

**CSA Community Advisory Group
to Western Forest Products
October 10, 2007
Minutes
Westview Pizza**

Attendance: refer to attached sheet

6:02pm: Meeting called to order

Safety Review

Facilitator noted fire exits and first aid attendants in case of emergency. Meeting place in case of emergency was noted.

Welcome and introductions of Guest

Chair welcomed everyone and introduced Rick Jeffries, CEO of Coast Forest Products Association. Rick introduces himself and gives CAG an overview of his background.

Code of Conduct

Code of Conduct from Community Advisory Group was noted.

Plutonic Visual Assessments

Plutonic visual assessments posted on walls around the room. CD is available at WFP if members are interested in viewing. File is large and animated so perhaps people might prefer to view at WFP rather than load it onto their own computers.

Review and Acceptance of Agenda

Agenda was accepted.

Review of WFP Minutes from June 13th 2007

Minutes were reviewed and accepted.

Communication with the Public

Copies of recent correspondence were provided and reviewed.

- CAG letter to PRPAWS dated June 21st, operational information update regarding the Sunshine Coast Trail
- CAG letter to PRPAWS dated July 12th, operational information update regarding the Sunshine Coast Trail
- CAG letter to PRPAWS dated August 16th, operational information update regarding the Sunshine Coast Trail
- CAG letter regarding the Alaska Pine Trail
- Letter to Plutonic Power Corporation and response regarding information provided by PPC representative at recent WFP Forest Tour.

Guest Speaker: Rick Jeffery, President and CEO Coast Forest Products Association

Rick thanks and commends members for their participation.

Safety:

In 2004 there were 43 fatalities in the industry across the province. This was a final wake up call to the industry that its culture was badly flawed and it needed to change. Rick sits on the BC Forest Safety Council and has had the opportunity to be involved in developing a strategy across the province of what the companies were going to do to change. Since 2004 the safety record has improved dramatically. There has not been a faller fatality in almost 2 years. There were 2 fatalities on the coast last year. Serious injuries have been reduced by 31%.

What has changed? Culture. CEOs have become engaged. Companies have looked at their safety policies and procedures and revamped them. The BC Forest Safety Council has instituted a program called Safe Companies. It is recognized that the industry has changed, especially on the coast, using many more contractors. Many are small contractors. The Safe Companies program was developed to certify large, small and independent companies. Everyone that goes into the woods has a safety program and understands what their responsibilities to themselves and each other are. 2300 companies are registered and 200 are certified. Advocates help smaller companies if they don't have the time or resources. There is now a faller certification program.

Economics:

60 – 65% of coastal product is sold to the US. US housing start at the end of August dropped 19% year over year. 1.33 million housing starts. The lowest in 12 years. Sub prime mortgage crisis has impacted negatively. There is 10 months of inventory of new and used houses. Reduced demand. Sawmill closures announced across the US and in Canada. Imports from Europe have tailed off. Reduced price.

20 – 25% of products go to Japan approximately 1.2 million. There was some steady rebounding until 2 months ago. A couple of building scandals – were architects under designed and under built some high-rise buildings. New building standards law with more stringent requirement for engineering and design which favors BC products but has stalled issuance of permits as adjustment to the new system transpires. 23.4% drop in housing starts in July.

Canadian dollar at 102 doesn't help. On the coast for every penny increase in the dollar costs the industry 40 – 50 million dollars. High dollar appears to be here to stay. Most business planning for 2007 was based on a 93 cent dollar so it has had huge impacts for operations.

Softwood lumber – option A region for the coast – at the price it is now we pay a 15% duty on lumber shipment into the US. Further eroding our financial position (not profitability - as this industry has not made much profit over the last decade average return on capital is 1.8% (market asks 8 – 12%)).

Strike:

The industry is not in any position to absorb any additional costs. There have been some recent discussions, but nothing imminent coming out.

Question: Aren't the hours of work one of the main stumbling blocks for the strike? I believe there is concern about safety?

