



**PROVINCE OF NEWFOUNDLAND AND LABRADOR
HOUSE OF ASSEMBLY**

Second Session
Forty-Seventh General Assembly

**Proceedings of the Standing Committee on
Public Accounts**

Tuesday, February 18, 2014 - Issue 6

Department of Natural Resources
Forest Industry Diversification Program
(Continued from October 17, 2013)

Public Accounts Committee

Chair: Jim Bennett, MHA

Vice-Chair: Tracey Perry, MHA

Members:

Sandy Collins, MHA
Eli Cross, MHA
George Murphy, MHA
Tom Osborne, MHA
Kevin Parsons, MHA

Clerk of the Committee: Elizabeth Murphy

Appearing:

Office of the Auditor General

Terry Paddon, Auditor General
Sandra Russell, Deputy Auditor General
Scott Walters, Audit Manager (Acting)

Department of Natural Resources

Forestry and Agrifoods Agency

Wade Bowers, ADM, Forestry Branch, Forestry and Agrifoods Agency (FAA)
Jim Evans, CEO, FAA
Gary Forward, Industry Services Supervisor, Forestry Branch, FAA
Eric Young, Director, Forest Engineering and Industry Services, Forestry Branch, FAA

The Committee met at 2:30 p.m. in the House of Assembly Chamber.

CHAIR (Bennett): Good afternoon, everybody.

We are live right now – not from Sochi, but we are live. Anyway, this is a hearing of the Public Accounts Committee of the Province of Newfoundland and Labrador. My name is Jim Bennett, MHA for the St. Barbe district, and I am the Chair. This is a continuation of a hearing that we were doing previously, some months ago.

For people who are not familiar as yet with Public Accounts hearings, the Public Accounts Committee has witnesses come before it to provide explanations and background information on matters that have been dealt with by the Auditor General in the Auditor General's report. We have members of the Auditor General's staff here, we have members who have appeared voluntarily as witnesses today to provide us with certain information, and we have the Committee members.

I am going to ask the Committee members if they would each introduce themselves starting with – we have a new Vice-Chair.

MS PERRY: Tracey Perry, Member for Fortune Bay – Cape La Hune.

MR. K. PARSONS: Kevin Parsons, Member for Cape St. Francis.

MR. S. COLLINS: Sandy Collins, Member for Terra Nova.

MR. CROSS: Eli Cross, Member for Bonavista North.

MR. MURPHY: George Murphy, MHA for St. John's East.

MR. OSBORNE: Tom Osborne, MHA for St. John's South.

CHAIR: From the Auditor General's Office...

MR. WALTERS: Scott Walters.

MS RUSSELL: Sandra Russell, Deputy Auditor General.

CHAIR: The individuals from the Department of Natural Resources...

MR. YOUNG: Eric Young; I am the Director of Forest Engineering and Industry Services.

MR. FORWARD: Hi. My name is Gary Forward. I am the Supervisor of Industry Services with the Department of Natural Resources.

MR. EVANS: Jim Evans; I am the CEO of Forestry and Agrifoods Agency.

MR. BOWERS: Good afternoon.

I am Wade Bowers, Assistant Deputy Minister for the Forestry Services Branch.

CHAIR: We expect to be joined momentarily by Mr. Paddon, the Auditor General, who has just stepped out.

The witnesses who appear before us were previously sworn, so it is not necessary to do so again. Actually, I neglected to mention Ms Murphy, who is our Clerk, is sitting at my right.

We are looking forward to probably a relatively short day. We intended to start in the morning, but weather delayed most people's travels – including my own – so we are fortunate to be able to have the second half of the day available to finalize this matter.

We are now joined by our Auditor General, Mr. Terry Paddon.

Unless anybody has any questions, I would start with questions – and we tend to go into ten-minute increments and alternate between government members and an Opposition member.

Mr. Osborne.

MR. OSBORNE: Thank you, Mr. Chair.

I will start my questions – and some of these may be repetitive, based on questions that were asked during the previous hearing. I am just wondering what feasibility studies were done when determining that a wood pellet plant would be viable in Newfoundland and Labrador.

MR. EVANS: The department did commission, and I believe it is in the supplementary information. I will refer to my colleagues on that question, if you do not mind.

MR. YOUNG: I guess I can have a stab at that question.

The diagnostics and the feasibility studies were part of all the application process for FIDF. Anyone who wanted to apply under the FIDF had to have a technical diagnostics done of their operations. The question, I believe, is revolving around the pellet plant, which would be for Company A on the Northern Peninsula. In that case, there was a diagnostics that was performed on their operations, which would have factored in all of the ongoing situations around what was happening on the Northern Peninsula.

At the time in question, I cannot remember exactly the date, but when the initial proposal was put together, the idea of a pellet plant was tabled by the proponent, by Company A, as a

means of finding an outlet for small-diameter wood that could not be sawed. At the time, Corner Brook Pulp and Paper were unable to purchase wood from the Northern Peninsula, pretty well shutting down all of the sawmill industry. For that reason, the consortium on the Northern Peninsula of operators got together and discussed it.

One individual stepped forward, Company A, with the idea of perhaps looking at a pellet plant on the Northern Peninsula. That started the process of their application into the FIDF. We secured the services of FPIInnovations to visit his operation and to do a diagnostics of his operations around the sawmill. Obviously, they could not diagnose on the pellet plant; it was not in existence then. That did enter into the discussions.

In the report that was presented to us from FPIInnovations, the large bulk of it revolved around the idea of sawmill improvements and the addition of new kilns because the facility did not have the ability to dry wood at the time; and the idea of the pellet plant was there. As a committee, we reviewed that proposal and the diagnostics. As part of our due diligence, we contacted the Canadian Wood Pellet Association.

Four or five years ago when all of this started, we were fairly new into it and it was our first opportunity to try to learn more about the wood pellet industry. There is a lot to learn. It is not as simple as what most people would think it to be around markets, around making pellets itself, too. We tried to bring in some experts from outside to guide us in our decision making.

At the time, I think the Chair of the Canadian Wood Pellet Association, Jim Swaan – Gary, I believe?

MR. FORWARD: John Swaan.

MR. EVANS: John Swaan. We had a small workshop in Deer Lake at the time. We discussed this proposal and he presented some information around the whole wood pellet industry. I guess it was from that point forward that the project started to proceed and we started graphing up a submission for Cabinet's consideration.

MR. OSBORNE: Okay.

Some of the questions that I am going to ask are probably – most of us around, or at this hearing today understand the answers, but this is a public meeting and for the benefit of others. I believe it was \$11 million provincial money put into this wood pellet plant. There was ACOA money put in as well. Are you able to identify the total amount of public investment into this project?

MR. EVANS: Yes, and that was some of the supplementary information that we did go back and retrieve. There was some additional information, as suggested, that we did receive. The total amount, excluding HST, was \$9 million from the Forest Industry Diversification Fund. In addition, there was another \$1 million for the Green Fund. I do not have the exact ACOA contribution, but there was a total of \$9.268 million, excluding HST.

MR. OSBORNE: Okay. So with the HST it would be just over \$11 million?

MR. EVANS: Excuse me?

MR. OSBORNE: With the HST it would be just over \$11 million in total?

MR. EVANS: Yes. I have not done the math on that but another 13 per cent on top of that, yes.

MR. OSBORNE: Okay.

MR. YOUNG: Just to clarify Jim's statement on that.

The question was, how much of government money was put into the project? A lot of people get mixed up. There is more than one project. There are actually four projects that were combined. So you have to keep that in mind.

The total amount that was invested by the Government of Newfoundland and Labrador was \$10 million. Seven million was earmarked for three things. It was for the pellet plant, the construction of a pellet plant, sawmill modernization, as well the construction of two new kilns, as well as a scaling office and that sort of thing.

Two million dollars was allocated towards a regional wood yard, which benefitted all of the contractors on the Northern Peninsula. That came up to \$9 million. Another million was earmarked by the Green Fund, which was administered by a different group than us. That was earmarked directly for the pellet plant itself. The total amount of contributions that went into the Northern Peninsula back then was \$10 million in total, but it was for four projects.

