

Stillwater Timberlands Community Advisory Group

March 27th, 2002

Minutes

Recording Secretary: Pam Dowding

Attendance: refer to attached sheet

6:00pm: Dinner

6:20pm: The chair opened the meeting and welcomed guests.

Introductions

Rod Tysdal introduced Paul Quinn, Timber Pricing and Valuation Manager from Weyerhaeuser's head office.

CAG members introduced themselves to guests.

Agenda

Agenda was accepted.

Review of Minutes from March 13th

The minutes from March 13th were reviewed and accepted. The minutes will be posted to the website www.cagstw.org

Review of Action List from March 13th

The action list was reviewed and several items discussed-

Several action items - on-going - progress being made

Meeting for education sub- committee was arranged

Shaw Cable report – Discussions on format for show– three minute commercial suggested, but members agreed to meet at break to discuss other options

Electronic map of the proposed Millennium Park has been approved for the CAG website

Report on Stan Hagen and Harold Long visit to Powell River

Member reported that he attended a Chamber of Commerce luncheon on March 22nd and noted that copies of the group's letter to Premier Gordon Campbell were handed to Harold Long, MLA and Stan Hagen, Minister of Sustainable Resource Management. Copies of the letter were distributed to members. Letter outlined the community concerns regarding loss of access to recreation sites and backcountry roads, as proposed by the Ministry of Forests. Mr. Long committed to work hard with the Mr. Hagen and government to ensure that main lines to recreation facilities remain open.

Facilitator noted that Harold Long's office had been contacted and that an invitation had been issued for a meeting with the Community Advisory Group. It was noted that Friday was the only day that the MLA would be available since he was in Victoria Monday to Thursday. It was noted that arrangements would be made for a Friday meeting. Suggestion was made that other interested persons could be at the meeting – (Tourism Powell River, Economic Development officer, Municipal Council, Regional District and Weyerhaeuser representatives). Member noted that it was important to stay focused on CAG's concerns. Suggestion was made that Harold Long and the Economic Development officer receive a copy of the Ministry of Forests publication that outlines proposed changes.

ACTION – Copies of M of F publication to be forwarded to other interested parties.

Education Planning update

It was noted that the sub-committee was planning their first meeting on Tuesday, April 9th.

Socio- economic study

Member noted that a draft report of a socio-economic study is being prepared by an employee of the Ministry of Sustainable Resource Management. The draft will be available to CAG for input and comment. Member noted the importance of community input. It was also noted that there was no budget for an LRMP in this area, and noted that the government had shifted its focus to the Squamish – Sea to Sky corridor for an LRMP. It was noted that the government was now looking at the Sunshine Coast Forest District for a socio economic study profile. Member hoped that something good for Powell River would come out of the study. It was noted that the timeline for preliminary draft report had been extended beyond March 31st

It was noted that someone from Shearwater would be willing to come to a meeting to present the Community Forest proposal when it is ready.

Mandate of the Community Advisory Group

Members discussed the mandate of CAG, and whether it should go outside the boundaries of TFL 39, block 1. It was noted that recent items had been on the agenda that did not fall within the boundaries of TFL 39. (Millennium Park, Phillips Arm, Atrevida Loop) It was noted that some members were concerned that some items were not within CAG's mandate and should not be discussed. Facilitator noted that the Terms of Reference for CAG states that the mandate is to:

Provide input to the development, implementation and continual improvement of the Sustainable Forest Management of Stillwater Timberland, Weyerhaeuser.

To improve communications and understanding between community sectors.

Member noted that if specific changes were to be made to the mandate of the group, changes have to be brought forward and consensus has to be reached. Discussion followed and members noted that it was not advisable to "build a wall around" TFL 39 block 1, and that other parts of the community were also owned by Weyerhaeuser. It was noted that since items outside the TFL had already been brought to CAG, it was advisable for the group to follow through with help and advice when requested. Members noted that there were some concerns on what they were expanding on, but noted that if Weyerhaeuser was involved in these (other) areas, then they (CAG) could not ignore them. It was noted that the Millennium Park, even though outside the mandate, was a good example of a win-win situation for Powell River, and that CAG had shown its support for the project, by including it in their values and goals. Member noted that there was no where else to go for help if someone found themselves at odds with the company, and that CAG should be willing to help whenever possible.

