RS 1105 # 74600

4024 BUSINESS NEW BRUNSWICK (BNB)

Irving

4024-12 2011

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A Timber Objective to Grow Jobs and Provincial Revenue

J.D. Irving, Limited

January 24, 2012

Objective

Obtain more wood fibre to sustain and grow jobs, investment and government revenues from the forest sector

<u>WHY?</u>

- New Brunswick is our primary wood fibre supply that supports an integrated value chain of forest and mill operations

- Forest sector investment, jobs and Crown revenue will continue to shift away from NB without a growing timber objective

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Agenda

1. NB Forest Industry – Economic Importance

2. New Brunswick's Wood Basket (Crown, Industrial and Private)

3. Current state – Declining Wood Supply, Jobs & Revenue to Crown

4. Opportunity – Potential Solutions

Forest Products in NB

- 8% of 2010 Gross Domestic Product (GDP)*

  4.2% Direct GDP impact - Larger than ICT, food production, mining, fishing, farming and professional services

- $1.88 billion direct and indirect GDP Impact
- 21,900 direct and indirect jobs
- About $1 billion in direct annual payroll
- 30% of total manufacturing output – largest exporting sector (excludes oil and refineries)

* Direct and indirect GDP impact

Source: Jupia Consultants using 2010 Stats Canada data

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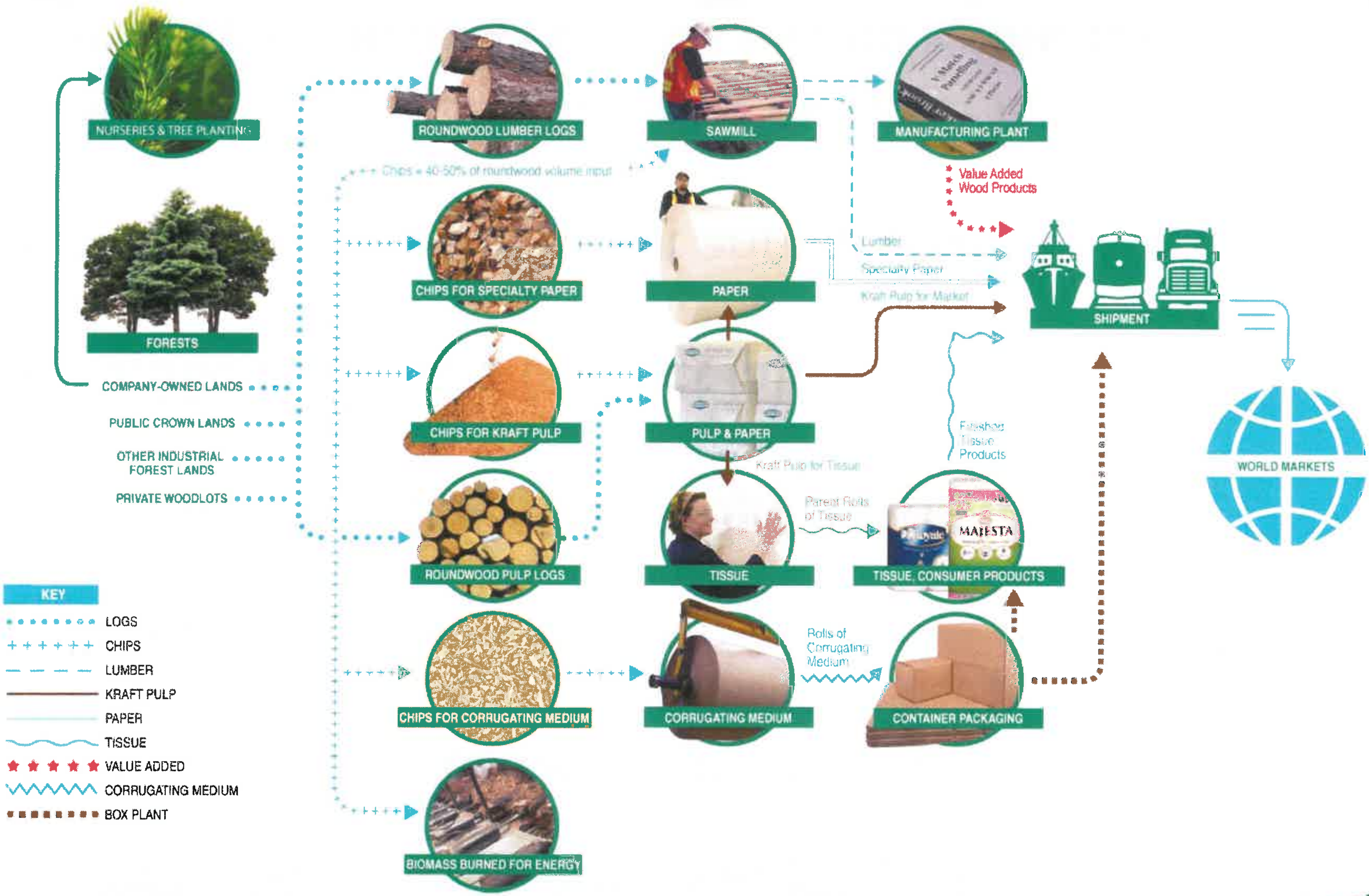
An Integrated Value Chain



