

# KAMLOOPS WORKFORCE DEVELOPMENT STRATEGY



## WEYERHAEUSER AND DOMTAR ECONOMIC AND HUMAN RESOURCES IMPACT ANALYSIS



# **Weyerhaeuser and Domtar Economic And Human Resources Impact Analysis**

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## **SECTION SIX**

### **Weyerhaeuser and Domtar Economic and Human Resources Impact Analysis**

#### **6.1 Introduction and Purpose**

The purpose of this section of the study is to complete an economic & human resource impact analysis of the Domtar pulp mill and the Weyerhaeuser saw mill. The activities within the sector in the past 2 years have been such that this analysis will take into consideration the impact of the potential closure of these operations on Kamloops and region.

The key components of this impact analysis include:

- An historical synopsis and background information on the Weyerhaeuser and Domtar companies
- The position of the mills in the regional, national and global markets
- The contribution of the mills to the local and regional economy
- Potential impact on the community if either facility should be closed
- The profile of the workforce in the mills in relationship to the wider job market
- The business environment in Kamloops and region
- The nature and level of investments of both facilities
- Investment opportunities and the role of key stakeholders

#### **6.2 Background**

##### **Weyerhaeuser**

Weyhaeuser has been a key employer in Kamloops for 42 years. The pulp and saw mills have provided a stable source of labour for the community in the midst of changing economic climates in both Kamloops and British Columbia. Weyerhaeuser is an international forestry management and manufacturing company with operations in 18 countries. They are ranked among the top 50 forestry companies in the world. In the United States (U.S.) their portfolio is more extensive and includes the residential building sector.

Harvesting, manufacturing and export of forestry products has been a substantial component of the Canadian economy for many years. However, in the past 10 years there have been significant challenges in the forestry sector. Forestry and other resource based sectors are highly influenced by external factors. In the case of lumber production the downturn in the housing markets in the U.S. has particularly challenged this sector. In spite of the issues facing the saw mills, analysis of this sector by Canadian

Imperial Bank of Commerce (CIBC) concluded that "The lumber industry in the BC Interior is the most efficient in the world",<sup>1</sup>

The pulp mills have a different experience to the lumber sector in a number of ways because they operate in a wider global market. In 1999, analysis of the forestry sector undertaken by Porter and Stern (Harvard University, 1999) concluded that the relatively small size of Canadian forestry operations along with under investment in innovative practice would slow their progress in the competitive global market. In spite of the fluctuations in the industry forestry exports are a major contributor in Kamloops and the Canadian economy. In 2004, forestry exports accounted for an annual amount of \$65 billion dollars of Canadian export.<sup>2</sup>

The move to strengthen the forestry manufacturing and export sector has resulted in a number of mergers and acquisitions and the closure of a number of mills across Canada, and the U.S. In many cases organizational restructuring and loss of jobs and closure of mills has been particularly profound in smaller communities where mills were the dominant source of the economy. The Weyerhaeuser pulp mill in Kamloops was sold to Domtar in March 2007; this did not result in loss of jobs. However, the wait to find out the outcome of the sale was a time of anxiety for workers and the wider community. It is recognized that in order to remain sustainable both the Domtar and Weyerhaeuser mills require capital investment in equipment and other aspects of mill operations. The Weyerhaeuser saw mill has an agreement of sale with International Forest Limited, and the final sale is expected to complete in December 2007. The proposed sale of the Weyerhaeuser saw mill to International Forest Limited (Interfor) in August of 2007 will mark the end of generations of manufacturing by the Weyerhaeuser Company in Kamloops. Interfor have indicated that they will be investing in the Weyerhaeuser saw mill on completion of the purchase.

### **Domtar**

Domtar Corporation is the largest integrated producer of uncoated free sheet paper and one of the largest manufacturers of market pulp in North America. The company is registered on the New York and Canadian stock markets (NYSE/TSX: UFS). The core business of the Domtar Corporation includes design, manufacturing, marketing and distribution of a wide range of business, commercial printing, publication, technical and specialty papers. As well as their recognized brands they are also known for their full line of environmentally and socially responsible papers, (Domtar EarthChoice). The company employs nearly 14,000 people in Canada and the USA.

The Kamloops mill is the second largest Northern Bleached Softwood pulp mill in Northern America. Its location in the Southern Interior of BC provides a competitive position to export pulp through the Port of Vancouver to the

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<sup>1</sup> CIBC World Markets, "The Canadian Forest Products Sector: How Do we Adapt for Survival?", Paper presented to the Canadian Council of Forest Ministers, Saskatoon, Oct.4,2005

<sup>2</sup> Marin Luc, Deloitte and Touch Forestry Analysis, 2005

fast growing Asian markets. In terms of the scale of North American operations, the Kamloops mill is a large facility. A total of \$300 million in capital investment projects at the Kamloops mill in the past 12 years has resulted in this facility maintaining its low cost competitive position improvement in environmental performance, and increase in power generation and pulp production.

A \$42 million dollar capital upgrade in 2004 enabled the mill to become energy self sufficient and export the additional power to the BC Hydro grid. This capital investment helped improve the competitive position of the mill and contributed to its position in the top quartile for North American Bleached Kraft Pulp (NBSK).

During the period 2002 to 2005, Weyerhaeuser deployed a range of strategies to off-set losses. When it owned both the saw and pulp mill this included improving work practices, and making an application to the City of Kamloops to freeze the industrial tax assessment. They also explored strategies to diversify their markets. Decisions to close mills have been influenced by the need to modernize facilities to increase efficiency at great cost. The sustainability of the mills depends on a number of variables, such as the size, the quality of equipment, location, and links to important services.

The global market in the forestry sector, like most industries, is highly competitive. To continue as a viable entity in the regional, national and international markets both the Domtar and Weyerhaeuser mills will need to continue to invest capital to support innovation and compete effectively if they wish to profit from their operations. A capital investment of \$300 million dollars to upgrade equipment and increase power generation is one of a number of options available to the mill.