Am I right, Gary?

MR. FORWARD: Yes.

MR. YOUNG: The question about the HST being added on to it, that really had no bearing on the question. It was a \$10 million investment before HST would have been entered into it. That was the amount that was invested.

MR. OSBORNE: Okay.

Just a question on the HST – it was identified by the Auditor General that the department reimbursed Company A with approximately \$1 million related to claims, including HST. Should that not have been a federal reimbursement, as opposed to a provincial reimbursement?

MR. EVANS: Yes, that would be a federal reimbursement, the HST; but when the original question arose we made the HST an eligible expense, so that was an error on our part, or an omission, so we went back and we continued to calculate and receive their invoices. The total invoices for the project, excluding HST, were \$10.33 million. The proponent could then apply for an HST exemption on top of that.

MR. OSBORNE: Okay.

In doing the analysis on the feasibility of the wood pellet plant, the pre-feasibility study had identified the fact that Canadian consumption of wood pellet products was low and that the European market for wood pellet products was growing at a much faster rate than the North American market for wood pellet plants.

What type of analysis did you do on the future projected market, both residential and commercial; and if you could break it out into residential and commercial for me on the market ability within this Province and within North America, as well, on wood pellet products?

MR. BOWERS: In the initial application there were projections: a ten-year projection on transportation, marketing issues, storage issues for pellets, as examples. The initial application looked at really three areas of potential markets, local markets, in Newfoundland and Labrador, but also to some extent in Atlantic and internationally as well.

So, at that time in the first instance of review, the Committee considered that information, but later followed up with more questions to the proponent to get a better insight into the market conditions. Throughout that evaluation it became clear that there was more potential, really, in the international market than there was, say, locally, because uptake receptor capacity was pretty low locally and the markets at the time were generally favourable given a number of factors.

Some of those factors included the exchange rate with the weaker Canadian dollar against the Euro at the time, the price of pellets was high at the time, and transportation costs were relatively low. You could, for instance, ship lower volumes and make that feasible. So, all of those considerations were taken initially as holistic conditions of the marketplace.

There was no detailed breakdown based on local Atlantic Canadian conditions as such, except for the fact that our own in-house research, our discussions with the Wood Pellet Association of Canada, and with the proponents submission indicated that the best possible scenario and the highest potential would come from the international marketplace. The decision was made at that time to focus on international export.

CHAIR: We should move on to Ms Perry now.

MS PERRY: I do not have many new questions for you; I thought you guys did a great job at the last hearing. I did want to ask – as a follow-up to one of the questions that Mr. Osborne just asked – in terms of the \$2 million spent on the regional woodyard, how is that project working out? Is the woodyard still in operation? Is it something that is being used by the loggers in the area?

MR. FORWARD: The reason that the woodyard was created in the first place was that at the time in 2008 Corner Brook Pulp and Paper decided that they were not going to receive any more pulpwood from the Northern Peninsula; hence, Company A's sawmill could no longer operate.

The woodyard was created to keep wood moving on the Northern Peninsula to support all the harvesters that were there. The idea was to accumulate the wood in the woodyard and then when a pellet plant became operable, it would draw down on the wood that was in the woodyard. The woodyard was very successful. It kept industry operating during the construction of the plant.

As well, we had devised a schedule of harvest with the harvesters in the region, so all the wood that was harvested by these harvesters went into the woodyard and the industry continued for that year. It was very successful and it really kept industry going during that period.

MS PERRY: Okay. Thank you.

That is it for me, Mr. Chair.

CHAIR: Mr. Murphy.

MR. MURPHY: Thank you very much, Mr. Chair.

I want to come back to the whole aspect of the business plan. I guess this would be for Mr. Bowers, probably. It sounds like you have a handle on it according to the first couple of questions. The ten-year projections you were talking about when it comes to wood pellets, those projections at the same time, when they were talking about the markets everywhere, and the variables that were out there, for example, like the changing Canadian dollar and that sort

of thing, were those variables talked about in the business plan at that particular time? Were they brought forward?

MR. BOWERS: In the initial business plan, there was limited information on all of those factors. That was in fact the reason we went back with our redirect to get better insight. Through a series of discussions with the proponent, by the time we got to preparing a presentation of funding then those factors were examined and understood.

One of the factors, just to give you an example of what we considered, was the pricing at the time. If you look at the pricing of transportation and storage, for instance, of pellets prior to shipping, we had estimates there that needed to be compared to the potential profits that would come from selling in the open market. That was understood at that time.

As an example, \$42 to \$46 a ton for the transportation and storage cost versus \$200 or \$230 a ton in the open market, so the numbers were very much in favour of going forward on that basis.

It was a process of gathering information through time because all of that information was not readily available on the marketplace or on the assessment of cost. We had to go back through a series of redirects to derive what those numbers would be.

MR. MURPHY: Okay.

So when they were coming out with the business plan, though, was that part of the problem, really, why the final plan was not completed at the end of it, that the information was changing?

MR. BOWERS: Yes, you are right. Part of the issue was we rapidly entered into 2009-2010 in

the banking downturn and some of those conditions that I described there changed on us very rapidly. All of a sudden these earlier estimates then had to be adjusted, and then we were making decisions on whether it was feasible or not, given those changes that had occurred.

At the end of the day, the assessment and the analysis by the economic development officers on that file indicated that it was feasible. It was still viable to go forward. There was no question, but the numbers were somewhat different than they were in 2008, for instance.

MR. MURPHY: At that particular time, when the feasibility option was still there, I take it at that particular time the transportation costs overall – we are talking about the transportation costs, for example, to bring the product down to Corner Brook and Stephenville for shipping. I want to come forward a bit now up towards 2010-2011 because, of course, the transportation costs did change and, of course, the problem with the plant up there now, they are talking about having to export directly from Roddickton.

I am wondering, at what point did they realize there was a bit of a problem here, that they would need an export facility put in there? In other words, more government money was probably going to be needed at that particular point in order for the project to carry on. Was that particular aspect, the possibility of rising transportation costs, brought up to the department at that particular time in the ten-year assessment that they would have done? Did they talk about that possibility?

MR. BOWERS: I cannot recall if there was a specific time when people realized that, but if I go back to the first scenario where we looked at say \$42 to \$46 a ton, any port, let's say from

Port aux Basques to St. Anthony, would have potentially worked under that scenario.

Then as the numbers changed, well, the greater distance from production meant the less probability of making a profit because of transportation costs. So it is basically scaling back as those numbers change. I do not recall which specific point someone said, or came to realize: Well, this is only feasible now, let's say out of St. Anthony or out of Roddickton as examples.

There were some other considerations around that conclusion. Apart from the cost, there is the infrastructure itself, whether you could get in large enough ships with bigger volumes to offset those additional costs. Those discussions went on, but as to the exact date, I do not have that in front of me; that date, or dates even.

MR. MURPHY: Okay.

So as far as we know right now, we do not know if that was talked about, for example, upon first approval of the monies being paid out for the project. We do not know if that was covered.

MR. BOWERS: I think it is fair to say, and my colleagues could correct me on this, that the various scenarios were discussed, the what if scenarios. Obviously, if we could transport from a source at the site or near the site, that would be more preferable, that would be better. That was talked about, but I am not sure there was an analysis on a given day on that particular issue.

MR. MURPHY: Okay.

When they presented their plan, did they have a reference, for example, of the people they would have gotten the best advice from when it came to this, or did they go anywhere outside to get help

with their business plan as regards to putting together the ten year?

MR. BOWERS: The department assisted, actually, in directing them to consultants. They had their own contacts in Europe, for instance, with companies in Europe. There is an organization called Forest Product Innovation, FPIInnovations, which is a federal government group that works very closely with the Canadian Forest Services with Natural Resources Canada. They were consulted a number of times, as were some other experts on the cost of pellet production, the cost of transportation.

I would say, just as an aside, that maybe the Wood Pellet Association of Canada would be the primary point of contact for that kind of information.

