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Chair

Mr. Leon Benoit

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• (1110)

[English]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)): Good morning, everyone. We're working on getting the teleconference set up here, but we will start the meeting. There is a point of order by Madame DeBellefeuille, and then Ms. Bell also has something.

Before we get started with the witnesses, Madame DeBellefeuille, I believe you have a point of order.

[Translation]

Mrs. Claude DeBellefeuille (Beauharnois—Salaberry, BQ): Mr. Chairman, I would like to ask my colleagues on the Committee to set aside 15 minutes at the end of this meeting in order to discuss the motion I have tabled. This motion deals with the invitation that was made to the Minister of Natural Resources to appear before the Committee regarding the Supplementary Estimates (B) 2007-2008 and the recent Federal Budget. The timeframe for discussing Supplementary Estimates is very tight.

[English]

The Chair: We can do that. You're certainly entitled to bring up a motion whenever you want. You've given notice of that. Do you want 15 minutes or do you want 10 minutes?

[Translation]

Mrs. Claude DeBellefeuille: I would suggest that we start with 10 minutes, and if that proves insufficient, we could take 15 minutes.

[English]

The Chair: Okay, we will start 10 minutes before the end of the meeting. Thank you very much for your cooperation on that.

We are here today to continue the study—oh, Ms. Bell, sorry, my apologies. Yes, go ahead.

Ms. Catherine Bell (Vancouver Island North, NDP): Sorry, Mr. Chair. I just want to clear something up. I saw a news article this week from the *Prince George Citizen* that said the MP for Cariboo—Prince George and the MP for Tobique—Mactaquac were leading a study on Canada's forest industry and they were appointed by the Minister of Natural Resources.

I just want to be clear that this was the only study on forestry that is happening or to ask whether the minister appointed another group to study forestry.

The Chair: Of course, what individual MPs do or what they do as groups isn't the business of this committee, but we certainly are dealing with the forest industry. We've had great meetings so far. We

expect today to be a great meeting, and we will carry on. know we'll have an excellent report at the end of that.

Ms. Catherine Bell: My question is, has the minister appointed another group to study forestry?

The Chair: I have no knowledge of this whatsoever.

Yes, Mr. Boshcoff.

Mr. Ken Boshcoff (Thunder Bay—Rainy River, Lib.): In terms of the public receiving signals, I've also heard from my forest industry people, asking why there were only two people on this study and why the minister only appointed two Conservatives to do this entire study at the same time as this committee is in an all-party situation doing exactly the same thing.

When I read it I was quite startled. I think the Prince George newspaper has a pretty fair reputation, so they must have uncovered something that no one else has. Certainly I would ask the minister, if he has commissioned a study with only two MPs to do this, that the rest of this committee also be included in it and that the study be referred to this committee or added on. If we need some more weeks, that's fine. But if they're going to go around the country at the behest of the Minister of Natural Resources, it only reinforces the motion here to have the minister appear, if he's doing things in parallel with us.

Thank you, Mr. Chair.

The Chair: I understand your point, Mr. Boshcoff. You've made the point.

Mr. Anderson, and then Mr. St. Amand.

Mr. David Anderson (Cypress Hills—Grasslands, CPC): I just make the quick point that the minister is fully capable of multi-tasking. He looks to a variety of sources for his information and for recommendations, and I know he is very proud to work with the members from Prince George and from Tobique—Mactaquac. He relies on them for their expertise in this area. As you can tell from their ability to work at the committee here, they both know a lot about the subject. The minister is very happy to take their advice.

The Chair: Thank you, Mr. Anderson.

Mr. St. Amand.

Mr. Lloyd St. Amand (Brant, Lib.): Thank you, Mr. Chair. I share Ms. Bell's curiosity about this appointment. Mr. Boshcoff makes the valid point that when he arrives, we'll be able to speak directly to the minister about this.

In the meantime, the two appointees, of course, are in our midst this morning. I feel, frankly, as a member of the Standing Committee on Natural Resources, that our role has been diluted. It has been undermined. The minister has seen fit, in the midst of our all-party committee study on forestry, to appoint two from our group to conduct a parallel or independent study.

I can't quite understand the timing, the purpose. The two appointees are here. I would ask Mr. Harris and Mr. Allen to endeavour to explain how it is they came to be approached. Did they volunteer? Did they suggest that this committee wasn't doing its job and a separate study had to be done? I'm wondering if they would try to enlighten us on those points.

• (1115)

The Chair: Certainly, if they would like to respond, they could, but I would like to get on with the business of this committee. We have business to do. We have a report to write, and I'm confident that report will be an excellent report.

Mr. Alghabra.

Mr. Omar Alghabra (Mississauga—Erindale, Lib.): Thank you, Mr. Chair.

I echo what you said. I'm confident the committee will have a substantive and comprehensive report.

Perhaps this was a misunderstanding. Maybe the newspaper didn't get its information accurately. Maybe there is no study appointed by the minister and maybe there's some misunderstanding. This would then inform us and everybody that, yes, this is the committee that is doing the study and the minister is keenly waiting for its report. If that's the case, I think the people here can clarify that, and I'm hoping we can clarify that.

Thank you.

The Chair: I can say that as chair I know nothing about this, so I can't answer it.

Again, if the members or the parliamentary secretary would like to discuss this, it's up to them entirely.

Mr. David Anderson: Mr. Chair, if anybody has been paying attention, it's clear that the two gentlemen have been leading the government side on this committee. They've been leading in this study, and that's obvious to anyone who's been paying attention. I'd actually like to move on, as you would, with the study. They've been appointed by the committee to lead this committee, particularly on the issues that they have familiarity with, so they can do that.

The Chair: Certainly any of you are free to deal with the media as you see fit. There's no ability of anyone on the committee to prevent that.

Mr. Boshcoff, and then if we could get to the business of the committee....

Mr. Ken Boshcoff: Mr. Chair, it has been alluded that these two individuals are leading this. Mr. Anderson has just said that they've

been carrying the ball on this. That's a great offence to this committee. We've had some great cooperation between the parties. I think those people who are here representing other parties also feel that they've had a leadership role. If there's another study going on, as Mr. Anderson alluded to, to appoint people by the minister, then it's a duplication. To suggest otherwise....

There's a piece of news out there. The Prince George paper has reported that two individuals have been appointed by the minister to do this. I think Ms. Bell's question is absolutely valid in terms of trying to understand this. If we're going to put a report together and then two other individuals are going to do their own thing and report to the minister, we then have to question why we're putting all this time in.

The Chair: We have witnesses here.

If I could, I did hear what Mr. Anderson said. He said those two members are leading it for the government side. I can't imagine that anyone would see a problem with that.

Mr. Ken Boshcoff: That's not what he said the first time.

The Chair: Mr. Ouellet.

[Translation]

Mr. Christian Ouellet (Brome—Missisquoi, BQ): Thank you, Mr. Chairman.

I had not noticed that there were two individuals who were working harder than the others. I find that this is truly proof of contempt towards this Committee, that is working so hard. The fact that you, Mr. Chairman, are not aware of this situation is further proof of contempt for the Committee. You should be very offended by the fact that two individuals were appointed by the Minister without your being notified of this, in your role as Chair. Perhaps you were aware of this, but did not want to tell us, or perhaps you were not. I find the situation absolutely unbelievable, no matter what the case is.

I believe that the Minister should come here to provide us with an explanation. The fact that we are doing a study and discover at the outset that it will not be valid because two individuals from the government side are going to carry out a similar study at the same time makes no sense whatsoever. I am very offended.

[English]

The Chair: Mr. Ouellet, again, I certainly don't know what you're doing on this issue in your constituency or anywhere else in the country. I don't know what Liberal members or other opposition members are doing anywhere in the country on this as well. It's up to you, just as it's up to them. I think we should get on with the business of the committee.

Mr. St. Amand, and then we'll get to the witnesses.

• (1120)

Mr. Lloyd St. Amand: Mr. Chair, you make a point, but you're assuming that the minister has had no part in this. These two Conservative members have been appointed by the minister, according to the article. A Bloc member has not been appointed. A Liberal hasn't been appointed. Ms. Bell has not been appointed. So this is a sanitized, filtered study, which is being carried on apparently at the same time as the all-party study.

You're right. We can deal with the press in whatever fashion we want.

If the minister saw fit to conclude that this committee will not do its job properly, and that's one clear inference to be taken from this parallel study having been undertaken, would that he had seen fit to appoint not just Conservative members but members, for instance, from the Bloc and from the Liberal Party. Mr. Boshcoff has driven a study on the forestry industry arguably more than anybody else on this committee.

I think Mr. Ouellet is correct. The rest of us should take personal and professional offence at having been excluded from the short list the minister is seeing fit to favour.

The Chair: Your leaders have all appointed you to this committee, in effect.

Let's get on with the meeting.

We're dealing, of course, with a study of the unique opportunities and challenges facing the forest products industry. As I've said, in the first meetings we've had excellent witnesses. I am looking forward to the witnesses today.

