



**Living Legacy Trust
Phase II Value-Added Report
Follow-Up Initiatives**

'Targeted Briefings Report'
June 2004

Prepared for the Living Legacy Trust

Woodbridge Associates Inc.



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Disclaimer

We have not identified individuals or organizations by name. The summary notes provided in this report represent common themes that emerged during the targeted briefings and have been prepared without prejudice on the basis of key feedback messages. The themes summarized in the report do not necessarily represent the views of any single individual, group or organization.

The consultant has prepared the summary notes for the purposes of information only and for facilitating any further follow-up initiatives and takes no responsibility for any of the views expressed, any errors and omissions, or any actions taken or initiatives considered in response to this report and/or any of its conclusions.

Executive Summary

A series of reports produced by internationally-based consultants, commissioned by The *Living Legacy Trust* (LLT), have led to potentially favorable conclusions about the future of wood based industries in Ontario, and have identified specific opportunities for northern Ontario.

These studies conclude that the province has substantial opportunities for GDP growth, and renewal of northern economic development, if a strategy of shifting from lower valued commodity products to more profitable value-added processing is accelerated.

A substantial additional opportunity exists for Ontario based on potential inflows of new capital investment into a new multi-sector advanced technology manufacturing. Ontario has the potential to become a world leader in wood-based system-built housing. It is already the location of a North American technology leader in this field.

Feedback obtained from targeted briefings to the Ontario wood products industry, the residential building and construction sector, as well as from rural communities and Toronto capital markets, is that the Phase II market opportunity findings are valid and achievable.

Achievement of this potential, however, will take determination by the Province of Ontario that this is major economic development strategy worthy of its sustained support. It is also evident that this development will not just happen on its own. It will require organization and the coordination of support from multiple sectors of the Ontario economy and several ministries.

In identifying and pursuing this market opportunity to date, the LLT has done its job well. With the Trust now closing, a new champion is required to keep up the momentum. Ontario faces stiff competition from the US, Europe and Quebec, but has an excellent location in relation to the huge US market and several other competitive advantages.

Ontario has come too far with this initiative to risk dropping the ball and letting a competitor jurisdiction snatch the reins of success.

In this report, we provide a summary of our feedback notes from over 40 organizations and well over 250 persons contacted. Importantly, these confirm the market potential and the determination of many key players and stakeholder groups to make sure that Ontario stays as the front runner.

The Board of the LLT has ensured private sector involvement and support through various follow-up initiatives, including current visits to US customers arranged by the Trust for the Ontario wood products and home building industry. The Government of Ontario now needs to build on these successes.

Our recommendations are few and simple.

With the closure of the LLT, someone needs to seize the initiative and make sure that sufficient organization is placed around this opportunity. We estimate that this would be a low cost, but very high rate of return, undertaking by senior Government.

Our interviews confirm that important stakeholder groups in northern and southern Ontario, including the industry, communities, First Nations and capital markets are looking for leadership. The opportunity is clear. The way forward has been roughly mapped out. The next step is commitment.

