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Chair

Mr. Dave Van Kesteren

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• (0905)

[English]

The Chair (Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC)): Good morning, and welcome again to our study on the crisis facing the industrial sectors of aerospace, energy, forestry, high tech, and manufacturing, and it's not limited to those.

We have been studying forestry, and we are pleased once again to have with us Mark Arseneault, president and CEO of the New Brunswick Forest Products Association. From the Association des propriétaires de machinerie forestière du Québec inc., we have Eric Dionne, who is a member. Also, we'd like to welcome on video conference, live and all the way from Victoria, Mr. R.M. Jeffery, president and CEO of the Coast Forest Products Association.

Thank you all for attending. Thank you, Mr. Jeffery, for taking the time. I understand it's a little bit earlier there than it is here. We certainly do appreciate the effort you've taken.

We'd like to begin with you, sir. We ask each witness to give a ten-minute introduction, and then we begin our round of questioning.

Mr. Jeffery, would like to present your case?

Mr. R.M. Jeffery (President and Chief Executive Officer, Coast Forest Products Association): Thank you, Mr. Chair. It's a pleasure to be in front of the committee here. Thank you for being cost-effective and allowing us to do this by video conference. I just got out of surgery yesterday, so I wouldn't have been able to make it otherwise, so my appreciation there.

I'd first like to premise my remarks by saying the crisis in forestry here today is market-driven, and we should not lose sight of that fact. As much as we need as an industry to adapt, as much as we need to work collaboratively and cooperatively with all levels of government—the federal government, provincial governments, and municipal governments—as well as with the emerging first nations governments in different places of Canada, there are very few policy levers that government can do to assist us, because if there is nobody on the other end of the supply chain who is willing or has need for our products, then there's not much sense trying to do a bunch of things, because there's just nobody going to be there buying those products.

I will tell you what industry is doing here on the coast, what the opportunities are that we see in a very short, concise way, and then I will make some suggestions as to government actions and assistance that can be provided. Here on the coast, we would traditionally ship,

or have traditionally shipped, about 60% to 65% of our product to the United States. Over the last two and a half years, as we saw the emergence of the subprime mortgage crisis and the beginning sharp decline in U.S. housing starts, as an industry we began to shift away from the U.S. market and away from commodity-based dimension lumber into those markets.

So in 2008 you will find that coastal shipments to the United States dropped to 48%, and that slack was taken up in two ways: one, we curtailed production; and two, we shifted markets. In 2008 we increased our shipments to China, Korea, and other Asian countries from about 6% to 17%. We held steady in Europe. We increased a little bit of our market share in Japan—to 25%—and we changed our product mix, and this is a very instructive piece for you.

As I mentioned earlier, we began to shift away from commodity products and into more high-valued, specialty custom-cut remanufactured products. That's easier for us to do on the coast, and it's actually something that we pursue relentlessly. We have a very diversified, high-valued, commercially driven supply chain in the solid wood and pulp and paper sectors on the coast. From a lumber perspective, our dimension lumber production dropped from what would have been normally about 30% down to 13%, and the increases in other market segments were to the cedar market, to the shop remanufactured, specialty custom-cut markets.

That's important to know in terms of the U.S. market as well, because on the coast we tend to have a big renovation and reconstruction market segment, versus a new-home housing segment. So for the coastal industry we were able to survive a little bit better because we were feeding that renovation market. That now has completely dropped off.

In terms of production, we have 2.5 billion board feet of capacity, and we are now currently running at 1.284 billion in 2008. That number will be under a billion board feet for 2009. You should know that the average market value of coastal products is over \$1,000 a thousand board feet. That compares to other parts of the country that would have an average market value of somewhere around \$300 to \$350, again showing our diversification and high-value supply chain.

● (0910)

Here's what's going on in the States. In our mind, you won't see a recovery in the global recession until you see a recovery of the U.S. housing market. The U.S. housing market, of course, was affected both by the subprime mortgage crunch as well as the resulting recessionary forces across the globe.

There are two things to note about that. President Obama's \$275-billion homeowner affordability and stability plan will hopefully forestall some seven to twelve million potential mortgage foreclosures that still exist. There are a number of financial instruments—Alt-A mortgages, preferred mortgages—that still remain out there and that may be affected. We're hoping the home affordability plan will forestall that.

This month the home affordability index in the United States has reached the highest level ever, I think. Because of price reductions and the amount of inventory in the market, homes are now more affordable. The big question is whether people will be able to secure financing to buy homes or stay in their homes. We see some glimmers of hope on that horizon. We wouldn't expect to see anything in terms of recovery until 2010, and the most pessimistic folks might say 2011.

Again, we've got a long row to hoe, but it does look like we may be at the bottom of the trough, and we may start to see an upward trend.

Financial conditions in the coastal industry, like every other segment of the Canadian forest industry, are such that it is bleeding red all over the place. There is very limited capital available for maintenance, and there certainly isn't capital available for any new investments.

That's the snapshot—as concisely as I can give it in the time restraints—about where we see the market. I reiterate, it is the market that is driving this. We should always keep that in mind as we try to craft policy and industry responses to it.

The future of this industry is great. There are a number of supply shocks across the world that bode very well for the Canadian forest industry. These things range from the eventual full implementation of the Russian log tax, to reduced supply of timber because of climate-related problems like the mountain pine beetle. The world is increasingly saying that it won't buy products made from illegally logged forests; there is more pressure to increase sustainable forestry.

Canada is a world leader in sustainable forestry. We've done the hard lifting on that. Other jurisdictions around the world are going to have to do this, and that will take supply out of the market. There's an increased call for more forest conservation because of climate change, biodiversity, and those things. Again, Canada, and particularly British Columbia, has done yeoman's work in terms of getting ahead of this. We have the highest levels of forest conservation anywhere.

There is the permanent closure of capacity, which you're seeing. There is the emergence of carbon credit markets, such as the European Union, which is buying wood pellets and now bioenergy is out-competing pulp and paper there. As we see cap and trade systems come into place, if we do the work correctly there will be

carbon credits available for growing forests; that will take some supply out of the market.

On the demand side, there's an increasing demand for green construction. One of the policy levers you, as the Government of Canada, can do is to start building more with wood. It is the most energy-efficient building material, both in terms of its production and its energy efficiency when it's in place.

There's a supply and demand imbalance in Asia, especially China. That creates some opportunities.

● (0915)

And there may be some crop-shifting from our competitors in South America, who will switch crops from forest production into fuel production or, even more important, food production. These things all say the future looks good for us.

What could industry and government be doing right now? I'll list a couple of things. I gather we have a couple of hours, and most of the stuff can come up in questions and answers, so I'll run through it quickly.

We need to continue our joint market access efforts. For you, as the federal government, that means the Canada wood export program, the wood-first policy, the value-to-wood program, and the forest innovation programs that were in the last budget. Those are all great programs. They help drive innovation; they help keep markets open; they help us produce new products and develop new markets; and they also allow us to promote our products in those markets.

I happen to be the chair of the Canada Wood Group, which is the industry group that leads the offshore efforts on market access and market promotion for our products. In our work, we rely heavily on government funding, including provincial government funding in B. C., and industry brings money to the table as well. So we need to continue to work on those markets.

