



YSC NEWSLETTER

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ADELGID ADVANCES

Balsam fir aren't supposed to turn red. They're evergreen. But that's what's happening to thousands of trees in southern NB as they succumb to the Balsam Woolly Adelgid. We don't want anyone to panic but if you've got balsam fir on your woodlot (who doesn't?), you may want to take a walk and check for damage. Look up and check for dead and deformed tops. That's often where the tiny critter gets started, inserting its mouth parts into the bark, sucking out sap. In spring, they begin to feed and secrete a white "wax-like" wool, hence the name. Larger trees in a stand are generally infested first but it can soon spread to smaller trees and even regeneration. The best defense is to cut the infected trees before spring and then hope for a good old-fashioned winter. Temperatures in the minus thirties will kill it.

HISTORIC FUNDING FIRST

As July 1, 2002, the deadline for all IP suppliers to be "logger trained" approached, most NB suppliers were not compliant. YSC was no exception. Although a professional forest worker course had been scheduled for the spring in Charlotte County, where the majority of IP's New Brunswick wood comes from, there were so few takers for the course that it was cancelled. With the deadline only days away, the calls were now coming in for us to "do something" so that producers wouldn't lose that market. YSC met with company officials Butch Barberi and Jim Contino and asked for a 3 month extension, committing at the same time to run a logger training program in September. The company not only agreed to the extension, but also chipped in US \$3000 towards the cost of putting the course on.

(Cont'd on page 4)



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YSC WOODLOT OWNER OF THE YEAR

The list of YSC Woodlot Owners of the Year is an esteemed one – Helen and Cecil Goodine, Franz Gehrig, Craig McGibbon, John Fasquel, Larry Jones, Charles and Debbie Smith, Walter Knorr, Walter Bidlake and his family, Bill Armstrong and Errol Belliveau. To that list we now add the names Lise and Dennis Cook. Dennis, who is a registered professional forester, has come a long way from the days when he worked for Irving as a young fellow back in early 90's. He never really fit in the mould back then and he still doesn't now. He remains a rare bird and a pioneer of sorts in the management field. Not only has he pursued an aggressive path of land acquisition over the last 10 years using every legal means available to finance the properties, he has single-mindedly pursued his management philosophy by treating every square metre of the woodlot to increase its productivity and value by doing whatever it takes to get the work done.



In fact Dennis has been observed on snowshoes thinning hardwoods with a chain saw with 4' of snow in the woods. (He does come back later to cut the stumps). Each crop tree is tallied, charted, placed on a growth curve, and entered into a data base, where its future value will be estimated, a harvest date assigned, and a return on investment calculated for that period of time. Then the tree will be named and one of Dennis' children will be photographed standing next to it, and the photo will be placed in the family album. Heaven help the unsuspecting person who through some willful, negligent or misdirected act should happen to cut one of his cherished crop trees. They better be wearing a good light set of running boots.

Dennis has thinned and treated more area without a provincial or marketing board subsidy (150 – 180 acres) than he has with a subsidy (65 acres). He now has more than 70% of his 2000 or so acres of woodland under a management plan, and uses residual removal, clear-cut, salvage, and selection harvest methods to carry out the management work. In these times, when purchased land is often cut from line to line in order to pay for the ground, Dennis seems to have found a sustainable alternative that works for him and guarantees the health and value of the family woodlots.



Dennis and Lise Cook Receive the YSC Woodlot Owner of the Year Award from Chairman Rodney Mott

