

Crown forest 'single biggest asset', Comments from Jim Irving, Telegraph-Journal, January 28, 2012

Editor's note: The province is soon expected to announce its objectives and standards for the management of New Brunswick's Crown forest for the next five years. These strategic decisions will determine what parts of the forest can be harvested and what parts must be set aside for environmental or other reasons.

Jim Irving, president of J.D. Irving, Limited joined the Telegraph-Journal editorial board to discuss the importance of New Brunswick's forest to the province's economy. Here are selected excerpts from his comments.

What's a tree worth?

To illustrate the value chain, we take a tree and go all the way to the various products that we make in our organization. The highest value product we make would be tissue in Moncton – Majesta Royale consumer brands. So we start with a tree and we go through various steps, showing how it connects around the province. If we start out in Chipman at the sawmill, we saw the lumber and the wood chips, a byproduct of the lumber operation, would come to the pulp mill in Saint John. We make kraft pulp, which is just the base stock of paper, we take that and go to the tissue mill and we make the equivalent of about a five-tonne roll of toilet paper.

We take that, it goes to Moncton, where it's put into retail packaging. The bark came out of that Chipman sawmill down to the pulp mill and through a boiler, where it makes steam and makes electricity. Because we have a tissue plant in Moncton, boxes have to go into a packing case to go to the stores; Sobeys, for instance. That packing case is made from paper we make down at Lake Utopia in a corrugated media mill. That goes up to a packaging plant in Moncton, where you make the cardboard box. That cardboard box then needs to go on a pallet so it can be shipped to market. You go up to St. Quentin, to Groupe Savoie, there are about 400 people employed there. Groupe Savoie makes the pallet – we're one of the company's biggest customers. That box goes on that pallet and then onto a truck and off to Montreal or wherever it's going.

The other byproducts – the sawdust from the mill in Chipman goes down to St. Stephen to the Flakeboard plant, where they make furniture panels. That's the link. Besides that, the folks up at Groupe Savoie, their byproducts go to the Atholville pulp mill. There are a number of connections – you start out with a tree in one location, and because of all these other activities adding value to the tree, you have a lot of other jobs. It all goes around. That is the value-added linkage.

All these pieces are all connected to forestry, but it all starts with having a good timber base. That's the fundamental – with a good timber base you can do all these things. Without a good timber base, you don't

need all these mills. You have no reason for all of this activity.

If we just cut down a tree in New Brunswick and sold it to Maine, for example, you get \$20. By the time we have put that all through the system, make tissue and all these other things, it adds about 35 times the value. It's a story that we haven't done a good enough job explaining to the people of New Brunswick.

A sunset business?

I think there's a mindset that this is a sunset business. You have to really understand the various segments to know where things are going. Now the newsprint business, that's a diminishing business, it's not going anywhere. It's not a growth business. It's going to grow digitally, the news business, but it's not growing as a paper-based business. The tissue business is a very good solid steady growth business. Packaging – steady growth business. Lumber is in difficulty but we know why – it's because of the overhang of the inventory of the 2008 housing crisis in the U.S. That inventory has not been worked off. When it is, business will come back. There have been substantial reductions in housing starts in the U.S. It's a matter of going through this difficult period until we come out the other side.

Shipbuilding vs. forestry

We can compare the shipbuilding business in Nova Scotia and the recent \$25 billion, 25-year contract we (Irving Shipbuilding Inc.) were fortunate enough to be selected for. Take a look at the jobs. It's uncanny how similar the numbers are: on a direct and indirect basis, our jobs in New Brunswick are about 8,500, while the direct, indirect and induced jobs in Nova Scotia are about 8,400 to 8,500. Wages – very similar: about \$450 million annually; \$34 million in HST; \$9 million in property taxes. Halifax will primarily have the benefit of shipbuilding effort, not so much in rural Nova Scotia. But in New Brunswick, forestry affects rural and urban communities across the province.

That's the point we're trying to make with the provincial government – look, we've got these jobs today. There's about a \$1 billion-a-year payroll in the province in the forest product business. We have about 45 per cent of that \$1 billion payroll. We're less than half of the provincial payroll on that.

There's a lot of excitement about shipbuilding in Nova Scotia. The province has played a major role – they're behind it. They want it to grow and they have done everything they can to make it successful. We say, 'Look, you have this in New Brunswick today and our forestry business is renewable, and it's expandable.' If we plant more trees we can grow more timber, we can do a lot of things. Create more GDP – all of those things. So we should be up. We should be seizing the opportunity to make it do more for us as a province.

The wood basket

This is always the controversy, where's the wood? Who owns it? The way the land in the province is broken down, there's about 18 per cent industrial – large freehold; about 30 per cent private woodlot owners (someone who owns about 25 acres); two per cent federal land – mostly CFB Gagetown and the federal parks. Then there's 50 per cent of the land that is Crown – owned by the provincial government. It represents about 3.5 million hectares and a rough valuation would be about \$3 billion. It's probably the single biggest asset the province owns.