As for products, the money that's being sent to FPInnovations for the innovation and technology piece is very important. We work closely with them. We leverage dollars from the industry and the provincial government, and that's driving product innovation in a wide range of things—from solid wood, to engineered wood, to pulp and paper, to bioenergy. For example, the FPInnovations project for the coast has a five-year program that looks like it could drive \$700 million out of—

The Chair: I'm going to interrupt just for a second. Mr. Jeffery, we're somewhat time-restricted here. We don't have the two hours. So maybe we can talk about these things if you could just wrap up quickly.

Mr. R.M. Jeffery: Okay, I have two more for you and we're done.

The Chair: Thank you.

Mr. R.M. Jeffery: We also need to improve hosting conditions, and that falls into the federal government purview. When we talk about hosting conditions, we talk about taxation policy, R and D, competitiveness, and innovation. There are things we can look at there.

Finally, we have two issues in the United States right now: softwood lumber, and an alternative energy tax rebate. This rebate gives the pulp and paper industry in the United States a \$300-a-tonne subsidy, which causes huge problems for the Canadian pulp and paper industry, given that the cash cost of producing a tonne of pulp is \$500. If they're getting a \$300 subsidy, Canada needs to have a response.

Thank you, and I look forward to the rest of the discussion.

The Chair: Thank you, Mr. Jeffery.

Mr. Dionne.

[Translation]

Mr. Éric Dionne (Member, Association des propriétaires de machinerie Forestière du Québec Inc.): Good morning. I represent the Association des propriétaires de machinerie forestière du Québec, the APMFQ.

We are the owners of specialized harvesting machinery and equipment, and we come from all parts of Quebec. My associate, Jacques, is going to present a brief we have prepared to outline our present situation.

Mr. Jacques Dionne (Member, Association des propriétaires de machinerie forestière du Québec inc.): The Association des propriétaires de machinerie forestière du Québec is pleased to take part in the public hearings of the Subcommittee on Canadian Industrial Sectors of the Standing Committee on Industry, Science and Technology, concerning the crisis faced by the forestry sector.

The APMFQ was founded in 1991. From the start, the Association's mission has been to bring together all owners of forestry machinery and equipment in Quebec in order for forestry entrepreneurs to be recognized as professionals in the harvesting and transportation of lumber, and as true economic partners in their communities.

The APMFQ is the only association in Quebec that brings together and speaks for Quebec's forestry machinery and equipment owners and lumber harvesting entrepreneurs.

Since the Association's founding, its administrators and representatives have taken part in a variety of consultations and hearings, including those of the Bernier Committee, the Coulombe Commission, the Forestry Summit and the Green Paper. Creating greater awareness of the value of the forestry trades has always been one of our key activities. Our administrators have striven for recognition and promotion of our members' excellence and professionalism by presenting a "forester of the year" award, as well as awards for the new generation of workers and young companies less than five years old, and for the best worksite in Quebec.

Recently the important economic and strategic role of forestry companies in the value creation chain of the forestry sector was documented. A study conducted among 2,500 lumber harvesting, transportation and road system companies by Laval University's

Programme de recherche sur les entrepreneurs forestiers de récolte et transport highlighted the following facts.

There are an estimated 1,300 lumber harvesting companies. On average, they have four employees. They are thus the employers or immediate supervisors of over 5,100 forestry jobs.

Their approximate average annual volume of business is \$1,360,000. Of the forestry companies active in harvesting, 60% work in public forests, 24% work in private forests and 14% work in both. The average value of their assets (production equipment) exceeds \$800,000 (book value).

In short, the Laval findings confirm that forestry companies contribute significantly to the economies of resource-rich regions by offering well paid jobs and buying many products and services locally, such as machinery, parts and financial services.

It should also be borne in mind that, thanks to their entrepreneurship, the owners of forestry machinery and equipment have helped to improve harvesting techniques, reduce harmful impacts on the environment, develop machinery better adapted to our conditions and boost productivity spectacularly.

We are in a context of change, where for several years now we have seen a falling demand for newsprint, particularly because of increased Internet use. The softwood lumber dispute with the United States has reduced the demand for Canadian lumber. The current financial crisis is only prolonging and worsening the difficulties we are experiencing in the forestry sector. And, even though 2009 was expected to be economically favourable, it appears likely to bring us an even greater share of worries.

We are directly affected by the uncertainty of the companies that would normally be sending us orders. Because we are very specialized lumber harvesting subcontractors, it is harder for us to find other opportunities for our companies.

To help the big companies, most subcontractors have seen the price per cubic metre of wood drop while payments for benefits and other responsibilities have gone up. So our profits are falling steadily year after year.

These are the problems stemming from the situation. The owners of forestry machinery and equipment have to work longer hours. The remoteness of timber stands means long working days. It is getting increasingly difficult to make gains in productivity and efficiency, with the result that we have less flexibility. Our aging workforce is proving hard to replace. Construction and mining siphon off our workers. Wages in cities used to be lower than those paid in the forestry sector, but this difference is less noticeable than in the past. Young people prefer to work in the city rather than go away to work in the bush for weeks at a time.

In an effort to increase their revenues and reduce their expenses, many forestry machinery owners update their equipment regularly. They need to do so in order to keep up with the latest in technology and thus increase their productivity.

● (0920)

For the past two years, we have noted work weeks falling from 40 or more hours to 30 or fewer hours. This makes a big difference to company revenues. A number of bankruptcies occurred last year, and there have been even more this year. This in turn impacts all the parts suppliers and manufacturers. Some owners who are close to retirement would rather just give up completely than continue working like dogs for little or no profit year after year.

In conclusion, we want to assure you that the APMFQ and its members will keep improving their way of doing business, as they have always done in the past. Forestry professionals past and present care deeply about the forest and want to conserve and develop this country's garden of trees for future generations.

● (0925)

[English]

The Chair: Thank you, Mr. Dionne, and I apologize for not recognizing you. You kind of snuck in on a corner there.

Thank you both for coming.

Mr. Arsenault.

[Translation]

Mr. Mark Arsenault (President and Chief Executive Officer, New Brunswick Forest Products Association): Thank you, Mr. Chair.

Thank you to the members of the committee and to my colleagues who have joined us today. Thank you for inviting me to appear this morning.

[English]

On behalf of our 50 members and the New Brunswick Forest Products Association's board of directors, I welcome the opportunity to present our views on the crisis faced by the manufacturing sector. More specifically, today I'll speak about forestry from the Atlantic Canadian perspective.

The New Brunswick Forest Products Association is a non-profit organization that represents pulp, paper, and solid wood manufacturing companies in the province of New Brunswick.

I would like to take the opportunity to compliment this government committee for reviewing the issue and attempting to understand the impact the current economic downturn is having on the forestry sector and our rural communities that are beholden to forestry.

In the few minutes provided I'll speak of the economic impact. I will briefly outline three significant issues for forestry in New Brunswick, those being access to credit, black liquor energy subsidies to the U.S. pulp and paper mills, and silviculture funding.

I'll also recommend initiatives with which the federal government could help overcome these issues, and I'll conclude with an optimistic outlook for the future of our sector, because I do believe forestry has a bright future in Canada and for our economy.

First let me start with a brief economic snapshot of the downturn and how it's affected our sector.

As you are undoubtedly aware, the forest industry has been undergoing a forced transformation over the past four years. It's been subjected to a perfect storm of events that have challenged what is one of New Brunswick's most important economic engines. Global competitiveness moving in on our traditional trading markets, a downturn in the U.S. housing market, dramatically rising and uncompetitive high energy costs, and at one point even the high value of the Canadian dollar have all contributed to a very difficult business climate for investment, which has ultimately challenged industry's long-term survival.

