



July 6, 2012

Canfor, as a company, has been operating in British Columbia for almost 75 years. During that time, we have been a part of countless, significant shifts in the industry and our operating environment. But, through our history, two evolutions are most striking – first, our collective efforts in this province to define our social licence to operate in publicly-owned forests, and second, the drastic impacts of the mountain pine beetle on BC's forest resource. The terms of reference of this Special Committee intersect these two fundamental issues to our operating environment and have the capacity to materially impact our viability as a sustainable business. As such, the work of the Special Committee and its recommendations are of paramount importance to Canfor.

Solidifying our social licence to operate involved detailed, bottom-up planning processes that involved local people in defining the values they want their forests resources to provide – including all manner of economic, social and environmental benefits. We have struck a powerful balance here in British Columbia that is recognized around the world. As a company and as an industry, our business models, forest certifications, customer relationships and access to markets are predicated on delivering that balance of sustainable forest management, and we must proceed with caution as we explore any changes to public land use planning agreements.

The significant impacts that the mountain pine beetle will have on the timber supply in the central interior are not news, and our company and the BC industry more broadly have been working to reconcile our operations with the ever-clearer reality of post-beetle mid-term timber supplies for a number of years, in collaboration with the BC Government. We have made strategic investments in some of our facilities, and made hard choices to close others. The reality is that the industry has already faced and will continue to face rationalizations in primary manufacturing capacity owing to the mountain pine beetle epidemic.

That being said, we are committed as a company to working with our communities, First Nations, government and the public to mitigate these impacts where possible. However, we feel these discussions need to be predicated by some guiding principles that protect both our social licence to operate as well as a fair business operating environment, given the investments Canfor and other businesses have made in this province.

As a company, our position is that **any initiatives designed to increase future timber supply must not:**

- Remove or materially alter landscape objectives set through public planning processes without public consultation and support,
- Jeopardize forest management certification on which companies rely to access markets,
- Eliminate or significantly reduce the independent oversight role of the provincial Chief Forester,
- Create forest management expectations that are at odds with registered professional foresters' obligations to uphold the public trust by managing forests sustainably,
- Undermine the rights of existing tenure holders,
- Negatively impact the investments of existing facility owners, or
- Place a priority on the stability of certain communities at the expense of others.

This being said, we also believe there are opportunities to increase available timber volumes that would be acceptable to the public and the business community in the region. The Special Committee's Discussion Paper address a number of key potential options, and our comments are organized accordingly.

Harvesting Areas Currently Constrained From Timber Harvest

Canfor feels that options with respect to freeing land use constraints with the most merit are primarily focused on modifying objectives related to “social constructs” such as visual quality which lose meaning when faced with extensive dead stands of beetle-affected pine. This is in contrast to areas set aside explicitly to protect habitat or other environmental values.

Canfor supports exploring options to increase harvesting some of the areas currently constrained from timber harvest in order to support other resource values subject to the following comments:

- The areas are not constrained because they are known to provide critical habitat for species at risk or other endangered or threatened species;
- The areas being targeted are not currently in parks and protected areas;
- Priority is being placed on areas set aside based on social choices that do not impact the environment (ex. VQO's, recreation areas, etc); and
- There remain adequate areas constrained from harvest to conserve values like biodiversity, old growth, and so on.

Increasing the Harvest of Marginally Economic Timber

Further to increasing the potential harvest by freeing up land use constraints, the Special Committee is evaluating options related to increasing harvests of what is now deemed marginally economic timber.

Canfor supports increasing the harvest of marginally economic timber subject to the following comments:

- “Marginally economic timber” is segregated from normal replaceable volume and opportunities to access the “marginally economic timber” are afforded as part of an open bidding process;
- Clear criteria are identified to differentiate “marginally economic timber” from timber that currently is included in timber harvesting rights;
- Tenures that are awarded to facilitate the harvest of “marginally economic timber” and legislation that governs those tenures must restrict the harvest to only “marginally economic timber” and must contain sufficient disincentives to prohibit the harvest of other timber; and
- The harvest of “marginally economic timber” must not cause a decrease in the availability or supply of non-marginally economic timber in either the short, medium or long term.

Adjusting of Administrative Boundaries

Canfor does not support changing the flow of timber by adjusting administrative boundaries or accelerating timber availability for the following reasons:

- The Mountain Pine Beetle epidemic will result in a reduction in the mid-term Allowable Annual Cuts (AAC) in many TSAs across the central interior. When this occurs existing sawmill capacity will exceed available timber supply which will result in mill closures.
- Amalgamating TSAs merely prolongs the inevitable closures that must happen, defers manufacturing rationalization, destabilizes fibre supply, and jeopardizes our ability to efficiently run our operations.
- In recognition of pending AAC reductions Canfor has chosen to close and/or not rebuild certain facilities where current or future timber supply is inadequate.
- Canfor and others have made strategic acquisitions and investments in facilities based on existing timber supply boundaries and anticipated mid-term fibre supply.
- Canfor has been granted replaceable timber harvesting rights within the boundaries of an existing TSA. Amalgamation of TSA's or adjustments to boundaries would impact these granted rights.
- Amalgamating TSAs will result in transferring AAC reductions from one TSA onto replaceable licence holders in another TSA, effectively impacting their harvest rights and investments.

- Amalgamating TSAs will result in transferring the impact from the MPB infestations from one community onto communities which would otherwise not be impacted or impacted to the same extent.
- Amalgamating TSAs will result in longer hauling distances and increased costs to both industry and government, weakening the overall competitiveness of our BC Forest Industry.
- Disposition of unallocated and undercut volumes should be used as a mid-term mitigation tool. Unallocated or undercut volumes in TSAs should be disposed of by the government in a timely and competitive manner as non-replaceable licences rather than by amalgamating TSAs.

Shifting to More Area-based Tenures and Intensive Management

Canfor supports shifting to more area-based tenures and the associated more intensive forest management, as this tenure model provides more security for company investments in forest management and encourages more silviculture treatments and intensive management.

Increasing the Level of Intensive Forest Management

Canfor is not opposed to increasing the level of intensive forest management through fertilization and other advanced silviculture activities subject to the following comments:

- The Crown conducting sufficient economic analysis to determine that the expenditure can be justified based on a reasonable economic return.
- No adjustments in short term fibre supply or availability are implemented until sufficient evidence exists that these investments will yield tangible mid and or long term timber supply benefits.

Other Important Issues Not Addressed in Discussion Paper

Further to the options and issues outlined in the Discussion Paper, Canfor feels there are other material issues within the purview of the Special Committee which should be considered with respect to the mountain pine beetle epidemic and our collective response.

Investing in More Accurate and Reliable Forest Inventories

Canfor encourages government to increase the level of investment in forest inventories in order to provide better information to support community stability, investments and land use decisions.

Investing in Transportation Infrastructure

Canfor encourages government to increase the level of investment in transportation infrastructure, which will support multiple resource industries and industrial development and increase the economic potential of remote areas of timber supply.

Improving Transportation Economics

Canfor encourages government to continue working with industry to evaluate and fast-track opportunities to reduce costs and improve payloads to improve the economics of transportation of forest products, including logs.