There are two shifts that the union is having problems with. The 6 and 3 shift and the 4 and 4 shift. It affects approximately 700 of the 7000 USW employees.

Regarding safety – the safety protocol says if you do task X you take steps 1, 2, 3, and 4. If you do this you will be doing the job safely. This goes for the first hour of your first shift and your last hour of your last shift. You should not cut corners. We need to instill this in our workers, supervisors, and managers. It is a cultural thing.

As for the 10% affected by the contentious shift - Lots of people work 12 hour shifts – the pulp and paper industry does. Hour of work has become iconic and as this only affects 10 % of the membership we're a bit flummoxed as to why union leadership put it up there. When this came in with the 2003 agreement it took about \$10,000 out of workers' pockets so perhaps that's the underlying issue. Also, some operations brought in different shifts every 6 weeks at first while they tried to figure out how to make it work and angered employees as they couldn't plan their lives.

Question: Last summer Marv Clark from FP Innovations spoke to us. He told us that Canada and BC in particular cannot compete with places like Chile in the Asian market. Would you care to comment on that?

We face stiff competition from places like Chile and Brazil because they have low wages, they have a lot of new investment (capital, including Canadian capital, is going there because you can get a return on your investment) and because the trees grow fast (8 – 12 year rotations). It depends what you want to compete with them on. Coast Forest just asked Russ Taylor, a well known market guy, to chart out what market we should be in during the next 10 – 15 years based on the advantages we have on the coast and how can we compete. We identified the markets and we have a future. We can compete. The markets we need to look at are: cedar (from a commodity, semi-commodity, and niche market basis) – it is a unique species with unique characteristics, second growth, and commodity products – mainly Douglas fir with a view to hemlock also. Hemlock has some unique and promising characteristics. It is very dense and strong. Japan likes strong and dense products. Hemlock has issues regarding drying and we have high logging costs. Douglas fir is promising for veneers plus perhaps opportunities for engineered wood products. Can we compete? In some things we can and in some things we shouldn't. The most obvious example on the coast is pulp – we should not be in the pulp game. Bio and green energy are great opportunities. Pulp and paper mills will hopefully refine themselves into biorefineries/papermakers. The question is can we attract the capital to invest in this transformation.

Minutes

Question: I've heard that our adaptability into world markets could be a cultural thing due to where the corporations go for financing – down to New York – they are not too interested in our industry branching out into China and India. It's hard to get money because of the American mindset, a lot of our CEOs and industry leaders are American and are thinking North/South rather than expanding outside the continent. Is there any validity to it?

It's a good myth. This is a good segway into my next topic.

Policy:

Canadians love to bash corporations. I don't know why. I've worked for myself, I've worked for small operations, and I've worked for the corporation and I've never understood why we hate corporations. Here's an example – International Forest Products, a BC company that started here and is still here including its head office, had the audacity to own a sawmill in the interior and then buy three sawmills in the US and do you know what I heard about that? They're not investing in BC. Right? No, wrong. What they did was invest in their company and diversified. They've made themselves into a world class organization that is doing okay notwithstanding all of the market stuff that I just went through and somehow we view this as bad. Capital knows no boundaries. It comes from all over the world – not just New York – they are going to look at business opportunities and say if I put my capital into this business what are the risks and what will my return on investment be? The risk in BC is you don't know if you will be able to realize because the changing face of forestry continually erodes the companies' ability to access the fibre, and we have high costs. Since the revitalization plan from 2003 was introduced and some of the business constraints were removed there have developed a diverse range of business models on the coast: WFP – margin based lumber producer, IFP – solid wood company, Timberwest – land managers and real estate developers, IT – land managers and sell logs, and Terminal Forest Products – cedar business. This is good for the sector. Capital will come if you make a good business for capital.