It's worth noting that while Canadian manufacturing has suffered

The Chair: Excuse me, Mr. Arsenault. I'm sorry. I know I've admonished everybody to do this in ten minutes, but the interpreter can't keep up with you. Could you pace it down just a tad?

Mr. Mark Arsenault: Thank you. Sorry to the interpreters.

It's worth noting that while Canadian manufacturers have suffered greatly in the last year, forestry has actually been in such a downturn for more than four years. During that time, due to our closures, New Brunswick has lost half our pulp mills and more than half our sawmills. In 1999 there were 99 registered sawmills in New Brunswick, and in 2009 there are 40 registered. But we just recently conducted an operating survey to our members, and in fact there are only 20 in the province that are operating right now. And of the ten pulp and paper mills that existed four years ago, only six are operating at this moment.

These closures and losses hit New Brunswick particularly hard, because New Brunswick is the most forestry-dependent province in Canada. Forestry contributes as much as 12% of our gross domestic product and accounts for more than \$4 billion in economic activity. This is a significant contribution to our small province. Our sector provides an estimated 23,000 direct and indirect jobs, some of the highest-paying jobs in New Brunswick. According to Statistics Canada, we unfortunately lost 7,800 jobs in the last few years, and with more than 40 of our communities dependent on forestry, you can imagine the difficulties they have faced.

While there is no shortage of issues facing the sector that I could explore today, I've decided to limit it to three that I can match with a recommendation or a course of action the federal government could partner with us on.

Let me start with access to credit. Our member companies have identified access to credit and reasonably priced credit as a top issue to be addressed. The current global economic crisis has had a devastating impact on all industries' ability to access capital. This is particularly true for the forest industry. We have been considered high risk now for several years, and this has definitely added to the challenge. The expanding credit crisis is wreaking havoc. As companies scramble to cover debt in these difficult times, financial institutions are simply unwilling to lend at normal risk premiums. In the rare chance that an investor makes capital available to our industry, the industry faces ridiculously high risk premiums—premiums from 8% to 11%, which make it virtually impossible to survive.

We recognize that government has included access to credit as a title in the budget. But honestly, we're not sure we see the natural path this stimulus will take to reach our sector. That said, we recommend that the Government of Canada ensure that these funds make it to our sector. We'd like to welcome any initiatives that make capital readily available at a reasonable cost. Doing so will allow companies to weather the storm until better markets prevail, preserve ongoing operations, and invest in modernization and efficiencies.

Currently, if the industry were to swing back tomorrow, we would not have enough trained forest contractors and appropriate equipment to meet the harvest levels—and I believe that's what Mr. Dionne was just saying. The current state of the financial markets coupled with the challenges faced by the forest industry has made it virtually impossible for the industry to invest in new or replacement equipment for our primary harvesting operations—equipment such as for harvesting and for transporting of wood from the forests to our mills.

Independent contract harvesters, as well as our member companies, are facing a crisis, and we believe we have a potential solution to assist in securing reasonably priced and accessible credit. We can talk about that in the question period.

With the government balance sheets as a guarantee, we could reduce the risk premiums at virtually no risk to government—and this is for a project for New Brunswick—because our mills and our licensees and our sub-licensees would be willing to back the loans but would like the government to support it with their balance sheets. That would allow us to eliminate some of the high risk premiums, and this could be done through an organization like the BDC. This plan would be extremely helpful to the independent harvesters or contractors and our industry companies.

The second issue I wanted to bring up is black liquor, and my colleague from British Columbia mentioned it at the end of his piece. This is quite the issue. Recent subsidies being offered under the renewable energy initiatives to the pulp and paper companies in the United States are a great cause for concern here in Canada. The U.S. pulp and paper mills are eligible for substantial tax credits for burning black liquor in their boilers. Under this program, companies are eligible for a 50¢ per gallon excise tax credit on the use of concentrated pulping liquors, the residual waste that's created from the pulping process

● (0930)

Conservative estimates put the value of that credit at \$125 to \$150 for unbleached mills, and \$175 to \$225 for bleached mills. Other people have estimated that much higher, but I've used the conservative numbers on that one.

Analysis prepared by the Deutsche Bank estimated the U.S. industry could be propped by billions of dollars. Just to give you an example, they estimate that IP could receive a \$1.2 billion cheque for their portion alone. Individual mills could be receiving multi-million-dollar credits, which is going to be very challenging for us.

These credits put Canada at a serious disadvantage. I believe if it's unaddressed, this may be catastrophic to our pulp mills on the Canadian side of the border. Let's face it, if a bleached hardwood market kraft mill can actually realize a benefit of \$175 per tonne, it will put the cost structure of our Canadian mills at a huge disadvantage. This issue is new, and we are only starting to realize the potential impact.

I believe the forest industry in partnership with the Canadian government can work on this issue and address it very quickly. A potential course of action could include challenging these subsidies under trade laws or the free trade agreement, and I'm not a trade lawyer, so I don't know the specifics of that. Or Canada could look to provide similar types of incentives to level the playing field.

Their program is actually counterproductive. It's designed to reduce emissions, but in fact it's increasing them. We'll get into the details about that a little later.

My final issue today is on silviculture.

New Brunswick invests \$26 million annually planting trees and thinning our forests to increase the yield and the quality of woods in our forests. New Brunswick has the longest history of planting trees. Today New Brunswick's forests are absorbing millions of tonnes of carbon dioxide and provide a sustainable wood supply that supports over 15,000 direct jobs in the province.

We've been planting trees for more than 50 years. However, we'd like to do something more, and introduce hardwood silviculture into our mix. We are looking to the federal government to partner with us. The federal government once was a partner with New Brunswick, the industry, and the provincial government in funding silviculture, and we'd like to bring them back to the table on the hardwood side of things. As you know, Atlantic Canada doesn't pay countervailing duties under the softwood lumber agreement, and that's because our wood is marketed at fair market value. The hardwood side of things doesn't interfere with the softwood lumber agreement, and we would like the federal government to consider that. We'd like the government to invest \$7 million annually to introduce hardwood silviculture on crown lands. We also encourage the government to supplement the private woodlot owners silviculture budgets.

Quite frankly, if you're looking for an infrastructure program to stimulate the economy in the short term, with long-term benefits, there is no more shovel-ready project than reforestation. The long-term benefits are significant. We've been working with government officials over at ACOA and we've made presentations to Minister Ashfield. We're hoping, with the 2009 planting season about to begin in eight weeks, that we could get a decision as soon as possible. A recommendation from this committee would be a great help.

To conclude, I want to say that while we're very concerned about the short-term outlook for the industry, we're very optimistic about the long-term prospects. The good news is we believe the markets will improve. Long-term economic forecasts indicate a swing in the lumber and pulp prices. There are many opportunities that lie with new emerging forest-based products, biotechnologies, and the emergence of biofuels. In fact, I think this is very exciting.

We are looking forward to working with the governments and our partners across the country to address some of these concerns.

● (0935)

The Chair: Thank you, Mr. Arsenault.

We'll begin our first round at seven minutes, and we'll start with the Liberals.

Mr. Garneau.

Mr. Marc Garneau (Westmount—Ville-Marie, Lib.): Thank you, Mr. Chair.