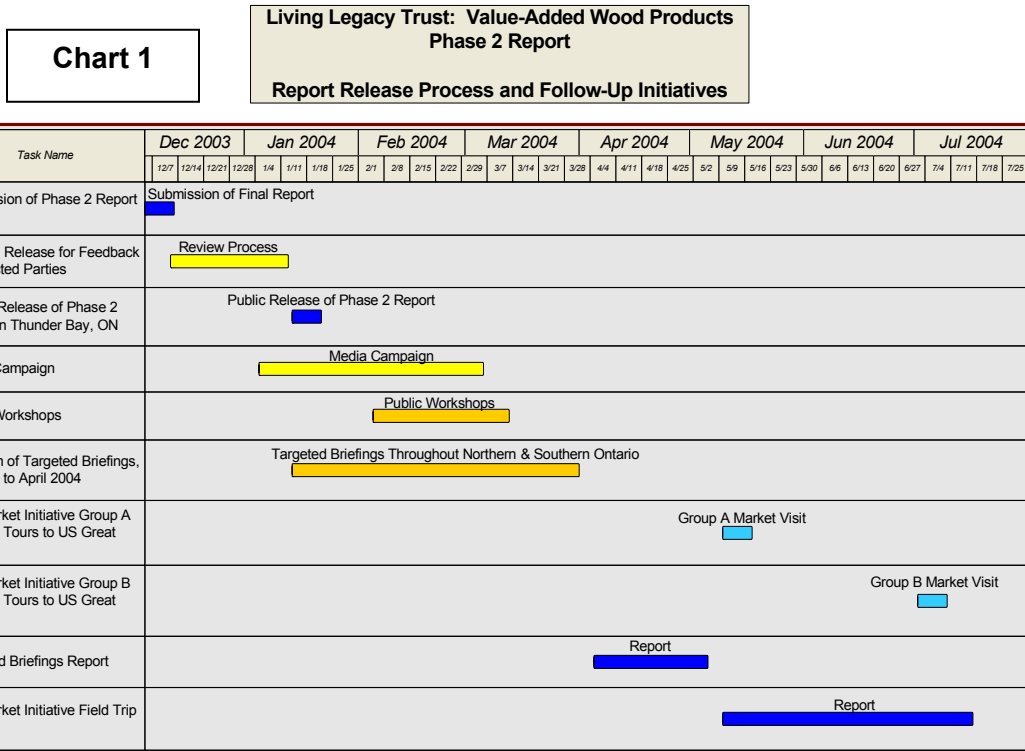
1. Introduction

This is a report about one of several follow-up initiatives undertaken by the Living Legacy Trust. It follows the recent publication of the LLT's three-volume report 'Ontario's Value-Added Wood Products Market Potential in the US Great Lakes States' and the release of a confidential Volume 4, the *Opportunities Report* (available only within Ontario for competitiveness reasons).

These are part of a series of reports produced by Jaakko Poyry of Finland and Woodbridge Associates of Vancouver, BC. Specifically, this report is about a series of **targeted briefings** that were carried out within Ontario at the request of the Living Legacy Trust Board of Directors.

The purpose of the targeted briefings initiative was to disseminate the findings of the report as widely as possible within Ontario, and to ensure that all interested groups received the information, and are in the most advantageous position vis-a-vis global competitors to act in the best interests of Ontario on the market opportunities identified in the Phase II reports.

Another goal was to obtain industry and stakeholder feedback. The LLT Board was mindful that its mandate would shortly be ending and that the Trust would be closed. Thus there was a desire by many on the Board to leave behind an adequate 'paper trail' and sufficient well-organized feedback notes for future use. These would be available to other organizations that might subsequently be given a mandate to follow-up on the initiatives and opportunities identified in the Phase I and Phase II reports.



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Another initiative of the Board was to sponsor sales and marketing tours in the U.S. for Ontario wood products and value-added manufacturers. The first of these tours has been completed and judged to be successful by the industry (separate report pending).