MR. MURPHY: Yes, okay.

I was just wondering, because in the Auditor General's report on Page 303, it says here in the first bullet, we can go there – sorry the second bullet, “there would be issues with transporting the wood in a cost-effective manner which would be an impediment to the company”.

I am just wondering if anybody, for example, at the company might have brought this up to the government, if they might have been looking for additional assistance there, or if the possibility of the shipment facility from Roddickton might have been talked about then.

MR. BOWERS: In some of the redirects back and forth to the company, to the proponent, Company A, the department did discuss some of those constraints. We wanted to feel comfortable as a department that the point of shipping, the storage facilities, and the cost factors were such that this would be a viable

enterprise. Those kinds of discussions occurred, department to the proponent.

In the initial application, apart from the projections and the possible port selections, that was not scoped out in detail. That was one of the questions the Auditor General pointed to, and we concur with that. That we had to go back for more information, but at the time of the presentation of funding, we had a lot of that resolved.

MR. MURPHY: Okay.

When it comes to the scope here in that particular bullet, I am just wondering, has the department done anything to make sure that it was going to be looking out for things like that in the future?

MR. BOWERS: I will make a comment, and maybe Jim can add.

One of the things that I think came from this process – again, the point that we concur on with the Auditor General – is the degree of monitoring around these large projects needs to be enhanced. We have been very concerned about going into these kinds of projects into the future without a proper accountability framework set up where we can look at the objectives and milestones and outputs.

MR. MURPHY: Yes.

MR. BOWERS: We are very aware of the need to look at that monitoring side much more rigorously. There is a commitment on the part of the department to address that, obviously, going into the future.

MR. MURPHY: Okay.

I wanted to ask another question, too, as regards to the numbers of employees that were talked about in the plan, the realization about the number of employees they were talking about. I wonder if you might have a specific breakdown of exactly where the 322 employees were going to be coming from.

The reason I ask that is because of a company in Nova Scotia the other day that shipped off 25,000 tons to Belgium, but they only had thirty employees. I am wondering about the disparity of the numbers here when it comes to what I am hearing out there.

MR. EVANS: I can start the answer and maybe Wade or someone can fill it in.

I think with the Nova Scotia company, I do not know the details, but the majority of the jobs in this case would be from the harvesting sector: harvesting, trucking, forwarding, and in-woods processing. The pellet mills themselves generally, depending on the size, certainly, would employ thirty, to forty, to fifty people. Then you get more in shipping, transportation, and those things.

My thought would be the majority of the jobs on the Northern Peninsula – my recollection in the numbers is the majority came from the harvesting sector. I do not have an exact breakdown here.

MR. MURPHY: Okay.

MR. FORWARD: I would just add that this project on the Northern Peninsula was really supporting the entire forest industry in the region. Not only were there jobs from a pellet plant, there were also jobs from the sawmill industry. There were also jobs, as Mr. Evans has mentioned, from the forest industry, from the harvesting, and also all the trucking

associated with bringing that product to market. In reality, it was the entire forest industry we were talking about with the 322 jobs.

MR. MURPHY: Yes. Okay.

There is nothing else I can think of right now, Mr. Chair, if you want to pass that on to one of the government members.

Thanks, gentlemen.

CHAIR: Mr. Parsons.

MR. K. PARSONS: I know I have asked this question before, but I just want you to explain. I know at the time the markets you talked about were international markets and we talk about the domestic markets, basically here in Canada, and we all know what happened in 2008 with the economy right around the world. Perhaps you can explain to us what effect it had on the whole industry, the pellet industry itself, because I know due diligence was done in looking at these markets before – and, like you said, the international market was where you wanted to attack. Just explain to us what happened to those markets and why the downturn had such an effect on the pellet industry.

MR. BOWERS: In 2008, in particular, and going into 2009, the forest sector itself came under huge stress and duress in the marketplace and the Canadian pulp and paper industry in particular went into a downturn. There are a lot of reasons for that downturn; it is related to stronger competition in some parts of the world where countries are growing trees in, say, ten years versus seventy years to grow a good black spruce in Newfoundland. So, competition is much tougher than it used to be. The exchange rates always affect us daily.

There were a number of factors, as I said, from a competitive standpoint. The pulp and paper sector and the forest sector in general went into a sudden downturn. Sawmills and pulp mills today in most of the world, in Scandinavia, in particular, the US and Canada, are more tightly integrated with the pulp and paper sector. So, the pulp and paper sector and the sawmills are working in harmony through an exchange of saw logs for chips and so forth. So when one dimension is affected, it ripples completely through the system.

What we were faced with during that downturn was a situation where if we had not brought in a program to support the competitiveness of this industry, the sawmill industry in particular, most likely that industry would have died for the most part. We would not have had a number of strong, integrated sawmills in the Province today; there is no question. At the same time, there is a great risk that we would have lost the pulp and paper sector as well because of the integration.

If you look back at the criteria of the FIDP and what came out of that program, we have two mills that are highly productive today, they are much more innovative, they have been modernized, and they are working better, employing people, producing more than ever before.

The third mill, Company A, we are still working with Company A to try to make that viable. We are confident we are going to get there with that company as well, the company on the Northern Peninsula. There were some extraneous factors around that operation – we talked about the fourth facility a minute ago; that was one of them – which made that challenge more difficult than the other two; but the bottom line is we probably would not have an industry today without this program. This was a very

successful program that helped carry that industry through the toughest of times for the forest sector.

We are beyond those times now. Today prices are up. Prices are good today for the lumber industry in particular. We are competing in Atlantic and even in the Eastern Seaboard better than we have ever competed before. Things are positive and a lot of that came from the decisions here to go forward in support of this industry.

MR. K. PARSONS: Basically it is a successful investment, what you are saying, in the forest industry because the economy at the time was in a downward spiral and it needed that boost.

Just getting back to Company A, and we look at the pellet industry, what do you see in the future for the pellet industry? We do have a state-of-the-art facility right now. I think it can be up and running in a short period of time. I am just wondering where the pellet industry is in the future. Is it something that is not going to be viable? Where is it?

MR. BOWERS: If you look at the product line and what we call the full value chain of forestry from upstream harvesting all the way to downstream with new products, pellets are not at the top of that chain in terms of value. We recognize that. There are other, more novel, and more lucrative products out there, but pellets are certainly a viable product to produce. They are in demand; they will be in demand, according to our intelligence, for the next twenty or thirty years, from everyone we talk to.

There is also the fact that fibre will see an increased demand in a variety of forms, including pellets. The demand for wood fibre, even though the pulp and paper sector is declining, is increasing and it will increase over

the next ten to twenty years. A lot of people need cellulose and lignin products.

Pellets have their place on that value chain. They are not the highest, they are not the lowest, but it is a viable product and it is a product that you can make a profit with given the facilities that we are promoting. We are seeing evidence of that in the Eastern Seaboard in the US; we are seeing it in other parts of Canada.

Pellet plants in BC, for instance companies like Pinnacle, are producing pellets in plants in BC, shipping them down the West Coast of North America, through the Panama Canal, and to Europe. They are five times the distance from the marketplace than we are and they are still making profits. We see that continuing.

MR. K. PARSONS: I have just one question. I know, Mr. Young, you wanted to answer a question there when he asked a question about transportation and they were talking about differences between having it locally there right on site versus where we were with shipping it out of Stephenville or Corner Brook.

Is there a preferred reason for it coming from Corner Brook or would it be better to do it right there in Roddickton?

MR. YOUNG: Just to go back to the discussion we had from the gentleman's question earlier around transportation, I think the question was around local versus export markets. We really did not touch too much on the local market; we did speak on the export market.

Really, there are three markets around the pellet wood industry. There is a local market for residential use, which is a bag market, or there is a bulk market for local industry. That would be for industrial conversions, where you would

move pellets industrially in a larger fashion. That is kind of one market here.

It has not really been developed here in Newfoundland yet. It is kind of like the chicken and egg sort of thing; you almost need pellets being manufactured before you start seeing companies doing a conversion into burning them versus burning oil or electricity. There is a bit of a stall, I guess, on the industrial conversion around here in Newfoundland.