Weyerhaeuser responded that they did not want to see CAG working "in a vacuum" and that if any issues arose that involved Weyerhaeuser, then it was reasonable to hear them.

It was noted that some issues were not in CAG's mandate, such as the Okeover Arm oyster farmers / Eco-tourism operators' concerns.

Ombudsman

Suggestion that an ombudsman's position could be filled to act as a liaison between Weyerhaeuser and the community. It was noted that the suggestion was made but was not included in the CSA values and goals. It was suggested

that the ombudsman item should be put back into the CAG's values and goals document.

Terms of Reference Review

It was noted that the Terms of Reference committee would meet before June and review mandate and other items brought forward.

FSP – Public Review period

It was noted that the sixty-day public review period ends on April 18th. CAG members will draft a formal letter to be put on record before that date that will state the group's differences and concerns. Member will bring first draft to the next meeting.

Phillips Arm

Notice of TV presentation that may be of interest to members on Grizzlies in the Phillips Arms area April 23rd – Knowledge network.

BREAK 7:28 – 7:40PM

Paul Quinn – Presentation

"State of the Nation" – Green paper review

Paul Quinn, Timber Pricing and Valuation Manager gave a PowerPoint presentation entitled "State of the Nation" and explained the points made were his personal opinions, not those of Weyerhaeuser.

Paul thanked the group for the work that has already been accomplished for the Pilot Project, the new Forest Stewardship Plan and CSA certification.

It was noted that copies of the presentation would be available to the group electronically and hard copies would also be available.

Overview of items discussed from the "State of the Nation" presentation

Price Waterhouse Coopers Data – 2000 & 2001 H1

Coastal Logging a\& Sawmilling has \$4 Billion

Cost of Capital 10-12% (\$400 – 480m/yr required)

Industry has lost over \$750 million in the last 5 years

2000 – Logging (\$52million), Lumber \$63million

Delta $\$30/\text{m}^3$ - $\$20/\text{m}^3$ logging and $\$10/\text{m}^3$ or $\$40\text{Mfbm}$ sawmilling

2001 H1 – Logging (\$36million), Lumber (\$43million)

Total logging cost $\$101.90/\text{m}^3$ – 2000, $\$106.60/\text{m}^3$ – 2001 H1

Conclusion – regarding the above data, was that Weyerhaeuser has to reduce costs by 20%.

Peter Pearse Coastal Report "Ready for Change"

Industry in crisis -

Declining earnings, inadequate return on invested capital, deteriorating plants and equipment, uncompetitive costs, underutilized capacity and declining raw material supply – leads to Mill shutdowns and displaced workers

The Changing Resource Base – Costs increase as logging in remote, difficult terrain is necessary. Transition to 2nd growth – logging and manufacturing equipment

The Harvesting Sector – Employs 11,442 people, 70% of manufacturing costs is for logs.

Impediments to Industry – Controls on the rate of harvest – Utilization standards – Restriction of Forest practices – Stumpage system – Tenure system

CAG member commented that there was no social safety net for communities, and that unless a healthy company exists, there could not be a healthy community. Concerns were noted that in communities such as Gold River, Bella Coola and Ladysmith, major unemployment and decline of the communities had already happened.

Question was asked regarding the fibre supply agreement that Weyerhaeuser has with Norske Canada

Answer - It was noted that the agreement with Norske Canada was a good one that was working well even though the mill does not cut logs or use Weyerhaeuser's pulp, they still buy from Weyerhaeuser.

Question from member – Is there a strategy in place for the changing market?

