

July 5, 2011



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Addressed to Party Leader

RE: Ontario Forest Industries Association (OFIA), Northwestern Ontario Municipal Association (NOMA), Northwestern Ontario Associated Chambers of Commerce (NOACC) and Federation of Northern Ontario Municipalities (FONOM) Election Commitment Letter

Dear [Party Leader],

Ontario's renewable forest sector is a key component of the province's green economy. According to the Ministry of Northern Development, Mines and Forestry website (http://www.mndmf.gov.on.ca/forestry/forest_industry_e.asp), Ontario's renewable forest sector supports almost 200,000 direct and indirect jobs in over 260 Ontario communities. Recent wage and salaries provided by the forest sector have been calculated at \$2.7 billion.

In addition to the employment opportunities, the provincial forest industry accounts for approximately \$14 billion in annual sales, including approximately \$8 billion in pulp and paper manufacturing, \$3.8 billion in wood product manufacturing, and \$2.1 billion per year in value-added furniture/kitchen cabinet manufacturing, with billions more generated in related economic activity. Forestry accounts for more than \$4 billion in annual export and historically, the total value of taxes collected from the forest industry in Ontario is approximately \$2.3 billion per year, including \$800 million per year to the province. Annual Crown charge payments by the forest industry to the Crown (i.e. stumpage fees) averaged \$131,961,595 per year between 2004/05 and 2008/09 (most recent figures available). Provincial renewal expenditures were approximately \$76.7 million in 2008/09 alone.

Despite recent economic hardships, Ontario's renewable forest sector remains an integral part of Ontario's economic well-being and is a vital contributor to our province's standard of living. A strong forest sector is paramount to Ontario's return to economic prosperity, which will ensure the sustainable management and utilization of the timber and non-timber resource within Crown forests across the province.

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As outlined by our respective organizations on numerous occasions, and as stated in the OFIA's 2011 Pre-Budget Submission (see <http://www.ofia.com/files/OFIA%20PRE-BUDGET%20SUBMISSION%202011%20-%20FINAL.pdf>) business runs on certainty, and that certainty cannot be achieved without the right public policy. There is a need for the province of Ontario to adopt an appropriate public policy framework to support and foster growth and economic prosperity in the forest sector. Good public policy is essential to the maintenance of existing investments as well as the attraction of new investment, the survival and growth of our sector, the maintenance of current green jobs and the creation of new green employment opportunities. A vibrant forest sector helps to ensure the economic prosperity of the province as a whole.

The key issues outlined in detail in the attached document "Forestry 2012 – Building a Stronger, Greener Ontario" need to be addressed by the next government of Ontario as elected on October 6, 2011. These commitments include:

- The permanent protection of the current 26 million hectares of Ontario's "production forest" within the Area of the Undertaking (AoU) for industrial use from which at least 26 million cubic metres can be sustainably derived on an annual basis
- Development and implementation of a forest sector exemption regulation under the Endangered Species Act (ESA)
- A commitment to open the Caribou Conservation Plan (CCP) for revision, in particular to ensure that there are no additional costs to industry and that certainty of fibre supply is not jeopardized through the implementation of this policy
- A commitment to address the shortcomings of the Ontario Forest Tenure Modernization Act (OFTMA), and to at a minimum, make significant modifications to the OFTMA, including ensuring the number of Local Forest Management Corporations (LFMCs) is limited to a maximum of two pilot projects which will be assessed over a full business cycle (5-7 years)
- Restoration of the Road Construction and Maintenance Program to a minimum of \$75 million per year
- Development of more tools to provide the forest industry with a long term, "industry-wide", all in delivered price of \$45 per MWH of electricity.

Commitment to these priorities will be measured carefully by the 260 Ontario communities that depend on a healthy forest sector for their economic well-being.

Respectfully, in order to ensure that critical stakeholders have timely information on which to base their decisions during the pre-election period, we request your party's response on or before July 29, 2011.

If you have any questions or require clarification on any issue, please do not hesitate to contact us. We look forward to your response.

