Small firms say forest strategy will help them stay competitive

By Monte Stewart
Business Edge

Small companies will benefit the most from the recently-announced $1.5 billion federal forest strategy designed to offset the effects of the softwood lumber dispute between Canada and the U.S., say industry leaders.

"The scale of the program is aimed at more of the smaller companies," says John Allan, president of the B.C. Council of Forest Industries (COFI) and president of the B.C. Lumber Trade Council.

Allan calls the loan-guarantee program a creative solution, adding it will buy some time for companies "hung out to dry" because of the softwood lumber dispute.

"I would expect there'll be a big draw from Eastern Canadian companies which have been hit harder by the duties and the appreciation of the dollar," says Allan. "There'll be some companies in B.C., though, who will welcome this package."

The five-year Forest Industry Competitive Strategy includes $800 million in loan guarantees for lumber producers who have had countervailing duties withheld by the U.S. government despite North American Free Trade Association (NAFTA) panel rulings in Canada's favour.

Small firms that have bad credit will get $100 million worth of repayable loans and forestry-dependent communities that face mill closures because of the softwood labour dispute and other market conditions will receive $581 million to develop new industries.

"This is by no means a handout – it's a hand up," says Parker Hogan, communications director for the Edmonton-based Alberta Forest Products Association.

Like their B.C. counterparts, Alberta and Ontario industry groups contend the strategy will help them stay competitive as the forest sector deals with the effects of the softwood lumber dispute and rapid changes to their operations.

"It will have a ripple effect on our industry because if the producer is affected, it affects the whole supply chain," says David Campbell, president of the Toronto-based Ontario Lumber and Building Materials Association.

The AFPA's Hogan agrees the incentives will help Alberta companies of all sizes deal with the effects of the softwood lumber dispute, increased competition, and energy and transportation costs.

"In Alberta, a good portion of our production is softwood lumber, so the loan-guarantee piece will act as kind of a short-term bridge," says Hogan.

"It will help some companies that are having some cashflow problems because the U.S. has refused to comply with NAFTA and return the $5 billion (in countervailing duties.)"

Ottawa has agreed to guarantee bank loans worth 25 per cent of a company's countervailing-duty deposits with the U.S. government, to a maximum of $40 million.

Allan says large companies such as Vancouver-based Canfor Corp. and West Fraser Timber Co. Ltd. are unlikely to apply for the guaranteed loans because they have hundreds of millions of dollars on deposit with the U.S. and can only obtain $40 million each through loan guarantees.

"I'm not aware of any (large companies) in B.C. (that will apply for loans), but there may be some in Eastern Canada where there are more financial difficulties – it's an individual company decision," says Allan.

COFI represents companies that operate 120 lumber mills in the Interior and account for most of the province's softwood lumber shipments and more than one third of Canada's lumber shipments.

The BC Lumber Trade Council acts for companies that have been adversely affected by the softwood lumber dispute. Its members produce half of Canada's lumber output and half of its exports to the U.S.

See PLAN Page 10

QUOTE . . .

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PLAN from Page 6

Federal plan seeks global competitiveness

The bulk of the money withheld by the U.S. – an estimated $3 billion of the $5 billion – has come from B.C. companies, says Allan.

Industry Minister David Emerson unveiled the plans two weeks ago in Richmond, while other cabinet ministers and backbenchers held simultaneous news conferences in Ontario, Quebec and New Brunswick. Emerson called the strategy a "transformative" plan that will allow Canada's industry to develop new technologies and opportunities necessary to become globally competitive.

"We'll get that up and running as soon as we can," said Emerson, a former president and CEO of Canfor, the country's top lumber exporter.

He said the loan guarantees can still go forward despite an opposition non-confidence motion, because they do not have to pass through Parliament. By guaranteeing loans, Canada will also be able to avoid U.S. claims that it subsidizes the forest industry.

Ottawa also plans to accelerate a capital cost allowance – in the form of tax savings – for firms producing forest bioenergy. Natural Resources Canada (NRC) will provide an extra $50 million to firms that develop co-generation facilities that power mills and produce electricity. The expanded Renewable Power Production Incentive means the industry will save $110 million.

But that program, which was previously announced as part of federal Finance Minister Ralph Goodale's budget update, must still be approved in Parliament.

Industry Canada and NRC will also team up to provide $215 million, designed to turn research and development (R&D) projects into commercially viable "transformative technologies."

"This will allow the Canadian forest industry, especially (the) pulp and paper industry, to enhance its competitive position, improve environmental performance and take advantage of the growing bio-economy," states a federal backgrounder on the strategy.

Natural Resources Canada will also provide $90 million for "pre-competitive" research in biotechnology, nanotechnology, innovative building systems, bioenergy and fibre-based products, expand the value-added sector's Value to Wood Program and develop a national forest-pest strategy.

Emerson denied the strategy is a way for the Liberals to buy votes in advance of a winter election. He contended the programs were put together two months ago as the government anticipated a spring campaign.

Rick Jeffery, president and CEO of B.C.'s Coast Forest Products Association, which represents producers along the West Coast and Vancouver Island, says the government also gave the coastal industry what it was looking for.

The pre-commercial research and development money, transformative technology incentives, tax cuts, co-generation incentives and community-adjustment funds will help communities, workers and companies as facilities close and the industry goes through a transition period, he adds.

"We've got a challenge on the coast with hemlock, so we need to spend some money looking at engineered-wood products, dimension products made out of hemlock," says Jeffery.

The other funding will help the pulp and paper sector move up the value chain into new paper products and enable companies to reduce energy costs through increased bioenergy-based co-generation.

"The thing you have to understand about transformative technology is that it's very expensive and very difficult sometimes for individual firms to be able to apply it," says Jeffery.

He agrees with Allan's assessment that the strategy will benefit small companies more than larger ones, but adds the package contains programs that will benefit firms of all sizes. The co-generation benefit is a key factor because energy accounts for producers' third-largest cost.

Forest companies also generate 20 to 25 per cent of their revenues from chips and hog fuel (waste wood). As the pulp and paper industry restructures, such fuel consumption is likely to decline and firms will lose revenue, says Jeffery.

The co-generation program will help offset those losses, and help provide more power to Vancouver Island – which has electricity supply shortages.

(Monte Stewart can be reached at monte@businessedge.ca)