

A PROGRESS REPORT:

Making the vision a reality

FROM CRISIS TO COLLECTIVE ACTION:

A New Vision Emerges



NEW OPPORTUNITIES FOR SMALL BUSINESS

Community-based timber harvesting is important to the diversification and stability of the coastal industry. In June 2004, TimberWest announced plans to contract out the remainder of its logging activities to stump-to-dump contractors. Harvesting on TimberWest land will now be in the hands of smaller companies, which means each individual operation will be managed based on local circumstances.

Interfor made a similar move when it transferred one of its company logging operations to a local contractor on the Central Coast. The operation had been curtailed for more than a year and will now have an opportunity to get back up and running.

FAIRER, TRANSPARENT MARKET-BASED STUMPAGE

Forest policies are changing to benefit all British Columbians. The government has moved to a timber-pricing system that ensures competitive stumpage rates that reflect global market realities and local harvesting costs. Timber prices will be based on the results of auctions of standing timber – currently 11 percent of the allowable annual cut on the Coast. Twenty percent of the timber held by major licensees is being reallocated to help create opportunities for new entrants to the forest sector, including small business, value-added companies, community forests, woodlots and First Nations.

For more information:

Coast Forest & Lumber Association
Suite 1200, 1090 West Pender Street
Vancouver, British Columbia V6E 2N7
Telephone: (604) 891-1237
Fax: (604) 682-8641
e-mail: info@cfla.org

In just one year

Signs of hope

- **\$100 million in new investment**
- **Almost 10,000 people back to work**
- **Increased sawmill production**

Signs of caution

- **Rise in Canadian dollar is costing millions of dollars each year**
- **Ongoing softwood lumber dispute and a weakening U.S. market**
- **Fragile Japanese market conditions**

In the fall of 2003, BC's coastal forest industry was in a crisis. With more mills and timberlands idle than working, the industry was reeling from a 15-year downward spiral of job and financial losses.

Recognizing the status quo was not an option, three competitors – International Forest Products, TimberWest and Weyerhaeuser – came together to develop a shared vision of what a rejuvenated industry could look like in 10 years. In *Embracing a New Vision: Rebuilding BC's Coastal Forest Industry*, they called on all industry players to address collectively the problems devastating one of BC's top economic generators.

A year later, the industry is beginning to rebuild. More people are working. More reinvestment has taken place in the last year than in the last number of years. Hope and optimism about the future are being renewed. But we all know that a crisis 15 years in the making will not be solved overnight. Some of this year's gains are due to better market conditions, although these already show signs of weakening. Likewise the impact of an ever-strengthening Canadian dollar in an export-dependent industry is costing millions of dollars each year. The successful resolution of the softwood lumber trade dispute and long-term access to the U.S. market are critical, as is an improvement in the fragile Japanese market. These challenges cannot be underestimated.

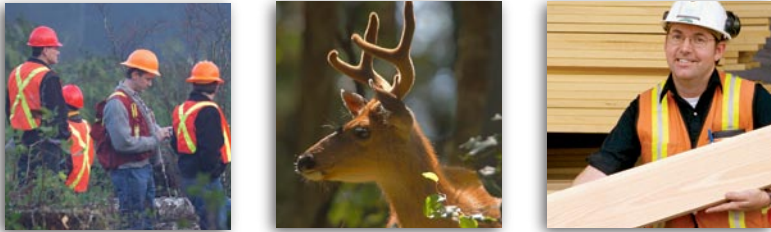
This one-year progress report highlights the important news of the last year – the structural changes being made among industry, government, labour and other stakeholders to revitalize the coastal industry. From changes to provincial forest policy and labour contracts to the way operations are run, the rebuilding of BC's coastal forest industry is now underway.

Our vision

1. **World-class mills**
2. **A vibrant, growing, value-added industry**
3. **Brand-name products and expanded markets**
4. **Respected worldwide for environmental leadership**
5. **Successful resolution of land use issues**
6. **World-class safety performance**
7. **More full-time, stable jobs**
8. **Workers leaving the industry are treated with dignity and respect**
9. **More opportunities for small businesses**
10. **Forest policies that benefit all British Columbians**

YEAR ONE – A PROGRESS REPORT:

Making the vision a reality



\$100 MILLION INVESTED IN WORLD-CLASS MILLS

Rebuilding the coastal industry will require nearly \$1 billion in new capital over the next decade. In the last year, the first \$100 million of this required capital has been committed to new projects, including:

- A new Teal-Jones Group small-log mill;
- Upgrades to Weyerhaeuser's Somass mill; and
- The modernization of Interfor's Western Whitewood mill into a state of the art, high-speed small-log facility, creating additional employment.

As BC's top resource economist Dr. Peter Pearse forecast in 2001, the transition to new, higher-productivity mills will not be without some short-term pain. But he also noted, "the jobs provided will be of higher quality and more secure" in the long term.