Coast Action Plan – Co-chaired with Doug Conkin, Deputy Minister of Forests. Plan will not be released until the labor dispute is over. Quite frankly, there is not a lot in the plan. He likely doesn't want to release the plan because at the same time he wants to release his highly contentious log export policy. Coast Action Plan: Regulatory streamlining, second growth policy restraints have been modified,

Question: Based on that – if you say that they can cut what they want of the second growth - does that mean the age of second growth will be reduced?

Yes, it will be more of an economic rotation.

So that means you can cut more cedar because it is value added. Where I'm going is if you let them over cut cedar like it already is on most of the coast how

Minutes

are we going to get it back? If you let them do what they want to do they are going to take the most profitable right off the bat.

Yes, they are profit oriented but let me tell you that we are not over cutting cedar on an absolute basis. If we had been cutting the entire AAC we would be in line with sustainability, but we haven't been cutting the entire AAC. We haven't been cutting the economically challenged hemlock.

So, you're saying you aren't cutting it because there is no money in it.

I don't know about you but I can't go month after month without balancing my check book. That's not sustainable. We are actually not over harvesting cedar – we are under harvesting hemlock.

Value added is another difficult thing to discuss. Why are we not doing more value added here? Yes – if we can compete.

Some people can.

And they are there.

But they can't get the timber because it is locked up by the big boys.

Another myth. In 1991 I had to look at all the value added licenses for Dan Miller and assess whether they were getting more fibre into the value added plans. It turns out they weren't. The little value added guys expectation was to have a big sawmill give him a small amount of lumber for a lower price than it gave some big operation in China that wants a large amount of product. The competitive advantage lies with China. We need to optimize our resources by processing them where the competitive advantage lies. It makes sense if it uses less units of energy etc. but this doesn't appease someone who believes the job should stay here. Really, that job shouldn't stay here, another job should.

Comment: The big companies haven't made money here since 1982. Noranda bled MB dry. What I'm seeing now is lots of little companies coming up and making money. They are really good at finding their own markets.

They will survive without government help.

They've never had government help

They have a different tax rate than a big corporation. They get lots of help in different ways. In this world if they have a business model that works, have financing in place, a product, and productivity there is nothing to stop them. We don't control the fibre anymore. 20% was taken away from the licensees in 2003. We now have 60% of the crown fibre. The other 40% belongs to small business and first nations. Private lands companies that don't have sawmills – we only have 40% of that.

Minutes

That was by design. Those companies got rid of their sawmills so that they could export raw logs. We won't be getting those logs. They can send those logs down to the states without the 15% duty we have to pay on our lumber.

We were working with the federal and provincial government to try to get into the softwood lumber agreement the provision that said that any lumber produced from private land logs shouldn't be subjected to the duty. The Americans didn't go for it, but did say we would negotiate on it later. We are negotiating on that as we speak. As far as the log thing goes – shouldn't you sell your product to the highest bidder?

Some logs go to the States, to Korean, and to Japan because we don't have the facilities here to convert those logs. Our mills are big headrig mills designed to cut old growth. Some have been converted and we are now able to compete more and more for those logs.

WFP sold New Westminster because the return on real estate there was far greater than any return they would have got from the sawmill plus they wanted to redirect those logs to their other sawmills and run them at full capacity.

Comment: Maybe they shouldn't be in the sawmill business. Contractors could run them more efficiently.

Most of them are. If I was a forest company on the coast I wouldn't own any capital I'd contract it all out. I'd just sell the product. My CEOs don't agree with me obviously.

Comment: After all of these years you would think these big companies would have switched to second growth facilities.

They have. That's the only place investment has gone in the last 5 years.

Question: Do you think the small log mills on the coast will be able to compete with the interior?

Yes, I do because in 3 or 4 years the AAC in the interior will drop something around 25 million due to the pine beetle infested wood. That represents 7 – 10% of the North American market. Who's going to fill that void? We need to gear up so that we can sell second growth hem/fir and Douglas/fir into those SPF markets. We are looking at the policies, gearing up the mills, and researching so that we can take advantage of that void.

Question: Does BC import dimension lumber and why?

Yes. Species preference. Yellow pine, European wood.