The residential market here in Newfoundland is quite well; it is doing quite modest gains every year. We probably started off in an industry of probably only 100 or 150 stoves here in Newfoundland and that since has grown to probably 1,500, probably more, maybe even around 2,000 now.

The residential market is doing quite well here in Newfoundland, and it is being sustained by companies outside of Newfoundland. There are four or five manufactures in New Brunswick, Nova Scotia, and as far away as Quebec shipping pellets into here into Newfoundland.

So, that is that market. The other two markets that are out there are the bulk market for energy, so displacing coal and using wood pellets for energy needs. That is the big industrial users, Drax, and a whole bunch of other companies in Europe that are using wood pellets as a way of displacing coal. There are two means of doing that – not two means of doing it. The reason they are doing it is that they are finding that it is cheaper in many instances to burn pellets than it is to burn coal, and a lot of the European countries have carbon emission standards they must meet by 2020. The only way they can get that is to burn pellets versus coal. The emissions on pellets are dramatically less than would be the emissions of burning fossil fuel such as coal. That is the industrial energy market in Europe.

The other market in Europe is the residential bag market, and that is probably the one that we are seeing the biggest gains in, in the last year or so. My colleague, Gary, just attended a meeting in BC where this was one of the main discussion points: markets in Europe, where they are going, what are they at now, and what is the future in the next ten or fifteen years.

Yes, the industrial market will continue to increase. We can bring you charts and show you what it is looking like for the European market around that, and there will be significant gains or requirement for demand for industrial pellets, but what is happening in a lot of countries like Austria, Denmark, and Germany, we are seeing a real large growth in the residential bag market, and those numbers are taking off, too. We think, from the industry advice that we are getting, that they are both going to meet and the demand for pellets is going to be divided into two markets: the industrial market, and the residential market in Europe.

We are still behind that in North America. In terms of residential, it is going to take a lot longer, I think, for us to adapt the technology around burning appliances that you need for wood pellets, but it is getting there. We have seen a dramatic increase in Europe in the last six months to a year.

Gary, I do not know if you want to add anything to that.

MR. FORWARD: One of the reasons why we are not seeing the same uptake in North America is because of cheap natural gas, like in Ontario and out West. Pellets cannot compete with natural gas.

As Eric mentioned, I attended a conference, and there was great interest in the fact that the heat market in Europe has really, really taken off. A

lot of the large industrial users now are starting to change the configurations of their plant to start to serve the heat market. The heat market is being driven by the high price of fossil fuels in Europe. People are out looking for alternatives to these high prices. Both markets look very positive but the heat market is starting to really take off.

MR. K. PARSONS: Okay. Thank you very much.

Mr. Chair, that is it for my questions.

Thank you.

CHAIR: Mr. Osborne, do you have any questions?

MR. OSBORNE: Yes. Thank you.

Just to carry on, I guess, where I left off. There are many unanswered questions, including transportation methods. In earlier answers to one of the other members here today, we talked about the fact that not all answers were sought in how to transport the wood pellet products to industry, or not all methods of transportation were scoped out properly.

How could we properly determine the transportation costs if not all of the homework was done? Did we get a true cost of transportation of getting the wood pellet products to market, primarily to Europe, if all of the answers were not provided?

MR. EVANS: I believe we mentioned earlier, in the business plan there was an estimate of \$42 to \$46 per ton for transportation. That, in our opinion, would essentially cover the cost of transportation from any port on the West Coast, as we said, or the Northern Peninsula. That was supported by the Canadian Wood Pellet

Association and other industry consultants. Our analysis indicated that was sufficient.

MR. BOWERS: To get at that with more rigour, one of the ways we could get at that is basically model out a number of scenarios. We were using the ranges of costs for those transportation issues, and we knew the price of pellets, for instance. The only way I could see easily to get a better indicator is to run a number of models or a number of scenarios using upside and downside on those figures, and as you depart from that you are basically assuming more risk. So it comes down to managing the risk of the numbers.

If we look at the \$42 to \$46 range, they are quite favourable. We were comfortable with that. We did not have as much of a detailed description on market and market potential costs as we wanted. We were confident of the markets within our own department, but we did not see that reflected as well in the initial document. That was one of the reasons we went back to the proponent and said we would like you to build that out somewhat with us, which the proponent did. Those numbers unto themselves are quite favourable for pellet production and for the marketplace.

MR. OSBORNE: Everything I am hearing here today would indicate that this should have worked. Why did the pellet plant not work?

MR. BOWERS: My initial thought on that is we rapidly went into a condition where those prices that we had forecasted changed. The exchange rate changed. The fuel costs went up for transportation. It happened very, very quickly within that year period. All of a sudden these scenarios that we had anticipated were changing on us. That was one of the reasons we were back and forth with the proponent over an

extended time to try and come to grips with these changes.

MR. OSBORNE: As a business person myself, in just reading the pre-feasibility study and seeing there were over 300 producers of wood pellet products in Europe alone, that the manufacture of wood pellet products in Canada was exploding, for lack of a better word, in part because of what had happened in British Columbia in the devastation of their forest with the wood beetle and so on. Looking at that, and knowing prices are based on supply and demand, and knowing that supply was increasing at a tremendous rate, how could you not have determined that the supply and demand ratio would determine that the cost of wood pellets would sell for considerably less than what you had determined?

MR. BOWERS: Yes, that is a good point. We did take into account those competitors and what was changing in that market.

We have to remember, in Newfoundland's case the big advantage we had with those other players, even though BC did have a lot of surplus with mountain pine beetle killed wood, is that we have a strategic advantage in location. Our location set us up for Europe much better than anyone else on the continent and we could trade off some of that advantage against some of these higher costs. That was one of the factors in there.

The second factor was in the long-term analysis of the marketplace we knew there were off-take agreements that were there to be exploited and to be used. In fact, Company A did have discussions for an offset contract for the marketplace. The market was assured, it was confirmed. Our strategic advantage on transportation in particular offset some of those other considerations, which I agree with you,

those are real considerations. It is something that we did think about and we had to take into consideration.

MR. OSBORNE: What was missing from the formula with this particular pellet plant if we had – strategically, we were closer to the market. We had that advantage, yet other wood pellet producers in Canada are still in operation. What was missing with this particular operation?

MR. BOWERS: One of the challenges that came to the forefront, as we went through time, was the port and shipping issues. In order to get large volume vessels in, we did not have port facilities that were easily available without going to say Stephenville or Corner Brook, which was the initial plan. Then with the transportation costs higher, that was not feasible.

Really, what I am saying is it comes back to whether we could make St. Anthony or Roddickton a viable place for export. That is still a challenge today, and something we are working on.

MR. OSBORNE: That brings me back to my initial question. Looking at the fact that wood product from the Northern Peninsula was not considered viable for Corner Brook Pulp and Paper because of transportation costs, yet looking at the ports to transport the product to Europe you would have to go to Corner Brook or Stephenville. Was that not factored into whether or not it would create challenges for this particular operation?

MR. EVANS: I will answer the first part of that about Corner Brook Pulp and Paper. One of the main reasons they discontinued receiving pulpwood from the Northern Peninsula was transportation and high cost, but it was also species related. It was balsam fir and they wanted more black spruce in their mix, higher

yields with stronger paper, and cheaper to produce the paper from black spruce. That was probably the main reason for them. Now, it was a transportation issue as well.

I will let you finish the rest of it.

MR. BOWERS: Just to add, maybe, to the discussion, as you suggested, we did consider those factors. One of the solutions we offered and discussed at the time was some of the constraints around shipping and ports arises because of bulk shipping. You are shipping bulk product. One of the ways to address that is to try to ship products in bag form, put in bag lines and ship bags, which means you could do it more efficiently from ports like Roddickton or St. Anthony.

In our discussions about that very issue, some of it hinges around whether we can or should export in bulk or use a bag market, as Eric alluded to earlier. That was part of the solution. What I am suggesting is it is part of the solution to that challenge.