We have as witnesses today, from the Council of Forest Industries, John Allan, president and CEO. From the Canadian Boreal Initiative, we have Mary Granskou, senior policy advisor. From CIBC World Markets, we have Don Roberts, managing director. Then we have, by video conference from the Université du Québec à Chicoutimi, Réjean Gagnon, professor/researcher and director/coordinator of the Consortium de recherche sur la forêt boréale commerciale, Department of Basic Sciences.

Welcome, everyone.

We will have witnesses make their presentations in the order they are under the orders of the day, starting with John Allan, president and CEO of the Council of Forest Industries.

Mr. John Allan (President and CEO, Council of Forest Industries): Thank you, Chair and members of the committee, for initiating this important study and for inviting me to appear before you today.

My name is John Allan and I am the president and CEO of the Council of Forest Industries, COFI, president of the B.C. Lumber Trade Council, BCLTC, and secretary of the Canadian Lumber Trade Alliance, CLTA. COFI represents the interests of the B.C. interior forest industry, and BCLTC represents the Canada-U.S. softwood lumber trade interests of the B.C. forest industry, while CLTA does the same on a national basis. I should also disclose that as a former deputy minister of forests in British Columbia, I hope to bring a certain perspective to the presentation that respects the needs of government.

The industry is encouraged by your government's recognition of the economic difficulties confronting Canada's forestry sector. We welcome recent announcements aimed at stimulating the economy and, most importantly, initiatives to assist laid-off workers finding job training. We also applaud the support of all members who have worked tirelessly on behalf of the employees, families, and hundreds of entire communities dependent on the forestry sector. While the recent federal budget will be of some assistance to the forest sector,

today I will propose additional measures that require your consideration in tackling the historic challenges faced by our forest industry.

COFI member companies operate 100 production facilities in over 60 forest-dependent communities in the interior of British Columbia, accounting for approximately 80% of all B.C. softwood lumber shipments and 35% of Canadian softwood lumber exports. B.C. forest companies employ approximately 75,000 Canadians, and over 150,000 families directly and indirectly depend on our companies for their livelihood and well-being.

However, a confluence of adverse economic forces, largely beyond anyone's control, has impacted B.C.'s forest sector, threatening its continued viability. Firstly, the rapid appreciation of the Canadian dollar has had a profound impact on the forest industry. A one cent annualized appreciation in the Canadian dollar reduces the annual sales value of all B.C. forest products, the majority of which are exported, by approximately \$130 million. Since 2002, the Canadian dollar has risen by about 40 cents compared to the U.S. dollar, and on an accumulated basis this appreciation has stripped \$15 billion from the sales value of all forest products from B.C. On an approximate basis, this impact could at least be doubled for all of Canada. It's important to note that this escalation in the value of the dollar has also been accompanied by increased costs of production.

Secondly, the weakening of the U.S. economy and the subprime mortgage issue have negatively impacted the U.S. housing sector, a major export destination for B.C. lumber. U.S. housing starts, which peaked at just over two million units in 2005, are projected at 1.2 million for 2008, their lowest point since 1995. As a result, lumber prices have fallen to extremely low levels, such that on a cash basis today's lumber price results in a \$73-per-thousand-board-foot loss for a typical interior sawmill. You might ask, why stay in business? Well, for the immediate term, sawmills are running primarily for cash to pay the bills and to produce chips for pulp and paper mills. In this respect, the industry is extremely integrated, and sawmills and pulp mills cannot operate without each other.

Thirdly, the mountain pine beetle infestation in the interior, and now spreading to Alberta, has destroyed close to 600 million cubic metres of valuable timber and has led to a significant increase in manufacturing costs and a reduction in product value.

Finally, all lumber the B.C. industry ships to the U.S. is subject to a 15% export tax under the softwood lumber agreement.

In short, the industry is in a crisis of unprecedented proportion. As Hank Ketcham, CEO and chair of West Fraser recently said, "It's a bloodbath out there". In response, we are of the view that neither a hands-off approach nor an interventionist approach based on subsidies is appropriate. Further, the role of government should be to ensure that the correct policy framework is in place to enable a competitive industry.

Accordingly, while the government recognizes the challenges to the viability of the forest sector and has recently implemented or announced some much needed measures, we have five additional proposals for your consideration.

We applaud the government's decision to reduce current corporate taxes by 1% in 2008 and the government's goal of further reducing the corporate tax rate to 15% by 2012. However, we encourage you to accelerate these reductions, especially as the U.S. economy continues to weaken. Reducing corporate tax rates will allow all industries to invest in physical and human capital, to improve efficiencies, and it will temporarily insulate export-dependent sectors from the negative effects of the rapid appreciation in the value of the dollar.

• (1125)

The precipitous decline in U.S. consumption has starkly exposed our vulnerability to single-market dependency. We need to develop a balanced customer base, with particular emphasis on emerging Asian markets. Accordingly, we encourage your government to renew and increase investments in the Canada wood export program, administered by your colleague, the Minister of Natural Resources. This program is the central pillar of the solid wood industry's effort to diversify its offshore export markets for Canadian wood products.

Since its inception in 2002, the Canada wood export program has substantially expanded Canada's lumber exports in traditional and emerging markets. By way of evidence, Canadian shipments by volume to China have increased by 450%, to South Korea by 290%, and to the U.K. by 320%, over the five-year period ending December 2007. As welcome as these results are, new market development is an extended task requiring persistence. We urge the government to commit to a minimum five-year renewal at \$10 million per year for the Canada wood export program out to 2014 to enable sustainable and long-term opportunities to be created.

The B.C. forest industry heavily depends on Canada's rail network to transport lumber. However, our rail rates are among the highest in the world. Any government measure to encourage competitive rail rates and reduce transportation costs will contribute to the industry's competitiveness. I am reasonably informed that rail service to interior lumber shippers is poor to non-existent on many occasions.

B.C.'s forest industry is at the forefront of environmental stewardship. In an effort to increase our environmental performance and reduce our carbon footprint, B.C. forest companies have upgraded facilities and implemented innovative processes in a continued effort to limit the sector's climate change impact. We are encouraged that the recent federal budget recognizes the industry's advanced environmental efforts and has accepted our suggestions to profile the industry as leaders in this effort.

The federal budget commitment of \$10 million over two years to NRCan to promote Canada's forest sector in international markets as a model of environmental innovation and sustainability is most welcome. The Canadian industry has pledged to become carbon neutral by 2015 and has reduced its greenhouse gas emissions by 50% since 1990. Most importantly, we encourage government to value these efforts in any future government action plan on climate change. In short, we should manage the climate change agenda to improve our competitiveness.

We strongly believe the biomass industry holds enormous potential benefits for the environment, as well as the forest sector and the B.C. pulp and paper sector, which has reduced fossil fuel use by 60% in this regard since 1990. Biomass is a clean, renewable energy resource, and recent studies have demonstrated that biomass fuels can reduce natural gas consumption by up to 75%. We strongly encourage the federal government to work with all stakeholders in further developing the biomass industry. COFI and its members are willing to assist government in this endeavour.

In our view, the five above-mentioned proposals do not contravene the softwood lumber agreement of 2006 and, if implemented, will go a long way to alleviating the convergence of economic forces that have had an overwhelming impact on the viability of B.C.'s and the rest of Canada's forestry sector.

Finally, I want to say a few words in support of the softwood lumber agreement of 2006. Starting with the premise that we will never achieve free trade between Canada and the U.S. in softwood lumber because of the continuing political and legal activities of the U.S. Coalition for Fair Lumber Imports, Canada's softwood lumber exports to the U.S. will be governed by either managed trade or litigation. The agreement provides a far superior alternative to litigation, and the Canadian government, the provincial governments, and the forest industry should collectively strive to ensure that the agreement runs its full course.

Chair, the global demand for forest products is growing as a result of emerging markets in developing countries. This growth is concurrent with an ever-increasing global awareness of the need to purchase products that are produced in an environmentally responsible manner. The simple fact is that the environmental qualities of wood products deem them to be the best building products in the world, bar none. When manufactured in an environmentally responsible manner, wood products, which are not only recyclable but continue to sequester the carbon stored in the trees they were produced from, can play a significant role in the climate change battle. The fact that our industry has evolved into the most environmentally responsible supplier of forest products on the planet deems that Canada deserves to be the global supplier of choice.

• (1130)

I mention this to ensure that government appreciates that our forest sector in Canada can continue to be a major contributor to the economic stability of our country, but we need to carefully manage this period of significant challenges. We need your active participation in surviving this perfect storm of issues we are currently facing and your support in reshaping and rebranding an industry to take advantage of the opportunities ahead of us.

Thank you, and I would be pleased to answer your questions.

The Chair: Thank you very much, Mr. Allan.

We will now go to Mary Granskou—sorry about the pronunciation—from the Canadian Boreal Initiative.

Mrs. Mary Granskou (Senior Policy Advisor, Canadian Boreal Initiative): It's all right. It's quite a unique name.

The Chair: Yes, it is.

Go ahead, please, for up to 10 minutes. And I apologize for butchering your name.

Mrs. Mary Granskou: No problem. Thank you very much.