MARKET UPDATE

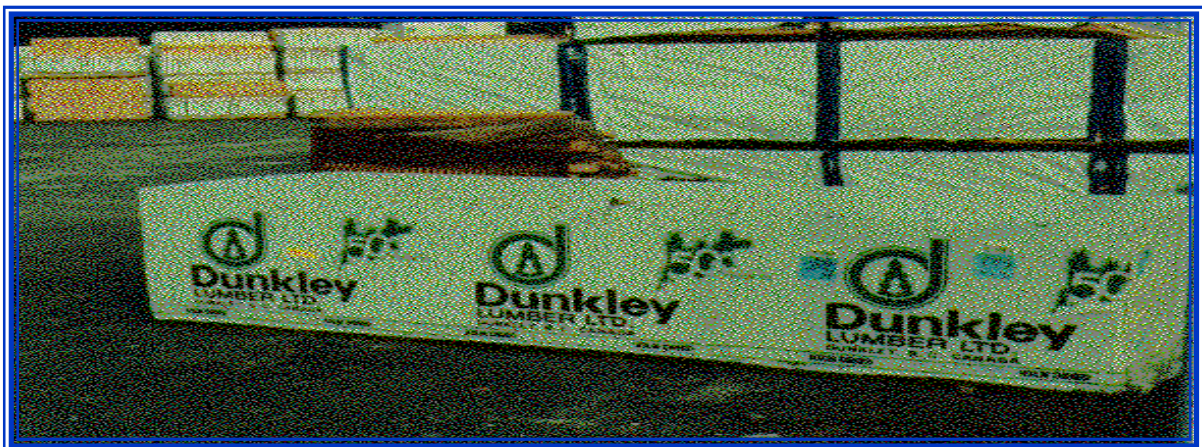
It was nothing but doom and gloom at the October meeting of the Maritime Lumber Bureau in Amherst, Nova Scotia. “If anyone would make me an offer on my business, they can have it”, stated one dispirited independent sawmiller. But nobody was buying, just swapping unhappy stories and making each other miserable. Behind the scenes however, free enterprise is alive and well, with plans simmering on the back burner and expansions underway or contemplated. In Petitcodiac, Fawcett Lumber is working on a multi-million dollar improvement to their lumber sorting facility. In Robertville, near Bathurst, Rojac Cedar announced an expansion of their value-added cedar fence panel and lattice re-manufacturing plant. In Miramichi, Nelson Forest Products have been working steadily on plans to build a new LVL poplar facility to replace the one destroyed by fire 2 years ago.

In the YSC (Fredericton) area, the good news is that you can sell almost anything – you just might have to haul it a little further or take a bit less money for it. There have been a number of price decreases, most notably tree length and studwood at Devon Lumber, all products at Juniper, 8’ studwood at Sussex and pulpwood at Great Northern. These have been partially offset by some price increases - in tree-length at Wilkins, logs at St. Leonard, poplar at Huber and Mead, cedar at Devon Lumber and studwood (which is being used for groundwood pulp) at Nelson. Few mills have any great inventory and would probably be paying more if the price for their finished product would only come up.

Speaking of that, people keep asking me “when are prices going to come up?” It’s hard to see through all the smoke and get a clear picture of the direction things are going. One company reports profits, another losses, one closes mills, another opens mills. Here’s a sampling of newspaper headlines that should further mystify the situation:

- LP Turns in Solid Third Quarter Results
- Bowater – Disappointing Earnings Performance
- Weyerhaeuser Closes 2 Mills in Washington
- Tembec to Reopen B. C. Lumber Mill
- Profit Plunges at Forestry’s NexFor Inc.
- Int. Paper Co. Beats Expectations

Don’t expect any significant turn-around in the foreseeable future - the best we can hope for is a slow, gradual improvement in markets. And just like the B.C. sawmill that produced the package of lumber pictured below, which sits in the yard of a mobile home manufacturer just around the corner from the YSC office, we have to be prepared to ship our product further than we ever have before to take advantage of opportunities when they arise.



Lumber from British Columbia sits in a Fredericton Wood Yard

(Cont'd from page 1)

“We were very pleased with this agreement” commented Board chairman, Rod Mott. “It marks the first time that a Maine-based forest company has ever contributed to a New Brunswick forest management program.” The course, attended by 44 producers and woodlot owners, was duly held at the Oak Bay Hall near St. Stephen. This means that 90% of the wood produced in Charlotte County will be from “certified professional forest workers”.

BEATING THE BUSH FOR BLACK ASH

On a crisp October morning, at the invitation of organizers from St. Mary's First Nation, native crafters, government people, and reps from companies and marketing boards gathered in a tent on the bank of the St. John River at the old St. Mary's reserve to discuss the abundance, distribution, importance, value and availability of black ash, or Wisqoq, as it is called in Mikmaw.

While coffee brewed, aboriginal elders led by Victor Paul of Tobique took turns pounding an axe head against an ash “beater” log. The

blows were carefully directed to cover the length of the 6' log in a neat line following the grain. Then, 2 slits were made, a knife inserted and a slab of fiber was peeled from the log. Next, Victor separated the laminations, sized them to a uniform width using gauges, smoothed the individual pieces using a sharp pen knife, and prepared them for use by briefly soaking them in a basket of water. Several crafters set to work and by the end of the day fine baskets were being passed from one admiring hand to another.