I have questions for all three witnesses.

By the way, thank you very much for your presentations. They were very informative.

I'll start with Mr. Jeffery.

Mr. Jeffery, you spoke about the fact that you had to adapt to the conditions that exist. Some of the things you've done are to increase your percentage of exporting, and you mentioned a number of Asian countries. You also spoke about a product mix change.

Would you say that these are measures that are going to continue even when things get back to normal? Is this something permanent, in your view? Is it a growing trend within the industry in British Columbia?

Mr. R.M. Jeffery: Thank you, Mr. Garneau.

Yes, joint market efforts build the industry's road for the future, in British Columbia as well as across Canada. It should not be lost on us that our high dependence on the U.S. market left the forest industry very vulnerable. As Mr. Arsenault said, we were the bellwethers of this global recession. Four years ago, we saw the peak of U.S. housing starts and the decline. As that decline in housing starts occurred, you saw problems that manifested themselves in Canada.

Our best opportunity is to diversify markets and diversify product mix. So the programs that get funded by government on market access and market development are crucial, as are programs that fund research and development, in getting new products from the labs to the marketplace. These are long-running programs. One of the problems with the programs is that because they are so crucial for

diversification and for capitalizing on future opportunities, we need long-term funding over them. The current renewal of these programs was for two years. I understand the budget constraints that governments face, but we need to go beyond two-year funding to secure things.

We have at the Canada Wood Group some 50 to 70 people located in offshore markets. We need to be able to maintain that infrastructure in a stable manner so that we can continue to build on the relationships we have with governments and customers in those marketplaces.

● (0940)

[Translation]

Mr. Marc Garneau: Thank you very much.

My second question is for Mr. Dionne.

You've described a pretty tough situation, which, let's hope, is temporary. You have not, however, made any particular recommendations concerning your group. Do you have some to make?

Mr. Éric Dionne: We are harvesting specialists, but we also work in collaboration with the large companies. If we don't get any help, we are going to lose this expertise. We are very specialized and, as the companies close down, we are gradually dying. It's inevitable. In the short term, there won't be anyone to take over.

We've thought about redirecting our activities towards harvesting biomass for heating, generating electricity and so on. Though it's not really promoted much. We could do forestry harvesting and reforestation for carbon capture. But if we want to renew ourselves, we can't change our equipment tomorrow morning. This is specialized equipment. We'd need to get help and the companies would also need it.

The companies tell us that we have to transform forestry so that it is compatible with the new CSA, ISO and FSC standards. We work in collaboration with them. It's a matter of meeting the demands of the clients and the company. We're really partners. We are the forestry foundation. If we're not there to cut down trees, no company is going to continue its activities because there won't be any raw material. We'd like to get some help to get through this crisis. Times are tough, and we have to keep our expertise going.

Mr. Marc Garneau: Thank you very much.

[English]

Mr. Arsenault, there are a number of things I wanted to talk about.

Certainly this thing you call black liquor is new for me. I would like to have more of a sense of how big this is becoming in the U.S., in terms of being used and effectively subsidizing. Has your association brought this forward so that the government can look at whether this is violating NAFTA rules, or is it something you're bringing up for the first time now? I noticed that Mr. Jeffery mentioned it as well.

Mr. Mark Arsenault: This is actually the first time we are bringing it up. The actual tax law that exists has been in place for five years in the U.S. It was designed for the automotive and other sectors that would mix any type of renewable fuel—that could be ethanol or anything else—with fossil fuel. If they did that, it would, in essence, be a good environmental practice, and therefore they would qualify for these tax credits.

What the pulp industry has figured out in the U.S., just recently, basically in November of last year, is that if instead of just burning the black liquor they add diesel to their black liquor, they can now qualify for these credits. And they're going back for the many years that this has been in place. So it's a real sudden jump, and it's something that's happened quite recently.

The irony in the whole thing is that it's not a very environmental practice if you don't have to burn fossil fuel but you're adding it in order to meet the qualifications.

This is all new for us. We've just sort of taken note of the challenges it's going to pose for us. We're going to work with the other associations. We've been in touch with them, and we're going to be putting together some briefs and letters and the like as we move forward. But a note from this committee as to the importance of it...

As our colleagues in B.C. were saying, it's a substantial reduction in their costs. If it's \$200 or \$175 on what you can get for your pulp, that is substantial, and our side of the border won't be able to compete.

All our sawmills depend on our pulp mills purchasing chips. There's a real interdependence in that, and this puts our whole industry in real jeopardy.

• (0945)

The Chair: We'll go to Monsieur Bouchard.

[Translation]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you very much, Mr. Chair.

Thank you for being present here today and thanks also to Mr. Jeffery.

My first question is for the machinery and equipment owners.

From what I've understood, your difficulties are due to the fact that the companies are currently experiencing major difficulties. You told us it's important to preserve your expertise. In an article I read last week, Robert Dionne, President of the Association des propriétaires de machinerie forestière du Québec inc., said that 50 companies had ceased their activities in Quebec in 2008, and that perhaps there would be more in 2009. This expertise is truly in serious trouble. If the equipment owners disappear and this sector diminishes, your harvesting expertise may well disappear by the time the economic recovery occurs.

In view of the fact that the current situation is very difficult, could loan votes help the equipment owners? Do you have any measures to suggest to us?

Mr. Éric Dionne: Loan votes might be useful. As we said in our brief, there are fewer revenue-earning weeks in our season, but we still have to maintain a certain turnover. We were accustomed to

changing our machinery regularly to keep up with the latest. If we lose seven, eight or ten weeks of revenue a year, our indebtedness remains the same. We are moderately in debt and we don't know whether activities are going to start up again.

We've all ended our operations for the spring, for the most part during the thaw. The news we're getting from the companies is not encouraging. We're told things were supposed to pick up, but that's an assumption. The payments still need to be paid. But we're going to be short of money.

Mr. Robert Bouchard: Are the bankers willing to lend you money?

Mr. Éric Dionne: Not at all. We went to meet with some of them in the spring, and all we had to do was mention AbitibiBowater for them to refuse us a loan automatically.

Mr. Robert Bouchard: In other words, that cancels any possibility.

Mr. Éric Dionne: It's automatic. Even if the companies and the figures are good, you have to find roundabout ways to find funding. The banks are somewhat more open towards those who work for companies that are having less difficulty. But whatever the situation, it's not easy.

Mr. Robert Bouchard: I'd like to tell you about something that was discussed in the House of Commons. A motion was moved in the House. I don't know whether you know about this motion, Mr. Arsenault. It was passed by a majority in the House.

It asked the government to put forward four measures.

First there were loan guarantees for forest-dependent businesses and obviously for equipment owners because credit is not available.

Then there were credits for research and development—not non-refundable credits, but refundable credits. Because, when companies aren't making any money, they can't get tax credits. So these would be refundable credits. If someone suffered losses, they'd be refunded.

Next there was increased demand within Canada. For example, if the federal government put up a building, it would have to build with wood; if it did renovations, it would have to use wood; the solution would be wood.

And then there would be the transformation of forest residues into energy.

I'd like to hear what you have to say on the topic. Do you think that, if the government put forward such measures, we could say that these are good measures?

Mr. Éric Dionne: These would definitely be good measures, if we can transform a part... Harvesting specialists like us could indeed go and harvest biomass. That would actually work quite well. These are aspects of harvesting that we have some good ideas about too.