Good morning, Chairman, Vice-Chairs, and members of the committee. We last presented to the committee on the oil sands. We are very pleased to be back here again as you look at this very important issue before you.

[Translation]

Our presentation today will be done mainly in English, because my command of French is limited. However, you do have a French version of the presentation.

[English]

I would like to start very briefly with an overview of the Canadian Boreal Initiative. I know that some of you are familiar with us and with our work.

We are about four years old out in the field, and really, our focus is on sustainability. Our focus is on bringing partners together who in previous eras and decades in the Canadian history of forest issues have been on opposite sides of the table. They are now together on the same side of the table proposing and implementing solutions that follow a sustainable path.

We have about 18 members that span the leadership of first nations, industry, the oil, gas, and forestry sectors, and conservation organizations. They are working together to implement solutions.

Our niche is really sustainability. So today we will cover much less the very tragic and important challenges facing the forest sector, which we are very sympathetic towards. We are very supportive of maintaining a vibrant, strong, and sustainable forest industry here in Canada. We think our niche can be helpful in terms of where we are going with sustainability. We are starting to see some real results out there that are helpful economically as well as in other ways for companies in terms of the challenges they face.

Collectively, the Canadian Boreal Initiative and our partners, who fall within a group we call our Boreal Leadership Council, support a balanced approach in Canada's boreal region. We support a path forward that embraces an approach that would see approximately half of Canada's boreal region being protected land of some form and the remaining half, approximately, being under sustainable management. This is a vision that is starting to touch down on the ground in different regions of the country.

We get behind real solutions. Our forestry companies have now ecologically certified, under a certification by the Forest Stewardship Council, over 50 million acres in the boreal region. Canada leads the world on this. We are the leading country that has FSC-certified lands under tenure. We're quite proud of that. We are working on land-use plans across the forest region as well, which I will focus on today.

We work very closely with a number of governments. We've just signed an MOU with the Government of the Northwest Territories, as an example. We are what we call a brokerage for solutions, and we're very happy to be here today.

Here is a snapshot of Canada's boreal region. We are one of three countries in the world that have large tracts of forest and that can still design how we will move into the future with them. The other countries are Brazil and Russia. Canada has probably the best chance of actually moving forward on a sustainable path. We have a responsibility to the world.

Our boreal region covers over half our land mass. It is a place of communities. It is a heartland for jobs in the forest sector. And other opportunities are coming on stream. Boreal ecosystems provide a variety of ecosystem services, such as carbon storage, that have a non-market value that is increasingly being recognized as a market value.

What I'd like to focus on before I move to recommendations, and building on Mr. Allan's presentation, is that slice of the pie that deals with sustainability and where the industry is headed, not only in certifying their forestry operations but in actually securing real markets. I'd like to say today that it's very promising. Moving in the direction of greening their operations is starting to pay off for companies, and they're actually better able to buffer the crisis that's now before us.

● (1135)

I'd like to give one very practical example. Last week Tembec Inc., one of our lead partners on forestry—the other two are Domtar and Al-Pac—announced a radical restructuring. I'm sure many of you noticed the news reports that came out on that last week. They cited that their environmentally friendly product approach helped them stay afloat. They cited that their contract with Home Depot, which is the biggest buyer of lumber in North America, was one of the things that allowed them to buffer the decline on the dollar, in particular, because they're offering a certified product. Their product is less vulnerable to the decline in the dollar because they secured their purchaser, which is Home Depot. Home Depot will stay with them even through a declining dollar. It had a huge impact on their ability to stay afloat.

They now want to be the global FSC giant, and they're headed in that direction. That move by Tembec was not an easy move. As recently as two years ago, they didn't have a secured market and secured buyers, particularly in the U.S., and they had invested \$50 million and weren't yet seeing the market returns. So we give them a lot of credit for moving through a time of uncertainty and sticking with their FSE commitments, to see them through, to allow them to be more secure, and that's where they are today.

Another example is Cascade. In their fine paper line, their sales jumped 235% in the last year, and there are similar stories with Domtar.

What we are trying to say here is that sustainability is paying off in very real ways for companies. We recognize it still is a niche, but it is a very important one to recognize as you look at your study, considering the market opportunities and the market niches coming out of this.

In terms of our recommendations, we'd like to focus on a few areas that our colleagues may or may not be raising here today. They are really in two areas. One is land use planning and the second is the market for carbon. We'd like to stress those two here today.

First, on the supports for land use planning, land use planning is an exercise by which industry, first nations, conservation organizations, and governments sit around a table to plan in an area what areas are going to be open for resource development and what areas are to be protected over the longer term.

These kinds of fundamentally important planning exercises right now are covering about 60% of the boreal region. The federal government used to be a strong supporter of this type of work, and it really has backed away from that. We would like to recommend that you look at encouraging the reinstating of support for land use planning at the federal level. The reason we say this is that conflict across land uses increases the cost to industry, it is very troubling for first nations communities that are really looking to assert their treaty and aboriginal rights, and it's the fundamentally important type of decisions that support the sector being strong and the business certainty that is needed in order to operate, particularly in today's world. That is why the Canadian Boreal Initiative and the Forest Products Association of Canada released a joint statement last year calling on governments to support land use planning.

In terms of our recommendations, we recommend the committee support significantly increased federal funding for regional land use planning, in collaboration with the provinces and territories, aboriginal people, and stakeholders.

Our second recommendation—and I know it is not a new area for the committee—has to do with how we support carbon-friendly forestry and carbon offsets.

We are very quickly reaching a time when forest carbon is going to have a market value, and we'd like to promote that this is a tool that the federal government can, should be, and needs to be supporting. B.C. and Ontario are already there, and we need leadership at the federal level and from the standing committee to move forward in that area. Simply put—we have more details in our brief—there are two different kinds of mechanisms that can be supported that protect the carbon values in the land base, which are very significant. In fact, the boreal region around the northern part of the world has more carbon locked up in the land than any other ecosystem type in the world.

● (1140)

I'm getting the wrap-up signal from the chair.

The two types are carbon offsets for protection purposes and sustainable forestry. We can explore that more through our questions, but we would very much like to encourage the committee to support these types of offsets as a way of bringing another dollar to the table. The benefits could be accrued by the forest sector—by first nations in particular—and are helpful particularly if you think of areas that are a long haul distance from mills, areas that might have a better value on a carbon market than they might on a forestry market.

The recommendations are, first, to support those mechanisms for carbon management on the land, and second, for Canada to take a proactive position in international climate change negotiations to include mechanisms to protect carbon values in forest and peat lands in any climate change mitigation regime globally moving forward.

Thank you, Mr. Chair and committee.

● (1145)

The Chair: Thank you very much, Ms. Granskou, for your presentation.

We'll go now to Don Roberts, managing director of CIBC World Markets.

Go ahead, Mr. Roberts, please. You have up to 10 minutes.

Mr. Don Roberts (Managing Director, CIBC World Markets): Thank you, Mr. Chairman and committee members. Thank you for having me here.

I should state at the outset that I wear an investment hat. I lead the group at CIBC World Markets, dealing with investments in the forest sector as well as the bioenergy sector. My job is to essentially advise investors where in the world they should put their money in the forest products sectors. It may be Canada; it may be elsewhere.

Having said that, I also work with governments as to where and what they can do to attract investments. Right now I'm working with the Government of New Brunswick, leading a task force to attract investment. As well, I'm working with the Government of Russia.

We're in interesting times here. The changes we're seeing in the global forest products industry, not just the industry but the markets for forest products as well as the public policy in this sector, are arguably the most profound we've seen since the end of the colonial era. They're dramatic. We're truly living in interesting times.

On the one hand, this is not just the importance of non-market goods and services, at least traditionally non-market—and I underscore what my colleague just mentioned—it's also the competition for electronic media and the emergence of new competitors and changes in actually who owns the timberland. These changes are occurring around the world, not just here.

What's interesting is that these changes are occurring at a time when arguably there has been a meaningful degradation or analytical capability to assess this. This is true both in the public sector and the private sector. We're too busy fighting the alligators. Again, this is not just true in Canada. We see it in Russia, in Brazil, and around the world. That's a concern. The fact that you're looking at this, and hopefully in a very thoughtful manner, is very encouraging.

The Canadian industry has been hit by a series of shocks. My colleague John Allan has enumerated them. I won't go through them here. We should recognize that some of these are clearly beyond our control, like the changes in technology on the paper side. We have to shut down newsprint capacity when our consumption has dropped in North America by 30% since the year 2000. That's the reality of the market. If you prop up some of the mills that were least competitive, it means down the road that even your good mills will go down. It doesn't mean we can't play a positive role in helping communities to adjust. We should. But some of these things are beyond our control. We should recognize that.

A key challenge facing this industry over time is the fact that unlike most basic materials, we've actually seen a decrease in the price of wood. The markets are suggesting that it was worth less over time. Notice I used the words "was decreasing". We're at an interesting inflection point right now. In our view, there are five reasons that are going to cause a long-term rise—I mean 10 to 15 years—in the real price of wood. I'm certainly humbled when I look at beyond that.

