Northern Alberta Forestry Industry Challenges and Opportunities Report

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Introduction

This is a summary of a study prepared on behalf of the Northern Alberta Development Council by a consultant to examine the forest industry in northern Alberta.

Context

The start of the economic downturn in the forest industry began in 2007. The year 2007 reflected a strong workforce of 18,400 and economy; by 2009 the strength of the forest sector was in decline with mills beginning to close. The employment total for the Northern Alberta Development Council (NADC) region in 2009 was down to 14,100. These figures are explained in detail on page 11. The 28 mills in the NADC region reflect the larger mills in the province. There are eight mills outside the NADC for a total of 36 in the province. These numbers do not include smaller mills, contractors, or service companies. When surveyed, many of these companies chose only to make the comment that NADC could assist the forest industry by championing the recommendations of the Forest Products Roadmap.

Forestry is important to the region's economy and its communities. The NADC region includes 86% of the productive forests in the province, and has 28 of the total 36 larger mill operations in Alberta mills. The forest industry represented in the NADC region can be broken down into three major commodity groups; first lumber and kraft, pulp, second CTMP pulp, and third and newsprint products. With continuing weak prices during the study period, the average cost of production was often more than the average price the product was sold at.

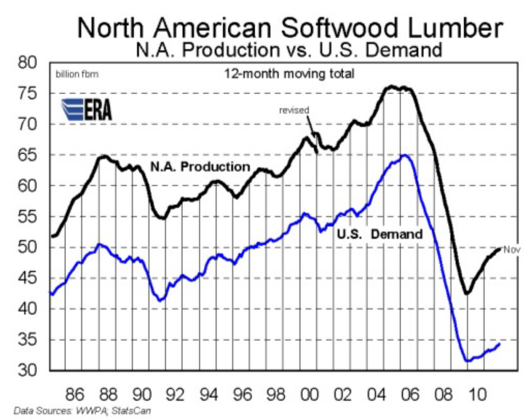
Employment Figures

Employment numbers and tax revenue is available at a regional level from the Economic Impact of the Alberta Forest Industry 2009.[1]

NADC Region	2007	2008	2009
Employment Total	18,400	15,400	14,100
Direct	6,400	5,300	4,900
Indirect & Induced	9,000	10,100	9,200
Revenue (millions of dollars)	6,654	5,149	4,756
Direct	3,035	2,734	2,383
Indirect & Induced	3,619	2,415	2,379
Corporate Tax (millions of dollars)	$160	$142	$90
Personal Tax (millions of dollars)	$100	$96	$81
Property Tax (millions of dollars)	$25	$24	$16

2007 reflects a strong workforce and a good economy; by 2009 the strength of the forest sector was in decline and mills began to close.

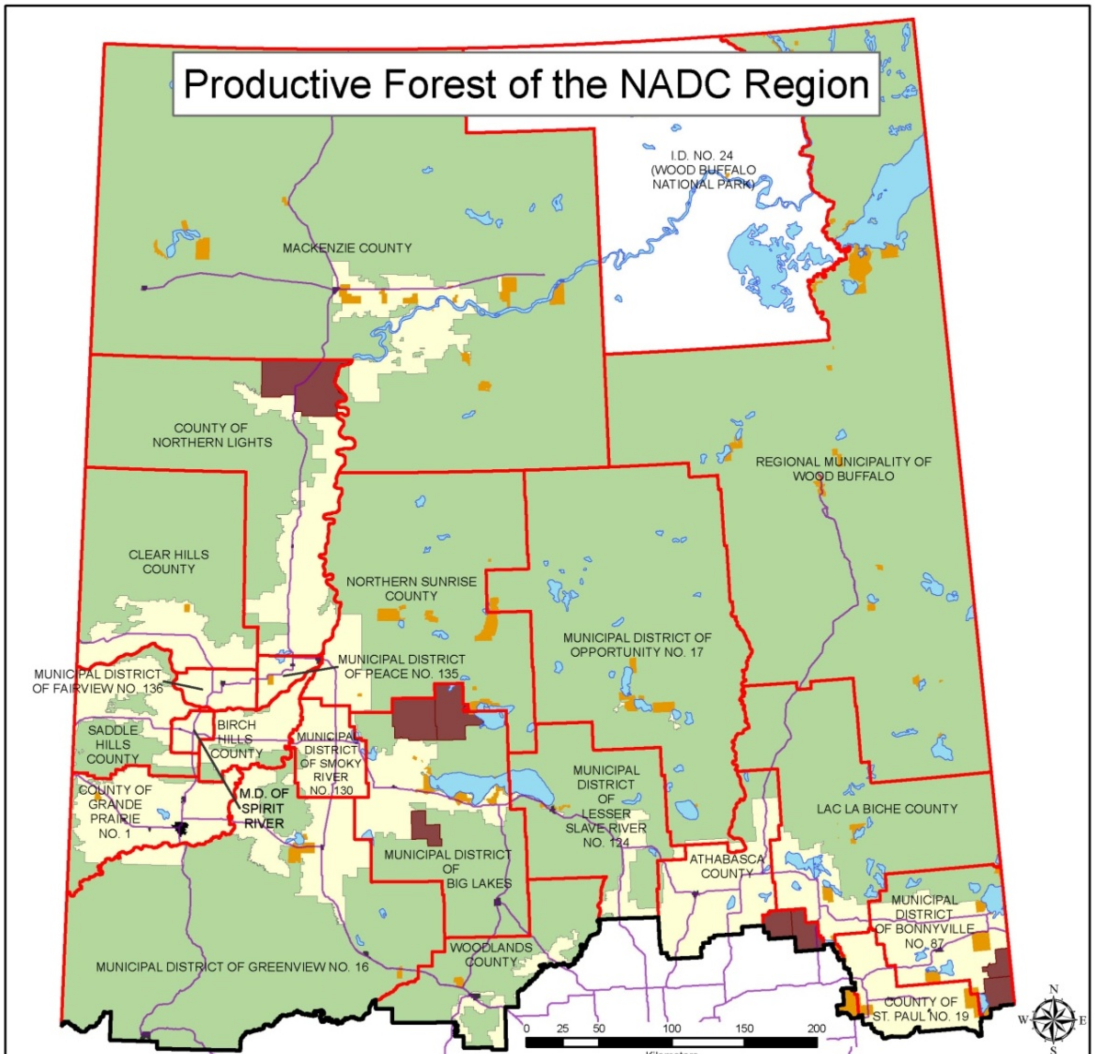
The reason for the decline is understood to be a decline in market demand. Trends for lumber production and demand can be seen in this chart.



