

Wood, jobs and wilderness



Forest: Bruce Petersen. Logs and people: Andrea Maenza

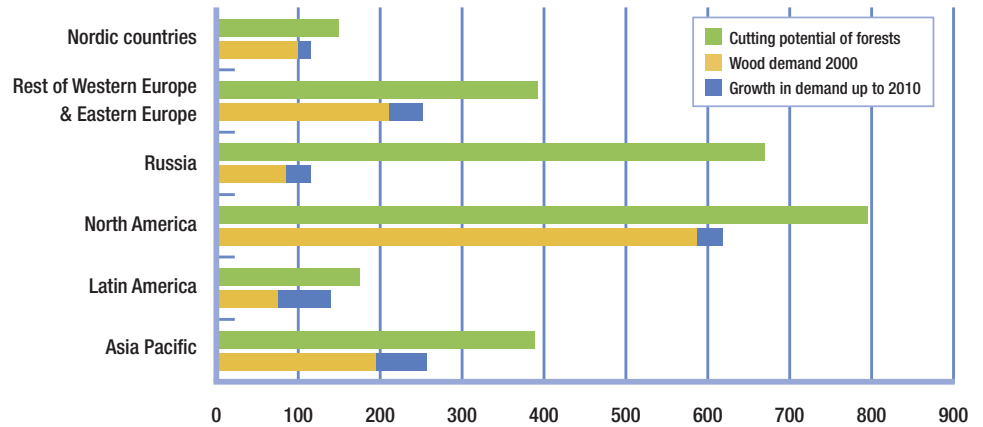
Forestry dependent communities and forest sector workers in Ontario have been hard hit over the past few years by mill closures and layoffs, and many feel they are now facing an uncertain future. These trends, in turn, are linked to long-term declines in prices for many traditional forest products and increasing global competition. The result is that Ontario is at a decision point: continue on the current path or turn in a new direction that enhances both forest-industry competitiveness and the health of our forests.

A special report by



Regional growth in fibre vs annual demand

This chart shows the wood available in each country, current demand and projected demand. Note the large surplus wood supply in many areas, particularly Russia.



What's happening to the forest industry around the world?

The combined market share of the top five paper producers in North America is approaching 75%.
– CIBC World Markets

In the sawmilling sector, four large mills produce 25% of Ontario's output
– Living Legacy Trust

Plantations are 5% of global forest cover but 35% of global industrial timber harvest
– MNR Environmental Scan 2005

Competition is increasing

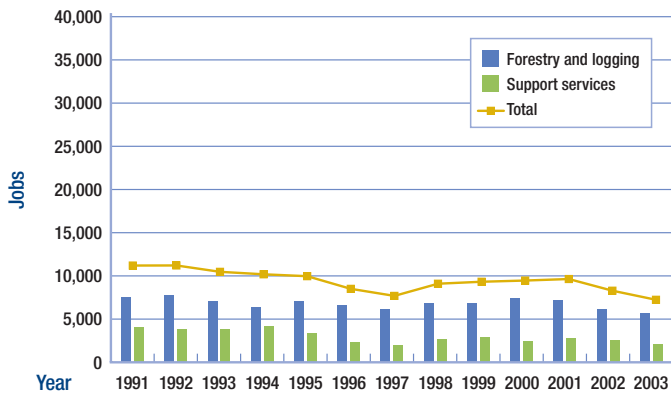
When it comes to forestry, Ontario is a big producer of products like newsprint, pulp and lumber. Global prices for these sorts of commodities have been declining for a number of years and this trend will likely only pick up speed as – thanks to new global trade rules – similar products start flooding into North America (and particularly the United States, where most Canadian wood products are shipped) from Russia, Asian countries and South and Central America. These regions often have newer, more efficient mills, much lower labour costs and minimal social and environmental protections.

Right now, for example, it is estimated that Russia harvests less than 20% of its annual allowable cut. In South America and Asia, hundreds of millions of hectares of plantations were planted during the 1990s. These plantations have much faster growth rates, which means they reach maturity faster than forests in Ontario, and they are expected to create a glut of wood on the world market.

Meanwhile, exports from Ontario mills are already being hit by both the softwood lumber dispute and the rising Canadian dollar.