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Regards,



Jamie Lim
President and CEO
OFIA



Ron Nelson
President
NOMA



Andy Scribilo
President
NOACC



Tom Laughren
Vice-President
FONOM

- cc. All Ontario MPPs
Ontario Municipalities
Ontario Chambers of Commerce
First Nations and Treaty Organizations
Ontario Federation of Labour
Communications, Energy and Paperworkers' Union of Canada
Steelworkers Union
OFIA Board of Directors

Forestry 2012 – Building a Stronger, Greener Ontario

1. Timber Production Policy and Landbase (26 million hectares in the Area of the Undertaking (AoU) yielding at least 26 million m³/year)

Ontario's forest sector continues to see an erosion of its land base through inappropriate, excessive and complex legislation, regulation and policy. Specific examples include the provincial Endangered Species Act (ESA), Lightening the Footprint in Algonquin Park, the Far North Act, Room-to-Grow, and the Ontario Forest Tenure Modernization Act. Erosion of the industrial land base, which in turn reduces industrial wood supply, creates a significant barrier to the economic well-being of our sector, creates business uncertainty and jeopardizes investment and employment opportunities.

If your party forms the next government, will you commit to permanently protect Ontario's production forest land base within the Area of the Undertaking for industrial use at the current 26 million hectares, from which at least 26 million cubic metres can be sustainably derived on an annual basis?

Further, in support of this commitment, will you:

- **Conduct a socio-economic impact assessment on all legislation, regulations and policies that could reduce the provincial fibre supply or increase delivered wood costs through additional regulatory requirements for permits and approvals.**
- **Ensure that any new or revised Ontario regulations or policies, associated with the Endangered Species Act (ESA) or otherwise, do not result in any increase in costs for the forest sector, or unnecessarily reduce the production forest land base or fibre from the industrial fibre basket.**

2. Endangered Species Act (ESA)

a. Exemption regulation under the Endangered Species Act (ESA)

On May 9, 2007, Minister David Ramsay provided a written commitment to the Ontario Forestry Coalition (OFC) (of which the Ontario Forest Industries Association (OFIA), the Northwestern Ontario Municipal Association (NOMA), the Northwestern Ontario Associated Chambers of Commerce (NOACC) and the Federation of Northern Ontario Municipalities (FONOM) were members) that the forest sector of Ontario would be exempt from the duplicative and unnecessary prohibitions of the Endangered Species Act (ESA) on the basis that the forest sector already provides for the protection of all species at risk and their habitat

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through the Crown Forest Sustainability Act (CFSA) and its associated forest management planning process.

A recent socio-economic impact assessment conducted by the OFIA (see attached), with support from the Ministry of Northern Development, Mines and Forestry (MNDMF) indicates that the Habitat Regulation for a single species, such as the Forest-Dwelling Woodland Caribou could unnecessarily remove up to 33% of northern Ontario's industrial fibre supply resulting in the loss of thousands of jobs and threatening the survival of numerous northern communities.

Our organizations have long recognized that sustaining the economic viability of the forest industry as well as managing for other non-timber values such as woodland caribou are equally important. That is why we believe the Crown Forest Sustainability Act (CFSA), which provides an opportunity for all economic, environmental and social considerations to be dealt with through an adaptive approach to forest management, is the best vehicle to achieve the necessary balance.

If your party forms the next government, will you develop and implement a long term regulation under section 55 (1)(b) of the Endangered Species Act (ESA) which recognizes that the primary objectives of the ESA are met through the Crown Forest Sustainability Act (CFSA) and its required Forest Management Plans (FMPs), and, further, will your party fulfill government's commitment (as per Minister Ramsay's letter to the OFC) to recognize the CFSA and FMPs as equivalent processes to the ESA with respect to planning for and providing for species at risk?

b. Caribou Conservation Plan (CCP)

In May 2009, the OFIA submitted a comprehensive list of constructive recommendations to the Ministry of Natural Resources (MNR) in response to the Environmental Registry posting of the draft Caribou Conservation Plan (CCP) (a government response statement/policy document required under section 11(8) of the ESA that outlines the government's intended action with regards to caribou management) and met directly with MNR representatives in an effort to develop a practical, efficient and effective provincial approach to the caribou policy framework. Despite continuous and constructive efforts on the part of our organizations, none of our concerns or recommendations were addressed, and, as a result, the CCP represents a flawed policy document that will result in additional, unnecessary reductions in fibre supply and increased operational costs.