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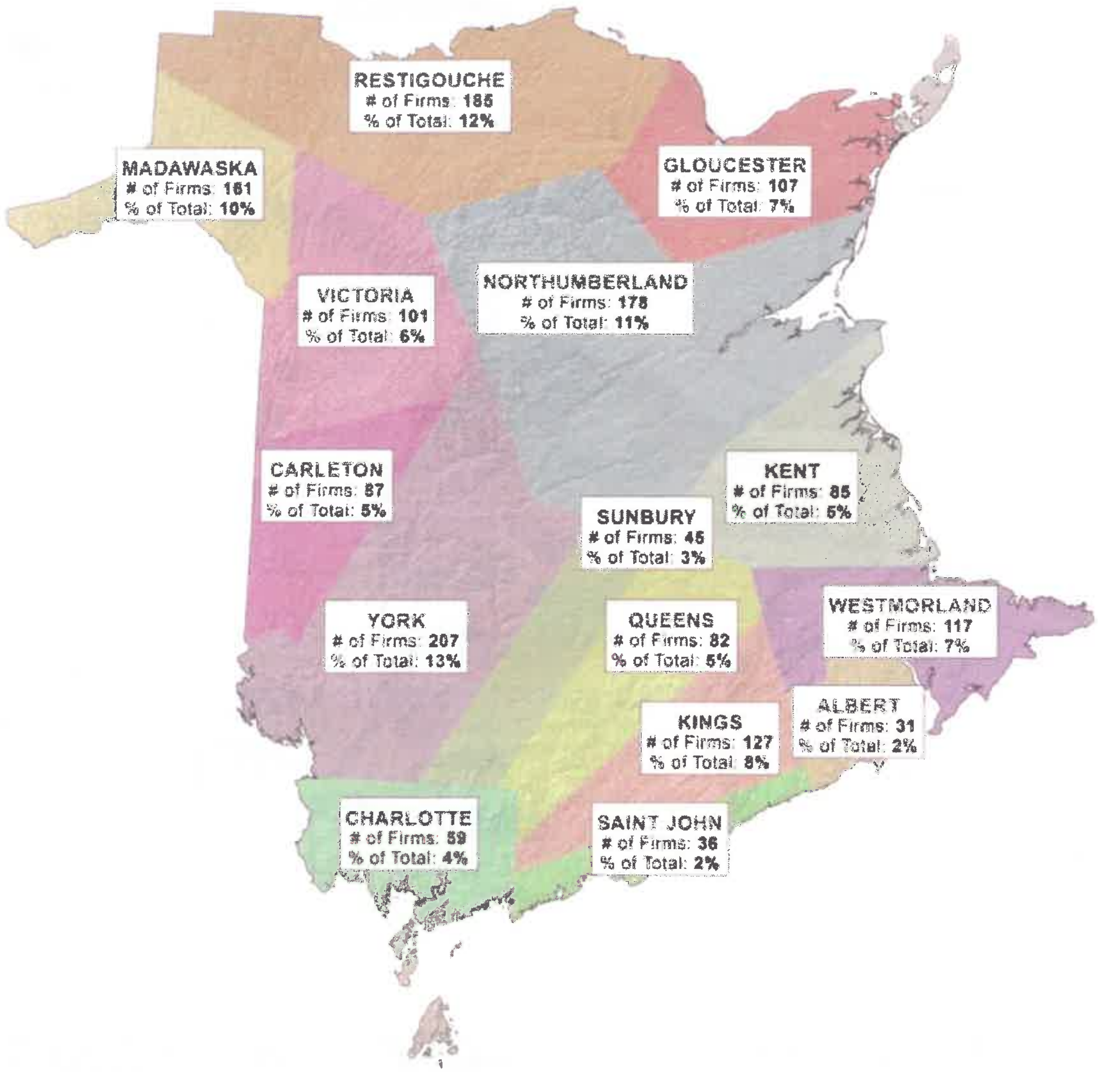
Forest-Based Businesses