I'll quickly mention these five reasons. We bear these in mind because they're shaping the environment for this export-oriented industry.

The first is the growing fibre deficit in Asia. It's dramatic. It's not just China; it's India as well. We can go on about that at length if you're interested.

The second is what's happening in Russia with their log export tax. This country is truly a sleeping giant in this sector. It has forest resources that are bigger than Canada and Brazil combined. They supply 40% of the world's exports of softwood logs, and they're about to stop. They're scheduling up to an 80% tax on the export of logs. This shock will reverberate throughout the global industry.

The third shock is a reduction in the supply of illegal logging. We don't often talk about that in Canada, but to give you a sense, roughly 10% of the world's harvest of logs is estimated to be illegal. Almost by definition, it's unsustainable. When you illegally harvest, you're not going to stick around and plant. This has stopped, to some extent; it hasn't stopped completely, but it is coming down. And we can tell you why. This is maybe one of the reasons we saw the real price of wood come down: they were cutting too much in places like Indonesia, Brazil, China, etc.

The fourth reason is this travesty that's happened in British Columbia with the mountain pine beetle. This has global implications. It's a region that supplies 20% of the U.S.'s lumber, and we're seeing a dramatic fall-down in this over time.

● (1150)

Our sense is that both the quantity and the quality impacts have been understated, both by government and by industry. This will create winners and it will create losers, but we should be aware of its global implications.

The last shock is perhaps the most fundamental, and this is really what we call the convergence of the food, fuel, and fibre markets. By fibre I mean wood. The connection is largely driven by energy.

In what sense do I mean convergence? I mean convergence in the sense that the feedstocks for these three sectors—food, fuel, and fibre—will over time tend to trade on the basis of their energy equivalency. This means you're going to have a floor price and lower-quality wood. I don't mean for your sawlogs. Energy will never be able to outbid a sawmill, but it can outbid other folks.

One of the things we should bear in mind here is that the implications of this convergence—and we can go into the question and answer if you're interested—are that we're going to have to stop thinking inside our traditional silos: agriculture, forestry, energy. They're going to move together. Do I really underline the point made by my colleague who just spoke on the need for coordinated land use planning. Otherwise we will have increasing battlefields. We can talk about that a little bit, but that is going to be one of the issues.

Before we get into that, I just want to make one comment. Why is land kept in forestry? I would argue there are two reasons. One is that governments say there's some good or service that is not captured by the market but that they want preserved. It may be deer. It may be recreation. It may be carbon. So we make that government decision. The second reason land stays under forestry is that it cannot make it in agriculture.

What we're going to see with this convergence, with increasing prices of food, fuel, and fibre, is that in our main competing regions—and this is the good news for us—a lot of land is going to shift out of forestry into food, into biomass. That means to some extent that we may well see this comparative shift we've seen over the last 10 to 15 years, from the northern hemisphere—from countries like Canada—down to the south, reverse itself.

You will continue to have an absolute advantage in growing trees in Brazil. My goodness, we can almost hear those trees grow.

Having said that, the competitive advantage, the comparative advantage, could well shift back to us. I shouldn't say that. I should say the northern hemisphere, because it may not come back to us. We're quite confident it will go to the United States. We think Russia will have a good shot at it. Canada may or may not. One of the aces we can play in that, especially with regard to the Russians, is our ability to sustainably manage it. We want to market that aspect. Again, I echo my colleague who spoke previously. That's an important issue.

One of the messages is that our public forests are going to become more valuable over time, for a host of reasons, not just the market. The value of the tree is going to go up, but also of some of these non-market goods. We should capture that.

Having said that, we can go into some of the implications of this convergence—the analytical implications, the organizational, the policy, and the investment implications—in the question and answer period, because they are worth exploring a little. But let's just get on for a moment and stress that there are no silver bullets as we move on here. If there were—we're smart enough—we would have found them.

We're going to have to have a thoughtful response. The government response here, I may suggest, is first of all to recognize at the start that we're traditionally not very good at picking winners, but that losers are generally pretty good at picking governments.

So we have to be a little bit careful in terms of our ability to out-think the market. What we can do is clearly intervene when the market fails. Carbon is a feature of this sector. It's a real economic good, which is not captured in the market yet. We should see what's going on. We're lagging in this area. It's coming at us. We have to understand that carbon will be priced, and when Washington makes

the decision to do that, my sense is that business will insist that Ottawa do it within a nanosecond.

The nature of the game is changing here, though. We have to look at R and D. We have to change the nature of our game. One of the things I would suggest is—this isn't a short-term solution—to look at longer-term commitments to R and D. And it's not just R and D—research and development. It's RD and D—research, development, and deployment. One of the things we find is that given our small size—and believe me, our companies are small on a global scale—our companies lack economies of scale. Where economies of scale are most important in this industry is in things like marketing and R and D.

• (1155)

We can't take the risk, especially on some of these emerging technologies. That's a role for government here to support. I did most of my training at the University of Chicago. I believe in markets. But there's a role for government in that area.

Also, come out and recognize here that when you do your R and D work, you shouldn't dilute your efforts. One of the things I am concerned with is spreading ourselves too thin.

We can talk about the bioenergy, if there are any specific comments, or the low-tech or high-tech responses, but I'll turn it over to the chairman.

Thank you.

The Chair: Thank you very much, Mr. Roberts, for your presentation.

We now go by video conference to Réjean Gagnon, a professor from the Université du Québec à Chicoutimi.

Go ahead, please.

[Translation]

Mr. Réjean Gagnon (Professor/Researcher and Director/Coordinator of the consortium de recherche sur la forêt boréale commerciale (CRFBC) , Department of Basic Sciences, Université du Québec à Chicoutimi): Thank you, Mr. Chairman. My name is Réjean Gagnon and I work at the Université du Québec à Chicoutimi, where I am Director of the Consortium de recherche sur la forêt boréale commerciale.

The main objective of our research work is to ensure resource sustainability. We are specialists in natural forest regeneration as well as in the environmental parameters that influence tree growth. Our work is mainly concentrated on the forests of Eastern Canada. One of the characteristics of Eastern Canada is the presence of a particular species, the black spruce. We are specialized in the growth of this species. The black spruce is very abundant in Eastern Canada, but it is rare elsewhere in the world. It is a strictly North American species and the largest stands of black spruce in the world are found in Eastern Canada. This is why our university has become a specialist on the parameters and ecology of these forests.

I wish to thank the members of the Committee for having given me the opportunity to speak to you today. As a biologist and ecologist, I am very concerned by the fact that in a not too distant future — we are talking here of 2050 —, there will probably be nine billion people living on this earth. At present, our access to an abundant natural resource, oil, ensures our affluence and offers us many possibilities, but this resource is not renewable and we can of course not base our country's development on it. We are going to need oil, but it is not a renewable resource.

This is why most of my work pertains to forests. We know that the forest is a natural and renewable resource.

In our view, wood is our material of choice environmentally speaking. Indeed, as everyone has said, it is non-toxic, it captures CO₂, it is renewable, recyclable and compostable, and it is an abundant source of materials such as paper, cardboard, lumber, firewood and biomass. This material also feeds our cogeneration plants and we will also be able down the road to produce cellulosic ethanol and all kinds of other such products.

The main question is that of knowing if the wood harvesting methods used today will guarantee us supply in the future. We of course have many concerns in this regard.

You may have seen a film that shows forests that do not renew themselves after a cut. The title of the film is *L'Erreur boréale*, and it is by Richard Desjardins. I do not know if any of you have had the opportunity to see this film. Upon seeing the film, one could have the impression that forestry has no future. We must not forget that this film was not about forestry, but was rather an anticapitalist indictment. The film uses the forest industry to show that unbridled capitalism has no place in Canada. The film also questions the social acceptability of wood harvesting. Here, out East, and more particularly in Quebec, we are asking ourselves many such questions.

Generally speaking, people are not that much in favour of wood harvesting. You have to find ways to convince our people that trees can be harvested. I believe that in order to do that, people must understand what wood is used for. Wood must not serve only to fill the pockets of big companies, and people must also see that wood is our best environmental choice.

Here, the situation is somewhat different compared with what exists elsewhere in the world. In Quebec, we mainly work with natural regeneration. Close to 80% of our forests naturally regenerate themselves. One of the consequences of this situation is that we do not practice intensive forestry. Our forests' productivity is not that high because we rely mainly on natural regeneration.

• (1200)

Our aim is to put back into production our forests as they exist today. We however work with a natural process, the great advantage of which is that it maintains the original species and allows for their generation from local parent trees. In terms of the maintenance of biodiversity, Quebec's tree harvesting is in a good position. It is a good starting point. We do not have too much difficulty maintaining species.

In Eastern Canada, we have been harvesting trees for more than 100 years. In your opinion, how many species, both plant and

animal, have disappeared through tree harvesting? Would it be two, five or eight species? According to biologists, no plant nor animal species has disappeared due to tree harvesting. That does not mean that no species has disappeared for other reasons, for example trapping.