### **6.3 The Position of the Mills in the Region**

In the past 10 years the Province of British Columbia and its regions have diversified their economy to reduce dependence on natural resources. However, the province is rich in natural resources, and the importance of forest products to the economy cannot be underestimated. The rationale for diversification is also an indication of how the local, national and international supply and demand chains have shifted; everyone has become more dependent on technology and service-based industries.

There are 3 economic regions for the forestry sector in BC; the Northern Area, BC Coast and the Southern Interior. The Domtar mill in Kamloops has a significant surplus of residual fibre. The importance of fibre in the pulp industry is not only unique to BC, the advantage extends internationally. Pulp is made from residual wood products; chips and bark purchased from Weyerhaeuser and other mills in the region. Surplus fibre in the Southern Interior is transported to the BC coast. The following table based on an

analysis of fibre quality highlights the fact that the Southern Interior region of BC, even though impacted by the mountain pine beetle infestation is projected to continue having a surplus of saw mill residuals through 2020. This long term fibre availability is attributed to the fact that the Southern Interior region has a greater diversity of wood species (more spruce and Douglas fir).

Table 14  
2006 Pulp and Paper Sector Wood Chip Balance (000m3)

Region	Number Of Log Consuming Mills	Number of P&P Mills	P&P Coniferous Chip Demand	Traditional Wood Chip Demand (Excludes imports)	Current Balance Surplus (Shortfall)
Prince George North and West	35	8	8,992	9,282	290
Cariboo	16	2	2,308	4,232	1,924
<b>Kamloops Okanagan</b>	<b>24</b>	<b>1</b>	<b>1,736</b>	<b>3,517</b>	<b>1,781</b>
Kootenays	19	2	3,378	1,860	(1,518)
Coast	63	7	11,379	5,088	(6,291)
Province Total	157	20	27,793	23,979	(3,814)

Source: M.D.T Ltd. 2006 Study done for Mercer International, Canfor Pulp Income Trust and Catalyst, August 2007

P&P = pulp and paper

\* Red print indicates a deficit

Table 15  
Projected 2020 Pulp and Paper Sector Wood Chip Balance (000m3)

Region	P&P Coniferous Chip Demand	Traditional Wood Chip Supply	Current Balance Surplus (Shortfall)
Prince George North and West	8,992	5,955	(3,037)
Cariboo	2,308	1,805	(503)
<b>Kamloops/Okanagan</b>	<b>1,736</b>	<b>3,480</b>	<b>1,744</b>
Kootenays	3,378	1,860	(1,518)
Coast	11,379	5,088	(6,291)
Province Total	27,793	18,188	9,605

Source: M.D.T. Ltd. 2006 Study done for Mercer International, Canfor Pulp Income Trust and Catalyst

P&P =paper and pulp

• Red print indicates deficit

From the above tables it is clear that the Kamloops region has the advantage of being fibre rich, and is the only region projected to be in this position in the province. The Domtar mill is the only pulp mill in the Kamloops and Okanagan region. The relationship between the pulp and saw mill is of mutual benefit in this sector. The BC saw mills provide low cost fibre to the pulp industry. In the case of Domtar and Weyerhaeuser the added benefits is that there are no extensive transportation costs. A total of 24 saw mills in the region sell their residual chips and bark to the Domtar pulp mill.

#### **6.4 The Position in the Global Economy**

Lumber from the Weyerhaeuser saw mill is exported to the U.S, Japan and Eastern Europe. The majority of lumber produced is for the U.S and Canadian housing markets; residual wood product is sold to the Domtar pulp mill. The recent downturn in the U.S. housing market has major implications for the lumber production of this and other mills. Despite this situation the Northern and Southern BC region lumber industry is highly competitive. They continue to operate during the weak U.S markets because they operate at the lowest cost in the world. The pulp from the Domtar pulp mill is shipped to China, Japan and Europe through the Port of Vancouver and to the U.S. markets directly by train.

The changes in the forestry sector in Canada are impacted by a number of factors:

- The market in lumber is heavily dependent on demand for residential building in the U.S.
- Canadian wood manufacturers have held a strong position in the export of goods for many years. However, new entrants such as the South Americans are becoming strong global competitors
- Manufacturing practices have to be focused on increasing productivity and maintaining lower cost through technology and restructuring of the work process
- The appreciating Canadian dollar has placed tremendous competitive pressure on the forest product export
- The North American newsprint and paper demand has been shrinking for several years forcing high cost producers to shutdown
- The world market in paper and pulp is highly competitive and leading companies are those able to invest in modernization, building of new facilities and up-to-date technology

In the midst of these realities, China is now emerging as a dominant force, and now accounts for 25% of the pulp market demand. China is keeping pace with the changes because it has modernized aging mills and developed e-marketing platforms to expand their international customer base. The presence of new facilities and investment in technology has resulted in giving China a strong lead in paper production. It has the added advantage because of the high level of internal consumption of the product. One of the most significant opportunities for Domtar and its position in a fibre rich region is the fact that China requires the quality of fibre produced in this facility in its manufacturing process. The Kamloops mill is well positioned with its rail infrastructure to transport pulp directly to China via the Port of Vancouver.

The advantage of lower energy costs and newer mills in South America, and Scandinavia also means that these countries are achieving high profits while the Canadian forestry sector has been struggling to see the returns on their capital.<sup>3</sup> In a study of the Economic Impact on the Northwestern Ontario Forest Sector, Moazzami 2006 noted an increase in the number of countries that have begun exporting pulp and paper in the global market.<sup>4</sup> He also observes that the Chinese wood producing sector is booming. New entrants in the market have resulted in a reduction in Canada's global market share, which has declined and stands at 17%. This has also reduced the Canadian share of U.S imports by 12%.

Canadian mills such as Domtar are further challenged as technological advancement means that manufacturers can utilize combinations of natural and artificial fibres to achieve the same integrity usually achieved through higher quality fibre such as that produced by the Domtar mill. However, opportunities to advance through sustainable resources and value-added wood products means that Domtar and Weyerhaeuser can develop a diversified strategy to address some of the challenges.