ACTION ON ENVIRONMENTAL LEADERSHIP

The past year has seen two major developments in the quest to establish BC and the coastal forest industry as a world leader in adopting innovative sustainable forestry practices. Participants in the Central Coast Land and Resource Management process reached a historic consensus. With the support of industry, communities, First Nations and environmentalists, work is underway to protect one-third of the 4.5 million hectare region, including large expanses of rainforest. Ecosystem-based management (EBM) throughout the remainder will guide future resource development and conservation.

Another step forward in maintaining a healthy industry and environment came with the January 2004 introduction of the Forest and Range Practices Act, which governs forestry operations in BC's public forests. The act requires industry to meet clear standards for a range of values, from water quality to wildlife, and from old-growth stands to soils. It also maintains or exceeds the standards set by the Forest Practices Code, which it replaces.

PROGRESS ON LABOUR COSTS

Although the Coast still has among the highest labour costs in the world, some progress is being made to make the industry more competitive globally. In May 2004, arbitrator Don Munroe, who was appointed to resolve last year's labour dispute, issued a new labour contract between industry and its primary union. While Munroe increased wages and severance for workers, he also introduced other measures to help the industry

"Achieving this vision won't be easy. We're already behind the competition and they're not standing still. But it can be done. We need to start by repositioning our products to increase value, reducing costs, and achieving land-use certainty."

Craig Neeser, Vice President, British Columbia Weyerhaeuser Company Limited

"Continued progress on reducing costs is imperative. It means winning back customers and generating the capital needed to secure the long-term future of the industry and the jobs and communities it supports."

Duncan Davies, President & Chief Executive Officer, International Forest Products Limited (Interfor)

become more cost-competitive in the long run. For instance, greater flexibility in shift scheduling means that companies can now operate more efficiently and begin to close the gap with competition in other parts of North America and the world. And as part of the commitment to building a social safety net for affected workers, compensation for IWA workers leaving the industry is now 42% higher than it was a year ago.

OPENING UP NEW OPPORTUNITIES

Long-term viability requires a diversity of companies, large and small, at work on Crown lands. Provincial forest policy changes to support this diversification of Crown tenure are gaining momentum with the support and involvement of major companies. The government has opened up 20 percent of Crown logging rights to make more wood available to smaller industry players such as First Nations, community forests, woodlot owners and new entrepreneurs. New economic opportunities created by tenure reallocation include:

- Weyerhaeuser's agreement with the Province to reallocate almost one million cubic metres of its coastal harvest has allowed the Province to invite Port Alberni to apply for a community forest and to reach a forestry agreement with the Tseshaht First Nation. More communities, First Nations and small business entrepreneurs will benefit as similar agreements are completed with other coastal companies.
- TimberWest sold the public land portion of its Southern Vancouver Island operation to the Teal-Jones Group, helping this smaller, privately owned BC company secure fibre.

ENCOURAGING A SAFETY CULTURE

The industry is embracing a culture that says every accident is preventable. With a goal of eliminating deaths and serious injuries in the logging sector, industry, labour and contractors came together under the Minister of Labour's Forest Safety Task Force to make 20 recommendations. A plan to implement those recommendations is now underway. Showing that it is possible to achieve zero incidents, Weyerhaeuser's Port McNeill Timberlands recently celebrated a record-breaking 500 days without an injury.

GROWING NEW MARKETS

Strengthening existing markets, winning back lost customers and creating new opportunities in emerging markets is vital to the growth of the industry. Expanded marketing efforts in the United States will help protect market share and build a foundation for growth once the softwood dispute is resolved. A new campaign launched through the Western Red Cedar Lumber Association is reaching out to architects and builders in the US and building significant new brand awareness among American consumers. Rebuilding the Japanese market for hemlock (which makes up 60 percent of coastal forests) is essential. In the last year, funding has doubled to promote the new Tsuga E-120 Grade brand designed specifically to meet the needs of the Japanese market.

In China – where the economy will double in the next decade – huge opportunities exist. The cornerstone of our strategy is the Dream Home China demonstration site, now under construction in Shanghai where BC products will be showcased. Additionally, the Coast Forest and Lumber Association has hired a person on the ground to equip architects, builders and trades people in China with expertise in wood-frame construction, and Interfor has opened a marketing office in Dalian, China.

A shared vision

The Coast Forest and Lumber Association (CFLA) has joined Interfor, TimberWest and Weyerhaeuser in seeking a new vision for the coast forest industry. As the advocate and regulatory issues manager for harvesting and lumber manufacturing companies who operate in BC's coastal forest industry, the CFLA is proud to play a key role in revitalizing this important economic generator.

"Forest reforms are about a more diverse industry and allowing timber to flow to its highest and best use. While some issues are still to be worked out, such as the data used for determining stumpage of second growth, we're moving in the right direction."

Paul McElligott, President and Chief Executive Officer, TimberWest Forest Corporation