MR. OSBORNE: Okay.

In the pre-feasibility study it does indicate, and I will quote, “High transportation costs for moving pulpwood to markets in Corner Brook, along with a soft market for paper has made the resource less attractive to the pulp and paper industry.” So, that was known in the pre-feasibility study.

There was a docking facility in the Northern Peninsula, if memory serves me correctly, that the federal government had decommissioned and removed that I understand the Province could have bought for a dollar. Am I correct in saying that?

MR. EVANS: Do you know the location? I am not aware of it myself.

MR. OSBORNE: I am not sure. I will do some further research on that, but I understood there was a facility that the federal government had decommissioned. So, you are not aware of that?

MR. EVANS: Well, I know there was a study done on different ports around the Province. I am sure it is in that report, but I cannot recall it myself. I do not know if Gary can speak to it, or Eric.

WITNESS: It is in Roddickton.

MR. OSBORNE: It is in Roddickton?

MR. YOUNG: Yes, I can address that question. I think the port you are alluding to was actually in Canada Bay itself, right in the Town of Roddickton, and it was normally set up for the fishery industry. You are right; it was condemned by Transport Canada.

As for if it could have been sold to Newfoundland, I am not aware of that; but I do know why they condemned it. It was because of the moorings and the pairings that were there, and it required substantial investment in order to bring it up to speed. The other problem with that is that it is not deep enough there. You would have to do significant dredging of that port in order to bring in these large vessels.

There were a couple of issues of using that area there. Jim is right. When an analysis was done a number of years ago around the whole Northern Peninsula area about shipping ore, actually, out of Roddickton –marble that was up there at the time – that is who commissioned the study of the ports.

The best location they identified was immediately in front of the old hydro station that is there, adjacent to Canada Bay Lumber basically. I do not know if you are familiar with the geography there. The port in town itself was not identified as a suitable port, mainly because of the depth and the work that was needed on it. In terms of water depth and location, the prime location for any large vessels would have been off the Canada Bay, hydro area; right there in Canada Bay itself. They identified a couple of other spots, too. That was the reason why the port was condemned by Transport Canada at the time.

CHAIR: We should go to Mr. Collins now.

MR. S. COLLINS: In the interest of time and for the fear of being repetitive, I do not have any further questions. I want to thank you for the answers you have given, not only today but in the previous meeting as well. Again, if some other folks here have additional questions, I will certainly –

CHAIR: Mr. Cross may have questions.

MR. CROSS: No, I am fine.

CHAIR: Mr. Murphy.

MR. MURPHY: Thank you, Mr. Chair.

I have just a couple of more questions. A basic question about the insurance policy that is carried on this – I know that the present policy is up on March 31. The present coverage right now, who is paying that bill? Is it the taxpayer?

MR. EVANS: I will initiate the answer and my colleagues will finalize it. Yes, the Department of Natural Resources right now is paying the insurance premium on that, on the facility.

MR. MURPHY: I am just wondering when it comes to the insurance –

MR. FORWARD: (Inaudible).

MR. MURPHY: Sorry, go ahead.

MR. FORWARD: Just to add to what Mr. Evans just said. Actually, it is being really borne by the company. We extended their FIDF loan to cover off the insurance, so the money that we provided for the insurance is in the form of a loan. It is just tacked on to their \$7 million loan.

MR. MURPHY: Who is going to be paying that after March 31? Is it still going to be the company or is it going to be the government again?

MR. EVANS: I guess we will have to address that when the time approaches, which is within the next month-and-a-half, but we will take the right steps to ensure that the Government of Newfoundland and Labrador's investment is insured and protected.

MR. MURPHY: Okay.

The last couple of questions I have has to do with doing due diligence. I guess it will come back to Mr. Bowers because he did touch on it earlier. You mentioned about putting the mechanisms in there about due diligence and the reporting mechanisms. Has anything been put in place right now; and if those mechanisms are there, could you briefly describe them and give us an idea of what is there so that we can be looking out for it next time?

MR. BOWERS: The extent to which we have addressed that is that we have had our in-house planning and discussion going forward and looking at any potential new initiatives that

come up, and there are several now that might emerge. We have only discussed right now the framework and how we would do that. One element of that relates to a committee that I am trying to establish, a steering committee around fibre supply and the future management of initiatives and projects related to fibre supply.

I can say we have had the discussion phase and we are looking at how we would set it up in terms of a proper accountability framework, but we have not taken any overt moves or made any changes in our human resources right now to build the structures around it at this point.

MR. MURPHY: Okay.

MR. EVANS: One thing I should add there, Mr. Murphy, is, as CEO, I take responsibility for this from both the agrifoods and the forestry components. One thing we did initiate within the last month, I guess, because we do have audits on both sides and there are some common elements or findings in the audits from a procedural point of view, monitoring perspective. We have all directors working now. It was initiated about three weeks ago, I guess, and trying to combine and implement strategies and procedures right across the board in how we manage not only financial programs but other aspects of our programs as well.

We are going to have a committee struck as well in addition to Wade's committee.

MR. MURPHY: Okay. (Inaudible) looking at that.

Mr. Chair, I have nothing else and in the interest of time, I do not know if anybody else has anything, but I think most of it was pretty much covered in the last session.

CHAIR: I have a few questions. I will go back to a Committee member first. Are there any members with questions?

MR. OSBORNE: I do.

CHAIR: Mr. Osborne.

MR. OSBORNE: Again, in the pre-feasibility study it says that residential usage of wood pellets is expected to significant growth once pellets are readily available. Did we see significant growth in the use of wood pellets for residential purposes in this Province?

MR. BOWERS: I can answer, and I think my colleagues have a little more insight into this. I would not characterize it as significant growth. We have three industry companies now using pellets in the Province, but the question of converting domestically is rather complex, because the challenge there is to convince people to invest in stoves and facilities to utilize pellets, yet we do not have a supply. So it is a bit of a chicken and an egg situation. I think if we had the supply we would get more uptakes domestically, probably both industrially and domestically. We have not seen a significant uptake at this point.

Gary, you might want to comment.

MR. FORWARD: One thing I would add is that prior to the FIDF, we estimate the number of wood pellet stoves in the Province were around 300. It is probably up around 1,200 now. There is probably a market for 3,000 to 4,000 tons of wood pellets in the Province.

Also, there have been some industrial conversions with some of the greenhouses in the Province. Right now we have three greenhouses that have switched from oil to wood pellets, and they are receiving their wood pellets from local

producers. I would estimate the industrial demand would be around 1,000 tons. It is modest, but it is growing slowly.

MR. OSBORNE: I know in the pre-feasibility study there were great expectations for growth both residentially and commercially in the Province. We did not see that.

I guess we all have roots and relatives in rural Newfoundland. Even when government announced the incentives for wood pellet stoves, I really found it difficult to believe my relatives would give up the ability to cut wood for free, bring it to the back of their home and saw it up into fire logs in exchange for buying a wood pellet stove where they would have to buy wood pellets. I just thought that was really an unrealistic expectation, to expect that many Newfoundlanders and Labradorians would give up the traditional habit of burning wood for wood pellets.

How would you explain the unrealistic expectation as outlined in the pre-feasibility study?

MR. BOWERS: I do not disagree with you on the principle that as a people our culture is very much about that attachment to the land, to the forest in particular. There will need to be a cultural shift there in the way that people think if we were going to make that transition.

At the same time, one of the arguments for expecting some of that change is pure economics. If people can save a dollar then they may also change some of those habits. They might still go into the woods and do some of that, because that is part of who we are, but there is also the reality that fuel is expensive. Energy costs are increasing, and if people see a means to save dollars.

The pellet industry is not too unlike the traditional industry in the sense that you are still burning a wood product. I do not know if the cultural shift is that great, but I would agree that it will take some adjustment. It will take a transition if we have that expectation.

MR. FORWARD: Just to add, maybe a couple of years ago we put out a wood pellet appliances survey. What we found is that most of the uptake was from people who were replacing fossil fuels. It was mostly urban centres, where people still enjoyed the wood heat but did not want to go out in the forest and spend the time at it. There are two opinions there as to – a lot of people still want to burn wood and go out in the forest and cut their wood, but there are a lot of people who want to get away from that because it is a lot of work.

