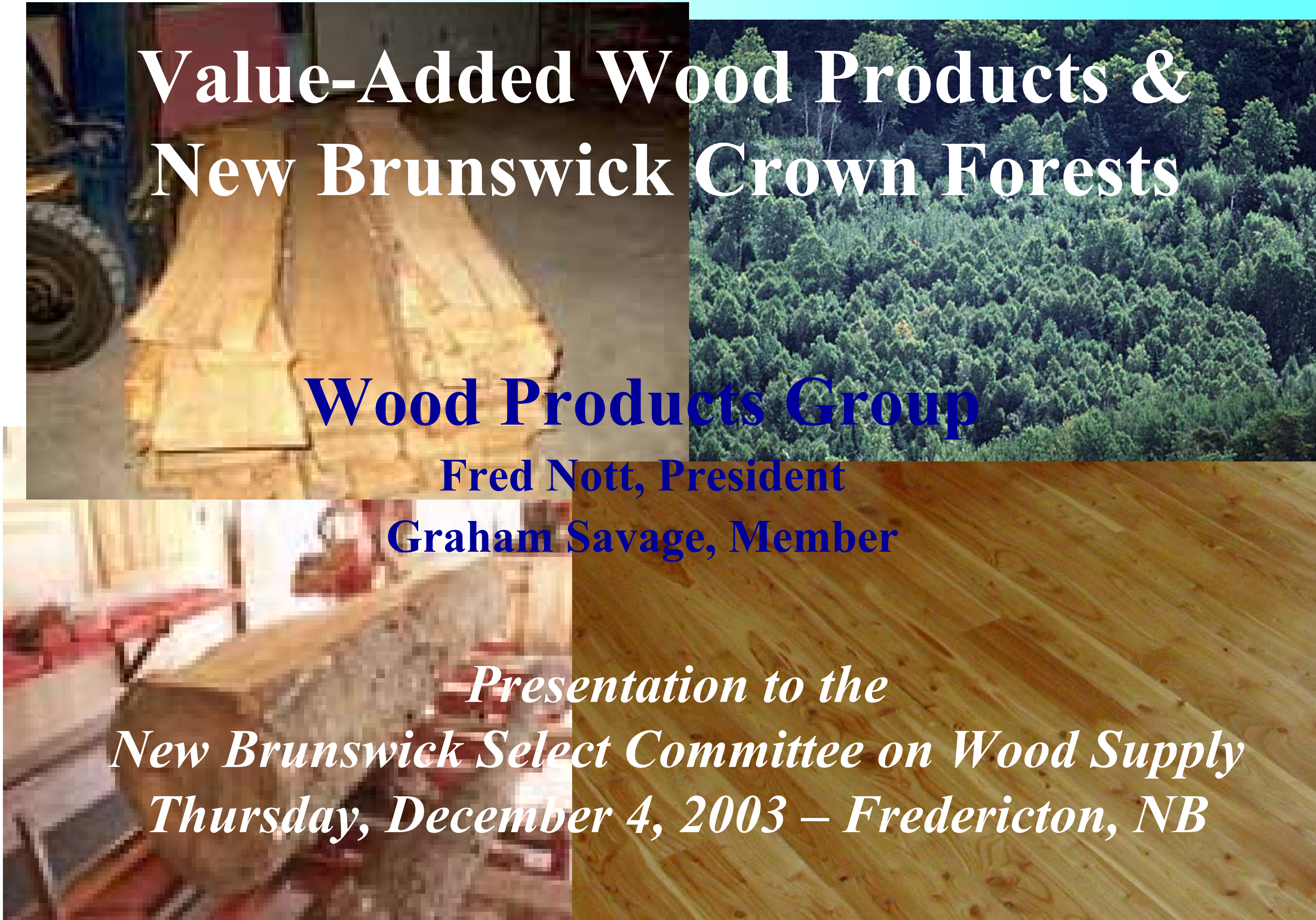

Value-Added Wood Products & New Brunswick Crown Forests

Wood Products Group

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Presentation to the

New Brunswick Select Committee on Wood Supply

Thursday, December 4, 2003 – Fredericton, NB

Introduction to the Wood Products Group

- The WPG is a not-for-profit association of value-added wood product manufacturers.
- Formed in 1992 and presently has about 150 member companies in the four Atlantic provinces.
- The majority of these member companies are in NB, where the Group is headquartered.
- WPG is the ***ONLY*** wood industry association that truly speaks for small independent manufacturing companies.

What are Value-Added Wood Products?

- "... a product in which value has been added to hardwood, softwood, or a panel product (e.g. particleboard, MDF, OSB) by further manufacturing or processing after the primary sawmill and kiln-drying stages"
  – can begin with roundwood, sawn material, waste or by-product, or a panel product;
  – does not include commodity particleboard, MDF or OSB (unless further processed), traditional firewood, Christmas trees or wreaths, weir stakes or pilings.

