FINAL REPORT OF THE STANDING SENATE COMMITTEE ON AGRICULTURE AND FORESTRY (July 2011)

EXECUTIVE SUMMARY

The Standing Senate on Agriculture and Forestry began an in-depth study of Canada's forest sector in the spring of 2009. The final report is based on the Committee's public hearings, held between April 2009 and December 2010. The Committee heard from a wide range of witnesses: government officials, the primary and secondary processing industry, private woodlot owners, architects and civil engineers, the bioenergy and bioproducts industry, academia and the research sector, environmental groups, Aboriginal communities and rural associations.

The final report consists of two parts. The first part explores the causes and effects of the forest crisis in Canada, considering the economic, social and ecological role of forests. It also describes the historical evolution of the federal government's roles and responsibilities in the forest sector. In recent years, all sectors of Canada's forest industry have declined: softwood and hardwood lumber production has declined significantly, as have pulp and paper and veneer and plywood production. This decline in production is largely due to the market forces and the resulting decrease in demand for Canadian wood products. The decline is both structural (e.g. drop in demand for newsprint due to growth of electronic publications) and cyclical (e.g.: decline in US housing market). The drop in demand is also attributable to stronger competition from Asian countries in the secondary processing sector, and from Brazil in pulp production. The other factors that have contributed to the current difficulties in the industry include the strong Canadian dollar, high energy costs, poor access to credit and US subsidies for its lumber industry.

The forest sector crisis has considerable economic, social and ecological implications. The falling demand for Canadian wood products has led to mill closures and massive layoffs. From 2000 to 2008, direct jobs in the forest industry declined by about 37%, for a loss of some 100,000 direct jobs. Behind these figures is considerable human hardship. There are about 200 communities in Canada that rely heavily on the forest industry. Finally, with respect to ecology, downward pressure on wood prices and profit margins becoming negative due to the economic downturn have an impact on forest management activities. Woodlot owners are in turn often forced to considerably scale back silviculture activities in order to reduce operating costs.

Although forest resources fall under exclusive provincial jurisdiction, the federal government has played a growing role in this sector over the years. The main areas of federal involvement are:

1. Research and development;

2. Sustainable development, ecosystem management and climate change;

3. Regional and community development;

4. Market and trade development.

The second part of the Committee's final report focuses on solutions to the problems identified in the first part. It must be recognized from the outset that the government cannot address all of the causes of the forestry crisis. For example, governments cannot revive demand for newsprint in North America or in the US housing market. The Committee chose instead to focus on realistic and pragmatic solutions such as looking for new markets for fibre from Canadian forests through a different usage of wood. There are significant opportunities for using wood in the construction of non-residential and multi-storey buildings. The forest sector must increase its market share in these value-added market segments. Doing so would make it possible to achieve two strategic objectives: decreasing the sector's dependency on basic products (such as the conventional ―2 x4‖) and reducing its susceptibility to fluctuations in the US housing market. There are however cultural, institutional and regulatory barriers to the increased use of wood in commercial and multi-storey construction. The government can play a role in reducing or eliminating these barriers by ensuring that architects and engineers have appropriate training to work with wood materials and by making the National Building Code more flexible. Stronger marketing activities must also be a key part of the strategy to increase the market share for wood; this includes extending funding for wood-frame structure demonstration projects and programs such as North American Wood First, Wood WORKS!, and Canada Wood.
Energy production is also a promising market for sawmill by-products and low-quality wood and forest residues. This is particularly true in the context that demand for these by-products is in freefall due to the drop in pulp and board production. Government action to direct sawmill by-products and forest residues into energy use is risky however as it could lead to undue distortions in the forest sector, in particular for pulp and board producers. Moreover, the government should not hazard a guess on the winning energy solution of the future by directly subsidizing a specific energy source. The government should instead leave as much as possible to the normal interaction of supply and demand, while addressing market failures. A national fund for green energy and energy efficiency as suggested by the forest industry meets these criteria and warrants careful consideration by the government.
Any government policy to increase the use of wood in new market niches would be in vain unless the industry makes a major shift toward innovation. For several years, the forest industry's record on research, development and innovation has often been considered weak. For too long, the forest industry's competitive advantage has been based primarily on a low Canadian dollar and mass production of products with little value-added that are exported to the United States. The events of recent years have illustrated the major weaknesses of this model and the industry must now develop a culture of continuous innovation. The government's role in this regard should include the awarding of stable, long-term funding to FPInnovations, increasing innovation tax credits, creating an innovation venture fund for the forest sector, and contributing financially to the development of a national database on the lifecycle analysis of manufacturing products.
The proposed solutions to find new markets for Canadian wood products indirectly address the economic impact of the forestry crisis, such as plant closures and layoffs, but do little to address the social and ecological impacts of the crisis. This report xiii

would not be complete without addressing these aspects. In order to mitigate the social effects, investments must be made in educational initiatives, community forest projects, and initiatives to enhance capacity building in Aboriginal communities with regard to forestry development. Regarding the ecological aspect, the government should create a federal-provincial forest resource development fund for silviculture initiatives (including elite silviculture) and for environmental certification and wood product traceability initiatives. The government must also adjust its support for forest management in keeping with the specific needs of private woodlot producers. This would mean establishing a personal silvicultural savings and investment plan for woodlot owners.

It should also be noted that even if the Committee's solutions can generally be implemented in the short term, it will take a number of years for their benefits to be felt. They are therefore important milestones to be reached in the positioning and long-term competitiveness of the Canadian forest industry.

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