In order to achieve maximum efficiency facilities need to be subjected to substantial investment in equipment, research and development to support the value added aspect of the forestry industry. Capital investment is not only important for achieving efficiency in production it is also a means of advancing environmental performance.

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<sup>3</sup> BC Forum on Forest Economics and Policy: "The BC Forest Products Sector in a Globally Competitive Market: Developing a Strategic Response", Synthesis Paper Presented by Gary Bull and Jeremy Williams, March 2006

<sup>4</sup> Northwestern Ontario Forest Council, "An Economic Impact Analysis of the Northwestern Ontario Forest Sector" Paper Presented by Moazzami B, Department of Economics, Lakehead University, Ontario, 2006

## **6.5 Weyerhaeuser and Domtar's Contribution to the Economy in Kamloops and Region**

Typically, the forestry and other resource based sectors pay higher wages than other industries in Canada. The total cost of salaries, wages and benefits for the Domtar and Weyerhaeuser mills amount to \$130 million dollars (annually) to the Kamloops economy.

In 2006, a comparison of industry related pay scales showed an average of \$65,307 per year (An Economic Impact Analysis of the Northwestern Ontario Forest Sector, 2006). On average, employees in the trades earn a salary of \$70,000 per year; this can go up to as high as \$90,000 with over-time. However, there are many workers in the forest industry are in a lower earning bracket. According to statistics presented by BC Stats the average yearly wage in Kamloops in 2001 was \$38,000. On the basis of this information, the salary range of workers in the forest products sector is nearly 50% above the average wage in Kamloops.

### **a) Contractors and Suppliers**

Indirect wages paid through the various contractors and suppliers represents a significant contribution to the economy in Kamloops and Region. The suppliers are from a number of industries, and include:

- Saw Mills and Related Industries
- Transportation (trucking and rail)
- Construction
- Mobile Equipment Suppliers
- Machine Shops
- Car Dealers
- Fuel and Lubrication Suppliers
- Computer Services
- Service Sectors (hotels, food services)

Logging contractors alone represent \$17 million dollars of indirect wages. In order to provide an estimation of the total economic impact a 2:1 multiplier is used and the calculations are outlined in the following table. This works on the basis that for every job at the mill 2 more are created in the contractor and supplier chain.

Table 16  
Employment Impact of Weyerhaeuser and Domtar in Kamloops and Region

Industry Segment	Direct Employment	Multiplier	Indirect Jobs	Total Employment
Saw mill	200	2:1	400	600
Pulp mill	500	2:1	1,000	1,500
Management and Administration	120	2:1	240	360
Forest Lands	20	2:1	40	60
<b>Total Jobs</b>	<b>840</b>	<b>2:1</b>	<b>1,680</b>	<b>2,520</b>

Source: Kamloops Human Resources Skills Assessment Study, 2007

In total Weyerhaeuser and Domtar contribute \$130 million in direct wages and benefits on an annual basis. With the multiplier effect (based on the average industry pay rate of \$65,307 annual salary) this amounts to \$110 million in indirect wages, making a total of \$240 million possible wages contributed to Kamloops and region economy on an annual basis.

#### **b) Contribution to Municipal Revenue**

Weyerhaeuser pays an annual amount of \$6.5 million dollars to the Municipality of Kamloops for industry tax, and Domtar pay \$6.2 million. When Weyerhaeuser owned the pulp and saw mill it approached the City of Kamloops in 2006 to request a closer rate of the Kamloops industrial tax to that of the average in the province (it is currently more than two times the provincial average). The city agreed to freeze the tax rate for the Domtar and Weyerhaeuser mills. The industrial tax for the Weyerhaeuser and Domtar mills is set at \$12.7 million until such time as it will be reviewed.

#### **c) Grants and Scholarships**

Weyerhaeuser contributes a substantial amount in the form of grants, sponsorships and scholarships to the community in Kamloops and region.

#### **Total Contribution**

The total contribution of the Weyerhaeuser and Domtar mills to the economy of Kamloops and region in direct and indirect wages, and municipal tax is \$352.7 million calculated in the table below.

Table 17

Summary of Weyerhaeuser and Domtar's Economic Investment in Kamloops and Region

<b>Category of Expense</b>	<b>Amount</b>
Direct Wages and Benefits	\$130 million dollars
Indirect jobs created through Contractors and Suppliers	\$110 million dollars
Municipal Tax and Fees	\$12.7 million dollars
<b>Total Economic Investment</b>	<b>\$352. 7 million dollars</b>

Kamloops Human Resources Skills Assessment Study, 2007

### 6.6 Profile of the Weyerhaeuser and Domtar Workforce

Weyerhaeuser and Domtar employ 840 workers; 200 at the saw mill and 500 at the pulp mill. There are 120 workers in the administration building and 20 in forest lands. The skills component of staff at Weyerhaeuser and Domtar is a combination of management, trades, computer and other technical skills, bio-science, administrators, apprentices, production workers, and forestry planners. In total there are 190 workers in the trades, 150 at the pulp mill and 40 at the saw mill. The following is a summary of the trades professions and production workers employed at the mills:

- Millwrights
- Electricians
- Pipe Fitters
- Engineers
- Science Technicians
- Production Workers
- Management and Administration
- Heavy Duty Mechanics
- Forklift Truck Drivers
- Weyerhaeuser Logging Contractors

The mills require a certain level of manual application for major operations. However, there is a significant use of technology required within the facility. This is consistent with the fact that technology has featured significantly in the way that lumber and pulp has been manufactured in the past 20 years. Major operations in the pulp and saw mills are automated and computerized. In most cases individuals have been trained over many years. The companies and unions work together to ensure that industry standards are met. This

includes standards of safety and other work practices. Workers at the Weyerhaeuser and Domtar mills in Kamloops represent a highly skilled group; however, a significant number of entry level positions are also required in the overall operation. Production workers are skilled in the areas related to pulp and saw mills, but many skills are transferable to other sectors.