Following the traditional sweet grass ceremony led by elder Maggie Paul, the discussions got under-

way guided by organizers Penny Polchies & Laura Underhill.

Native forester Steve Ginnish of Eel Ground presented black ash inventory estimates derived from permanent sample plots and the provincial forest

inventory, and reported that as many as 150 native crafters earned at least 20% of their income from basket making. But ash is getting scarcer, so an effort is being made on crown land harvest operations to en-



DISPLAY OF ASH BASKETS CRAFTED BY NATIVE ARTISTS

sure that if suitable quality black ash does get cut, then it gets properly sorted for the crafters. The possibility of growing black ash in commercial plantations is being explored and Irving is prepared to allow their nursery to be used to raise seedlings.

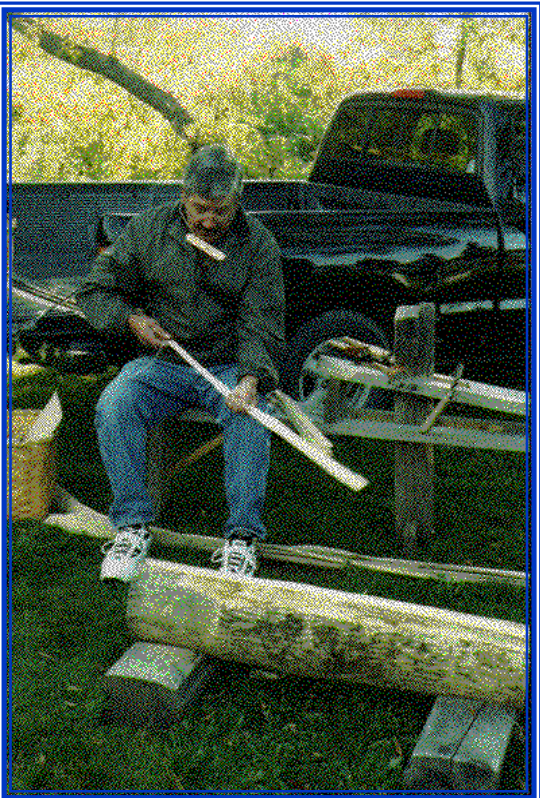
Since black ash rarely grows in pure stands, but singly or at best in small clumps: and since it does not have a clearly established market value, it often gets overlooked on private woodlots. In the future, an effort will be made by YSC while doing management plans to identify black ash and bring it to the attention of the landowner.



BEATING THE LOG



PEELING OFF A STRIP



SIZING AND SMOOTHING THE STRIPS



STARTING A BASKET

WHY NOT CHIP IT?

It was the Minister's idea. In a meeting between government and YSC late last fall when everybody was griping about the poor pulp markets, Jeannot Volpé asked "Have you ever thought about starting a chip plant?" The notion obviously stuck because nine months later the Board passed a motion to further explore the idea. Accordingly, the ad appearing below was placed in several logging and forestry journals and sent to a number of identified parties.

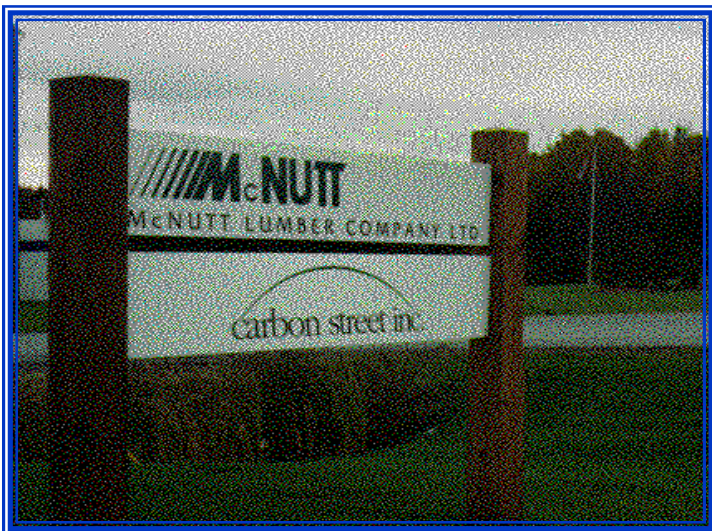
EXPRESSION OF INTEREST

ESTABLISHED, CREDITABLE, NEW BRUNSWICK FOREST PRODUCTS ORGANIZATION WITH ACCESS TO EXTENSIVE RAW MATERIAL (UPWARDS OF 40,000M³ or 20,000 cords) IS SEEKING A CAPITAL PARTNER TO DEVELOP AND OPERATE A PULPWOOD CHIPPING FACILITY. CENTRAL NEW BRUNSWICK AREA. SERIOUS INQUIRIES ONLY.

