvest levels.

We are committed to returning the funding to the \$75 million per year level and have also agreed to review our spending to see if additional funds come available later in the year.

We know these are challenging economic times in Northern Ontario and across the world. And these challenges go far beyond electricity prices and access roads. That is why we are creating tremendous opportunities for innovation and value-added markets in the forestry sector.

One of the most exciting business proposals that we have under our Wood Supply Competition is Rentech Olympiad Fuels. Rentech is proposing to convert merchantable and unmerchantable supplies of mostly low-quality hardwoods into a biofuel that can be used in jet airplanes. Imagine the opportunities this could present to our generation — a new source of fuel that is not only clean and renewable, but that will reduce society's reliance on non-renewable petroleum-based fuels and reduce our emissions of greenhouse gases along the way.

This project represents the largest single capital investment in a forest products business in Ontario's history: a \$675-million investment and it's also the largest wood allocation that the province has awarded. We are all very excited about this opportunity, and will carefully monitor its progress over the coming years.

Together, we have navigated the recession the Ontario way: we protected education and health care, stood by workers in the hardest hit industries, and worked together to find new opportunities for our province and our families. Our plan is getting results and Ontario is back on track. We know there is more work to do but we need to keep moving forward, together. We look forward to continuing to work with you and your colleagues. Please accept my best wishes.

Yours truly,

A handwritten signature in black ink, appearing to read "Dalton McGuinty". The signature is fluid and cursive, with the first name "Dalton" being more prominent and the last name "McGuinty" written in a similar style.

Dalton McGuinty
Leader of Ontario Liberal Party
Premier