Workers are also trained to develop and apply skills such as leadership; problem-solving and team-building which are required when operating large manufacturing plants. A significant number of workers at Weyerhaeuser and Domtar mills hold a degree in Management and Business Administration.

Like many other organizations in Kamloops and Canada, the Weyerhaeuser and Domtar mills are experiencing labour constraints mainly in relation to a shortage of skilled trades. Primarily, this shortage is a result of replacements needed to fill positions for people retiring from the workforce. In certain trades it is now common for the mill to compete within a global arena for workers.

## **6.7 Community Impact**

There is no doubt that many people in the community of Kamloops are connected to Weyerhaeuser and Domtar facilities because of a shared history, and the contribution of the company to the economy and the social fabric of the community. While it is acknowledged that the Kamloops' economy is doing well at present, and there are jobs available. There is concern that workers at the higher spectrum of the pay scale with more disposable income may find it challenging to secure the same income locally. While there is acknowledgement that there are other companies in Kamloops and region that pay a similar wage as the mills, concerns were related to the number of workers that these local companies would be able to absorb into their current workforce.

### **a) Lifestyle and Work Structure**

The impact from any change in the operation's status quo would be far-reaching in regards to employees, subcontractors and contractors who offer services. Closure of the Weyerhaeuser and Domtar would represent a significant loss in the overall wealth of Kamloops and region. Not only would it impact the workers and their families directly, these people are spending money in the community and contribute to the community wealth. The dominant view is that even though the economy is doing well the loss of this level of salary is likely to impact spending and, therefore, confidence in the economy at a number of levels.

Any loss of jobs or closure of the mills could result in young people leaving the area. The reason being that younger people have a longer career path in front of them and because of that may want to pursue opportunities and

positions with similar, if not higher, wages and benefits than they are currently receiving. If these positions could not be found in Kamloops and region they would choose to leave to find new opportunities. The skills shortage in such locations as Alberta would provide more than ample opportunities for workers with the type of skills, experience, and salary that many of the employees at the Weyerhaeuser and Domtar mills have become used to. However, making a decision to leave a family and community network is not one that is taken lightly. The impact of losing connection with family on a regular basis is one observation that has been made by unions and other stakeholder organizations. Even though it can be argued that leaving family for a certain period of time is part of the modern work culture, there are different factors to consider when this continues over a sustained period of time.

Workers more senior in age may be less likely to leave the area. The benefit of working at the mills over many years have meant that they have developed a good life style, are more likely to have paid for their homes and have a cottage by the lake. It is assumed that this group of senior workers have a lot of security and a lifestyle that is affordable; they are strongly linked to the local community.

#### **b) Health and Well Being**

In the event that either Weyerhaeuser or Domtar should close their operations the ramifications for workers is not just related to economic issues. The anxieties and shock factor associated with the loss of a stable income and ability to engage in meaningful employment is well researched. The importance of stable employment and good wages has long been associated with good health. According to information provided by BC Stats and Statistics Canada, unemployed people tend to experience poor health, and this is more chronic if the period of unemployment is extended. In other communities where mills have been closed workers have moved to secure employment. In some cases this means leaving their families for two or more weeks at a time, and losing touch with the regular routine of family life. The level of anxieties can increase because even though salaries are often higher than in their previous employment, the financial commitments associated with accommodations, and other cost of living factors have to be taken into consideration. In some cases workers have made the decision to remain in the locality and receive a lesser wage. This factor can also have an impact in the sense that families are reducing income with the same cost of running a home and other outputs associated with cost of living.

According to research findings presented in Statistics Canada Health Indicators, 2007; employment status is regarded as one of the key non-medical determinants of health.<sup>5</sup> Therefore it can be concluded that there is a high correlation between employment and a person's health and well-being. A comparative analysis of health regions indicates that regions with the

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<sup>5</sup> Statistics Canada, Health Indicators, 2007

highest life expectancy are those where people have higher income and education attainment (Statistics Canada, Health Indicators, 2007).

### c) Housing and Retail Spending

The Kamloops housing market is predicted to continue to grow and remain stable for at least the next 8 years. The demand for housing is currently at such a level that some of the impact of closure or loss of jobs at Weyerhaeuser would be off set by the strong demand in the current housing market. The Kamloops housing market is presently attracting buyers from Vancouver, the Lower Mainland, Calgary, communities from Eastern Canada, and internationally.

**Comment [SR1]:** What exactly are you saying in the previous sentence – that people leaving here may end up doing alright? Or that they would have trouble selling?

Retail spending in BC regions such as the Southern Interior is strong, and showing no sign of a negative down turn.<sup>6</sup> There are a number of factors contributing to spending such as a strong economy, tourism, confidence in interest rates and the level of inflation. At the time of writing this report the Canadian dollar is strong and competing well in the world market. In most cases, this will mean that spending will be done by a wide cross-section of the community, and not always governed by one section of the workforce. However, having a number of people with high disposable income brings added advantages to the retail and other economies in this region.

### d) The Regional Job Market

Like many Canadian cities Kamloops is experiencing a strong economy and increased demand for workers in most sectors. In the event of closure or down-sizing of the workforce at either of the mills, the employees at Weyerhaeuser and Domtar have skills, which are in high demand in the locality, in other communities in Canada and abroad. A quarter of the workforce at the mills is employed in the trades and this is an area of demand identified by a number of local employers who have participated in this study.

While it is acknowledged that the skilled trades in manufacturing are specific to this industry there is evidence that skills can be transferred through orientation and training programs. One of the strengths of large employers such as Weyerhaeuser and Domtar is the fact that they have extensive experience in training people from entry level to highly skilled positions in technical trades and management. The skill pool of people who are currently employed in the mills are highly compatible to those required in many of the businesses looking to expand their workforce in Kamloops and region. For example, representatives of manufacturing, construction, science and technology, management, administration, engineering, planning and production companies said, in the course of our survey, that they have need of skilled trades and highly skilled manufacturing employees now and for the foreseeable future.