So far, nearly a dozen responses have been received. The next step is to explore the ins and outs of such a project by hiring a consultant to do a feasibility study. The consultant will talk to all those who have already expressed interest and get answers to some key issues such as market opportunities, prices and specs, types and sizes of equipment, wood supply, best location, potential partners and so on. A written report will be made to the Board early in 2003.

MCNUTT LUMBER PARTNERS IN MAINE ENTERPRISE

Daaquam Lumber isn't the only Canadian company wanting to build a sawmill in the state of Maine. The October 2002 issue of Timber Processing reported that McNutt Lumber of Fredericton, NB will team up with Neal Pelletier of Quebec and local businessman David Sinclair to build a \$12 million 100 million board feet spruce and fir studmill in Greenville, Me. The new company, to be known as Maine Lumber LLC, will break ground this fall and is expected to be in full production by this time next year.



ST. ANNE OUTLOOK IMPROVES

Donuts were on the table and smiles on the faces of company officials from St. Anne Nackawic Pulp and Paper Co. on November 5th, as they met with representatives from CV and YSC Forest Products Marketing Boards to give an update on the company's fortunes.

A number of factors have combined to improve the outlook for YSC's most important hardwood customer. Slowly but steadily improving prices, stronger orders keeping inventories low, an increase in production, a 7% reduction in costs, and a \$15 million repayable loan from the province of New Brunswick are all helping to turn things around.

The good news was somewhat tempered by the anticipated loss of long-time customer, Kodak Inc., who have historically purchased about 10% of the company's 250,000 ton annual production. Another setback, which analysts predict will be only a temporary blip in the trend, was a drop in price in the last 30 days.

News in Brief

LAND SALE

Looking for a piece of cut-over land to call your own? If so, travel to the Doaktown area to view one of the 282 individual parcels of woodland that are up for sale. The 25,770 acres of land, formerly owned by Donnie Long's bankrupt Doaktown Lumber Ltd., but now controlled by the company's major creditor (GMAC), is being put back on the market after failing to generate a high enough bid in the initial parcel offering. Bid prices in the five offers that were made ranged from \$50 - \$80/acre. While most of the properties are near Doaktown and Blackville, there are a handful in the Harvey area and a few near Parker's Ridge. Interested parties may call 506-357-9751 or view the blocks at the Board's office. Financing may be available for management properties through the Farm Credit Corporation.

STATUS OF THE FOREST MANAGEMENT PROGRAM—Anne LePack

The 2002 PCT field season has come to a close for 2002. As usual, demand exceeded our budget with over 1800 ha (4500 ac) being thinned. GIS maps of the thinning areas are slowly being generated and will be mailed out to owners as soon as they become available.

Management plans are still underway and will continue until snow hampers field work or the budget is spent. Management bonuses are available from both St. Anne Nackawic and UPM Kymmene mills for producers following good management practices. Please keep in mind that areas must be inspected BEFORE harvest work begins.



DEFINITELY NOT SOLD

The talk in the town of Ft. Kent, Maine and Clair, New Brunswick is that Irving has bought out another mill, their next door neighbour in the Clair Industrial Park, Waska Latté. Definitely true, according to some local contractors who swear they have seen Irving's name at the bottom of Waska cheque stubs. Not yet, responded one of the clerks at Irving-owned Begin Lumber to my question on the subject of ownership. Emphatically not so, stated Begin Lumber mill manager Gordon Bowser. There have been some discussions and some interest shown but there is no deal. Definitely not, confirmed Waska Latté President, co-owner and mill manager, Daniel Lavasseur. Mr. Irving paid us a visit back in January, asked us if we were interested to sell (which we were willing to consider) and invited us to give him a price, which we did. We had heard nothing by May so we took the offer off the table. Now it's not for sale.

The Waska Latté plant, which produces stained cedar shingles, poplar laths & fencing products, would have been a good addition to the Irving forest products stable. Irving has reversed earlier plans to rebuild their Ft. Kent cedar mill, which burned last spring. It is now rumoured that Irving will convert their Riviere Bleu sawmill to cedar production.