Tax credits would also be a good thing. Very often, owners are people of the land who don't necessarily seek tax credits for innovations. They have a good idea, they develop it, they put it into practice, but they don't necessarily always reap the benefits for what they've invented or improved. Certainly, if that becomes accessible and is popularized, lots of entrepreneurs and forest people will take advantage of it. Because people have good ideas every day. I spend my time with entrepreneurs like myself, and they have good ideas, but we're not numbers people; we're land people.

If we have a good idea, we develop it, we apply it and we don't necessarily think about looking for a credit somewhere. Sometimes, it's more complicated when it comes to books used by the majority of people.

● (0950)

Mr. Robert Bouchard: Right. Thank you very much for your excellent answer.

If you don't mind, I'd like to hear Mr. Arsenault's point of view concerning the motion, which was passed by a majority in the House of Commons.

I don't know whether you heard about it before, but you have no doubt heard about it just now. Do you think these would be good measures that we should encourage?

Mr. Mark Arsenault: Regarding green energy, there are certainly huge opportunities. The cost of energy in New Brunswick is very high. We don't have the advantage of having hydro electricity, like in Quebec. So energy costs a lot.

If we had help in one way or another to invest in new green forms of energy that would enable us to reduce our energy costs—by burning our residues, whatever—this would be very positive.

Furthermore, it would have two functions. It would help us economically, and that would help reduce greenhouse gas emissions in accordance with the goals and objectives of the Government of Canada respecting its international responsibilities.

[English]

The Chair: I'm sorry, your time has finished.

Mr. Harris.

Mr. Richard Harris (Cariboo—Prince George, CPC): Thank you, gentlemen, for your presentations this morning.

I want to start with Rick. Are you in Campbell River?

Mr. R.M. Jeffery: No, I'm in Victoria today.

Mr. Richard Harris: Hi, Rick.

You encapsulated a couple of things quite appropriately. Number one, the market certainly is almost the entire culprit in all these problems that we're experiencing in the forest industry—the recent high dollar, the turndown in the housing. Although waiting is very difficult when you're trying to make a dollar in the forest industry, we're in a waiting game for the market to come back in the U.S. while we build our markets in other countries. You both touched on this. I think that's important.

It's hard to be optimistic in times like these, but of any of the industries that I've seen come to Ottawa to state their case, I think the forest industry has been probably the most positive about the future.

Rick, you talked about the Russian tax coming into play, the reduced timber that is being cut in other countries, as in Canada, because of things like the pine beetle, the clamping down on illegal forests. And of course, lastly, there's a market conversion where in South America, for example, there's going to be probably more growing of food than trees because of the demand. That's all good for the forest industry. It doesn't help us right now except to make us feel a little good about the future, but it's really difficult in these times. Then, of course, there are all the other plans that the government have put in—FP Innovations and the wood-is-good program. These are all good things.

One common thread that you've all mentioned today is the access to credit. I know our government is aware of this problem, and I'm also aware that the government is trying to do whatever it can to encourage the banks strongly—one of you used the word “pressure” because these are private-public companies—to recognize that the forest industry is not a dead industry. It's very much alive, and there's going to come a day when the banks' best customers will be the forest industry once again. That's down the road. So we're trying to get that message to them now.

At the same time, in some areas of the forest industries where the government can help because of trade agreements that we have, it makes it a little more difficult. We have all these factors that we're looking at. And this is probably about the fifth session on the forest industry, going back two or three years, that I have sat in on, and we all have a clear understanding of what the difficulties are.

So now we have a new difficulty, and you both brought it up—the black liquor issue. There are two things. Number one, because they're burning fossil fuels in order to burn the black liquor, they're in fact cheating on the environmental requirements. The other one, which is even more important to us, I think, is that because many of these pulp mills are in fact owned by companies that have sawmills as well, there is some opinion that there's a direct subsidy in some way to their sawmills, unless you're able to absolutely track the dollars going into their company overall. Now, I'm not saying that's happening, but I would imagine there are some lawyers on both sides of the border who are having a good look at that.

● (0955)

I want to get back to one question, and that's the access to credit. Is there anything more that any of you believe the government can do? We know about loan guarantees, and it's easy to say let's just do this. But are there any other steps the government could take to improve access to credit for the forest industry?

Mr. Mark Arsenault: The forest sector applauds the access-to-credit initiatives that the government has put in the budget, but we can't see how all this gets back to us. I believe the approach is that they are putting in money, they're buying back bad debt, and they're doing all sorts of different things that will free up the institutions to lend more. But we don't necessarily see this taking place in the forestry sector. In the last four years, credit became more difficult for us to achieve, even with the initiatives. There has to be something that ties the initiatives to forestry.

The program we're talking about isn't confined loan guarantees. Our larger companies are willing to provide the loan guarantees to the small independent contractors, but we would like the government's balance sheet to provide a blanket that would eliminate the risk premiums. That would drive it down and make it possible for a specific amount of dollars to be applied to the forestry sector and to other manufacturing sectors that might also be facing challenges. It's sort of, "Show me the path to the credit". We haven't seen that in the macro-initiatives that the government has put forward. We're not sure how the micro is going to apply to us. Some clarity on this would help a great deal.

The Chair: Thank you, Mr. Arsenault.

Mr. Thibeault.

•(1000)

Mr. Glenn Thibeault (Sudbury, NDP): Thank you.

I want to say a very good morning to you, Mr. Jeffery. I'm looking at my watch. It's just coming around to seven o'clock in the morning, your time. I appreciate your being up bright and early. As a former left-coaster, I recognize that. Mr. Jeffery, you hit the nail on the head when you said that the crisis in the forestry sector was market-driven. Unfortunately, we're in a waiting game, and we're hearing of more job losses and more mills closing down.

One of the things you brought up was green construction. We have an opportunity to build with more wood products. I'm wondering if you can talk a little about that and tell us what we can do, as a government and as opposition parties, to support this so we can move forward instead of playing the waiting game all the time.

Mr. R.M. Jeffery: That's a great question. British Columbia is leading the pack in this regard. Our premier, in the throne speech, promised a wood-first policy, and we are working on it. All public buildings built in British Columbia will have a requirement to use wood wherever possible. This is good from three perspectives: it increases demand; it increases demand outside the residential sector into the commercial and non-residential sectors; and it allows us to showcase the use of wood in these applications to our customers all across the world, including the United States. The non-residential market in the United States is some \$500 billion a year. We get about 6% of that. If we could raise that to 10%, we'd be creating huge new markets for our solid wood products. That is one of the things we can do.

On the loan guarantee piece, I'm with Mr. Arsenault. We don't see that stuff on the ground. It would be nice to see how we can tangibly decrease the coupon value of our debt, because it's high. But you have to watch out for the softwood lumber agreement there, folks. We can't be seen as doing something that provides a subsidy, so we always have to put our eye on that one.

I'm sorry for answering two questions.

Mr. Glenn Thibeault: That's okay. It was a good opportunity to get a couple in there.

Mr. Arsenault, if I get the numbers wrong, please correct me. I believe you said that you had 99 mills and that now you're down to 40. Was it six that are operating?

Mr. Mark Arsenault: I have 20 that are operating.

Mr. Glenn Thibeault: If we continue to see this waiting game and we're not doing what we can to get into the green economy or things along those lines, hypothetically, could we see more of those mills close? Do we potentially lose the equipment or technology that's there, and then of course the workforce that goes with that? Is that something we could see down the road, if we continue to wait longer and longer?

