

**Ontario's Forest Sector:
Going Local – The Logical Step to
Ontario's Green Economy**

*Economic Opportunities Require
Wood*

January 19, 2010

**Ontario Forest Industries Association
2010PRE-BUDGET SUBMISSION**

A Year in Quotes

“I think it’s time builders and consumers in Ontario take a conscious effort to support this industry by building homes using most, if not all, of their wood from Ontario suppliers. It not only makes good economic sense, it makes great ecological sense as well”

Craig Marshall, Marshall Homes (August 2009)

“An Ontario home, built by Ontario workers with Ontario wood – it just doesn’t get any better than that!”

Jamie Lim, President and CEO, Ontario Forest Industries Association (August 2009)

“My Ministry is committed to creating opportunities for Ontario’s forest industry to succeed and is encouraging forest sector investment, innovation, diversity and employment.”

Michael Gravelle, Minister of Northern Development, Mines and Forestry (November 2009)

“In Ontario, as we reported in Public Accounts: corporate tax revenues fell in one year by an unprecedented 48.1 percent—more than \$6 billion.”

Dwight Duncan, Minister of Finance (October 2009)

“We are losing investment opportunities to other jurisdictions.”

Michael Gravelle, Minister of Northern Development, Mines and Forestry (November 2009)

“According to data from Statistics Canada, the employment rate in the Northeast fell to 53.5% in December.”

Wayne Snider, Timmins Daily Press (January 2010).

Forest sector mill closures and direct job losses since 2003 (statistics provided by the Ministry of Northern Development, Mines and Forestry):

Job Loss: 9,000 permanent and 5,500 indefinite jobs

Mill Closures: Approximately 35 permanent and 27 indefinite mill closures

Introduction

In 2009, the Ontario Forest Industries Association (OFIA) pre-budget submission outlined the pivotal role for Ontario's forest sector in the transition to the province's new, local, green economy (see Appendix I). By utilizing the sector's expertise and existing infrastructure, and by promoting our world class forest management standards and strong environmental track record, it was recognized that Ontario's forest sector was well poised not only to take advantage of emerging markets such as bio-energy, but was well positioned to capitalize on expanding/recovering markets for traditional primary and secondary forest products – many of these right in our own backyard!

A critical component of the 2009 pre-budget statement was that with the right public policy and continued government support in key areas, Ontario would attract new investment, create employment opportunities and generate prosperity for all Ontarians – a sentiment that holds equally true today.

It was further recognized that when we use local forest products, we are not only making an environmentally responsible choice, we are supporting local jobs and local communities.

Realizing the Opportunities

Over the past year, opportunities outlined in the OFIA 2009 pre-budget submission began to be realized, as evidenced both through private sector activities and government actions.

As noted in the Forest Products Association of Canada's (FPAC) 2009 Future Bio-Pathways Project, *“the most promising future involves sawmills and engineered wood product plants mixed with biorefineries which produce a range of pulp/bioenergy/biochemical products.”*

Local Markets, Local Products, Local Jobs

In August 2009, in a show of support for Ontario's forest sector, and in an effort to promote Ontario jobs and green building practices, Craig Marshall of Marshall Homes unveiled his Ontario Wood Home in Oshawa – a 2,539 square foot home built using only Ontario wood.

The Greater Toronto Area (GTA) homebuilders purchase about \$800 million of lumber annually to frame wood homes and of that it is estimated that 70% comes from outside of Ontario. This represents an opportunity of over \$500 million dollars for Ontario's lumber sector.

The importance of this economic opportunity was not lost on Minister Michael Gravelle, Ministry of Northern Development Mines and Forestry (MNDMF) who

attended the event and stated that *“Housing and forestry are two key economic drivers in Ontario and I view this as a real opportunity. We can bring hope back to all Ontario forestry sector works. This is an extraordinary story and a great model. We recognize there are real opportunities and we’re going to move on them.”*

This initiative received further support in the Legislature from Wayne Arthurs, MPP for Pickering Scarborough East where he called upon the government *“to aggressively promote the use of Ontario wood products in residential and commercial construction throughout Ontario.”*

As stated by Craig Marshall at the Oshawa Home Event *“I think it’s time builders and consumers in Ontario take a conscious effort to support this industry by building homes using most, if not all, of their wood from Ontario suppliers. It not only makes good economic sense, it makes great ecological sense as well.”*

Ontario currently consumes more wood products than it produces. As the population in southern Ontario continues to grow, the domestic demand for wood products will only increase, raising a fundamental question for government and industry – do we want to produce these products in Ontario, supply good paying jobs and provide support for our rural and northern communities, or do we want to forego these benefits and import wood products from other jurisdictions?