CONTRACTORS WANTED

Under the YSC Absentee Owner Program, a woodlot owner can delegate the management and harvesting of his land to the marketing Board. The Board does a management plan on the property and then works out a 5 year work plan with the landowner. After that the process goes to contractor selection, which is done through a tendering process. The selection is made based on a combination of past work quality and the tendering price. Any contractor may bid on the job, provided they have submitted 2 items to us – 1. A letter of interest, and 2. A letter of recommendation from a landowner whose property the contractor has worked on. There may be one or two of these properties coming up in 2003, so if you're interested, send us the required information. Keep in mind that we are expecting high-quality work to be performed by people with a commitment to improving the forest not just their bottom line.

Deferring Capital Gains Tax—Pat Lagerlöf

As you probably have read in this publication and possibly others, tax savings for woodlot owners are now possible as a result of the December 2001 federal budget. Most importantly, there are now provisions in the Income Tax Act for transfers of woodlots from one generation to another with the ability to defer the capital gains tax, in a manner similar to the way farms can be handed down without the devastating taxes.

“So, how do I avoid the tax plunge?” you ask. According to Canada Custom and Revenue Agency’s (CCRA) web site, you need to be a “commercial farm woodlot owner” and operate the woodlot “with a reasonable expectation of profit”. What is reasonable? In the past, CCRA has taken a rather restrictive view in their interpretation. However, according to an article in the latest issue of *Atlantic Forestry Review*,

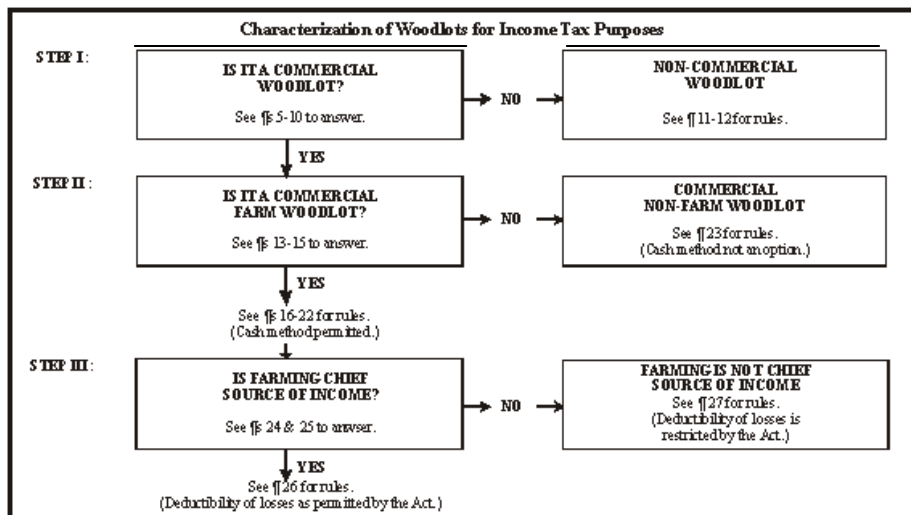
the Supreme Court of Canada has recently ruled that the traditional application of the “reasonable expectation of profit” test results in the unfair and arbitrary treatment of taxpayers. There is now a two-step test: Is the taxpayer’s activity undertaken in pursuit of profits? If so, is it a source of income from a business or property? The court decision held that “as long as an activity is undertaken in the pursuit of profit, it will meet the standards of commerciality”. As a result of this decision, more small-scale woodlot owners will qualify as commercial woodlot owners than in the past.

In their determination, CCRA will consider a number of factors:

- 1) **Planning:** Is there a management plan in place? Is there a financial plan? Are records kept? Is the plan updated regularly?
- 2) **Forestry expertise:** Does the woodlot owner have sufficient expertise? Does s/he consult

forestry professionals?

- 3) **Time invested:** How much time does the woodlot owner spend on the woodlot?
- 4) **Size:** Is the woodlot big enough to be considered commercial?
- 5) **Government assistance:** Does the woodlot qualify for subsidies?
- 6) **Type of expenses claimed:** Are they relevant?
- 7) **Memberships:** Is the woodlot owner a member of a “relevant organization” (i.e. Marketing Board)



Does it qualify as a farm?

