

PNWER Summit Forestry Session
Monday, July 21, 2014
9:15am – 12:00pm

Co-Chairs: Rep. Mike Cuffe (Montana) & Ric Slaco (VP and Chief Forester, Interfor)

The session was introduced by Chuck Burley (Government Affairs Manager of PNW Operations, Interfor) who spoke of the current opportunity for growth of forest products. That we are on the verge of a new era in forestry, the bioeconomy of forest products, and the Pacific Northwest is perfectly situated to take advantage of the opportunity to present renewable and sustainable forest products to global markets. Burley's view is bullish on the future of the forest products sector.

Topic I: Current Economic Impacts & Opportunities in Forestry –An overview of the benefits of the forest products and forestry industry for the PNWER.

Tom Partin (President of American Forest Resource Council) presented his perspectives on the US forestry market, current federal forest management issues and the impacts on the four PNWER states (OR, WA, MT, ID). *(refer to Tom's PowerPoint presentation)*

Presentation synopsis: Due to legislation in the early-mid 1990's around species conservation (spotted owl, grizzly bear), forestry management practices (size of trees to be cut), and extensive litigation there has been a significant reduction in timber sales over the past two decades and the economic opportunities in rural communities dependent on forestry have not recovered. To mitigate the reduction in timber sales and job loss, payments in lieu of harvest from the Federal Forest Service were made to states to support education, roads, and social services. These secure rural schools (SRS) payments have decreased by \$106.9M in the four northwestern states over 5 years due to changes in forest management, the formula on which payments are calculated, and a 5% yearly reduction since 2012. The affected communities now have difficulty supporting municipal services (police, ambulance, food stamps etc.).

In addition to economic impacts, the decrease in timber sales has resulted in 20+ years of ingrowth and fuel buildup, requiring increasing resources to control and manage forest fires. There is increasing momentum within the House and Senate to pass meaningful legislation with regard to fire management budgets and litigation processes, with hopes to decrease the amount of litigation and/or equalize the costs for plaintiffs and defendants. These legislations need the support of PNWER.

Hon. Steve Thompson (Minister, Ministry of Forests, Lands & Natural Resource Operations) presented his perspectives on the Canadian forestry market, with particular focus on British Columbia and the BC Wood First Initiative. *(no PowerPoint presentation)*

Presentation synopsis: As 95% of forest land in Canada is government controlled, it is imperative that government, opposition and industry work cooperatively and with strong leadership to ensure the continued success of the industry in the future. Despite a downturn in the BC economy, pine beetle infestation and other challenges, the strong foundation built through forestry management practices has allowed the industry to come through challenges in a positive position to capitalize on future opportunities. Within BC, of the 95M hectares (ha) of forest, 55M ha is productive crown forest land. 22M ha is suitable for timber harvesting and >1% is logged annually. Forest management practices require companies to submit Forest Stewardship Plans addressing wildlife, recreation etc. and made available for public review and comment prior to approval. In BC the annual allowable cut is 77M cubic metres (m³) and 66M m³ was the projected harvest in 2014.

The forestry and forest products industry in BC is currently facing challenges surrounding the Williams decision by the Supreme Court of Canada. The result of the court deciding in favour of the Tshilcot'in First Nation has meant that title of the land has transferred from provincial jurisdiction to the Tshilcot'in First Nation. Some believe this decision, and the potential for future similar rulings, will have a significant impact on the BC forest sector. Hon. Thompson said this is not the ministry's view, and they see the decision as creating opportunity for better forest management, environmental stewardship and increased future certainty for the industry. Currently, BC has 177 First Nations forestry agreements (of 203 First Nations in BC) which provide forest licenses, consultation, revenue sharing and other strategies to increase First Nations participation in the forest sector. Additionally, in BC, First Nations own or control 13% of the annual allowable cut, plus there are a number of joint ventures between First Nations communities and industry. Thompson reiterated that the ministry is committed to continued partnership and consultation with First Nations groups.

In Canada, government and industry are jointly focused on building new markets for forest products. A decade ago, 85% of Canada's wood exports were to the USA, and today it is more globally focused. While the USA is still Canada's main market and very important, 33% of exports are to China, there is a significant market in Japan, and emerging opportunities in India and Korea. Canada has active programs and partnerships to develop market opportunities, particularly higher value products than strictly raw log exports. An example used was the construction and infrastructure required for the growing elder care sector in Japan. Also discussed with regard to programs, is the recent Wood First legislation that focuses on the utilization of wood in the construction market. The program aims to shift wood use from mostly residential buildings to institutional wood frame construction and taller wood buildings, including adjustments to building codes, to increase market opportunity.

Other new product developments included mention of laminated timber and engineered wood products (StructureLam) as the next generation of utilization of wood. Also, the development, in partnership with FP Innovations, of cellulose filament in the pulp industry was briefly discussed. This flexible wood fiber based additive can improve quality of products, allowing for stronger and cheaper newsprint, tissue, packaging, structural panels, building materials etc.