Comparison of Softwood Lumber and Value-Added Industries

Softwood lumber and value-added are fundamentally different industries:

SW Lumber

- Made up of a small number of large (often *very* large) companies
- Require large amounts of medium grade material
- Sells to cyclical global commodity markets, therefore more vulnerable to economic downturn.

Value-Added

- Made up of a large number of small (often *very* small) companies
- Require comparatively small amounts of select grade raw material
- Sells to a diverse range of export niche markets, therefore less vulnerable to economic downturn.

Comparison of Softwood Lumber and Value-Added Industries

SW Lumber	**Value-Added**
• Older companies, mainly 2nd & 3rd generation ownership	• Mostly young companies, 60% formed since 1985
• Shrinking from 10 to 6 Crown Licensees and from over 140 to 80 Sub-licensees today	• Growing from 250 companies in 1995 to over 285 today
• Industry is relatively simple and homogeneous	• Industry tends to be complex and diverse
• Tends to think in terms of "thousands of board feet per shift"	• Tends to think in terms of "number of tool marks per inch"

NB Value-Added Wood Products Manufacturers

Product	No. Firms	($ million)
Remanufactured products (stand alone plants)	10	125
Remanufactured products (primary sawmills)	20	60
Boxes, pallets, fencing and components	24	55
Shingles (incl. prefinished shingles)	8	20
Manufactured homes (log and post & beam)	12	9
Manufactured buildings (modular & panelized)	15	125
Engineered wood products	17	180
Cabinets, moulding & millwork	65	175
Commercial case goods/fixtures	11	55
Wooden furniture	30	70
Other specialty products	73	68
Total	**285**	**$942**

Some Key Facts About Value Added

- Value-added sector pays $1 in wages for every $5.38 in sales.
- Approximately 7000 New Brunswickers are directly employed by these companies.
- Gross annual payroll in NB of $175 million.
- Value-added jobs are all net new jobs, because sawmills still have to process the wood fibre before it can be input for the value-added sector.

Basic Facts About Value Added

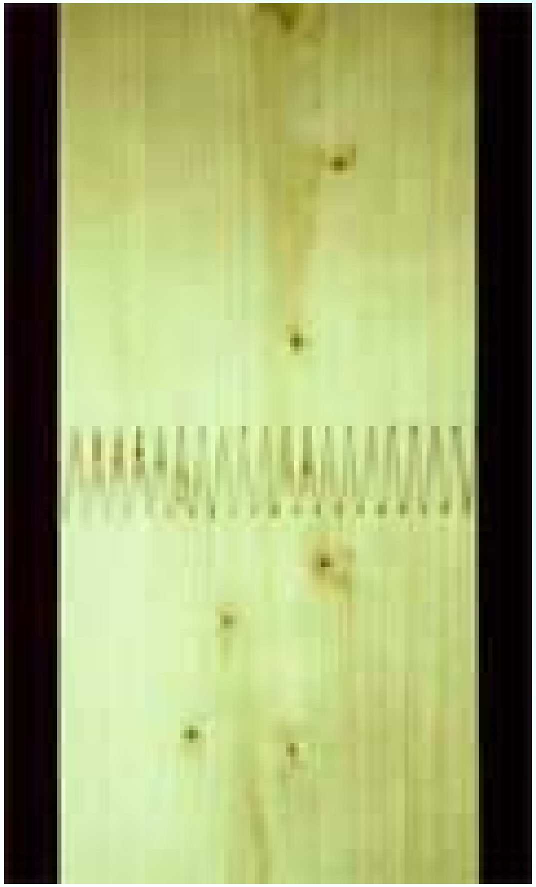
- The value-added industry on the whole generates 4.7 times more jobs per unit of wood harvested than does the lumber industry *(Price Waterhouse study)*

- Value-added manufacturing is environmentally superior to lumber, simply because fewer trees need be cut to achieve a given economic return

Categories of Value Added Wood Products

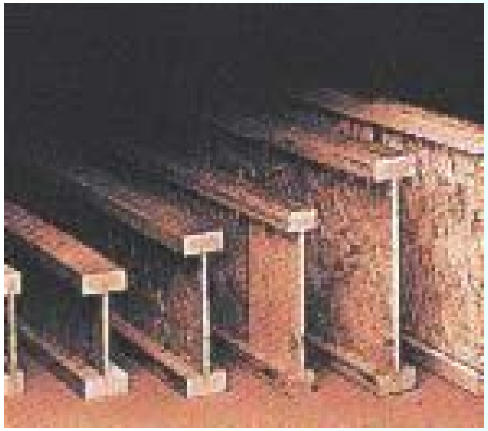
- Softwood and Hardwood Remanufactured Products
  - Products which are “closest” to the primary sawmill
- Structural and Engineered Wood Products
  - Products that require building code approval
- Appearance Products
  - Products sold on the basis of “eye appeal” to the consumer
  - By far the fastest growing segment of value-added