When we buy local forest products, we all win.

Recovering/Expanding Markets

According to most analysts, key Ontario markets are anticipated to rebound with housing starts in the U.S. predicted to surpass 1 million units in 2011, approaching 2 million units in 2013. As the North American economy recovers, there will be a significant opportunity for Ontario to take advantage of this recovery and expand its share of existing markets.

As the world’s economies recover from the recent economic crisis, global demand for forest products is expected to increase by 3% a year.

The Green Opportunity

Global demand for forest products is not only expected to rise, it will favour those jurisdictions that are able to demonstrate that their forests are managed in a sustainable manner. Ontario’s has one of the most stringent forest management regulatory frameworks in the world and has a strong environmental track record. Our strong regulatory framework has enabled Ontario’s forest sector to certify 80% of its operating land base to third-party, independent, internationally recognized standards – something that cannot be achieved unless you are starting from a strong and sustainable regulatory framework.

“On behalf of our two jurisdictions, we hope you’ll take the time to learn why using products derived from sustainably managed forests is one of the best things you can do to reduce our carbon footprint.”

Gordon Campbell, Premier of British Columbia and Arnold Schwarzenegger, Governor of California – Preface to Tackle Climate Change, Use Wood (2009).

In addition, the global shift to ‘green’, environmentally responsible economies will favour the use of wood products over other materials, particularly in construction. The harvesting and production activities associated with wood construction products like sawn timber use less energy than alternative building materials such as steel, aluminum, brick or concrete.

Forest products and sustainable forest management are increasingly recognized as important tools in mitigating climate change – a phenomenon that is widely considered to be the most significant environmental issue of our time.

“In the long term, a sustainable forest management strategy aimed at maintaining or increasing forest carbon stocks, while producing an annual sustained yield of timber, fibre or energy from the forest, will generate the largest sustained mitigation benefit.”

International Panel on Climate Change (IPCC) (2007)

Putting Wood to Work

One of the key factors governing investment and the economic well being of the forest sector is access to a secure, predictable, affordable fibre supply.

In November 2009, the Ministry of Northern Development, Mines and Forestry (MNDMF) announced a Provincial Wood Supply Competitive Process intended to make unused wood available for production – an initiative, which if implemented properly is supported by the OFIA.

This initiative has tremendous opportunity, both for Ontario’s forest sector and the province as a whole - however, the government needs to recognize two critical factors.

First, the wood supply needs to be there – in his announcement on November 26, 2009, Michael Gravelle, Minister of Northern Development, Mines and Forestry stated that *“Ontario’s Crown forests can sustainably produce about 26 million cubic metres of wood annually”*.

In order to protect the livelihoods of Ontarians living in northern and rural communities and to protect future economic development and employment opportunities, the province needs to **permanently protect this industrial fibre**

supply for utilization by existing facilities and new entrants to Ontario. Any reductions in this wood supply will not only have negative repercussions on the existing forest industry, they will eliminate opportunities for economic development and employment.

Secondly, the government needs to recognize the value of an integrated forest sector and the importance of the existing primary sector in the continued development of the biofibre and value added sectors. Just as you can't have a healthy auto parts sector without a healthy auto sector, you can't have a healthy biofibre or value added industry without a strong primary forest sector.

The results of the Forest Products Association of Canada's (FPAC) *Future Bio-Pathways Project*, sponsored by Ontario's Ministry of Northern Development, Mines and Forestry, concludes that there is a "*compelling political and business case for maintaining a healthy, strong forest industry*" and highlights the benefits of an integrated approach that builds on a strong primary sector (for the full report see www.fpac.ca).

"The traditional forest products tend to generate far higher employment multipliers...."

Conclusion from Forest Products Association of Canada's Future Bio-Pathways Project (November 2009).

"We are conscious of the primary forest companies, the investments they put into the province, the thousands of jobs they've created, the economic opportunities that have been out there"

Michael Gravelle, Minister of Northern Development, Mines and Forestry (January 2010)

Maintaining the sustainable supply of fibre, while simultaneously promoting a well integrated forest sector will provide a win-win-win – for the primary forest sector, the biofibre/value added sector, and the people of Ontario.

