Premier's Task Force

on Forest Development

Report

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Premier's Task Force on Forest Development Members

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Tom Waller	Co-Chair, Forest Secretariat

The non-government members of the Premier's Task Force on Forest Development were appointed to represent key groups affected by the closure of the Prince Albert Pulp & Paper Mill. This includes community, First Nations and workforce representatives. Their participation was on a voluntary basis and they gave freely of their time, energy and knowledge. Their work over the year was dedicated and diligent in providing a vision for the future of the Saskatchewan forest.

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Executive Summary

On October 4, 2005, Weyerhaeuser announced that it would close its Prince Albert pulp and paper mill. The pulp and paper mill was put up for sale, and at the same time a firm closure target of spring 2006 was announced. That same day Premier Calvert established the Premier's Task Force on Forest Development.

The Prince Albert Pulp & Paper Mill is the lynchpin of the province's forest sector and forest economy. Its importance can not be understated and extends beyond the pulp mill and Prince Albert region to the province as a whole. The pulp mill is a major consumer of wood chips that are a byproduct of sawmills. As has been proven by the closures of many sawmills across the Province the healthy return of the forest sector rests with a positive outcome to the sale process.

As Saskatchewan's major consumer of softwood chips, restarting the Prince Albert Pulp & Paper Mill presents the most expedient and timely way to stabilize the industry. It presents an opportunity for growth. Presentations to the Task Force identified numerous opportunities to expand the sector. New options to use chips and wood byproducts for value added products, energy cogeneration and biofuels are emerging. Real opportunities exist today to establish engineered wood product facilities and agroforestry, and to expand wood supplies to many independent forest operators.

Moreover, this sale also provides Saskatchewan and its forest sector the opportunity to position itself for the future. A positive sale, coupled with innovative approaches to land management, a new industrial base and a competitive regulatory structure within which to operate, will make this one of Saskatchewan's brightest sectors.

The Task Force has heard from many representatives about the high value of this forest resource and associated assets. The Task Force concurs with this assessment. It also believes more can be done to build a future for the sector – from harvesters through to agroforesters and new users, and ultimately to the pulp and paper facility – that will be sustainable well into the future.

Through consultation with many experts and stakeholders exemplifying the wide range of interests within the forest sector, the Task Force received several detailed reports and presentations defining concerns and outcomes for the forest economy in this province. Thorough examination of these reports revealed several key Task Force conclusions.

1. Sustainable forests require active management today.

The Task Force confirmed that sustainable use of the forest resource is a fundamental requirement to any growth strategy. The Task Force further confirmed that available wood supplies hold great potential for engineered wood and other value added products, high end paper, energy and bio-fuel production. These activities would be largely based upon increased utilization of hardwoods and expanded use of available small diameter softwood, for little large diameter timber is available. Sustainable forest management activities can support an expanded value added industry in Saskatchewan when different uses are considered. The available species and volumes are in demand by other companies for other products.

Today's lack of value added alternatives results in reduced harvests, and ultimately an undercut. In addition, provincial fire suppression has been very successful. Over time, this has created an aging forest that is increasingly susceptible to wildfire, disease and insect infestation and is "out of sync" with natural ecosystem functions (in the absence of a natural fire regime). Active management is needed to maintain natural ecosystems.

2. Today's forest sector needs to be competitive and become focused on adding value.

It is possible to build a competitive base in the Saskatchewan wood products industry focused on adding value. The forest economy is viable under the right circumstances. A support system for value added industry development is achievable with careful and thoughtful research and planning. The sector in Saskatchewan is poised for development in various areas that show great promise. The potential for growth includes engineered wood products, agroforestry, energy and biofuel production and high end paper production.

3. Like other sectors of Saskatchewan's economy, the forest sector merits support.

The Task Force believes future actions are necessary to build and maintain a base for the forest and value added sectors. The opportunity exists to establish a growth vision for the forest sector as requested by the Premier as he established the Premier's Task Force on Forest Development in October of 2005: *"Ensure a sustainable forest sector that is competitive in the world economy now and for the future"*. This will require ongoing support from all levels of government, and a commitment by all parties to work together to ensure the success of the entire sector.

Implicit in this vision for a sustainable forest sector is the long term economic, social and environmental health of the resource. Fundamental to all Task Force recommendations is the environmental health of the Province's asset – the forest. A key to this health is sectoral competitiveness that ensures the forest resource provides optimal productivity and maximum value. Assuring that wood fibre is destined for its highest value use offers security and stability for the Saskatchewan forest sector, provincially and on the world market. The Task Force believes that adding value to our forest resource in Saskatchewan is an absolute necessity for long term success.

The Task Force has developed the following recommendations that are discussed in detail in Chapter 7. By implementing these recommendations, the Task Force believes Saskatchewan will remain competitive well into the 21st century.

Recommendations

Recommendation 1: The Government of Saskatchewan mandate a Forest Sector Advisory Panel to oversee the delivery of recommendations contained in the report in order to maintain a competitive forest industry, now and into the future.

Recommendation 2: Mandate the harvest of the full wood resource profile.

Recommendation 3: Allocate surplus wood volumes to highest value users.

Recommendation 4: Establish agroforestry in Saskatchewan to address long term fibre requirements and to develop a fibre base not dependent on Crown forest resources.

Recommendation 5: Identify non-timber forest products as valuable forest output whose harvest and renewal will be accommodated by FMA holders.

Recommendation 6: Establish a new forest sector in Saskatchewan through strategic government investment.

Recommendation 7: Deliver changes to the sawmill sector that supports a renewed pulp facility. Focus program support on adding value and increasing productivity to the current commodity product base.

Recommendation 8: Ensure increased market access to the US for Saskatchewan lumber producers as part of the softwood lumber agreement, thereby increasing chip supplies to a pulp facility.

Recommendation 9: Maintain the current competitive cost structure now supporting delivered wood costs to the pulp and paper facility.

Recommendation 10: Maintain the appropriate infrastructure base for the industry.

Recommendation 11: Pursue and support bioenergy investments within the forest sector; ensure access to Provincial energy and gas distribution networks.

Recommendation 12: Examine methods to create a new forest cluster focused on an engineered wood product base that is tied to the pulp mill reinvestment. Establish a federal, provincial and municipal working group to make recommendations on how to implement said cluster.

Recommendation 13: Allocate future wood volumes to independent/third party operators through a transparent process. Increase both the total volumes provided and the species mix.

Recommendation 14: Solicit and maintain community and Aboriginal involvement in forest sector growth.

Recommendation 15: Support the City of Prince Albert through the transition.

Recommendation 16: Establish a new provincial department mandated to deliver 'renewable resource development', separate from departments responsible for 'environmental management' and 'industry and resources'.

Recommendation 17: Fund applied research and development to achieve competitive improvement in the forest, agroforest and value added sectors.

1. INTRODUCTION

On October 4, 2005, Weyerhaeuser announced that it would close its Prince Albert pulp and paper mill. The mill was put up for sale, and at the same time, a firm closure target of spring 2006 was announced. That same day, Premier Calvert established the Premier's Task Force on Forest Development.

In his press conference announcing the Task Force, the Premier challenged its members to build a plan around the forest resource that would establish a stable sector now and for the future. The work of the Task Force would *"Ensure a sustainable forest sector that is competitive in the world economy now and for the future."*

The Premier's Task Force on Forest Development began with two parts: the Task Force and the Technical Working Committee. In addition to fulfilling the Premier's challenge, the Task Force on Forest Development was mandated to:

- Provide a forum to discuss future options for the Prince Albert Pulp & Paper Mill and the provincial forest sector; and
- Provide a forum for the Task Force and Weyerhaeuser to deliver information to the community and the Province.

The Technical Working Committee was made up of Provincial government representatives from Provincial Crown Corporations and Departments. It offered technical advice to the Task Force, sought new investors, and helped develop solutions for the future. In February 2006, the Province established the Forestry Secretariat. All activities of the Technical Working Committee were assumed by the Forestry Secretariat. The broad objectives of the Secretariat include:

- Supporting the Task Force to ensure the sale of the facility;
- Building a development plan for forest sector for the 21st century;
- Coordinating much of government's response and actions required to support the sale of the facility(ies); and
- Developing alternate plans of action if the sale is delayed.

In February 2006, the Task Force grew to include a third element, the Prince Albert Forest Action Committee (PAFAC). This subcommittee to the Task Force is made up of Prince Albert business people. It functions behind the scenes on behalf of the Prince Albert region impacted by the mill closure. This group of dedicated and dynamic citizens, largely from the business community, adds depth to the Task Force's capacity to fulfill its mandate.

1.1 Mill Closure and Provincial Response

The Weyerhaeuser facility at Prince Albert was the largest forest products facility in the province in terms of production, direct and indirect employment and impact upon the provincial economy. The company also had access to the lion's share of the Crown wood supply from the Prince Albert Forest Management Agreement (FMA) area.

Mill closures have been taking place for some time in North America. Closure of the Prince Albert pulp and paper mill took place in the midst of major industry changes across North America. On April 26, 2006 Weyerhaeuser also announced that it would 'consider alternatives' for its entire North American fine paper business, with alternatives ranging from a complete sale of assets to continuing to hold and operate facilities.

The closure of the Prince Albert Pulp & Paper Mill occurred in two stages: the paper line closed January 6, 2006 and the pulp mill closed April 13, 2006. Since sawmills in the region rely on the Prince Albert Pulp & Paper Mill as a market for wood chips, a by-product of lumber production, shut down of some facilities has occurred. As a consequence, many of the harvest and haul companies that worked on the Prince Albert FMA completed their activities in the spring, and ceased operations at about the same time the sawmills and pulp mill closed. The impact of this one closure on the entire forest sector has been dramatic.

Over the course of the fall and winter, the Premier's Task Force on Forest Development gathered a significant amount of information pertinent to the pulp and paper industry and to the wood products sector, as well as the experiences of communities in similar situations. The result is a comprehensive base of knowledge from which the Task Force was able to address issues and provide recommendations to the Premier.

The Report follows the path taken by the Task Force in addressing the economic, environmental, and social impact of the closure on the forest, the community, and the province. Despite the fact that this was a blow to the province, it brought to light the diverse and enormous potential for renewal and revitalization of the forest sector, with the Prince Albert pulp and paper mill as a critical element. However, this renewal process must address several fundamental challenges identified in this report to build a sector that will be competitive well into the 21st century.

The recommendations outlined in this report constitute what the Task Force believes is necessary to achieve this long term competitive base. A growth strategy requires a framework for development and a commitment by government and industry to secure the full potential of the sector.

1.2 Economic Impact of the Prince Albert Pulp and Paper Facility

The entire province has felt the impact of the closure of the Prince Albert Pulp & Paper Mill in terms of losing jobs and economic activity. But clearly the greatest impact has been in the Prince Albert region, Big River and the communities throughout the FMA area – where much of the direct employment takes place (Figure 1.1).

In terms of jobs, families and institutions (e.g., schools, health services, charities), the social impact of the closure has been large. The City of Prince Albert is affected directly as the majority of employees reside in the city. The surrounding communities are affected, again where affected employees reside, and where supporting and dependent companies (e.g., harvest/haul operators, sawmills) are present. The impact has expanded further to include communities outside the forest region where support companies exist (e.g., Saskatoon and Regina).

In purely economic terms, the Prince Albert Pulp & Paper Mill is a significant component of the Saskatchewan economy. The Prince Albert Pulp & Paper Mill contributed 0.5% to provincial GDP on its own and 1.2% when the combined effects of sawmill, harvester and support jobs are included (Table 1.1).

Table 1.1. Direct and indirect economic impact of closure.

Impact Area	**TOTAL Direct and Indirect Impact**
Jobs – pulp and paper mill	2070 jobs
Jobs – sawmills	1883 jobs
TOTAL	**3953 jobs**
GDP – pulp and paper mill	$242M
GDP – sawmills	$166 M
TOTAL	**$408M**
TOTAL Provincial GDP	**$ 34.2 B**
Per cent of total GDP in closed facilities	**1.2 %**
Gross Output – pulp and paper mill	$601M
Gross Output – sawmill	$351M
TOTAL	**$953M**
Labour income – pulp and paper mill	$65M
Labour Income – sawmills	$72M
TOTAL	**$137M**

Source: Mak 2006a.

As outlined in Table 1.1, the Prince Albert Pulp & Paper Mill contributed $408M per year to Saskatchewan's gross domestic product (GDP), or 1.2% of the total provincial GDP, a significant amount. The gross output of the pulp mill and affected sawmills have a combined impact of $953M in activity, and provided over $137M per year in labour income to the Provincial economy.

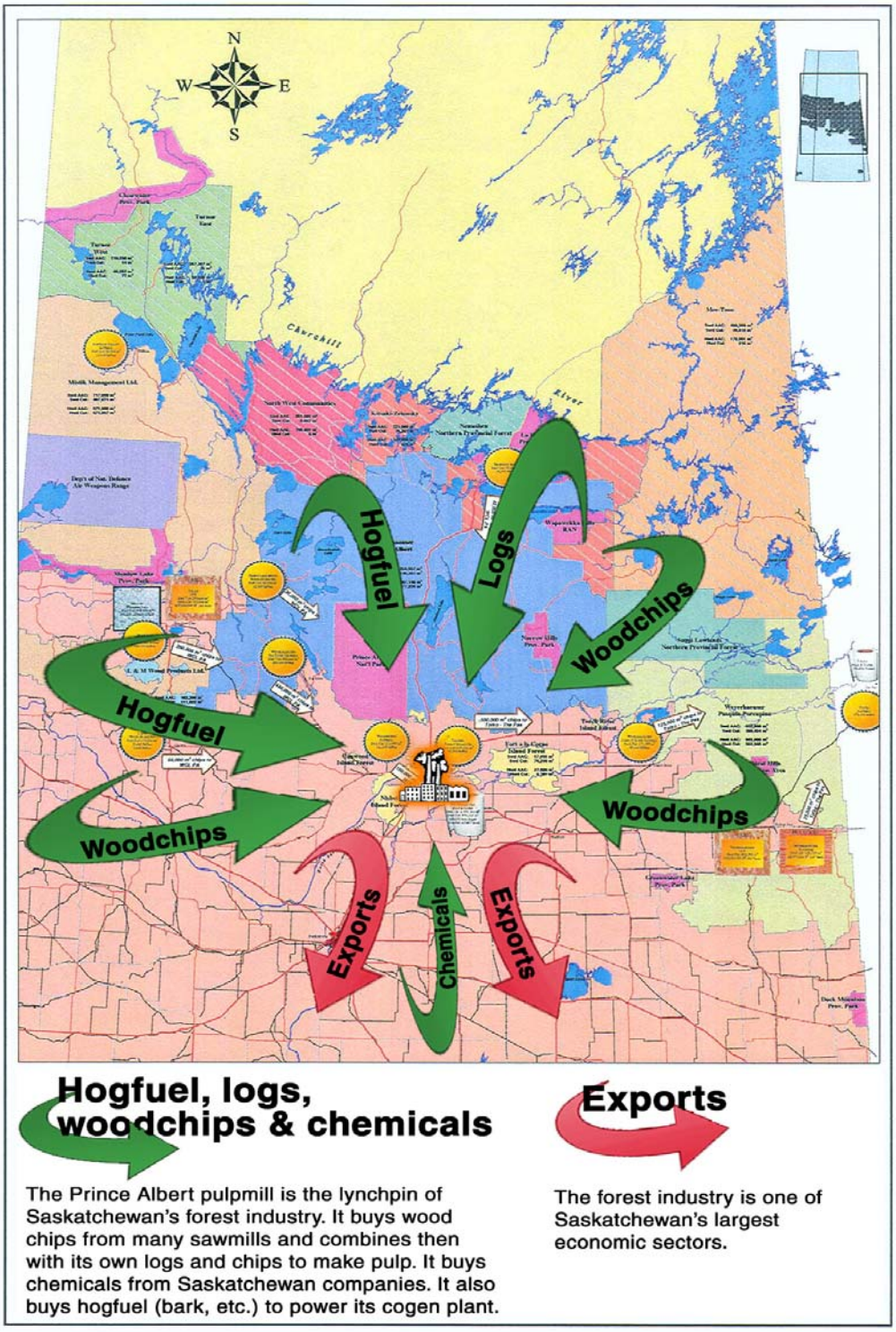

Figure 1.1. The pulp and paper mill in Prince Albert is the central component of the provincial forest sector.

The Prince Albert Pulp & Paper Mill directly employed 690 people at the time of the closure/sale announcement. An additional 1380 indirect jobs were supported throughout the province. Just as important are the local sawmillers and harvesters who were affected by the closure. In this case, an additional 1883 jobs were affected, bringing the total to 3953 jobs lost as a result of mill closures.

The closure had a ripple effect throughout the province. For example, ERCO Worldwide chemical company in Saskatoon supplied the mill with inputs for production of pulp and paper. This company employs about 100 people and could shut down completely without its major client. Other Saskatoon and Regina based businesses that supplied products and services to forest based companies, such as trucking, packaging, supplies and consulting services, lost a key customer.

The Wapawekka Sawmill at Prince Albert and the Big River Sawmill have been forced to shut down for lack of a buyer for their chips and other residuals. Jobs in the harvest/haul sector ranging from Meadow Lake to La Ronge to Nipawin have been eliminated. With jobs and families gone, schools, health facilities, and businesses will suffer. The impact is widening in scope and not yet fully understood. A sale of the facility will re-establish jobs and the contribution to the GDP, as well as lead to growth of a new industry.

The City of Prince Albert is hard hit by the closure of the mill. It stands to lose $1.7 M in property tax revenue and $1.6 M in energy surcharges (25% of the City's annual revenue from energy surcharges) if the site is decommissioned. The total for lost revenue comes to $3.3 M annually. The pulp/paper facility provided 19% of the City's total budget, even though the property tax revenue is low as the site has been insulated from mill rate increases since 1996. Full assessment would put the combined tax rate at $8.6 M, not the $3.3 M seen today.

The City of Prince Albert has made hard decisions as part of this year's budget to address revenue losses. More tough decisions are expected if the facility remains closed past December 31, 2006. These problems are echoed in surrounding communities also hard hit by the closure.

Schools in the area will be particularly hard hit through lost taxes and also through lower enrollment. The Communications, Energy and Paperworkers Union of Canada (CEP) Local 1120 calculates that there could be a loss of over 1000 students in the school system. Health care and other services could suffer as workers leave the area. Many spouses of facility employees utilized and worked in these agencies. Already, many charities and other groups (e.g., the Saskatchewan Forestry Association, United Way, and Boy Scouts of Canada) are feeling the impact of lower financial support from Weyerhaeuser.

1.3 Exploration of Other Communities' Experience

While significant for Prince Albert, closures like this do occur in the pulp and paper sector. The Task Force moved quickly to learn from other communities' experiences. Representatives from communities that have gone through similar upheaval were invited to speak to the Task Force about how members of their community worked together to overcome the challenges tied to the loss of a major economic base.

Ray Boughen (2005), former mayor of Moose Jaw, spoke to the Task Force about how that city dealt with the announced closure of the Armed Forces Air Base. Mr. Boughen identified the elements that were key to their campaign. At the top of the list was community involvement. Moose Jaw succeeded in bringing Bombardier to town, in part, because a Task Force was established to oversee the sale process and to generate community support for Bombardier and its partners. Mr. Boughen added that building solid relationships with the municipal, provincial and federal governments was important and was accomplished through discussions with caucus and with department officials. He suggested that transition support would be necessary (e.g., taxes, power access, etc.) and that full disclosure is a requirement for all committees, working groups, and political contacts.

Detailed discussions were held with representatives from the Ontario government who were in power when similar closures took place in that province. They confirmed that an active role by government is required to ensure a positive outcome, or a sale could easily turn into a closure. Two key elements were identified. First was the recognition that all the facilities needed some form of revised cost structure, be it restructuring power, labour, road or environmental costs. Second was that all parties needed to compromise, whether it was on the cost of production or on new revenue and regulatory requirements for government.

The Ontario experience demonstrated that flexibility in ownership structures was important; in some cases, employees became joint owners. Following the successful transfer to a new owner, it should be noted that the province conducted a significant review of the structure of forest operations and made several changes in the legislative and regulatory structure governing forestry in Ontario.

