

## ADVICE TO MINISTER

<b>CONFIDENTIAL ISSUES NOTE</b>  Ministry of Forests, Lands and Natural Resource Operations Date: Nov 1, 2011 Minister Responsible: Hon. Steve Thomson	<b>Kitwanga Mill closure</b>
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### ADVICE AND RECOMMENDED RESPONSE:

- The Kitwanga mill is presently closed due to the uncertain economic conditions elsewhere in Canada, where a majority of its product is sent.
- That is precisely why we continue to expand and build new markets for B.C. lumber.
- B.C.'s lumber exports to China in 2010 were more than 10 times what they were in 2003, when B.C. first established an office there to market B.C. wood products.
- In 2010, lumber exports to China reached 4.56 million cubic metres – or the equivalent of 10 large B.C. sawmills.

### Log exports:

- Log exports played no role in the mill's closure, rather it was about uncertain economic conditions.
- YTD August 2011, log exports were only 9.4 per cent of B.C.'s total forest product exports (value) to China.
- B.C.'s marketing efforts in China are focused on softwood lumber. A lot of mills are running today because of increased demand from China.

### KEY FACTS REGARDING THE ISSUE:

During question period the opposition critic pointed out the Kitwanga sawmill has closed down, after initially reopening this past summer. The inference was that raw log exports were largely to blame.

Lumber production resumed at Kitwanga in June 2011 after Pacific BioEnergy acquired the mill in fall 2009 from the Kitwanga Lumber Co. An estimated 80 per cent of Kitwanga's production is for domestic markets across Canada, with the other 20 per cent destined for China, Japan and Korea.

The Kitwanga lumber mill's return to production had directly generated 45 mill jobs and another 45 indirect jobs in logging, hauling, silviculture and support services and supplies.

Communications Contact:	Dave Crebo	260-356-6998
Program Area Contact:		

File Location:
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**Ehl, Cameron JTI:EX**

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**From:** Ehl, Cameron JTI:EX  
**Sent:** Tuesday, November 1, 2011 3:21 PM  
**To:** Bell, Pat JTI:EX  
**Subject:** Kitwanga

Spoke with Bruce. The gist of the matter is that Kitwanga shut down around the time of UBCM...they do plan to re-open when markets rebound, but at this time, they have no idea when that will be. s.13

s.13

I have included the House Blues from today from QP for your information.

**D. Donaldson:** In July the Premier took part in a flashy photo opportunity to reopen the Kitwanga mill in my constituency. On October 7 the mill shut down indefinitely, partly because they can't get wood. Meanwhile, raw logs are being shipped out of the country right along the highway in front of the mill.

Since the Liberals were there for the photo opportunity and to claim credit for the mill's reopening, will the Premier now take responsibility for those workers losing their livelihoods in Kitwanga indefinitely?

**Hon. C. Clark:** Twenty-seven mills have reopened in British Columbia as a result of the work that the government has done in opening new trade relationships in Asia. That's been the work of some very, very focused effort that the government put in, in making sure that we are maximizing our trade presence and working cooperatively with people in the industry.

It was timely that the government went ahead and did that. We had no idea how timely it would turn out to be at the time, given what has since happened in the American economy, our largest trading partner to the south.

We intend to continue to make sure we stay focused on bringing home jobs for British Columbians, and that's why on Friday I'm travelling to China and India, because we are going to spend our time opening up new trade relationships with China and India for our manufactured wood.

One of the things that the members opposite don't understand is that if you don't have customers, if you don't create a thriving economy, you don't have jobs here at home. That's what the trip is going to be about.

**Mr. Speaker:** Member has a supplemental.

**D. Donaldson:** The Premier got the photo opportunity, and the workers got pink slips. That's this government's job action plan in action.

The millworkers know the indefinite shutdown is, in part, due to raw log exports — millworkers like Randy Good. He has worked at the mill for 35 years. Now he's looking at moving to Alberta in order to find a job to support his family.

We know that the Premier and her party are good at cutting ribbons, but when will the Liberals get serious about problems facing forestry and ensure B.C. logs for B.C. jobs?

**Hon. C. Clark:** The thing that we have to do as a government if we are going to bring home jobs for the province of British Columbia, if we're going to make sure the people in Kitwanga and people across the province in rural communities are working, is we're going to have to work hard to find customers for our wood.