[1] The full document can be found at: http://www.srd.alberta.ca/LandsForests/ForestBusiness/documents/EconomicImpactOfTheAlbertaForestIndustry-June2010.pdf

Impact on the NADC region

Alberta has been divided into the green area and the white area for land management purposes since 1948. The green area represents forestry, whereas the white area represents agriculture. The green area covers 58% of the province. The NADC region includes 85.8% of the green area.



Municipality Name	Green Area (Ha)	% of Prov. Total
ATHABASCA COUNTY	97,554.3	0.3
BIRCH HILLS COUNTY	56,242.3	0.2
CLEAR HILLS COUNTY	1,170,760.0	3.3
COUNTY OF GRANDE PRAIRIE NO. 1	83,427.1	0.2
COUNTY OF NORTHERN LIGHTS	1,406,720.0	4.0
COUNTY OF ST. PAUL NO. 19	-	0.0
LAC LA BICHE COUNTY	1,461,360.0	4.1
MACKENZIE COUNTY	7,797,837.1	22.1
MUNICIPAL DISTRICT OF BIG LAKES	1,112,690.0	3.2
MUNICIPAL DISTRICT OF BONNYVILLE NO. 87	155,597.0	0.4
MUNICIPAL DISTRICT OF FAIRVIEW NO. 136	-	0.0
MUNICIPAL DISTRICT OF GREENVIEW NO. 16	2,845,161.0	8.1
MUNICIPAL DISTRICT OF LESSER SLAVE RIVER NO.	948,928.1	2.7
MUNICIPAL DISTRICT OF OPPORTUNITY NO. 17	3,028,990.0	8.6
MUNICIPAL DISTRICT OF PEACE NO. 135	-	0.0
MUNICIPAL DISTRICT OF SMOKY RIVER NO. 130	278,847.0	0.8
MUNICIPAL DISTRICT OF SPIRIT RIVER NO. 133	-	0.0

Municipality Name	Green Area (Ha)	% of Prov. Total
NORTHERN SUNRISE COUNTY	1,991,590.0	5.7
REGIONAL MUNICIPALITY OF WOOD BUFFALO	6,873,170.0	19.5
SADDLE HILLS COUNTY	273,806.0	0.8
WOODLANDS COUNTY	666,635.7	1.9
NADC TOTAL:	**30,249,315.6**	**85.8**
PROVINCIAL TOTAL:	**35,247,717.2**	

GREEN AREA
WHITE AREA
METIS SETTLEMENT
FIRST NATION RESERVE

February, 2012
Sources: NADC, AltaLIS

Findings

This study found both challenges and opportunities (presented here in no particular order).

Challenges:

- Electricity transmission cost increases
- Unpredictable electricity generation costs
- CN Rail service levels and costs
- Labour shortages
- Land Use Framework
- Declining memberships in the Alberta Forest Products Association
- Unsettled land claims restricting access to timber
- Transportation costs
- Curtailment in oriented strand board production
- Mountain Pine Beetle effects
- Boreal Caribou National Recovery Strategy implications
- Impacts of tenure reform
- Cost of capital improvements, and
- Aboriginal consultation process.