At a presentation to the Task Force, the President and Western Regional Vice-President of the Communications, Energy and Paperworkers Union of Canada (CEP), discussed the involvement of the CEP in the successful sale of several pulp/paper facilities in Canada (Payne and Coles 2005). Particular attention was paid to Port Alice, BC which had been closed for years. They stressed that support at the community level is key to a successful purchase.

This type of support needs to include a coalition of the municipal and provincial governments, the business community, the employees of the facility, and all others who have a stake in seeing a new future. The CEP representatives pointed out that everyone needs to work together with a new purchaser for a smooth transition.

Three common elements came through in the above discussions: community involvement, dedication and support by government and everyone working together. The Task Force believes that Saskatchewan has done a good job in bringing these elements together. The Premier announced a Task Force the day of the closure announcement. The Task Force's Working Group developed into the Forestry Secretariat at the provincial level. Also through the Task Force, the Prince Albert Forest Action Committee (PAFAC), made up of local community business leaders, has been active in supporting the sale process, liaising with many federal agencies and holding all parties accountable for a successful outcome.

Prince Albert succeeded in establishing the three critical elements that were common to successful outcomes in other locations.

2 The Competitiveness Analysis

Weyerhaeuser's closure signaled that changes are needed to build a provincial forest sector that is competitive into the future. A quality facility on its own did not prevent closure.

The site and facility are in good shape, with upgrades made within the last few years. The available wood supply is of high quality and can be utilized for many types of wood products that are higher value than commodity goods. An experienced and dedicated labour force is on hand that has ideas about how to manage for reduced costs and improved productivity.

Nevertheless, the closure itself is evidence that the facility did not fit with Weyerhaeuser's long term strategic plans; changes would be needed to ensure the facility's long term future. To fully assess the global pulp and paper markets, their impact upon the Prince Albert Pulp & Paper Mill, and to identify areas of growth potential, the Task Force commissioned several reports from national experts. These reports frame the discussion to follow.

2.1 Global Assessment of Pulp & Paper Industry

The opportunities for the Prince Albert Pulp & Paper Mill remain attractive given the quality of the wood supply, the flexibility of the paper line, which can produce different types, weights, and quality of paper, and the pulp production capacity (Garner and Aschim 2005a).

Preliminary reporting on the pulp industry has shown that, although pulp shipments to the US market have grown substantially over the last 20 years, price has continually declined over the same period. The demand for uncoated free sheet paper in the United States is down two million tons since 1999. Paper use per office employee has decreased by 35% since 1995. This has translated into a real decline in the price of paper over the same period.

Coupled with these changes is a major increase in the value of the Canadian dollar ($CDN). Since 2000 the $CDN has risen from $US0.69 to approximately $US0.90 by the summer of 2006. The increases have been fundamental in changing the profitability of the entire Canadian pulp and paper sector.

At the same time, new capacity growth has occurred in South America and Indonesia at the expense of the Canadian industry. In all, the North American share of the market declined from 55% of the world market in 1995 to 36% in 2004. The Canadian capacity to produce price

competitive pulp is declining due to a combination of a growth in the world supply (which is increasingly cheaper to produce) and the rise of the Canadian dollar relative to competitor currencies.

It appears that China is the focus for growth in pulp production, increasing from a 1.3% share in 1993 to 13.2% in 2004. A conclusion can be drawn that the pulp markets worldwide will continue to grow to serve the emerging markets in China and India.

Because China does not build platform frame housing, it is not likely to become a major consumer of dimension lumber and/or oriented strand board (OSB). On the other hand, it will likely become a large market for appearance grade lumber with the current substantial urban reconstruction. China as a consumer or competitor is still under debate, for its long term capacity to produce pulp from its agroforest plantations may change its role as a pulp importer (Mak 2006b).

In South America and Indonesia, pulp is produced from short rotation plantation grown wood (i.e., eucalyptus grow to harvest in seven years). These fast growing or agroforestry systems are a small but steadily increasing proportion of the global harvest. Forest companies are investing in the development of this type of wood supply around the world. In Saskatchewan, the Prince Albert region shows good promise for agroforestry development. A study of plantation technology for Canada is currently underway (Garner and Aschim 2005a).

In summary, the key factors challenging Canadian pulp and paper companies are: increased competition from tropical nations with regard to cost and wood supply particularly for hardwood pulp and paper; a decrease in demand for copy quality paper and the rising Canadian dollar relative to other currencies, especially the US dollar.

2.2 Future Prospects for Canadian Industry

In light of the aggressive competition worldwide, a key question facing the Task Force is: can there be a future for pulp and paper production in Saskatchewan? Because the hardwood pulp market is dominated by cheap plantation eucalyptus pulps, the Task Force was advised that the Prince Albert Pulp & Paper Mill can not compete as a hardwood pulp producer. However, a shift from making commodity paper products, such as uncoated copy grade paper, to production of higher valued, more technical paper (e.g., printing grade coated paper such as used in magazines) would be possible (Garner and Aschim 2005b).

Demand for higher end paper is increasing much more quickly than for lower grade and is expected to almost double in the next 15 years

(Garner and Aschim 2005a). There is a future if the product is high grade, high quality paper.

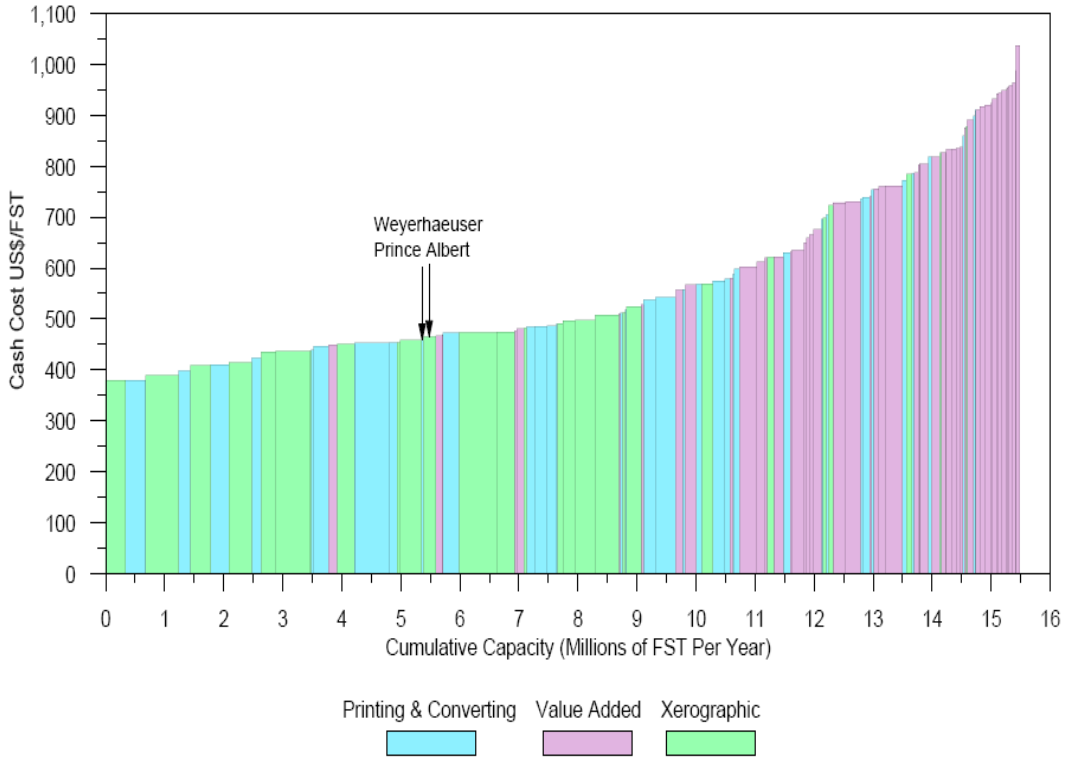

Figure 2.1 North American cost curve for uncoated free-sheet (UFS) paper. Source: Garner and Aschim 2006.

Figure 2.1 shows where the Prince Albert paper mill lies in comparison to North America for cost of producing copy quality paper. The width of the vertical line shows mill capacity; i.e., lines on the far right indicate mills with lower capacity producing higher value paper. Prince Albert appears to be well-placed until the mills making higher value paper are excluded (Garner and Aschim 2005b). When higher valued papers are removed from the assessment, the Prince Albert facility has a high to average cost.

In other words, the further to the 'right' on the graph, the more the product can command in the world markets. Being well positioned on the left half of the chart shows that the Prince Albert paper mill sells product for much less than higher value papers, but for more than many firms in its market segment. A move into higher value papers would change its competitive base as well as its revenue structure.

2.3 Sector Wide Challenges – Linkage to the Sawmill Industry

In Saskatchewan, the Prince Albert Pulp & Paper Mill is the only provincial purchaser of softwood chips. This dominance creates challenges for the forest sector in terms of linkage and reliance in the

sawmill sector. Chips (and hog fuel) that are sold to the Prince Albert Pulp & Paper Mill are a major source of revenue for these sawmills. Otherwise wood chips are a drawback and even an extra cost if they are accumulated on site, as they can become a significant environmental liability to the company.

In addition, sawmills (softwood) and the pulp mill (softwood chips and hardwood) both rely upon the same land base for their wood supply. Provincial law requires that harvest plans make use of all the trees harvested. Saskatchewan's forests are a mix of hardwood and softwood. When the use of the hardwood stops, there is limited ability to harvest pure softwood stands to maintain sawmills.

The Saskatchewan forests are by nature a mix of softwood and hardwood. The forest industry is by design interdependent and needs to use both types of wood or it can not use either. Today, most mills have closed because of the loss of harvest base and inability to sell wood chips and associated by-products of their operation.

2.4 The 2006 Softwood lumber agreement

During the course of the Task Force discussions, Canada and the United States reached tentative agreement on limiting Canadian lumber exports to the US. Upon examination, the Task Force concluded that the softwood lumber agreement (SLA) will damage the Saskatchewan forest sector, and will limit its ability to grow over the next several years. This is an important issue for the Task Force, for a healthy lumber sector is required to provide a steady supply of chips to the pulp and paper mill. The chips are the key material in softwood pulp production.

The Forestry Secretariat provided the Task Force with data on the SLA and the Task Force was able to form the following conclusions:

- Provincial quotas under the new SLA were determined by averaging the lumber exports for the last five years.
- Since the US imposed the export tariff, timber producers in many provinces paid the tariff and continued to export.
- In contrast, Saskatchewan producers complied with the intent of the tariff and limited US exports.
- As a result, exports declined from 492,000 mfbm (million foot board measure or million board feet) in 2000/01 to an average of 266,000 mfbm by 2005, a drop of 46%.

Although Saskatchewan's historic share of the US market is between 2.0 and 2.5 %, the proposed SLA provides a new level of only 0.8%. This amount does not allow the existing sector to operate at capacity, nor

does it allow for new developments. Because the Saskatchewan forest sector is at a crossroads, the province requires a deal that reflects its long term export share and allows for growth. Instead of restricting the Saskatchewan industry because it is not fully developed, the SLA should provide room for expansion.

If the agreement proceeds, the Task Force believes that a solution must be found for this province "within" the Canada/US agreement framework that will allow for growth without compromising the tenets of the deal itself. For Saskatchewan, the Task Force believes that a higher market quota is required, preferably back to 2.5% (i.e., normal levels), or an exemption from the quota process. An acceptable quota for Saskatchewan's softwood lumber exports should be negotiated with all parties before Saskatchewan supports implementation of the SLA.

If this objective can no be achieved, the Province should seek compensation for the negative impact the SLA will have on the forest industry.

3 The Prince Albert Pulp and Paper Mill: Wood Supply

3.1 The Provincial Situation

One of the key attractions in a sale of the Prince Albert Pulp & Paper Mill is the quality and volume of Saskatchewan's forest resource. Ninety-seven percent of the forested region of Saskatchewan is managed by the Province; there are 12.6 million hectares (ha) of productive forest in Saskatchewan of which 12.2 M ha is commercial forest. Softwood stands make up 39%, hardwood stands 36% and mixedwood stands are 25% of the area. Softwood species are dominated by spruce at 59% and pine at 37%. Aspen makes up 85% of the hardwood stands (COSFI 2001).

The timber from Saskatchewan's boreal forest is recognized for its commercial qualities, particularly for pulp and paper. The fibre quality of the softwood resource remains in demand because it makes a high quality softwood pulp that is an excellent candidate for a range of technically demanding papers.

The softwoods in Saskatchewan have "fine, ribbon-like fibres that bond together well and are the preferred reinforcing fibres for light weight papers" (Garner and Aschim 2005a: p 7). Saskatchewan softwood pulp also produces very smooth, uniform, strong, opaque paper with excellent printability. Hardwood pulps have much shorter fibres; Saskatchewan's aspen pulp is close to the best-in-class as a hardwood component of printing paper (Garner and Aschim 2005a).

Most of Saskatchewan's commercial forest (south of the Churchill River) is allocated through long term agreements or forest management agreements (FMAs) or through shorter term supply licenses (TSLs). FMAs provide a land/area based long term tenure while TSLs are shorter in length and provide specific wood volumes. FMAs allow access by the FMA holder to harvest operations in the area specified; TSLs contain restricted access to certain trees species and volumes. TSLS can be described as fledgling FMAs – a short term tenure meant to bridge a wood supply for an operating facility while it acquires an FMA. Table 3.1 shows the major FMAs and TSLs in Saskatchewan as of 2006. Figure 3.1 provides a geographic summary of these areas.

By and large, current allocations in the commercial forest zone make full sustainable use of the larger diameter wood volumes. In 1999 the Province allocated available sawlogs from the Prince Albert FMA; Big River sawmill was expanded and Wapawekka sawmill established. Today, available wood volumes in the commercial forest zone are dominated by small diameter timber and species not used in today's commercial operations (birch, tamarack, etc).

Table 3.1. Major FMA and TSL holders in Saskatchewan and facilities supported as of 2006.

Area	Key Companies	Facilities supported
Prince Albert FMA	Weyerhaeuser	Prince Albert pulp and paper mill Big River sawmill Wapawekka sawmill Post and rail plants
Pasquia-Porcupine FMA	Weyerhaeuser	Hudson Bay OSB mill Hudson Bay plywood mill Carrot River saw mill
Mistik Management FMA	NorSask/ Meadow Lake Pulp Mill	NorSask sawmill Meadow Lake pulp mill Tolko OSB mill (supply agreement)
L&M FMA	L&M Wood Products	L&M Wood Products sawmill Tolko OSB mill (supply agreement)
Kitsaki/Zelensky TSL	Kitsaki/Zelensky	Zelensky Brothers sawmill Tolko OSB
North West Communities TSL	Beauval Forest Industries	Beauval Forest Industries Tolko OSB mill (supply agreement)
Mee-Toos TSL	Peter Ballantyne Cree Nation consortium	Post and rail plants Greenfield forest development opportunity
Private wood on agricultural lands	Tolko OSB/ variety of wood agents	Tolko OSB mill (supply agreement)
Island Forests (Fort a la Corne, Nisbet, Canwood, Torch River)	Several independent operators	Independent sawmills; post & rail plants; other wood products

In 1999, Saskatchewan recognized there was significant opportunity to further develop the forest industry tied to the Prince Albert FMA. It implemented a development process that saw major new investments occur, the creation of the three TSLs listed above, and the development of the Tolko OSB mill in Meadow Lake.

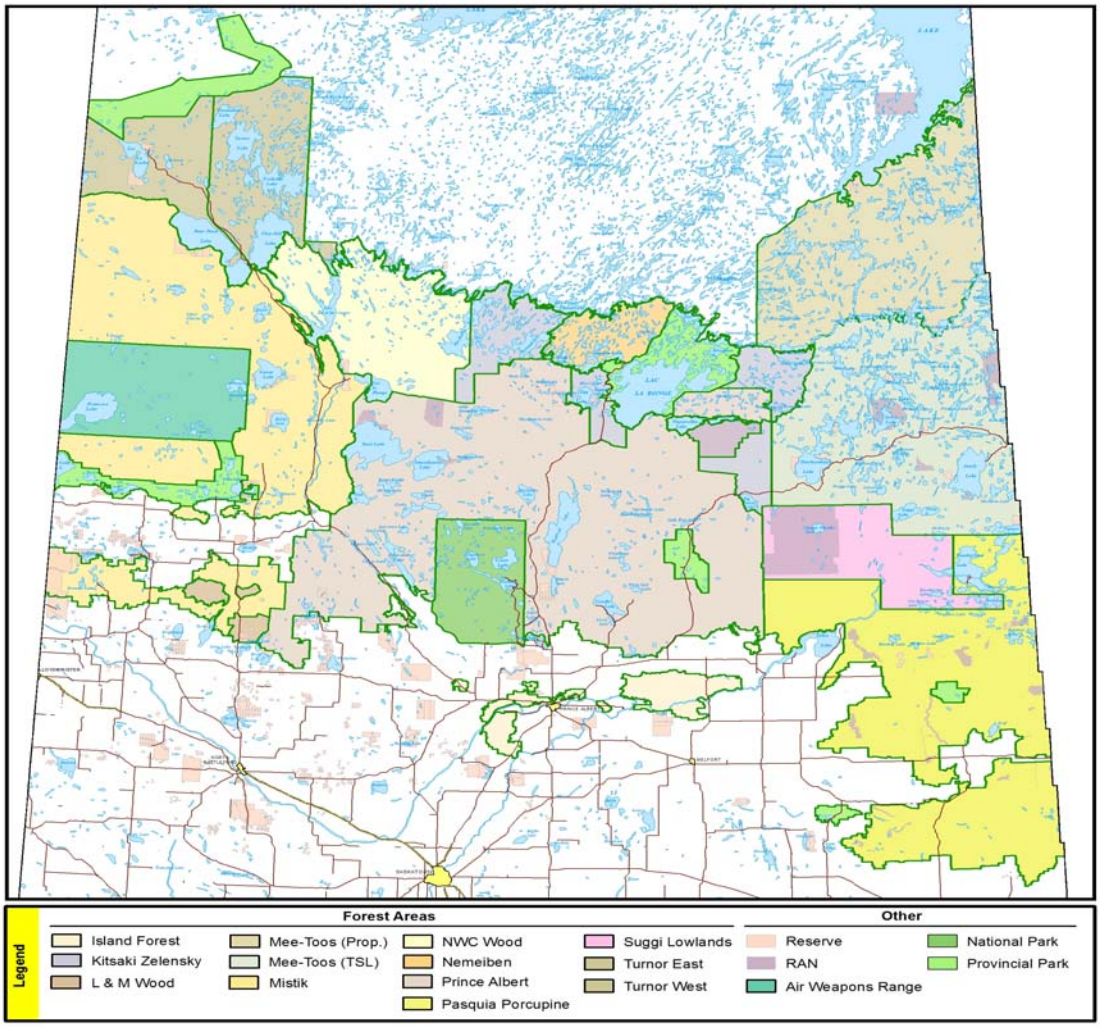

Figure 3.1. Timber License Areas of Saskatchewan,
Source: GeoSpatial Consulting Inc.

Today, Saskatchewan has an annual allowable cut of approximately 8.2 million cubic metres, and actual harvest levels of approximately 4.4 million cubic metres. It should be emphasized that there are no significant volumes of large diameter sawlogs tied to the identified undercut. Much is linked to underutilized small diameter black spruce.

Black spruce is well suited for pulp operations, but the use of softwood chips from sawmills eliminated the commercial need to harvest this resource. Species like birch, tamarack or small diameter black spruce have had little, if any, harvest activities. The available volumes lend themselves well to future value added opportunities.

Current harvest levels combined with a very effective fire management program is creating areas of the forest that is becoming over mature. The Province has implemented ecosystem based management in part to ensure that harvest practices reflect nature's actions and to maintain a healthy ecosystem across the entire forest. This is explored in more detail in the following sections.

3.2 The Prince Albert Forest Management Agreement

Weyerhaeuser's Prince Albert pulp and paper mill relies on the Province's asset – the Crown wood supply in the FMA – for its wood supply. In 1986 Weyerhaeuser signed an FMA with the Province that secured the wood supply for the facility and obliged Weyerhaeuser to sustainably manage the forest, including regeneration and harvest activities. The Prince Albert FMA is the largest in the province, supplying the Prince Albert pulp and paper mill, Big River sawmill, Wapawekka sawmill and many small independent operators. Table 3.2 identifies the available wood volumes on the FMA as of 2005.