To this end, at a March 1, 2011 government information session in Toronto regarding caribou management, MNR very clearly stated that elements of the

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CCP will have negative impacts on the forest sector, including a loss of fibre supply. Moreover, it was also stated that these impacts have been known to Cabinet for some time and that these impacts were deemed by Cabinet **to be acceptable** during the final approval of the CCP. Not only did this cause OFIA members, as well as municipal stakeholders, grave concern given the economic challenges currently being faced by the forest sector, our organizations were alarmed that the socio-economic impacts associated with the CCP were assessed behind closed doors and never shared with the forest sector or other stakeholders that will be negatively impacted by this initiative.

Upon review of the ESA we have determined that the Minister is not required to implement any element or particular action under with the CCP until an assessment of that element or action is conducted. Specifically the ESA states that the Minister is only required to implement elements believed to be feasible (as per ESA section 11(9)), and further that the determination of any action's or element's feasibility can include consideration of socio-economic impacts (as per ESA section 11(12)). As such, it is within the purview of the government to conduct comprehensive and transparent socio-economic impact assessments on each of the CCP actions/elements, and adjust the implementation of the CCP according to the results of these assessments.

Further, section 11(11) of the ESA provides the Minister of Natural Resources with the authority to conduct a review of the CCP anytime within the first five years of its approval. As such, it is within the purview of the government to immediately open up the CCP for revisions.

If your party forms the next government, will you immediately conduct the appropriate socio-economic impact assessments, and open up the CCP for revisions to ensure that there are no increases to wood costs or unnecessary reductions in the production landbase or wood supply?

3. Ontario Forest Tenure Modernization Act (OFTMA)

On January 13, 2011 the provincial government announced its intentions with regards to the development of forest tenure modernization legislation (later to become Bill 151). The government's stated commitment, which represented a measured and moderate approach to tenure reform, received conditional support from the OFIA, NOMA, NOACC and FONOM on the basis that the proposed legislation would address several key elements (see attached letters).

Unfortunately, when Bill 151 was introduced in the Legislature, the conditions necessary for our organizations' continued support were not reflected in the Bill. In addition, the Bill contained new provisions that would provide the government with arbitrary authority to cancel existing wood supply arrangements with companies currently invested in Ontario, and that would further remove any

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recourse for affected companies. These additional elements were never disclosed by government in January 2011 and if they had, our organizations would not have provided their conditional support at that time.

Despite concerns expressed by numerous forest companies, municipalities, Chambers of Commerce and other stakeholders (including the Ontario Bar Association) during presentations, and in writing to, the Standing Committee on General Government, the final Act received Third Reading and was subsequently passed on May 17, 2011.

The Ontario Forest Tenure Modernization Act (OFTMA) falls short of the commitments provided by government and will ultimately create business uncertainty and a less competitive investment climate environment that will jeopardize economic development and employment in Northern and rural Ontario.

If your party forms the next government, will you address the shortcomings of the OFMTA, and at a minimum, amend OFMTA to address the following:

- a. Ensure the number of Local Forest Management Corporations is limited to a maximum of two pilot projects that will be assessed over a full business cycle (5-7 years)**
- b. Require development of independent criteria to assess and compare LFMCs and Shareholder SFLs prior to implementation of any LFMCs**
- c. Assessment and comparison of LFMCs and Shareholder SFLs to be conducted by an independent third-party**
- d. Initial Ontario LFMCs shall be placed where no existing Sustainable Forest Licences exists or where the existing licence holder is a willing partner**
- e. The development of criteria defining “sufficient and consistent use” within a regulation prior to the development of any LFMCs**
- f. Protection measures for validly-supported existing and future Supply Agreements, excepting for the purposes of agreed measured and moderate tenure reforms**
- g. The inclusion of rights of compensation in accordance with the principles of procedural fairness and natural justice that are otherwise well enshrined in Ontario law**
- h. Create parity for all tenure models with respect to revenue retention for LFMCs**