Made in Ontario Challenges

Despite the advances that took place in 2009, Ontario's forest sector continues to face significant challenges. As the global economic picture brightens, those Ontario companies that have survived are now being forced to deal with home grown, "made in Ontario" challenges – including the development of harmful public policy that continues to remove wood from the fibre basket, uncompetitive electricity rates, and an increase in government red tape.

In April 2009, at the Ontario Professional Foresters Association (OPFA) Annual Meeting, the government announced its intentions to review the forest tenure model. While the OFIA is supportive of this initiative, it is important to recognize that tenure systems alone will not unilaterally achieve a competitive business

environment – tenure systems must be accompanied by responsible legislation, regulation and policy. At the OPFA meeting, an Assistant Deputy Minister from British Columbia warned the audience of this fact, stating that BC’s tenure reform in 2006 has not shielded his province from job losses and mill closures.

Keys to ensuring a competitive forest sector in Ontario are:

- **The protection of a minimum 26 million m3 of fibre for industrial utilization.**
- **A commitment to conduct socio-economic assessments associated with any new or revised legislation, regulation or policy that could impact the forest sector is also required.**

Since the division of forestry in June 2009 between MNDMF and MNR, regulations and policies that threaten the economic viability of our sector have been developed and approved with no economic filters, no consideration of the economic impacts on forestry, and without any recognition of the world-class standards we already have in place. **Clarification of the relationship between MNR and MNDMF with respect to forestry is also required.**

Ontario’s forest sector has an opportunity to become the envy of the world. Addressing the following key asks/recommendations are integral to creating a climate that will stimulate investment, create employment opportunities, and create prosperity for all Ontarians.

Ontario has great potential – through collaboration and the right government policy we can maximize the full potential of Ontario’s forest sector.

OFIA Recommendations

1. Maintenance of the Industrial Fibre Basket

Ontario’s forest sector continues to see an erosion of its landbase through redundant and politically motivated legislation, regulation and policy. For example, the Ministry of Natural Resources (MNR) recently announced its intent to reduce the area available to forestry in Algonquin Park. To date the MNR has not been able to provide one credible social or ecological rationale for this initiative, despite the undeniable fact that this initiative will have negative repercussions on the forest sector and local economies. In fact, the Algonquin Forest Authority (AFA), one of the parties asked to provide recommendations to the government on this issue stated the following:

“The AFA has expressed reservations about the Proposal, as they are unable to say with certainty that this Proposal will not negatively impact the forest industry and local communities.”

Position from Algonquin Forest Authority – Co-author of the Joint Proposal for Lightening the Ecological Footprint in Algonquin Park

The provincial Endangered Species Act (ESA) continues to threaten the economic well-being of the forest sector. Despite the fact that the forest industry in Ontario has been providing for the well-being of species at risk for decades, and despite a proven track record in contributing to the recovery of species such as bald eagle, southern flying squirrel and woodland caribou, the government continues to develop restrictive, unnecessary and economically harmful policies. Despite repeated requests to MNR to share the science used in the development of these policies, no information is being shared.

To put this in perspective, in the fall of 2009 the Wood Turtle Habitat Regulation received Cabinet level approval, and was subsequently filed, after only one public workshop in downtown Toronto and with no government socio-economic impact assessment. Following the filing of the regulation, an economic impact assessment conducted by one of our members indicated that the Wood Turtle Habitat Regulation will threaten 40 percent of the total available fibre on their management unit. Business runs on certainty - how can the province stimulate investment and generate employment when the fibre supply in Ontario is constantly threatened and continually shrinking?

"We are very conscious of the impact of the Endangered Species Act ... ultimately being the reduction in the availability of fibre,"

Michael Gravelle, Minister of Northern Development, Mines and Forestry (November 2009)

A long-term, predictable and secure fibre supply is integral to the government's vision of growing our green economy. We cannot afford to forego these opportunities by eroding our resource base.

The OFIA requests that the government permanently protect a minimum of 26 million m³/yr for utilization by existing mills and new entrants, even if it is not being used because markets come and go, and that the government ensure that the existing operational landbase is not further eroded.

The OFIA requests that the government conduct a socio-economic impact assessment on all legislation, regulations and policies that could reduce the provincial fibre supply.