Table 3.2. The annual allowable cut (AAC) and actual harvest for the Prince Albert FMA for 2005 in cubic metres (m^3).

Wood Fibre	**AAC and actual cut (m^3)**
Softwood AAC	1,930,000
Softwood actual cut	1,008,500
Uncut	**921,500**
Hardwood AAC	948,000
Hardwood actual cut	644,000
Uncut	**304,000**
Total undercut	**1,225,500**

Source: Saskatchewan Environment Forest Service. Please note that the softwood 'uncut' is dominated by small diameter black spruce.

The forest is a provincial asset that has been provided to forest companies through the FMA process. In turn, the FMA obliges the licensee (e.g., Weyerhaeuser until now) to incorporate multiple uses like recreation and trapping. The FMA stipulates management of the lands based on the concept of ecosystem based sustainable management.

FMAs are negotiated on a case-by-case basis with industry and provide the security necessary to support major corporate investments. Because FMAs are negotiated, they can not be cancelled unilaterally, and the Weyerhaeuser Prince Albert FMA would be a difficult agreement for the Province to end unilaterally. As long as AOPs are prepared, operations are carried out according to the AOP, and dues and fees are paid, operation is taking place according to the Agreement (Atkinson 2005).

As identified in Table 3.2, the Prince Albert FMA has an annual allowable (sustainable) harvest level of 1,930,000m^3 of softwood and 948,000 m^3 of hardwood, for a total harvest of 2,878,000 m^3. A significant undercut now exists, primarily tied to smaller diameter volumes that are not being utilized in today's commercial operations. The Task Force believes that sustainable, ecosystem based management of our forest requires a full harvest management plan for all species to replace fire on the landscape. Species underutilization or non-use does not serve the long term health of the forest.

In a presentation to the Task Force, Saskatchewan Environment Forest Service provided an historical perspective on the development of the forest sector and management in the province with a focus on the Prince Albert facility. Included in the presentation was a legal framework for the Weyerhaeuser Prince Albert FMA.

Forest management agreements (FMAs) in their present form grew out of establishing the Forest Renewal Trust Fund in 1986 and the advent of Forest Management License Agreements (FMLAs). Before this time, commitments under license were quite lax and there was no requirement to reforest, with some exceptions (Simpson Timber). Annual operating plans (AOPs) were submitted every year, with one company submitting a five year plan each year (MacMillan-Bloedel). After 1986, AOPs that covered a five year period were prepared yearly, and a twenty-year forest management plan was required every ten years (Atkinson 2005).

In 1996, the Province identified a need for new forest management legislation to recognize the forest as an ecosystem that must be managed as such. Proposed legislation would make the license holders more accountable for operating sustainably according to a variety of timber and non-timber based indicators. The *Forest Resources Management Act* was passed in 1996 and proclaimed in 1999. FMA holders became responsible for renewal on all harvested areas and were obligated to have their performance audited every five years after the extension date or submission of a revised AOP (Atkinson 2005).

In 1999 the province and Weyerhaeuser began discussions on wood volume utilization on the FMA that resulted in land area reallocations and new development opportunities across the commercial forest zone. Many of the TSL licences identified in Table 3.1 resulted from these reallocations.

These changes required contract (FMA) renegotiation between government and Weyerhaeuser. This process brought to light several issues that continue to challenge additional development. One example is the clause that provides 125% of the required wood volumes to

Weyerhaeuser facilities (i.e., if the mill capacity is 1,000,000 m^3/yr, the timber supply must be 1,250,000 m^3/yr). Access to 125% of mill capacity leads to underutilization and over maturity of the forest when combined with effective fire management across the FMA.

The Task Force was advised that Saskatchewan Environment Forest Service has been actively working to address this, and several other issues, as part of ongoing forest management operations.

Today, there are opportunities for additional development to make full sustainable use of available wood volumes in the FMA. Task Force discussion indicated that value added product development focused on engineered wood, high end paper, energy and biofuels are well suited to the available wood supply. Growth opportunities are limited for larger diameter sawmills as the required wood volumes are largely allocated.

3.3 Forest Management

One of the fundamental points of agreement among Task Force members is that the forest must be managed in a responsible, sustainable manner for the benefit of current and future generations. As a result, the Task Force invited the government to present its framework for forest management which now underpins FMA corporate management and government regulatory oversight in Saskatchewan.

Ecosystem based management (EBM) has been adopted as the scientific basis for forest management in Saskatchewan. EBM considers the values of the land from three perspectives: economic, social, and environmental (Figure 3.2). Comprehensive resource management planning incorporates all of these values.

EBM recognizes the interrelationships between and among species, their habitats, natural processes, and humankind. For example, instead of a management focus on individual species like perch or moose, EBM directs effort toward maintaining the integrity of the broader habitat, landscape or ecosystem in which these species, and many others, live.

Management of the forest by EBM aims to eliminate imbalances and maintain a holistic approach by focusing on long-term goals, the big picture and basing decisions on scientific knowledge, traditional knowledge and human values. Healthy ecosystems are important because they maintain biodiversity and natural wealth, support multiple uses, protect the air and water and ultimately ensure viable forest communities and economies.

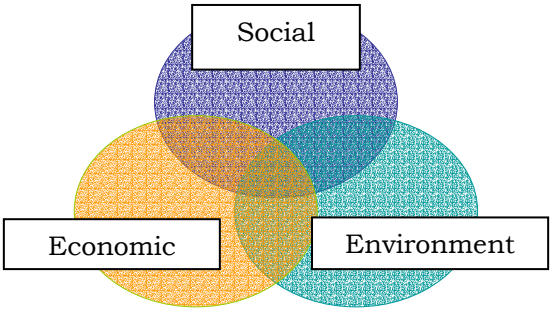

Figure 3.2. Ecosystem based management triad.

Saskatchewan Environment (SE) has adopted an ecosystem based approach to forest management planning. EBM is defined as the integration of ecological systems and human activities to maintain or enhance the health and integrity of an ecosystem, including ecosystem function and structure (Robitaille 2003). The following are the principles of EBM:

- Focus on the long term view – ecosystems must be sustained for the long term well being of all life;
- Concentrate on ecosystem health and integrity – work within the ecological potential of sites and landscapes to ensure that ecosystems can renew themselves to the greatest degree possible;
- Make decisions based on science, traditional knowledge and human values – use the best available scientific and traditional knowledge as a foundation for decision making. Ecological goals must be integrated with economic and social goals;
- Involve those who will be affected by decisions or who have an interest in the outcome - work together with citizens, landowners, local governments, Aboriginal communities, interest groups, businesses, industry and other agencies to identify problems and opportunities and find common solutions;
- Use adaptive management by learning from experience – adjust thinking and actions. Better understanding is gained;
- Look at the big picture – treat air, water, land and living things as interconnected parts of an ecosystem. Think about the effects of proposed actions at various scales and through time (Robitaille 2003).

Many agencies across Canada have made the decision to incorporate the emulation of natural disturbance patterns and processes into their forest management planning strategy. This strategy is based on the premise

that natural disturbances play a key role in contributing to the structure, function, and health of landscapes, ecosystems, and species. The patterns and processes that result from natural disturbances are assumed to provide habitat for all boreal forest species. Emulating natural disturbance patterns is broadly accepted as a sound strategy for maintaining biodiversity and productivity across the managed boreal forest landscape.

In Saskatchewan, fire is the key natural disturbance responsible for forest renewal. Other natural disturbances, such as insect and disease outbreaks and storms, are also ecologically significant but more difficult to quantify and emulate. A number of boreal forest species are adapted to take advantage of fire in their regeneration processes. For example, jack pine and black spruce have cones that typically only open in the heat of wildfire. The severity and seasonal timing of wildfire also determine the extent to which white spruce and aspen retain their pre-fire distributions on the landscape. Fire and other disturbances are essential to the natural cycling processes of boreal ecosystems. The challenge lies in finding ways to design forestry to more closely emulate the patterns and processes produced by fire.

While natural disturbance regimes have renewed the boreal forest for millennia, the economic and social impacts of natural processes are sometimes a heavy burden on society. Control of most wildfires within the commercial forest or near communities is attempted because of the excessive risk to human life, infrastructure, and timber resources. Natural disturbance emulation (NDE) strategy seeks to partially replace forest regeneration by fire with regeneration by harvesting operations that come closer to emulating natural fire patterns. Creating a network of harvest disturbance patches that resemble fire disturbance patches is the current approach to forest management.

Fire burns twelve times as many hectares of forest on average every year than the area that is cut for commercial use. Through the use of NDE, the forest can be utilized better and remain healthier.

The removal of the natural cycle of fire from the landscape requires a compensating action by users (humans) to maintain the overall ecosystem. In Saskatchewan, one compensating action is timber harvest. Through active forest management the FMA holders help maintain a forest that best emulates natural aging, succession and biodiversity, etc. The combined effects of fire management and lack of natural disturbance emulation (e.g., harvesting, etc.) is not healthy to Saskatchewan's boreal forest. Harvest should take place when the forest is in its prime for two reasons: to maximize economic returns and to reduce the risk of loss from fire, insects, and disease (Saskatchewan

Environment and Resource Management 1994). Table 3.3 represents a comparison of the effects of commercial timber harvest and wildfire.

Table 3.3. Disturbance comparison between forest harvesting and forest fire.

Disturbance Event	**Forest Harvesting**	**Wildfire**
Process	Mechanical	Chemical
Rapid nutrient recycling	No	Yes
Size control	Yes, but presently less	No
Contains residual retention	Yes	Yes
Forest renewal occurs	Yes	Yes
Wildlife habitat is protected	Yes	No
Soil compaction	Yes	No
Snags/coarse woody debris	May decrease/not random	Increases/random
Fine organic material in soil	Increased	Reduced

Source: Robitaille 2003.

Today, the provincial government requires 20-year forest management plans and five year harvest and renewal plans to be based on EBM to most effectively emulate what nature would do across the landscape. EBM is an evolving process that allows for continual feedback and improvements (i.e., adaptive management) through active monitoring of the effects of human activities. This feedback loop ensures that the FMA holders are meeting their obligation to sustainably manage the forests.

3.4 Conclusions

Good forest management practices have been followed for harvest and renewal in the Saskatchewan forest, including the Prince Albert FMA. Effective fire suppression by the province requires that large areas of forest be available for harvest if natural ecosystems are to be preserved. Past harvest practices have matched wood volumes to commercial facilities but have left aside areas where the diameter and species profile is less economic or does not meet the sawmill's profile requirements (e.g., small diameter black spruce).

Spruce and pine have been the species of choice for timber harvest and pulp production. The same holds true for Saskatchewan aspen, which makes high quality hardwood pulp. These tree species were the focus of harvest in the Prince Albert FMA. While volumes are limited hardwood species such as birch and other softwood species such as tamarack are not being fully utilized.

It should be noted that there are no significant volumes of larger diameter spruce or pine tied to the undercut described here. Much of the undercut is linked to underutilized small diameter black spruce.

Small diameter wood volumes are well suited for value added production. This includes engineered wood, pulp and biofuels.

The full profile of forest species must be harvested or fire must be reintroduced on the landscape in order to ensure the health of the forest. Through selective harvest and successful fire suppression, full utilization of the forest did not occur in the Prince Albert FMA. Furthermore, access to the 'other' species of the wood supply for full utilization by independent operators was hampered.

In order to maintain an environmentally healthy forest that provides benefits to society and the economy, no wood fibre user should have the right to more wood than they truly need. All users of the forest should be recognized in future wood allocations, including independent operators/contractors. Full utilization is required in order to rebalance and restore health to the Saskatchewan forest.

4 The Prince Albert Pulp and Paper Mill: Advantages and Challenges

The members of Premier's Task Force on Forest Development recognized the need to seek out experienced and credible sources of expert information to provide a knowledge base on the cost structure and operation of the Prince Albert Pulp & Paper Mill. A full review of the cost structure constituted part of almost every report that was commissioned. This included delivered wood costs, labour costs, material costs, and the like. Through a full understanding of costs associated with this mill and comparing them to costs for similar mills, both in Canada and abroad, the Task Force was provided with a more complete picture. This in turn helped to identify areas where changes could improve the competitive position of the facility.

4.1 The Prince Albert Pulp and paper Mill Cost Structure Overview

The cash manufacturing cost comparison is a common basis for assessing the financial position of a mill and "is a fundamental measure of the ability of a mill to generate a positive cash flow" (Garner and Aschim 2005b: p 2). The study was based in US funds, as pulp is normally sold in US currency. The database used for the benchmarking study came from Paperloop Benchmarking Services, and was drawn as of Fall, 2005. Significant global production was compared for the two market pulps (softwood and hardwood based pulps). For the uncoated free-sheet paper made in Prince Albert, North American production was used. In this way, the geographic area of competitive supply for each product was represented. About 100 mills were used for comparison for the three products.

As the Prince Albert Pulp & Paper Mill is a combined production facility, it proved to be a challenge for the Task Force to properly assess and assign costs to each component of the paper making process. For example, depending on market conditions, the facility could maximize revenues by selling hardwood pulp, selling softwood pulp or selling paper. This flexibility is a critical element in maximizing profits, but it should be noted that a production base of 125,000 air dried metric tonnes (admt), used in the assessment, does not reflect full production but only that which was exported, and likewise for the hardwood pulp or paper production.

Linked to the analysis is the cost management process for the facility. The assignment of costs between divisions (i.e., between the pulp and paper divisions) may serve to overstate or understate the total costs. As a general rule, the Task Force heard that the pulp operations often bore

a higher relative proportion of costs (e.g., the steam plant) than the paper facility.

Table 4.1. Relative cost and capacity comparison for the Prince Albert Pulp & Paper Mill *vs.* world costs and the Prince Albert paper facility *vs.* North American (N.A.) costs.

Capacity	**Softwood Kraft Pulp (admt[1])**	**Uncoated Free Sheet Paper (fst[2])**
Average Capacity Prince Albert	125,000	250,000
Average Capacity World/North America	225,000	134,000
Costs	**PA Softwood Kraft Pulp *vs.* World Costs**	**PA Uncoated Free sheet Paper *vs.* NA Costs**
Fibre costs	**- -**	**- - -**
Chemical costs	**-**	**+**
Energy costs		
Electricity	**- - -**	**- -**
Fuel	**- - -**	**- -**
Labour costs		
Hourly	**+ + +**	**+**
Salary	**+ + +**	**0**
Material costs	**+ +**	**0**
Total costs	**0**	**-**

1 air dried metric tons 2 finished short tons

Where:

0 = +/- 5%

+ = + 5% to + 25%	+ + = + 25% to + 45%	+ + + = + 45%
- = - 5% to - 25%	- - = -35% to - 45%	- - - = - 45%

Source: Garner and Aschim 2006.

In Table 4.1, a relative assessment of the competitive strength of the Prince Albert Pulp & Paper Mill is provided. Overall, the data provided by Paperloop Benchmarking Services indicate two key points. First, the production of softwood kraft pulp and uncoated free sheet paper is competitive relative to world production costs. Second, the data identify areas where gains can be made to make the pulp and paper production even more competitive in world and North American markets.

Overall production costs for softwood pulp was within +/- 5% of world costs, while paper costs were 16% below North American cost at the time of data gathering. Relative to other plants, costs at point of production (which does not include transportation costs to market) are competitive. On specific cost elements, the data serve to identify areas of potential cost savings into the future.

Significant areas of opportunity are:

Fibre costs: Fibre costs for both the pulp and the paper operations are a considerable competitive advantage. Although fuel costs rose over the past year, delivered wood costs remain a competitive advantage as they comprise 37% of the facility costs; this must continue to be a competitive advantage for Saskatchewan operations.

Chemical costs: The competitive advantage of chemical inputs is variable. Costs are lower on pulp and higher on paper production. Higher costs are possibly due to higher shipping costs, particularly for paper fillers. A local provider of paper fillers may fundamentally change the competitive base of paper production at the facility.

Energy costs: Energy costs are a major competitive advantage for the Prince Albert facility. The Prince Albert Pulp & Paper Mill produces much of its own electricity needs internally, and has the ability to produce excess energy. There is a significant opportunity to offset pulp/paper production costs by expanding the energy production. Ready sources of energy exist to expand according to expanding markets.

Labour costs: Labour costs were found to be relatively high for both pulp and paper production. The prime reason the labour costs were high is not related to hourly or salaried wages but rather to a higher staffing rate per tonne at this mill than at competitors' mills. Labour costs were high (four times higher than average) in the production of hardwood pulp. In a global context, the scale of the mill compared to southern hemisphere mills also played a role but this is typical of Canadian mills.

Evidence presented to the Task Force indicated that discontinuing production of hardwood pulp and increasing the reliance on delivered softwood chips as raw material would make this mill much more competitive (Garner and Aschim 2006).

Material costs: Material costs did not prove to be competitively detrimental, although the cost for pulp production was relatively higher than paper production.

The focus on production of uncoated free-sheet paper also put this mill at a disadvantage. Although labour costs on the paper line were above average, a switch to production of value added/specialty grades of paper is estimated to be profitable. The decision by Weyerhaeuser not to make that switch or move into other product lines was likely due to the fact that it did not fit with corporate strategy (Mak 2006).

4.2 Labour Actions Since Closure

After the closure announcement, the Communications, Energy and Paperworkers Union of Canada (CEP) Local 1120 worked with local management decision makers to implement cost reduction measures that would improve productivity at the pulp and paper mills (Rucks 2006). Productivity at the pulp mill was significantly increased. In November of 2005, a new record was set for paper production (880 t/day); the previous record was set in September of that year (834 t/day). Efficiency on the paper line was 91.6%, also a new record. These records were achieved while reducing recordable safety incidents at the facility.

The move underscores the dedication of the labour force at the facility and their willingness to make changes to improve the efficiency and viability of the operation. It also demonstrates that local management authority and local decision making can prompt significant productivity changes.

A comparison of earnings for the Prince Albert Pulp & Paper Mill between 2001 and 2004 shows that, despite higher sales and lower manufacturing costs than in 2001, more "slush" pulp was produced, more paper rolls were manufactured and there were more sales of products in 2004. Manufacturing costs were 6% lower than in 2001 despite increased costs due to higher price for natural gas, wage increases and inflation. While so, lower pulp and paper prices resulted in $30 M less revenue in 2004 for the Prince Albert facility.

4.3 Road issues. Rail issues.

Saskatchewan producers have few transport alternatives, all of which are higher cost than those in competing provinces and countries. Limited rail service, restricted road access and limited intermodal access contribute to a higher cost environment (Mak 2006a).

Transport costs account for 20 to 30 percent of delivered cost. Transport adds to the cost of obtaining other raw materials and getting finished products to market. When compared with competing regions, the province's access roads in both the northeast and northwest have relatively low gross vehicle weight limits for road transport that directly increase delivered wood prices. In addition, rail access for some communities is limited. Because Saskatchewan is reliant on truck transportation, the allowable gross vehicle weight significantly affects cost of production and competitiveness.

Steps have been taken to begin to address this issue. On June 20, 2006, the Saskatchewan Department of Highways and Transportation

announced an expansion of primary weight to an additional 1190 kilometres of the provincial highway network (Government of Saskatchewan 2006). Truck traffic can now be diverted to highways that have been recently upgraded to carry heavier weights. The weight expansion is part of a long term transportation strategy called Transportation for Economic Renewal that includes investment in northern Saskatchewan and support for short line rail systems.

Finished product prices at the mill gate are determined by sales price less transport and handling cost. Consequently, Saskatchewan mills with higher transport costs are left with lower returns and profitability. Although Saskatchewan has a competitive advantage when serving the relatively close Midwestern markets (e.g., Chicago), higher transportation costs put Saskatchewan producers at a competitive disadvantage when serving the large coastal and export markets (e.g., Vancouver).

The Task Force concluded that in order to maintain low delivered wood costs there needs to be follow-up discussions with the government regarding road and rail issues. For instance, to capture the economic and environmental benefits that would be offered by the ability to harvest in that area, a short line rail link to north of the Churchill River is needed. A study should be undertaken on the cost benefit of reinstating a rail link to Big River that would be necessary to capture any future opportunities.

One area not explored in detail by the Task Force is the cost of delivery to market. Saskatchewan is not located close to major markets, and delivery costs are high. The situation is exacerbated by limited backhaul business from US destinations.

