

Response to Mayor Caul's Letter of June 29th, 2021 -List of Attachments

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5. Targeted Wood Supplies for the Forest
6. Forestry Businesses Supporting the Fort Frances Economy

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June 29, 2021

Mr. Geoff Gillon
Executive Director
Rainy River Future Development Corporation
601 Mowat Avenue
Fort Frances, ON
P9A 1Z2

Dear Mr. Gillon,

In accordance with section 22.5(b) the agreement between Rainy River Future Development Corporation (RRFDC) and the Town of Fort Frances (The Town), I am requesting a formal report on the Sustainable Forest License and the Boundary Water Forest Management Corporation (BWPMC), specifically a full update on at least the following items:

1. An up-to-date list of the shareholders of the BWPMC.
2. Details of the ownership structure, including how many shares, and the types of shares each shareholder of the BWPMC holds.
3. The specific wood fiber allocations for each shareholder or party utilizing the supply from the Boundary Waters Forest.
4. All pertinent details regarding the current enhanced Sustainable Forest License (eSFL) for the Boundary Waters Forest, and the previous Sustainable Forest License (SFL) for the Crossroute and Sapawe Forests, including wood allocations.
5. Details how the BWPMC has ensured that wood fiber from this Boundary Waters Forest is being utilized or will be utilized in the Rainy River District to support the development, and long-term sustainability of new and existing businesses in the Rainy River District.
6. The long-term availability of wood fiber from the Boundary Waters Forest.
7. An outline how the recently announced upgrade to the Resolute Sawmill in Thunder Bay, will impact, or may impact, the wood supply for the Town of Fort Frances, and the Rainy River District.
8. All pertinent details relating to the wood supply allocated for the Rainy River District and activities by the BWPMC, as well as any other parties.

The Town of Fort Frances is requesting a written report on the above noted items no later than Wednesday July 7, 2021. Please be advised that, upon receipt of the report, I may request the presence of a representative from the RRFDC to present their report to the whole of Council at the meeting scheduled for Monday July 12, 2021.

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Sincerely,

A handwritten signature in cursive script that reads "June Caul".

Mayor June Caul

Town of Fort Frances

cc. Rainy River Future Development Corporation Board Chair

Report to Mayor Caul

Boundary Waters Forest Management Corp.

In response to a request by Mayor Caul on June 29, 2021, (Appendix 1) concerning the Sustainable Forest Licence and Boundary Waters Forest Management Corp., the following is a summary response to each of the eight questions posed.

1. An up-to-date list of the shareholders of the BWPMC.

Appendix 2 is the listing of shareholders of BWPMC as described in Schedule B of the Shareholder Agreement.

This information has previously been shared with Mayor Caul and various Council committee members as follows:

- October 2, 2019, during a facilitated meeting organised for parties interested in the transfer of the SFL held at the Rendezvous hotel. Lorne Morrow presented the all the details of the new corporation to the group including the Mayor and RRFDC representatives.
- January 29, 2020, a briefing note prepared by M. Willick outlining the creation of BWPMC.
- September 9, 2020, a briefing note prepared by M. Willick to provide a status update on BWPMC.
- November 23, 2020, during a presentation by M. Willick at the Fort Frances Town Council meeting to explain the establishment of BWPMC.

2. Details of the ownership structure, including how many shares, and the types of shares each shareholder of the BWPMC holds.

There are two classes of shares:

Class A shares are voting, redeemable Common shares issued to First Nations, Metis, Economic Development entities, Independent Harvester Association and Consumption Rights holders. There are 1200 Class A shares distributed. 600 shares are distributed to community interests (First Nations, Metis, and municipal economic development entities and 600 are distributed to forest industry interests (consuming mills and logging contractors). Appendix 2 details the distribution of the shares amongst shareholders.

Twelve directors vote the 1200 Class A shares with each director holding equal voting rights. Appendix 3 is a listing of the directors for BWPMC.