Since farms have the most advantageous rules in terms of taxation, it is important to determine if the woodlot qualifies. According to CCRA, it has been decided by the courts that the word “farming” can include growing

trees. ... If the main focus is not lumbering or logging but is planting, nurturing or harvesting trees pursuant to forestry management... and significant attention is paid to manage the growth, health, quality and composition of the stands, it is generally considered a farming business (a commercial farm woodlot). If the main focus is logging, tree planting will not transform the business into a farm woodlot.

In cases where the woodlot is inherited by a child or spouse of the owner, capital gains may be deferred. In other cases, the transfer will be deemed to be at fair market value, and capital gains tax applies. A lawyer or accountant with proficient knowledge of the tax laws should be consulted, since each situation varies. If you are interested in having your woodlot qualify as a commercial farm woodlot, contact us for further information.



WHERE’S THE WOOD – WHERE’S THE STUDY?

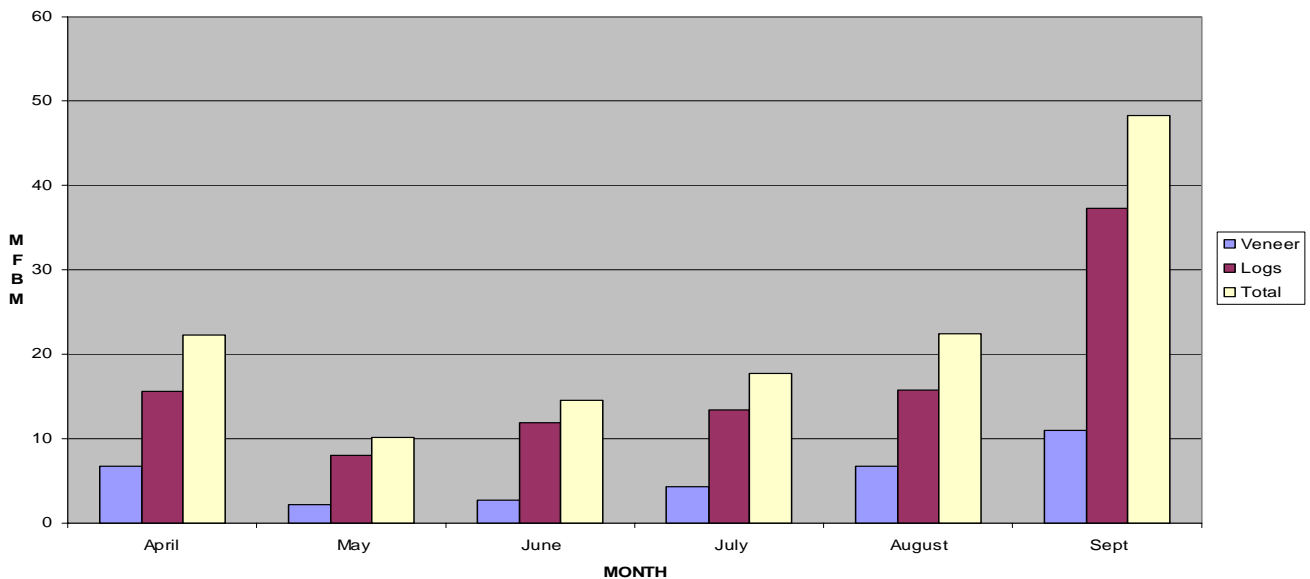
The controversial Jaako-Poyry study commissioned by government and industry a year ago that is supposed to yield the answer to the question – can NB double the supply of softwood from Crown Lands in 50 years, has not yet been released, but the question has already been answered. Yes, it can be done, stated Prof. Thom Erdle at last month’s meeting of the Canadian Woodlot Forum. A growth rate of up to 6.0 m³/ha/yr (compared to the current average of 2.2 m³/ha/yr) can be achieved through more intensive management. By dividing the public forest into 3 management zones – protected areas, low intensity (extensive) and intensively managed areas, and planting genetically-improved trees on the latter area, the province’s softwood supply can be doubled. Prof. Erdle cautions that while it can be done, intensification is like a locked-in mortgage with a very long amortization period. In this case, we don’t yet know what the annual payments are going to be. That information will be in the report, which will be released near the end of November.

YSC YARD BUSY

The YSC Wood Yard is a bustling place these days, with spoolwood, hardwood logs, and 4' pulp coming and going. Sales have been on the rise since mid summer, with many small producers especially finding the pulpwood market welcome. One of the regular customers, Dale Barnett, who owns a woodlot on the Claudie Road, thinks it’s a great service. “I bring my wood in half a cord at a time”, he says, “this way I can keep my pulpwood cleaned up. In the past by the time I had a load it would have been too old for the mill’s requirements”.