4.4 Energy Costs

Energy costs at the Prince Albert Pulp & Paper Mill are highly competitive (Table 6). Cost advantages are about $US27/ton for the two main product lines, even for the higher cost hardwood pulp. Upgrades at the facility include a new chemical recovery boiler, and conversion of one older boiler to the use of hog fuel (bark and wood waste) which allowed the generation of electricity for both the pulp and paper mills (another is available). The Task Force was advised that excess electricity could be sold onto the electricity grid and became a reserve source for the facility (Garner and Aschim 2006).

In Table 4.4, the advantage associated with energy costs for the Prince Albert Pulp & Paper Mill are apparent. Although energy costs were higher by almost three times over a low cost softwood mill, they are 40% lower than average and 80% lower than a high cost mill. For hardwood

pulp, the energy cost was over twice that of a low cost mill, but once again, 25% lower than average and 85 % lower than a high cost mill. Paper production also shows an advantage in energy costs: 30% lower than average, 13 times higher than a low cost mill but 26% lower than a high cost mill.

Table 4.2. Energy costs benchmarking, $US/ton of product.

Product	Energy Type	Prince Albert	Weighted Average	Low Cost Mill	High Cost Mill
BSKP[1]	Electricity	-5	4	-27	45
World	Fuel	23	42	-13	147
Producers	**Total Energy**	**18**	**46**	**-40**	**192**
BHKP[2]	Electricity	3	4	-19	62
World	Fuel	23	31	-17	102
Producers	**Total Energy**	**26**	**35**	**-36**	**164**
UFS[3]	Electricity	9	15	-26	74
N. American	Fuel	56	77	31	178
Producers	**Total Energy**	**65**	**92**	**5**	**252**

1 bleached softwood kraft pulp in air-dried metric tons (admt)
2 bleached hardwood kraft pulp in air-dried metric tons (admt)
3 unfinished free-sheet paper in finished short tons (fst)
Notes: Average costs for boreal forest mills plus BC interior and Nordic mill are very similar to world average.

Negative values indicate electricity sales or transfers, usually from either the pulp mill to the paper line (as with PA) or externally to the electricity grid.
Source: Garner and Aschim 2006.

Two energy costs were are not captured in the consideration of mill cash costs alone (Garner and Aschim 2006). These are transportation costs, where diesel costs for trucking and logging have increased, and the investment costs for the boiler upgrades which are recent and therefore higher than for competitors.

Current high prices for natural gas dictate that hog fuel is a favoured energy source for this facility. Steam and electricity are generated, although steam will not be required if the paper line is not restarted. Maximizing use of hog fuel would reduce energy costs even further. The Task Force was advised that natural gas could be replaced by further developing cogeneration power at the facility through conversion of the lime kiln.

It is important to note that access to wood residue, new or stockpiled, is considered an asset for energy production. In fact, it is possible that energy production could become a revenue stream for new owners of the Prince Albert Pulp & Paper Mill. Both Saskatchewan Power Corporation (SaskPower) and SaskEnergy Incorporated have expressed interest in having access to the wood residue in order to produce electricity and/or

energy that is currently in short supply in the province, especially in northern Saskatchewan (Youwza 2005; Kelln and Praski 2006). A Saskatchewan Forest Centre study shows that stockpiled wood residues "represent a viable source of conversion for several development opportunities" (Russell 2003:p16). An estimated 6 M cubic metres (m^3) of stockpiled residue exists in the province, 2.5 M m^3 at the Prince Albert mill site alone.

The development of bioenergy and electricity development options tied to the facility are believed to be viable future revenue streams for the facility. Further details on the bioenergy and electricity generation potential are provided in Chapter 5.

4.5 Conclusions

Delivered wood costs to the Prince Albert Pulp & Paper Mill are competitive. However, transportation costs to market are high, except to the Midwest United States where there is access by rail. Higher transportation costs to market translate into lower economic returns, which are especially challenging when lower value products are shipped.

There is a real opportunity for labour to help with cost reduction to make the mill competitive into the future. That labour is willing is shown by real changes they were able to bring about even as the facility was closing. The Prince Albert Pulp & Paper Mill is in good operating shape with great efficiency on the paper line. High end paper production would be a decidedly advantageous option for new owners.

In northern Saskatchewan, unallocated timber is available but access to competitively priced rail transportation is required. This limitation, along with Saskatchewan's limited access to intermodal shipping options, puts Saskatchewan's transportation network at a competitive disadvantage. Addressing these issues would improve Saskatchewan's ability to compete.

The low energy costs of the Prince Albert Pulp & Paper Mill are a great competitive advantage. Another option for new owners in electricity/ energy production is access to wood chips and to stockpiled wood residues. Bioenergy holds real potential for the future of this facility, and additional efforts are required to capitalize on the potential.

5 Realizing the Opportunity

The Task Force spent the last few months gleaning information from expert sources on a broad range of issues related to the forest sector, generated by questions and concerns surrounding the closure of the Prince Albert Pulp & Paper Mill. These experts and reports underscore the Task Force's belief that there is a future for the forest sector in this province; that a renewed sector is obtainable.

The forest in this province is not fully utilized in many ways: the actual harvest level is well below the sustainable harvest levels and its fibre quality is high, but it is not being used for the highest value end use. In addition, delivered wood costs are competitive with mills around the world. While the Task Force heard that the quality and abundance of the wood supply in Saskatchewan is a competitive advantage, it is one that has not translated into a robust forest sector or a major development initiative.

The door is wide open to attract other wood products businesses to establish in Saskatchewan. With the forest harvest across the Province at about half of the sustainable level, there is opportunity to grow a new industry that would become a long term, value based economy.

The opportunity to enter into cogeneration of energy or biofuels that could be sold onto the electrical (or natural gas) grid would be highly attractive in terms of cost reduction for production, for environmental reasons and even possibly as a revenue stream. With no end use, the wood residual piles at the Weyerhaeuser site are an environmental liability. These wood residuals could be used in a gasification process that would result in methane production that could be used in place of natural gas for energy.

The following sections detail the opportunities presented to the Task Force and begin to frame the discussion for future growth.

5.1 Community and Aboriginal Involvement

Community and Aboriginal involvement in a solution for the provincial forest industry is vital to its success. As noted in section 1.3, community involvement was crucial to positive outcomes in other cases. Communities can be surprisingly resilient in the face of crisis mostly due to their ability to act positively to change (Boughen 2005).

The Saskatchewan government recognized the need for Aboriginal and community involvement in 1999 when it announced a major

redevelopment of the forest industry. Three new developments were announced all with Aboriginal and community involvement. As part of the announcement, the province set out four pillars for forest development that would ensure ecological viability, economic future and community involvement. In order for development to be approved, the following had to be demonstrated:

- That development is economically viable.
- That development maintains resource sustainability.
- That development has a corporate partner.
- That development has a community partner.

The timber supply licenses (TSLs) now in place reflect the realization of these four pillars, and the involvement of community and Aboriginal groups in forest sector growth. Saskatchewan is recognized as a leader for involvement by First Nations in forest activities (Wilson and Graham 2005). Saskatchewan First Nations and Métis communities are engaged in or developing significant partnerships with almost all major FMA holders, for example Meadow Lake Tribal Council, Wapawekka and Mee-Toos/Peter Ballantyne Cree Nation. Several factors have come together to enable this participation, some of which include strong leadership on all sides, ongoing land treaty entitlement discussions and access to training programs, research (through the Saskatchewan Forest Centre), capacity building and investment (Wilson and Graham 2005).

Some First Nations communities are participating in agroforestry through Natural Resources Canada's Forest 2020 program. They are viewing it as one option for lands acquired through treaty entitlement settlements.

5.2 Energy and Biofuel Generation Opportunities

Following discussions about energy production, the Task Force believes there is good potential for energy and biofuel generation through forest activities in Saskatchewan. The Saskatchewan Power Corporation (SaskPower) has indicated that there are opportunities for power/electricity to be sold onto the grid. SaskPower and SaskEnergy Incorporated have both expressed interest in biofuel and green energy development. However, a program base should be considered to support these activities.

For several years, the Nipawin Biomass Ethanol Co-operative has been working on development of an ethanol plant for their community that would be based in part on wood residue from surrounding sawmills and woodlots. The wood residue pile at the Prince Albert Pulp & Paper Mill is

a great resource for energy production, especially now with the highly variable cost of natural gas.

Energy products from biomass conversion include:

- Electricity – the lowest value option,
- Heat – higher value but seasonal demand,
- Methane and propane – values expected to stay comparable to benchmark oil price, and
- Ethanol and liquid hydrocarbons – highest value but must be transported into big demand markets (Soveran, 2006).

Since natural gas is not available in many northern communities, a biofuel alternative would be a cost effective and environmental friendly method for them to obtain energy. The demand for ethanol is rising as is the demand for greenhouse gas (GHG) neutral energy, and emerging technologies are reducing production costs.

SaskPower is looking at increasing supply requirements. Over the next 10 years, the need will be for 1200 mega watts (MW) of new supply and for 2000 MW over 20 years. As outlined below, the company is looking at several supply options:

1. Natural gas (CC or cogeneration).	8. Refurbish/repower existing units.
2. Coal (PC or CFB).	9. Biomass/waste stream.
3. PC or CFB coals with CO_2 disposal.	10. Small hydro – Elizabeth Falls.
4. Polygeneration.	11. Large hydro.
5. Large scale wind.	12. Demand side management.
6. Nuclear.	13. Import (small scale).
7. Gas compression heat recovery.	14. Import (large scale).

CC = combined cycle PC = pulverized coal CFB = coal fired boiler

In a presentation to the Task Force, SaskPower indicated that they would enter into negotiations for cogeneration with new plant owners at the Prince Albert facility (Youwza 2005). The Province is committed to green energy development. Potential expansion of the electric generation capacity at the pulp mill would support this green energy strategy and could include cogeneration and power production through power purchase agreements. Biomass forms part of SaskPower's plans for a long term sustainable energy strategy for the province. Theoretically, a green power strategy would see 300 (MW) of power generated through a biomass/waste stream with no net greenhouse gas emissions.

As part of its long term strategy, SaskPower has committed to develop an independent power producers (IPP) component. Through the IPP program, technical standards and business processes to interconnect IPP projects are established. Project proposals will be solicited when a need

is identified. Unsolicited proposals are evaluated and specific power agreements are developed on a case-by-case basis. The current value of unsolicited proposals for biomass fuelled electricity is $65-70 per mega watt hours (MWh) with offset credits and $60-65 /MWh without offset credits, when expressed in 2006 dollar energy prices escalating at 2% per year (Youwza 2005).

SaskEnergy's overview included opportunities for using residual wood fibre (including chips) as a source for methane gas production. The overview was based on a preliminary investigation undertaken with the Saskatchewan Research Council in 2004. However, natural gas costs have increased significantly since then. As with many conversion processes, the viability is related closely to the price of natural gas. The process also requires a long term, secure supply of wood residuals. One benefit for SaskEnergy is that they already have a distribution system in place and there would be no cost for new infrastructure (Kelln and Praski 2006).

It is estimated that a plant production size of 150-200,000 dry tonnes per year would supply energy for 10-15,000 homes (Kelln and Praski 2006). The conceptual capital cost would be between $50 M and $70 M.

The gasification process is an environmentally clean process and would fit with the Province's green energy mandate. The conversion process would be easy considering the extensive infrastructure for natural gas in the province. The method that SaskEnergy looked at would see the wood residuals put through a gasification process much like the proposed process for the Nipawin ethanol plant. Instead of using a catalyst to produce ethanol, however, synthetic gas, or syngas, would be produced in a low oxygen environment. This syngas in turn would be purified into methane that could be fed into the natural gas grid. Acquiring sufficient wood residuals would be a challenge while the pulp mill was running and competing for residuals, but supply could be supplemented with existing stockpiles and adoption of agroforestry.

In order to truly understand the viability of producing methane energy from wood fibre residuals, detailed engineering studies would be required that looked more closely at costs and energy stream potential. The Task Force sees that there is potential to include energy production in the sale and redevelopment process for a new pulp and paper facility.

5.3 Value Added Development Opportunities Review

In evaluating the state of the global forest industry and the provincial wood supply, the Task Force concludes that there remain several and varied opportunities for value added processing of wood products in Saskatchewan. A review provided by Meyers-Norris Penny (MNP) presents a detailed overview of existing and potential aspects of opportunities for the Saskatchewan forest industry.

Saskatchewan's secondary manufacturing sector is less developed in comparison to Alberta and Manitoba. Less than full utilization of the wood supply has limited sectoral development. The linkage between the pulp mill closure and subsequent sawmill closures, hinging on the loss of a market for wood chips, demonstrates the concentrated nature and vulnerability of the industry. As the MNP report points out, "wood chip supply agreements are integral to the full utilization of the forest resource" (Mak 2006b: p38). Stockpiles of wood residues pose both an environmental liability and an economic opportunity.

The Task Force believes that Saskatchewan needs a fibre allocation optimization plan as part of a drive to value added processing. Development toward a value added industry for other jurisdictions has not always been successful. However, analysis shows that careful planning based on the approaches taken by Sweden and Finland should include the following steps:

- Collect, develop and maintain inventory data, including indicators that describe wood quality.
- Develop optimization models using inventory data and product characteristics.
- Use the optimization models to simulate the optimum and alternative timber allocation and utilization scenarios.
- Develop policy and program initiatives based on the results from simulations (Mak 2006b:p 44).

In order to fulfill these approaches, the Saskatchewan government needs to look at consolidating forest related activities into a single department. Future developments and strategic planning would be optimized with a focused collaboration for forest sector renewal and wood products industry revitalization. Following a carefully orchestrated approach would take full advantage of the success seen elsewhere.

5.3.1 Engineered Wood opportunities

"The future of the Saskatchewan forest industry hinges on the ability to foster growth in the value added wood products sector" (Mak 2006c). Value added opportunities are, in many ways, wide open for the wood supply in Saskatchewan. Finding the suitable fit with regard to fibre, business structure and timing will be a challenge but is possible if planned properly and there is commitment from industry and government. Adding value may be as simple as converting production from plywood to laminated veneer lumber (LVL) where the profit margin increases significantly (i.e., from $35 for plywood to $233 for LVL).

Today's new technologies provide the impetus to look at wood and wood products in new ways. New wood products and systems are characterized by better quality (uniform and defect free), suited to high performance markets and tailored to niche markets/specialty products. Advances in engineered wood products conversion technology will open up many avenues. Aside from products traditionally made from wood and component products, new products (such as those added to paint, glass, pharmaceuticals, snack food, explosives, and so on) are under development (Dangerfield 2005). These components use the 'building blocks' of wood to build new products (i.e., cellulose, hemicellulose and lignin). That is, a tree can be taken apart and rebuilt into different products.

Many options exist to move into value added production. One new trend toward environmentally friendly products is borate-treated lumber for resistance against insects, rot and fungi. Wood pellet production for fuel and pet supplies, remanufactured wood production (e.g., flooring, molding, etc.) and oriented split straw board containing wood are all examples of products that could be pursued in Saskatchewan.

In an assessment for opportunities for Saskatchewan aspen, the Task Force heard that unless there is an aspen log sort for quality, some market opportunities will not be realized (Gaston 2006). The future for high quality aspen in niche markets looks bright. Although it has been suggested that pursuing a furniture market would not be a good idea due to tough price competition with China, a niche market for aspen furniture could be found internationally (e.g., Japan).

Hardwood aspen lends itself to many applications, including dimensional lumber, LVL, plywood, veneer, glulam, I-joists, finger jointing, and the list goes on. A commitment seen as necessary on the part of government and industry would be to find a combination of resources suitable for successful production of aspen products as part of a larger plan to use the full wood profile.

There are approximately 3.4 M m^3 of hardwood available for harvest each year in Saskatchewan, with about 1.0 M m^3 in the Prince Albert FMA. Of the aspen resource, about 15% is usable for high value veneer logs, 5 - 20% is suitable for saw logs (mid & high grade logs), and the rest is more suited to the production of pulp or oriented stand board (OSB). Another option is, of course, to use the low value wood for bioenergy production. Other higher value options for use of the wood supply include furniture, wood components (e.g., finger jointing), and edge-glued panels. Appearance grade edge panels can be stained to meet consumer demands (Gaston 2006).

Export opportunities for aspen are good, especially in markets like Japan where light coloured wood is popular. Within the Japanese market, product opportunities for the highest grades of aspen lumber are seen to be in interior finishing and furniture applications. The United States remains an important market for the mid and low grade aspen lumber. This demand is driven by products that require appearance altering finishes such as stain or paint. Aspen offers a variety of diversification options that add value to the Saskatchewan forest sector and reduce its reliance on highly variable commodity markets. To realize these opportunities, a different value must be placed on the higher quality trees to prompt higher value production.

5.3.2 High End Paper Opportunities

As is clear from the Garner and Aschim (2005a) report, the future of the pulp and paper industry in North America is in question. However, markets in North America should remain for bleached softwood kraft pulp (BSKP). The Prince Albert Pulp & Paper Mill could be easily designated to produce only softwood pulp, which would reinstate the market for sawmill chips. This could provide a temporary timeline during which to consider further renewal of the forest industry.

The future for the Prince Albert Pulp & Paper Mill may rest with production of high value paper. Although the market is stagnant for uncoated free sheet paper, high grade coated paper still commands a high price. Because of this high price, transportation costs may not come into play (Mak 2006b). The paper mill in Prince Albert could be reinvested to produce these high quality papers.

5.3.3 Green Energy and Carbon Trading

As stated in section 5.2, power generation and biofuel production shows great promise. The forest sector can become a major contributor to greenhouse gas emissions reduction strategies. Carbon neutral energy

production can take place by using natural forests; significant carbon sequestration can occur through agroforestry. Carbon trading will soon become a reality and the opportunities that Saskatchewan forests offer for participation in this market are numerous.

Forests provide a multitude of environmental, social and economic benefits; they are key ecosystems for the planet's long term sustainability. In addition to timber outputs, trees in forest, woodland and agroforest systems deliver a range of additional outputs to society. Many of these outputs are social and environmental in nature, for example forest recreation and biodiversity. These outputs are often described as non-market benefits because they are generally unpriced and their value is difficult to reward in financial markets.

Some of the non-market benefits of trees include:

- production of oxygen and removal of carbon dioxide from the atmosphere,
- regulation of surface and subsurface underground water flow,
- smoothing out peaks and troughs in water availability,
- provision of efficacious filtration systems, and
- support of a myriad of native flora and fauna.

Loss of forests leads to loss of these benefits through increased soil erosion, reduction of nutrients, increased flooding, poor quality water, increased salinity, flora and fauna extinction, climate change and low resilience to stress in resulting farming systems. Hence well managed forest ecosystems are essential to ensure long term economic and social values.

There has been considerable effort to establish the value of the boreal forest in relation to climate change for its role in carbon sequestration as approximately half of a tree is carbon. While intensive forest management can improve sequestration, on the whole native forest stands will achieve a balance over the long run. Over the life cycle of a forest, new growth sequesters carbon from the atmosphere. However, as trees grow old, they are impacted by natural disturbances (such as fire and disease) which can release this carbon back into the atmosphere (through burning and decomposition). On balance, if carbon sequestered in manufactured wood products used in construction is excluded, an old and ancient forest is neither a net emitter nor a net sequester of carbon.

Agroforestry can significantly ameliorate the impact of climate change when introduced into areas that are traditionally cropped annually. Over the last century, annual cropping on agricultural lands has significantly reduced carbon in Saskatchewan soils. Trees as crops can restore the soil carbon imbalance alongside the carbon sequestration capacity of the tree itself. A plantation of fast growing poplars can sequester up to 10

tonnes of carbon dioxide (CO_2) per acre per year. In addition to all other benefits, trees planted into timber or shelter belts, along riparian areas and in plantations can establish microclimates that have the potential to mitigate climate change.

Agroforestry systems can be a significant contributor to biodiversity conservation and can provide highly diverse agricultural landscapes that include both the environmental benefits of forests and the food and income producing abilities of annual crops. Agroforestry can also provide a viable option for restoring degraded and vulnerable environments. Trees along riparian areas stabilize embankments as well as acting as a buffer to intercept nutrient and chemical run-off. Trees are utilized in phytoremediation to remove chemicals and toxins from the soil. Trees in agroforestry systems can provide a solution to effluent management for both livestock and human wastes, reducing water treatment costs and eliminating discharges into waterways as trees act as a natural filter. Trees act as a buffer to significantly reduce odour around livestock areas.