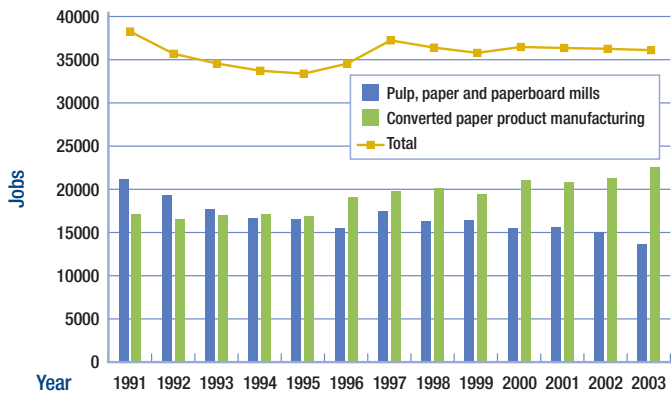
Fewer companies – and workers – harvesting more wood

Control of the forest industry and mills in Ontario has shifted dramatically to a handful of large companies. For example, in 1991, 24 companies were responsible for processing 90% of the wood harvested in Ontario. By 2004, just eight large companies were processing 90% of our wood. Investors and managers believe that larger companies are better able to cut costs, survive market downturns, attract large customers and raise capital, making them potentially more efficient and profitable. These large companies invest in larger, more automated mills that employ fewer workers. There has also been a North America-wide push in the last decade to cut the number of mills by closing older, smaller plants.



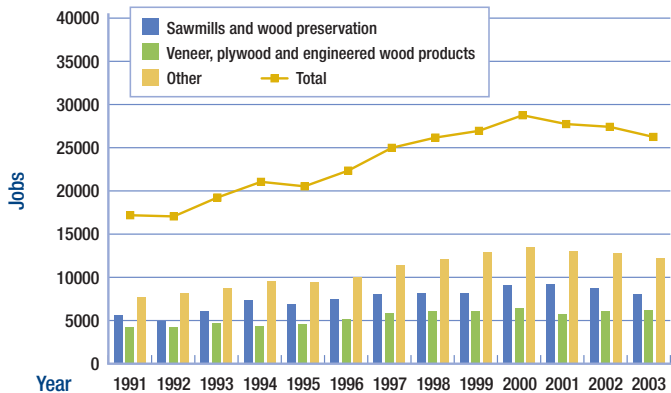
Logging

Over the last 10 years, jobs in the logging sector have continued their long-term decline despite increased harvest levels (see bottom graph). Mechanization continues to reduce jobs in this part of the industry.



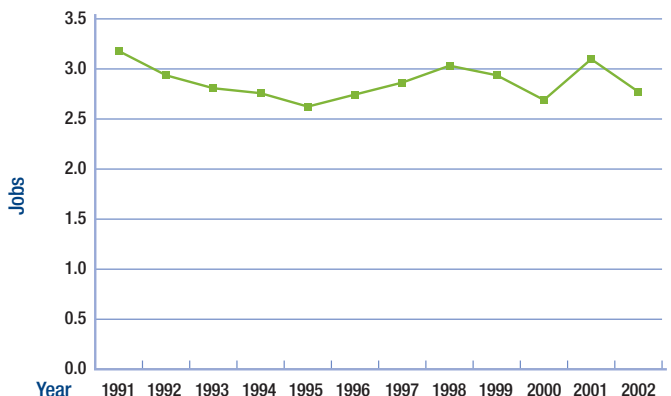
Paper

In the pulp and paper sector, jobs have declined in newsprint, pulp and paperboard production but have increased in higher value paper product production.



Manufacturing

Manufacturing of engineered wood products like OSB and housing components has created new jobs in the past 10 years. Strong housing sales have also kept sawmill jobs relatively stable, but automation is decreasing employment per unit of wood.



Jobs per 1000 m³ of wood

The long-term trend of fewer workers processing more wood has continued over the last decade, although the decline has levelled off somewhat compared to what workers experienced in the 1970s and 80s.

Sources for employment: Statistics Canada

Sources for harvest levels: Ontario Ministry of Natural Resources

More wood cut, but fewer jobs

The number of jobs in the Ontario forest sector per cubic metre of wood harvested has been declining steadily since the 1960s. This trend has been driven by technological changes that mean that more wood can be harvested and processed by fewer and fewer workers every year. And this trend shows no sign of stopping: The total number of jobs in the forest sector (including logging, wood, furniture and paper products manufacturing) declined from 89,000 in 2001 to 86,000 in 2002. Since 2002, an additional 1,900 jobs have been permanently lost and there have been another 2,400 temporary layoffs in the forest products manufacturing sector.