The question is, what is it doing for us as a province? This is the opportunity. Compared to Crown land, our own JDI freehold land in the province of New Brunswick [is] growing twice the volume of wood per acre, and sustainably harvesting twice the volume. We're doing it with half the administrative costs per acre and we're generating three times the royalty revenue per acre.

In 1982, the Crown Lands Act was brought in, which is good legislation. We say if the Crown had been managing the land the same as JDI freehold since that time, the province would collect maybe \$235 million more a year in revenue. These are approximate numbers, but that is the order of magnitude, if they had the same vision and determination to manage the land on a highly productive basis.

The environment

This is about long-term sustainable growth and increasing inventory. We have sustainable forest initiatives, we have all the proper environmental certifications and for years now we've had partnerships with the University of Maine, Université de Moncton and the University of New Brunswick, where the professors and graduate students come to northern New Brunswick. . . . We said, 'Look there's lots of controversy. We'll be blamed for being controversial because we're trying to move forward and we're trying to do a lot of things. So let's get the best science, let's be transparent about it. Let's bring the professors and grad students in to study the birds, the wildlife.'

We put a lot of effort into it. It's a good partnership. This is about being right. We have to be right. A lot of the scientific research has been cut back by governments. So as things get cut, we have partnered with the universities . . . It's a source of pride with us. Our foresters are as good environmentalists as anybody in the province. Anybody who comes and looks at the land says, 'By heavens, this is great.' We plant trees, it takes about 35 years to reach maturity, but we thin them. It looks like a natural forest with lots of browse underneath for all of the animals.

We're creating activity but we have to be environmentally responsible.

We're high profile on this in the province and if we're not right we're going to be in trouble with a lot of people and we'll be in trouble with ourselves because that's not how we run our business. We take a lot of pride in looking after our operations and doing things right.

I don't think you'd find another forest products company in Canada that would be as committed to doing the job environmentally, planting trees, and doing the research, as we are at J.D. Irving, Limited. I think we're unique in that effort. But we sense it is really holding the province back on this side of the business. We know it is.

You know, rural New Brunswick is taking a pretty tough pounding. It bothers me to see these communities. Some of them are slipping away, and we can be doing more about that. We shouldn't let that happen. Forestry is a skill we have had in this province for a long time. If we have a good timber base, we will attract the capital to do something. But if we don't have a good timber base we're not going to attract anything on the forestry side that will be of any value. It's important that [we] find the path forward on this one.

Timber supply

If we're going to do all this research, that all takes money, and the way to pay for it is by having competitive businesses. The way to have competitive businesses is to have efficient operations, and the way we

have very efficient operations is to invest enough capital so they are efficient, and the only way we can afford to invest the capital is if we have enough timber, readily available timber.

So we cut the trees and we put them through a mill and make value-added products and we have a certainty supply of timber. When you have uncertain supply, you can't invest very much money. So that is the dilemma we're facing here in New Brunswick. It's no different than if you have a food processing plant: you need so many cows to make so much milk and cheese, or potatoes to make French fries – you need the feed stock. Our feed stock has been in a steady state of decline in the province for the past 25 years.

Annual allowable cut

The cut on Crown land in New Brunswick is about 4.8 million cubic metres a year, hardwood and softwood. So every one per cent change in the annual allowable cut is about 150 full-time jobs or \$2.7 million in tax revenue. This is a fundamental problem in New Brunswick: our economic analysis isn't as good as it should be.

I have lots of empathy for the Natural Resources minister because he arrives on the job, he's not really familiar with it and this can get technical very quickly. So the civil servants and the bureaucracy have to provide good sound advice on where we're going in terms of the impact

of all these changes we're making. If we don't, we get into this situation where they say, 'Well, we'll just take another two per cent away and set it aside' and we wind up with a diminished wood supply.

We said to government, 'You need to be very analytical and careful. These are big moves and they have long-lasting impacts.'

Raise Crown forest yields

We asked the question over and over on our own land – if we can harvest this way, generate this revenue, do it with less overhead and have all the environmental certifications and be audited by scientists year in and year out, why do we accept a lesser standard on provincial land?

We hear in the province today, 'We're struggling to pay the bills. We need that revenue.' Well, we should have that revenue. We have to do it in a very responsible manner, but we need to make it happen. We should not just take wood out of production without calculating the economic consequences, because there is a big economic consequence. We have to be right on the environment – no compromise on that. But if we're right on the environment, then after that we should maximize the commercial opportunities.