In summary the distribution of Class A Shares and director representation is as follows:

- The two largest consumers (Resolute and Norbord) each hold 100 Class A shares. Each of the two major consuming mills are represented by one director.
- The two Pine mills (Manitou Lumber and Nickle Lake) each hold 50 Class A shares and are represented by one director.
- The logging operators include the Triple F Independent Operators Inc. holding 200 Class A shares and represented by two directors and Rainy Lake Tribal Resources Management Inc. holding 100 Class A shares and is represented by one director.
- Seven First Nations hold in aggregate 300 Class A shares (42.86 shares each) and are represented by 3 directors.
- The Metis Nation of Ontario holds 100 Class A shares and is represented by 1 director.
- The economic development entities (RRFDC and Atikokan Economic Development Corporation) each hold 100 Class A shares and are each represented by one director.

Class B shares are non-voting redeemable Common Shares issued to consumption rights holders. Class B shareholders vote only on specific financial decisions as defined in the Shareholder Agreement when there is not a unanimous vote by Class A shareholders.

Class B shares are issued to Class B shareholders based on proportion of harvest volume commitment from the Forest as determined by the Minister of Natural Resources and Forestry. The primary purpose of the Class B shares is to provide direction to the proportional sharing of costs. Only consuming mills pay for the operational and management costs up-front based on committed volumes irrespective of consumption.

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- October 2, 2019, during a facilitated meeting organised for parties interested in the transfer of the SFL held at the Rendezvous hotel. Lorne Morrow presented the details of the new corporation to the group.
- In a January 29, 2020, briefing note prepared by M. Willick outlining the creation of BWFMC.
- In a September 9, 2020, briefing note prepared by M. Willick to provide a status update on BWFMC.
- November 23, 2020, during a presentation by M. Willick at the Fort Frances Town Council meeting to explain the establishment of BWFMC.

3. The specific wood fiber allocations for each shareholder or party utilizing the supply from the Boundary Waters Forest.

As a condition of the transfer of the licence from Resolute Forest Products to BWPMC the Minister stipulated that wood supply commitments in place under the SFL issued to Resolute would be continued into the SFL issued to BWPMC. Wood supply commitments created by the Minister were not altered during the SFL transfer process.

Appendix 4 outlines the Target Wood Supplies for the Forest as described in Schedule C of the Shareholder Agreement. This table describes the proportion of consumption rights by species to each consuming mill and applies that proportion to the planned allowable cut for the 10-year management period to forecast annual volumes available to each consuming mill by species.

This information has previously been shared with Mayor Caul and various Council committee members as follows:

- October 2, 2019, during a facilitated meeting organised for parties interested in the transfer of the SFL held at the Rendezvous hotel. Lorne Morrow presented the details of the new corporation to the group.
- In a January 29, 2020, briefing note prepared by M. Willick outlining the creation of BWPMC.
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- November 23, 2020, during a presentation by M. Willick at the Fort Frances Town Council meeting to explain the establishment of BWPMC.

It should be noted that the White Birch and Poplar assigned to Resolute moves to Norbord through a business-to-business agreement.

Also of note is that BioPower SE has chosen not to sign onto the Shareholder Agreement making the 65,525 m³ of Birch and Poplar uncommitted and available on the open market. This volume is associated with the former Sapawe Forest to the north and east of Atikokan.

4. All pertinent details regarding the current enhanced Sustainable Forest Licence (eSFL) for the Boundary Waters Forest, the previous Sustainable Forest Licence (SFL) for the Crossroute and Sapawe Forests, including wood allocations.

An SFL is issued to provide for sustainable management of the forest. Declaring which mill has the right to consume portions of the wood supply is an important but largely non-negotiable element of the SFL. As was noted earlier, one of the principles under which the SFL was transferred to BWPMC was that the Minister's wood supply commitments would not be changed as result of the licence transfer. Wood allocations were not changed because of the transfer of the SFL.

This information has previously been shared with Mayor Caul and various Council committee members on these occasions:

- October 2, 2019, during a facilitated meeting organised for parties interested in the transfer of the SFL held at the Rendezvous hotel. Lorne Morrow provided details of the new corporation.
- In a January 29, 2020, briefing note prepared by M. Willick outlining the creation of BWPMC.
- In a September 9, 2020, briefing note prepared by M. Willick to provide a status update on BWPMC.
- November 23, 2020, during a presentation by M. Willick at the Fort Frances Town Council meeting to explain the establishment of BWPMC.