In boreal forests, there is a natural problem, that of fires. I know that many fires occur in Western Canada and in other regions of the country, but there a lot of forest fires in Eastern Canada. One species in particular, the black spruce, has adapted to fire, but this adaptation is not very good. Consequently, if the rate of occurrence becomes too high, this species will regress. According to our recent studies, packed black spruce forests have regressed by 9% over the last 50 years, becoming open woodland areas. This rate is extremely high and rather exceptional. This is however a natural regression, and I wish to insist upon that fact. It is natural: it is not due to forest harvesting but to frequent forest fires.

We have developed tools for reforestation. With regard to CO₂ fixation, much of our lands that are today considered to be unproductive could be put back into production. We could book them as new lands for CO₂ sequestration.

Our main challenge in Quebec is La Relève, those who will replace us. Few students are interested in the forestry sector. Very few young people are signing up in our schools to become forestry technicians or engineers. We see the same problem with wood processing training. This is why we have for five or six years now been predicting a real labour shortage. Furthermore, we are most certainly going to be faced with a similar problem in Eastern Canada in the area of forestry research and other specialized forest-related disciplines.

In closing, I would recommend that the Canadian government encourage, through all the means at its disposal, the use of wood in the construction of both public and commercial buildings.

Thank you.

• (1205)

[English]

The Chair: *Merci, Monsieur Gagnon.*

We'll now go directly to questioning, to Mr. Boshcoff, for up to seven minutes.

Go ahead, please.

Mr. Ken Boshcoff: Thank you very much, Mr. Chairman.

I have two questions, and I will direct the first one to Mr. Allan and the second to the Boreal Initiative representative.

Mr. Allan—and please, other representatives can feel free to try to address these two questions—in terms of regional transportation, we mentioned rail rates. You described the service in British Columbia as being either poor or non-existent, and I would suspect a lot of that was directed to non-main-line service.

Would you think the same situation should apply to main-line services? In particular, I guess you could say the rail companies really have a monopoly, although there may be two, or short-line railways, in addition. When a company needs, say, pulp cars, when they need them fast, when they're expecting a turnaround and are forced to go into storage, this seems almost whimsical or uncaring in terms of railway servicing. Companies in the forest industry are already having a difficult enough time when they're actually forced to shut down a mill because they can't get railcars. How are we going to overcome something as fundamental as that to a nation when we talk about all those solutions you've proposed?

The second one—perhaps, to you, Mrs. Granskou—is the certification question. Right now in Ontario the province has agreed to the forest stewardship, yet there is nowhere in Ontario that this can be sourced or agreed upon, even after millions of trees have been planted in the province—and “millions” is an understatement. We already have in Canada the Canadian Standards Association and the sustainable forest initiative. So the question is, how can forest companies that are trying to meet the ISO and all these other types of standards get another standard and say, okay, those are fine, but we have another one for you? How can a company keep adapting? It's almost like the bureaucracy is adding another level to them after they've complied.

Perhaps the other presenters would also like to try to address those two questions.

Thank you very much.

The Chair: Mr. Allan, go ahead with the answer to the first question, and then Mrs. Granskou.

Mr. John Allan: Thank you.

On the question of rail service, I was referring mostly to what I would call main-line service, and specifically CN service. I have a number of members in these associations that I'm responsible for who consistently tell me, on a regular basis, that rail service is very poor. Cars are ordered and don't show up.

As you mentioned, cars are put in storage, and they can see these cars sitting idly by while they cannot get their product to market. It's a very frustrating situation for most companies. Lumber deliveries are scheduled on a regular basis, as everyone knows, and the fact that you can't get your lumber to market on a timely basis results in added costs and foregone revenue.

I know you've heard from FPAC on this issue. It's a national issue. I just want to alert the committee here, the members here today, that some serious attention needs to be paid to what is a monopoly service, and a very poor one at that, according to the members I work for.

The Chair: Thank you, Mr. Allan.

Mrs. Granskou.

Mrs. Mary Granskou: You raised a good question on certification. Obviously if there's one standard, it's a lot easier for the market to deal with than if there are three or four. I think over time we'll find that there will be a lead standard. The one of choice with our partners is the Forest Stewardship Council, for two obvious reasons. One is that it mandates third-party monitoring and

verification of a forestry operation, and the second is that the standard was developed with a very broad consultative process, from first nations to industry to environmental groups. There is the greatest faith in its ability to actually deliver real results, and that's what they selected.

In terms of Ontario's decision to support the FSC paper, they have said they will procure up to 30% of government paper supplies from FSC producers. There are actually many acres under FSC production in Ontario, and Tembec is leading on that. Our producers are confident they can meet the supply or they wouldn't have encouraged Ontario to adopt that policy.

In terms of certification, when you certify the forest, how do you get it to market? Our partners are putting their cards.... And this goes for the forestry companies in FSC, because there are parties that are involved that help them get their paper and products to market. Those are very much the environmental groups that often put pressure on a retailer like Home Depot and encourage them to move forward. We have all these folks around our table, and as you can imagine, the conversations can get very interesting. What's happening is that former opponents are supporting moving in the same direction.

Does that answer your question?

• (1210)

Mr. Ken Boshcoff: It does.

I guess some organizations may feel we're creating another trade barrier within our own country, particularly Ontario, and second, internationally, in terms of our ability to export, whereas, to paraphrase, they already feel that Canada is an international leader in terms of sustainability, replanting, forest stewardship, and those types of things.

I come from the boreal forest. When you see the changes from when I was younger that the industry has complied with in terms of its emissions, I see enormous progress and optimism.

The Chair: Thank you, Mr. Boshcoff. Your time is up.

Monsieur Ouellet, for seven minutes.

[Translation]

Mr. Christian Ouellet: Thank you, Mr. Chairman.

Mr. Roberts, it seemed to me that you had a rather holistic approach to energy and forests. I would like to know if, in your opinion, we should continue to try and develop our international markets in particular, which are mainly with the United States, although, in the case of paper, our market is the entire world, or if we should use our forests as an unending supply of energy to both fill our energy needs and replace those non-renewable energy sources that we presently purchase elsewhere. Allow me to give you an example.

In Quebec, 90% of our oil comes from very far away, from unstable countries, and our natural gas comes from elsewhere. However, we have an extraordinary forest that is a phenomenal source of energy, especially in terms of biomass, but we are selling it to foreign countries.

In your opinion, what should we be aiming for?

[English]

Mr. Don Roberts: It's a very good question.

Let me give you some numbers from Europe—and they will vary to North America's. In Europe they've looked at taking a given cubic metre of wood and asking, do we put it into bioenergy or do we put it into pulp and paper? The interesting numbers are that in terms of GDP, you get a GDP multiplier eight times greater in pulp and paper than in bioenergy, and for employment, it's 13 times greater.

In terms of the number of metrics that we care about as communities, the pulp and paper, which often we'll put into the export market, has actually generated more activity at home. That being said, we are looking at bioenergy for a whole host of reasons, mostly dealing with anxiety, and that anxiety is partly, as you mentioned, energy security. It's dealing with environmental security, political security—we want to get activity in the communities that have fallen.

I think the reality right now is that we have to take a fairly dispassionate look at this—what makes sense right now economically. There is a whole host of energy products we could make, from the low-technology pellets to the higher-technology cellulosic ethanol bio-refiners. There's no one answer, but I can give you a quick gut response.

In terms of our high-tech use of the forest for energy or biochemicals, we are really five to seven years away from commercialization. We can't make money right now, which is one of the roles we want for the R and D, to help us understand how to do this in a more cost-effective way.

Scale is also very important when we look at this, because when we are looking at cellulosic ethanol.... The first plant that is going to be built in North America is going to be in the state of Georgia. It's 100 million gallons. It requires—

• (1215)

[Translation]

Mr. Christian Ouellet: Allow me to interrupt you. I did not think that you would talk mostly about biofuels, and more particularly biodiesel. I thought that you were rather going to talk about the biomass that we could use directly, without any processing, as close as possible to where it is produced. That is what some researchers at Hydro-Quebec are proposing. This technique is used in Vermont, where super-boilers are used. Vermont indeed uses its biomass without processing, as clean energy. I am in agreement with you in saying that with processing there is a certain loss of energy. It becomes an alternative energy. I thought that you would talk to us about that energy which is taken directly at source.

[English]

Mr. Don Roberts: Essentially, we can use it in cogeneration plants—biomass into coal-fired power plants is one way.

The reason I mentioned the ethanols and so forth is because we really have the need for two types of energy: the transportation fuels—gases and diesel—which are highly polluting; and the second is where we could substitute for coal in some areas. Biomass, as a way to feed into generationable electricity, is certainly an option.

What I would say is that in Quebec there is less of an incentive to do it than in most places, as in British Columbia. The reason is that the price of your hydroelectricity is already so low. There is more of an incentive to do that in Ontario, where we will see that come off, but it's one of the reasons why we won't see this occur in Russia as well—hydroelectricity is too low.

[Translation]

Mr. Christian Ouellet: I was not talking about producing electricity, but rather of heating buildings directly, as it is done in the State of Vermont. The people at Hydro-Quebec believe that we should not be producing electricity from biomass, but rather using it directly for heating purposes.