MNR needs to retract the regulation or else immediately develop policy that that recognizes the forest management prescriptions as outlined in the November 2008 version of the Forest Management Guide for Conserving Biodiversity at the Stand and Site Scales as being permissible under the Endangered Species Act (ESA), and that they do not constitute "damage" or "destruction" of wood turtle habitat, and hence, do not require approval via an agreement, permit, or instrument, as outlined in the ESA.

2. Maintain Competitive Restoration Measures

Over the past five years the Government of Ontario has implemented several key measures/strategies to help restore the competitiveness of Ontario's forest sector. These include:

- a. Road maintenance and construction funding
- b. Forest Resource Inventory (FRI) funding
- c. Wood promotion funding
- d. Forest Sector Prosperity Fund (complete and fulfill commitments)
- e. A loan guarantee program
- f. Northern Pulp and Paper Electricity Transition Program (see Recommendation 5 below)

Today, we continue to witness the benefits of these programs that are allowing viable mills to remain open. In addition, these initiatives are creating an economic environment that is stimulating investment with the introduction of new technologies into mills as the forest sector continues to transform itself in preparation for better economic times (see Appendix II). Maintaining the above programs is vital to the future well being of Ontario's forest sector, and even more critical in 2010 as we await the confirmation of economic recoveries at home and in the United States.

The OFIA requests that the Government of Ontario maintain all existing competitiveness measures and initiatives that have been put in place since 2005.

3. Poplar and White Birch Stumpage Dues

Last year, the Government of Ontario maintained a competitive stumpage rate for poplar and white birch of \$1.07/m³ as part of its efforts to "*create jobs by reducing the cost of delivering wood to processing facilities*" and to "*encourage new investment and greater use of the underutilized poplar species*".

This initiative has had a significant material benefit for both the hardwood sector and integrated forest companies, and, in many cases, has played a large role in keeping those mills that are still running as viable businesses through this extremely challenging time. Prior to these adjustments, Ontario dues were 800% higher than other competing jurisdictions in Canada. This represented a huge competitive disadvantage for Ontario.

The OFIA requests that the government maintain the Crown dues rate for poplar and birch at a rate no greater than \$1.07/m³ for the next three years.

4. Ministry of the Environment

There are actions that the Ministry of Environment can take to help the forest sector that do not impose onerous financial burdens on government.

Timelines for approvals have been improving slowly. The current process requires a lot of Ministry resources and will continue to do so if change is not implemented. When the economy is ready to rebound, the approvals system needs to be ready. The time is right to overhaul the system.

The OFIA recommends that the Ministry of Environment develop a risk based approvals system that quickly gives approvals to low risk projects and puts more effort into approving complicated high risk projects.

The markets for Ontario's forest products are national and international. Our industries must be able to compete with other jurisdictions. At times, new policy and regulation will put Ontario industries at a competitive disadvantage. Currently there is no acid test to prevent this from happening.

The OFIA recommends that all new policy, standards and regulations receive socio-economic impact assessments before the government makes its decisions.

5. Industrial Electricity Rates

OFIA members are alarmed by the trend of rapidly increasing delivered electricity prices. We are asking for your support to reverse this trend and bring delivered industrial electricity prices to a competitive level.

Unlike natural gas and oil, where pricing is determined by world markets, electricity cost is significantly impacted by the policies of the jurisdiction in which it is produced. Decisions on fuel mix, investment in renewables and regulatory decisions made by the respective Energy Boards have a major impact on the delivered price. Ontario can take action to lower the delivered price of power to industry and keep jobs here.

The OFIA recommends the following:

- a. Restructure the Global Adjustment allocation to lower its impact on electricity prices for industrial consumers.**
- b. Restructure the debt retirement charge to reduce the payments.**
- c. Have the OPA sell its Greenhouse Gas (GHG) allowances/credits from its green energy programs and apply the revenues to reduce the global adjustment.**

- d. Extend the Northern Pulp and Paper Electricity Transition Program (NPPETP) past its October 2010 expiry and expand it to the rest of the forest industry sector regardless of size and location.**
- e. Develop long term special electricity rates for economic development and preservation that would be funded through general revenues – like what is seen in New York State for example:**
 - i. Power for Jobs**
 - ii. Economic Development Power**
 - iii. High Load Factor Power**
 - iv. Preservation Power**

6. Green Energy Credit

In Ontario, the forest sector is the largest producer and consumer of green energy.