Agroforestry is becoming a vital means of resolving apparent contradictions between development and environment agendas. The problems of desertification and climate change can be ameliorated through agroforestry while watershed management and biodiversity conservation occurs at the same time. Agroforestry can relieve demand pressures on native forests and provide new income sources for farmers.

5.3.4 Activities NOT to Pursue for Saskatchewan

MNP outlined some value added activities that would not be advantageous for Saskatchewan to pursue. The decline of the pulp and paper industry in North American would point away from pursuing fine paper production (only very high end paper should be considered). Production of solid wood products that are not consumed in North America and have competition from developing countries is not recommended today as China dominates the furniture and furniture component industries.

The need for the industry to move toward value added production is indicated by the fact that the future for commodity export to the United States is limited. Continued consolidation of forest companies will put pressure on costs. Economies of scale may push Saskatchewan to a situation where there is room for only one to two sawmills. This does not mean there is not a role for small mills in value added products where economies of scale are less critical, such as production of paneling and edge-glued stock; i.e., products not suited to mass production.

5.4 Independent Operators: Opportunities for Growth

The Task Force believes that independent operators have a critical role to play in the development of a value added industry in Saskatchewan (Mak 2006b). This was confirmed through both direct presentation on independent operators and the MNP report. Many niche market opportunities can be captured by small operators, especially in wood products not reliant on and not suited to mass production. As mentioned, a commitment to assigning timber to its highest value end use through a fibre allocation process would benefit the forest sector and provide many opportunities for the growth of smaller industries.

Independent operators range from fence post makers to small/niche sawmills to log home builders to makers of furniture and flooring (Orynik 2005). Small independent operators, such as some sawmills or wood treatment plants, sometimes rely on access to wood through the Weyerhaeuser Prince Albert FMA. A survey of independent operators brought forward a number of concerns about the allocation process to receive additional wood volumes as well as concerns with the physical access to the provided wood supplies.

The allocation process was viewed as being complex and not transparent. Many operators did not understand how allocations were made, and how some companies received additional wood supplies while others did not. Some indicated they have bought allocations from other operators, while some groups received 'free' wood from government. This is compounded by the knowledge that the province is harvesting well below the Annual Allowable Cut, but limited wood supplies are available for independent operators. Through the discussion, it became apparent that a new allocation process for independent operators was required.

A second, but equally important issue was access to the timber itself. In most instances, harvest activities need to be coordinated with the FMA holder (Weyerhaeuser). Coordination can take a variety of forms depending on type of wood required, distance, quality requirements, and product being made. In some cases, the harvest plans of the FMA holder simply do not provide access to the types of wood needed by the independent contractors.

Paramount concerns for independent operators were timeliness for approval, process transparency and ability to access harvest areas. As with the allocation process, the Task Force believes a different relationship needs to be established between the new FMA holder and the many independent operators that are equally reliant on the land base for their economic future.

Recommendations for improvement taken from the Orynik (2005) report include:

- Revise the current process to one that is more transparent.
- Review the criteria used in the allocation process.
- Investigate alternative allocation processes.
- Continue exploration of the economic utilization of small diameter material.
- Investigate the viability of integrating harvest operations.
- Investigate Saskatchewan Agriculture and Food lands as a source of timber for independent operators.
- Investigate the opportunities for a "cooperative" relationship among independent operators that may benefit them in securing a quality wood supply, reducing waste and costs (Orynik 2005).

5.5 Agroforestry: Supporting Growth Today

Agroforestry is growing trees on agricultural land, either in combination with another agriculture crop or with livestock, or as a crop. Agroforestry can provide a future for forest operations and farms over the long term.

In the fall of 2005, Premier Calvert announced a vision of planting 10% of the agricultural lands to trees over the next twenty years. The Province's vision seems, on the surface, to be a large task. Ten per cent of the arable land amounts to about 4.0 M acres - about 200,000 acres per year. When taken in consideration with other permanent cover crops, twenty years ago there were 1.8 M acres of tame hay; today there are 4.0 M (Saskatchewan Forest Centre 2006). In context, a 200,000 acre/year target is readily achievable.

A land conversion to planting trees would create a new industry for the province, with diversity to sustain both the farm and forest sectors. Development of industry could begin before the end of the twenty year timeframe for fast growing trees to mature under agroforestry systems. The under-harvested Crown forest species could be used to supplement agroforestry based business while the trees in agroforestry systems grow to harvestable size. A harvest of 4000 acres per year would provide almost 600,000 m^3 of wood volume and could support a sizeable and diversified value added economy in a community region (Currie 2006). It would be possible that this value added economy could support an engineered wood plant plus a value added facility (e.g., veneer plant) and an energy/biofuel production facility or several Wapawekka sized sawmills, creating a few thousand jobs.

The Task Force vision for a sustainable and competitive forest industry for Saskatchewan would be enhanced by implementation of agroforestry. The forest resource would benefit through decreased pressure on the natural wood supply. There currently is a need for an alternate and additional wood supply by planting trees on farms.

A supplemental wood supply would support further growth of new industries that could enhance existing forest industries; such as, power generation, wood ethanol production and value added manufacturing. The Provincial vision for 4.0 M acres of trees would result in an additional wood supply that could be used not only to complement existing forest businesses but also to encourage growth of new businesses, especially at a community level.

Planting trees as part of a long term community development plan can achieve many local sustainability objectives. Agroforestry provides significant environmental benefits when integrated with other diversification activities (e.g., hog operations). Agroforestry systems can control odour and aid in management of community or farm effluent. Trees stabilize riparian areas, build biodiversity, and act as a carbon sink. In addition to growing fibre to supply the growing world markets, agroforestry provides diversification opportunities and value added jobs, not only for farms but for communities, as well.

5.6 Non-timber Forest Products

The Task Force received several written submissions describing the potential for non-timber forest products (NTFPs) as part of an integrated forest economy. NTFPs have the potential to add to northern and rural economies. Activities involving NTFPs are important in forest land development and planning. NTFPs are estimated to generate $200 M a year of economic activity in Canada, and about $5 M a year for Saskatchewan.

NTFPs include activities such as wild crafting; wild berry collection and processing; art and craft from forest product (e.g., antler jewelry and carving); nutraceutical products from forest plants (e.g., oil extraction for salves; tea production); outfitting and eco-tourism, to name a few. There is potential expanded forest use through traditional First Nations medicines and herbal extracts. These activities often overlap with harvest operations on FMA areas. Consideration of multi-users of the forest would assist in forest management and in improving local economies.

5.7 Conclusions

The Prince Albert Pulp & Paper Mill remains a central element in the whole sector to re-establish the job base and allow the future to unfold. The sawmill sector especially depends on a pulp facility for sale of their chips; without that market, these sawmills have and will shut down. Moreover, the mixed nature of the Province's forest requires harvest of both hardwood and softwood to maintain healthy forests, along with an end use for both.

A revitalized and redefined forest industry can strengthen the economy, environment and social fabric of the province. There is the potential that a new development initiative focused on Prince Albert could realize $500 M to $700 M worth of new investment in the province, adding significantly to the GDP. The future for the forest industry is tied to value added industries that will produce higher value wood products and provide well paying and stable jobs.

Around the world, clustered industrial sites lead to maximizing value from a resource. Wood fibre is channeled to its highest value end use that optimizes for manufacturing application. Such applications include: engineered wood products, finger-jointing, high grade paper, furniture, 'green' power generation, oriented strand board (OSB), and other machined products like flooring and molding.

For example, an engineered wood facility like an OSB mill has been highly profitable and would generate $250 M to $300 M in private sector investment. High end paper production would generate up to $250 M in investment. High end paper products used in magazines are in demand, despite decreased use of copy quality paper. Saskatchewan's wood fibre has been demonstrated to be excellent for OSB and for high grade paper.

Further opportunities exist for the development of energy production through biomass production of biofuel from wood and other fibre. Non-timber forest products are at present a relatively untapped but potentially valuable option.

Independent operators in Saskatchewan are needed to provide an alternative in value added use of the full wood fibre profile that fills gaps unsuited to large or mass production units. A fibre allocation process would be inclusive of all wood users and ensure that fibre goes to its highest value end use. Tied to this is the need to include community and Aboriginal involvement in the growth of the industry overall.

Agroforestry can allow for stability for some enterprises in the forest industry and provide flexibility for communities to build new industries. The supplemental wood provided by agroforestry to existing wood

supplies decreases pressure on the Crown supply and adds environmental benefits to landscapes throughout the province. Economic and social benefits are achieved through sustainable community based industries and stability for the existing forest sector.

6 Building for the Future

The Task Force believes that the future of the province's forest sector can be extremely positive; however, action is required to achieve this future. Sustainable management of the forest serving multiple users and providing high value, long term jobs and economic opportunities can be achieved. Today's forest industry must begin to focus on deriving the highest value from the forest resource. Commodity based production will face increasingly stiff competition from neighbouring provinces and abroad. A focus on adding value in this province can help offset these challenges by building new markets for Saskatchewan commodities.

This challenge must be met by the new forest company that will operate the Prince Albert FMA, in concert with public policy objectives for a higher value added, sustainable forest industry. It also must be met by all firms now involved in the province's forest industry. The Task Force believes that responsibility for achieving this future rests with all involved – large industry, independent forest operators, academia, labour, government, value added users and 'non-timber' forest users like tourist operators, trappers and the like.

Common to all is the need for continued support for basic and applied research, innovation and the adoption of new ideas and technology applications. As with the agricultural sector in this province, the combined efforts of all levels of government and research institutions must be brought together to maintain an ongoing competitive edge for this Province's forest sector.

6.1 Prompting Innovation and Applied Research

The growth of alternate uses for wood fibre has relied on technological advances made through research and development programs (Dangerfield 2005). Institutions like Forintek Canada Corp., the Forest Engineering Research Institute of Canada (FERIC), and the Pulp and Paper Research Institute of Canada (PAPRICAN) have been leaders in developing and applying innovative technology to suit the Canadian and Saskatchewan forest profile; an example is the Value to Wood program that brings together government, academic and research institutions. The Saskatchewan Forest Centre's Forest Development Fund has completed over 100 applied research projects focused on proving new technology application in Saskatchewan. The Saskatchewan Forest Centre is now the focal point for forest knowledge and innovation in the province.

A value added strategy must have its roots in research and development. Adoption of technology and production of alternate end uses for wood products is enhanced through applied research. An example from another industry is the widespread adoption of zero-tillage practices in agriculture. As research proved there were cost savings and environmental benefits to zero-till, farmers increasingly implemented this system on their farms. Saskatchewan based research was supported through commitment from government to applied research at the University of Saskatchewan and other institutions (e.g., the Saskatchewan Soil Conservation Association) that had mandates for knowledge transfer. The information got to those who needed it.

With the forest industry in transition, an opportunity exists to foster innovation through research and improve the competitiveness of the sector. Successful application of innovation, alongside a strategically planned value added initiative, will aid in renewal of the forest industry.

6.2 The Role of Government

6.2.1 Provincial Government

A comprehensive and critical review of forest industry development policies and programs from each province is provided in the MNP assessment report (Mak 2006b). Governments have used policy and financial instruments to achieve various ends for a long time. Most of the initiatives have come from provincial governments and federal involvement is less frequent and direct.

Until recently, the Government of Saskatchewan did not have a departmental focus on forest development. The recent appointment of the Forestry Secretariat is evidence of growing attention to this area. The Task Force believes that more effort and commitment is required to support sector growth overall.

Most forest development responsibilities are nested with Saskatchewan's Department of Environment; other departments have varying levels of interaction with the sector. Bringing these responsibilities together under one department would build a better response system for the sector and concentrate a renewed approach on needed structural changes. In general, this would help achieve the following:

- Promote industry development;
- Provide relief to industry during economic downturns;
- Facilitate structural changes in the forest industry; and
- Help steer the industry to grow towards a certain direction (e.g., value added) (Mak 2006b:p 19).

Table 6.1. Summary of recent forest industry program and policy initiatives for six provinces.

Policy/program	BC	AB	ON	QC	NB	SK
Public commission	No	No	Ministers Council for Forest Sector Competitive-ness	Coulombe Commission	Select Committee on Wood Supply	A Task Force set up for finding solutions to the PA pulp and paper mill closure
Level of administration	Moderate: becoming more streamlined	Less than moderate	Slightly more than moderate: becoming more streamlined	Moderate: being decentralized	Moderate	Minimum: not structured to be a program
Tenure changes	20% AAC distribution to First Nations and open market	Fully allocated provincial timber supply. No tenure policy changes	Introduction of multi-shareholder licenses	15% AAC reduction	No changes to tenure allocations. No AAC decrease	No changes to the tenure policies and other forest management policies
Inventory control	Government	Industry	Government: recent transition from industry	Government	Government	Primary industry co-operation with government
Primary reforestation responsibility	Tenure holder: funding controlled by licensee	Tenure holders: funding controlled by licensee	Tenure holder funding: controlled by Ministry of Natural Resources		Tenure holder: reforestation costs are reimbursed by government	Tenure holder: funding controlled by licensee
Public input	Mandated	Mandated	Mandated	Mandated	Recently mandated	Mandated
Stumpage	Market based on timber auctions	Base rate times product value	Base rate times product value	Transaction-evidenced using private timber prices as benchmarks	Transaction-evidenced using private timber prices as benchmarks	Base rate times product value
Removal of timber appurtenance	In the coastal region	No action	Recommended but no action	No action	No action	No action
First Nations involvement	Moderate tenure allocations and revenue sharing	Minimal tenure allocations	Minimal tenure allocations, strong employment	Minimal tenure allocations, strong employment	Moderate allocations and revenue sharing	Moderate allocations and revenue sharing
Additional stumpage funded forest improvement programs	Yes (Forest Investment Account)	Yes (Forest Resource Improvement Association of Alberta)	Yes (Forestry Futures Trust)	No	No	No
Value added initiatives	Moderate	Moderate	Moderate	Moderate	Moderate: new strategy incoming	No official action
Miscellaneous	Mountain pine beetle policy	Value added strategy, rural partnership initiative but results questionable	Forest Sector Competitive-ness Council recommend-ations	Coulombe Commission recommend-ations	Wood Supply recommend-ations	Forest competitiveness committee

Source: Mak 2006a.

Each province has its unique set of policies and programs, with British Columbia (BC) and Quebec (QC) having the highest number and being most specific. There are several common elements and several degrees of success. A summary of the common elements for each province is presented in Table 6.1.

6.2.2 Federal Government

Federal government participation through policies and programs needs to be carefully developed. As seen in Table 6.1, there are many aspects to every program and a need to tailor each one to prompt growth in each province.

The Forest Industry Competitiveness Strategy was announced by the federal government in 2004. Commitment to this strategy is unknown at this time due to the recent change in government in Canada. The Strategy is worth just under $1.5 B. Elements of the strategy include a combination of direct funding, tax incentives, loan insurance and short term loans. The last two would be directed at companies affected by the softwood lumber dispute. Funding is administered through several federal departments (Mak 2006b).

Main elements are:

- Advanced Technologies Initiative
- Expansion of the Renewable Power Production Incentive Program,
- Forest Innovation and Value Added Wood Products,
- Growing Wood Markets,
- Human Resources Sector Council,
- National Forest Community Adjustment Fund,
- Loan Insurance, and
- Industry Support Program.

Recently, the federal government established a new base through tax credits for energy conversion. The Task Force looks to the federal government for improved support to build a new value added future for the forest sector in Saskatchewan and in Canada, particularly in the areas of bioenergy and high value export ready products.

6.2.3 City of Prince Albert

The City of Prince Albert and local communities should consider the impact the closure of the Prince Albert Pulp & Paper Mill has had on their jurisdictions and review options for the role they can play in forest industry renewal. Prince Albert needs to be fully aware of how the pulp

and paper and other wood products industries affect its economic and social base.

Prince Albert will be challenged to maintain existing services if no buyer is found for the mill. On the other hand, a new company coming to town provides the City with the opportunity to be more proactive, recognizing what the facility provides in terms of budget and in terms of citizens' well-being.

6.3 Conclusions

A central element of a renewed forest sector based on adding value will continue to be ensuring an end use for chips and residue. Today this means an active pulp mill in Prince Albert. As such, value added initiatives will require not only the delivery of new technologies but an end point for chips and residues.

New technologies will continue to be implemented to maintain sectoral competitiveness. Organizations like the Saskatchewan Forest Centre, which delivers applied technologies to Saskatchewan businesses, will be central elements to this ongoing competitive improvement.

Governments' commitment to securing a stable forest sector will anchor the renewal process. Each level of government has a role to play and must work together to achieve success. The federal government can use existing and improved programs to enhance the industry in this province.

The provincial government has choices to make to prompt innovation, growth and long term competitiveness. In Saskatchewan, the forest portfolio needs to be focused into one department that can share responsibility and work more effectively to expand the forest sector.

The City of Prince Albert and surrounding rural municipalities also need to take a proactive approach to promote forest businesses for their economic health. Considering that the Prince Albert facility is a focal point for the forest industry, the City has a great opportunity to take advantage of the activity generated by being the portal through which harvest, production and transportation of wood products is funneled. Not only do employees of the facility and their families, by and large, choose to live and work in Prince Albert, many additional supporting businesses could be attracted to the City.

7 Vision and Recommendations

"Ensure a sustainable forest sector that is competitive in the world economy now and for the future."

Since the Premier spoke these words when he set up the Premier's Task Force on Forest Development, the Task Force has amassed a substantial knowledge base concerning the global forest industry, with focus on the pulp and paper industry, and on the provincial forest resource and its associated opportunities. Expert submissions were delivered to the Task Force. These submissions, in combination with a full examination of the facts, helped identify key factors leading to the closure. It also identified strategic directions for growth to renew a sector able to compete in a global market. Defined recommendations for the forest sector and government are provided to deliver on the Premier's commitment.

Overall, sectoral renewal, based on a reinvigorated pulp mill, needs to be undertaken in a timely manner to establish a forest industry that is competitive in world markets for the next 50 years.

The Prince Albert Pulp & Paper Mill closure put 4000 people out of work across Saskatchewan, and removed $408 M of GDP from the economy (~1.2%). Nevertheless, the future for the forest industry in the province is not bleak. Saskatchewan's forests have been described as one of its greatest assets. The timber from Saskatchewan's boreal forest is recognized for its commercial qualities. The forest that supports the Prince Albert pulp and paper operations and the associated sawmills holds enormous long term value for this province.

These valuable forests belong to the people of Saskatchewan. It is the responsibility of the Province to see that they are sustainably managed. It is a responsibility that obliges action when the loss of a major asset threatens the long term health of that forest. It also obliges an active role by government to work with industry to create uses for that forest that both sustain the forest and establish a competitive forest sector well into the future.

Following a key framework recommendation, the Task Force recommendations are divided into three groups. The first group deals with maintaining the forest in a healthy condition that supports long term forest operations for multiple users. The second group addresses today's issues, those requiring response in the short term to build the sector. The third group focuses on the future and the actions required to build an industry that will be competitive well into the 21st century.

The Task Force believes the delivery of a new vision for forestry in Saskatchewan must be focused on adding value to the resource that maximizes benefits for the people of the province. That vision includes:

- A clear focus on adding value to the resource;
- Utilization of the full wood profile in such a way that a healthy forest ecosystem is maintained;
- A viable wood products sector supporting a pulp/paper facility that is adding value through its product base;
- Long term growth linking agroforestry, biofuel opportunities and green electricity development to the forest sector;
- Ongoing investment in research and development to maintain long term competitive growth of the industry; and
- Knowledgeable governments able to respond to industry needs.

The potential opportunity to both re-establish the employment base and revitalize the industry through investment growth of $500 M to $700 M can be achieved by fully utilizing the wood supply and focusing on adding value into the future. The growth strategy requires a new framework for development and a commitment by government and industry to secure this expansion.

To deliver this new vision for the forest sector, the Task Force recommends that a representative province-wide advisory panel be established.

Recommendation 1: The Government of Saskatchewan mandate a Forest Sector Advisory Panel to oversee the delivery of recommendations contained in this report in order to maintain a competitive forest industry, now and into the future.