Softwood and Hardwood Remanufactured Products



- Relatively high capital costs of entering the business
- Very high sensitivity to raw material cost and availability
- Markets usually follow commodity trading patterns and tend to be vulnerable to economic cycles
- On average creates **<u>2 to 2.5</u>** times more jobs per unit of wood harvested than the primary sawmill sector

Structural and Engineered Wood Products



• High capital costs of entering the business, particularly for I-joists
• Testing and certification for building code approvals are lengthy and costly
• Creates **2.5 to 3** times more jobs per unit of wood harvested than the primary sawmill sector.
• Knowledge requirements are high
• Wages are above average
• Scope for expansion in structural and engineered products is good

Appearance Products

- Capital costs of entering the business range from low to moderate
- Even very small companies (ie. 3 to 4 employees) can be completely viable
- Raw material cost and availability are not usually a dominant factor
- Product design and marketing are extremely important
- Creates up to **20** times more jobs per unit of wood harvested than primary sawmills
- Dependent on export markets, primarily the US and Europe, for long term growth
- Employee knowledge & skill requirements are high, wages are average

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Where Do Value-Added Companies Get the Wood?

- Only about 35 of the companies listed above are Crown licensees or sub-licensees
- So far as New Brunswick policy on forest use is concerned, the other 250 companies don’t exist
  - All the wood they get is sourced on the open market through brokers & wholesalers, much from outside NB (NEUSA, Que, Ont., NS)

Value-Added in NB

- The value-added sector in New Brunswick lags behind the rest of Canada.
  - NB accounts for 6.6% of total forest volume harvested in Canada, but only 4% of the country's value-added wood product manufacturing
  - This can be attributed in some measure to our provincial government's almost exclusive preoccupation with the softwood lumber industry
  - The present "Maritime Exemption" from US softwood countervail duties adds to this pre-occupation with commodity lumber

Jaakko-Poyry's *__ONLY__* Reference to Value-Added Wood Industry

- In a report of 60 pages, the only reference to the species important to value-added industry is found on p. 52:
  – In addition to spruce/fir, there should be a provincial strategy and specific objectives related to each of the following species groups:
    - Tolerant and Intolerant Hardwoods
    - Cedar
    - White Pine and Red Pine
    - Hemlock

  – DNRE policies and procedures should be consistent and aligned with the timber supply objectives for each species group
  – There should be support to undertake intensive silviculture and research to improve the quality and supply of hardwoods and other softwoods.
- ***<u>The WPG agrees with these recommendations, but believes the Province of NB needs to go much further</u>***

NB Value-Added Wood Policy

- The NB Department of Natural Resources presently has ***NO*** policy covering the value-added wood sector
  – No substantive policy in this area for at least the past five years
  – Draft policies aimed at the value-added sector have been sent for the Minister's consideration on several occasions since 1997 or 1998. ***NONE*** of these policy drafts have been acted upon

NB Value-Added Wood Policy

- DNR mandate covers Crown licensees and sub-licensees
- But, the value-added industry is the exclusive responsibility of Business New Brunswick.
  - *The effect of this is to officially separate the value-added industry from sources of Crown timber*
- BNB does ***NOT*** at present appear to have a substantive policy toward value-added wood manufacturing.
  - BNB appears to be internally conflicted over its need to, on the one hand, support the value-added sector while, on the other, protect the softwood lumber sector from US countervail.

NB Prosperity Plan

- Jaakko Poyry should not be considered in isolation
  - It must be designed to work in concert with other policies such as the Prosperity Plan
- Value-added wood is one of the sectors specifically targeted in the Prosperity Plan
- NB government policy on Crown allocation ***CAN*** be formulated to ensure that the value-added wood sector does prosper as intended in the Prosperity Plan

NB Value-Added Wood Policy

- The Wood Products Group contends:
  - ➢The value-added industry has a legitimate claim on some portion of NB Crown timber
  - ➢That claim must be formally recognized and entrenched in DNR policy
  - ➢The WPG urges the provincial government to draft and implement new policies aimed at promoting the growth of the value-added sector, and designed to provide the small and mid-size companies in the sector with direct access to Crown wood

The New Policy Framework

- ✓ In 2001, the WPG commissioned a study (funded partly by the Province) to look at ways to stimulate the value-added sector through Crown wood allocation policy
- ✓ A copy of this report has been provided to you, and it's recommendations hold the key to achieving this goal