NB is #1 in Canada

for Forest Products Exports Per Capita (2010)

1600 NB Businesses

75% of forestry-based businesses have Less than 10 Employees

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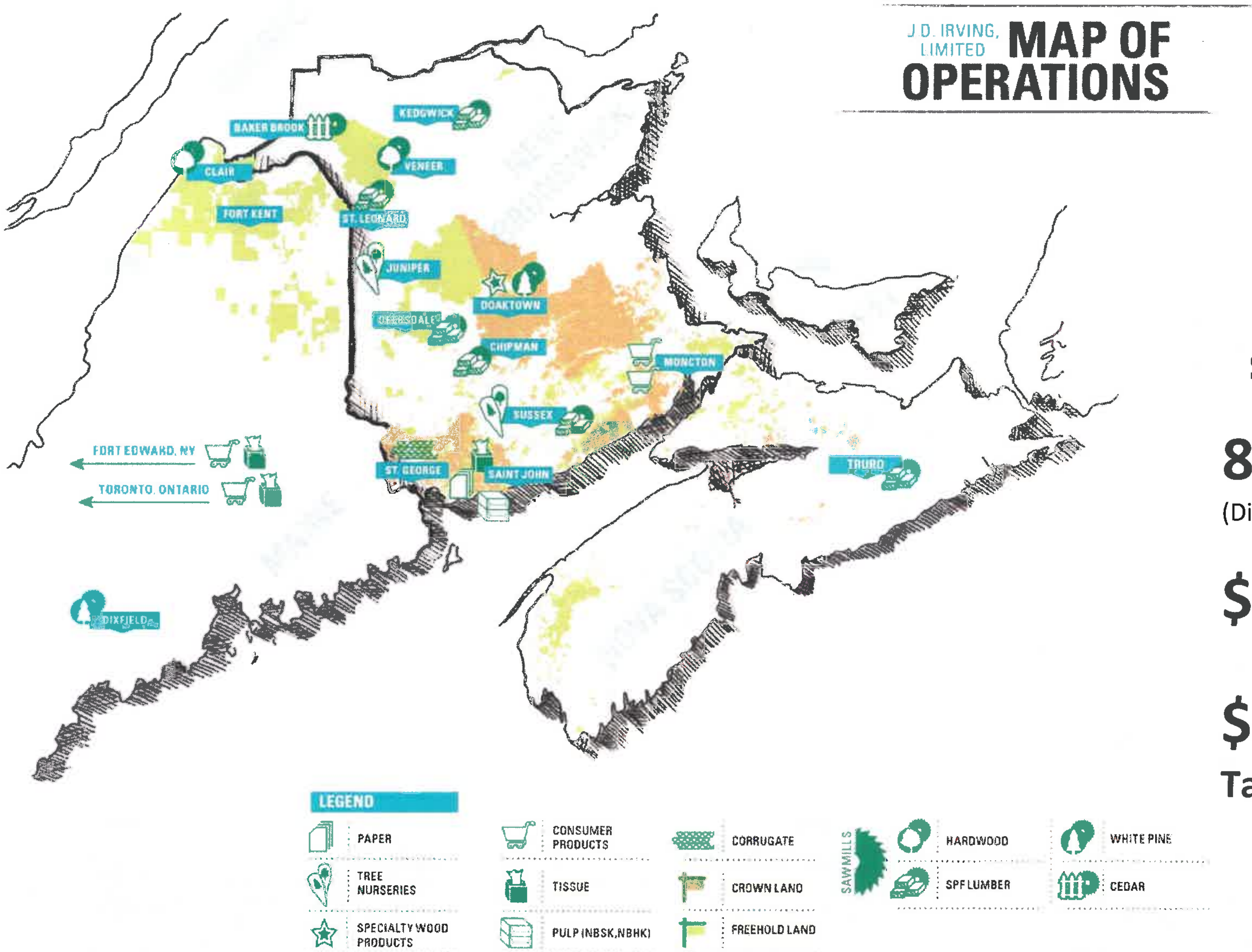
JDI Forest Products in NB



JDI in N.B.