Supporting the use of biomass based fuels will create many benefits in Ontario. Compared to fossil fuels, biomass based fuels are greenhouse gas neutral and are made in Ontario. The more industries convert to biomass based fuels, the more jobs will be created in Ontario to produce these fuels.

Some industrial facilities have already converted parts of their operations from using fossil fuels to biomass fuels to reduce greenhouse gas emissions. These conversions required significant capital investment and the government of Ontario needs to reward those that have made to commitment to the environment and encourage future investment. A new biomass fuel consumption incentive will keep existing biomass fuel users operating and encourage other fossil fuel users to convert.

By working with Ontario's forest sector, the government of Ontario will be stimulating the province's green agenda with a made for Ontario green energy program.

The OFIA recommends that the government develop a Green Energy Credit that will provide a rebate of \$0.25 per gigajoule (equivalent to \$0.90/MWhr) of energy produced from biomass sources.

Conclusion

Our industry's investments have allowed us to develop into an integrated sector that produces a diverse range of forest products (see Appendix II). Ontario's forest sector produces a wide range of primary and value added products including pulp, paper, dimensional lumber, oriented strand board (OSB), engineered wood products and chemicals, plywood, panel board, innovative flooring systems, windows, doors, cardboard packaging, facial tissues and

hygiene products, food additives and other products used in concrete, plastic tubing, household cleaners and most recently, wood pellets for energy production.

And this is no accident. It is widely acknowledged that a healthy primary industry supports a strong value added sector. Residuals from primary processing facilities are being increasingly utilized to create new products. By diversifying and integrating our various product sectors, Ontario's forest industry has been able to create new efficiencies and reduce costs associated with activities such as harvest operations, road construction and transportation costs – creating an economic advantage for existing facilities and new entrants and product lines.

We can no longer see the slow erosion of our natural resource sectors due to the agendas of special interest groups in Toronto and beyond, which all have as their focus, the removal of landbase from industrial use. We have an incredible opportunity in front of us, and in order to maximize this opportunity, we need the government to ensure a secure, affordable supply of industrial fibre.

We need strong public policy that protects the wood supply available for industrial utilization, and that supports the forest sector. A healthy forest sector means a healthy Ontario.

Appendix I – Excerpts from OFIA 2009 Pre-budget Submission

Introduction

Over the past several months, in the wake of an unprecedented global economic crisis, one thing has become abundantly clear – it is not business as usual. As Ontario transitions itself to become a global leader in the development of a new bio-economy, the provincial government will be looking towards those industrial sectors that are able to meet not only the economic challenges that are in front of us, but that are able to do so in a responsible and environmentally sustainable fashion.

Ontario's forest sector is well positioned to become a pillar of Ontario's new green economy.

Why?

We have the expertise – Ontario's forest sector employs some of the most qualified and experienced individuals in the world, both in terms of forest management and the expertise and knowledge to convert wood into other renewable and sustainable products.

We have the infrastructure – Forest companies share the Premier's philosophy and have also been relentless in improving their competitiveness. For decades, forest companies in Ontario have been re-investing in themselves to remain competitive in today's global marketplace, and, to take advantage of new market opportunities.

Those companies that have invested in themselves and retooled are weathering the economic storm. Their investments have created a well integrated network of modern and efficient mills that maximize the utilization of our forest resources and produce a wide range of primary and value added products. Residuals from one processing facility, once considered as waste, now become the raw materials for another facility. New markets are being sought out and exploited, and new products are being developed to respond to consumer demand. Companies are merging to combine resources and find strength through common synergies.

We have the opportunity – Long before the term "biofuels" became sexy, for the past 60 years the forest sector has been using biomass as fuel within its manufacturing processes. Today, our sector has cut its reliance on fossil fuels by more than half through the reuse of forest industry by-products such as wood chips, bark, wood shavings and sawdust, making us a leader in the reduction of greenhouse gas emissions. This innovation also positions our sector quite well

for manufacturing pellets to meet the growing demand for renewable energy as our province moves away from coal.

We are the environmentally friendly choice - Forest products and sustainable forest management are increasingly recognized as an important tool in mitigating climate change – a phenomenon that is widely considered to be the most significant environmental issue of our time. According to the International Panel on Climate Change (IPCC) that is considered by many to be the authoritative voice on issues related to climate change:

“In the long term, a sustainable forest management strategy aimed at maintaining or increasing forest carbon stocks, while producing an annual sustained yield of timber, fibre or energy from the forest, will generate the largest sustained mitigation benefit.”