Opportunities:

- Forest Products Road Map
- Adding value to current product lines
- Accessing new markets
- Improvements to infrastructure
- Ecosystem services – land management leadership
- Marketing wood products, and
- Forest Stewardship Council certification (FSC).

Consultant Recommendations

Based on the findings of the consultant's study, the following key recommendations are made to the NADC. They are intended to assist in dealing with the challenges faced by the industry, and strengthen the opportunities identified. They are not in order of priority.

- The NADC become informed of the Fibre Roadmap Report and champion the recommendations on behalf of Industry to assist in implementing the report's recommendations.
- The NADC receive regular forest industry reports such as the ERA and quarterly AFPA newsletter to keep its members current on the industries challenges and opportunities.
- Based on the input received NADC may wish to investigate the forest industries challenge related to the escalating and unpredictable cost of electricity supply and transmission.
- The NADC investigate ways in which Council can improve the following labour challenges expressed by the forest industry.
    - Foreign Worker Program needs to be more efficient and effective to meet the forest industry needs.
    - Shortage of specific skilled labour such as truck drivers and trades needs to be addressed through proactive awareness and training programs.
    - Incentive and training programs need further support and development to encourage new entrants into the forest industry. Youth residing in northern Alberta need to be engaged in forestry training opportunities that promote their community.
- The study respondents suggest that NADC encourage the Alberta government to investigate ways to improve transportation challenges expressed by the forest industry. According to respondents, the cost and limited service provided by CN Rail on its northern line is leaving most companies with trucking as its only option.
    - Infrastructure upgrades to specific roads and bridges would assist the forest industry.
    - The fuel tax rebate program should be re-instated for the forest industry.
- The NADC encourage the Alberta Government to assist with developing off shore markets to reduce the forest industry's dependency on North American markets.

- The NADC encourage the Alberta Government to assist industry in market and product development research.
  - Respondents would like to see a green energy program that would assist with the installation of heat and power bio energy projects on sawmill sites.
  - Promotion of building with wood, especially in Alberta.
  - Invest in strategically focused, market driven innovation.
- FSC certification of more of Alberta's forests could provide market opportunities in Alberta: particularly the Lead Building Standards.

Conclusion

The NADC region has 85% of the province's forested lands and hosts 28 of the province's 36 larger forest company operations. The NADC region has many rural communities that are heavily dependent on a globally competitive and sustainable forest industry. Many respondents expressed that Alberta's forest industry and its sustainability require certainty of fibre at a competitive cost to the global market customers it serves. The report's recommendations will help the NADC consider potential support for the forest industry's current and mid-term challenges and opportunities.

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Appendix A Northern Alberta's Forest Industry Challenges and Opportunities Survey Results

	Topic	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
	Challenges																							
1	Electricity Transmission Cost Increases	x		x		x	x								x	x		x	x			x		x
2	Unpredictable Electricity Generation Costs	x		x		x	x								x	x		x	x					x
3	CN Rail Service Levels and Costs	x		x												x		x	x			x		
4	Labour Shortages	x	x	x		x	x		x		x				x	x		x	x			x	x	x
5	Land Use Framework Project - Potential Impacts	x													x	x						x		x
6	Declining Memberships in Alberta's Forestry Association		x															x						
7	Unsettled Land Claims restricting access to timber					x																		
8	Transportation						x	x																
9	Municipal Taxation Rates							x			x						x				x			
10	Curtailment in OSB Production causing increased costs to solid wood producers							x												x	x			
11	Mountain Pine Beetle Effects							x														x		
12	Boreal Caribou National Recovery Strategy Implications							x							x	x			x					x
13	Tenure Reform considered by SRD and negative impacts															x				x	x	x		
14	Cost of Capital Improvements in Alberta very high because of Oil & Gas															x								
15	Aboriginal Consultation Process																			x				
	Opportunities																							
1	Fibre Road Map Project - Recommendations	x														x			x		x	x		
2	Adding Value to Current Product lines	x			x															x				
3	Accessing New Markets (i.e. Asian Countries - China)	x				x	x								x		x			x				
4	Improvements to Infrastructure	x						x														x		
5	Eco System Services - Land Management Leadership				x						x													
6	Bio Energy/Chemical Production Diversification Projects				x	x		x			x				x		x	x	x		x			x
7	Promotion of Building with wood especially in Alberta.					x																		
8	Investing in Northern Communities - Improvement to Living Conditions							x			x					x			x		x			
9	FSC Certification could provide market opportunities in Alberta - Lead Standards										x													