Answer – Japan now accepts kiln-dried hemlock from Port Alberni –

Question – Why wasn't there a plan or vision for the drying of hemlock when it was required to be dried? Management should have been ready with the technology for drying

Answer – Hemlock is very wet and it was not required to be dried before, then demand changed for kiln-dried. Hemlock can still be sold green. Costs are higher when dried.

Market value of hemlock is \$60 a meter, and it costs \$100 a meter to produce.

Member noted that there is a value-added mill (Bayside) that did \$40 million business a year in wet hemlock.

Manufacturing – employs 12,647 people. Coastal mills are closing for three main factors –

1. Declining harvest
2. Excess existing capacity
3. 2 shifts vs. 3 for competition.

Shutdowns have occurred in spite of government regulations (appurtenancy, log export restriction)

Markets

– Foreign barriers to exports –

SLA, CVD/AD Europe (green wood), Environmental, Japan ("97 Kobe earthquake

building code changes)

Domestic Barriers to exports –

Logs imported freely from Alaska, Alberta and elsewhere

Government restricts log exports – permit

Crown – "fee in lieu of manufacture"

Artificial barriers to exports lower the return on our forest resource and are an irritant in the trade dispute with the U.S.

Question - Member asked about the machinery used, why outdated and not up to date with the rest of the world?

Answer – Didn't foresee or compete with what the rest of the world was doing, 74% of logs were old growth and machines can't handle. It was noted that they (Weyerhaeuser) were currently undercutting the AAC.

Question- What plans are being made for the future?

Answer – World trend is to the manufactured lumber – There is a new facility in Ontario, where there is a cheap lumber supply. BC is the highest cost in the world.

Question – Any investment in that on the coast?

Answer – No - Have to find a cheap, low cost producer.

Question – Any research being done in BC for manufacturing?

Answer – There is none in BC. Weyerhaeuser had a research technical centre that was paper related in Federal Way that employed 850.

Responsibilities of Government and the Private Sector

Five key attributes of a healthy, efficient and sustainable industry:

Timber production is within sustainable capacity of forests

Size and capacity of manufacturing sector is consistent with available timber supply

Structure and technology allows for maximum return on commercially used forests

Capable of responding flexibly to changing technologies and market conditions

High quality employment, that is stable relative to the market

Industries Potential

AAC likely to decline but harvest level unchanged from current undercut

Mills – 11-14 small log mills required for 10M m³ 2nd growth harvest; half of remaining old-growth mills required

\$30-35/m³ delta in current margin required (12% cost of capital)

Coast Industry is in Critical Condition

Government can help by allowing the industry to be more flexible to respond to market forces

Today key stakeholders recognize need for major change and there is more "considerable agreement on the broad direction of needed change".

Softwood File

A brief history was given on the softwood lumber problems on the coast –

Softwood lumber agreement expired March 31st, 2001

Countervail duty preliminary – 19.31%

Anti – dumping prelim – Cdn average 12.6%; Weyerhaeuser 11.93%

Government to government negotiations began in September, 2001

BC's October 2001 proposal – market principals timber pricing

Bottom of the market problem – raise minimums, increase lag

Stumpage tied to industry rate of return

Essentially an exchange rate problem - \$1 Cdn = \$0.62

Coast caught in a 2x4 problem

Weyerhaeuser's Coastal Competitive Reform Proposal

A review of the above "green" paper. Key issues that were discussed were:

Transaction Evidence Pricing require three key components:

Additional volume required – 30-40% of harvest – Weyerhaeuser will offer 25% of its Crown harvest rights for the establishment of this auction market.

Volume can also come from the undercut (12-15 Million m), SBFEP, FN and community tenure.