All constituents of the forest sector - large industry, labour, First Nations, independent operators, manufacturers, academics, agroforesters, and groups deriving value from non-timber components of the forest, to name a few – deserve recognition. A new group must be established with a broad mandate of delivering on recommendations contained in this report and to provide ongoing input to government to maintain a healthy competitive forest sector.

The closure of the Prince Albert Pulp & Paper Mill underscores that timely delivery on the recommendations in this Report are crucial for success of the Panel.

7.1 Sustainable use of the forest resource.

Much of the focus for the Task Force's activities has been on supporting the sale of the Prince Albert Pulp & Paper Mill. Nevertheless, underlying this asset is the forest itself. Without the forest resource the associated industrial facilities would hold little or no value. In the case of the pulp and paper mill, the forest resource was provided to Weyerhaeuser through a Forest Management Agreement (FMA). The Agreement provided security of timber supply to the company but also obliged a fair return to the people of Saskatchewan for that timber, access by other forest users and assurance of sustainable forest management.

The Prince Albert FMA holds significant value. It has prompted good forest management while allowing for economic growth that will deliver long term forest sustainability. The Task Force believes several additional steps can be taken to ensure economic growth and sustainable resource development in the Prince Albert FMA and perhaps across the commercial forest zone.

Recommendation 2: Mandate the harvest of the full wood resource profile.

Significant wood volumes remain unutilized, much of which is small in diameter. These volumes hold significant opportunity for development. New value added business interests must be attracted to Saskatchewan to make full use of available wood supplies. As described herein, the Task Force believes these wood volumes provide an opportunity to establish a value added industry in Saskatchewan focused on engineered wood, biofuels and/or high end paper production.

Future tenure agreements must require full utilization of the wood supply and full species utilization to maintain the health of the forest. If the FMA holder can not utilize all wood volumes and species, these volumes must be made available to other end users.

Recommendation 3: Allocate surplus wood volumes to highest value users.

Firms must be provided only enough wood volume to support business plans: not more and not less. Clauses such as the 125% "rule" allow FMA holders to retain more wood than they can use. Future FMA security agreements must reflect actual usage levels.

Major commodity users must be provided full security for their required wood volumes, but not provided more volume than they can use. Highest value use of the forest must be established and surpluses eliminated. Higher value species and trees must be directed to their highest value end use.

Examples of higher value use include birch and tamarack flooring, appearance grade aspen products, use of smaller diameter black spruce in engineered wood products and biofuels. To this end, log sorting for value must be established and linked to future actions so as to provide cost effective selection and sale of logs for higher value use.

The Task Force calls upon government to deliver the necessary regulatory and policy changes to ensure long term ecosystem health through full sustainable forest harvest. This will require recognition that active human management is necessary to maintain natural ecosystems.

Recommendation 4: Establish agroforestry in Saskatchewan to address long term fibre requirements and to develop a fibre base not dependent on Crown forest resources.

Agroforestry in Saskatchewan can enhance the natural wood supply and develop its own industry. Today, there is opportunity to link the Crown forest resource base to an emerging agroforestry base. This linkage would reduce long term dependency on the Crown forest for fibre, and prompt additional investment and development today. A planting program of 6000 acres per year would support early development of an engineered wood facility as part of the renewal of the pulp and paper complex in Prince Albert.

Unlike many jurisdictions in Canada, the business case for growing trees as part of farm operations in Saskatchewan makes financial sense. Farmers can realize a greater return on investment over a 20 year period growing trees than growing annual crops. The Saskatchewan government has recognized the importance of agroforestry as a crop diversification option, and has committed to support conversion of 10% of arable land (4.0 M acres) to agroforestry production over the next twenty years. The pulp mill sale provides a direct opportunity to link wood supply from Crown and agricultural lands to deliver engineered wood investments today.

Like any new crop, a development plan is needed to facilitate adoption. The Task Force further recommends that Saskatchewan:

- Invest in research to develop tree varieties that are suitable to agroforestry systems and hardy for each ecoregion;

- Expand existing technology transfer and outreach programs, such as those provided through the Saskatchewan Forest Centre;
- Expand the demonstration plantation network across Saskatchewan;
- Establish risk reduction programs to lower the front end costs to farmers to get involved in agroforestry; and
- Negotiate expansion of the federal Greencover Program to fully fund trees as an alternate land cover.

Recommendation 5: Identify non-timber forest products as valuable forest output whose harvest and renewal will be accommodated by FMA holders.

There is significant interest in sustainable use of resources within the forest, other than timber. Future FMAs must accommodate the sustainable extraction of these resources. To support this, all levels of government must invest in research to identify appropriate resource utilization levels and market potential for non-timber forest products.

The Task Force calls upon the government to establish appropriate regulatory and royalty structures that encourage sustainable extraction of these resources while recognizing the added infrastructure costs to maintain and support these emerging opportunities.

7.2 Establish a competitive base focused on value added.

The closure of the Prince Albert Pulp & Paper Mill is evidence that change is required to maintain sectoral competitiveness and to prompt additional growth. The sale and redevelopment of the Prince Albert pulp and paper mill provides Saskatchewan the opportunity to fundamentally redesign the entire forest sector for the future.

A new operating environment must be created to make the industry more responsible for its own future. The future forest industry in Saskatchewan must be established with enough independent players to create competition for resources and competition among firms. Financial support from any level of government must be directed at generating a new industry able to respond to ongoing competitive challenges inherent in the forest sector.

Recommendation 6: Establish a new forest sector in Saskatchewan through strategic government investment.

Government support to achieve a new future for the forest sector is required. The Task Force believes that there is a legitimate role for government to create wealth within Saskatchewan by financially supporting the growth of an entire sector. The Task Force also believes that this support should be provided to establish a sector able to stay competitive well into the future. The type and level of investment are contingent on the deal in question. This role is legitimized through the use of a provincial asset – the forest.

States and provinces across North America regularly support major primary sector investments, be it automotive, manufacturing or forestry. The spin off benefits from supporting jobs, taxes paid and downstream economic activities like value added manufacturing will more than pay for the initial investment by government.

Recommendation 7: Deliver changes to the solid wood sector that supports a renewed pulp facility. Focus program support on adding value to the current commodity product base and increasing manufacturer productivity.

The pulp and paper and solid wood sectors are interdependent. It is critical that changes to the pulp and paper operation in Prince Albert be supported by changes among the solid wood operators in the province, particularly if more softwood chips are required at the pulp mill. Transition programs are required to expand chip supply from provincial sawmills. Moreover, a program focused on adding value to products and improving productivity is called for in light of possible reduced ability to export commodity products to the US (see following Recommendation).

Government support to re-align the solid wood products sector to expand its value added base and thereby provide long term fibre needs to the new pulp/paper operation is needed. The Task Force calls upon the government to develop a program base (tax credits, grants, investments, etc.) for the solid wood sector to respond to potential increased chip requirements at the pulp mill.

Recommendation 8: Pursue increased market access to the US for Saskatchewan lumber producers as part of the softwood lumber agreement, thereby increasing chip supplies to a pulp facility.

Either proposed scenario now defined in the Canada/US Softwood Lumber Agreement (SLA) will limit the provincial industry's ability to

grow. Historic export levels of 2.0 to 2.5% of the market must be maintained. Prior to provincial acceptance, a settlement that supports both the pulp mill and the growth of Saskatchewan's solid wood operations is required.

If the SLA proceeds, the Task Force believes that a solution must be found for this province "within" the Canada/US agreement framework that will allow for growth without compromising the tenets of the deal itself. The Task Force believes this is a critical element to approving the deal. Saskatchewan must press for a higher market share, preferably back to 2.5% (i.e., normal levels) or an exemption from the quota process. This needs to be confirmed prior to provincial support for the agreement.

If this objective can no be achieved, the Province should seek compensation for the negative impact the SLA will have on the forest industry.

Recommendation 9: Maintain the current competitive cost structure now supporting delivered wood costs to the pulp and paper facility.

Information provided to the Task Force indicates that Saskatchewan firms enjoy among the lowest delivered wood costs in Canada. Low cost includes harvest and haul operations required to get the wood from the forest to the mill site, as well as the resulting reforestation costs. Low delivered wood cost is a key competitive advantage for the provincial industry and helps offset, in part, the higher transportation costs to market. This advantage must be maintained. Government must continue to work with industry to address areas of potential cost increase prior to major market disruption.

The Task Force did not investigate issues of regulatory cost, forest management planning, monitoring, approval processes and the like. There may be room for improvement in these areas that could help maintain the competitive position of the industry. Government and industry should jointly examine all issues related to the cost of wood supply delivery and forest management to identify areas of potential benefit and competitive improvement.

Recommendation 10: Maintain the appropriate infrastructure base for the industry.

The rail link to Big River was removed several years ago. Now, there is significant pressure on the road system to move product to market. It

may be more cost effective for the Province to support re-establishment of the rail link than to incur higher maintenance costs on the road network. Likewise, the rail link between Prince Albert and Birch Hills should be maintained, thereby providing potential market access through the Port of Churchill for future wood products from Prince Albert.

As with recommendation 9, the Task Force believes that the Province and industry should jointly examine transportation issues (to mill and to market) to maintain long term sectoral competitiveness.

Recommendation 11: Pursue and support bioenergy investments within the forest sector; ensure access to Provincial energy and gas distribution networks.

The Prince Albert Pulp & Paper Mill has been generating electricity for some time. Recent upgrades have positioned it to be a potential energy exporter. Moreover, significant opportunities now exist to establish major power cogeneration facilities on site to better utilize wood waste. Task Force review indicates that energy production/sale should become a key revenue source, one able to help offset downturns in the pulp/paper sector. State of the art pulp mills, like Prince Albert, are able to produce carbon neutral energy.

A SaskPower submission to the Task Force provided initial support to production and sale of energy to the grid, and identified a $0.065/kw to $0.075/kwh cost payment structure for prospective developers. The Task Force concludes that the current regulatory environment must be clearly defined in favour of localized energy production and distribution, and must include the following elements:

- Biomass electricity projects must have full access and ability to sell to the Provincial power grid (through SaskPower); and
- Further research and development of support for biomass conversion projects to generate biodiesel and other fuel replacements from wood fibre is required.

Discussions with the federal government have promoted Prince Albert as a key location for electricity cogeneration and green energy development. These discussions need to be completed and federal support for green energy identified.

As a Crown corporation, SaskPower has both a 'public good' mandate and a 'profit' mandate. SaskPower must commit to review all joint investment opportunities with bioenergy/ electricity providers to expand electrical production. At a minimum, the public good benefits, and the

associated costs, that merited investment in wind electrical generation must be applied to the forest sector.

Recommendation 12: Examine methods to create a new forest cluster focused on an engineered wood product base that is tied to the pulp mill reinvestment. Establish a federal, provincial and municipal working group to make recommendations on how to implement this forest cluster.

Several successful forest clusters have been established internationally (e.g., Sweden, Finland). Benefits of establishing a cluster include minimal log handling, common waste management, minimized infrastructure costs and common shipping/ receiving facilities. There are also many "green" benefits because of reduced energy demands, as road and rail traffic between major sites is eliminated.

An examination of these models and their adaptation to Saskatchewan would hasten commitment to a new forest industry and facilitate structural changes. The City of Prince Albert is the focus for the forest sector in Saskatchewan and will likely remain so. The City has the dedication to embrace and absorb new development and become a world class centre of forest excellence.
The City and surrounding municipalities should lead the establishment of a joint working committee to institute a forest cluster in Prince Albert focused on value added wood products. There is an opportunity to establish an engineered wood and manufactured housing cluster based upon the solid wood, OSB and plywood products now produced in Saskatchewan. Direction for this cluster will be largely driven by the decisions made by the pulp mill owner in the next few months.

The City of Prince Albert and surrounding municipalities should actively pursue a forest based industrial cluster as part of their long term growth strategy. The Task Force reports specified that for long term success and renewal for the forest sector through a forest business cluster, financial support should go only to new sectors. Companies should co-locate in order to maximize synergies created by the cluster and where possible, multiple firms should be involved to spread risk.

Recommendation 13: Allocate future wood volumes to independent/third party operators through a transparent process. Increase both the total volumes provided and the species mix.

There is potential to expand the sustainable use of all species within the Crown forest. Large forest companies historically have not used all the species or the volumes available from the Prince Albert FMA. As part of the move toward full sustainable use of the resource, additional volumes

should be provided to independent operators. Also, the allocation process to independent/third party operators must be revised to address current concerns about process transparency and results. Tied to this is the requirement that the new FMA operator provide efficient access to wood volumes identified for independent/third party operators.

Paramount concerns for independent operators were timeliness for approval, process transparency and ability to access harvest areas. As with the allocation process, the Task Force believes a different relationship needs to be established between the new FMA holder and the many independent operators that are equally reliant on the land base for their economic future. The land management entity responsible for securing wood supplies must expand its client base to more effectively include other users.

Recommendation 14: Solicit and maintain community and Aboriginal involvement in forest sector growth.

The Task Force heard from many sources that community involvement will anchor successful revitalization. As part, Saskatchewan's dedication to Aboriginal (both First Nations and Métis) involvement in the industry is leading edge and needs to be continued. This includes access to capital and training, and the opportunity for direct involvement in the ownership of assets tied to resources.

Past commitments by the Provincial government supports a significant increase in First Nations, Métis and community ownership and participation in sustainable forest development. Many First Nations are poised to take on significant equity/ownership positions in new forest operations as part of a renewed ownership and development structure for the Prince Albert FMA. In addition, First Nations lands hold high potential for integration into long term sustainable development of the industry by expanding the available wood supply to support new investments. Corporate investment by new industry partners should be twinned with investments by Aboriginal and interested community organizations. The Task Force believes a commitment by the new FMA holder to community involvement is critical to long term success.

Recommendation 15: Support the City of Prince Albert through the transition.

The entire province is impacted by the closure of the Prince Albert Pulp & Paper Mill. But Prince Albert, with its heavy reliance on tax and surcharge revenue from the facility, will feel the effect of any long term closure in a particularly hard way. Provincial and/or federal support is

required to maintain civic operations during the transition period if the tax base is lost for an extended period of time. Similar efforts may be required in other affected communities like Big River.

7.3 Actions for the future

The future of the forest industry in Saskatchewan depends on fostering a culture of innovation and change. Innovation is prompted by competition and supported by appropriate research and development investments. Change is necessitated through innovation and the adoption of business models and technology that pave the way for industry transformation.

Recommendation 16: Establish a new provincial department mandated to deliver 'renewable resource development', separate from departments responsible for 'environmental management' and 'industry and resources'.

The information provided in this report is an important first step in building a greater understanding of the importance of the forest sector throughout the Province and within the provincial government. Considerable effort has been made through the Task Force process to outline a new future for the forest sector; however, the Task Force Report only begins the process. It is recognized that for full delivery of the report recommendations, a new structure in government is required.

The responsibilities for forest management and for forest resource development in government are spread across several departments. The Forestry Secretariat was a good interim step that can build towards a consolidated response by the Province to the forest sector. The Province needs to capitalize on this momentum by clarifying its direction for sustainable resource development. A new department is required that will build a culture of innovation and change in the sector and support its long term growth.

To these ends, all functions tied to renewable resource development should be consolidated into a single department. These responsibilities for sustainable development of Crown owned resources include forest management, fire protection, and related business development. This action would provide a clear contact point for all forest and 'renewable resource' activities.

Recommendation 17: Fund applied research and development to achieve competitive improvement in the forest, agroforest and value added sectors.

Research bodies exist in Saskatchewan designed to support the ongoing competitive development of the forest sector. Federal and provincial funding is provided when industry generally fails to invest in activities that are larger than any one company can reasonably handle. Today, the provincial industry can access forest related technology and research support through the Saskatchewan Forest Centre. The SFC delivers applied technology solutions for the forest, value added and agroforestry communities. Its core activities are focused on expanding value added activities in Saskatchewan by linking companies to new products, markets and, where appropriate, methods of managing the forest resource. Through its relationships with national organizations, like FERIC, Forintek Canada Corp. and GeoSpatial Consulting Inc., technologies are developed for application in Saskatchewan.

A more direct working relationship is proposed between the SFC and the primary forest sector whereby they would participate directly in funding the SFC and participating in its strategic direction. As part, it is recommended that a portion of existing timber dues or a portion of any potential softwood tariff be directed to support Saskatchewan Forest Centre operations and value added development for the sector overall.

7.4 Concluding Statement

The pulp and paper mill in Prince Albert is the lynchpin facility that supports much of the provincial forest sector. It is a key component that advances a growing, viable sawmill sector in the province. Its use of the wood supply helps maintain a healthy ecosystem, both now and for future generations. The Task Force has considerable optimism that a renewed and revitalized forest sector can be achieved in Saskatchewan if the value of the wood supply is maximized, short term issues are addressed and a culture of innovation and change is created.

Reopening the Prince Albert Pulp & Paper Mill is the most feasible approach to re-establishing the forest sector in Saskatchewan. Changes identified in this report would allow other options, including those that add value to the wood supply; e.g., production of energy/electricity and/or oriented strand board or panel production, to be developed in conjunction with the operating pulp mill. Not only do these options add value to the wood supply, they encourage sustainable forest management through full fibre utilization.

The concept of sustainably managing resources has many faces and must reflect natural cycles. Active management for sustainable forests includes harvest levels that emulate natural disturbances and do not disrupt the normal sequence of events. Sustainability for the forest economy means streamlining the forest resource into the highest value end product.

The focus for a sustainable forest resource is to add value to the wood supply and to provide a competitive base for development. Value added forest products are essential for long term success of the Saskatchewan forest sector. Building a foundation on which such an economy can grow and expand takes dedication and determination by government, industry and communities, working together toward a sustainable and diverse future.

The forest industry is at a crossroads where commodity based products alone no longer sustain the business of forestry and where technology provides endless options for adding value to the resource. Forestry is not alone; several other resource based industries are encountering the same experience. The future for such industries lies in the ability of the stakeholders to adapt and in their capacity to embrace change.

"The future [of the forest sector] lies in creating a new, competitive industry that is allowed to make economical, rational decisions and does not rely on one major investor or company alone. A new regulatory environment needs to be developed that prompts competition and welcomes many players into the field" (Balon 2006:p 5).

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APPENDIX 1

LIST OF THOSE INVOLVED ON THE PREMIER'S TASK FORCE ON FOREST DEVELOPMENT

Premier's Task Force on Forest Development Members

Hon. Eldon Lautermilch	Co-Chair, Government of Saskatchewan
Tom Waller	Co-Chair, Forest Secretariat
Mayor Jim Stiglitz	City of Prince Albert
Paul Hallen	United Steel Workers (USW)
Trevor Klassen	Business/Legal Community
Ron Rucks	Communications, Energy and Paperworkers Union of Canada (CEP)
Jim Scarrow	Business Community
Carol Soles	Community/Family
Ron Blocka	First Nations Representative
Robin Woodward	Saskatchewan Forest Centre

Forest Secretariat

Tom Waller	Chair
Al Willcocks	Saskatchewan Environment
Heather Forbes	Investment Saskatchewan Inc.
Tony Baumgartner	Saskatchewan Industry and Resources
Alan Parkinson	Saskatchewan Environment
Kent Campbell	Crown Investment Corporation

Other individuals were brought into the Forest Secretariat as required, including representatives from the Departments of First Nations and Métis Relations, Highways and Transportation and Justice.

Prince Albert Forest Action Committee (PAFAC)

Dennis Balon	Steering Committee
Wayne Simpson	Steering Committee
Larry Zatlyn	Steering Committee
Mervin Schneider	PAFAC member
Kevin Paproski	PAFAC member
Gary Doetzel	PAFAC member
Fred Matheson	PAFAC member
Trevor Ives	PAFAC member

Appendix 2

Chronology of Events and Task Force Meetings

October 4, 2005 – Weyerhaeuser announces indefinite Closure of PA Mill

- Company announces it intends to explore all options with respect to the mill, including identification of potential purchasers.
- Company gives staff 90 days, with closure beginning January 3, 2006 for the paper line.

October 4, 2005 – Province Announces Task Force

- Task Force established to create viable future for the provincial forest sector.
- 690 staff to be affected at the pulp mill – about 200 on the paper line, 490 at the pulp mill.

October 11 – Regional Inter-sectoral Committee

- Met with RIC to advise on mill closure. RIC to develop plan of action for human resource management in the event the facility is closed or the paper line is shut down in early January.