For communities that are heavily dependent upon the forest sector, this has been a punishing trend, with workers moving away, tax bases eroding, and opportunities to find well-paying stable jobs dwindling.

Ontario's major competitive advantages and challenges

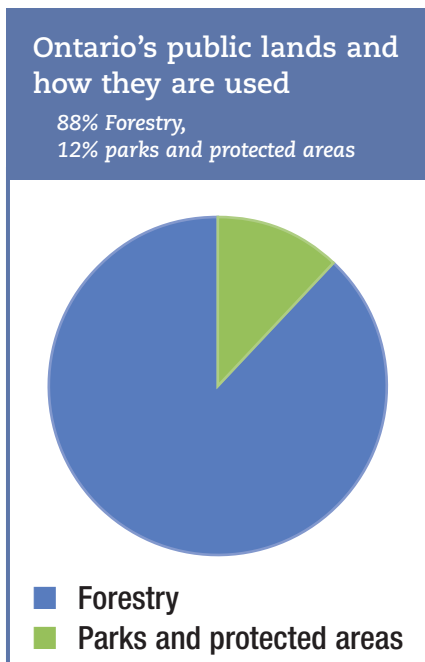
Despite these trends, Ontario still has a lot to offer the forest sector. It has a well-established professional industry with an educated and skilled workforce, high-quality fibre that often cannot be matched by plantation wood, and a public forest management system that makes it an ideal place to seek ecological certification of forestry operations. The proximity of Ontario's mills and forests to the

large cities of the Great Lake States is another advantage.

Some industry leaders are concerned, however, about rising energy and fibre costs. Ontario forestry companies have paid an artificially low price for electrical power for many years and are now reacting to the Ontario government's decision that it will no longer subsidize power costs for industry or consumers. But there are also emerging opportunities for the industry to get involved in generating its own power, to increase energy efficiency and cut costs, and to actually secure new revenue by cutting greenhouse gas emissions and earning greenhouse gas credits.

On the wood supply front, companies have known for close to 20 years that a dip in wood supply was looming in Ontario and that the current harvest level could not be sustained. This dip is a result of many factors, including the changing age and species make-up of our forests that has resulted in part from past harvesting. Overall, Ontario will still have enough wood to meet most industry needs as it moves through this dip, but there will be tight supply of some species in some areas for a number of years to come.

What is clearly not causing wood supply shortages are new protected areas or wildlife and waterway protection guidelines for forestry operations. The proof is in the numbers: Despite increases in the number of parks and the introduction of new biodiversity protection guidelines in the 1990s, Ontario's roundwood harvest actually increased by more than 3 million cubic metres – or 14% – between 1990 and 2002. Today, 12% of the public land region approved for forestry in Ontario is in parks and other protected areas, leaving 88% or more than 218,000 square kilometres, in forest licences.



Closing the competitiveness gap

Changing our forest product focus

There has been increasing interest – and a growing economic incentive due to declining prices for products like newsprint and 2x4s – to shift the focus for forest products in Ontario to value-added products like engineered building components (trusses, beams, housing components) and factory-built housing. Recent studies have also pointed to opportunities for more specialized smaller-scale businesses, such as producing wooden windows and doors. Even within existing sectors, there is potential to move to higher-value products, such as coated and specialty papers instead of newsprint.

These types of businesses would help Ontario deliver products that can compete on more than just price and that would also increase employment per unit of wood used. One of the keys to getting this transition underway is to ensure access to good quality wood for value-added manufacturing. Today, existing forest licences and wood supply commitments to established mills are often significant barriers to new industries entering the market. Our timber is a valuable public asset and we should make sure that it goes to the best end use.

Making our mark

Some companies in Ontario are gaining market share for their products by embracing Forest Stewardship Council certification of their forest operations. As the certification standard with the broadest stakeholder endorsement and most detailed on-the-ground operational requirements, FSC has quickly become the “premium” market standard, and is the one most able to deliver real bottom-line benefits. Several large wood product buyers, including Home Depot, Lowes and Staples, are committed to buying FSC certified products.

Fortunately, Ontario’s forest management system makes it possible for committed companies to move quickly toward FSC certification of their operations here. Particularly important is the *Room to Grow* process (unmatched anywhere else in North America) that gives companies an economically competitive mechanism for meeting the ecological representation requirements of FSC certification. With the provincial government requiring third-party certification of all companies operating on public lands by 2007, getting the greatest possible market gains from the certification process will be even more important.

According to a study prepared for the Living Legacy Trust, a shift to greater value-added production could reverse the steady decline in employment in the forest sector and instead lead to an up to 10% increase in forest sector employment overall.