We have government support - Undoubtedly, numerous provincial government programs implemented since 2005 have helped viable members of the industry to keep the doors open and continue to employ people and sustainably produce quality wood forest products. Maintaining the competitive steps that government has put in place over the past 3 years will ensure that these sustainable companies continue to support over 260 communities across Ontario – in the GTA, southern rural and northern Ontario – and over 200,000 Ontario hard working families.

Ontario’s forest sector is a logical choice to provide the foundation for Ontario’s new green economy. Through continued partnerships between the government of Ontario and the forest sector, we have the opportunity to shift the economic paradigm and make Ontario a world leader with a sustainable new economy.

New Opportunity – Ontario’s Backyard

New markets are emerging for Ontario wood products.

Ontario represents 42% of Canada’s non-residential market. Within current building codes, we have an opportunity to increase primary and value added wood product sales in Ontario by four times the current levels. This represents an additional \$1.2 billion opportunity right in our own backyard. And we can do even better. Right now, British Columbia is working to change its building code from the current 4 storey maximum so that commercial buildings 6 stories or less can be built using wood products.

Demonstrating just how much can be accomplished, In just the past two years alone, Woodworks Ontario has influenced almost \$25 million dollars in new wood product sales. Significant opportunities to promote wood and increase the use of primary and secondary wood products exist within our own backyard.

According to the United Nation's Intergovernmental Panel on Climate Change (IPCC), "buildings could represent the greatest opportunity for making considerable reductions in carbon dioxide emissions. About 30 per cent of the projected global greenhouse gas emissions in the building sector could be avoided by 2030 through green building choices".

Expanding domestic consumption of primary and secondary Ontario wood products not only makes sound economic sense, it provides a significant environmental benefit.

As demonstrated at Toronto's 8th Annual Woodworks Gala, Ontario's architects, engineers, designers, contractors and community leaders are making sound environmental choices by choosing local primary and secondary wood products for their commercial building projects.

Citizens are realizing that they can tackle climate change by using wood.

New Opportunity – Building for Tomorrow

Today's forest sector has undergone a profound and vital transformation.

In the face of increasing global competition, Ontario's forest sector has invested significantly in modernizing its processing facilities to improve operating and environmental performance and to maintain our competitive edge. These investments have not only allowed many of Ontario's mills to remain open despite current economic challenges, they have positioned our sector to take advantage of new and expanding markets as the global economy stabilizes.

According to most analysts, key Ontario markets are anticipated to rebound with housing starts in the U.S. predicted to reach over 1 million units in 2010. As the North American economy recovers, there will be a significant opportunity for Ontario to expand its share of existing markets.

Ontario currently consumes more wood products than it produces. As populations in southern Ontario continue to grow, the domestic demand for wood products will only increase, raising a fundamental question for government and industry – do we want to produce these products in Ontario, supply good paying jobs and provide support for our rural and northern communities, or do we want to forego these benefits and import wood products from other jurisdictions?

New Opportunity – Bio-Economy

As noted by Bill Mauro, MPP for Thunder Bay-Atikokan and Parliamentary Assistant to the Minister of Natural Resources, the province is currently looking toward "growing the bio-economy" using our forest resources as key driver in

helping Ontarians move “from using non-sustainable petroleum products to sustainable forest products, and more”.

A strong primary forest sector is critical to a long-term, viable and sustainable bio-economy. These two sectors are complimentary to each other and are both integral components in realizing the government’s vision of a green economy. Just as you can’t have a healthy auto parts sector without a healthy auto sector, you can’t have a healthy biofibre or value added industry without a strong primary forest sector.

As noted in an independent study conducted by the Confederation of European Paper Industries in 2007 “Using wood as a resource for lumber, pulp and paper products first and only using it as a source of energy at the end of the product life cycle adds eight times more value to the economy and retains thirteen times more jobs than simply burning wood for energy.”

Just this month, one of our member companies began producing pellets in response to this expanding market. Ontario’s forest sector has the knowledge, expertise and experience to take advantage of the growing bio-economy.