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<sup>6</sup> BC Stats Report, June 2007

Supporting people to transfer to new employment opportunities is also the mandate of human resource and employment agencies. So in this sense it could be strongly argued that Kamloops and region has the resources in place to support people to make transitions in the event that this should be required. Employees in companies such as Weyerhaeuser and Domtar have experienced the impact of a number of changes in their industry. This level of awareness could be used to the advantage of workers to support them to develop strategies in career planning. The importance of planning for growth as well as managing change that could negatively impact the work force is a critical aspect of this Workforce Development Strategy.

One of the issues that present itself when workers are faced with potential closure or acquisitions by major companies is the speed at which people can access new employment. This is where partnership, working across a number of agencies, can work to the advantage of all relevant stakeholders; where the expertise and labour market knowledge can make a difference.

Table 18  
Summary of Economic Impacts in Kamloops and Region

<b>Existing Situation</b>	840 Direct Jobs \$130 million in direct wages - 24 saw mills in the region depend on selling residual products to the pulp mill for 25% of their revenue - Transportation sector dependency includes rail and truck networks. Logging contractors alone account for \$17 million investment from the saw mill  -Indirect wages through various contractors and suppliers amounts to \$110 million	
<b>Economic Development Impacts</b>	1,680 indirect jobs lost in relation to contractors and suppliers	Income \$110 million dollars
<b>Socio-Economic Impacts</b>	Shock factor- creates anxiety in the community	It is difficult to quantify the number of people who would leave the area
<b>Community Impacts</b>	Housing-At present Kamloops and region are experiencing a housing boom	Businesses-It is likely that businesses will feel the effect of the reduction in spending
<b>Local Government Impacts</b>	Revenue-Loss of \$12.7 million in municipal tax	Municipal Tax Base-Seek other ways to compensate for this loss in municipal revenue

Kamloops Human Resources Skills Assessment Study, 2007

In summary, the contribution of Weyerhaeuser and Domtar to the economy of Kamloops and region is estimated to total \$252.7 million. The most obvious impact if these operations were to close in Kamloops would be the loss of direct and indirect wages to their employees, suppliers and sub-contractors; and loss of tax revenue to the City of Kamloops. However, the impact of such a loss would extend out into the business community. Consumer spending is one area that would see the evidence of a loss of disposable income in a community. As we saw earlier in this report a number of sectors in Kamloops and region are experiencing their strongest growth since the late 1990's. In the current economic climate the loss of jobs at one major company is often an opportunity for other employers to access workers. In the event that there would be a shut down of either of these operations in Kamloops the majority of the workers could make a significant contribution in the labour market. This is particularly the case for skilled trade workers of which there is a considerable shortage in the region at this present time.

## 6.8 The Dynamic Business Environment in Kamloops and Region

In real terms, Weyerhaeuser and Domtar are two of a number of companies making substantial investment in Kamloops and region. Companies such as Highland Valley Copper (HVC) are conducting major projects, which are delivered through intensive capital investments. HVC is a world leader in their industry, and is predicted to continue development until 2014. Highland Valley Cooper employs 900 people; and 50% of their workforce lives in Kamloops.<sup>7</sup> In 2004, the company paid out \$99 million dollars in wages and benefits. HVC's list of suppliers and contractors for the mine and mill currently stands at 16,000. This equates to 75% more than that of the Weyerhaeuser/Domtar mills. The dollar amount of this investment is not available for the purpose of this study. HVC also gives significant support in the community through sponsorship, and grants.

NRI International employ 230 workers, the company has established a niche in warehousing logistics, served by a sophisticated e-distribution platform. They are one of a number of companies in Kamloops and region using technology while leveraging one of the best advantages of Kamloops, its location to operate a business of international significance. The warehousing and logistics sector is expected to expand in the next 8 years.

Kamloops is also the location of Royal Inland Hospital, a public sector organization, and one of the largest employers in the Thompson/Okanagan region. Their workforce consists of 3000 people in Kamloops and region. A significant number of their employees are earning salaries within the \$50,000 to \$70,000 range. Their total investment in the region is not included in this report, but it is assumed that their payroll is also in the hundreds of millions.

<sup>7</sup> [www.infomine.com/careers/eoc/highland.asp](http://www.infomine.com/careers/eoc/highland.asp)

**Comment [SR2]:** Should you mention that they also give significantly to community projects? Also mention they don't give tax \$\$.....

**Comment [SR3]:** I'm not sure this is entirely accurate – Interior Health has 5,500 people but they are spread around Okanagan and Thompson regions. I believe RIH last time I looked, had about 1,200 employees – you'd have to check that out. Also you have to add that this is "taxpayer's dollars" at work not private enterprise.

There are other mills and engineering companies in the area whose combined investment is significant to the economy to Kamloops and region.

**Comment [SR4]:** It would be great to have a figure – as this looks kind of weak.

The construction industry is growing and there are a number of residential and commercial projects, contributing to a robust economy in Kamloops and region. This is demonstrated in the number of housing starts issued in the past 2 years. The Tobiano project is one example of a high capital investment, and is likely to attract substantial revenue to the area. It is estimated that Pagebrook Inc has already invested \$5 billion dollars in the past 10 years in the development of this project. After the infrastructure for roads and services is put in place there is still the need for contactors, subcontractors, suppliers, trades, and a range of services to complete the development and operate the resort in the long-term.

**Comment [SR5]:** There is also Tranquille?

The new airport expansion is predicted to bring significant increase in investment to the Kamloops economy. This will include business investors, tourists and other visitors; it will link businesses to other centres in Canada and abroad, and make Kamloops more attractive to new business.

The hotel, tourism, and retail sector may pay a lower wage but this sector is very important to the economy of Kamloops and region and is poised to grow significantly with the off-shoot of 2010 travelers before, during and after the 2010 Winter Olympics.