8540 N.B. Jobs
(Direct and Indirect)

$454 Million Wages

$100+ Million
Taxes to Governments

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JDI Forestry in NB
Compared to the New NS Shipbuilding Contract

JDI Forestry in NB (2010)

- **8540 Jobs** (Direct and Indirect)
- **$454 million in Wages**
- **$34 million in HST**
- **$8.9 million in Property Tax**

Forest Products Impacts
Rural & Urban Communities
Across NB

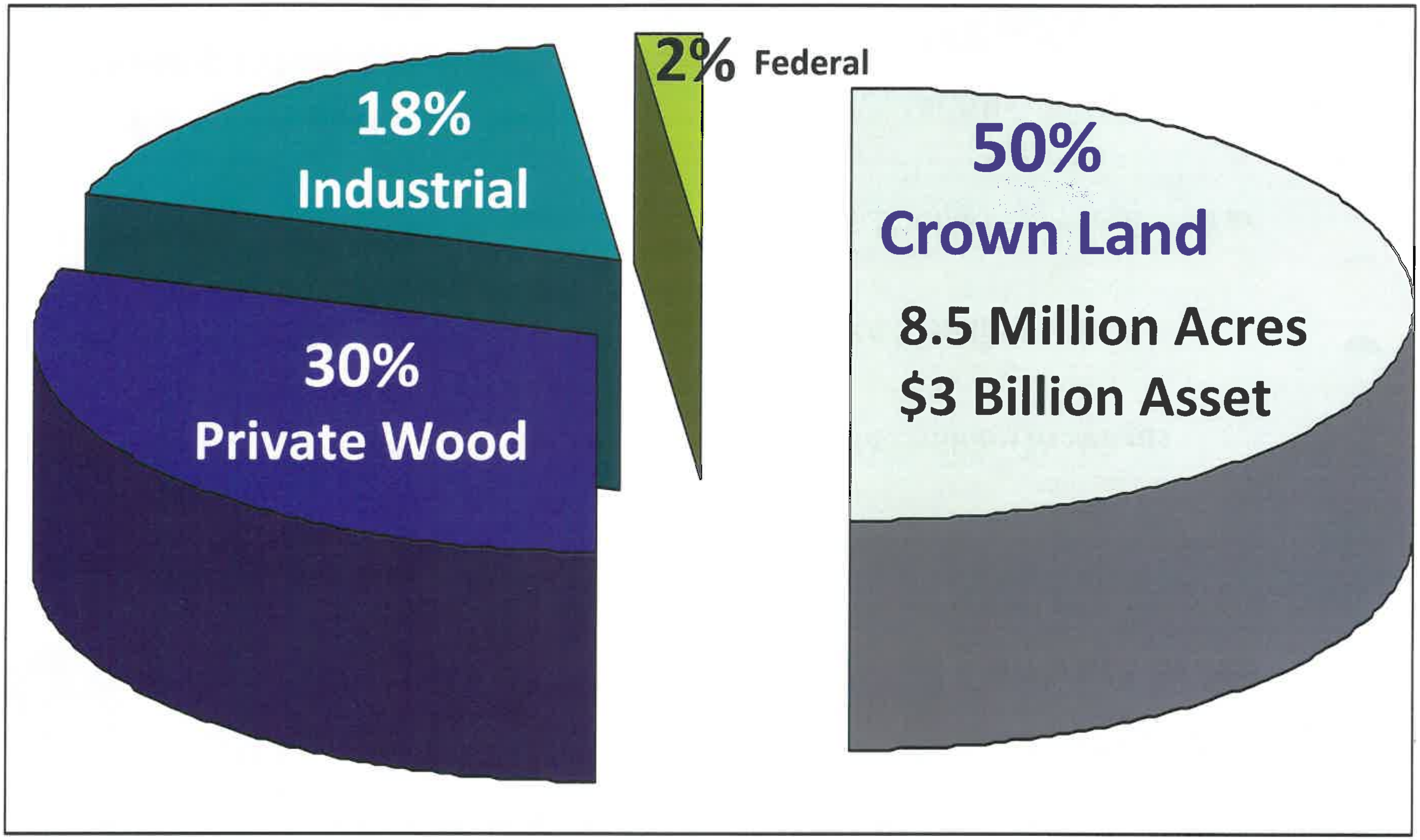
New Shipbuilding Contract in NS

- **8450 Jobs*** (Direct, Indirect, Induced)
- **$447 million in Wages**
- **$34.8 million in HST**
- **$9.5 million in Property Tax**

Shipbuilding impact will occur
primarily in Halifax

* Estimated $1 billion output per year

New Brunswick's Wood Basket



JDI Freehold vs N.B. Crown Land

TODAY JDI Woodlands compared to Crown (DNR) is:

- **Growing TWICE** the wood volume per acre
- **At HALF** the administration cost per acre
- **Generating 3 times** the royalty revenue per acre

If Crown Land were managed the same as JDI freehold, the Governments would be collecting

$235 Million MORE Revenue/Year (royalties and taxes)