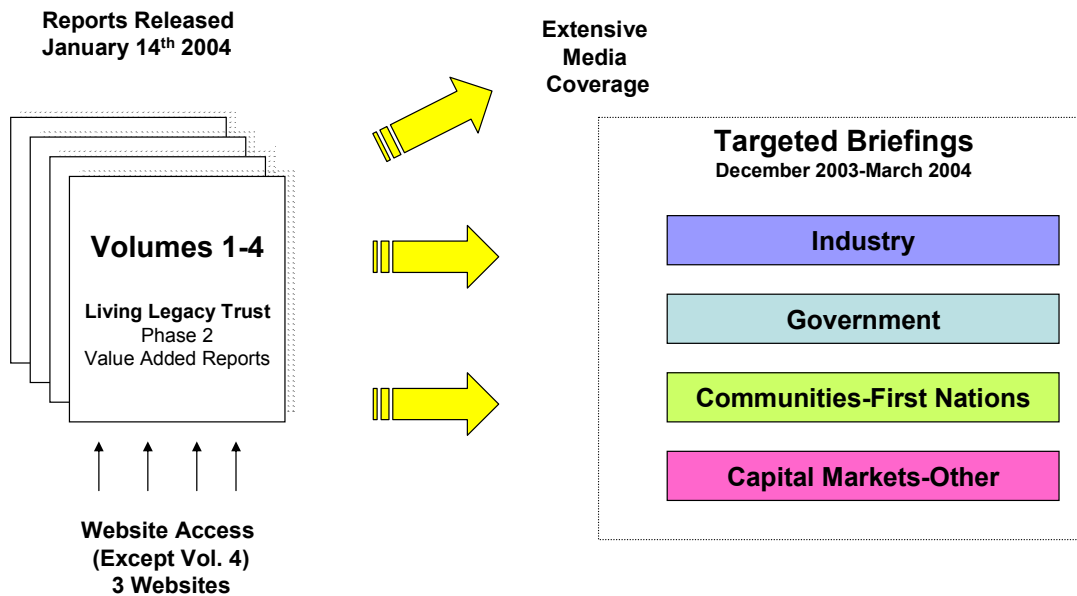
In Chart 1, Item #6 'Program of Targeted Briefings' shows the scheduling of this initiative within the overall context of the Phase II study release and the timing of various other follow-up initiatives.

Four Targeted Groups

Four main groups were targeted for the briefings (Chart 2) which comprised a series of visits by the Executive Director of the LLT (Karan Aquino) and the senior consultant (Peter Woodbridge). At some presentations, members of the LLT Board, or members of the Value-Added Committee, were present and took part in the presentations and/or discussions.

Chart 2

Four Main Groups were Targeted for Briefings



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As shown in Chart 2, four main groups were targeted for briefings. These were (not in any order of priority) as follows:

- Industry
- Government
- Communities and First Nations
- Capital Markets & Others

Over 40 organizations and well over 250 persons were contacted directly in this process.

2. Results from the Targeted Briefings

Feedback from Group 1 -Industry

These comprised a large number of wood products manufacturing and construction firms. We are grateful to all of the many firms who responded very positively to the invitations to meet with the LLT Executive Director and consultant. Meetings were held with nearly all major and medium sized firms, either directly or indirectly through direct meetings in Ontario, Quebec and Manitoba.

In addition, considerable efforts were made to contact a wide base of small business firms (SME's), notably through initial contacts made at the industry and public workshops.

Format for Industry

These were small groups meetings where (a) strategic and (b) key operational implications were presented for comments and discussion. Copies of Volume 4 were provided to all groups and CD's of Volumes 1-3 were also provided when required. However, in almost all cases, the reports had been widely read by the interviewee(s) in advance of these meetings.

The Canadian wood product industry is evolving through some major shifts in global competitiveness rankings and is faced with prohibitive trade sanctions in several markets (US and EC). Consolidation of ownership and capacity is taking place. Profitability of the industry (except for short periods such as at present) is below acceptable commercial standards. Capital access is restricted. There are wood shortages in Ontario and the Canadian industry as a whole has lost a large part of its competitive edge from rising Canadian exchange rates in US funds. The recent fast (and probably unsustainable) rises in lumber and OSB prices have been the saviour of the industry over the past year.

It is clear that the Ontario wood products manufacturing industry is striving hard to become globally competitive and has a very strong commitment to the development of *profitable* value-added new products and markets.

Key Issues for Industry

The major points arising from these meetings can best be split into two categories, corresponding to the two major sectors of industry –wood products manufacturing and construction. Within the wood products manufacturing group, there was a high degree of similarity of views (except in one respect) between independent (usually 'small-cap' or medium-cap') value-added producers and fully integrated ('large cap') forest products firms.

In one respect only there was a significant difference in views that addressed a theme often repeated at public meetings during both the Phase I and Phase II studies; namely, access by new players to standing timber already allocated to others. This was not an issue that was part of the consultant's terms of reference or scope of work.