In B.C., 20% of the annual harvest will be re-allocated to community forests, First Nations and log auctions.

Ten forest licence areas in Ontario, covering almost 3.5 million hectares or approximately 13% of the province’s commercial forest area, are now FSC certified.

Tembec and Domtar have both committed themselves to securing FSC certification for their forestry operations.

“By adhering to a standard that respects the values of all forest users, including the First Nations, we believe that the public, governments, customers and investors will also see it as a serious commitment to ensure the sustainability of our operations,”
– Raymond Royer, President and CEO, Domtar Inc .

“FSC brings key players to the table, giving them a voice to find solutions. Our use of FSC standards puts us at the forefront of demonstrating to customers that we practice responsible forestry.”
– Frank Dottori, CEO, Tembec Inc.

According to Natural Resources Canada, “The average Canadian kraft pulp mill could decrease fossil fuel costs by \$17.39/Air dried tonne and electricity costs by \$11.56/Adt by modernizing.”

Moose Cree First Nation, Tembec Inc. and SNC-Lavalin are proposing to modernize four hydroelectric dams on the Mattagami River. The project could generate 384 megawatts of new energy and create 350 planning and construction jobs.

New energy

The forest industry, and pulp-and-paper manufacturing in particular, is an energy intensive business. The changing energy market – including the end of government subsidies – obviously represents a challenge, but it is not one that cannot be overcome. The age of many Ontario mills, for example, makes them prime candidates for large energy efficiency improvements. Fortunately, under new provincial rules, electrical utilities, including Hydro One, will now have a direct economic incentive to work with companies to increase their energy efficiency.

Also, pulp-and-paper operations are very well suited to co-generation systems – systems that produce both heat and power using anything from wood waste to natural gas as fuel. The federal government has said that it is interested in supporting increased use of co-generation and announced faster write-offs for capital investments and \$1 billion for new energy technology in the 2005 budget. It is also providing new incentives for renewable power production.

Finally, there are opportunities for the forest industry to become net energy producers under the province’s open market energy system and to earn greenhouse gas reduction credits as well if they can make significant cuts to emissions by increasing efficiency or developing low or no emission power sources.

Healthy forests, healthy futures

If we do not keep our forest ecosystems healthy, we will not be able to keep our forest industry healthy over the long term. We need to put proper resources into monitoring and understanding forest systems and species and collect accurate and timely information on things like growth and yield, harvest levels, species populations and other indicators of ecosystem health. We must ensure that

our forestry operations properly protect water quality and do not strip nutrients out of forest systems while also retaining habitat for a full suite of forest species. It’s all part of protecting our No. 1 public asset – healthy forests. This sort of monitoring and assessment work could be done by an independent, third-party body and could be a source of skilled jobs for northern communities, as could work to restore damaged ecosystems.

Giving northern communities options

Opportunities for new enterprises, large or small, can be blocked by things like access to wood supply and other forest resources. We need to find ways to work together to ensure communities can diversify – and stabilize – their economic bases. We could, for example, encourage value-added manufacturing by auctioning a portion of the wood available for harvest or by creating more shareholder-type forest licences that distribute wood among a number of smaller enterprises sharing such a licence.

We should also consider economic development funds that return some share of resource revenues to communities, enhanced training and educational opportunities, sustaining other forest-based businesses – from remote tourism to fur harvesting – creating opportunities to develop or attract new value-added businesses or developing new industries, such as green power generation. Such an approach could be modelled on the provincial government’s support for the automotive industry, for example, with dollars for training, best practices and new product research, and infrastructure support.

By finding ways to make sure that more jobs and revenue stay in northern communities, we can help break the boom-and-bust cycle too often experienced by communities that depend on primary resource harvesting alone.

Embracing a new direction

There's more to it than wood

Ontario's forests are a valuable public asset that provides us with everything from clean water to a place to fish, hunt and canoe. We cannot simply replace these forests or the services they provide, so we must treat them with great care. Unfortunately, there is growing evidence that our past management of these forests has created problems. Woodland caribou, for example, have almost completely disappeared from areas that have been logged over the past century. It's the same story for wolverine, while numbers of even common species, like moose, have plunged dramatically in some areas.

for Ontario wood to increased opportunities for remote tourism, alternative forest products, value-added industries or even climate-change credits.