Supply Chain:

Big companies have supply chain relationships with sales outlets. Local companies can't get their products into big sales outlets.

Comment: When we were negotiating with the Americans on softwood lumber super stumpage was put in to appease the Americans and when the deal was signed the stumpage was never repealed.

That's not what happened. I was the lead negotiator for the coast.

Question: You said the high cost was largely labour and rugged coastline making it hard to get the wood out. Have they ever thought over reducing the stumpage or royalties? Does it really matter?

Yes, the coast had MPS – market pricing system - put in place in 2004 as part of the Forest Revitalization Plan. The interior did not. It was still working under the old system – comparative value pricing system. We had a couple of years with MPS and were happy with it. We argued for and got the ability to update MPS periodically so that it could reflect changes in the global market place as well as in the local logging industry. So, just recently after 18 months of analytical and collaborative work with the Ministry of Forests we introduced an update to the 2004 MPS. This was made possible under the softwood agreement because we negotiated it. The Americans didn't want the interior to change to MPS because the comparative value system was bad for the interior guys but we eventually got the same thing for the interior.

Land use is a big deal around the Sunshine Coast. You are clambering for a land use planning process. Be careful what you wish for. One in six hectares of forest land on the coast is used for the timber harvesting land base (THLB). The other five are used for scenic, wildlife, biodiversity, and water, etc. On the coast we now have 3 million hectares of parks and 2.7 million hectares timber harvesting land base. According to joint industry / MLF numbers the impact of land use planning and location of old growth management areas inside the timber harvesting land base is 13 – 17% of AAC. There is a desire for additional parks, first Nations areas, eco system based management, species at risk act, fish sensitive watersheds, community water sheds, winter range, general wildlife measures, independent power producers, recreation, and residential needs – all will have demand on forested land base. Each hectare taken out of production costs BC \$266,000 over the rotation of that piece of land (approx. 70 years). We think that is a high price to pay. First Nations has to be taken care of first. Second, there needs to be a ledger to keep track of what is being taken out for different needs. Old growth is all being taken out of the THLB – nobody is looking around and seeing that there are areas of old growth outside of the THLB that could be considered part of the old growth management area. Shouldn't we take a more holistic view and say couldn't this hectare be used for more than one use? Once we have a ledger and start to understand what is going on, we need to focus planning and optimize land use plans. We should eliminate single purpose land use, reduce overlaps and optimize land use. Second growth industry could be comprised of protected areas, mixed use areas, and intensive

Minutes

used area secured where we can operate to get some stability to encourage capital investment.

Comment: It sounds like you are a proponent of the One Plan Project that we had here about six years ago. There were five areas – the bulk of the land base was timber zone. It was a pilot project – it went on for five years it is over.

Values are dictated by society. If we want to operate then we must do this, this, and this. One of the challenges that faces the industry today is that in the 60s and 70s we were the engine that drove the economy, we were a global powerhouse, that changed starting in the 80s but society's expectations for the industry haven't kept up so they demand the same set of social goods and services from the industry as if the industry was still a global powerhouse. We're not. Nobody cares about us anymore. This strike would never have happened in the old day because it would have shut towns down. We've changed but peoples expectations haven't changed as rapidly.

Question: In the long run do you see independent power producers having a significant effect on productive forest land.

Not huge. PPC needs their power lines. They are going to need some kind of water management which poses a little bit of a threat or challenge. I was recently at a meeting with the Inter Agency Management Committee. The Energy and Mines representative and the Tourism representatives were relentless advocates of their industries. We were discussing land use and the "It's Just a Hectare" program and our value neutral forest service guy didn't say a word through the whole meeting. We have no advocate there. The independent power producers are now the darlings of the government. The roll that our forests can play in climate change is huge and there is no discussion happening between us and the government regarding land use and climate change. The discussion with the IPP is non stop – all new energy will be renewable, etc.