Wood Products Manufacturing Industry Comments

- The integrated industry is already aware of many of the products and new market opportunities identified in the Phase II reports, and generally the industry agrees that the reports correctly identify future growth prospects for Ontario.
- In some cases, firms showed the LLT and consultant examples of proprietary products under development that clearly substantiate this claim. In most cases, these new products have been developed without any R&D or other tax-based support.
- The consultant noted that Ontario does not appear to be as competitive as some other jurisdictions in R&D support. The infrastructure exists within Canada for better support

from R&D facilities, but value-added wood products R&D attracts less focus than the R&D supporting many primary wood products.

- One of the main concerns of the integrated industry is that any new initiatives to attract new investment in the growth products may prejudice the viability and plans of existing firms within the province. Capacity in I-Joists, for example, was cited as being in excess of demand at that time.
- The scope for lumber flange I-J's was acknowledged and generally is very cost competitive with LVL and TimberStrand flanges.
- In principle, the integrated industry is willing to work with the Government of Ontario on any follow-up export market initiatives, or successor programs recommended in the Phase II reports or during follow-up meetings, such as a next phase (with a value-added marketing emphasis) of '*Free to Grow*'.
- The potential for the industry to create closer links with the systems built housing sector was acknowledged and several firms are already acting on this initiative. Even so, the strong disconnect between Ontario's wood products industry and the province's large millwork industry (identified in the Phase II reports) was also recognized.
- The potential for the independent value-added producers, notably independent remanufacturers, to work with large integrated firms (southern and northern Ontario) is widely discussed but, generally, is rarely acted upon by one of the two sides.
- As a result, potential industrial synergies and innovation (as identified in the Phase II reports) is rarely realized. Ontario loses out on its potential gains in competitiveness and growth in (coordinated) value-added manufacturing.
- The potential of Ontario's black spruce to develop a superior market position versus Southern Pine was noted.
- Targeted marketing was acknowledged as a trend for certain products. The rapid growth of US homebuilders as a consuming group, for a wide array of lumber, structural panel boards, EWPs and building components (as noted in the Phase II report) was readily acknowledged and several firms already have a lively dialogue with US homebuilders.
- US homebuilders are significant buyers, they have different needs than the Big Box stores, and the business model required for success is quite different in several aspects than with the top tier Big Box retailers and home centre stores.
- Closer integration with system builders is felt to be likely and represents a good opportunity for Ontario.

Construction Industry (Site Built & Pre-Cut) Comments

- Toronto based homebuilders reported that the Toronto housing and developable land market is tightly held, with very little consolidation taking place among the various players.
- This is in sharp contrast to the situation in the USA.
- The Vancouver market is more fluid in terms of approach to consolidation of homebuilding capacity and is a more extensive user of value-added wood products.

- In Toronto, the industry structure and the trades union situation tends to restrict innovation in new products and new construction methods.
- Higher productivity components production, notably wood truss and I-J use, is extensive but use of panelization is limited to date. Framers and sub-trades simply can't seem to find a successful formula to compensate builder-developers (or vice versa) for construction method innovation or, in some case, save costs mutually through adoption of new approaches.
- Ontario systems builders have had limited success in integrating with site-builders within Canada. In some cases, US builders offer better prospects for working together.
- Generally, Ontario municipalities do not restrict builder-developers from using systems approaches to new residential construction.

Millwork Industry Comments

- The strong disconnect between Ontario's wood products industry and the province's large millwork industry was acknowledged.
- Raw materials for the millwork industry (e.g. MDF for kitchen cabinets and moldings) that are produced at plants within Ontario, have lost market share to imported lower priced MDF supplies imported from overseas e.g. Chile.

Feedback from Group 2 -Government

These comprised meetings and briefings (often with several follow-up meetings at the request of Ministers and deputies) for a significant number of ministries. We met mainly with provincial ministries, but also had well-attended meetings with key federal economic and industry development ministries.