Thompson reiterated that the province was focused on two key areas:

- Continuing to expand offshore markets for traditional products, including \$1.2B in capital investments over 2 years.
- Developing new products. Innovation and diversification are vital to keep BC in the forefront of a competitive industry.

And that the BC forest products industry contributed \$11.6B of revenue in 2013, up from \$7.6B in 2009 which contributes to social services, healthcare and other provincial services. He stated that despite the growth of LNG and other sectors, forestry has a huge opportunity to continue to grow and contribute economically to the province and is positioned to be a global leader in the resource sector. He closed with recognition of the challenges of fire management and the great work being done in BC and across the USA in response to current and future fires.

Questions for Thompson:

Q: Can you elaborate on the Wood First legislation and the feasibility of building taller wood structures? What are the parameters?

A: Current building codes set a maximum of 5-6 stories for wood building construction. Legislation is focused on incrementally increasing building codes to 10 stories, eventually 25-30 stories. Building code, fire management and safety are the current issues being addressed and researched by architects and building development communities. "Cheaper, Greener, Build it with wood." With focus on LEED certification, sustainability and carbon storing, wood is a fashionable product and a cool material to build with. With regards to safety concerns, specifically earthquakes, wood is more forgiving and pliant than other building materials. Example: Japan is rebuilding primarily with 2x4's and plywood.

Q: The east coast of Canada suffered a similar fate to the US industry with closures of sawmills and job losses, yet your story is one of optimism. What is the story of lost jobs in BC? How is the BC industry different from the US Pacific Northwest?

A: The industry is now smaller, but globally competitive. There are fewer jobs and mills but the industry is more cost effective and focused on innovation to continue revenue growth.

Topic II: Current Issues, Trends & Challenges in Forest Management

Moderator: John Innes (Dean of Forestry, University of British Columbia)

Panelists: James (Jim) Hubbard (Deputy Chief, US Forest Service), Tom Partin (President, American Forest Resource Council), Tim Sheldan (Deputy Minister, Ministry of Forests, Lands & Natural Resource Operations)

Q: For Tim -The Forest Products Association of Canada are being very bullish about the industry, projecting \$20B increase in revenues, a 35% improvement from current targets, 60,000 new jobs etc. Since we know the east is in dire straits, do we think this will mostly happen in the West?

A: From Tim –Yes, this is possible in the west. Clearly there are issues with the labour force including challenges of recruitment and retention and competition for skilled labour from other resource sectors, facilitation training, and Human Resources strategies to address skills shortages. We are working with Rural workforce panels, and funding the First Nations Forestry Council to deliver training and broaden understanding of First Nations workers. The government is working closely with industry to build training within the sector.

Q: Sustainability –with issues of fire, forest health, insects, disease, etc. will we even have forests to manage sustainably or are we going to lose them?

A: Jim –Yes we will have forests, but the question is- are we going to use them? Limiting Environmental Assessment documents to 100 pages, down from 700 is a start to making forest management easier, however problems still exist and how they are addressed will likely be more incremental than we wish. There needs to be collaboration between groups with different interests and this may not have the intended or wanted results. Fires are an enormous management issue and those that threatened people's lives and property are a priority. This means other fires in the backcountry increase, both destroying revenue and increasing management costs. The sector needs to prioritize which issues to push, involve all parties (industry, local government, public, homeowners etc.) and focus on agendas in which we have social license to move forward.

Q: For Tom –Steve's comments on the BC industry was very optimistic. What needs to happen in the Pacific Northwest to get the USA forest industry in a similar position?

A: Tom –The position the USA is currently in is unsustainable. In the past 20 years there has been 3x more growth than harvest, with the political pendulum swinging to the side of the environmental agenda, spotted owl protection and other endangered species. This made it more difficult for effective management and policy needs to change. Private sector lands are over-managed and heavily cut in lieu of public forests. Oregon has done a good job of maintaining a sustained yield but it is going to take time and work for other states to recover.

Tim –The land mosaic in Canada is very different to the USA in addition to jurisdiction (crown land model vs national forest lands, legislation and litigation issues).

Jim –There are incremental but important steps being taken to increase the discretion agencies have over forest management and landscape restoration. Fire suppression policies also need to change. Currently there are 16,000 fire fighters but all have regular jobs too and the state will soon reach the limit of their fire suppression budget. This means funds will have to be transferred from other operations or shut down at their busiest time of the year.

Q: There have been lots of changes in the forest sector. In the USA, large multinationals are divesting their forest lands. We are on the cusp of the bio-economy and opportunities to get highest value from wood. Are there examples of an industry transformation actually happening?