Green building. There isn't a building material on the planet as friendly to the planet as wood. We should be promoting wood as climate change friendly. We should be encouraging our policy makers to put it front and centre. Here we are not trying to plant forests where they don't belong. When we cut forests down we replant. This has a positive impact on climate change.

Comment: I would like to hear your comments on the One Plan Project.

I would love to see it. I'm extremely heartened to know that somebody did a pilot on this.

Action: Stuart to provide a copy of One Plan to Rick

I have concern. I recently saw that Timberwest is selling 14,000 hectares of private land and WFP is selling 1,800 hectares. They've decided that it makes more economic sense to sell this land than to use it for forestry. I worry mills

Minutes

will close because it is easier to realize funds through one time real estate sales than running a sawmill operation. No new mills will open because first of all they need to be located on waterfront which is extremely expensive and it takes 5 years to get a permit (and only 1 year in Washington State).

Investment:

On a more positive note investment over the last 3 years: discretionary capital \$350 million. \$180 million of that went into sawmills and woodlands and \$160 went into pulp mills. It is difficult because we're not making any money. \$4 million/year is spent on product development and process and productivity improvement. My organization spends \$2.5 million/year promoting our products across the world. China didn't even have a building code for wooden structures. Last year we introduced the new product line E120F330 into Japan. A kiln dried Hemlock product. E120 means modulars of elasticity which is how much it bends. This is very important to Japan. We were first with this marketing and now everyone is stamping their qualifying wood E120. F330 is a measure of tensile strength. 330 is real strong which kiln dried hemlock is. Alberni was making green squares and was on the hit list for closure. They came up with the way to dry the hemlock so it wouldn't twist and now they are doing well and are now much more likely to keep running.

Question: Where does the price of wood have to be before the 15% duty comes off?

It's graduated so at \$315 it goes to 10% at \$335 it goes to 5% and at \$355 it goes to zero based on the random lengths composite structural lumber product index.

Operational Information Map Update (TFL 39 Block 1)

Current Activities

Harvesting – EL669, GI-053, GI-054, GI-100B, GI-152, NA-912, PD-245, PD-246, PD-252, ST-006, ST-258A, ST-262, ST-335, UL-801, UL-825, WL-911, WL-926A

Road Construction - GI-111, PD-247, PD-455, ST-062, ST-256

Note: Harvesting and Road Building operations curtailed due to labour disruptions.

Engineering – GI-057, PD-402, PD-418, PD-434, PD-456A,

What's New on the Map

New Blocks – CH-018, PD-402, PD-418, PD-434, ST-104

New Roads – CH-018 (dump and roads), PD-402, PD-418, PD-434

Cutting Permit Approved Areas – GL-653, LL-067, LL-068, ST-209, ST-147, ST-159, ST-229, ST-233, ST-262A, UL-808

Note: No new blocks or roads are identified adjacent to the Sunshine Coast Trail.

Map Updates

Logging Complete – None

Road Construction Complete – None

Engineered Blocks – None

Engineered Roads – None

Question: Is PPC using the same radio frequency as you?

Yes. The road is all on the Stillwater channel. Just note that lots of them don't call Lois 6 – they just call down 6.

Question: Are you guys looking over what PPC doing and checking their falling?

No. We don't have any authority to check them. We are still trying to get a road use agreement signed with them.

Action List

Action #1 – Paul Kutz will make copy of Recreation features inventory map available for members. – still sitting with the Ministry of Forests

Action #2 – Computer images of canoe route, Toba Inlet and any other areas of concern regarding route of the transmission line be sent to CAG. - done

Action #3 – Follow up e-mail to Island re: firewood and salal permits – move to IT Action List

Action #4 – New job descriptions for Facilitator and Recording Secretary will be brought to the table next meeting. - done

Action #5 – Member will find a copy of the article regarding solvents in some herbicides that may be toxic to fish. – done and will bring it to the next meeting

Action #6 – ToR subcommittee to discuss how many members may assist executive with expertise and make recommendations to CAG - done

Action#7 – Ask for clarification from Island re: road use policies and charges. – move to IT Action List

Company Updates

The strike – some portion of the committee is meeting, but no where near agreement. We appealed the order that the regional health board made on Chapman Creek on the peninsula and the judge ruled in WFP's favor which negates the health board order. We haven't had any problems or protests for the last month. We'd like to wrap up before the snow hits.