A subtle but significant change with the new SFL is that all the fibre from the Forest that was committed to Resolute under the former SFL is now committed to BWPMC. While BWPMC must honour the Minister's wood supply commitment to Resolute whereby all the merchantable Spruce Pine and Fir must be made available to Resolute, Resolute no longer controls or determines the use of the other species (excepting the small volume of hardwood committed to Resolute but moved to Norbord through a business arrangement). This provides BWPMC opportunities related to uncommitted volumes, uncommitted species and those associated with bio-mass opportunities.

5. Details how the BWPMC has ensured that wood fibre from this Boundary Waters Forest is be utilized or will be utilized in the Rainy River District to support the development, and long-term sustainability of new and existing businesses in the Rainy River District.

Economic benefits accrue from the holding the SFL both because of mill facilities consuming the wood supply and the through the provision of forest management services and operational control. Economic benefit resulting from mills is easily recognizable, while the benefits of local management, control, decision-making, and business certainty provides a more subtle but real benefit to the district. The four district mills, the contractors and the communities all benefit from the local inclusive management provided by BWPMC.

The wood supply commitments to the four consuming mills who are Class B shareholders from the Forest (Manitou Forest Products, Nickle Lake Lumber, Resolute and Norbord) clearly support the long-term sustainability of the businesses in the district. Direct involvement in decision making by the logging contractors provides them with business certainty and cost reduction benefits. Community interests ensure benefits accrue to the district through local businesses, services, and job creation.

A key feature of the SFL issued to BWPMC is that the control, decision-making, and management has been localized within the district. Local businesses, local consuming mills and community interests make the decisions for the forest within the context of Minister's wood supply directions and sustainable forest management guidelines. Local businesses have input into the costs of running the Forest and certainty regarding their operations. This is a significant improvement from the days where all decisions were being made in Thunder Bay or Montreal without any local discussion. Economic benefits are flowing to the district because of local control of the SFL.

The Shareholder Agreement has provisions that encourage the full use of the annual available wood supply. If harvesters are unable or unwilling to harvest and deliver their commitment, the Shareholder Agreement has mechanisms to have this fibre harvested and delivered to the consuming mill within the district.

Similarly, if a consuming mill is unable or unwilling to use their total committed wood supply, mechanisms are available to have this wood consumed first within the district and secondly outside the district. It is important to remember that BWPMC strives to maximize the use of the annual sustainable wood supply to create local economic activity, create jobs and reduce the average operating cost for BWPMC. Short term redirections of harvest volumes will be relatively simple, while longer term redirection of committed volumes will require the creation of a history of underutilisation and possibly dispute resolution.

6. The long-term availability of wood fibre from the Boundary Waters Forest.

The current forest management plan for the Boundary Water Forest in table FMP-13 indicates the following volumes available for the ten-year period of 2020 – 2030:

	<u>Net Merchantable Fibre</u>	<u>Undersized and Defect</u>	<u>Totals</u>
Conifer	7,491,825 m3	5,494,866 m3	12,990,691 m3
Hardwood	5,141,119 m3	5,799,375 m3	10,940,494 m3
Totals	12,632,994 m3	11,294,241 m3	

It should be noted that only the net merchantable volumes of Jackpine, Spruce, Fir, White Birch and Poplar and a portion of the White and Red Pine are planned for at this time. The underutilized (White and Red Pine, Larch, Cedar, and other hardwoods), undersized and defect volumes represent an opportunity for BWPMC and the district.

In a presentation in Fort Frances dated September 5, 2019, to Minister Rickford, Mayor Caul, various councillors and representatives from the RRFDC, Ministry of Natural Resources and Forestry staff showed data that forecast a drop in available net merchantable SPF volume from the Boundary Waters Forest to approximately 600,000 for the period of 2030 – 2040. After 2049, the modeling predicts an upturn in available SPF in later decades.

The MNRF calculations for Poplar showed an increase in the Poplar volumes during 2030 – 2040 period followed by a decline over the next several decades.

During the preparation of the forest management plan for the Boundary Waters Forest in 2019, Mayor Caul signed a letter to Philip Cooze, a forester with MNRF expressing a concern over the possible reduction in the available harvest volume forecast by about 30% due to choices in the forest

management planning process. This letter was in response to the Town's concern of the MNRF posting of possible impacts of the draft forest management plan for the Boundary Waters Forest.

7. An outline how the recently announced upgrade to the Resolute Sawmill in Thunder Bay, will impact, or may impact, the wood supply for the Town of Fort Frances, and the Rainy River District.