[English]

Mr. Don Roberts: There are three ways in which you can use this. One is the commercial power plants, which use the electricity. The second is district heating units. Everywhere you have a hospital or a university is a potential use. This is what we see in Europe—about 30% of the demand is for that, absolutely. But it's quite small-scale. We have more than enough biomass to deal with that use, but that's not where we're....

The third alternative is in residential, where people essentially use wood pellets, and that's an option as well. You need a fairly significant infrastructure to move it. We have it in parts of Europe. It makes a lot more sense to use it here, perhaps, than shipping it all the way over to Europe, which is not a good economic proposition—and I can say that confidently. But in terms of district heating units, I expect we will see more of that over time, and key is going to be the cost of getting that biomass to those heating units. For other parts of the country, it doesn't have to be from wood; you can use this from other feedstocks as well.

• (1220)

[Translation]

Mr. Christian Ouellet: Would you agree that we should look to our domestic markets before considering foreign markets?

The Chair: Thank you, Mr. Ouellet.

[English]

Your time is up.

Ms. Bell, you have seven minutes.

Ms. Catherine Bell: Thank you, Mr. Chair.

This is a very interesting discussion. My thanks to all the witnesses for their presentations. They were very thorough.

I want to address a couple of issues. One was the land use planning that was brought up, I think, by Ms. Granskou and Mr. Roberts.

This is important, especially for our first nations, who are looking to build and improve their economic security and their economic base. I'm curious to know how the organization you mentioned, the Forest Stewardship Council, is working with first nations and community partners and industry to develop those relationships and improve economic security.

The food, fuel, and fibre issue was very interesting. It has to do with land use planning, and it needs to be addressed in a large way. It will affect how first nations and others use the land and where we're heading in respect of land use. Maybe you could touch on some more of that.

Before I let you answer that question, I have another issue I want to talk about—raw log exports. I understand we are exporting a lot of logs to South Korea and China. I've heard we're exporting between 8% and 30% to Asia. The numbers vary widely, and I'm not sure what the percentage is.

We're looking at increasing our exports to Asian markets, which I think are big. Are we looking at more log exports or are we looking at value-added products? Are we looking at fibre exports? I think this would make a lot more sense if fibre is going to be the income generator of the future.

Also, how much pressure is going to be put on Canada to export our raw logs if Russia is increasing the tariffs, which are going to limit their export to those countries? And what can we do to make sure that we maintain employment here in Canada, that we keep the processing jobs here? We want to look after our employment.

Ms. Granskou, in your paper you talked about things such as lengthening the rotation age of the trees. In British Columbia, they actually have shortened the rotation, which is causing trees to be cut smaller and younger. This in turn is forcing the mills to retool. I know there are mills out there that can accommodate larger logs, and they are actually exporting that wood to the Asian market.

Could I have some comments on those points?

The Chair: Ms. Granskou, I think the first question was to you, and then we'll go to Mr. Roberts.

Mrs. Mary Granskou: Thank you. It's a very good question.

On land use planning, I think the best way to look at it is that land use planning is becoming increasingly required as one means to help resolve questions around the need and in fact the duty the crown has for aboriginal consultation. What's happened, particularly over the last ten years, is that there have been affirmations of aboriginal rights in case law that require consultation, and land use planning is a key mechanism through which to do that.

Governments are behind on actually moving forward on land use planning in a way that goes beyond putting a little bit of money towards it. Effective land use planning requires anywhere from a \$5 million to a \$10 million exercise over a period of five to eight years, and it's comprehensive. The Canadian Boreal Initiative is probably one of the lead partners out there in the field working with governments, first nations, industry, and others to advance that kind of sophisticated exercise that then can reduce conflict in the field.

It's absolutely fundamental, but because it's a process towards an outcome that takes time, you can imagine it's not the highest priority around cabinet tables. That's why we urge you to support it as part of increasing certainty for the forest sector.

On the co-benefits in carbon, there are ways through land use planning now to actually bring carbon into the game in a pre-market way, because carbon, and forest carbon, will be on our markets in the future. Canada should get into the game and through land use

planning have that be one of the filters or priorities that is looked at in terms of making choices on what land goes into what type of activity.

There's a good policy environment in Ontario and B.C. right now to look at carbon offsets, and that would then be brought into land use planning decisions.

That's on the first question. Would you like me to touch on the—

• (1225)

The Chair: I think we'd better go to Mr. Roberts to answer the second question, as there are 45 seconds left.

Mr. Don Roberts: I'll deal quickly with the carbon issue first. I think we're in agreement that you should manage for it. I think the devil is in the details of how we do it. To some extent, it's important to recognize that you're dealing with a biological resource, and if we don't harvest often, in some cases nature will, in the form of fires or insects. We have to be mindful of that. We could well see the boreal forest being a source, and not a sink, of carbon for the atmosphere.

One argument I'll put out is that instead of going for a longer rotation, you should go for shorter, because how we take carbon out of the atmosphere is through sequestering it. This is through growing. The key thing then is what product you produce from it. If you store that, for example, as lumber in homes, that's not going back into the atmosphere. You can see how this works over time and the whole life cycle, but it's open to debate how we operationalize this. I think where we're in agreement is that one should manage for it.

Quickly, on the sawlog exports, people don't generally like to export logs. You do it because there's no other alternative. The reason you don't is that when you ship a log as opposed to lumber, your transportation costs go up dramatically. Right now it's interesting, and my sense is that probably the biggest advocates of softwood log exports from B.C. are the aboriginal groups, because they've got some cutting rights and they don't have a market at home.

The Chair: Thank you.

Mr. Allen, for seven minutes.

Mr. Mike Allen (Tobique—Mactaquac, CPC): Thank you, Mr. Chair.

I thank the guests for being here today. I appreciate it.

I have a couple of questions.

I want to focus on two major areas. One is on our competitive position going forward, and the second is on the R and D and the innovation side.

On the competitive position that we talked about in the future, you talked about Russia putting tax on its exports. If you look at some of the studies that have been done before, Russia is way behind Canada with respect to innovation and its technology. The questions are these. First, is there going to be a good opportunity for us to step into this market in the future, because Russia does not have the technological or transportation systems and that will create an opportunity for us? Second, other countries are using land for agriculture, taking it out of forest production. Does that represent an opportunity for us?

On the R and D side and innovation, one of the comments was that we have an R and D and innovation fund set up under FP Innovations, but—and I guess it's to Mr. Gagnon's point—where are the people? We're not going to have the people five or six years down the road. We can do all this innovation, but we're not going to have any receptor capacity for it.

I'd like your comments on where the industry is with respect to that. Is it generally going to be a problem for us to spend all this money and not get anything in return?

Mr. Don Roberts: Just quickly, is there an opportunity in the fact that the Russians don't have...? Again, it's not just the physical infrastructure, it's the social infrastructure, the tremendous lack of transparency. They will have difficulty here.

As they pull these logs off the market, there will be a window. Our sense is that it's at least five to seven years before they get their act together. Where they will come in first is on the solid wood side. They're going to do lumber and plywood first, that's clear. Then they will hit us; they'll use it for the domestic market first and then they'll focus on the Chinese and the Japanese market. They have high-quality product.

As for their Achilles heel, you think we have a labour problem? Look at the Russians. It's much bigger there.

So one of the reasons our competitive position is actually going to be improving is that a lot of these competing regions are going to have negative things happen—not that we get better; they're going to get worse. We can see it in spades with regard to wood. An interesting fact is that right now the market price of hardwood pulpwood logs in Brazil is higher than in eastern Canada. It's partly currency and partly the fact that they're building their pulp mills a lot faster than they can put in their plantations.

You're seeing cost pressure go up. It's also partly due to their restricted land base, which you alluded to on this food, fuel, fibre issue. They will pull it out. We're aware of a situation in Vietnam where a three-year-old eucalyptus plantation was cut down. They replaced it with palm oil. This is good news, from a market perspective, for the Canadians.

So as to opportunities, yes, we do have them. The receptive capacity is certainly a source of anxiety. It is. But the good thing is that things can turn on a dime with perceptions. People are interested in getting into green careers. We have to be sincere in how we manage our forests sustainably. That will be an advantage.

When I go to other countries, I think we have a sincere interest on the part of the companies that do that. We have to communicate. We need people out there speaking positively on this. This isn't just a sunset industry. I believe it has some opportunities as well. One of our cards to play will be that we can do things sustainably where there is green energy. We can produce renewable plastics, at the end of the day. But we're not there yet.

●(1230)

Mr. Mike Allen: Mr. Gagnon, would you comment on the resource side?

[Translation]

Mr. Réjean Gagnon: Do you mean our research capabilities?

[English]

Mr. Mike Allen: The capacity to receive it in the companies.

[Translation]

Mr. Réjean Gagnon: In the companies? There will clearly be difficulties recruitment-wise. We are having difficulty convincing our students to opt for forest-related work. There is a lack of interest. However, I believe that this is not specific to forestry. Generally speaking, there are few young people in Canada. Our population of young people had decreased. Furthermore, there are many other sectors that are very attractive, if you think healthcare or commerce. Many more students are enrolling in those programs.