ISO 14001 REGISTERED KPMG

JDI operates Award Winning, Environmentally Certified Woodlands in New Brunswick

SUSTAINABLE FORESTRY INITIATIVE

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N.B. Private Wood Basket

- **40,000** properties that are over 25 acres. Uncertain as to how many are active woodlot owners.
- **120 wood** producers provide **80%** of JDI's private wood purchases
- Market downturns mean up to **40%** drop in finished goods prices since 2005, yet price reductions to woodlot owners have averaged only **18%**
- Many woodlot owners have decided to wait and sell later when markets improve
- As a result, the private wood supply has shrunk
- There are opportunities and solutions for woodlot owners to improve their productivity and their revenues – would like to discuss further

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Annual Allowable Cut (AAC)

- Every **1% change in the AAC** (48,000 m^3/year) - the amount of wood harvested from Crown land equates to:

  150 full time jobs, and

  $2.7 million in tax revenue

  for Governments.

NB has the 2nd highest stumpage rates in Canada today
45% higher than Ontario

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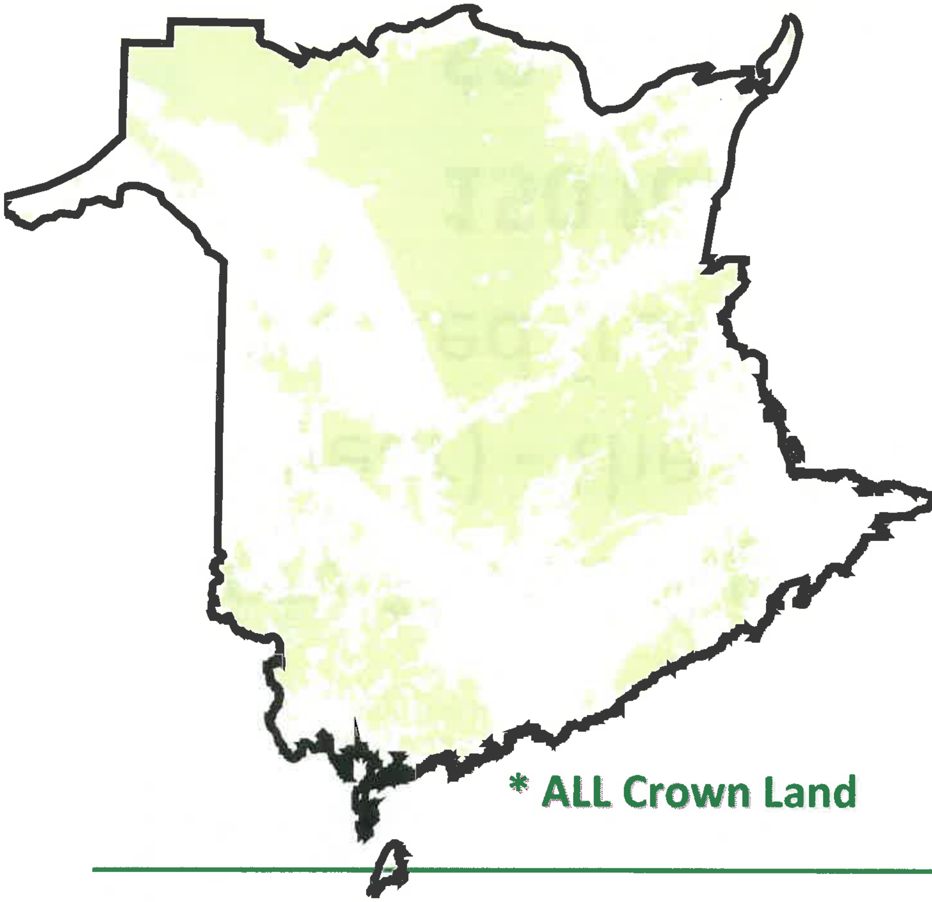
New Brunswick Crown Lands

$450 Million Taxpayer INVESTMENT*
In Growing Trees Since 1982
The Result: A DECLINE in Wood Supply