Mr. Mark Arsenault: Yes. It's unfortunate. We actually thought that 2009 would be the bounce-back year. We thought the end of 2008 would be the swing back, and of course the downturn hit us, and everyone was caught off guard by it.

Our companies that are standing right now are incredibly resilient. They've done an enormously good job of investing in modernization and leaning out their operations, changing their products, changing their markets. They've built a pretty strong backbone. If they're still operating, it's because they've done something right. But they're all operating at a burn rate, and they're all operating at losses right now. I don't know anybody who's doing well. Our exports to the U.S. have decreased by 70% since 2007, and we export 80% of our finished products.

That said, will there be more losses? The longer we wait, I think it's inevitable. Eventually burn rates run out and companies can't make it any longer. Again, we're hoping that things are turning around. We're starting to see the indicators slowly turn. Housing starts have increased—mind you, a percentage of nothing is still very little, but we're starting to see some of those indicators turn.

The idea is really to outlast it. It would be a shame if there were outside pressures—for example, the U.S. subsidy on black liquor, which would allow them to survive the last leg of this and not allow us to survive. The ones that are there have worked hard during tough times, and we'd like to see them make it over the last hurdle. And it's close. We really do believe it's close.

We need that little push. And it's not with the subsidies; it's making sure we're at a level playing field and that we're doing everything right, with the understanding that there are many things we can't affect.

•(1005)

Mr. Glenn Thibeault: Good.

How's my time?

The Chair: You have about a minute and a half.

Mr. Glenn Thibeault: Perfect.

With my minute and a half, maybe you can be specific on some of the things the government and opposition parties can support to help level the playing field or to get involved and support the forestry sector.

Mr. Mark Arsenault: An initiative like using more wood is definitely one. There are initiatives that recognize the value of green energy. In the U.S., companies and governments are willing to pay more for that green energy. That doesn't take place in Atlantic Canada right now. I don't know about other provinces; I believe Ontario offers some incentives for renewable energy resources. But some provincial governments have to look at that.

The federal government can look at the benefits of assisting companies through technology-sharing or making the credit available, not necessarily funding it, for co-generation plants and the research and development that's going to help expand that new industry. I believe biotechnologies, using forest products for what we used to use petroleum products for, is the emerging economy.

So helping us get to that point through funding the academic institutions, FPInnovations, all those types of things, is going to go a long way. The industry normally would fund research and the like, but it may not be able to at this particular point.

Mr. R.M. Jeffery: If I could quickly add something, it doesn't help the demand side much, but the silviculture case that Mark made is a good one. We can put people to work, including our loggers and harvesters, if we look at investments in intensive silviculture today. And that's not planting the trees, so to speak, that's tending the trees.

We've just released a silviculture strategy in British Columbia. It needs funding. If we can fund fertilization, spacing, thinning, those kinds of things, people can go to work, we increase the value of the product over time, and we reap that benefit down the road.

The federal government could step up to the plate with incremental silviculture funding today. It would help workers and help the industry.

The Chair: Thank you, Mr. Jeffery.

The second round is five minutes. We will begin with Mr. Garneau.

Mr. Marc Garneau: Thank you, Mr. Chair.

Unfortunately, the softwood lumber deal didn't work out perfectly and we're playing a very serious ball game with our neighbours to the south. I would encourage you, Mr. Arsenault, to get together with your sister organizations across the country and bring the issue you raised concerning black liquor to the government. I think this is one that we definitely need to bring above the radar screen, because I don't think it is there at this point.

The first issue you brought up had to do with access to credit. I want to make sure I understand it. Those who are in a position to lend money view forestry as a high-risk industry at this point. You mentioned 8% to 11% premiums. For my clarification, is that the interest rate on a loan, or is that 8% to 11% above current standard rates?

Mr. Mark Arsenault: My understanding is that it is what they're offering as interest rates on loans. I got that by contacting several contractors and asking what they were paying. They were saying that it ranged from 8% to 11%, when it's available.

Another point is that we're finding that companies that have good balance sheets aren't able to access credit right now, just because they're in the forestry sector.

Mr. R.M. Jeffery: Mr. Garneau, I'd just like to add to that. Yes, indeed, we're finding that interest rates for our companies with good business plans and good balance sheets are north of 8%, 10%, and 12%. If you can even get credit, the coupon value on that credit is far above standard bank rates.

Mr. Marc Garneau: Thank you. Does this apply whether it's a commercial bank or a government-related organization, like the BDC?

• (1010)

Mr. Mark Arsenault: I'm not sure. I didn't check that out. I apologize.

Mr. Marc Garneau: Mr. Jeffery, do you have an answer on that one?

Mr. R.M. Jeffery: We do very little business with the BDC. The forest industry, generally, in the commercial world, accesses EDC for offshore loan financial instruments. They're essential for doing that, so we don't have that problem there.

The EDC is very important to us that way, by the way, because when you're sending product across you need letters of credit and that kind of thing to facilitate the commerce, and the EDC steps in. So we should continue to make sure that they have adequate funding to support our exports.

Mr. Marc Garneau: Thank you.

My final question deals with R and D. Mr. Jeffery, you obviously seem to be focusing on that aspect in terms of growing your business. Of the research you do, how much would you say is funded by your own companies—in other words, is privately funded—and how much do you access federal or provincial government money?

Mr. R.M. Jeffery: In today's marketplace and with the financial conditions the forest industry has been facing, R and D probably runs at around 1% to 1.5%. We are highly dependent on research and development from federal funding and provincial funding through FPInnovations, UBC, Laval, and places like that. So those programs are very important.

I heard the motion that was passed in the House about loan guarantees, building with wood, bio-energy, and R and D tax credits. The R and D tax credits are very important for driving innovation and the switch to these new products that are available or the opportunities that appear to be available.

In our industry, there is a big time lag between the R and D that comes out of the lab to pre-commercial and getting it ready for commercial application. The government is crucial in providing funding for that phase. The issue we have at the commercial level is whether we can build a business case and get credit to take these new products to market. And that's where your first question comes in about access to credit.

We need you to continue to fund R and D. We need the R and D tax credits. That will help to build the road forward for us.

[Translation]

Mr. Marc Garneau: Thank you.

Mr. Arsenault, do you have any comments to make concerning research and development in your province?

Mr. Mark Arsenault: Certainly.

The recent budget includes initiatives that should enable institutions to increase their technological capacity. Those things are going to go a long way. We have some exceptional institutions. For example, the University of New Brunswick has been offering a forestry program for over 100 years. Furthermore, initiatives will help the research and development infrastructure, in addition to the tax credits.

All that may help to develop new products and position them on the market, especially in the new area of biotechnology, whose uses could be both chemical and physical. Forest products will be a launching site for a new economy.

[English]

The Chair: Thank you, Mr. Arsenault.

We'll go to Monsieur Gourde.

[Translation]

Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière): I'd like to direct my question to Mr. Dionne, from Quebec. We have the good luck today of having specialists, people who do the harvesting directly on the worksites. I'd like us to take advantage of their expertise.

People seem to be placing a lot of hope in forest residues, especially with regard to cellulosic ethanol and renewable energy. What do you think about this new harvest? Large quantities of residue would have to be transported to the more central plants or to regional factories, which would handle the processing or maybe process the residues as far as possible into some form easier to transport on the worksites.