New Brunswick is selling its trees today at the second-highest rate in Canada. The perception is, 'Well, Irving is getting the trees off Crown

land for free.' We had Price Waterhouse do a study in 2010: the highest in Canada is Nova Scotia, and we're within two per cent of Nova Scotia. So, virtually, we're tied for first place for the value the province is selling its trees to industry for. We're 45 per cent higher than what Ontario pays for a tree off Crown land. There's no free ride. The province is not giving its timber away – they're getting full value for it. But at the same time, we lost \$30-some million in 2010 in the Department of Natural Resources. It's making no money and worse than that, we're selling for full retail and we're losing money. But on our own land [we] grow twice the wood per acre, [and] we have half the overhead costs. Give the Alward government its due: They inherited this problem, they didn't create it. This has been coming a long time.

Decline in available timber

Since 1982, when the Crown Lands and Forests Act went in, we as a province spent \$450 million across the province in taxpayers' investment. In 1982, we had about four million cubic metres of softwood to be harvested. By 2007, we were down to 3.1 million. The proposed changes in 2012, as we understand them – they're not finalized – would take us down to about 3 million. This is the indication the province has given us. That's a 28 per cent change since we started out in 1982, and we spent \$450 million.

We spent this enormous amount of capital and we potentially have 28 per

cent fewer trees to harvest in 2012.

The good news is the trees are all there. The bad news is we've tied them up, and trees have a finite life.

By the time it gets to about 80 years they will fall down – certainly, the softwood trees fall down and rot.

Impact of set-asides

In 1982, five per cent of Crown lands were set aside for watercourse buffers or 315,000 cubic metres per year of volume. By 2002, 25 per cent had been set aside for watercourse buffers, natural habitat, old forest habitat, deer yards, etc. By 2007, it had jumped up to 32 per cent – old forest habitat, vegetative communities, a whole bunch of new objectives. This goes back to the days of (former premier) Bernard Lord. We tried to explain it to him what all these set-asides were costing the province. You have a place for the deer, a place for the moose, a place for the birds and we said you should consolidate some of those functions in the same area.

So he said, 'You're telling me I have a house and I put the flush in one room, the sink in another room, the shower in one room and the bath in another room. I don't put them all in one room and call it a bathroom?'

I said, that's exactly right. It's an inefficient use of space.

Many of these buffers or natural areas or deer yards can be used for multiple functions. We agree with all of the objectives, but let's consolidate in an efficient manner and we'll have more timber available to run business which is what pays the bills here.

The next 90 days

The next 90 days we see as quite important to the province, because they are going to chart the course for the foreseeable future. When we look down the road, in the case of our organization, we see more investments that have to take place in order to be competitive. But we can't make those investments with an unsure and unstable wood supply. It wouldn't be good business to do so. We have said to government, you need to tell us where you're going so we can plan and then we can respond accordingly.

The world market

New Brunswick makes less than one per cent of the world's forest products. We're a peanut. We're not significant, and our company is not significant on a global basis. But this is home, and we're committed to it. We're proud of New Brunswick and we want it to be successful. We have to get over this business about the name on the door. This isn't about Irving or some other company. This is about thousands of New

Brunswick families that depend on this industry. They count on us to do a good job. We have to make sure that happens.

We have to get over this business about 'Irving is too big.' Our problem is we're too small, in the global sense. That's the issue. How are we going to compete from New Brunswick? That's what our challenge is.

We have to get over this business about don't do any more; we have to do more. We have to grow, we have to modernize, we have to recapitalize constantly. We have to develop new products, and it all starts with a good timber base.

The province has a lot of overhead, too much cost. That doesn't do us any good. And we're not harvesting the trees. I've said to Premier Alward, I said, 'Premier, you come from Carleton County. You wouldn't plant a field of potatoes and harvest every other row. You wouldn't keep a barn full of cows and milk every other cow. You'd soon go broke.'

On Crown lands, that's what we're doing. We're not even harvesting every other tree. There has to be a more practical way to deal with this.

Should an independent agency oversee forestry?

If that is the way we have to get to a proper balance between the economics and the environmental and other pressures, yes, we should do

it. You need to have some type of independent thinking that's driving this important piece of the economy in the province. This can be fixed quite easily and it can be a big boost to the province.

You know, things sometime have to get very bad before they get fixed. Maybe the pendulum has swung so far to the left it's now going to come back to the centre.

Long-term solution

In the long term: The Crown should be setting timber objectives. They should set what they want for investment, revenue, GDP, taxes – whatever metrics they want to use, they should be putting these down. Hold everyone accountable. We see big opportunities for private woodlot owners to grow more trees, if that can be engineered.

We see cost-reduction efficiencies. I think there are great opportunities for partnerships between industry and government. How can we really be efficient here? Let's figure this one out.

The world is not going to let New Brunswick compete unless we have a very competitive mindset. The world has changed.