Compensation – Crown lease – timber and non-timber, 100 years term, no stumpage, Crown land, FPC, freely transferable, BC export restrictions

Removal of private land from the TFL

Bill 13 reform – limit term (3 years), lengthen probation period (1 year), grandfather existing but new contracts non-renewable, eliminate entirely

Auction Mechanism- independent "Timber Sale Exchange" – licensees, Government, contractors, communities, labour, First Nations

register bidders

selection of sales

advertise sales

award sales

compile database of sale characteristics

send residual funds to government

Regulatory changes required

Cut control – no annual or 5 year minimum

Eliminate appurtancy and mill closure AAC reduction

Bill 13

Increased bid deposits from max 10% to 25%

Bid deposits are taken for non-performance

Tenure Transfer Takeback (5%)

Member commented that Bill 13 was in place to guarantee contractor protection, and was concerned that contractors from other areas had taken jobs from local employees.

Weyerhaeuser noted that there was a cost to Bill 13, and guaranteed local contractors a % of the cut levels and 12-13% profit. Member noted that Bill 13 cut out the opportunity for new local contractors to come along.

BC Government Proposal – Early December 2001

It was noted that twenty-one specific changes were proposed- grouped into three categories

Timber Pricing – Timber Sale licenses will be determined by competitive auction with highest bidder awarded the license

Stumpage for long-term tenure (TFL, FL and others) will be based on the prices of the competitive auction of timber sale licenses Example – Hem/Bal Pilot market pricing system (MPS)

Timber will not be sold below the M O F's incremental cost of managing commercial timber harvesting

Elimination of cross-subsidies – expect a big drop in the AAC if implemented

Question – If proposal goes through, would hem/bal be logged?

Answer – Review of AAC would be taken into account

Comment from member - – Definition of "local" needed and Social-planning issues to be considered.

Answer – Phillips Arms could be sold-Port McNeil could get a community forest, First Nations and Value added small business would all be competing

Forest Tenures

Award timber sales licenses – expand auctions from 6% to 13%

Award long-term tenure to the highest bidder (partial exemption for First Nations)

Sub-divisibility of TFL's and FL's subject to the approval of the Chief Forester if sub-division does not compromise forest management – Intended to create a more active secondary market and create new opportunities for firms to enter the industry

Transfers of TFLs, FLs and TLs to be made freely without conditions

Eliminate the tenure transfer takeback 5%

Subject to competition policy

Mandatory Requirements

Eliminate minimums at 5 year and annual cut control requirement (5 year max in place to address sustainability)

Eliminate requirement for licenses to remove and process logs – utilization requirement for forest management objectives – biodiversity, health, silviculture and fire management – 35m³/ha old growth; 10m³/ha second growth

Eliminate appurtenancy and timber processing requirement

Eliminate mill closure requirement – labour and other notification is still required

Eliminate job protection plan

Question – If the BC government proposals are put through, how beneficial would they be for forest dependent communities? Nothing to suggest help for communities in the document.

Answer – Companies would be on a more stable footing – more revenue – 50% hem/bal

Comment – Market revenues fluctuate for government, market shrinking –

Questions regarding Bill 13 – Members expressed an interest in learning more about Bill 13 –

Answer-More information will be made available if requested

BC Proposal – Assessment of Paul Quinn

Required volume - <10% of Coastal harvest is too small a sample- Weyerhaeuser suggested 30 – 40%

Marginal pricing expected

SBFEP volume is not representative of remaining volume for: species/grade mix, logging chance, geographically

Changes to cutblock blending, minimums and utilization will have huge effects on the Coast

Sub-divisibility of tenure could allow for the formation of more operational efficient tenure

70% of Green paper suggestions?

Softwood Negotiations

Summary

Canada and Provincial Government were only really negotiating with the US Gov't not the Coalition of Fair Lumber Imported

At the 11th hour, the US government suggested that BC use 45% auction volume Interior and 25% Coastal auction volume

No agreement on binding arbitration

End Analysis, we were never close to a deal

Result Final CVD and AD rates of 19.34% and 9.67% respectively for a combined rate of 29.1%

Weyerhaeuser rate 35.17%

May 6th International Trade Commission n of US to rule on injury

Cash payments for US shipments expected to commence May 13th

Discussion of the above results of the softwood lumber talks – questions on whether Canadian imports were hurting US industry – ITC will rule on May 6th.