Jim –Yes. With the divestiture of lands from big companies, these forests went into long term land holdings, but are still actively managed despite no investment into research and management. As for the bio-economy, there are many facets of it, including nanotechnology, green building etc. and questions on how to pursue it. There will need to be a shift from partnership with industry to partnership with universities to get the research and answers on how to move ahead. There is still supply available. It's changing but all the elements are still there to make the USA forest sector viable.

Q: Can you elaborate on what is meant by extracting more value from wood?

Tim –Innovation is rising quickly and there has been a change in public opinion and expectations on the use of public (crown) land. This allows for more markets to emerge as products are developed. By 2015 it is estimated bio-products will be a \$200B industry that BC is well positioned to take advantage of. Some examples of industry transformation include: \$100M wood-fueled power plant in Mackenzie that produces 36 megawatts of energy. West Fraser will also have a biomass power plant by the end of 2014. Wood is also used to generate power in Ft St James and Merritt. Is energy generation the bio-economy? Innovation is not taking just one route. FP Innovations development of cellulose filaments that can be used in pulp, tissues, paint, plastic finishes and many other uses is another facet of the bio-economy. Extracting more value from wood is not just about the production of lumber and raw wood exports. While these are still extremely important, new products that extract higher value will supplement the core industry.

Tom –In the USA there is not a great deal of opportunity for the bio-economy. There are no local, state or federal subsidies to make wood as an energy source feasible. Plants have been built but shut down because there isn't assistance to get over the hurdle.

Q: Research and development will be needed for transformation, but forestry traditionally lags behind all other sectors in R&D funding. How will we manage this?

Tom –Of the 80+ companies AFRC represents, most are family owned and just trying to survive. They don't have time for innovation and are trying to find markets for their current products. Larger companies have a long-term outlook and can invest in R&D. But there still needs to be a stable operating environment before contributions can increase. In the past there was movement from solid wood lumber to laminated veneer and other products.

Tim –There needs to be a more robust framework. Currently there are gaps and overlaps and federal government, academia and industry could work together better. While we're all aiming in the same direction, government is challenged to allocate funding in a tight fiscal environment and they are judicious about where money goes and what activities are supported. The questions that need to be asked are: are we addressing current issues and challenges? What are the priorities? These could be better identified in terms of innovation with a stronger framework. That being said, it's not all negative.

StructureLam and the Wood Innovation & Design centre in Prince George are great examples of R&D and new product development.

Jim –The USA maintains their forest products lab. These won't be going away but their focus will be driven by market products. Cellulose is promising but we need to be selective. The energy market in America is limited and too competitive with wind, solar and oil. Prioritizing the right areas to invest and then collaborating with universities will find answers to create the kinds of markets for demanded products.

Tom –The Oregon State University forest research lab is excellent. A non-formaldehyde glue and innovative wood drying techniques have both come from OSU.

Q: The Pacific Northwest has the highest environmental standards in the world, and are demonstrated through certification standards (CSA, CFSC) yet attempts to cut forests is mired in litigation (even in Canada, with old-growth forest).

Tom –The current Equal Access to Justice laws means that appeals to litigation decisions have a lot of passion and decisions against logging are a payday for the winners. Litigation is a major source of revenue for environmental groups (ex. \$250K for one lawsuit). This is why there is momentum to change the Equal Access to Justice Act. Currently groups bring projects forward and get approval from the Forest Service but outliers are the ones initiating lawsuits. Environmentalists attack the Oregon Forest Practices Act, and start water management lawsuits. They want to see the industry shut down. If we can get the opposition away from the judicial system and use arbitration to resolve disputes then the sector can recover.

Tim –The land management regime is different in Canada vs the USA. Litigation problems are different. But getting social license starts with communication. We need to make sure that sustainable forest management is understood and that we build a base of support within communities and with First Nations. We need to work proactively and develop a better multi-party strategy to grow understanding of forest management. Certification is important and education on how rigid and strict our environmental standards are.

Jim –If the USFS can build more upfront support they have a better chance of success. For example, the Tribal Forest Protection Act means tribal lands are better managed and more resilient than USFS land. If we can cross boundaries and create partners to help create buy-in we can get people involved in projects to protect their communities, create resiliency. This can also increase the stakes for people who want to challenge (litigate).

Questions from the floor:

Q: Chuck Burley (Government Affairs Manager for Pacific Northwest Operations, Interfor) -There is a lot going on, on both sides of the border and very stringent environmental policies .When the USFS says

they need license to move forward (meaning they don't think they have support), what do your respective governments do to support the industry? What actions are taken at different levels?

