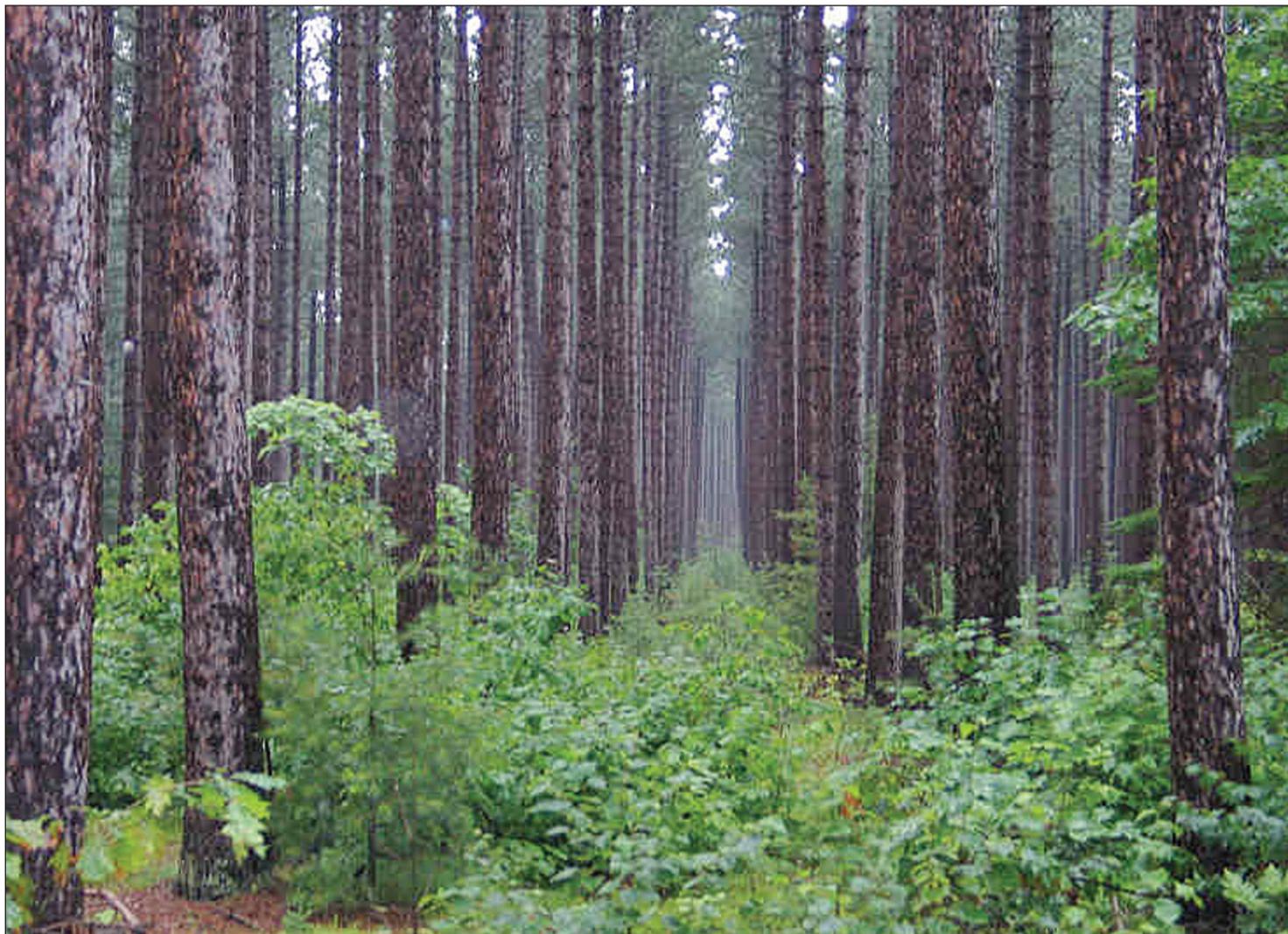


NEWS MAKERS of the YEAR

2007



There is a feeling the sector will recover, but the challenge is how to keep going while waiting for this to happen, says Bob Rosehart, northwestern Ontario economic facilitator.

Forestry in crisis - Forestry's deeply rooted challenges

By NICK STEWART
Northern Ontario Business

While stories of closures continue, many companies are examining ways to reinvent themselves to be part of the new forestry sector.

"There seems to be a feeling in the sector that it will recover, but the challenge is how to keep going while waiting for that to happen," Bob Rosehart, Northwestern Ontario Economic Facilitator, says.

In March, Domtar Inc. merged with Weyerhaeuser Company's fine paper business. Abitibi-Consolidated and Bowater joined to create its own Quebec-based, single-entity firm. Seth Kursman, spokesperson for the newly merged AbitibiBowater, says this kind of approach is key to finding ways of streamlining and eliminating operational redundancies.

Through the merger, the two companies are able to achieve \$250 million in economic efficiencies, making the firm much more competitive in a time of incredibly challenging market conditions.

"We certainly believe that, as AbitibiBowater, we're going to be financially stronger than either company would have been independently."

Russ York, CFO of Buchanan Forest Products, says this approach may not necessarily be the right solution for everyone, and that bigger is not always better. Infrastructure investments to help modernize aging facilities are a key component to both survival and success, he says. This is an area many firms have been woefully lacking. The problem lies

not with the motivation, but with the lack of confidence from financial institutions for big capital projects.

"As you get under pressure, nobody will lend you any money," York says. "Even though it'd be a good news story, they say, 'That's three years from now, you won't make it.'"

York argues that a regional energy pricing policy would be little more than a "Band-Aid approach," and would offer little in terms of long-term stability as prices continue to climb.

Rather than rely on the government for this kind of solution, the pursuit of energy self-sufficiency is a more appropriate response, he says.

This is why Buchanan Forest Products is looking to spend \$45 million on a steam boiler at its Terrace Bay facility, allowing it to use wood waste, rather than depend on a fluctuating pricing grid. Similarly, AbitibiBowater is installing a \$84.3 million biomass boiler at its Fort Frances mill to help make the facility 86 per cent energy self-sufficient.

Andrew Casey, spokesperson for the Forest Products Association of Canada (FPAC) says with energy costs posing a significant problem, the government should encourage forestry companies to pursue alternative systems by refunding research tax credits, he says.

He praises the federal government for recently committing to reduce federal income taxes paid by Canadian companies by a third over the next five years. It will only become useful when forestry firms start making money again.

He also adds that FPAC is looking to try and work with federal politicians to pass policies that provide mills more bargain-

ing power with Canadian National or Canadian Pacific railways, which are often the only means available for Northern mills.

The debate over potential solutions becomes all the more key as the industry continues to struggle with a wide number of problems, ones which have hit the northwestern part of the province especially hard, Rosehart says.

Due to the boom times in the mining industry, the northeastern economy has been able to somewhat counterbalance the job losses from various mill closures, he says, pointing to Timmins, as an example.

Conversely, many of the smaller forest-dependent areas in the northwest are working to overcome their status as single-industry communities by diversifying their economies, such as Thunder Bay's work to become a node of bioresearch expertise, he says.

To properly understand the nature of the problem, one must examine the history of the industry, Rosehart says, adding that the road to the current state of crisis has been a long one, with roots reaching back decades.

QUICK FACTS

Number of direct jobs lost since 2002: 9,000+
Estimated indirect regional and provincial job loss: 46,080

NORTHERN ONTARIO
Business
ESTABLISHED 1980

Reprinted with permission.