MR. OSBORNE: I am going to go back to a question I asked previously, just to ask that again, because I am not sure if I am clear on what the response was.

That is, there are other wood pellet operations in this country that sell into the European Union and they managed to survive all of the challenges you said the operation faced, whether it was the currency challenge or transportation cost challenge, or fossil fuel, the cost of heating fuel. Why is it that we could not compete and survive that when other companies in Canada did?

MR. EVANS: I will start again and maybe Wade can finalize it.

I know in some cases across the country, especially out in Western Canada where the mountain pine beetle infestation went through much of British Columbia and Alberta, a lot of the wood there was fairly cheap. I think the

government gave some incentives to harvest it, and harvest it quickly, to capture the volumes.

Every location has its challenges, and they had their shipping challenges. Wade said we had an advantage here. In our case here, I remain optimistic. I will get back to your question now in a second. We have a good facility there. We keep working with the proponent and feel that we are going to have something there in the very near future.

Some of the challenges were the shipping component. Some of the costs did change. Maybe in other parts of the country there were other advantages that helped offset some of the common issues that were in the industry. The marketing we feel is there and it is still there. It is growing. The shipping was a challenge. Labour costs – we were competitive with other components as well.

I don't know, Wade, if you want to continue with that.

MR. BOWERS: To reiterate Jim's point, I think given the situation we are facing at the moment and the conditions we face, economic conditions, I think we can compete. I think we are in a position at the moment to compete. We have a few modifications, a few alterations to make. We need to work out a couple of details and I think we can be competitive. I think that is how close it is. I think most things are in our favour at the moment, still.

MR. OSBORNE: With the investment of public dollars in this, though, shouldn't these details have been ironed out long before now?

MR. BOWERS: I think I would disagree on that from the point of view that if you look at the investments made, they are relatively modest investments in a major industry. There are huge

costs involved in these ventures, the pulp and paper sector, the pellet sector.

I think it is a matter of fine tuning, more than anything, what we have right now. If we can look at a slight alternative to the way we market the product. We have a few issues around ports. We are close to making this viable. I am very optimistic that we can compete on pellets from Newfoundland – very optimistic. Every indicator points to the fact that we can and we should.

MR. OSBORNE: What do you expect those timelines to be? The investment in this pellet plant was years ago and it is still sitting idle. Taxpayers are still paying to ensure the operation and so on, which is sitting idle. I appreciate your optimism and I hope you are right, but when do you anticipate this hope to become a reality?

MR. BOWERS: Well, I cannot put a date on it, obviously. It is something that will have to be decided by the government and by the minister, but we are in constant discussion and we are in close contact with the proponents virtually on a daily basis. All I can say is that I am looking to the near future – that is the best answer I can give you. In the near future, we will resolve some of these issues.

CHAIR: Do any other members have questions?

Mr. Murphy.

MR. MURPHY: I have a question for Mr. Bowers. Are you saying to us that there should be more taxpayers' money gone into that, with that optimism?

MR. BOWERS: No, I am not saying there should be more taxpayers' money. I think the

private sector is always the best way to go here, and that is what I am voting for.

Our role is to create an environment. As a government and as officials, we try to create an environment to allow that to prosper. What I am saying is that we need to put some more energies in, keep supporting the company, and create the environment where the private sector can prosper. That would be my view.

MR. MURPHY: Okay.

That is it, Sir.

CHAIR: I have a few questions.

Are you still working with the operator to make the plant work?

MR. BOWERS: Yes, we are still working very closely with the company, Mr. Chair.

CHAIR: What is the nature of what you are doing? Is it marketing, is it transportation, generally?

MR. BOWERS: Well, we are working on a lot of the issues that came out of the original FIDP in terms of modernization, getting the mill more innovative. We are working at a lot of factors to enhance the probability of getting the mill back on line. It extends throughout the full value chain from the harvesting sector looking at wood availability, fibre cost, permits, and infrastructure. We are looking at all aspects we can look at to try to optimize the conditions for the Northern Peninsula.

CHAIR: Now, some of the materials that you provided us with, after being here last time, included a business plan or feasibility studies based on different amounts of output. Do you

recall the different production amounts, different costs?

MR. BOWERS: I do not recall all the numbers at the moment. I do not know if one of my colleagues can help us. Is there a specific question on that?

MR. FORWARD: I believe in the report that you are referring to there was some scales of production that would work more so than other scales. Is that what you are referring to?

CHAIR: Yes, exactly.

MR. FORWARD: What was the question?

CHAIR: What amounts were analyzed or were forecast? What amounts of annual production?

MR. YOUNG: The amount of production – we are limited to the forest resources on the Northern Peninsula. So, it is a tough question, when, what is the proper size of plant that you can build on the Northern Peninsula. You can go small and just target the residential market; you can go large, which would be using all of the forest resources on the Northern Peninsula and funnelling it towards a pellet plant. Or, can you strike a balance in between? That is kind of what we looked at when we looked at the feasibility study. We looked at a plant that could run around 75,000 to 80,000 tons. It was initially talked around 50,000 tons, so –

CHAIR: You say you looked at a plant that ran around 75,000 or 80,000 metric tons?

MR. YOUNG: Well, that would be the size of the plant that is designed up there now. It was designed for 50,000 tons; however, it has the capacity to do about 75,000 tons.

CHAIR: What I mean is the numbers that you sent to us with the forecasts said certain amounts – nowhere near 50,000 metric tons. Do you recall how much the numbers were?

MR. YOUNG: No, I do not. I am sorry; I cannot recall that report. That was the very first report around the idea of a pellet plant on the Northern Peninsula. I cannot recall, to be honest with you, the volumes that they had indicated in that. A lot of pellet plants are much larger than what has been designed. It is a very small plant; it is around 50,000 to 75,000 tons. That is small, in terms of pellets. They range anywhere from 250,000 to a million.

CHAIR: No, I am talking about the document that you sent to us. I know the numbers. Are you saying that nobody among you read it, or are you saying you cannot remember?

MR. EVANS: Are you referring to the Enfor report, Mr. Chair?

CHAIR: Yes.

MR. EVANS: Okay. We will have to refer to that there now.

CHAIR: Yes.

MR. EVANS: Okay.

CHAIR: Did it not start with 2,500 metric tons as a starter?

MR. EVANS: I will have to refer to the report; I cannot recall the numbers off the top of my head.

MR. FORWARD: I believe I can recall the report, but I think that was the consultant just put forward some scenarios that could potentially work. I do not think he came out and

recommended a certain size. A plant of 2,500 tons would be a very small plant, and it really would not be able to support any industry on the Northern Peninsula. It would just be a pellet plant; there would be nobody harvesting. You would run the pellet plant from the sawmill residue alone, so it would not support much employment on the peninsula.

CHAIR: I believe there were three different ones. Was that one 10,000?

MR. EVANS: Yes, 2,500 was the first one; 11,250 the second; and 18,750 the third.

CHAIR: Okay.

MR. EVANS: The production, I think, in the plant on the Northern Peninsula has a capacity of 50,000 to 75,000 tons.

CHAIR: Was there any other forecasting made on any amounts other than the three amounts that you just indicated?

MR. EVANS: From a cost production perspective?

CHAIR: Yes.

The unit cost of production – presumably, it is important to know how much it cost per unit to be able to know how much to sell it for.

MR. EVANS: This was done in their business plan in conjunction with their consultants and the Canadian wood pellet industry. It is not in this report. This report here just gives three examples of three different size pellet facilities.

CHAIR: When I ran those numbers through the calculator, my calculator, it looked like the unit cost increased as the volume increased, and I

would have thought that the unit cost would have decreased as the number of units went up.

Isn't it true that going from 2,500 to 11,000 the unit cost actually got higher?

MR. EVANS: Yes, it is.