Similarly, we need to realize that things like lake and streamside buffers and reserves are actually investments that help build the value of our No. 1 asset – healthy forests and waterways – instead of lost short-term opportunities to turn more wood into low value products. Parks and other protected areas can also be seen as enhancements to our forests that lead to increased tourism opportunities (studies have consistently shown that high spending tourists prefer to visit large

Woodland caribou were officially listed as a threatened species in Ontario in 2002. Once found as far south as Georgian Bay and the Ottawa Valley, only a few scattered populations of these forest-dwelling caribou remain outside of Ontario's unlogged northern boreal forest.

The closure of Weyerhaeuser's Dryden sawmill in 2004 led to the loss of 110 jobs at the mill. The 300,000 m³ of wood previously being used by the Dryden sawmill was subsequently transferred to Weyerhaeuser's newer mill at Ear Falls, where 10-15 jobs were expected to be added to process the additional wood.

Resource-based tourism

Year	Direct Jobs	Indirect Jobs	Contribution to GDP	Sales	Tax Revenue
1996	11919	6375	\$510 million	\$1 billion	\$192 million
1999	18900	12600	\$1 billion	\$2.2 billion	\$452 million
2001	20526	15744	\$1.2 billion	\$2.7 billion	\$555 million

What we are seeing is the result of many factors – from changes in forest age and species to the increasing spread of logging road networks that can lead to increased hunting and fishing pressure. If we want to maintain healthy wildlife populations, clean waterways and quality recreational and tourism opportunities, we are going to have to work together to lessen the combined impact of our many different activities on wild forests. We have to think long-term about what is best for our forests and the communities that depend on them and not squander future opportunities with short-term decisions that harm the health of the forest.

protected areas) and enhance Ontario's reputation as a careful forest manager in increasingly competitive – and demanding – international markets.

Simply turning our back on these realities and continuing with business as usual will not save jobs or mills in northern Ontario. Instead, Ontario wood will be increasingly squeezed out of all-important international markets, and opportunities to widen our northern economic base will vanish. At the same time, we will put further stress on wild species, waterways and communities.

But there is another answer: We can shift our focus to value-added manufacturing and diversifying our economies with the goal of creating jobs and restoring the forest resource base. This change is not going to happen on its own: governments must act to put the programs and policies in place that will make such a transition workable,

Looking at the big picture

We need to think bigger about the opportunities more broadly focused forest management can represent, from new markets

including training for workers and incentives for industry.

The choice we are facing, in other words, is whether we want to continue with the current approach or change our efforts into something that is win-win. By embracing

ecologically based forest management, we can increase the competitiveness of the forest sector, create new economic opportunities and increase long-term stability for wild species and communities. With this approach, we all win.

The way forward

“[Forestry companies] should... be thinking of all sorts of ways to re-invent themselves rather than sticking to the current business strategy, hoping to be the last man standing,”
– Avrim Lazar, Forest Products Association of Canada

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Cutting more wood (even if it were available) is not going to lead to more jobs in the forest industry overall. Industry is moving towards automated mills with fewer workers and more efficient (mechanized) harvesting to cut costs and compete with suppliers from developing countries. As well, prices for the commodity products that represent the bulk of Ontario’s exports will likely continue to decline. We need to find better solutions.

Ontario still has the opportunity to meet the challenges created by the changing global forest products market by taking the following actions:

1. Demonstrate environmental leadership

Ensure the protection of valuable forest characteristics, such as intact forests, old-growth, wildlife habitat and clean water, and ensure that harvest levels are sustainable. This will give Ontario’s forest companies a competitive edge by allowing them to demonstrate environmental leadership in the global marketplace through Forest Stewardship Council certification.

2. Focus on energy conservation

Examine energy use and energy sources for the forest sector. More efficient energy use will reduce costs and increase competitiveness. The forest sector can also meet

some or all of its power needs through high-efficiency co-generation or through investments in renewable power (e.g., hydro power).

3. Diversify forest products

Invest in value-added ventures, such as engineered wood products or housing components, that generate more jobs per tree harvested, and create wealth for northern communities. Develop a mechanism for allocating some of the existing wood supply to these new ventures and ensure that all value-added operations can also access the wood they need.

4. Implement community diversification strategies

Develop strategies for communities to move away from dependence on a single industry to a more diversified economic base. These can include job training to prepare workers for new value-added and renewable energy opportunities and support for non-timber forest-based economic opportunities.

5. Establish an industry innovation fund

Such a fund could be modeled on the support package recently provided to the auto industry and could include dollars for training, best practices and new product research, and infrastructure and technology support.

Sources

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