Question: What about the bridge on Dianne Creek? Have you pulled it yet?

Minutes

We're pulling it right now and it will be out by Friday morning. Starting to do some seasonal deactivates. We will put it on the hotline.

We are minimizing our spending because we don't know how long this strike will go on.

Question: Where are you with PPC with the agreements you're looking for? Have you totally approved the power lines? As in the crossings – are they going to put them higher up?

We try to give them advice as to what works for us but they are not listening at all. We've told them that they need to put the crossings higher.

Question: Are you keeping track? Somewhere down the line isn't there going to be some accounting?

I don't think so.

Comment: It can come out in the newspaper that these are the things you need to be aware of when you look at these programs. If we as a group in this community...

Comment: We need to let Sue Bonneyman know.

Action: Put a letter together based on facts to Sue Bonneyman after Martin gives us an update.

Terms of Reference

Group discusses and agrees to changes presented in the Terms of Reference.

Firewood

IT has made it difficult to get firewood permits and is only selling them to commercial firewood cutters. Permits are only being issued on the hinterlands which are not worth cutting.

IT was going to do some roadwork near fiddlehead farm beside one of the old shelters that everyone seems to use so they were emailed to request that they let the quad club go in and support the shed before they started the blasting and IT responds was that they would have to buy an access permit for \$300 / year and that quads cannot come on the property unless they have ICBC insurance (existing insurance not good enough).

Trails

How do we go about designating the Alaska Pine and March Lake trails under CSA? We would like to add Conchee and Hastings as well. All are multi use. If you guys disrupt can you help us clean them off? What we are looking for are no buffers, help with transition, and notification so we can let users know. Horseback riders, hikers, quads, and bikes use these trails.

How do we go about letting WFP know about the trails?

Comment: Group should just talk to WFP about trails. CAG should just be kept in the loop.

SFMP Indicator Update

2007 CSA audit recommendations

Indicator No.19 – recommendation to include WFP internal inspections.

Indicator No. 38 – recommendation to include all communications with Public at Large.

Changes shown in blue on indicator to show change for 2007.

Agreed to by CAG members.

Indicator No. 16 – Each CAG seat spoke their opinion regarding this indicator regarding use of herbicide. There was no consensus on the matter. Indicator should state that group has no consensus.

Next CAG meeting – November 14th with IT

Next WFP meeting – December 12th

Meeting Adjourned 9:15 pm

**CSA Community Advisory Group to Stillwater Timberlands
Island Timberlands
September 12, 2007
Attendance**

Name	Position	Member Seat
PRESENT		
Jane Cameron – Chair	Primary	Member at large
Bill Maitland	Alternate	Local Business
Ken Jackson	Primary	Recreation
Patrick Brabazon	Primary	Local Governments
Ted Byng	Alternate	Local Governments
Rory Maitland	Primary	Contractor
Ron Fuller	Alternate	DFA Worker
Wayne Borgfjord	Primary	Forest Dependent
Nancy Hollmann	Alternate	Tourism
Mark Hassett	Primary	Local Business
Dave Hodgins	Alternate	Recreation
Kathy Kirk	Alternate	Member at Large
Paul Goodwin	Alternate	Forest Dependent
Dave Rees	Primary	Tourism
8 Seats represented		
ABSENT MEMBERS		
Brent Rothwell	Alternate	Contractor
Doug Fuller	Primary	DFA Worker
George Illes	Alternate	Environment
GUEST		
Rick Jeffery		
PRESENT		
Resource – others		
Makenzie Leine	Island Timberlands	
Wayne French.	Island Timberlands	
Kraig Urbanoski	Island Timberlands	
Valerie Thompson	Secretary/Facilitator	