Resolute Forest Products made a business decision to expand their Thunder Bay sawmill and announced the decision in June. Since the expansion announcement was not predicated on a change in wood supply commitment from the Boundary Waters Forest, there was no need for Resolute to consult with BWPMC when making their business decision. The Resolute wood supply commitment from the Boundary Waters Forest remains as it was before the expansion announcement.

As a practical matter, Resolute holds many wood supply commitments across Northwestern Ontario representing very significant volumes. Most of these wood supply commitments closely surround the Thunder Bay mill complex and on average, are much closer to Thunder Bay than any fibre they might bring from the Fort Frances area. Resolute has confirmed that fibre that was previously not committed by the Minister has come available to Resolute from forests east of Thunder Bay to support their mill expansion plans.

Since the confidential business plan prepared by Resolute to justify this expansion in Thunder Bay is not a public document and Resolute does not plan to request an increase in SPF volume commitment from the Boundary Waters Forest, BWPMC has no authority or interest in questioning the wood supply contemplated for the Thunder Bay mill expansion.

From the available information, it is reasonable to conclude that the recent announcement by Resolute will have no impact on the wood supply for the Town of Fort Frances or the Rainy River District.

8. All pertinent details relating to the wood supply allocated for the Rainy River District and activities by the BWPMC, as well as any other parties.

To answer this question, one should consider how the wood supply provided by the Boundary Waters Forest compares to the fibre demands of the mills operating in the district. It is important to acknowledge that many businesses in Fort Frances are very much dependent upon a vibrant forest sector. Appendix 5 is a listing of forestry related businesses in the area that support the Fort Frances economy.

The two pine mills, Manitou Lumber and Nickle Lake Lumber, consume all the pine logs currently produced on the Forest. There is no commitment of pine logs to an out of district mill. There does appear to be a small surplus of pine logs on the Forest that could support an expansion to the existing

mills or allow for a new sawmill entrant into the district. BWPMC will consider these opportunities for the district in the future.

Norbord requires more poplar than the Boundary Water Forest can produce. Norbord uses all the Poplar on the Boundary Waters Forest and purchases poplar from outside the district to maintain their milling operations within the district. As such, the district benefits from poplar logs imported from other forests outside the district. The Norbord demand for White Birch closely matches what the Forest grows.

The wood demand for the Bio Power operation in Atikokan from the Boundary Waters Forest remains unresolved. At present Bio Power has chosen not to become a member of BWPMC and opts to purchase wood (largely White Birch) on the open market from the Boundary Waters Forest and other forests east of Atikokan. In recent years, Bio Power has imported their wood supply from forests outside the Rainy River District, effectively creating economic benefit locally using non-local wood fibre. BWPMC is working to resolve the wood supply earmarked for Bio Power and ensure the available volume is consumed by a mill within the district. One must recognise that Bio Power is providing jobs and economic benefits to the district, so it is important that a solution is devised that does not compromise the future of Bio Power.

The Resolute sawmill in Sapawe is a significant economic driver for the district. The mill in Sapawe draws sawlogs largely from the Boundary Waters Forest but also from several other forests. The difficulty faced by Resolute is in the consumption of the smaller wood that traditionally had been pulpwood. Resolute has found that it is not economically viable to haul pulpwood from the west end of the district to Thunder Bay. It is also an economic challenge to haul small diameter sawlogs from the west end of the district to Sapawe.

In the past, Norbord has used a significant volume of small diameter SPF pieces and tops that are a by-product of producing sawlogs. Norbord finds this material produces poor quality OSB and is difficult to process. In addition, the Provincial stumpage system that reflects finished product market prices has driven the stumpage cost of the tops and small diameter pieces to a point where using the material for OSB furnish is not economical. Utilization of small diameter SPF remains a challenge for BWPMC.

Since the announcement of the closure of the Fort Frances pulpmill and the establishment of BWPMC, there have been several representations to BWPMC concerning wood supply from the Boundary Waters Forest. All have been rebuffed by BWPMC because either the wood supply is already committed, or the proposal did not involve an investment in the district and simply involved hauling fibre out of the district to be processed elsewhere.

Summary

After 18 months of effective forest management, the new forest tenure model that was put in place for the Boundary Waters Forest has shown to be most successful and in fact, a model for the province.