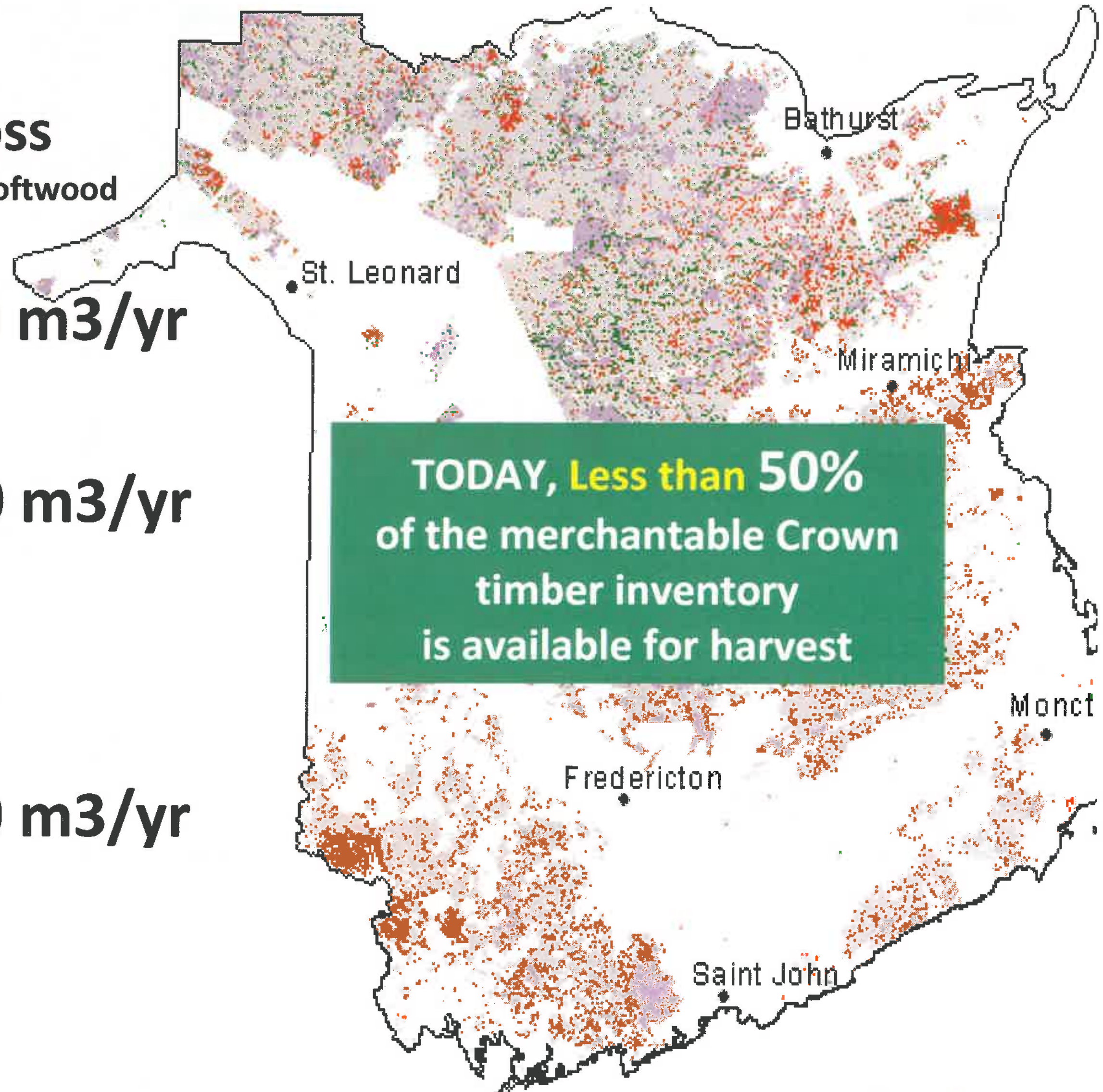
YEAR	HARVEST Softwood (m^3/yr)
In 1982	4,100,000
By 1987	4,200,000
By 2002	3,500,000
By 2007	3,160,000
In 2012	3,000,000 ???
CHANGE	-28%