The Government sector makes a considerable investment in Kamloops and region. This includes capital projects important to the physical infrastructure, and programs to promote the well-being of the community. In most cases employers and employees in government work within a unionized environment and have access to a range of benefits and higher- than - average salaries.

The information presented in this section seeks to balance matters related to the investment made by the Weyerhaeuser and Domtar mills with the wider activities within the business sector in the region; it acknowledges the contribution of the mills and at the same time recognizes that there are other key employers who are investing in the economy. In some cases employers are making investments at a similar level as the Weyerhaeuser and Domtar mills. However, fewer companies are making investments of \$532.7 million dollars on a yearly basis. It is important to also take account of the diverse economy that has been generated through investments over a number of years. While it is important not to lose sight of the investment that Weyerhaeuser and Domtar contributes to Kamloops and region, the brief overview of the economic activity in Kamloops and region is evidence of the vision and ambition driving, and, contributing to the region becoming a significant player in the national and international market.

## **6.9 Exploring Potential for High Level Business Investments**

Keeping focus on the strategic plan of the city and region is a key aspect of economic development. Situations such as the uncertainties faced by the mills in the past months can be used as a catalyst to continue to seek business investment opportunities which are in the best interest of the region. This point has already been identified in the comparative analysis with Prince Albert, Saskatchewan, which experienced the closure of a pulp mill. The uncertainties presented to Kamloops in the process of the sale of the pulp and most recently the agreement of sale of the saw mill can be used as a catalyst for reviewing the position of the city in terms of its focus and vision for economic diversification. The City of London, Ontario used the closure and downturn in the car manufacturing industry as an opportunity to audit and review the potential in the information technology sector. In the case of the City of Leeds, England, UK, the loss of many heavy industrial manufacturing companies was used to redefine their corporate strategy. They strongly branded themselves as a business city and used the Business Cluster Model to integrate and leverage some of their strongest assets. In their transformation process Leeds has retained manufacturing and retail, amongst the strongest of their economy bases. These sectors now represent a quarter of their entire workforce.

Diversification of the economy in response to downturns in certain sectors has been the focus of economic development departments over the years. A key point in the process for a community such as Kamloops includes at this time, how effectively workers with specific skills can be transferred into other jobs in the community. It has been interesting to note that key stakeholder groups are not confident that Kamloops can absorb the workers from the Weyerhaeuser Domtar mill into jobs in the community; the current labour shortage may change that belief. A supply of trained workers can also be seen as an opportunity for the region to continue to attract business investment.

## **6.10 Why Invest in the Kamloops Mills**

We have seen that the Kamloops Weyerhaeuser and Domtar mills are strategically positioned in the region of British Columbia. They are accessible to the resources which enable them to continue to manufacture lumber and fibre in their respective markets until 2020. Even though the mountain pine beetle infestation presents some long term challenges, the mixed forest in the Southern Interior region places these facilities at an advantage. Weyerhaeuser and Domtar operate in a diversified market, and at this current time the demand for pulp in a global market creates a number of advantages for the Domtar mill. Interfor, who are currently in the process of buying the saw mill have stated that they will be investing in the facility.

Domtar has not made a public statement about their strategic objectives for this mill; but it must be assumed that a number of favourable factors were

taken into consideration in their decision to purchase. It seems that the most critical issue presented in making a decision to invest in the forestry production sector is the low return on capital deployed, which has been the trend in the past 20 years.<sup>8</sup>

The Domtar mill in Kamloops is in the top quartile of North American mills (source). Canada is the second largest exporter of pulp and paper products to China, and Domtar has a diverse market base; serving Japan, Europe and the U.S. To perform effectively against strong entrants from South America and Scandinavian countries. It is in the best interest of Weyerhaeuser and Domtar to pay attention to some of the main reasons for their success:

- Production of high quality goods
- New mills and investment in new equipment
- Investment in Research and Development

In fact, China is now becoming a world leader in the area of paper and pulp, and competing strongest in the use of recycled paper.<sup>9</sup>

Fibre integrity and the low cost of lumber production are only two of the key factors that make the rationale for continued investment in the Kamloops mills a point for consideration. The demand for Canadian fibre in China's growing operations, presents a strong case for the pulp operation;

- In 10 to 15 years it is predicted that China will overtake the U.S. in paper production
- China depends on countries like Canada to provide high quality fibre
- China has closed most of their smaller pollution-producing plants and built some of the world largest, sophisticated and environmentally safe mills

The production and overall economic impact in the lumber operation is linked to the demand in the American housing market. According to statistics produced by Statistics Canada, lumber production in June 2007, was the lowest it has been since 2002.<sup>10</sup> However, it is important to note that British Columbia operations produced 52% of the countries' lumber in June 2007.<sup>11</sup>

Despite the positive factors presented, the long term sustainability of the Domtar and Weyerhaeuser mills has to be understood in the context of the new entrants who are achieving profits. There are also challenges which come from the fact that new technology is able to achieve results in the production of forest products without the same volume of the high quality

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<sup>8</sup> Northwestern Ontario Forest Council, "An Economic Impact Analysis of the Northwestern Ontario Forest Sector" Paper Presented by Moazzami B, Department of Economics, Lakehead University, Ontario, 2006

<sup>9</sup> Hawkins-Wright, presentation by Flynn R, "China's Pulp and Paper Industry: What Low Cost Labour", at China Market Paper and Pulp Conference, March, 2006

<sup>10</sup> Statistics Canada: Daily Report, Thursday 23<sup>rd</sup> August, 2006

<sup>11</sup> Telegraph-Journal: The Canadian Press, August 23<sup>rd</sup>, 2007

fibre produced in Canadian mills. The appreciation of the Canadian dollar has been a key issue for industries which rely on export. A realistic perspective has to be taken in terms of attracting capital investment when many companies in the forestry sectors have not seen the returns on investments at expected levels for the past 10 years. However, the advancement of technology, research and development has identified new ways to increase profits in the pulp and lumber industry.