Now, those customers aren't in abundance south of the border like they once were. As a result of the work that the government has been doing through FTA and some of the trade work that we've been doing in China, in some months we have seen more softwood go to China than it has to the United States for the very first time in history.

We have to continue to build those relationships. We have to make sure that we are finding customers for our wood so that we can put British Columbians to work in this province, and that's where it begins.

You cannot support the valued social programs that people depend on if you don't have a thriving economy. You can't have people going to work if you don't have a thriving economy. You cannot make sure that rural communities are thriving if you're building up debt and undermining confidence in our economy.

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thriving economy. You can't have people going to work if you don't have a thriving economy. You cannot make sure that rural communities are thriving if you're building up debt and you are undermining confidence in our economy.

The very worst thing that could happen to British Columbia is that we go back to where this group of people took us in the 1990s. Instead, we're going forward. We're going to Asia. We're going to China, and we're bringing home jobs for British Columbians.

#### FOREST INDUSTRY JOBS AND LOG EXPORT POLICY

**N. Macdonald:** Here's a few facts that get in the way of the rest. There have been five permanent closures. There have been 18 temporary closures, including Kitwanga, in the period that the Premier talks about. She constantly talks about 27 mills. There have been 24 reopenings. Those are the facts.

The minister and the Premier, when they go around, misrepresent reality. If the Premier wants to see B.C. logs used in manufacturing, she's headed to the right place. She's headed to China, where 80 mills have opened using our raw logs. I tell you what people in British Columbia believe. They believe that B.C. logs should be for B.C. jobs. When is the minister going to get it? When is the minister going to step away from the photo ops that produce nothing and produce jobs here in British Columbia?

**Hon. C. Clark:** We saw the NDP's plan for creating jobs in forestry in British Columbia. It was called the jobs and timber accord. It promised 21,000 new jobs, and 13,000 jobs disappeared. That's what happened. That's what happens when the folks on the other side are in government and they reduce the economy to a simple slogan.

Instead of doing that, instead of devastating our trade presence as they did in Asia, instead of fundamentally misunderstanding what drives our economy, instead of raising taxes and driving up debt and potentially putting British Columbia in the same kind of position that we see many other countries in the world struggling with today, our government is focused on reaching out.

We're focused on finding customers for what B.C. produces, and when we find those customers, when we make those deals, we will bring home jobs for British Columbians. That is what will make British Columbia the place to invest around the world, and it will mean not only do we remain a safe harbour for investments but we lead Canada in terms of job growth.

**Mr. Speaker:** Member has a supplemental.

**N. Macdonald:** I mean, none of that is real. None of that is based in reality. That does nothing to help people in Kitwanga. I mean, the fact of the matter is since this B.C. Liberal government has taken over, we have lost 34,000 family supporting jobs. That is the reality. The so-called jobs minister when he was Minister of Forests lost 17,000 jobs. Those are the facts. Those are indisputable. So it's been an unprecedented failure.

At the same time right now in the same period as last year we have a 207 percent increase in raw log exports. That is the reality that is there for the Premier. So the question is this: when is this government going to do the right thing, take the resource that we have collectively and put it to use so that we create jobs here in British Columbia — good family-supporting jobs? When is that going to happen?

**Hon. C. Clark:** The jobs and timber accord — 13,000 jobs disappeared. We had the Forest Practices Code, which added a billion dollars to the costs of doing forestry in British Columbia. We had a Forest Practices Code that was 70 feet of paper at its height. That member will stand there and lecture members on this side of the House about how to make sure our forest industry is thriving.

We lost 13,000 jobs in the forestry industry in British Columbia at a time when the American economy was booming — the biggest expansion of the economy in North American history. British Columbia became a have-not province — why? Largely, because members on that side of the House did everything that they could to put their foot on

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American economy was booming — the biggest expansion of the economy in North American history. British Columbia became a have-not province. Why? Largely because members on that side of the House did everything that they could to put their foot on the neck of the forest industry in British Columbia.

We are going to do it differently, and we have been. The proof is in the pudding in the last five years, where the government has put a singular focus on trying to open up markets in Asia and make sure we bring home those jobs for British Columbians by diversifying our markets and by finding customers for our manufactured woods. That is how we will make sure there are jobs for British Columbians — not just in the Lower Mainland, not just in the south Island, but in rural communities all across British Columbia.