Tim –At a political and senior public service level there is a strong understanding of issues the sector is facing. We understand the impact the forestry sector has on the economy and that it is part of the social fabric of BC. People have strong ties to the forest generally and the jobs created by the industry are important. The ministry is more than just forests though, and is also responsible for water, mining, archaeology and other activities. We recognize that forests are a key element though. As for what actions are taken –there is no monetary benefit (industry is private sector) so we don't work on a subsidization model but we have a good understanding of resource management. Government works to co-develop strategies and legislation and understand the impact these have on industry. It is a balancing act of industry and private sector interests vs expectation of the public and First Nations and environmental impacts.

Jim –The White House held a conference and sponsored a contest for architects and engineers to design a 10-story wood building and submit solutions for what standards would need to change for the building to be feasible. There is also a focus on sustainability. The European Union demands certification for wood pellet products to access the European markets. The government needs to target its work on wood supply and land management challenges.

Q: Katrine Conroy (MLA, Kootenay West) –Raw log exports are an issue in BC and many believe that BC logs should be used to generate BC jobs, not overseas jobs. Is it a similar issue in the USA for raw log exports?

Tom –The demise of the public timber supply in the USA means balance has been lost. From the federal side the problem of log exports became more acute with the shift to private logs. But most people believe in free trade and say to not get involved.

Q: Caddy McKeown (State Representative, Oregon) –To add on Tom's point re: export logs, there is pressure on the market right now with regard to raw log exports but it waxes and wanes on private lands depending on the political and economic climate. Question: What are your thoughts on torrefaction? Do you think it has possibilities? With the clean fuel standards, is it on Canada's radar and what do you think the impact will be on the wood products industry?

No time to answer as the time allotted for questions was exceeded.

Topic III: Legislators Comments

Chaz Vincent (Senator, Montana): Kootenay National Forest encompasses 76% of our county so forestry is a big issue for our communities. We can't get a predictable and sustainable flow of board-feet per year. Our county has the highest rate of forest growth, but not a single commercial sawmill. There are too many trees but accessing them is difficult. In reference to Equal Access to Justice, all NGO's are able to get involved in the process. It increases litigation and ties up resources. NGO's have created a

business model around litigation and are attempting to decimate sawmills. The grizzly bear is being used as a tool to do this, and there are unintended consequences. Fires are now the biggest issue and we can't manage them by defueling the forests. 95% of all suits are won on procedural grounds, it is very important to push for a bond required to file litigation to ensure fair process. As for the discussion around needing social license, there is still over 70% support for the sector. We have social license and need to step up and share stories by those the public trusts. Additionally, NGO's need to lose their social license. The system is broken and USFSA needs to take the lead in fixing it. Montana has one of the best (most stringent) environmental protection acts, Jim –what is your idea of restoration? What would you think of the federal agency (USFSA) operating under MEPA instead of NEPA?

John Brenden (Senator, Montana): Resource development is a challenge in our jurisdiction. Environmental groups want to make the area a national park and are buying land to push people off and create problems. Federal land management needs to work with counties and states to collaborate and make something work. We can't wait forever to manage land. Trees need to be cut down to protect the forests from fire etc. and there is a divide in opinion from urban vs rural citizens.

Jim Honeyford (Senator, Washington): My area was one that was redistricted from the smallest rural county to the 3rd largest and our industry went from being mostly apples to timber. It's important to press the issue of turning some of the forest service over to FEMA as fire suppression is depleting the budgets of USFSA and the Department of Natural Resources.

Action Items Discussion:

1. Support for US Administration initiative to move firefighting budget to FEMA to allow for USFSA budget to be used for fire prevention and management.

Is this something that PNWER should focus on? Discussion centred around clarifying that FEMA would be writing checks but would not be part of the management. Don't want to take responsibilities away from USFSA that they are capable of managing and don't want to allow FEMA to start controlling water and forest management. The answer was that no, the USFSA will not stop fighting fires, the initiative will just allow them to tap the FEMA budget and eliminate the current budget reallocation issues. Attendees wanted to ensure the USFSA was in support of this initiative, and Jim assured that both USFSA and private sector was in favour. 10 voted in favour of this being a PNWER focus. Canadian's generally abstained from voting, feeling it wasn't their place to decide.

2. What actions could PNWER take to address forest health on both sides of the border?

The group concluded that this hadn't really been discussed and we shouldn't attempt to develop policy on the fly. Attendees should use the feedback forms to express their answers. There was mention that the Federal government and US Border Services had previously done a few sessions on forest health. PNWER should link to that established work for future PNWER efforts.

Action Items:

1. Forestry Working Group would like to commit to meeting next year in Big Sky, MT at the PNWER Summit. Project lead: Co-Chairs, Mike Cuffe, MT; Ric Slaco, Interfor, BC; Kelsey Larson, PNWER
2. Support for U.S. Administration initiative to move firefighting budget to FEMA to allow for Forest Service budget to be used for fire prevention and management. Project lead: Co-Chairs, Mike Cuffe, MT; Ric Slaco, Interfor, BC; Kelsey Larson, PNWER