You said you had some ideas about this, and I'd like to hear them.

Mr. Éric Dionne: Since we're generally fairly far away, the simplest thing we've seen is to take at least the material. Maybe the factories would have to move closer to transportation lines and then the residue in its most compressed form would be transported there.

There are good, low-cost means of transportation. We've had fires. There are 14 million cubic metres of biomass available in Quebec. We could harvest a lot more. Sure, electricity really doesn't cost very much, but that doesn't mean that biomass couldn't be used to complement wind power or hydroelectricity. Biomass could be used

the way we use electricity in a factory, that is, by flipping the switch as needed.

We've got lots of ideas, but we can't act fast. We need help because the companies aren't able to do it. A lot of development has to take place. Since the cost of electricity and all products is terribly low in Quebec, we're never competitive. If the cost of our energy were the same as that of wind power, we might be competitive, but I don't know whether we could get there. Maybe we have to try out a few of our ideas.

Right now, we're just running little tests. For example, we take the residue from pulp and paper plants already in the city to feed heating systems with biomass. But going and harvesting biomass from the forest floor has almost never been done. This might be considered in order to keep our entrepreneurs alive.

There would also have to be some advances so that companies can reduce their costs. When a biomass plant can produce its own electricity, it's a bit more efficient. At the same time, this could become part of the new forestry standards. Before, we followed CSA standards but now FSC standards apply. We try to work with the companies, but adapting quickly is very costly for them. The companies don't have the time to turn around and they lose their access to the market from one day to the next. We have to set a new standard fast and hire new employees. The market is changing too quickly for the companies to keep up.

• (1015)

Mr. Jacques Gourde: Currently, in a lumber harvest on a worksite, how much do forest residues account for? Do they account for 25, 30 or 40%? Are these residues shredded or left where they are?

Mr. Éric Dionne: In general, since our harvests are multi-functional, residues and branches are left on the cutover. There's no longer much harvesting with branches along the side of the road. Before, we used to cut swaths, but maybe there's a way to adapt this way of doing things.

In Europe, they have worked a lot on harvesting residues, even harvesting stumps. As for us, we could harvest after fires. This is done less in Europe, because they harvest the stumps. This method would enable us to go and get biodegradable mass if we wanted.

Mr. Jacques Gourde: In conclusion...

[English]

The Chair: Thank you.

Monsieur Bouchard.

[Translation]

Mr. Robert Bouchard: Thank you, Mr. Chair.

Mr. Dionne, you're in the machinery and equipment business and it may be said that in this sector the owners of small businesses are often close to their employees.

I'd like to know about your workers' difficulties. What measures should be put forward to support them? Are you worried about that your workers might leave your company, or even the region?

I'll let you comment.

Mr. Éric Dionne: We really represent small businesses. In Quebec, that's how things are done. These are small sub-contractors, who harvest using one, two or three machines, compared to the big companies. There are about 1,300 in Quebec and just about all of us operate this way.

We are harvesting specialists. We're beginning to need new qualified employees, but it's extremely hard to find any. Since we've had a very tight budget for several years, we cannot afford to hire someone young who is just beginning. He's fresh out of school, he's good, but he needs another year or year and a half before he has a level of skill comparable to that of the other workers. It has to be said that our flexibility depends directly on our employees. We work in the forest with our employees, on whom we depend directly. When we can rely on experienced employees, the company does well overall.

In view of our narrow profit margins, when we hire someone young, we automatically go from small profits to instant losses. The students have good training, but they lack experience. They have to work with us for another 1,000 or 1,500 hours before becoming operators, at the rate at which things are going now in the forestry sector.

• (1020)

Mr. Robert Bouchard: Is employment insurance an appropriate measure? Do you think that improvements might be made to provide incentives to young people to work in your companies?

Mr. Éric Dionne: This might be a good solution. They say that training a young person costs at least \$50,000 during the first year. That's how much money we're going to lose. We know that we won't get the revenues and it's going to cost a lot. Maybe the creation of a partnership would reduce the wage costs a little.

In a company like ours, a young person just beginning will earn more or less the same wages as an experienced worker. A company whose employees are not unionized does not necessarily have this problem, since it can pay him a lower wage. But still the training time is costly. When a young person starts his career, it costs more in parts because he breaks more equipment than the experienced worker and he produces less.

This might be a solution to help with the training of new employees for five or six months. After six months, they begin to get good, and the employer sees the light at the end of the tunnel. But very often employers have trouble keeping good employees because there aren't very many of them and they get offers from other employers. So they can choose to go and work for another company whose employees are unionized or that offer better working conditions.

Mr. Robert Bouchard: I see.

Mr. Arsenault, I'd like to summarize the assistance that might be provided by the federal government. You talked about risk premiums and loans. You also talked about this green energy that could be developed further with, I assume, residues from woody and forest substances. You also talked about research and development, and also silviculture programs. In your opinion, the federal government should help the provinces to set up reforestation and forest maintenance programs.

Have I summarized your points well? If I've forgotten something, can you tell me, please?

Mr. Mark Arsenault: You've summarize what I said quite well. I'd just like to specify that we really have to be careful where the softwood lumber agreement is concerned. We have to make sure that these are direct subsidies in various softwood lumber sectors.

Mr. Robert Bouchard: But if these were loans at commercial rates, would that be consistent with the softwood lumber agreement?

Mr. Éric Dionne: Yes.

[English]

The Chair: Next is Mr. Lake.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair, and thank you to the witnesses for taking the time to be with us today.

I want to start, if I could, in terms of the future. One of the things we've heard from witnesses who have come forward from Industry Canada and from EDC and BDC is this notion of differentiating between structural and cyclical difficulties in industries. The interesting thing about the forestry industry is that it was the one—or one of the few—that was prominently mentioned on both sides. There's a component of difficulty that's structural. In other words, it would still exist even if there weren't a global crisis right now. The cyclical part, of course, is that the global slowdown affects all industries right now.

Maybe you could comment on the portions of the industry where there might be an acknowledgement that there may be some structural difficulty, with demand slowing worldwide simply because the need for certain types of products is going away, and what transition plans there may be in those areas.

Mr. Arsenault, could you start?

• (1025)

Mr. Mark Arsenault: Sure.

The last four years have actually been a transformation for the whole industry, and arguably a forced transformation. We hear a lot that companies haven't modernized enough or they haven't gone into enough value-added, or they haven't looked at their products and expanded, that pulp mills have been the same over the last 50 years.

I argue the point a little bit. Take New Brunswick, for example. Our pulp mills no longer produce newsprint; they're all in high-grade paper. So they've added value to their business. They're into tissues, the coated papers. They've made the transformation at hundreds of millions of dollars of cost. That has taken place.

I think that structural component is in swing. The sawmills have definitely modernized over the last couple of years. We know we could do more. The challenge is the investment component. It's easy to say we need to do more value-added and we need to get into it, but it's harder when there's no credit available and the investors aren't necessarily taking a key interest.

I believe that will turn around as the markets in Europe and South America change. I think there will be more interest. But those challenges still lie there.

Mr. Mike Lake: I think in his opening statement Mr. Jeffery, when talking about credit, said there's credit for certain things, but there's a particular issue regarding credit for new investments. It might have been someone else who mentioned it.