* ALL Crown Land

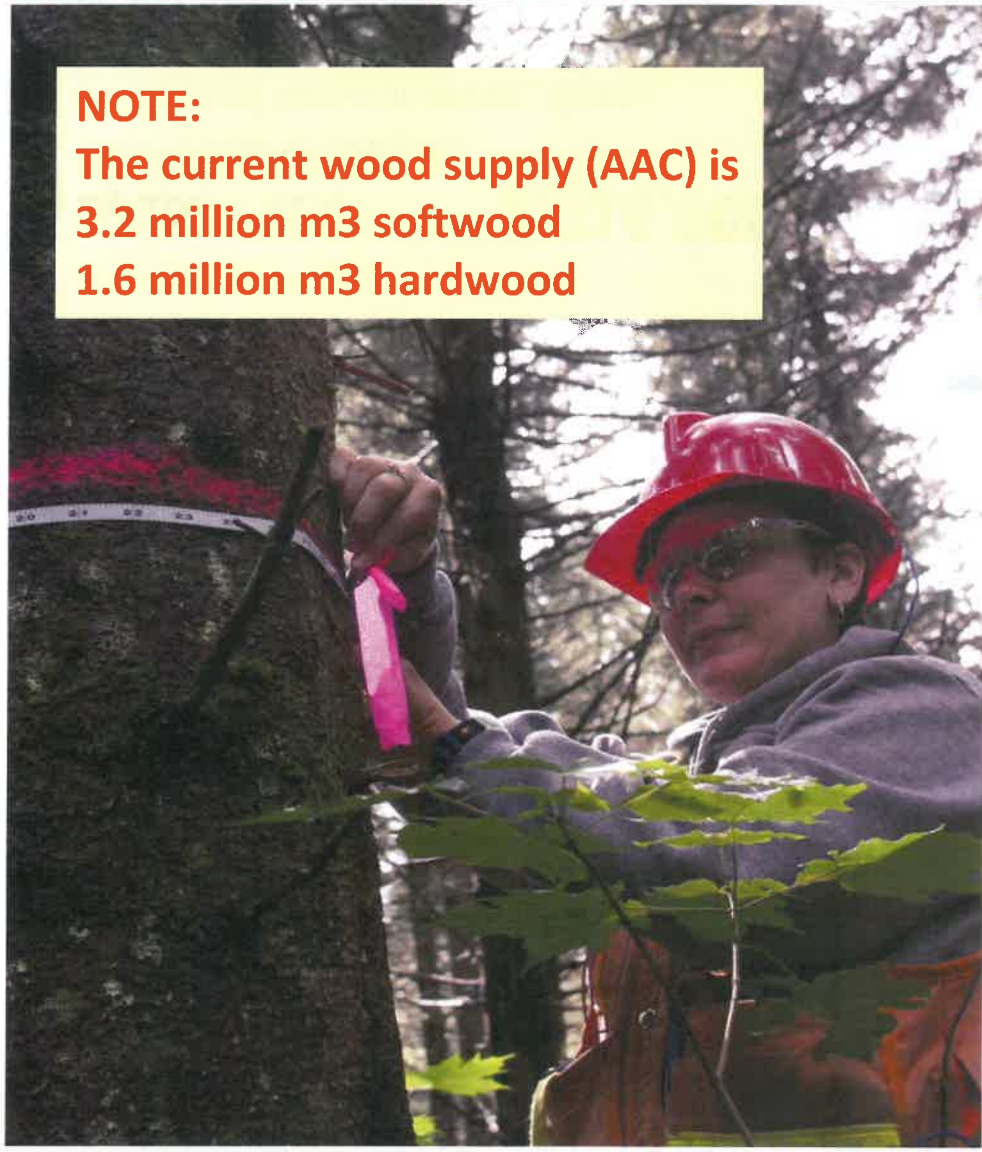
New Brunswick Crown Lands

(3.5 Million Hectares)

Constraints	Wood Loss Hardwood & Softwood
In 1982: 5% Watercourse buffers	**315,000 m3/yr**
By 2002: 25% Watercourse Buffers, Protected Natural Areas, Deer Yards, Old Forest habitats	**1,575,000 m3/yr**
By 2007: 32% Watercourse Buffers, Protected Natural Areas, Deer Yards, Old Forest habitats, Vegetative communities	**2,016,000 m3/yr**



Proposed 2012 DNR Wood Supply Changes



NOTE:
The current wood supply (AAC) is
3.2 million m3 softwood
1.6 million m3 hardwood