Format for Government

Again, these tended to be small groups meetings where mostly (a) strategic and (b) economic development and (c) public policy implications discussed. Copies of Volume 4 were provided to all groups and CD's of Volumes 1-3 were also provided when required. However, in almost all cases, the reports had been widely read by the government interviewee(s) in advance of these meetings, and they were well briefed and prepared.

We are grateful to the various government employees who were willing to meet with us and, in particular, the strong commitment shown by very senior ADMs and DM's, as well as Ministers and their staff, and the desire to find ways in which the Ontario wood products and value-added manufacturing industry can succeed even further over the coming years. It is clear that the Government of Ontario has a very strong commitment to these goals.

Key Issues for Government

- Changes in industry structure, including capturing market opportunities identified in the Phase II reports, has to be led by the industry which will be required to make the capital and other investments.
- In this context, "industry" means both the integrated and independent wood products manufacturers and the construction and off-site fabrication industry.

- Northern economic development is a key priority for government. So too are jobs stability and creation of new jobs.
- Innovation and sustainability of viable commercial operations are key goals as the manufacturing sector shifts to advanced processing and IT based technologies.
- Looming skills shortages in critical industries has to be addressed adequately as the sectors evolve.
- The drift of jobs to the south has to be halted and ideally reversed.
- First Nations peoples clearly are a vital component of the province's economic and social fabric and wood industry and any value-added manufacturing initiatives have to address this evolution.
- New capital investment flows into the province are a very high priority. The potential of growth market and new product-technology opportunities, such as world leadership in systems built housing, offer an attractive means of developing GPP growth.
- A suitable vehicle for ongoing dialogue, and commitment to action, is urgently required in relation to the Phase II reports and recommendations.

Feedback from Group 3 -Communities and First Nations

Format for Communities and First Nations

As noted in the detailed notes provided earlier, the typical format for these meetings comprised a mix of public workshops, open to all, presentations to community and economic development groups and small group meetings. Meetings were held with groups First Nations groups.

We are grateful to the various mayors, municipal officials, members of northern communities and First Nations groups who were willing to meet with us and, in particular, to the enthusiasm for cooperative working relationships and to find ways in which the Ontario wood products and value-added manufacturing industry can succeed even further over the coming years.

It is clear that Ontario communities and First Nations peoples have a very strong commitment to these goals, and are looking for leadership in this respect from senior government and the private sector.

Key Issues for Communities and First Nations

- These have already been identified in some detail in the workshop notes provide earlier in this report.
- Some additional points are:
 - They want to be part of the process and contributors to sound economic solutions
 - There is a lot of talk, but often no tangible action.
 - Timber issues are important to First Nations.

- Their economic development models, and preferred structure of wood product manufacturing investments, should focus on labor intensive technologies, but this does have to occur in every case.
- Northern communities are keen to support value-added manufacturing initiatives, but need more knowledge on how to adapt “southern Ontario” models of commercial success to the north.

Feedback from Group 4 -Capital Markets & Others

Format for Capital Markets

These were small groups meetings, or meetings individually with senior bankers and policy makers, where mostly (a) strategic and (b) capital market implications were discussed. Copies of Volume 4 were provided to all groups and CD's of Volumes 1-3 were also provided when required. However, in almost all cases, the reports were readily understood by these capital markets players in advance of these meetings, and they were well briefed and prepared.

We are grateful to the various senior people who were willing to meet with us and the strong commitment they showed for being advisors to the process and part of solution. From a global capital markets perspective, they too shared the desire to find ways in which the Ontario wood products and value-added manufacturing industry can succeed even further over the coming years.

Key Issues for Capital Markets/Others

- Ontario is an attractive place for this type of investment.
- Capital markets will support private sector firms seeking fresh capital for this initiative.
- Wood product capitalization of publicly quoted firms is a small part of the Toronto capital markets total. The industry can approach capital once on this initiative, but should be unified and coordinated.
- Capital markets have a short attention span. Ontario has to get this right, first time.
- The verbal and organizational support of the Government of Ontario for this multi-sector new-industry initiative will count for a great deal.