

Atlantic Canada's Forest Industry Under Pressure

Atlantic Canada's forest industry* is contracting as a result of intense global market pressures. The number of firms in the Atlantic forest industry dropped by 11% between 2004 and 2006. The majority of closures have been among small logging or sawmill operations but several large pulp and paper mills have also shut down. As a result of permanent and temporary mill closures, output of the region's forest industry fell 9% in 2005. Employment trends point to another large drop in output in 2006: Atlantic Canada's forest industry shed more than 8,000 jobs between 2004 and 2006. This 24% decline in employment is more than double the 11% drop nationally.

The most visible decline has been in the region's pulp and paper industry where output fell 15% in 2005. Four mills have permanently shut down, three in New Brunswick and one in Newfoundland and Labrador, with the loss of more than 1,000 direct jobs. Other mills remain at risk. In wood products, Atlantic payrolls fell 19% in 2006 as several lumber mills shut down temporarily or operated at reduced capacity. The reduced demand for fibre has had a knock-on effect in the region's primary forestry sector, where employment dropped by an estimated 30% in 2006.

Despite these losses, the forest industry remains a crucial part of Atlantic Canada's economy, currently accounting for about 15% of international merchandise exports and contributing 4.5% of total GDP in 2005. New Brunswick's economy is the most dependent in Canada on the forest industry, which represents 8.4% of its provincial GDP. However, these numbers understate the true importance of the forest industry to the region's economic base. The forest industry is the cornerstone of many communities across the region, generating demand and incomes for many other local industries.

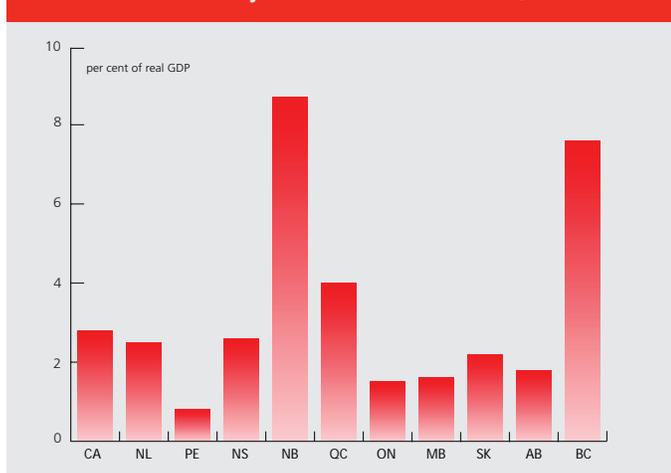
At the time of the 2001 Census, about 70% of the forest industry labour force was located in rural areas of Atlantic Canada. Moreover, the 27,000 workers in Atlantic Canada's forest industry are highly paid. In Nova Scotia, for example, average earnings in the pulp and paper industry are about 60% higher than the all-industry average.

Pressures Abound

Several factors are contributing to this substantial contraction of the region's forest industry. The Canadian dollar appreciated by 40% between January 2003 and last summer's peak, putting Canadian mills at a significant cost disadvantage relative to those in the United States. Higher energy prices have increased the cost of fuel for transporting logs and finished products. The pulp and paper industry is heavily reliant on electricity: industrial users in Nova Scotia and New Brunswick have seen power rates increase by more than 20% since 2004, with further increases proposed for 2007. Furthermore, Atlantic producers are facing increased competition in their prime U.S. market from lower-cost producers in South America and Asia. China's share of U.S. imports of wooden windows and doors has jumped from 2% in 2000 to 11% last year while Chinese exports of newsprint to the United States are expected to grow significantly over the next decade.

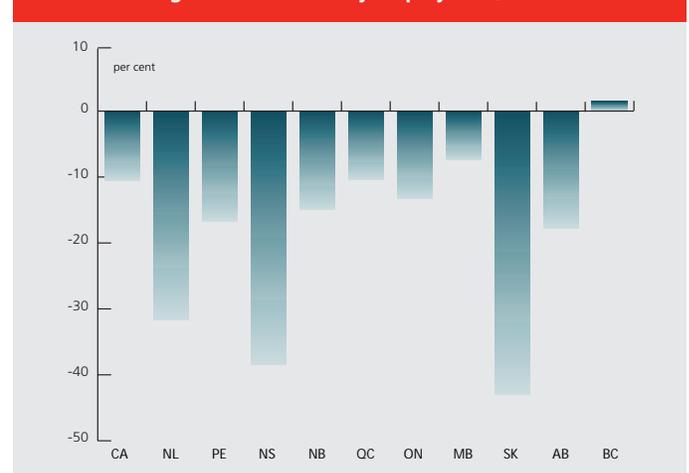
In addition, North American newsprint demand has been shrinking by 5% annually since 2000 and demand for lumber and related construction materials has fallen sharply with the recent contraction in the U.S. housing market. Last year's 10% drop in U.S. housing starts is forecast to be followed by a further 12% decline this year.

