PAPER EXCELLENCE

Jan 31, 2020

To:

Mr. Garry Merkel and Mr. Al Gorley - Old Growth Review Committee

RE: Paper Excellence Old Growth Strategic Review Submission

Paper Excellence (PEC) is the largest Pulp and Paper Producer in British Columbia with four coastal operations (Howe Sound Pulp and Paper, Catalyst Crofton, Catalyst Alberni and Catalyst Powell River) as well as three interior mills (Skookumchuck Pulp, Mackenzie pulp mill and Chetwynd Mechanical Pulp). Collectively PEC employs approximately 2,600 people in British Columbia alone and has invested of over $1 Billion CAD since operations started in British Columbia in 2010. PEC is a non-integrated pulp manufacturer and largely depends on the purchase of fibre from sawmills and tenure holders to meet the fiber requirements. Overall Paper Excellence consumes roughly 9.2 million m3 of solid wood equivalent or roughly 14.2% of the current provincial annual allowable cut. Old growth forests play an important part of this supply.

Old growth has various definitions and perceptions throughout both industry and society however as an industry we know a big tree is not necessarily an old growth tree and a small tree is not necessarily a young tree. It is important to truly define what constitutes an old growth forest or an old growth tree. The definition adopted by the British Columbia Forest Practices Board is most applicable:

> "A forest that contains live and dead trees of various sizes, species, composition, and age class structure. Old-growth forests, as part of a slowly changing but dynamic ecosystem, include climax forests but not sub-climax or mid-seral forests. The age and structure of old growth varies significantly by forest type and from one biogeoclimatic zone to another[1]"

[1] Definitions – Forest Practices Board - https://www.bcfpb.ca/news-resources/glossary

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The definition by the forest practices board essentially captures and quantifies most stands in the province as old growth with the exception of stands that have been previously logged or otherwise disturbed by natural factors such as fire. The province of BC considers a coastal tree to be old growth if it is more than 250 years old, and interior trees that are more than 140 years old. Of these stands, 33% throughout the province are protected in parks, management areas and reserves. It is important to recognize old growth forests exist in various forms and ages and most areas of the province are operating primarily within first growth harvest. The exception is the coast and some southern BC portions operating within second and third growth stands.

While PEC has limited to no tenure allowing direct access and management of the forest lands, our business relies on residual chips from sawmilling operations, as well as pulplogs that are generated from harvesting activities. Through the structural change occurring in the industry, a viable and economical source of fibre and pulplogs is more and more important to ensure our pulp mills remain viable and continue to contribute to the BC economy.

Based on our experience, the pulp volume varies by stand but typically an old growth or initial harvest stand on the coast can yield 25% pulp, while a second growth stand yields 5% pulp or lower. On the Coast Paper Excellence consumes approximately 1,000,000m3 a year of large pulp out of a total consumption of approximately 6,500,000m3 of fibre annually between the 4 coastal mills. This large pulp is primarily from old growth stands located throughout the south Coast region as well as North Coast locations. This represents 14% of the overall supply to our coastal facilities. For example if policy is changed that reduced the large log old growth pulp portion from 1,000,000m3 to 500,000m3, this would equate to the same consumption and potential loss of a Pulp and Paper facility like Powell River or Port Alberni.

Specific to the coastal operations and discussing with various suppliers, we have seen a marked change and increase in the harvesting of second growth stands. It has shifted from an estimated 5% second growth harvest on 1995 to what is estimated to be 50% or even higher currently. This has driven coastal pulp and paper companies to seek fibre from farther away at a higher cost and has contributed to the closures of Port Alice pulp mill, Elk Falls pulp mill, Woodfibre pulp mill and the curtailment of our Howe Sound paper machine.

Further erosion or loss of old growth stands from the available harvesting landbase will impact the pulp and paper significantly as replacement fibre is either not economical or not available. At the same time due to sawmill closures, the need for pulplogs continue to increase in conjunction with a desire to drive for higher utilization of the volume harvested.

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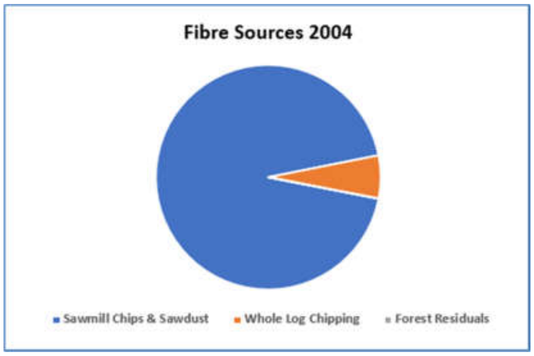

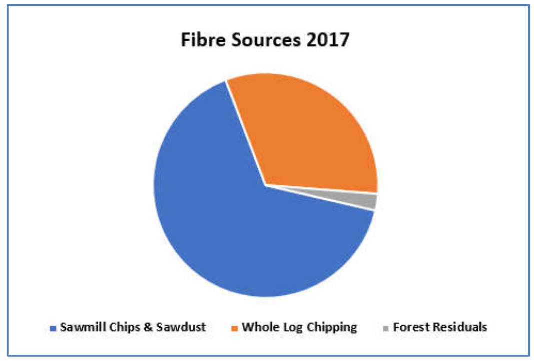

Data source: FLNRO Major Primary Timber Processing Facilities in BC

Figure 5: Average Weekly Earnings in B.C. by Industry, 2016. [26]

Source: Price Waterhouse Coopers Sept 2017 BC Forest industry and the BC Economy in 2016

Data from Price Waterhouse Coppers shows that wages in the Pulp and Paper sector have some of the best wages paid to workers in the forest industry.

These wages support families and small rural communities throughout British Columbia. According to the BC Pulp and Paper Coalition, across the province and all pulp and paper mills from all companies contribute 20% of the forest sector GDP, 34% of the total value of forest products exports, support 11,000 high paying jobs throughout BC and generates $4.4 billion in annual sales. Reductions and further loss of fibre will lead to companies making decisions to curtail and close operations.

As the industry continues to move through its structural change, the demand for pulplogs is increasing due to sawmill closures and curtailments while the annual allowable cuts are

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decreasing. This is threatening the viability of the secondary consumers in the province and both interior and coastal pulp and paper operations.

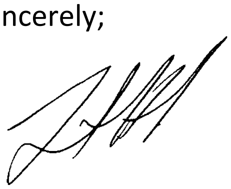
Recommendation

Paper Excellence would like to see the province adopt a working forest strategy that protects and maintains the forest harvesting landbase and utilization of old growth stands in its current form and seek to increase the utilization and AAC through innovative practices and increased investment in our provincial forests.

The pulp sector is an important contributor to the BC economy and contributes to the stability of rural BC communities. The pulp sector is and will continue to be an important component of BC's strategy to move up the value chain of products derived from BC's forests. The forest sector in BC is currently in crisis while in the midst of a significant transition. It has been said that you should never waste the opportunity provided by crisis to make the hard choices required to shape the desired future condition you are seeking. Now is the time for the government to be bold. We recommend that the government work in a collaborative manner to expeditiously make the necessary legislative, regulatory and policy changes required for protecting the working forest and ensuring first growth stands are available for harvesting. This will help to ensure that pulp and paper operators remain an integral component of the vision for BC's forest sector and a significant contributor to the economy of BC.

Please do not hesitate to contact me for further discussion at Quinton.Hayward@hspp.ca or by phone at 604-740-7427.

Sincerely;



Quinton Hayward

Chief Forester

Paper Excellence Canada Holdings Corp