

BUSINESS BC

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U.S. SUBSIDY COUNTERMEASURE

Ottawa to announce \$1 billion in forestry aid

B.C. expected to get up to \$440 million of the package aimed at making the industry 'greener'

BY GORDON HAMILTON
VANCOUVER SUN

Ottawa will announce a billion-dollar aid package to the forest industry today to counter a massive U.S. subsidy program.

A media advisory issued Tuesday by federal Natural Resources Minister Lisa Raitt's office says the program "will lay the groundwork for a greener, more sustainable future for Canada's pulp and paper industry."

British Columbia, which produces between 42 per cent and 44 per cent of the country's pulp and paper, is expected to receive from \$420 million to \$440 million, providing the package is in the billion-dollar range.

"I'll be surprised if it's something I'm not going to like because they've invited me to the announcement," said Avrim Lazar, president of the Forest Products Association of Canada, which has been lobbying for the lifeline to the industry.

Canadian forest companies are losing millions of dollars as a result of the global financial crisis and the collapse of markets. At issue is the survival of an entire industry employing almost one million workers directly and indirectly. Over the last two years, 200 Canadian mills have closed, costing 50,000 workers their jobs.

At the same time, U.S. companies are receiving hundreds of millions a week in a \$7-billion rebate program that is being used to strengthen corporate bottom lines and invest in new technology.

B.C. Forests Minister Pat Bell said the provincial government has reviewed the federal proposal. He said he is satisfied a key issue for B.C. has been met: The program will not violate the 2006 Softwood Lumber Agreement.

"I am very comfortable with the model they are proposing. I think it will meet the needs of our industry, and it will be softwood lumber compliant."

Paul Quinn, analyst with RBC Capital Markets, said the aid is desperately needed. The package has to be big and it has to be distributed rapidly, he said.

"Once you start seeing these mills go down, it's a domino effect. You've got a pulp mill that supports six to eight sawmills. If the pulp mill goes down,

the sawmills aren't able to sell their residual fibre."

Quinn said the issue of federal aid to the industry is controversial.

"It's a real sad spot when you have to resort to that. What's the net gain? So we give our industry some money, they continue to produce a product that is not needed right now. But it lives to fight another day.

"Will it be able to? That is the question."

Mercer International vice-president David Gandossi, who headed an industry drive for an aid package, described the forest sector as "on its knees."

"I have never seen anything like it. Just waiting around while other jurisdictions [like the U.S.] support their industry isn't an option."

U.S. companies are benefiting from a 50-cent-a-gallon subsidy on alternative fuels meant for highway vehicles. Pulp and paper companies in the U.S., however, discovered they were eligible if they added some diesel to their black liquor — a byproduct of the pulping process that is used to generate heat and energy. The subsidy has reduced their costs by about \$200 a tonne, turning unprofitable mills into the world's lowest-cost producers overnight. It has resulted in extreme distortions in pulp and paper markets.

The Canadian program is "softwood lumber-proof" Gandossi said, as long as it is directed at green projects. The lumber agreement prohibits subsidies, but contains a "safe harbour" clause that permits government funding for environmental management, protection and conservation as long as it does not affect timber prices.

The government is expected to set grant sizes for pulp companies based on a fixed number of cents-per-litre on black liquor that they produce. That amount goes into a fund. Mills could apply for the allocated funds for green projects such as energy production.

"Capital grants that focus on conservation of energy, generation of energy, environmental improvements would be eligible for a grant," Gandossi speculated. "Funds would be dispatched quickly if the projects meet the criteria."

ghamilton@vancouversun.com

B.C. BUSINESS SUMMIT



Panelists Carole Taylor (left), David McLean, Colin Robertson and David Emerson speak at a Business Council of B.C. summit in Vancouver Tuesday. Participants were told resolving trade issues with the U.S. is key to B.C.'s future growth.

Fight U.S. isolationism with Olympics, senior analyst urges

Gergen says Canadians should 'reach out' to U.S.

BY DERRICK PENNER
VANCOUVER SUN

Canada should work with both the U.S. president and Congress to try to change America's isolationist trade atmosphere, but in the short term, it should be taking full advantage of the Olympics, a senior U.S. political analyst said Tuesday.

David Gergen said his immediate advice to Canada is to use the 2010 Olympics as an opportunity "to reach out with your cultural diplomacy and public diplomacy."

"Help Americans and others rediscover Canada," he added, "and I think that will help change the environment and atmosphere in which we take on those issues."

Gergen, a senior analyst for the CNN television network who has advised U.S. presidents stretching back to Richard Nixon, was the keynote speaker at a Business Council of B.C. summit event titled "Outlook 2020: Shaping B.C.'s Economic Future."

Gergen said it's not U.S. President Barack Obama who needs to be convinced about the merits of a more open relationship, but rather the American Congress. He said Obama has had so many issues to deal with that he's had to delegate the details of much of his policy-making to Congress.

"That has profound implications for U.S.-Canada [relations]," Gergen said,

"because a lot of the sensitive issues you're worried about — whether it's buy American provisions, or protectionism creeping into a lot of legislation — Canada not only has to work with the Obama administration, it has got to work with Congress and has got to be deeply involved, because power has shifted there."

He said protectionist sentiments in Congress are fairly strong at the best of times, but during the current recession, they will be more difficult to overcome.

During the summit, participants were told that resolving trade issues with the U.S. will be key to positioning the province for future economic growth.

David Emerson, the former federal cabinet minister, civil servant and corporate CEO, said the "erosion of the NAFTA narrative," particularly since 9/11, is one of the crucial issues that B.C. and Canada need to focus on.

Emerson said that with NAFTA, Canada can sell itself to the world as being not just a small market of 33 million people, but a segment of the North American market of 440 million.

Emerson said he believes the first task Canada and the U.S. should undertake is to hold North America together as a more united economy.

"It's when we start to fragment within North America that we start to lose our jobs to the Chinese and the Indians and the Brazilians and the Vietnamese and on and on," Emerson said.

"So job one really has to be, I think,

for Canada to take a leadership role," he added. "To be loud, to be aggressive, to be persuasive with the U.S. in particular, about the benefits to the U.S., and do the same here in Canada, why we need to fix the North American economic framework."

"But at the same time, we need to be aggressively going out and forging trade agreements in the Pacific Rim and elsewhere in the world," Emerson said. "Because 80-per-cent reliance on a country that just can't stop whacking us with protectionist initiatives is too much. So you've got to do both at once."

Emerson spoke on a panel with CN chairman David McLean and Colin Robertson, a former top Canadian diplomat, now a senior academic at Ottawa's Carleton University.

Former B.C. finance minister Carole Taylor, who moderated the discussion, said in an interview it is critical for B.C. to work on reinventing its economy even though it is going through tough times. "If you don't take advantage of this very difficult time to make changes and do your thinking," Taylor said, "I think you'll be left out of the future economic growth that will happen not only in Canada but in the world."

depenner@vancouversun.com

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Columnist David Baines

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THURSDAY

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