Forest Industry as Share of Provincial GDP, 2005

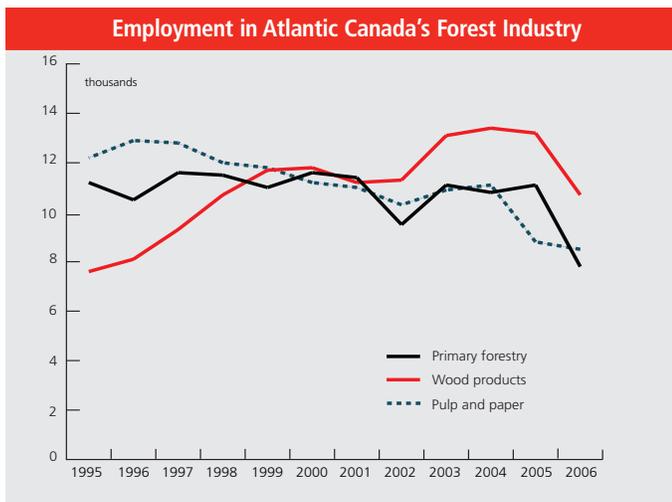


Source: Statistics Canada.

Change in Forest Industry Employment, 2004-06



Source: Statistics Canada.

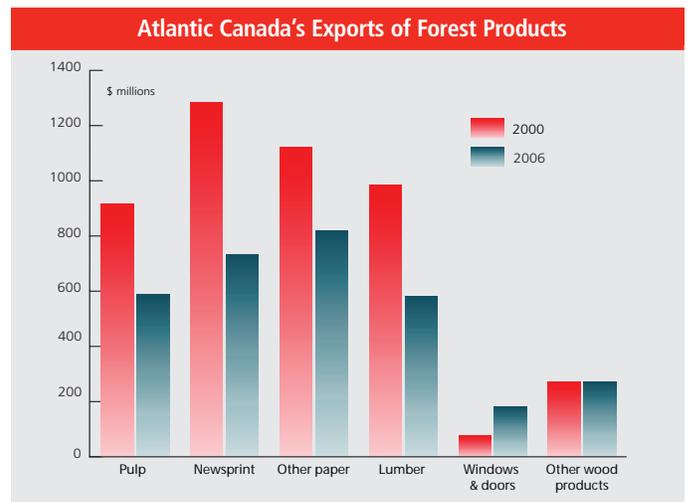


Source: Statistics Canada.

Atlantic Canada's forest industry also faces several domestic challenges including some of the highest wood fibre costs in the world, a shrinking wood supply in New Brunswick and Newfoundland and Labrador, and increased competition for woodlands for environmental purposes. The presence of the brown spruce long-horn beetle in Nova Scotia represents a further risk, with a decision expected shortly on whether to expand the existing quarantine area. Furthermore, the workforce is aging. Firms across the region's forest industry now report that it is increasingly difficult to recruit new workers, reflecting factors such as slow population growth, the exodus of young people from rural areas and out-migration to Western Canada.

Meeting the Productivity Challenge

Atlantic Canada's forest products industry needs to improve its productivity, relative to its international competitors. Forest industry firms in Atlantic Canada are relatively small. About 3.7% of Atlantic firms in wood products have 100 or more employees, compared with 6.0% in Canada. Mills being built elsewhere in North America, Europe and Asia are typically several times larger than the average mill in Atlantic Canada, allowing these new mills to exploit significant economies of scale and utilize more technologically advanced equipment. Investments are taking place in the region. Irving Paper has recently invested \$220 million in leading edge equipment to convert its Saint John mill from newsprint to high gloss paper and the former pulp mill in Nackawic, New Brunswick is being refitted to produce specialty pulps for a niche market.



Source: Statistics Canada.

The forest industry also increasingly requires advanced skills and training upgrades to respond to new information technologies, advanced process technologies and specialized industrial requirements. Yet 29% of the region's forest industry labour force is without a high school diploma and only 48% have some post-secondary education, well below the average for other industries. Some firms are taking steps to boost productivity through training. Stora Enso, for example, has recently started using a simulator to test and train new and returning workers in its woodlands operations for its Port Hawkesbury mill.

Conclusion

The future of a successful and prosperous forest industry in Atlantic Canada can only be guaranteed if the industry meets its competitiveness challenges head on. All sectors of this highly integrated industry will need to work together to address these challenges. Improving productivity, developing new products and markets, adopting new technologies and strengthening skill levels will continue to play a key role. Government needs to facilitate the transformation of the industry while helping local communities to adjust.

* The forest industry, as defined for this report, includes primary forestry and logging, lumber and wood products and pulp and paper. It does not include wooden furniture manufacturing.

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