

## Timber! \$1 Billion China-BC Forestry MOU Signed

The Honourable Stockwell Day, Strategic Advisor at McMillan, recently accompanied BC Premier Christy Clark and a business delegation on her ten day visit of China, Korea and Japan. As reported in the Globe and Mail,<sup>1</sup> on November 26, 2013 a forestry investment memorandum of understanding (MOU) worth up to \$1 billion CAD was signed in Beijing. The initiative was put together and negotiated with the involvement of RCI Capital Group - an Asia-Pacific focused investment bank headquartered in Vancouver with offices in Montreal, US, China, Korea and India. Stockwell is a Lead Director for RCI.

The MOU was signed between the Office of The British Columbia Representative in Asia and Investment and Trade Commissioner (BCRA) – represented by BC's new Trade Commissioner, Ben Stewart, and the China New Energy Chamber of Commerce Biomass Energy Industry Association (CNECC), represented by Vice Chairman Hong Hao.

### The Parties to the MOU

The BCRA is a newly created office on October 28, 2013. Ben Stewart is BC's first Investment and Trade Commissioner. The BCRA's role is to promote and advance BC's trade and economic interests and strengthen the Province's government-to-

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<sup>1</sup> Globe and Mail, "*China, Canadian groups sign pacts as Beijing targets forestry sector*", November 26, 2013.

government relationships in Asia. The Commissioner reports directly to BC's Minister of International Trade and the premier.<sup>2</sup>

The CNECC is a non-profit organization representing over 800 enterprises communities and individuals involved in new energy. The CNECC is one of 29 organizations administered by the All-China Federation of Industry and Commerce. It was created in 2006 by private sector new energy companies and was officially registered with the Ministry of Civil Affairs in October 2011. Its members come from diverse energy fields such as solar, wind, biomass, geothermal, hydro and other renewable sources. Members' roles in industry include energy storage and distribution, energy saving and efficiency and Clean Development Mechanism project development.<sup>3</sup>

### Growth of BC's forestry exports to China

Forestry has become one of the most important Canadian exports to China. As of October 2013,<sup>4</sup> forestry products, including wood and pulp, accounted for 23.3% of Canada's total \$16.3 billion annual exports to China. Forestry products were only slightly surpassed by mineral products (including ore, oil and gas), which represented 23.6% of Canadian exports to China. Canadian exports of forestry products to China continue to grow.

The strength of BC's forestry resources and industry mean it is positioned to benefit greatly from this MOU and future Chinese investment. BC's trade relationship with China has developed impressively over the past ten years. BC exports to China have

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<sup>2</sup> Government of British Columbia, "*B.C. announces appointment of an investment and trade commissioner*", October 28, 2013.

<sup>3</sup> China New Energy Chamber of Commerce, "*About Us*", accessed December 17, 2013.

<sup>4</sup> The most recent data which was available from StatsCan at time of writing.

increased seven-fold over that period, from \$919 million in 2003 to a projected \$6.5 billion for 2013.<sup>5</sup>

BC is the primary Canadian exporter of forestry products to China by a large margin. Over \$3.5 billion of BC's \$6.5 billion in projected 2013 exports to China were forestry derived products such as wood and paper. The value of these exports has more than tripled over the last 5 years from \$1.1 billion in 2008.

A significant part of this recent growth comes from wood, mainly softwood lumber and logs. In the last 5 years, BC's exports of wood to China have grown by a factor of nine, from \$205 million in 2008 to a projected \$1.8 billion in 2013. China is now Canada's second largest export market for softwood lumber and virtually all exports to China come from BC. From a Canadian perspective, the Chinese market represents a third the volume of exports to the US, but nearly triple the volume of exports to Japan, Canada's third largest export market. China represents an even larger proportion of softwood lumber exports from BC.

One trade consideration that may limit the benefits of this MOU is the current Chinese anti-dumping investigation into cellulose pulp from Canada, the United States and Brazil. Pulp is a significant Canadian forestry export to China, representing a projected \$2.7 billion for 2013, \$1.7 billion of which comes from BC.