Local control of management and operational decisions ensures that local interests are protected. Local forest harvesters and district mills have certainty and input into decisions affecting their operations and costs. Local economic development entities know of business and service contract opportunities early on and directly influence decisions that have impact on local communities. First Nations and Metis people are at the table when business and employment opportunities are considered so that they have an opportunity to realise benefits from the partnership.

Some were disappointed not able to undo Minister's wood supply commitments and redirect fibre to other locations as the SFL was transferred. However, without the assurance that wood supply commitments would be protected if the SFL were to be transferred, or significant political intervention, the licence transfer to Boundary Waters Forest Management Corp. would not have occurred.

Now the Board of Directors for BWPMC can take a broader view of the potential offered by the Forest and seek out opportunities to grow the district economy. This opportunity is often overlooked when a large forest industry consumer has sole management responsibility for the forest and must focus on their bottom line and primary business interests.

M. Willick R.P.F.
July 7, 2021

Appendix 2

SCHEDULE B: LIST OF INITIAL SHAREHOLDERS

NAME	
	Class A
Atikokan Economic Development Corporation	100
First Nations (seven First Nations – each issued 42.857 shares)	300
Independent Operators Association	200
Norbord	100
Resolute	100
Métis Nation of Ontario (representing 4 Métis Community Councils)	100
Rainy Lake Tribal Resource Management Inc.	100
Rainy River Future Development Corporation	100
Nickel Lake Lumber, Manitou Forest Products	100
TOTAL Class A SHARES	1200

NAME	Class B
Norbord Inc.	248
Resolute	708
Manitou Forest Products	22
Nickel Lake Lumber	22
<u>TOTAL Class B Shares</u>	1000

Boundary Waters Forest Management Corp. Directors

Name	Representing
Gary Both	Rainy Lake Tribal Resource Management Inc.
Blaine Degagne	Independent Loggers
Brian Gouliquer	Metis Nation
Dale Kaemingh	Manitou Forest Products
Martin Kaiser	Resolute Forest Products
Rick Ksiezopolski	Norbord
Don McCool	Independent Loggers
Garry McKinnon	Atikokan Economic Development Corp
Chief Brian Perrault	Couchiching First Nation
Glen Smith	Naicatchewenin First Nation
Michael Willick	Rainy River Futures Development Corp
Chief Will Windego	Nigigoonsiminikaaning First Nation

SCHEDULE C: TARGET WOOD SUPPLIES FOR THE FOREST.

Consumer Mills: % Consumption Rights by Species				
Company	BW	Po	PWR	SPF
Norbord	40.50%	58.21%	0.00%	0.00%
Nickel Lake Lumber	0.00%	0.00%	50.00%	0.00%
Resolute	24.72%	34.36%	0.00%	100.00%
Manitou FP	0.00%	0.00%	50.00%	0.00%
BioPower SE*	34.78%	7.42%	0.00%	0.00%
Total	100.00%	100.00%	100.00%	100.00%

*Consumption Rights are contingent on executing an MOA with Boundary Waters Forest Management

Consumer Mills: 2020 - 2030 Plan Allocation Volume (m3/year)						
	BW	Po	PWR	SPF	Total Volumes (New Plan)	Share Percent (2020 plan)
Plan AAC Volume (m3)	100,030	414,080	50,000	637,000	1,201,110	100.00%
Company Allocations						
Norbord	40,515	241,047	-	-	281,562	23.44%
Nickel Lake Lumber	-	-	25,000	-	25,000	2.08%
Resolute	24,726	142,297	-	637,000	804,024	66.94%
Manitou FP	-	-	25,000	-	25,000	2.08%
BioPower SE*	34,789	30,736	-	-	65,525	5.46%
Total	100,030	414,080	50,000	637,000	1,201,110	100.00%

*Consumption Rights are contingent on executing an MOA with Boundary Waters Forest Management

Forestry Businesses Supporting the Fort Frances Economy

Trucking	Processing	Services
Christian Brothers	West Fraser (Norbord)	Busches Auto
Leon Degagne Equipment	Manitou Forest Products	Peterbilt
George Armstrong Limited	Nickle Lake Lumber	Piston Ring
Wasaw Enterprises	Titan Manufacturing	Intercity Supply
RGB Trucking		BWFMC
Williamson Trucking		
John Gravel Trucking		
Burkholder Trucking		
Others		