4. Maintenance and Restoration of Competitive Measures

A key factor in ensuring future investment and employment opportunities for Ontario's forest sector is creating the necessary conditions that will allow Ontario to thrive and compete with other forest jurisdictions. As such, we are seeking a

commitment from your party to ensure the competitiveness equality for Ontario's forest sector. An essential component of such a commitment will be the assurance that the existing forest sector competitive measures will be maintained.

If your party forms the next government will you commit to the maintenance of the existing competitive measures, including:

- 1. Road maintenance and construction funding (see below for additional information)**
- 2. Maintenance of the Crown dues rate for poplar and white birch at a rate no greater than \$1.07/m³ for the next three years**
- 3. Forest Resource Inventory (FRI) funding**
- 4. Wood promotion funding**
- 5. Forest Sector Prosperity Fund**
- 6. A loan guarantee program**
- 7. Northern Industrial Electricity Rebate Program**

On May 10, 2011, the members of the OFIA were informed by government that the annual funding for the Road Construction and Maintenance Program would be reduced from \$75 million to \$47.8 million, a reduction of over 36% (over \$27 million per year).

The Road Construction and Maintenance Program represents one of the province's most successful forest sector competitive measures and was designed to benefit **all Ontarians**. The road infrastructure resulting from forestry activities is used by all industries and the general public that both work and recreate in our great forests. In its 2005 report to the Minister of Natural Resources, the Minister's Council on Forest Sector Competitiveness acknowledged that roads being built and maintained by the forest industry "*are public access roads, used by tourists, campers, hunters, other industries like hydro and mining, and other users*" and, as a result of this fact, recommended that "*the provincial government assume its **proportional share** of the costs of building and maintaining the public access road network in provincial Crown forests*".

Given the intended beneficiaries of the roads program, the proposed government reductions will not only have a significant negative impact on the forest sector, they will be detrimental to the residents of Northern and rural Ontario who have benefited from this program and who depend on this program for the continued maintenance and development of the public road network throughout Northern and rural Ontario.

If your party forms the next government will you restore the Road Construction and Maintenance Program to a minimum of \$75 million per year?

5. Electricity Rates

Electricity rates in Ontario continue to increase uncontrollably and are now ranked in the top three inputs costs for the forest industry. Ontario does not compare well to a number of competing jurisdictions. The result is that companies are leaving or will not reinvest in Ontario. Electricity rates are also a significant hurdle for municipalities when attempting to attract investment in the value-added forest products manufacturing sector to diversify their economies.

While the current government did amend the Global Adjustment through its five coincident peak formula for large users (monthly average peak demand of 5MW) and provided a 5-year 10% discount to the power bills of small users (residential and small business), there is no relief for the mid-size users.

If your party forms the next government, will you develop more tools to provide the forest industry with a long term, “industry-wide”, all in delivered price of \$45 per MWH of electricity, by means of the following actions:

- **Extend or provide the option of the five coincident peak formula for determining Global Adjustment to all customers that have interval meters (no lower load limit).**
- **Review the purpose, content and structure of the Global Adjustment. It has become the repository of a number of questionable programs and is punitive to industrial consumers.**
- **Extend the Northern Industrial Electricity Rate (NIER) program on the same basis to all manufacturers in Ontario with an annual consumption over 10,000 MWhrs.**
- **Develop long term special electricity rates for economic development and preservation, such as occurs in New York State, for example:**
 - **Power for jobs**
 - **Economic Development Power**
 - **High Load Power Factor Power**
 - **Preservation Power**