October 12 – Task Force meeting with Al Willcocks (SE) to discuss Operational Working Group

- Advised that the Task Force would like weekly updates from Working Group.

October 17 – Meeting with Prince Albert Regional Strategic Economic Plan

- PA Chamber of Commerce, City of PA, Derek Murray Consultants and others to advise on implications for closure, Task Force mandate, structure, members.

October 14 – Developed work plan for Task Force

- Initial Task Force work plan, budget and consultant process approved.

October 19 – Saskatchewan Forest Ccentre Annual General Meeting

- Reviewed Task Force Mandate/status with SFC members.

October 20 – Dr Jim Dangerfield, Vice President Forintek Canada Inc.,

- Dr Dangerfield provided an overview to the Task Force on world commodity trends, economic issues facing the wood and pulp markets and a review of new/emerging product opportunities that could be a development opportunity for the PA wood supply.

October 24 – Wayne Roznowsky from Weyerhaeuser

- Discussed sales/corporate contact process and Weyerhaeuser's involvement on Task Force.

October 25 – Ray Boughen, Former Mayor of Moose Jaw

- Presented to the Task Force on the Moose Jaw experience when the Air Force Base was announced for closure.

October 27 – Clarence Ekstrand & Zia Metallurgists

- Met with Mr. Ekstrand and Chinese representatives to discuss investment.

November 2 – Andrea Atkinson, Saskatchewan Environment

- Presented to Task Force on legal background, implication of existing FMA between Province and Weyerhaeuser.

November 10 – Northern Labour Market Committee Meeting

- Provided overview to NLMC on the potential impact of the mill closure on northern communities and northern harvest/haul operations. Contrary to expectation, there were few questions raised.

November 15 – Ontario situation discussed with Task Force

- Overview of how other communities have handled specific pulp/paper mill closures in Ontario.

November 16 – Andy Garner, Omar Aschim: Consultant overview

- Detailed assessment of pulp/paper industry worldwide.

November 22 – John Gormley show

- Jim Scarrow and Robin Woodward on *John Gormley Live*. Provided overview of Task Force operations and perspective on forest industry.

Week of November 14 & 24 – Labour transition meetings

- Sask Learning, Weyerhaeuser and CEP met to discuss workforce transition issues.
- Service Canada (EI) and CanSask hosted several meetings with impacted staff in PA region. Meetings with non-Weyerhaeuser staff were small (3 at two meetings); Weyerhaeuser specific meetings had better attendance.

Week of November 21 – Business meetings

- Jim Scarrow and Robin Woodward held several meetings with Prince Albert business groups to advise on sale process and clarify issues on potential purchasers.
- Robin Woodward and Minister Lautermilch held extended interviews with CKBI; aired on Monday November 28.

November 28 – Public Meeting of Task Force

- On November 28 the Task Force hosted a second public forum. Presentation of Task Force activities and Working Committee updates took place. Public questions after presentations focused on recent media attention on Dr Ekstrand, cohesion of the Task Force, sustainable use of the forest, and process/potential for positive mill sale. Over 100 in attendance.

November 30 – Andy Garner, Omar Aschim, Consultant Report on Benchmarking

- Benchmarking assessment of Prince Albert pulp operations versus similar pulp/paper facilities.

December 5 – Working Group meeting, Regina

- Met with full working group to discuss next steps for government's assessment of pulp/paper mill in Prince Albert; identify new roles for larger working group.

December 7 – Dave McQuinn, Saskatchewan Industry and Resources

- Economic impact analysis of mill closure on economy, forest sector.
- Overview provided of SIR report to Task Force

December 7 – Lyle Bettman, Penny Summerville

- Human resource planning. Overview of plans in place in event of lay-offs and severance.

December 13 – ERCO Worldwide, Saskatoon

- Teleconference with Mr. Bill Compton, Saskatoon Manager of ERCO Worldwide. ERCO provides a significant amount of chemicals to the PA pulp and paper facility. Discussion focused on implications of potential closure of facility upon operation.

December 14 – Presentation by Pat Youzwa, President of SaskPower and Minister Quesnell

- Power pricing policy, confirmation of issues that can be negotiated with the designated purchaser of the Weyerhaeuser facility, future of green energy development in Saskatchewan and links to expanded co-generation/bioenergy facility at the pulp mill site.

December 15 – Weyerhaeuser permanently closes paper machine

- Paper line announced to close January 3, 2006.
- Pulp operation confirmed for sale; will operate until spring, 2006.

December 19 – Meeting with Premier Calvert and Task Force

- Premier advises he is working on a post Christmas message for the forest sector focused on the future and the renewal of the industry. This is more than just a PA issue; it affects the entire sector and the Province as a whole. A sector wide solution is needed.

December 21 – Brian Payne, Dave Coles, CEP

- Support at the community level that is a key part of a successful purchase process. The CEP is committed to discussions with a new owner that would see a commitment to making a long term and viable facility. They advise there is no federal strategy to support the forest sector, the largest industry in Canada.

Week of January 3 – paper line closed

- Paper line closed, final work completed January 7th.
- 99 staff let go, about 50 bumped into pulp facility.

January 11 – Task Force Meeting

- Reviewed the upcoming work plan for the Task Force. Minister indicated that a vision for the sector will be developed by the Province and vetted with the Task Force on the future development opportunities for forestry and agroforestry in Saskatchewan.

January 16 – Public Rally for forest sector, organized by the CEP

- Public rally at City of PA public square. Rally focused on federal government's role in ensuring long term health of Canada's main industrial sector. Part of national initiative delivered by CEP as part of election process.

January 17, 2006 – Weyerhaeuser Big River and Wapawekka

- Weyerhaeuser gives a 90-day indefinite layoff notice to 235 employees at the Big River sawmill and another 48 employees at Wapawekka.
- Harvest haul companies advised of shut down date.

January 18 – Presentation by Andy Garner & Omar Aschim, Consultants

- Task Force reviewed the third report prepared by Andrew Garner and Associates which recommends actions necessary to lower overall costs at the mill.

February 1 – Presentation by City of Prince Albert

- City identified what 'advance' commitments it could make to help reduce long term costs to the facility. The City confirmed that the existing tax reduction of $3.0M to Weyerhaeuser will be continued for the new owner. The City also committed to work with an 'ambassadors group' to profile Prince Albert as an attractive place to do business, raise a family and make a major investment.

February 1 – Province creates Forest Secretariat

- Province establishes Forest Secretariat to lead forest development and provide focus for economic activities in Provincial forest sector into the 21st century.

February 3 – Weyerhaeuser writes off PA Pulp mill assets

- Weyerhaeuser press release: "in the 4th quarter, Weyerhaeuser recorded $427M ($491M Cdn) of pre-tax charges related to the announced closures of the PA pulp and paper operations…"

February 7 – Mill closure date set for April 13

- Weyerhaeuser announces firm closure date of April 13th, with transition group in place after April 13 for decommissioning.
- March 28 final day for 'chip digester'; final pulp run 2-3 days later; wrap-up April 4-12.
- Employees advised: 'no site visits or requests for detailed information from potential buyers.

February 10 – Province calls on Weyerhaeuser to extend planned closure date

- In response to Weyerhaeuser announcing its April 13 closure, province calls on company to extend operations until buyer is found.
- Response from Weyerhaeuser confirms certainty of April 13 closure.
- Wood room closed; enough fibre is in place to operate to April 13.

February 13 – Presentation by Saskatchewan Research Council

- Dr Doug Soveran and Dr Mark Johnston presented on the potentials for bio-energy and bio-fuel development as part of an expanded forest resource. The opportunity for power generation from wood residue ties closely to SaskPower's preparedness to look at options that could include cogeneration.

February 16 to 19 – Meeting with business, community and labour groups

- Task Force updated community leaders regarding sale process and need for community action group to support mill sale.

February 21 – Confirmation of serious offer received by Weyerhaeuser

- Un-named company submits bid to Weyerhaeuser for facility

February 17 – March 9 – PAFAC becomes very active in sale process

- The Prince Albert Forest Action Committee, a subcommittee of the Task Force is established. Made up of key business people from PA, they are advised of bid and potential for mill closure and dismantlement.
- In less than 3 weeks the PAFAC holds over 40 meetings with business, labour, City, Chamber of Commerce, federal and provincial representatives. Also meets with Weyerhaeuser and Forest Secretariat.
- March 2 meets with Forest Secretariat and hired consultants to define respective roles and determine best fit with sale process.
- March 9 meets with Premier Calvert to secure his active involvement in the sale process and to identify common vision/action steps necessary to sell facility.

March 15/16 – Unnamed company begins facility tours / inspections

- First of several inspection tours underway. Energy group in March 7.
- Met with government representatives March 15 in Regina. Several groups then assessed Big River, the pulp mill and met with inventory specialists on Thursday.
- Company later identified as Kruger. Kruger is a major pulp and paper company engaged in the manufacturing and sale of newsprint, specialty grades, lightweight coated paper, directory paper, tissue, recycled linerboard, corrugated containers, lumber and other wood products, including DRIcore, a recently patented unique engineered sub-flooring system. They also are a major green energy producer.

March 20 – Weyerhaeuser describes process with first firm as 'about half done'

- Wayne Roznowsky from Weyerhaeuser Prince Albert describes the sale process as being about half completed.

March 22 – Forintek presentation

- Presentation on engineered wood products and potentials for the Saskatchewan wood profile: *Assessment of Product Opportunities for Aspen from the Weyerhaeuser, Prince Albert, FMA.*
- As Dr. Gaston pointed out, there are approximately 3.4 million cubic metres (m^3) of hardwood available each year in Saskatchewan. About 15 % is usable for high value veneer logs, about 20% that is suitable for saw logs, with the rest more suited to go into the lower valued products such as pulp or oriented stand board (OSB). Another option is bioenergy production. Further and higher value options for use of the wood supply include furniture, wood components (e.g., finger jointing), and edge-glued panels.

March 27– Weyerhaeuser commits to 'operational ready' condition

- Craig Neeser of Weyerhaeuser commits to keep the mill in an 'operational ready' condition as long as the sale process continues. The mill will be decommissioned but not winterized.

April 6 – Extension offered to pulp mill workers

- Mr. Mike Rushby of Weyerhaeuser offers 30 day extension with pay to non-union staff, and requests a 30 day extension without pay for union staff.

April 13 – Mill Closed

- Pulp mill operations formally cease. Non-union staff will remain for 30 more days.

April 18/19 Sawmills closed

- Wapawekka closes April 18; Big River closes April 19.

April 19 – City of Prince Albert

- Follow-up presentation on the impact of the mill closure on the City of Prince Albert's tax base.

April 26 – Presentation on independent operator wood volume access

- Mr. Roman Orynik presented on small operator wood volume access. A survey of independent forest operators identified several issues for resolution that would provide clarity around wood volume allocation and access for independent operators.

April 26 – Weyerhaeuser advises it will sell its fine paper assets.

- As part of its strategic review, Weyerhaeuser advises it will be looking to sell its fine paper business. This includes several facilities in the United States and Canada.

Week of May 1 – Softwood Lumber Settlement announced

- The Canada US softwood lumber settlement is announced. Impact on Saskatchewan is varied. Companies that continued to export during the last round of duties/trade restrictions will see a continued quota. Those that did not export may not have the ability to increase US market share.

SK proportion of market reduced from 2-2 ½ % to about 1%. Provincial position in favour of the smaller industry receiving little to no quota.

May 4 – Non-union staff extended to May 30

- Weyerhaeuser advises their non-union staff that they will be kept on payroll to May 30.
- Mr Neeser also advises that mill must be sold ASAP or other actions will be taken to secure facility for winter.

May 10 – Corporate visit

- Another company visiting the facility. Later identified as Catalyst. Formerly NorskeCanada, Catalyst is amongst North America's leading producers of mechanical printing papers

May 17 – Corporate visit

- Another company visits the facility. Later identified as Domtar. Domtar is the third largest producer of uncoated free sheet paper in North America. It is also a leading manufacturer of business papers, commercial printing and publication papers, and technical and specialty papers. Domtar also produces lumber and other wood products.

May 24 – Agency Chief's Tribal Council presentation

- Presentation on their perspective on future growth of the forest sector, and the role that Agency Chiefs Tribal Council would like to play in that development. Ron Turgeon did not attend, brief overview provided by Mr Ron Blocka.

May 31 – SaskEnergy, Mr Doug Kelln

- Presentation on the biofuel potential of the Prince Albert FMA resource base.

June 7 – Meyers Norris Penney – Sector Opportunities, Kelvin Mak

- Kelvin Mak of MNP presented to the Task Force on the wood supply and development opportunities tied to the provincial wood resource.

June 7 – Norsask advises it will close August 18

- Norsask Forest Products of Meadow Lake advises it will close August 18 due to shortage of work. This will affect 50-100 staff.

June 21 – Weyerhaeuser agrees to keep non-union staff

- Weyerhaeuser advised that the salaried staff would stay on payroll for 'a while longer'. 45 of the 72 staff will remain; others have taken their severance and moved on. Both the company and government believe this positive signal will help with the sale process.

June 26 – L&M advises they are ceasing operation September 22

- L&M Forest Products of Glaslyn advises that because of wood supply issues and ability to deliver softwood chips to the pulp mill they are ceasing production for the time being. 20 – 80 employees will be affected.

June 28 – Presentation on agroforestry opportunities in Saskatchewan

- Delivery of opportunity review of agroforestry potential in Saskatchewan, linkages to Crown forest resource base, and key requirements for sector growth.

July 19 – Meeting; Brian Fitzpatrick, Minister Lautermilch and Forest Secretariat

- Meeting described the potential investors for the PA assets and the scale of development. Formal request made to the federal government to provide support for the sale and development of bioenergy, Aboriginal involvement, agroforestry, etc.

August 8 – Corporate visit

- Another company visited the facility the week of August 8. Later identified as Edgestone Capital Partners. They are one of Canada's leading private equity firms and manage in excess of $2 billion of private capital on behalf of institutional and high-net-worth clients.

August 23 – Merger announced between Weyerhaeuser (pulp/paper) and Domtar

- Weyerhaeuser and Domtar announced the creation of the largest manufacturer and marketer of uncoated freesheet paper in North America and the second largest in the world. Domtar will merge with Weyerhaeuser's fine paper business and related assets, creating a company valued at over US$6 billion. The new company, to be called Domtar, will have its Head Office in Montréal, with Headquarters of Operations in Fort Mill, South Carolina.
- All of the Prince Albert FMA and associated assets are included in the deal.

September 2 – Staff levels at the facility reduced to 9.

September 18 – Weyerhaueser/Domtar advise that mill is 'not profitable'

- Mr. Raymond Royer, President and CEO of Domtar advises New York audience that "Prince Albert in Canada right now, based upon the numbers we have seen is not profitable".

APPENDIX 3

KEY CORPORATE PRESS RELEASES

News Release

Weyerhaeuser Announces Indefinite Closure at Prince Albert Pulp & Paper

FEDERAL WAY, Wash., October 4, 2005 — As a result of poor market conditions, the Prince Albert pulp and paper mill in Saskatchewan faces indefinite closure, Weyerhaeuser Company (NYSE: WY) announced today.

"Today's announcement is an important step in strengthening Weyerhaeuser's overall portfolio to enhance shareholder value," said Steven R. Rogel, chairman, president and chief executive officer. "As part of a strategic review of our businesses operating in structurally challenged segments of the industry, we have determined the Prince Albert mill is no longer a strategic fit for Weyerhaeuser. We will continue to seek additional opportunities to unlock the value of our portfolio."

The uncoated free-sheet paper and pulp markets face fundamental challenges, including excess capacity, declining demand, mounting inventories and weak prices. Weyerhaeuser made its determination regarding the Saskatchewan operation as a result of these market conditions.

The company intends to explore all options with respect to the future of the mill, including identification of potential purchasers. Pursuant to Saskatchewan legislation, the company has given 90 days' notice to begin workforce reduction.

Prince Albert operations will commence a phased, indefinite closure starting Jan. 3, 2006. Paper operations will cease production on or about Jan. 2. The pulp mill will continue operating until spring to minimize risk of damage caused by cold winter weather.

"We fully understand the major impact of these changes for our employees, contractors, the community and customers, and we will work constructively in the weeks and months ahead to prepare for the transition," said Craig Neeser, senior vice president, Canada. "Unfortunately, market conditions have reached a point where we have no alternative."

The Prince Albert facility has an annual capacity of 280,000 tons of uncoated paper and 130,000 tons of market pulp. It employs 690 hourly and salaried employees.

Weyerhaeuser Company (NYSE: WY), one of the world's largest integrated forest products companies, was incorporated in 1900. In 2004, sales were $22.7 billion. It has offices or operations in 19 countries, with customers worldwide. Weyerhaeuser is principally engaged in the growing and harvesting of timber; the manufacture, distribution and sale of forest products; and real estate construction, development and

related activities. Additional information about Weyerhaeuser's businesses, products and practices is available at http://www.weyerhaeuser.com.

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News Release

Weyerhaeuser Permanently Closes Paper Machines

FEDERAL WAY, Wash., December 15, 2005 — To strengthen shareholder returns and sharpen the focus of its business portfolio, Weyerhaeuser Company (NYSE: WY) today announced the permanent closures of two paper machines.

Weyerhaeuser said this will result in a pre-tax charge of $380-385 million in the fourth quarter.

"We recognize that this news and its timing are hard on our people, but market conditions leave us no choice as we make urgent changes to improve the competitiveness and lagging financial performance of this business," said Steven R. Rogel, chairman, president and chief executive officer. "We are in the process of implementing a comprehensive strategy to focus our portfolio of businesses and facilities to improve returns to shareholders and position Weyerhaeuser for long-term profitability and success. As a result of our ongoing strategic review, we anticipate future changes."

Today's announcement includes the permanent closure of:

- One of two paper machines at the Dryden Pulp and Paper mill in Ontario on April 1, 2006 due to poor market conditions and high costs associated with the machine. Closure of the D1 machine will remove 155,000 tons of uncoated freesheet capacity. Dryden will continue producing about 332,000 tons of white paper. The closure affects approximately 80 of the mill's 795 employees. Dryden's bleached market pulp mill and converting sheeters will continue to operate.
- The Prince Albert pulp and paper mill in Saskatchewan, announced in October as an indefinite closure. The paper mill will cease production at year end. The pulp mill, which is being offered for sale, will continue operating until spring to minimize risk of damage caused by cold winter weather. The Prince Albert facility has an annual capacity of 280,000 tons of uncoated paper and 130,000 metric tons of market pulp. It employs 690 hourly and salaried employees.

In response to fundamental market challenges, Weyerhaeuser has recently announced the closure of a specialty pulp mill and sawmill in Washington, the converting operations of a box plant in California, a plywood mill in Oklahoma, and the divestiture of its composite panels businesses.

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practices is available at http://www.weyerhaeuser.com.

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Weyerhaeuser Reports Net Earnings of $733 Million for 2005, Or $2.98 per Diluted Share, on Net Sales of $22.6 Billion

FEDERAL WAY, Wash., February 3, 2006 — Weyerhaeuser Company (NYSE: WY) today reported net earnings of $733 million for 2005, or $2.98 per diluted share, on net sales of $22.6 billion. This compares with net earnings of $1.3 billion, or $5.43 per diluted share, on net sales of $21.9 billion for the full year 2004.

For the fourth quarter 2005, Weyerhaeuser reported a net loss of $211 million, or 86 cents per diluted share, on net sales of $5.9 billion. Last year, Weyerhaeuser reported fourth quarter net earnings of $199 million, or 82 cents per diluted share, on net sales of $5.7 billion.

The loss for fourth quarter 2005 included the following after-tax items:

- Charges of $438 million, or $1.78 per diluted share, for closure of facilities.
- Charges of $32 million, or 13 cents per diluted share, for additional asset impairment charges.
- A charge of $25 million, or 10 cents per diluted share, associated with the settlement of litigation.
- A loss of $10 million, or 4 cents per diluted share, for early extinguishment of debt.
- A gain of $34 million, or 13 cents per diluted share, on the sale of the company's French composite panels assets.
- Income of $28 million, or 12 cents per diluted share, for the cumulative effect of a change to begin capitalizing Weyerhaeuser interest to assets of Weyerhaeuser Real Estate Company.