Also, in Canada and the United States generally, students are losing interest in the sciences. There are not many students enrolled in chemistry or in physics, but there still are some in biology. There has been a real decline in enrolment in the sciences, as well as a drop in the interest of students for these fields. This will clearly have an effect on Canada's forestry industry. We need engineers and chemists to work on the processing of wood as a material. We also need engineers for the processing of wood per se. Here, in our plants, we do not have many young people. There is a shortage of engineering students and graduates for work in mills.

[English]

The Chair: Mr. Allen, you have about one minute left.

Mr. Mike Allen: Ms. Granskou, you talked about the fund in terms of the management. We all know that natural resources management is a provincial jurisdiction. In New Brunswick it's about fifty-fifty private land and crown land.

What challenges do you see in some of these jurisdictional issues by having a fund at the federal level to sort this land management out?

Mrs. Mary Granskou: Yes, good question. On land use planning in particular, it would have to be done in partnership. A number of provinces—Manitoba is one, Ontario is coming, Saskatchewan—are knocking on the door for land use planning funds, but it's just not being responded to.

So it's collaborative. And the same goes for carbon management; it would be in collaboration with provinces and stakeholders.

Does that answer your question?

●(1235)

Mr. Mike Allen: Yes.

The Chair: Thank you, Mr. Allen. Your time is up.

We go now to the second round, for five minutes to each questioner or group, and we'll go first to Mr. Tonks and if there's time left, Mr. Alghabra.

Mr. Alan Tonks (York South—Weston, Lib.): Thank you, Mr. Chairman, and thank you all for being here.

You've given us, and reinforced, some of the themes that have come from other deputies in terms of a balanced approach, a strategic approach. The future looks good, but there are short-term issues with respect to the various points you brought forward—the dollar, U.S. housing, the pine beetle. We've heard these things before.

Mr. Allan, on your points with respect to a balanced approach, you cited five areas, and there was a resonance from the other deputants with respect to that strategic approach.

We're trying to grapple with the short term, if I may bring back that focus. Mr. Allan, you talked about the softwood lumber agreement, and you cited it as a strength, that we should avoid litigation. It seems litigation keeps coming back. We're currently involved in litigation. I wonder if you could expand on how the softwood lumber agreement could be strengthened in the short term, or what this committee could do with respect to it. I confess I don't know the details of the agreement, but it seems the very thing it was attempting to avoid seems to be coming back. I may be wrong.

The other question was for Mr. Roberts. You talked about R and D and the conversions of R and D and innovation. You also said efforts should not be diluted with respect to marketing and R and D. Could you expand on that for the committee? I think this is a very important short-term catalyst that the industry is looking to.

Thank you.

The Chair: Mr. Allan first. Go ahead, please.

Mr. John Allan: Thank you.

The softwood lumber agreement provides a framework, and within that framework is a process that's very important for industry and governments—the Canadian, the U.S., and provincial governments—in a period, as you pointed out, of great instability for markets, industries, workers, and communities. It does it this way. It was anticipated, in negotiating and drafting the agreement, that there would be disputes under the agreement. This morning we received the first report from the London Court of International Arbitration on the first arbitration filed under the agreement. It was a decision that went in favour of Canada on the one hand and in favour of the U.S. on the other hand. There were two issues—Canada won one of the arguments and lost one.

Having said that, the arbitration process under the agreement is a very efficient process. It provides results in a very objective and timely manner. The alternative would be court litigation within or outside the agreement, and that is not a very efficient and objective process. If we did not have the agreement, my premise to the group today is that we would be in litigation, and that litigation would drive import duties in the U.S. far in excess of the current border measures we have in place today. Alberta and B.C. pay a 15% export tax; Ontario, Quebec, Manitoba, and Saskatchewan have a 30% market share quota and a 5% tax. If we were in litigation, given where the dollar is, given where markets are, I expect those litigation rates would be in excess of 30%. So it's a matter of which alternative you want to live under.

My recommendation to this committee is that the federal government, the provincial governments, and industry—it's up to industry as well—not participate in what I would call behaviour that would threaten the longevity of the agreement.

• (1240)

The Chair: Mr. Roberts, a very short answer, please, to the second question.

Mr. Don Roberts: The bottom line is on the duty, 30% and even more, and it's because of the anti-dumping concern; it's not a subsidy. It's because we're running our sawmills to supply chips to the pulp and paper mills.

With regard to diluting the efforts in R and D, I see a plethora of regional efforts. We're looking at everyone wanting to have in their own backyard a demonstration project or a new centre looking at bioenergy or something that's related. We're doing, essentially, a typical Canadian thing: by spreading ourselves too thin, getting regional representation, we're sentencing ourselves to mediocrity to some extent.

The Chair: Thank you, Mr. Roberts, for your short answer.

We go now to Madame DeBellefeuille for five minutes.

[Translation]

Mrs. Claude DeBellefeuille: Thank you, Mr. Chairman.

Thank you to all of you for your presentations. My question is for Mr. Roberts and Mr. Allan. At the present time, every Canadian province is reflecting on its own as to ways of mitigating the forestry crisis. In Quebec, last fall, we had the Forestry Summit. The government of Quebec tabled a green paper on forests. I know that in New Brunswick a report is expected to come out in the spring. Every province is doing its own thinking in the hope of finding solutions.

Many witnesses have told us here that one very concrete way of helping the forestry industry would be to quickly set up a carbon credit market and to quickly organize this market in order for industries to be able to use this tool, this economic lever, to overcome the crisis.

Do you share this opinion with regard to the establishment of carbon credits, Mr. Roberts?

[English]

Mr. Don Roberts: It's one positive step, but it's not your single solution, partly because we do not grow trees fast enough. But it will help.

One thing to bear in mind as we look at pricing carbon, whether through a cap and trade system or a tax, is if everyone else does it among our competing partners, this sector will benefit. But the problem is if just one region goes into it and does it and the other competing regions do not, you can be at a real competitive disadvantage.

So it is coming. The worst thing we can do is drag our feet and create a lack of transparency in what the rules of the game are. But in general, I would move toward it as one of a number of things. It's not our single solution.

[Translation]

Mrs. Claude DeBellefeuille: If you were Minister of Natural Resources, would you say that Canada should really make haste? Do you consider that the efforts being made at the present time are sufficient or do you believe that more could be done to accelerate the establishment of this market?

[English]

Mr. Don Roberts: In my view, we should do more at a national level, and to some extent we will follow the lead of the United States.

I draw your attention to the Lieberman-Warner act in the United States. It's a bipartisan piece of legislation that has already essentially set the framework for a cap and trade system in the United States. That bill won't pass per se, but that set of rules will be in place when the next U.S. administration comes in. When that happens we will have to follow suit.

It is important to get a handle on this carbon issue, because if we look five years down the road, we could well see carbon tariffs being put up by the United States, especially on places like China and India. We want to make sure we're on the right side of that—not in front of it but behind it.

[Translation]

Mrs. Claude DeBellefeuille: Mr. Allan.

[English]

Mr. John Allan: On what government can do in the short term, all levels of government should wring costs out of this system—regulatory costs and process costs. Under the softwood lumber agreement you are not allowed to subsidize industry, so let's just take that as a given and move on.

I think we need to provide for the most competitive policy framework possible for when market recovery does happen. Markets will recover. We will get out of the crisis we're in at the moment.

On the carbon side of things, let me flip it around. Let's not implement a carbon system that's going to make us less competitive. For example, in British Columbia we were going to have a cap and trade system and a carbon tax. The government has indicated that if you are caught by the cap and trade system you will not be caught by the carbon tax. How that's going to work is yet to be known, but it is a difficult challenge to make sure there isn't duplication and overlap in both systems.

In B.C. we're up and running. We're going to have a carbon tax in July and a cap and trade system later on this year. So I would encourage anyone who is interested in how these efforts might work to just keep their telescope on British Columbia, because we seem to be leading the nation in this regard.

• (1245)

The Chair: Thank you, Mr. Allan.

Merci, Madame DeBellefeuille.

Mr. Harris, you have asked for 20 minutes and you get four. Go ahead.

Mr. Richard Harris (Cariboo—Prince George, CPC): Thank you, Mr. Chairman, and thank you, presenters, for your excellent presentations.

Five minutes is not enough, but I'll start with Ms. Granskou.

How do you view the mountain pine beetle threat to the boreal forest? We know where they have advanced to now. How do you see that?

I'll ask you all to be quick in your responses.

Mr. Allan, I know you made representation to CN Rail regarding the car shortages. How have they responded to you? From that, we'll know how we can help.

Mr. Roberts, I appreciate your conversation. To what extent are North American forest companies now in Russia, notwithstanding the difficulties there, or to what extent do they have their eye on Russia because of their vast resource?

Ms. Granskou.

Mrs. Mary Granskou: Those are great questions.

On the mountain pine beetle, I'd say our partners around the table are focused on it for two reasons. It's very much the way Mr. Allan has spoken about the impacts to the industry and communities.