They are indicating it went from 152 to 187; the third one of 18,750 went down again to 155.92. I would have to get into the details of the analysis to see why, but usually when the economies have scaled you would think that the number of tons, as they increase, would be a cheaper cost of production because the overhead costs would be factored into a higher volume.

MR. FORWARD: Can I just add something here?

The reason why is because once you move beyond a certain production level, you have to go into the forest to harvest your wood, so his raw material costs would go up as you approach 11,000 tons. At 2,500 it gets it solely from sawmill residue, so that raw material would be already paid for. It would be about \$25 a cubic metre. Whereas, as you move up into like 11,000 tons or 20,000 tons, your raw material costs goes up to about \$50 a metre.

I think it is directly related to the raw material costs.

CHAIR: Isn't it true that it only showed part of a year operation? The 2,500 would only operate for quite a bit less, maybe twenty-eight weeks or something like that.

MR. FORWARD: Yes, 2,500 tons would not be like a full operation. It would be two or three months, probably.

CHAIR: Were these forecasts relied on by your department in any way?

MR. EVANS: Yes, I think we did a combination of things. We used this report to refer back to it. Also, the Canadian Wood Pellet Association provided information, in addition to the consultants that the proponent hired as well. It is a combination of at least three different experts, I will call them.

CHAIR: Was this produced before the monies were advanced or after?

MR. EVANS: This was before, I would think. I will just confirm the date there, but it was May of 2008, which was before.

CHAIR: This was before the monies were advanced?

MR. EVANS: Yes.

CHAIR: Other than this, did you have anything else to rely on at that date?

MR. EVANS: There were two reports; these reports, in addition to our own in-house expertise, the Canadian Wood Pellet Association, and the consultants that were hired.

CHAIR: Okay.

If you were to produce 50,000 metric tons per year, how long would the wood supply last on the Northern Peninsula?

MR. EVANS: The wood supply at 50,000 metric tons per year is sustainable into the future. Our wood supply analysis is recalculated every five years. It is on a sustainable basis. The harvest levels are sustainable into the future as long as there are no major catastrophes. Historically, the catastrophes such as fire or

insects are built in. It is sustainable. It is updated every five years.

CHAIR: In the area seventeen and eighteen combined, there is enough to produce 50,000 metric tons year after year after year?

MR. EVANS: Yes, that is right.

CHAIR: Does that include lumber?

MR. EVANS: Yes, that is right. Yes.

MR. YOUNG: Just to add on to Jim's commentary. When this all was developed the whole concept of the pellet plant was secondary. The concept on the Northern Peninsula is to support the sawmilling industry. That is where the economy should be focused on. We all became kind of caught up on the pellet plant as we went along, but the sawmilling industry is the backbone here in Newfoundland, especially on the Northern Peninsula. We have grown the forest up there for our sawmill sector.

When we talked about this pellet plant, or when we received a proposal from Company A and looked at it, it was around: What is the production in a forest of a sawmilling industry? It was around 10 million feet of lumber, I believe, Gary. If we had a sawmill in the Roddickton area that could saw 10 million feet of lumber, okay, that is what we are aiming for.

What are the residue by-products that are going to be produced from that? It is going to be X volume. Well, what size pellet plant can be supported? You would need a pellet plant in the order of 50,000 tons to support a 10 million-foot sawmill, if you can follow the line of thought here. You have sawmill residue that will be derived, and you would have all this pulpwood that would be cut.

With Kruger down and not receiving any pulpwood from the Northern Peninsula and maintaining our AAC in that area, maintaining the level of harvest, which is what we wanted to do, you would need to scale a plant of around 50,000 tons. That would absorb all the pulpwood, all the sawmill residue that would be coming from it. It would also support Company A's sawmill of 10 million feet, as well as all the other independent sawmills up there. Let's not forget, there are more sawmills on the Northern Peninsula. Their combined production, Gary, is around 1.5 million, 2 million feet. I guess around that, combined.

For around 12 million feet of lumber, you would need a plant of about 50,000 tons. That is what the proposal came into. The documentation you are referring to, the pre-feasibility study and that, 2,500 tons of pellets would not support an industry on the Northern Peninsula, nor would 11,000. It would be a very smaller industry and we would not realize the full potential of the forest up there. We have been growing that forest for forty years with a sawmill industry in mind. It is a different management prescription for the Northern Peninsula than it is for other parts of Newfoundland. It was a sawmill industry, not a pulpwood forest.

To support the full industry on the Northern Peninsula, yes, that report, the pre-feasibility study was there that demonstrated what would need to go into building a pellet plant and the various scales, but the level of production that has been identified in there is far too small. It would not support the industry. You could do it, but you would not be able to run a 10 million-foot sawmill. You would have to run a 3 million or 4 million-foot sawmill, and that is not our objective. We want that mill to be running at least 10 million or 12 million.

CHAIR: Did you say it takes forty years to grow a saw log on the Northern Peninsula?

MR. YOUNG: No, we have been managing the forests on the Northern Peninsula for forty years. Softwood forests for balsam fir on the Northern Peninsula is about seventy years, so the rotation age for balsam fir on the Northern Peninsula is seventy to eighty years. As you get into managed stands, you could reduce that down to probably fifty or sixty years for saw logs. Pulpwood you could reduce it down even further, forty-five year rotations, but for a saw log industry on the Northern Peninsula you are talking close to a seventy-year rotation. That is what our management plan is.

When we do our forest management analysis, every five years we redo the numbers. Land base goes into it, all the growth and yield information goes into it, and the rotation age goes into it. That pretty well, through management, derives what annual allowable cut we can do.

From our calculations from the Northern Peninsula, we can sustain an industry in District 17 and 18 of around 12 million feet of lumber and of about a 50,000-ton pellet plant; or, you can bring that wood back down to Corner Brook, if they would take it. You would maintain the sawmilling industry, and you could use it in pulping.

Unfortunately, the species is not what Corner Brook Pulp and Paper is looking for, and the transportation costs from the back of Roddickton down to the mill, 400 kilometres away, is quite expensive. So for those reasons Corner Brook Pulp and Paper have harvested wood that is closer to them, as well as the species they need to make paper, which is mostly spruce content is what they are looking for.

CHAIR: How many sawmills do you say are now operating on the Northern Peninsula?

MR. YOUNG: Right now, there are no sawmills operating on the Northern Peninsula. It is winter. They normally have a seasonal operation on the Northern Peninsula. Come spring, you will see a number of the intermediate-size mills starting up. I guess, Gary, there are probably four or five smaller mills as well.

I guess by the springtime you will see five or six mills back up and running. Unfortunately, the largest mill, which is Company A – hopefully, he will be up and running this spring as well. That is our objective, to get him up and running. He is the largest mill up there.

CHAIR: How many board feet of lumber were produced on the Northern Peninsula last year?

MR. FORWARD: I would estimate, without having the numbers in front of me, maybe a million board feet.

CHAIR: How much?

MR. FORWARD: One million.

CHAIR: About 1 million.

MR. FORWARD: One million board feet.

CHAIR: How much the year before?

MR. FORWARD: Maybe the year before, close on 4 million.

CHAIR: Okay.

Where is the market for that?

MR. FORWARD: The market would be a local market. I would think mainly on the West Coast, the Northern Peninsula.

CHAIR: Is that primarily coming from Roddickton?

MR. FORWARD: Yes.

MR. YOUNG: Just to touch on the markets on the West Coast. There are two large mills. Company A on the Northern Peninsula, as well as Burton Cove Logging in the Hampton area, that supplies material to Western Newfoundland.

There are two markets. There are green and there are dry markets. The dry market is doing quite well. We have seen significant gains in the green market in the past couple of years, thanks to two new pressure treating plants that are here in Newfoundland now. One is situated in Deer Lake –

CHAIR: I do not want you to wander off and talk about Burton Cove Logging. It has nothing to do with this operation.

MR. YOUNG: I know, but you asked about the market. You said: Does the Northern Peninsula fulfill all of the market on the West Coast? No, they do not.

CHAIR: No, I said: Where is the market for that lumber, the 1 million board feet?