Other avenues to be pursued – WTO and NAFTA could be involved but the process could take up to eight years to reach a settlement. In the meantime, payments made would not be refundable if another agreement was reached. It was noted that the news for BC was very gloomy.

Where do we go from here?

Canada to pursue WTO and NAFTA challenges

US Gov't will collect the tax - \$2.5 - \$3 Billion Cdn.

US companies can get this money – but unlikely

For the Coast:

At TLA convention in January – deJong prepared to move forward with implementing policy changes on the coast, irrespective of US trade settlement

ITC has to find injury for Western Red Cedar

Doman is expected to be the first casualty

Market Design Inc. – US bases auction theory company has determined that 15-25% auction volume required (Interior)

New TEPs equation – MPS2 (98-2001 data)- expected soon (June)

Member read Press Release from John Reynolds (Federal Government) –

John Duncan – Federal Government to post bonds – Members asked would this be seen as a subsidy?

Members asked how many companies can afford the duties of 29.1%, and what will happen to prices.

Members asked for an explanation of the auction-based system.

CAG noted that they could only hope that a solution could be found and asked what the industry has done and what Weyerhaeuser's involvement has been so far.

It was noted that a lot of work had been done behind the scenes, letters written from Steve Rogel etc. It was noted that the events of September 11th had been a problem and had slowed down negotiations for a time.

The Chair thanked Paul for the presentation. Paul noted how diversified the group was with varied backgrounds.

Shaw Cable sub-committee meeting

ACTION - Sub committee to arrange meeting to discuss CAG presentation on Shaw cable community network.

Education sub-committee

ACTION– Sub –committee to meet on Tuesday, April 9th at 9:00am.

Update on Log Supply Process

Member asked how the new log supply process was working, since someone was told "no logs available". It was noted that some logs had been sold recently to a local businessman.

Member asked about availability – Lots available now, local businesses should call Keith Shillito for specific grades. Suggestion was made that a monthly

summary be made available to CAG, showing what's been sold to local businesses.

ACTION – Weyerhaeuser will provide a monthly summary to show volume of wood

sold (no prices)

Next meeting April 10th – Coast Hotel – 6:00pm

Meeting adjourned 9.08PM

Stillwater Timberlands Advisory Group		
March 27th 2002		
Attendance		
Name	Position	Member Seat
Present		
Eagle Walz Chair	Primary	Recreation
Ken Jackson - Vice-Chair	Primary	Recreation
Michael Conway-Brown	Primary	Recreation
Joanne Cameron-Nordell	Primary	Local Business
David Gabelhouse	Primary	Local Govt
Kathleen O'Neil	Primary	Education/Planning
George Ferreira	Primary	Recreation
Peter Ranger	Primary	Forest Dependent
Jane Cameron	Alternate	Recreation

Mike Robinson	Alternate	Education/Planning
Bill Maitland	Alternate	Contractors
Doug Fugge	Primary	Youth
Sonny Rioux	Primary	IWA
Andrew Pinch	Alternate	Tourism
Absent		
Bill Duff	Primary	Citizens
Karen Duff	Alternate	Citizens
Paul Holbrook	Alternate	Forest Dependent
Rory Maitland	Primary	Contractors
Taylor Holbrook	Alternate	Youth
Lorne Marr	Alternate	Recreation
Ian Fleming	Alternate	Local Business
<i>12 seats in attendance</i>		
Resource – other		
Rod Tysdal	Weyerhaeuser	Stillwater
Ray Balogh	Weyerhaeuser	Stillwater
Doug McCormick	Weyerhaeuser	Stillwater
Colin Koszman	Weyerhaeuser	Stillwater
Paul Quinn	Weyerhaeuser	Guest speaker
Janet May	Guest	
Member of Public guest	one	

Cathy Bartfai	Facilitator	
Pam Dowding	Secretary	