One of our first nations leaders was in a meeting with the premier of B.C. this last week about the need to recognize and compensate for the social capital cost to communities. That is one area we are focused on.

The other is on the opportunities side and on carbon. Please recognize that 75% to 90% of the carbon values are not in the trees; they're in the underlying soils and peatlands. B.C. has recognized that they want to look at carbon values. There may be some areas that are hit hard by the beetle that might actually have economic values for carbon.

The Chair: Mr. Allan.

Mr. John Allan: My comments on CN were based on a survey I did recently. There is still frustration out there. Having said that, CN says they are trying their best. The context is that mills are taking downtime all the time, and mills are closing with very limited notice. So in fairness to the railroad, conditions are changing rapidly in terms of demand for cars. I think the bottom line is that more dialogue is needed with that company to indicate what better terms of service could possibly be achieved.

Mr. Don Roberts: With regard to Russia, International Paper is the only major public company that has gone in—\$650 million. They're on the ground. Generally speaking, Canadians would have difficulty, because we're too small. If you go there, you are assuming some political risk. We're not big enough. If we take a hit, it can sink the company. I would say that no public company in Canada will go in. However, there could be some private companies that do look at it, and are looking at it, with some encouragement.

The Russians are not short of money; they are short of expertise. The Russian oligarchs have more than enough money to finance this. Again, I would bear in mind that Putin wrote his master's thesis on how to use state control of natural resources to regain national prominence. They explicitly want to create national champions in the forest sector.

Mr. Richard Harris: He's gone to a 25% export tax, I understand. How far away do you think we are from him going up to the 80%?

Mr. Don Roberts: I think they've postponed it for probably a year. In 2010 or 2011, my guess is they will go to 50% to 80%. There is no question on the direction. They will go, and they are willing to take a chance on WTO entry on that.

This is also a question of pride to them. We have a unique advantage, because they don't trust the Finns. They feel they've been lied to. We're seen as a bit of an honest broker, and this is one of the reasons they're looking for our expertise on helping them get there.

•(1250)

The Chair: Thank you, Mr. Harris.

Unfortunately, we are out of time. We have a motion to deal with.

I'd like to thank all of you for your presentations and for answering questions, and also the committee members for your good questions. Again, thank you very much.

We'll continue with the meeting rather than suspend it.

I will ask the guests to leave as they are ready. Thank you from all the committee members.

We'll go right to dealing with the motion.

Yes, Mr. Anderson.

Mr. David Anderson: Prior to dealing with the motion, I'd like to clear up something the opposition was asking about earlier. Mr. St. Amand and I walked through one of the committee rooms downstairs, and he was taking great exception to the fact that he felt someone was attacking a colleague there. I felt my colleagues were being attacked here. But I didn't have all the information at the beginning of the meeting.

I want to read into the record excerpts from the news release that did go out from these two members. The other members can decide how much of it was used accurately in the media report.

The headline on it was "Harris And Allen Lead Government Side For Standing Committee Study On Canada's Forest Industry". It was sent out on February 28 and reads:

Federal Members of Parliament, Dick Harris (Cariboo-Prince George) and Mike Allen (Tobique-Mactaquac), will lead Conservative government members of the Standing Committee on Natural Resources in an intensive study of the challenges and opportunities facing Canada's forest industry.

Then it goes through a couple of quotes. Members can look those up. I don't think I need to read them all in—from Dick and from Mike.

Then Mr. Harris is saying:

I thank Minister Gary Lunn for the confidence he has expressed by designating me and Mike Allen to lead the government side in this important Standing Committee study. A report will be presented to Parliament upon completion of our work.

I hope that clears it up for the opposition members.

The Chair: Thank you, Mr. Anderson.

We do want to get to the motion.

Mr. Alghabra has indicated a very quick response. Then we will get to the motion.

Mr. Omar Alghabra: Thanks for the clarification.

I did indicate earlier that maybe there is some misinformation. Now that it's clear, I hope the honourable members can write to the paper and ensure that their constituents understand what's going on so they don't assume there are two parallel studies.

Thank you.

The Chair: Madame DeBellefeuille, all members have your motion before them. You have indicated you'd like to move it. Would you like to discuss it briefly?

[Translation]

Mrs. Claude DeBellefeuille: Mr. Chairman, I hope that I will not have to debate this at length, because it seems evident to me that our first responsibility, as parliamentarians, is to examine the estimates that are submitted to us. Since my being elected, I have made it a duty of mine, on Committee and at each supplementary estimates request, to ask the Minister to come and meet with us in order to answer our questions.

It seems to me that this is part of our work and that it simply makes sense. I therefore believe that there will not be much debate if colleagues around the table are in agreement with my motion. It is a perfect opportunity to question the Minister with regard to this supplementary estimates request. I therefore invite my colleagues to agree with me to our asking Mr. Anderson to request of the Minister that he make himself available to us.

The Chair: Thank you, Madam DeBellefeuille.

[English]

Mr. Anderson, you have something you can put on the table regarding this issue.

Mr. David Anderson: Mr. Chair, we don't oppose the committee inviting the minister to come before the committee. I know he has a busy schedule over the next couple of weeks. He's appeared here several times already and he's been more than willing to come.

I know he's planning on coming back for the main estimates. So I would be glad to extend an invitation to him without making any commitment for him that he would be able to be here by March 14. I know he is willing to come later for the main estimates, so he will be here at some point.

The Chair: When the minister comes it's widely accepted, I would say by committees, that questions can be asked on any subject. We certainly could deal with the supplementary estimates at the same time as we deal with the main estimates, if you would like. I understand there is a deadline for the supplementary estimates. You made that point.

But again, whether the minister can come or not is really in question.

Mr. Anderson, the clerk will in fact put out an invitation to him and we'll see what he can schedule.

I don't know if there's a need to go to a vote on this. We can just ask for agreement that we pursue this.

Some hon. members: Agreed.

[Translation]

Mrs. Claude DeBellefeuille: Yes.

[English]

The Chair: The clerk will invite the minister to come on the supplementary estimates before—

[Translation]

Mrs. Claude DeBellefeuille: Mr. Chairman, you did ask if there was unanimous agreement to adopt this motion? Is that the case? Is it unanimous?

• (1255)

[English]

The Chair: Yes, I believe it was unanimous.

[Translation]

Mrs. Claude DeBellefeuille: I would like to tell you that in other committees, if the Minister's schedule is too full, it does happen that he or she delegate a deputy minister or another high ranking official to answer members' questions. I would however prefer that it be the Minister, because he is the one who is accountable for the budget.

But rather than having no one here, he could delegate someone from his department who would be capable of answering our questions.

[English]

The Chair: Okay. This is unusual.

Mr. Anderson, go ahead.

Mr. David Anderson: We'll certainly take the invitation to the minister. I'm not going to make any commitment that he will come, and I certainly can't make any commitment that we're going to bring departmental officials back. We've had them here a number of times.

I think we've made a further commitment that he will be here for the main estimates, as will the officials.

The Chair: Okay, thanks very much, Mr. Anderson.

I think we will certainly pursue that in trying to accommodate what the motion has indicated. It's very short notice in terms of scheduling, but hopefully the minister can accommodate us. We shall see.

The other issue is that if the minister can come before March 14, what will we do with the witnesses who are scheduled, as we have the meeting fully booked up?

Madame DeBellefeuille.

[Translation]

Mrs. Claude DeBellefeuille: I know that all Committee members are passionate about forestry. I would propose, if the Minister is available, that we add one hour to one meeting of the Committee in order to hear the Minister and question him on the estimates, so as to not lose an hour in our study on forestry. I believe that that would be a solution that could suit all members of the Committee.

[English]

The Chair: Okay. We shall see what we can do. There is unanimous agreement.

Certainly for this committee, I think that dealing with the supplementary estimates and the main estimates is very important. As a former chair of the government operations and estimates committee, I certainly encourage that.

Is there any other business?

Mr. Harris.

Mr. Richard Harris: On a point of order, Mr. Chair, I noticed that someone on the Liberal side was missed and didn't have chance to ask a question. Also, we had a member that was missed. Is it because we didn't get started quickly enough? In other words, had we started the presentations and questions right at the very beginning, there would have been time for Mr. Alghabra.

You didn't have a question, did you?

Mr. Omar Alghabra: Yes, I did have, but I didn't have time to ask it.

Mr. Richard Harris: We then would have had time for everyone.

Mr. Omar Alghabra: I think what happened was that we started 10 minutes late, and the presentations were also a little bit longer than usual.

The Chair: The presentations have been a little longer. I don't remember this, but the clerk has informed me that in the motion we passed we had agreed to give all witnesses 10 minutes. Normally when we have that many witnesses, we shorten it down to seven minutes or even five. But we had agreed to leave it at 10. The presentations have been excellent, I have to say. So that's the reason.

When we have teleconferencing, it's almost impossible to start on time when there's a committee in the room ahead of us—and of course we had to do the motion. So that's the answer.

Thank you very much, everyone.

The meeting is adjourned.

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