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Cameron Ehl,  
*Executive Assistant to the Honourable Pat Bell,  
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Ehl, Cameron JTI:EX

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From: Hayden, Dana JTI:EX  
Sent: Thursday, December 8, 2011 8:17 AM  
To: Bell, Pat JTI:EX  
Cc: Ehl, Cameron JTI:EX  
Subject: FW: Kitwanga Lumber Bankruptcy

Just FYI

-----Original Message-----

From: Janine North [mailto:janine@northerndevelopment.bc.ca]  
Sent: Wednesday, December 7, 2011 9:37 PM  
To: Alex Pietralla; Alex Pietralla (Personal); Chair Evan Saugstad (Spectra); Danny Schilds; Gerald Wesley; Kuzma, Terry FOR:IN  
Cc: Brodié Guy; Dean McKinley; Dennis Callaghan; Janine North; Jeanette Stanley; Jennifer Sumner; Karen Borden; Renata King; Tess Elo  
Subject: FW: Kitwanga Lumber Bankruptcy

For your information:

Don Steele, Chair and Brad Bardua, CFO at Pacific Bio-Energy, have confirmed with Dennis and I the closure of the Kitwanga Lumber Company sawmill. s.21

s.21 Price Waterhouse Coopers has now been appointed as the trustee in bankruptcy over the affairs of the Kitwanga Lumber Company.

s.17, s.21

I have copied a link to a news story that is being carried on Opinion 250 and you may see additional coverage in regional media tomorrow.

<http://www.opinion250.com/blog/view/22364/1/kitwanga+lumber+files+for+bankruptcy+protection?>

From: Couture, Guillaume [mailto:Guillaume.Couture@cibc.com]  
Sent: Wednesday, December 07, 2011 11:06 AM  
To: Dennis Callaghan

s.21, s.17

Regards,

Guy

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Warm Regards,

Janine North

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**Ehl, Cameron JTI:EX**

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**From:** Parhar, TJ S JTI:EX  
**Sent:** Wednesday, December 7, 2011 4:54 PM  
**To:** Adair, Marisa GCPE:EX  
**Cc:** MacInnis, Matthew JTI:EX; Ehl, Cameron JTI:EX; Murry, Sean JTI:EX; James, Ben GCPE:EX; Helman, Carolyn GCPE:EX; Ryan, Fergus GCPE:EX  
**Subject:** Re: FYI - Kitwanga mill applies for bankruptcy protection

Thanks we are aware.

Sent from my iPhone

On 2011-12-07, at 4:51 PM, "Adair, Marisa GCPE:EX" <Marisa.Adair@gov.bc.ca> wrote:

Heads-up. Thanks for this Ben. M

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**From:** James, Ben GCPE:EX  
**Sent:** Wednesday, December 7, 2011 4:50 PM  
**To:** Adair, Marisa GCPE:EX; Helman, Carolyn GCPE:EX; McAndrews, Caroline GCPE:EX; Ryan, Fergus GCPE:EX  
**Cc:** Carne, Courtney GCPE:EX  
**Subject:** FYI - Kitwanga mill applies for bankruptcy protection

FYI

<http://www.terracestandard.com/news/135205083.html>

Mill applies for bankruptcy protection  
By Staff Writer - Terrace Standard  
Published: December 07, 2011 2:00 PM  
Updated: December 07, 2011 4:38 PM

Kitwanga Lumber Co. Ltd. announced this afternoon that it has filed for bankruptcy protection. The action comes after efforts this fall to seek new niche markets for the specialty wood products. Mill proved unsuccessful, says a release from the company.

The outlook for 2012 is not expected to improve, the release continued.

The company re-opened its mill at Kitwanga in June with Premier Christy Clark at the official ceremony as lumber markets and prices looked stable and were expected to stay consistent through the remainder of the year and beyond.

Continuing global economic uncertainty throughout the summer led to a decreased demand for lumber and decreased prices, the release continued.

The sawmill soon became unprofitable and was temporarily shut down in October.

Kitwanga Lumber Company is a subsidiary of Pacific BioEnergy Corporation which had bought the company out of bankruptcy two years ago as part of a strategic move it hoped would lead to the construction of a wood pellet plant in Kitwanga.

Pacific BioEnergy still believes there is a bright future for the northwest BC bioenergy industry, the company press release concluded.

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