### **6.11 Opportunities for the Weyerhaeuser and Domtar Mills**

Even though China has lower labour costs than Canadian mills they must purchase waste paper from North America and purchase pulp from all exporting regions of the world. The Kamloops pulp mill has the fibre greatly needed by China, and the infrastructure to get the product there. However, they must be able to compete in other markets, and respond to the technological challenges in their industry. In meeting the opportunities presented in the Chinese and the rest of their global markets, the mills must also pay attention to some of the challenges which may compromise them in the long term.

The opportunities for the Weyerhaeuser and Domtar mills are clearly related to their activities within a regional, national and international market. They are currently pursuing a diversified business model where the use of traditional materials is transformed into products that support a more sustainable environment. The Domtar mill generates electricity by burning waste bark, chips, sawdust and the black liquid from pulping operations. This makes a significant contribution to off-setting energy cost, which is a major factor for many Canadian mills.

The recent BC Hydro incentive for bio mass power is another great opportunity for diversification of the pulp mill. The mutual relationship between the saw and pulp mills makes this a shared opportunity. The incorporation of pulp and power production can provide the investment returns needed for larger capital projects.

#### **a) Regional Investment Profile**

The BC Interior sawmill industry continues to invest. This confidence is demonstrated in the new \$100 million Interfor saw mill in Adams Lake, upgrades to Aspen Planners mill in Merritt, Tolko in Kelowna and the recent announcement by Interfor for the upgrades in Kamloops after the sale of the Weyerhaeuser saw mill is complete. PricewaterhouseCooper analysis of the Forestry Sector in Canada in 2003, concluded that, "the more efficient the saw mills, the more profitable they are".

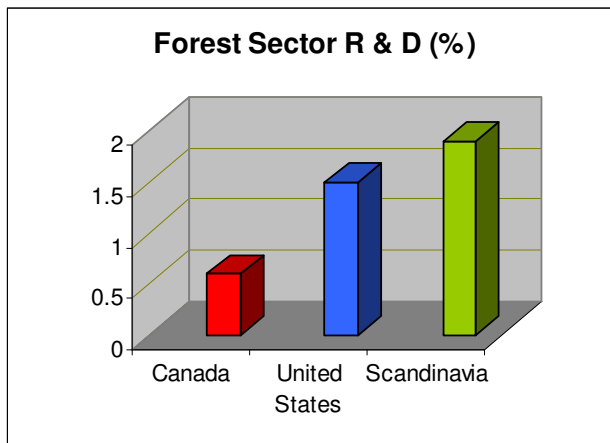
## b) Research and Technology

Capital investment not only improves product and efficiency, the utilization of new equipment also serves to off-set some of the cost and issues associated with good environmental practice. Technical investment and Research and Development are proving to be one of the strongest indicators of competitive advantage in the very dynamic environment of the forestry sector. This approach has been used to address critical issues such as harvesting volume, environmental compliance; increased productivity and lower costs. There are 3 major research organizations in Canada leading in the areas of forestry innovation. PAPRICAN (Pulp and Paper Research Institute of Canada), Forintek, and Feric. Domtar is a member of PAPRICAN. The industry also commissions research through major consultant firms such as PricewaterhouseCoopers to evaluate options and develop ways to continue to strengthen their performance.

The following chart compares investment of gross revenue in R&D in Canada, the United States and Scandinavia in the forestry sector in 2004;

**Comment [SR6]:** In the forestry sector or in general?

Forest Sector R&D in Canada, the U.S. and Scandinavian Countries, 2004



Source: Industry Canada 2003

The stringent regulations that apply to the environment have to be followed by all industrial manufacturers in Canada. A lack of compliance results in a fine, and can lead to closure of operations by the Ministry of Environment. It is estimated that forestry manufacturers have progressed by reducing greenhouse emissions by 44% since the 1990's. The Domtar mill has developed a "Green Vision" to make the Kamloops Mill an environmental performance leader by further reducing the use of greenhouse gas producing fossil fuels and by showing innovation in both the products they produce and the ways in which they are made. More recently, the mill's commitment to continually improving environmental systems and performance has resulted in the mill's certification to the ISO 14001 International Standard for Environmental

Management Systems and the achievement of several environmental milestones. This includes;

- 100% energy self-sufficiency with surplus sustainable green energy to go back on the grid
- cleaner air for surrounding communities with the redirection of wood waste into green energy and the closure of several beehive burners

A report by the Canadian Products Association in 2003 highlighted the point that capital expenditures continue at below depreciation levels, resulting in declining capital stock. At another level, the forestry industry sector is challenged because of the number of companies operating with equipment that is out-dated, which is not favourable to increased production, profitability or the environment.

Another area where Research and Development is regarded as important to the sustainability and competitiveness of pulp, and paper and saw mills is related to harvesting. Bull and Williams 2006; states that Scandinavian countries which are world leaders in forestry products, have less access to harvesting options than many Canadian operations.<sup>12</sup> However, the outcome of investment in R & D and technical development in Scandinavian operations has resulted in a high level of production. Finland and Sweden are ranked amongst the top 10 countries in forestry products in the world, and Canadian companies are ranked in the top 50. The following chart compares the harvesting practices of these Scandinavian countries BC.

**Comment [SR7]:** They are either companies or countries --- can't be both...

**Forest Area versus Production Statistic Finland, Sweden and BC**

Jurisdiction	Total Forest Area MMha	Available Forest Area MMha	Annual Harvest Volume (MMm3)	Value of Forest Production (cdn \$billion)
Finland	21.9	20.7	60	27.2
Sweden	27.3	21.2	84	20.4
BC	58.7	23.0	79.6	18.6

Source: The BC Forest Sector in a Globally Competitive Market: Developing a Strategic Response, 2006

\* This table is a comparison with BC, and not the whole of Canada

Technological advancement in manufacturing sometimes results in a reduction of jobs required in the overall operation. However, the planning and implementation of technology still requires the skills and knowledge of operational workers, trades and professionals. Contribution to improvements through the teamwork process and demonstration of leadership are all qualities that combine with technical skills to meet organization objectives in the forestry sector as with all organizational settings.