This anti-dumping investigation was commenced in February 2013. Provisional anti-dumping duties against imports from the three countries were imposed on November 6, 2013.<sup>6</sup> The duties on Canadian goods ranged from 0% for one Canadian exporter, to 13% for 3 other Canadian exporters, and 50.9% for all other Canadian exporters. Duties of this magnitude are likely to limit Chinese demand for Canadian pulp exports, unless the anti-

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<sup>5</sup> Export data sourced from StatsCan's Canadian International Merchandise Trade Database; All 2013 projections are based on data as of October 2013 (the most recent available at time of writing) extrapolated linearly for a 12 month period.

<sup>6</sup> Chinese Ministry of Commerce, *Preliminary Ruling of the Anti-dumping Against Imports of Cellulose Pulp Originated in the U.S., Canada and Brazil*

dumping investigation is terminated against Canadian goods. As a consequence, the Chinese investment contemplated in the MOU may not be as significant with respect to pulp production facilities in BC as it could be otherwise.

### Details of the MOU

The MOU states:

1. The Participants will work together in identifying business opportunities arising within the British Columbia forestry industry.
2. BCRA will work with CNECC in sharing public knowledge and information about the British Columbia forestry industry, facilitating introductions and business discussions for members of the forestry sector, and cooperating to share information with industry about related investment and trade missions and visits.
3. In collaboration with BCRA, CNECC will introduce investment opportunities to its affiliated enterprises. It is the intention of CNECC's affiliated enterprises to make an investment in British Columbia forestry of up to \$1 billion CDN.
4. In due course, CNECC will endeavor to open an office in British Columbia to oversee a long term increase in trade and investment in British Columbia's forestry sector.
5. The Participants will each designate a staff member who will maintain contact with each other on a regular basis.

### Possible Areas of Opportunity

In addition to traditional forestry product exports, other candidates for Chinese investment may include the development of wood pellet manufacturing facilities and increased capacity to export higher-value forestry products.

China's efforts to reduce coal consumption represent an opportunity for BC's forestry industry. As part of its efforts to reduce reliance on coal and the associate negative environmental

impact, China is expected to consider wood pellets as an alternative fuel source. China has already demonstrated its commitment to low carbon technologies, as most of its 5.2% increase in electricity consumption in 2012 was met through green energy sources.<sup>7</sup> Interest in wood pellets as an alternative to coal would explain why an association which focuses on new energy, like the CNECC, has so concretely expressed such interest in BC's forestry industry.

Wood pellets would represent a renewable alternative to coal, and is cleaner than either coal or natural gas. In 2013, Canada (primarily BC) will export a projected \$256 million in wood pellets, largely to the United Kingdom, but currently has virtually no wood pellet exports to China. With investment under the MOU, this may change.

BC First Nations, with their rights to harvest forests also stand to benefit from this agreement. First Nations in northwestern BC may particularly benefit from Chinese interest in wood pellets. The harvesting rights of those First Nations have been of more limited value because much of the forest in northwest BC is unsuitable for lumber purposes, in particular due to the small size of trees. These forests are mainly harvested for pulp purposes, but they are also suitable for wood pellets. The potential of additional Chinese demand for this wood in the form of wood pellets represents an opportunity. BC First Nations are actively in discussions with Chinese investors regarding establishing wood pellet plants and sawmills.

Businesses in both China and Canada (especially in BC) are increasingly looking for opportunities to export higher-value forestry products to China. Historically most of Canada's forestry exports to China have been unmilled raw lumber. Changing this model by processing the raw product in Canada requires additional plants, including sawmills. Building this additional

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<sup>7</sup> International Energy Agency, *World Energy Outlook Special Report: Redrawing the Energy Climate Map*, p. 13.

capacity in turn requires investment. These investments would enhance the potential benefits contemplated by the MOU.

### Conclusion

The recent China-BC forestry MOU will contribute to the continued growth of BC's forestry exports to China. A variety of forestry-related opportunities for both China and BC exist, but may require significant investment to reach their full potential.

### Additional Information

BC government information on the \$1 billion forestry investment MOU can be found at:

<http://www.newsroom.gov.bc.ca/2013/11/bc-and-china-endorse-partnerships.html>

<http://www.flickr.com/photos/bcgovphotos/11074134675/in/set-72157637645955725>

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### a cautionary note

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