MR. YOUNG: It would be on the West Coast, yes.

CHAIR: What is the value of a million board feet of lumber?

MR. FORWARD: I guess it would depend on the price at the time, but 1 million board feet

today would be – it is \$450 per thousand board feet, so \$450,000.

CHAIR: The total value is around \$450,000 a year worth of lumber that was produced on the Great Northern Peninsula last year.

MR. FORWARD: Yes, I guess.

CHAIR: Does that include Wiltondale?

MR. FORWARD: I would think so.

CHAIR: Okay.

WITNESS: (Inaudible).

CHAIR: Four point five million last year?

WITNESS: (Inaudible).

CHAIR: Okay. Four-and-a-half million?

WITNESS: Yes.

CHAIR: Okay.

I think one of you said that there are pellets going now from British Columbia to Europe through the Panama Canal which is five times the distance. So, how far is it trucked?

MR. BOWERS: You mean how far is it trucked in BC?

CHAIR: You threw out a number and I am trying to do a comparison. If they can ship it five times as far as we can, what is our problem?

MR. BOWERS: Well, again, as I said earlier, I think we can compete with that. The problem is we have a few alterations to do in how we sell it, do we sell it in bulk, do we sell it in bags, or do we have a port. If we can alter some of those

factors, I think we can compete with them. It is obviously a much smaller scale, but we could still enter the marketplace and compete.

CHAIR: Shipping by water is the lowest cost means of transportation, correct?

MR. BOWERS: Yes, that is right.

CHAIR: Not by road?

MR. BOWERS: That is right.

CHAIR: Road is more expensive.

MR. BOWERS: Yes.

CHAIR: More expensive than railings.

The BC pellets, are they from trees that were killed by the pine beetle?

MR. BOWERS: Some of those are. In fact, their transportation distances are, at times, relatively long as well by road, to get it to the port facility in places like Vancouver.

CHAIR: In British Columbia because they are under so much pressure due to the pine beetle, isn't it really a salvage operation?

MR. BOWERS: It is, to some extent, I would agree. The mountain pine beetle has produced millions of board feet really available.

CHAIR: BC has to take out those forests because of forest fire hazard because most of the trees are dead, are they not?

MR. BOWERS: Yes, following the beetle attack, that is right, a lot of these trees are dead and it becomes a fuel build up, a fire issue.

CHAIR: That is not really a valid comparison with what we are doing here, is it?

MR. BOWERS: It is valid in some sense. I mean, it is not the only type of tree that is being harvested.

Gary, you were out there, maybe you can elaborate on it.

MR. FORWARD: I would say about 70 per cent of the pellet production in British Columbia comes from sawmill residues.

CHAIR: Canfor and Ainsworth and people like that?

MR. FORWARD: Yes, they have a huge sawmill industry, so all the feedstock would come from surrounding mills, like a 100 kilometre radius from the pellet plant. They do supply some of the raw material from the forest, but they try to stay close to the mill to keep the transportation costs down.

CHAIR: What is the total consumption in our Province today of wood pellets? What is the annual consumption?

MR. FORWARD: If I would just do an estimate based on my knowledge, I would think it is between 4,000 and 5,000 tons, which would also include the industrial users that I referenced earlier.

CHAIR: From what I understand, that is actually higher than it used to be?

MR. FORWARD: I would think five years ago that was maybe at 1,000.

CHAIR: When this project was conceived, clearly, it could not have been for a domestic market; it had to have been for a foreign market.

MR. FORWARD: I think originally it was conceived that it would be a combination of a domestic market and some export market. I think that was the original plan.

CHAIR: The pellets that are being consumed in our Province today, where are they produced?

MR. FORWARD: Some are produced locally, the other pellets are coming from Atlantic Canada, and the furthest would be coming from Quebec.

CHAIR: From time to time we have heard a reference to large vessels required to ship these pellets. How large are the vessels that we are talking about?

MR. FORWARD: Generally, these vessels would be between 30,000 to 50,000 tons.

CHAIR: That would take less than a full year's production.

MR. FORWARD: That is correct. Also, in some cases, as was referenced, a ship just left Nova Scotia with 25,000 tons. I think that is correct.

CHAIR: I also heard you say we need to work out a couple of details and we can compete. That is what I wrote down, anyway. What are those details we need to work out?

MR. BOWERS: Again, I would go back to, I think, the port facilities, and storage and shipping facilities as part of the equation. I would also say the means by which we would package, whether it would be bulk or whether it would be bag market, I think we need to work out. Those two factors are among the two most important, I would argue.

CHAIR: Do I understand that we have markets ready and waiting today?

MR. BOWERS: That is correct.

CHAIR: If we had shipping, a wharf and storage, then we could compete?

MR. BOWERS: I would say that is largely the case. That is right. I would agree with you.

CHAIR: Has the department done any projections on what it would cost to put into place wharf and shipping?

MR. BOWERS: We have looked at numbers to either put in new infrastructure or refurbish current facilities. We have a range of numbers that it would take to establish those kinds of facilities.

CHAIR: What is the range?

MR. EVANS: The range would be between \$5 million and \$12 million. I think that was the estimate we used.

CHAIR: Where would the facility be constructed?

MR. EVANS: That was part of the analysis. That has not been determined yet. There are several options.

CHAIR: If we are looking at this facility, which is let's say \$10 million or \$12 million, and we require \$5 million to \$12 million to really get up and running, then could that be put to other uses as well to export, say, minerals or whatever? Would it be single use for pellets or could it be used for something else to flatten the cost?

MR. EVANS: Yes, multiple uses would be the preferred option if there are other products in the

area for the reason you mentioned, to flatten the cost and reduce the overhead.

CHAIR: Is it possible to ship pellets by a smaller vessel from Roddickton to some central point in the rest of the Island, maybe Botwood is a poor example but it has been a long-standing port, whereby we would then accumulate everybody's pellets and send them wherever for less money?

MR. EVANS: That is actually one of the scenarios. That is a common practice in pellet manufacturers. We mentioned a 30,000 or 40,000-ton vessel. They pick up, for an example, 10,000 tons in three or four different ports, depending on the cost and if it works in your whole operation.

CHAIR: Do they go by container or in the hold, or some other place?

MR. FORWARD: They normally go in the hold. They go like bulk in the hold.

CHAIR: By conveyor or by hopper, or something like that?

MR. FORWARD: They are either conveyed, or put in like a shipload or with a crane.

MR. BOWERS: I would just like to add one comment. As Jim said, one of the scenarios would be to go to a central point for pellets, like you suggested.

There is sort of a word of caution there, though, and that is when we looked at these numbers, every time you unload and load again, every time you have to handle pellets it significantly increases the cost. The desirable scenario would be to ship it from the production site itself.

CHAIR: That is why I was asking you how they are handled, if they are in the hold or by container. Could they just be taken off by a crane, added to another load that is already gone in by conveyor or something of that nature? Would that be feasible, that they could go by smaller vessel by container from Roddickton to be added to something in maybe Botwood, send 100,000 to Europe?

MR. BOWERS: I really do not know if it is feasible unless – I would have to see the numbers, the current costs now and the production costs. It is practical. From a physical point of view you could do that. Whether it is economically feasible, I would have to see the numbers. I would have to crunch the numbers.

CHAIR: Okay.

I do not have any more questions. Maybe some of the Committee members might have questions.

I should turn to our Auditor General and his staff. Did you have any questions, anything that we should cover and did not cover?

MR. PADDON: No. I think between this hearing and the last one it has been fairly comprehensive, so we have nothing that we would suggest.

CHAIR: Okay.

Seeing we have no more questions, I want to thank you for coming.

Hopefully this investment can be resolved, because a lot of people in my region are depending on this for employment, and in the Province generally. There is a lot of money gone in, and people are going to keep burning

something, so let's hope there can be some sort of a resolution that will work for everybody.

MR. K. PARSONS: I want to thank (inaudible) couple of sessions to make the trip in to see us and we really appreciate it.

Thank you.

CHAIR: Thank you.

In that case, we stand adjourned.

Thank you.