I guess the question would be this. If there were credit for new investments—and there's a lot of credit becoming available through steps that we've taken in the budget, through BDC, EDC, the BCAP, several different things—what would those new investments look like right now in the industry?

Anyone can answer, or maybe Mr. Jeffery.

Mr. R.M. Jeffery: To your earlier question around structural versus cyclical difficulties, this speaks to the very issue you're talking about here. I'll give you an example. After the Kobe earthquake in Japan, which was probably about 50% of the market for the B.C. coast at that time, they changed their building systems there. They went to something called pre-cutters, which, if you can imagine them, I call IKEA homes. They're basically factory-built homes where the components are manufactured in a factory, shipped, trucked out to the site, and assembled there much like you would assemble your IKEA houses. We've had to adapt our product mixes to provide the types of products that those pre-cutters needed. They were different from what a carpenter would use.

That kind of building-systems trend is emerging in the United States now, both in a residential housing application as well as in the non-residential market, and there's a big opportunity for us to supply those kinds of building systems. That requires new types of products—engineered wood products like cross-laminated beams, laminated beams, and those kinds of things.

We need to be doing the research and development and the commercialization of those things in order to be able to capture those markets and those building-system markets. That's a really good example. Japan has done it. The U.S. is following. The industry must also follow with it to ensure it becomes an A supplier to those customers. We need to do that.

But then you get to the credit side. When we're an industry that has averaged a return on capital of about 4%, and the commercial market wants 8% to 12%, it's very difficult to say you should invest in this business case on this new product that's going to take us into the future. I'm going to look at that and say, "Well, you can only get me 4%, from your track record. How are you going to demonstrate to me that I'm going to get my 8% to 12% on something that's risky because it's a new product?" That's the conundrum we face.

Is there much the government can do with respect to that? Not in the actual commercial transaction. We have to be able to build the business case, and we have to be able to go to the banks or to the investment community and say yes, you should fund this. Or we should be profitable enough to be able to fund it out of our retained earnings. If you addressed hosting conditions around tax regimes and our cost of production, and we became more profitable, then we could generate internal money to bring to the table as well. We need to work on that.

As far as the government stepping into commercial lending situations is concerned, I don't think that's a prudent thing to do. We need to be able to make the business case ourselves. Now, as I said, you can play a role in the hosting conditions to help us be more profitable, and you can help us very much in taking the products from the lab to commercial land, as we would call it, especially around the bio-energy piece, these engineered wood pieces, these building systems. That's where the work needs to be done.

We're doing it jointly, cooperatively, and collaboratively. We can do more.

• (1030)

The Chair: Mr. Thibeault.

Mr. Glenn Thibeault: Thank you, Mr. Chair.

I will start off with you, Mr. Arsenault. When I was growing up I had many friends from Newfoundland, and black liquor means something completely different to me from what you've explained. So maybe you can give me the Coles Notes version of what black liquor is and how predominant this is in the industry.

Mr. Mark Arsenault: In essence, black liquor is a residue that's left over after the pulping process. They extract all sorts of chemicals, and it's basically the sludge that comes out at the end of the process.

It is a fuel. There are future applications for it. It's incredible. You can break it down into more chemicals and you can actually do chemical refinery. Europe is really tacking those on to the pulp mills.

So there is an enormous amount of potential that could come out of that product. But in its purest form, you can just burn it. For a long time, pulp mills have been generating their own energy from it. So they will use that to create the steam and that will turn their turbines, which will generate the energy to create the pulp.

Basically any pulp mill that has it coming out the other end is using it in one form or another and they've been doing it for decades.

Mr. Glenn Thibeault: If we don't look at the environmental ramifications of what's happening south of the border... If they're mixing diesel fuel with this and then burning it, and then getting a tax subsidy, what can we do as parliamentarians to make this a level playing field for the Canadian industry?

Mr. Mark Arsenault: I certainly wouldn't recommend that we offer an equivalent subsidy to do the same thing. I mean, it just doesn't make sense environmentally, and as good stewards we just couldn't support that. But we have to do something to level the playing field, either through trade laws or finding some way of using it more efficiently and providing some form of assistance that will help that take place.

Mr. R.M. Jeffery: Mr. Thibeault, if I could interject here, I have been talking with the Forest Products Association of Canada about this issue. It is a recently emerging issue.

The thought process we have right now is that the parliamentarians, the government, can approach the U.S. government to start the dialogue on the ramifications of this program, both from a trade aspect and from an environmental aspect.

I don't know that you're going to get very far. What Mr. Arsenault didn't mention is that the stimulus bill that passed just recently in the U.S. has been the thing that triggered the pulp guys to be able to get in on this program. So it is a trade issue.

There are companies on the south side of the border who also understand that this is not a sustainable program. It doesn't fit into the renewable energy focus that we have. So if we can get the Canadian government and the U.S. government and the parts of the industry that are the coalition of the willing to sit down and put this in a context of what it should look like, instead of what it does look like, then you could design programs that work on both sides of the border.

So this thing needs a light. It is so egregious that even shining the light of day on it might get the U.S. administration to say hold on a second, what are we doing here.

But more importantly, we need the collaborative U.S., Canadian, and industry approach to this. I think that's what FPAC is going to do. As Mr. Garneau mentioned earlier, we do need to get on top of this. We need to bring it to you, and we are starting to work on that. I think it is fair to say that we will coalesce across the country on this one.

One thing that doesn't get mentioned is that this prejudices the ground wood producers even more, because they don't create black liquor. So they have no ability whatsoever to access this, even if we were to go to some kind of tit-for-tat—we'll subsidize here if you're going to subsidize there.

As Mr. Arsenault said, we're not trying to match subsidies. It's just a losing game.

• (1035)

Mr. Glenn Thibeault: I do want to thank you for that answer, and I appreciate your comments that it is not something we would do because it is just environmentally unfriendly. I appreciate that.

Very quickly, Mr. Jeffery, you talked about hosting conditions and one of them was R and D. Do you feel there is enough support out there financially—maybe from this last budget—to help companies find new markets for value-added products?

Mr. R.M. Jeffery: Yes. The value-for-wood program and the FPInnovations program are very good programs. As I said earlier, we'd like to see them on a longer basis than two years. It's hard to develop those kinds of programs. They take time, and if you don't know you have consistent funding, that's a problem.

The other piece of the R and D, though, is that these flow-through tax credits, which Mr. Bouchard talked about and which are in this motion, are essential. We don't seem to have gotten it right yet, but it would be nice, for the money that industry does use, to be able to flow that through for future years, carry it forward for future years, or be able to write it off immediately. All our competitors do this, by the way. The Scandinavians do it; the South Americans do it; the Americans do it. We should be looking at better fiscal tools to promote the R and D. So it's a combination of both.

The Chair: Thank you, Mr. Jeffery.

That concludes our session here. We'd like to thank you all for appearing before us and taking the time. You've given us some more excellent, necessary insights for the study we're compiling.

I also would like to mention that Mr. Garneau has asked that there be some possible collective direction or some notice to government about black liquor. I think that's a very valuable suggestion. If that could be done in coordination among your groups, that would be most appreciated if we could get that to the committee.

Mr. Mark Arsenault: We'll work with FPAC to bring that forward.

The Chair: Excellent.

We do have some committee business. I've allowed it to go over, but we really must take care of this business. We're just going to suspend. We'll take a few minutes for everybody to say goodbye and then we'll go in camera.

Thank you very much.

[Proceedings continue in camera]

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