Fourth quarter 2004 earnings include the following after-tax items:

- A loss of $34 million, or 14 cents per diluted share, for early extinguishment of debt.
- A gain of $24 million, or 10 cents per diluted share, for gains on the sale of facilities.
- A charge of $19 million, or 8 cents per diluted share, for the impairment of assets in the company's French composite panels business.
- A charge of $16 million, or 7 cents per diluted share, recognized in connection with a change in the method of estimating workers' compensation liabilities.
- A charge of $15 million, or 6 cents per diluted share, for the net book value of technology donated to a university.

During 2005, Weyerhaeuser's ongoing strategic review resulted in the following significant actions:

- Selling its British Columbia coastal operations and French composite panels business and a laminated beam facility;
- Announcing its intention to sell its North American and Irish composite panels assets, a pulp facility, three corrugated sheet plants and a specialty packaging plant; and
- Closing a paper facility, a specialty pulp mill, a fine paper machine, a containerboard machine, a large-log sawmill, seven corrugated converting plants, two hardwood facilities, a bag plant, an I-joist facility and a veneer and plywood facility.

"Despite extremely challenging business conditions, we took significant steps in 2005 to make us more competitive and position us to generate greater returns while returning cash to shareholders," said Steven R. Rogel, chairman, president and chief executive officer. "Our strong cash flow allowed us to pay down debt to our target levels, implement a 25 percent increase in our dividend and initiate a stock buy back program. We also began reorganizing our wood products, containerboard and packaging businesses into integrated supply chains and continued to grow our real estate business. In 2006, we will continue to confront the challenges our businesses face with the goal of creating a stronger company."

Summary of fourth quarter financial highlights

Millions (except per share data)	**4Q 2005**	**4Q 2004**	**Change**
Net earnings (loss)	($211)	$199	($410)
Earnings (loss) per diluted share	($0.86)	$0.82	($1.68)
Net sales	$5,868	$5,685	$183

SUMMARY OF ANNUAL FINANCIAL HIGHLIGHTS

Millions (except per share data)	**2005**	**2004**	**Change**
Net earnings	$733	$1,283	($550)
Earnings per diluted share	$2.98	$5.43	($2.45)
Net sales	$22,629	$21,931	$698

Segment results for FOURTH quarter
(Contributions to Pre-Tax Earnings)

Millions	**4Q 2005**	**4Q 2004**	**Change**
Timberlands	$183	$217	($34)
Wood Products	$26	$72	($46)
Cellulose Fiber and White Papers	($477)	$35	($512)
Containerboard, Packaging and Recycling	($188)	$81	($269)
Real Estate and Related Assets	$250	$217	$33

Timberlands

	4Q 2005	**3Q 2005**	**Change**
Contribution to pre-tax earnings (millions)	$183	$191	($8)

Fourth quarter earnings decreased slightly from the third quarter due primarily to salvage costs associated with hurricane Katrina and continued high fuel costs for logging and

hauling. Fourth quarter results also include $3 million of pre-tax timberland severance costs due to the announced closure of the Prince Albert pulp and paper facility in Saskatchewan, Canada.

The continued strength of domestic and export log prices should produce first quarter earnings that are similar to fourth quarter 2005.

Wood Products

	4Q 2005	3Q 2005	Change
Contribution to pre-tax earnings (millions)	$26	$124	($98)

Earnings in the fourth quarter include $91 million of pre-tax charges associated with the closure of a plywood mill at Wright City, Oklahoma, the closure of a lumber mill at Aberdeen, Washington, and the potential closure of a lumber mill at Big River, Saskatchewan. Third quarter earnings included $6 million of pre-tax charges associated with facility closures.

Excluding the charges, earnings decreased $13 million from the third quarter. Demand for structural panels increased following the hurricanes and caused panel prices to surge early in the quarter, but panel prices returned to normal seasonal levels late in the quarter. Prices and volume for softwood lumber declined due to seasonal factors. Shipment volumes for engineered lumber products also declined on average from the third quarter.

Manufacturing costs for panels increased in the fourth quarter largely due to a significant rise in natural gas prices. Manufacturing costs for engineered lumber products increased due to the higher prices for oriented strand board.

The company incurred $16million in countervailing and anti-dumping duties and related costs on Canadian softwood lumber the company sold into the United States in the fourth quarter, compared with $19 million in the third quarter. Starting in December, the company is paying a combined duty rate of 13.1 percent, down from the 25.9 percent rate that was in effect since December 2004. At this new rate, the segment expects to incur approximately $10 million per quarter in duties and related costs.

Weyerhaeuser expects lower first quarter 2006 earnings compared with fourth quarter 2005 earnings before special charges. During the first quarter, demand for wood products should follow the normal seasonal trends with pricing remaining similar to fourth quarter levels. The company expects manufacturing expenses to increase due to higher energy and raw material costs.

CELLULOSE FIBER AND WHITE PAPERS

	4Q 2005	3Q 2005	Change
Contribution (charge) to pre-tax earnings (millions)	($477)	($2)	($475)

In the fourth quarter, Weyerhaeuser recorded $427 million of pre-tax charges related to the announced closures of the Prince Albert pulp and paper operations and a paper machine at Dryden. Manufacturing costs continued to escalate due to higher energy, freight, chemical and raw material costs. Prices for fine paper and pulp remained

unchanged. Fine paper volumes increased modestly while pulp experienced a normal seasonal decline in shipments.

Announced first quarter price increases for market pulp and fine paper should result in improved earnings in the first quarter 2006 despite continued cost pressures.

CONTAINERBOARD, PACKAGING AND RECYCLING

	4Q 2005	3Q 2005	Change
Contribution (charge) to pre-tax earnings (millions)	($188)	$36	($224)

Fourth quarter earnings include a pre-tax charge of $130 million related to the closure of several facilities and a pre-tax charge of $38 million related to a settlement of linerboard antitrust lawsuits. Earnings, excluding charges, decreased significantly from the third quarter due to lower box prices coupled with higher energy and transportation costs. Costs for old corrugated containers (OCC) were lower in fourth quarter.

The company expects higher pricing, increased box shipments and lower OCC costs to result in improved first quarter earnings for the segment.

REAL ESTATE AND RELATED ASSETS

	4Q 2005	3Q 2005	Change
Contribution to pre-tax earnings (millions)	$250	$145	$105

Fourth quarter earnings increased from third quarter primarily due to the expected strong single-family home closings and higher single-family margins, partially offset by a $33 million pre-tax impairment charge related to unimproved land in Northern California.

The backlog of homes sold, but not closed, at the end of the fourth quarter was comparable to year-ago levels. Weyerhaeuser expects lower first quarter 2006 earnings due to a normal seasonal decline in single-family home closings.

View our financials (PDF)

Listen to our webcast

OTHER

The company will hold a live conference call at 7 a.m. Pacific (10 a.m. Eastern) on Feb. 3 to discuss the fourth quarter results.

To access the conference call, listeners calling from within North America should dial 1-888-221-5699 at least 15 minutes before the start of the conference call. Those wishing to access the call from outside North America should dial 1-706-643-3795. Replays of the call will be available for one week following completion of the live call and can be accessed at 1-800-642-1687 (access code – 3890458) within North America and at 1-706-645-9291 (access code - 3890458) from outside North America.

The call is being web cast and can be accessed through Weyerhaeuser's Internet site at http://investor.weyerhaeuser.com by clicking on the "Q4 2005 Earnings Conference Call" link.

The web cast also is being distributed through the Thomson StreetEvents Network to both institutional and individual investors. Individual investors can listen to the call at www.fulldisclosure.com, Thomson/CCBN's individual investor portal, powered by StreetEvents. Institutional investors can access the call via Thomson's password-protected event management site, StreetEvents (www.streetevents.com).

Weyerhaeuser Company, one of the world's largest integrated forest products companies, was incorporated in 1900. In 2005, sales were $22.6 billion. It has offices or operations in 18 countries, with customers worldwide. Weyerhaeuser is principally engaged in the growing and harvesting of timber; the manufacture, distribution and sale of forest products; and real estate construction, development and related activities. Additional information about Weyerhaeuser's businesses, products and practices is available at http://www.weyerhaeuser.com.

This news release contains statements concerning the company's future results and performance that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Some of these forward-looking statements can be identified by the use of forward-looking terminology such as "expects," "may," "will," "believes," "should," "approximately," anticipates," "estimates," and "plans," and the negative or other variations of those terms or comparable terminology or by discussions of strategy, plans or intentions. In particular, some of these forward-looking statements deal with expectations regarding the company's markets in the first quarter 2006; expected earnings and performance of the company's business segments during the first quarter 2006, demand and pricing for the company's products in the first quarter 2006, higher raw material, energy, chemical, transportation and manufacturing costs in the first quarter 2006, seasonal slowdowns in single-family home closings in the first quarter of 2006, and related matters. The accuracy of such statements is subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those projected, including, but not limited to:

- The effect of general economic conditions, including the level of interest rates and housing starts;
- Market demand for the company's products, which may be tied to the relative strength of various U.S. business segments;
- Energy prices;
- Raw material prices;
- Chemical prices;
- Performance of the company's manufacturing operations;
- The successful execution of internal performance plans;
- The level of competition from domestic and foreign producers;
- The effect of forestry, land use, environmental and other governmental regulations, and changes in accounting regulations;
- The effect of weather;
- The risk of loss from fires, floods and other natural disasters;
- Transportation costs;
- Legal proceedings; and
- Performance of pension fund investments and related derivatives.

The company is also a large exporter and is affected by changes in economic activity in Europe and Asia, particularly Japan, and by changes in currency exchange rates, particularly the relative value of the U.S. dollar to the Euro and the Canadian dollar, and restrictions on international trade or tariffs imposed on imports, including the countervailing and anti-dumping duties imposed on the company's softwood lumber shipments from Canada to the United States. These and other factors could cause or contribute to actual results differing materially from such forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will occur, or if any of them occurs, what effect they will have on the company's results of operations or financial condition. The company expressly declines any obligation to publicly revise any forward-looking statements that have been made to reflect the occurrence of events after the date of this news release.

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News Release

Weyerhaeuser to Combine Fine Paper, Papergrade Pulp, Related Assets with Domtar; Creates Largest North American Fine Paper Company

FEDERAL WAY, Wash., August 23, 2006 — Weyerhaeuser Company (NYSE: WY) today announced that it has reached a definitive agreement to combine its Fine Paper business and related assets with Domtar Inc. (TSE/NYSE: DTC). The transaction gives Weyerhaeuser shareholders 55 percent ownership in the new company and includes a $1.35 billion cash payment to Weyerhaeuser. The cash payment, plus the stock valued at the closing price of Domtar stock on Aug. 22, 2006, results in a transaction value of $3.3 billion before considering resulting synergies.

The combination is expected to be tax-free for Weyerhaeuser and its shareholders for U.S. federal income tax purposes. The transaction, which has been approved by the boards of directors of both companies, is expected to close in the first quarter of 2007.

“This transaction will create the North American market leader in fine paper and we anticipate that the combination will generate approximately $200 million in annual synergies within the next two years,” said Steven R. Rogel, chairman, president and chief executive officer. “I’m pleased that Weyerhaeuser shareholders will have the opportunity to participate in value created by this transaction. It’s also good news for our employees in these businesses because the combination of our assets with those of Domtar creates a stronger leader in the paper market. Our employees have created one of the most efficient, low-cost systems in the industry. I know they will play a big role in the future success of the ‘new Domtar.’

“This important milestone transforms Weyerhaeuser into a company with a more focused business portfolio and allows our team to concentrate its full attention on the execution of strategies in our core businesses,” Rogel said. “With this announcement, we can now resume our previously authorized share repurchase program."

Under the terms of the agreement, Weyerhaeuser will distribute ownership of the Fine Paper business and related assets to Weyerhaeuser shareholders in either a spin-off or split-off transaction. Weyerhaeuser will determine which approach it will take prior to closing the transaction. A spin-off would involve a pro-rata distribution of shares to Weyerhaeuser shareholders. A split-off would provide Weyerhaeuser shareholders the option to elect to exchange Weyerhaeuser shares for stock in the “new Domtar.” Regardless of the method, upon closing of the merger former Weyerhaeuser shareholders will own 55 percent of the “new Domtar.” Former Domtar shareholders will own 45 percent of the new company.

Raymond Royer, Domtar president and chief executive officer, will lead an organization of 14,000 employees with a management team composed of executives from Weyerhaeuser paper operations and Domtar. This team includes Marvin Cooper, Weyerhaeuser senior vice president, Cellulose Fiber & White Paper, Containerboard Manufacturing and Engineering, who will become chief operating officer of the new company. Domtar's senior vice-president and chief financial officer, Daniel Buron, will be the new company's chief financial officer.

The "new Domtar" will have its head office in Montreal, Quebec, while the headquarters of operations will be in Fort Mill, S.C.

Harold MacKay, counsel and formerly chairman and senior partner to the Regina, Saskatchewan law firm of MacPherson Leslie & Tyerman LLP and an international advisor to Weyerhaeuser's board of directors, will chair a 13-member board – seven nominated by Weyerhaeuser, six by Domtar. MacKay will resign his Weyerhaeuser advisory role before becoming chairman.

"With this transaction, we are transforming Domtar into one of the world's leading paper companies, creating a strong company for shareholders and presenting new opportunities for employees and customers," Royer said. "We are proactively enhancing the quality of our asset mix and taking decisive action to assure our future in a consolidating industry. This compelling strategic and operational fit will make the 'new Domtar' financially stronger, with prominent brands, a lower cost base, and the necessary scale and scope to succeed in the highly competitive global marketplace."

Weyerhaeuser manufacturing assets included in the combination include:

- Eight paper mills and associated pulp mills (Dryden, Ontario; Hawesville, Ky.; Johnsonburg, Pa.; Kingsport, Tenn.; Bennettsville, S.C.; Plymouth, N.C.; Prince Albert, Saskatchewan; Rothschild, Wis.).
- 14 converting centers (Brownsville, Tenn.; Cerritos, Calif,; Dallas, Texas; DuBois, Pa.; Indianapolis, Ind.; Langhorne, Pa.; Mira Loma, Calif.; Owensboro, Ky.; Plymouth, N.C.; Prince Albert, Saskatchewan; Ridgefields, Tenn.; Rock Hill, S.C; Tatum, S.C., Washington Court, Ohio).
- The market pulp mill at Kamloops, British Columbia.
- The coated groundwood mill in Columbus, Miss.
- Two softwood lumber mills (Big River, Saskatchewan; Ear Falls, Ontario).

The transaction is subject to review by antitrust agencies and securities regulators in the United States and Canada, the receipt of a favorable tax ruling from the U.S. Internal Revenue Service, and other customary closing conditions. It is also subject to approval by Domtar shareholders. Weyerhaeuser and Domtar will continue to operate separately until the transaction closes.

Weyerhaeuser's financial advisor on the transaction was Morgan Stanley & Co. Inc. Its legal advisor in the United States was Cravath, Swaine & Moore LLP. Blake, Cassels & Grayson acted as Weyerhaeuser's Canadian legal advisor.

ABOUT WEYERHAEUSER

Weyerhaeuser Company, one of the world's largest integrated forest products companies, was incorporated in 1900. In 2005, sales were $22.6 billion. It has offices or operations in 18 countries, with customers worldwide. Weyerhaeuser is principally engaged in the growing and harvesting of timber; the manufacture, distribution and sale of forest products; and real estate construction, development and related activities. Additional information about Weyerhaeuser's businesses, products and practices is available at http://www.weyerhaeuser.com.

JOINT CONFERENCE CALL

The companies will hold a live conference call at 6:30 a.m. Pacific (9:30 a.m. Eastern) on Aug. 23 to discuss today's announcement.

To access the conference call from within North America, dial 1-888-221-5699 at least 15 minutes before the call. Those calling from outside North America should dial 1-706-643-3795. Replays will be available for one week at 1-800-642-1687 (access code – 4924122) from within North America and at 1-706-645-9291 (access code – 4924122) from outside North America.

The call is being webcast through Domtar's Internet site at http://www.domtar.com [instruction/location] and through Weyerhaeuser's Internet site at http://investor.weyerhaeuser.com.

The webcast is available through the Thomson StreetEvents Network to both institutional and individual investors. Individual investors can listen to the call at http://www.fulldisclosure.com, Thomson/CCBN's individual investor portal, powered by StreetEvents. Institutional investors can access the call via Thomson's password-protected site, StreetEvents (http://www.streetevents.com).

WEYERHAEUSER CONFERENCE CALL

Weyerhaeuser will hold a live conference call at 8 a.m. Pacific (11 a.m. Eastern) on Aug. 23 to discuss today's announcement.

To access the conference call from within North America, dial 1-888-221-5699 at least 15 minutes before the call. Those calling from outside North America should dial 1-706-643-3795. Replays will be available for one week at 1-800-642-1687 (access code – 4924133) from within North America and at 1-706-645-9291 (access code – 4924133) from outside North America.

The call is being webcast through Weyerhaeuser's Internet site at http://investor.weyerhaeuser.com by clicking on the "Fine Paper Combination" link.

The webcast is available through the Thomson StreetEvents Network to both institutional and individual investors. Individual investors can listen to the call at http://www.fulldisclosure.com, Thomson/CCBN's individual investor portal, powered by

StreetEvents. Institutional investors can access the call via Thomson's password-protected site, StreetEvents (http://www.streetevents.com).

FORWARD LOOKING STATEMENT

This news release contains statements concerning the company's future results and performance that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Some of these forward-looking statements can be identified by the use of forward-looking terminology such as "expects," "may," "will," "believes," "should," "approximately," anticipates," "estimates," and "plans," and the negative or other variations of those terms or comparable terminology or by discussions of strategy, plans or intentions.

This press release contains forward-looking statements relating to trends in, or representing management's beliefs about, Domtar's and the "new Domtar"'s future growth, results of operations, performance and business prospects and opportunities. These forward-looking statements are generally denoted by the use of words such as "anticipate", "believe", "expect", "intend", "aim", "target", "plan", "continue", "estimate", "may", "will", "should" and similar expressions and include, but are not limited to, statements about the anticipated benefits, savings and synergies of the merger between Domtar and Weyerhaeuser's paper business, including future financial and operating results, the "new Domtar"'s plans, objectives, expectations and intentions, the markets for the "new Domtar"'s products, the future development of the "new Domtar"'s business, and the contingencies and uncertainties to which the "new Domtar" may be subject and other statements that are not historical facts. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to known and unknown risks and uncertainties such as, but not limited to, general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency exchange rates, the ability to integrate acquired businesses into existing operations, the ability to realize anticipated cost savings, the performance of manufacturing operations and other factors referenced herein and in Domtar's continuous disclosure filings. These factors should be considered carefully and undue reliance should not be placed on the forward-looking statements. Although the forward-looking statements are based upon what management believes to be reasonable estimates and assumptions, Domtar cannot ensure that actual results will not be materially different from those expressed or implied by these forward-looking statements. Unless specifically required by law, none of Domtar, Weyerhaeuser or the "new Domtar" assume any obligation to update or revise these forward-looking statements to reflect new events or circumstances. These risks, uncertainties and other factors include, among other things, those discussed under "Risk Factors" in Domtar's Management's Discussion and Analysis (MD&A). There is no assurance the transaction contemplated in this release will be completed at all, or completed upon the same terms and conditions described.

Appendix 4

Abbreviations

AAC	Annual allowable cut
AOP	Annual Operating Plan
admt	Air dried metric tons
BHKP	Bleached hardwood kraft pulp
BSKP	Bleached softwood kraft pulp
CEP	Communications, Energy and Paperworkers Union of Canada
COSFI	Council of Saskatchewan Forest Industries
EBM	Ecosystem based management
FERIC	Forest Engineering Research Institute of Canada
FMA	Forest management agreement
fst	Finished short tons
GDP	Gross Domestic Product
GHG	Greenhouse gas
ha	Hectare
IPP	Independent power producers
LVL	Laminated veneer lumber
mfbm	Million board feet
MNP	Meyers Norris Penny
MW	Mega watts
NDE	Natural disturbance emulation
NTFP	Non-timber forest products
OSB	Oriented strand board
PAFAC	Prince Albert Forestry Action Committee
PAPRICAN	Pulp and Paper Research Institute of Canada
SE	Saskatchewan Environment
SERM	Saskatchewan Environment and Resource Management (pre-2002)
SFC	Saskatchewan Forest Centre
SLA	Softwood lumber
TSL	Term supply license
UFS	Uncoated free sheet paper