5% Softwood
25% Hardwood

2012 Wood Supply Reductions
560,000 m3/year

$27M

Royalties & Tax Revenues Lost to Governments

1740

Direct & Indirect Lost Jobs

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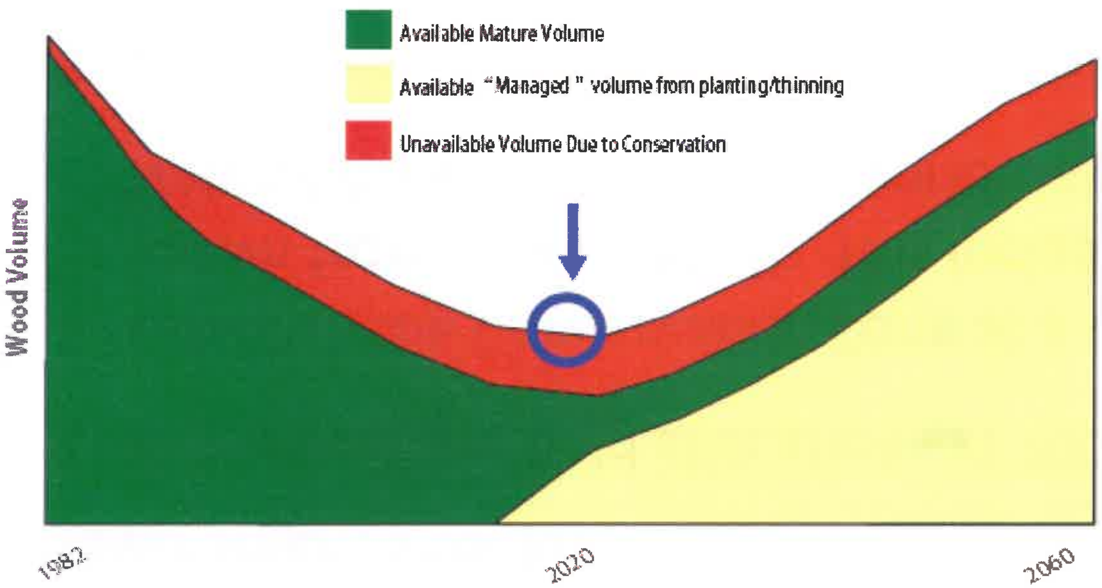
Bridging the Short Term Gap

State of the Crown Forest
Present Challenges - Future Opportunities



Source: Crown Land Task Force Report (2011)

- Within the next 10 years, trees planted in 1980's will be mature for harvest
- After 2020, the wood supply available to harvest will be increasing
- Current DNR policies have restricted timber available for harvest
- Allocations must be maintained, or more mills will close and jobs will be lost

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Short Term 2012-2022

Government should:

1. At a minimum, hold allocations at 2007 levels for 2012-2022
2. Establish the Conservation Zone at a world class level of 23% (down from 32% in 2007). This includes tripling the Protected Natural Areas from 4% to a world class level 12% ("no touch")
3. Establish a Scientific Research Committee to review data and make 2022 forest management recommendations
4. Establish a 10 Year management planning timeframe, reducing cost and uncertainty from current 5 year planning timeframe
5. Initiate pilot project on License #7 to demonstrate outcome-based management, increase employment and Crown revenues

Long Term – A Growing Timber & Revenue Objective

1. Provide a revenue-generating objective for Crown Land
2. Hold Licensees accountable for timber growth targets that double the wood supply by 2050
3. Improve efficiency, reduce administration costs (at least $12M/year) and increase net revenue for government
4. Rely on third-party audits and certification

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Crown Land
Growth Opportunity

- The plans presently being considered for Crown Land Management will have **immediate negative consequences for employment and provincial revenues**.
- Modest changes can **reverse the decline**, and produce significant and sustainable benefits from New Brunswick's renewable forests.

Financial Impact of Land Management Scenarios (2012) - Crown Land only	Employment: Direct Employment (FTE's)	Employment: Indirect Employment (FTE's)*	Employment: Total Change in Employment (FTE's)	Royalties (MM's)	Federal & Provincial Tax Revenues (MM's)**	ANNUAL TOTAL (MM's)	Annual Change from Base (MM's)
2007 Crown Management Strategy (BASE CASE)	5,997	8,156	-	$36	$192	$228	
If the 2012 Crown Management Strategy decreased availability of Softwood by 5% and Hardwood by 25%	5,258	7,151	-1740	$33	$168	$201	**($27)**
Alternative 2012 Crown Management Strategy (+10% SWD; +0% HWD in 2012)	6,398	8,702	+950	$39	$204	$243	**$15**
Crown Land Managed as JDI Freehold (Achievable by Year 2050)	12,172	16,554	+14570	$73	$390	$463	**$235**

* This figure includes both indirect and induced employment, using an employment multiplier of 1.36.
** This total includes estimates of HST, Personal Income Tax, and Personal Property Tax payable by the total number of direct, indirect, and induced employees.

NOTE: Economic impact applies to Crown land only and has been calculated using accepted Stats Canada data and multipliers. Job calculations include direct and indirect full time equivalents.

Private Woodlots

- Increase productivity on the 30% of New Brunswick's land base owned by private woodlot owners – encourage sharing of best practices
- Have Marketing Boards focus on forest management services and improving efficiency for woodlot owners
- Develop programs that help grow the next generation of managers, harvesters and truckers of private wood
- NB Wood First - Priority, market-driven access for NB wood producers

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The Next 90 Days

The Future of New Brunswick's Forest Sector will be defined by Government Decisions
in the Next 90 Days

- Capital investment will increase with a secure and growing wood supply
- There are opportunities on Crown and private woodlots to produce more fibre, generate jobs and revenue for the Province

"We need to create an environment here that will create investment"

The Honourable Blaine Higgs
Minister of Finance
January 2012

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