<sup>12</sup> BC Forum on Forest Economics and Policy: "The BC Forest Products Sector in a Globally Competitive Market: Developing a Strategic Response", Synthesis Paper Presented by Gary Bull and Jeremy Williams, March 2006

In summary the information presented suggests that investment in equipment and R&D are important contributing factors for maintaining effective and profitable mills. Without ongoing investment in technology and Research and Development it is unlikely that Weyerhaeuser and Domtar will be able to compete in their markets, and take advantage of the opportunities that have been identified in their sector.

### **6.12 Indicators of an Investment Strategy**

One of the key indicators that there is commitment to a long term strategy upon completion of a sale is a clear statement of the company's strategic objectives. An understanding of a company's vision for a new purchase indicates that there is commitment to investing and is likely to increase the confidence of the workforce and the community. As we have seen there are a number of opportunities for the forestry sector in the Southern Interior of BC. However, ongoing investment is needed to take forward this exciting and challenging agenda.

According to analyst in the forestry industry the rationalization process, which includes mergers and acquisitions, is part of a process that strengthens the performance of companies in this sector in a number of ways.

- Larger companies buy or merge with smaller ones; there is also a number of purchases which are intended to build assets and close older facilities
- only the mills with the appropriate investment in equipment, technology, and employment training will be sustainable in a very competitive market
- An indicator of long term investment is evidenced in the purchasers' analysis of the long term feasibility of the mill, and their plan to implement the necessary changes

### **6.13 Investment Options**

There are a number of options open to the pulp and lumber industry to take forward a winning strategy. However, they are complex, and often dependent on attracting private investment as well as input from government to remain sustainable.

Like many other mills in Canada pursuit of solutions to improve or purchase new equipment is one that has long term advantages. However, most high level capital investment presents risks which must be considered before a decision is made. The option which is used in countries such as China and South America focuses on high level capital investment by building large

scale mills, and their access to lower labour costs. However, Flynn, 2006 in his presentation to the Chinese Paper and Pulp Conference, highlights the fact that much more emphasis is on capital investment over labour cost.<sup>13</sup> The Kamloops mills are already diversifying production to create energy which gives a great potential for increased profits. Moving towards a stronger market in transformational wood products is also an important opportunity for the Weyerhaeuser and Domtar mills to remain a viable operation in the long term.

The current issues raised by the appreciating Canadian dollars must be off set by the forestry sector and other companies whose profit rely heavily on exporting their goods. By seeking ways to function in the Canadian market through the development of renewable resource the forestry sector in the Interior region can off set some of the costs associated with trading in markets which are governed by the \$US dollar.

#### **6.14 A Competitive Jurisdiction for the Forestry Sector**

This impact analysis has mainly focused on the contribution of the Weyerhaeuser and Domtar mills to the municipal government. However, they like most companies contribute to all levels of government. Federal, provincial and municipal taxes are paid by industries irrespective of whether they operate at a profit or not. However, writers such as Flynn, 2006 comment on the fact that much of China's success has been achieved through government loans, subsidies and public/private partnerships. In his study on the impact of the forestry sector on the community in Northwestern Ontario, Moazzami 2006 argues that the forestry sector could become more profitable if the different levels of government in Canada worked in collaboration to reduce some of the cost of operating business.<sup>14</sup> For example, costs associated with wood delivery, energy, and new investment in capital stock via an incentive system such as tax credits. He suggests that one way forward would be to create industrial parks that offer low-cost energy and tax exemptions. Some of the areas where government influences can be used to support the forestry sector are as follows:

- Affordable/competitive and fair tax rates
- Simple rules in relation to property taxes
- Availability of labour to meet demand in industry
- Cost of raw material
- Transportation: road, rail and ports

#### **6.15 Section Summary**

The Weyerhaeuser and Domtar mills are of enormous importance to the economy of Kamloops and region. The presence of this establishment in the

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<sup>13</sup> Wood Resources International, "China's Pulp and Paper Industry: What Low-cost Labour Advantage? China's Boom, Implications for Investment and Trade in Forest Products and Forestry", Presented by Robert Flynn, January 2006

<sup>14</sup> Northwestern Ontario Forest Council, "An Economic Impact Analysis of the Northwestern Ontario Forest Sector" Paper Presented by Moazzami B, Department of Economics, Lakehead University, Ontario, 2006

community for 42 years and the contribution to community development means it is strongly integrated into the social fabric of Kamloops and region. The purpose of this analysis was to evaluate the impact in regards to a potential closure of the operations. However, as the study has progressed there appears to be more opportunities for increasing the presence and contribution of the mills to the regional and national economy than evidence of the need for closure. However, there is a need for continual investment to ensure that the mills achieve competitive advantage in what is a very complex and competitive global market.

In total the Weyerhaeuser and Domtar mills contribute \$252.7 million to the economy in Kamloops and region. They are a part of a dynamic business group who invest in the region, and reflects the growing and diversified economy. However, a loss of the contribution of Weyerhaeuser and Domtar would impact negatively on the region. While it could be argued that the nature of the economy is such that similar investors would move in to take their place, there are some key aspects related to the business environment which will remain an ongoing challenge if they are not addressed. This includes investment to upgrade equipment, and collaborative working with different levels of government to reduce taxes which impact on the overall profitability of the forestry sector.

The mills employ 840 workers who have a mixture of skills, which are highly transferable to other industries, but the challenge for many is that a closure of the mills may lead to some level of out-migration of younger people from the community. We have seen from the comparative analysis that communities are able to move forward in face of closure of key industries. However, the position of the Kamloops mills in the Southern Interior of BC is favourable for them to take advantage of opportunities in the regional and national markets. These opportunities extend to China and other global markets until 2015, at the least. Therefore, a closure of these mills would impact negatively in terms of the strategic profile of Kamloops and region.

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