Ecological Benefits and Environmental Record

Forest management in Ontario is world class. The platinum-standard Crown Forest Sustainability Act (CFSA) mandates the provision of long-term forest health above all other values and ensures the long-term provision of:

- social and ecological values such as cultural heritage sites,
- habitat for wildlife and species at risk, and
- recreational opportunities.

Our strong regulatory framework has enabled Ontario’s forest sector to certify 80% of its operating land base to third-party, independent, internationally recognized standards – something that cannot be achieved unless you are starting from a strong and sustainable regulatory framework.

The contributions of sustainable forest management in mitigating climate change are well documented and becoming increasingly recognized around the world. This recognition is reflected in the words of the Premier of Ontario:

“We know that sustainable forest management, including harvesting and the use of wood products, provides long-term carbon storage.”

In addition, wood products are viewed hands-down as preferable to other non renewable materials. The extraction and production activities associated with wood construction products like sawn timber use less energy than alternative building materials such as steel, aluminum, brick or concrete. In fact, wood is the

only material that, when considering the carbon sink effect of well managed forests, has negative CO₂ emissions.

As the world's only renewable building material, wood has an increasingly vital role to play in ensuring sustainable economies. As such, the province's forest sector is the logical foundation for a new green economy.

Appendix II – Industry Investment in Ontario

Example 1.

Company 'A' is a significant contributor to municipal and the provincial economies:

- a) Annual Ontario sales of \$1.26 billion
- b) 2,700 direct employees
- c) 8,100 indirect jobs created
- d) Capital investment of over \$700 million since 2000
- e) Demonstrated track record in providing economic opportunities for First Nations communities (valued at over \$20 million/year)

Company 'A' has made significant investments in reducing its costs including:

- a) investment in a biomass boiler (\$84.3 million in capital) and in the process of finalizing investment in a condensing turbine (\$45 million in capital) to combat the high cost of electricity
- b) Continues to pursue development opportunities in biomass-based products
- c) \$125 million in a new recovery boiler
- d) \$100 million in a greenfield (new) sawmill in 2003 (newest sawmill in Ontario)

Example 2.

Company 'B' has recently invested (< 2 yrs) the following in one of its mills:

- a) New computer control for its lathe \$0.5 Million
- b) Computer controlled camera scanner at discharge of dryer for automatic classification of veneers \$0.3 Million.

Additionally the mill has expanded its product line to include a no added urea formaldehyde resin, pre finished and a number of other specific products. In total the number of products offered has increased from 2,000 individual items to a little over 2,700 in an attempt to be a one stop shop for our customers.

Direct employees from the mill will pay \$800,000 in provincial income tax this year (196 full time employees (hourly & staff)) and the mill will spend \$13.4 million this year on goods and services including municipal taxes within the province of Ontario.

In order to remain competitive, the mill has diverted 75% of its waste from land fill to bio-energy (cogeneration plant). 95% of all sales from the mill carry either SFI or FSC (Chain of Custody). Forest Operations are ISO 14001 & SFI Certified.

Example 3.

In 2006 Company 'C' invested millions of dollars to develop a coated wood plant. The investment adds value to commodity OSB and produces a product that can be used primarily for industrial floors and concrete forms. In addition to the economic benefits, the new product provides environmental value as the concrete forming product can be used multiple times vs. the traditional product (plywood) that is essentially a 1 time use application. The fiscal objective is diversification i.e. reduce the pressure on the commodity markets and to penetrate the non-residential market.

Example 4.

Company 'D' is an integrated forest products producer operating a variety of pulp, paper and lumber mills in Ontario.

A representative pulp and paper mill has recently completed the following capital upgrades in order to improve environmental performance, energy efficiency and cost competitiveness:

2003: \$230 million invested in North America's most modern recovery boiler

2006: \$1.4 million in new tertiary chip screens for improved fibre capture

2006: \$0.5 million in a new bleach plant heat exchanger, saving \$1.6 million per year in natural gas costs

2006: \$0.2 million for a new hot water standpipe system, capturing \$0.3 million per year of energy savings

In 2007, the mill contributed over \$600 million to the Ontario economy through purchase of goods and services - over 50% of these purchases were from companies located south of Parry Sound.

Another \$24 million in potential capital projects to reduce natural gas and electricity consumption are under consideration at this time, pending a more positive investment climate.

This mill pays 25% of the total taxes collected by its host municipality, has contributed nearly \$100,000 annually to community programs, and accounts for over 72% of total income generated in the local region.