The Board is buying two grades of pulp – the groundwood grade (worth \$90/cord) must be rot free. The kraft grade (at \$75/cord) may contain up to 1/3 rot, but no wood cut from dead trees (no windfalls). In both cases, length is important – the pieces must not be more than 48” – aim for 47 if you can and minimum top size is 3”. An old loader has been purchased to assist in loading and unloading and a scaler is on duty Thursday afternoons to receive wood.

YSC VENEER & LOG PRODUCTION



GREAT NORTHERN MAKES ANOTHER DEAL

They've shut down paper machines, sold off assets, bluffed the union, reduced workers, fought off creditors, wrangled with financiers, and persuaded politicians to keep their company going. Long after many people thought they would be flat on the mat, CEO Lambert Bernard and his partner are still fighting to keep their company alive. Now, they've made yet another deal to bring money into the cash-starved operation.

The agreement, described as an "unprecedented partnership" between the Nature Conservancy and Great Northern Paper, protects both jobs and forest land around Mt. Katahdin in northern Maine. The Nature Conservancy purchased \$50 million of existing loans to Great Northern, retiring \$14 million of it and refinancing the balance at very competitive rates. John Hancock Financial Services, one of the U.S.'s largest private landowners, sold the mortgage to the Conservancy. In the deal, the Conservancy acquired a 41,000 acre tract of land known as the Debsconeag Lakes, which contains the highest concentration of remote ponds in New England, as well as a conservation easement on a further 200,000 acres of forest land. The easement will eliminate future residential and commercial development, but allow forest harvesting to continue under special guidelines.

Great Northern continues to one of YSC's most important markets for tree-length pulpwood, and the Board has tried to maintain strong deliveries to the company in order to support their effort to return to a sound financial footing. The company's new #11 paper machine is one of the best super-calendared paper machines in the world and will play a major role in the company's fortunes.

GUILTY OR NOT GUILTY – YOU DECIDE

An interesting case of alleged wood theft is before the provincial court judge in St. Stephen. The landowner, a gentleman from Florida, was contacted by a local contractor who was interested in cutting his timber. "**Thanks, but no thanks,**" is what the landowner claims he said. "**But I'll be up in August and we can talk about it then.**" "**Yeah, go ahead and cut it**" is what the contractor insists the land owner said. And I'll be up in August and we'll settle up then.

So, unbeknownst to the landowner, the cutting went ahead. The contractor left instructions with the St. Stephen marketing board office to deduct the stumpage, but hold the cheque at the office in anticipation of the landowner's visit in August. And so it went, until one of the office workers dispatched a batch of stumpage cheques to the landowner. A few days later the phone rang – an angry landowner was on the other end of the line demanding to know what was going on and leaving instructions that if there was cutting taking place on his land, to put a stop to it right away.

Two years later, charges have been laid, the evidence has been reviewed, the landowner and the contractor have testified, and it is now up to the judge to decide. That decision will be made on November 12th. What do you think – is the contractor guilty or not?



SFI AUDITORS - COMING SOON TO A WOODLOT NEAR YOU

All the companies are busy producing glossy brochures with a glossy sameness that proclaim their total commitment to protection of the environment, responsible wood purchase policies, compliance with government regulations and growing a forest for the future. This is being done under the banner of SFI, which stands for Sustainable Forestry Initiative, the American industry-sponsored certification system.

So why the sudden scramble to get SFI compliant? Ever since the Premier's proclamation that all forest harvest operations on Crown Land must be ISO approved by the end of 2002, and either CSA, FSC, or SFI compliant by the end of 2003, there has been a mad dash to get on board. The first choice (ISO) was dictated, but the second choice was left to the companies. Since almost all major N.B. forest companies also have operations on the U.S. side of the border, where SFI is the predominant forest certification system, it should come as no surprise that our provincial customers have selected SFI.

So what does this mean for private wood lot owners in N.B.? Over the next 12 – 24 months, depending on who you sell to, almost everyone who produces wood will be affected in one way or the other as these companies develop procurement policies that incorporate SFI principles. Let's look at just one current issue, logger training, and see how companies are responding.

In N.B., J. D. Irving was one of the first to put their policy in writing: "we will encourage and support environmental and safety training for forest workers on operations where we purchase wood." Similarly, Louisiana – Pacific requests that each logging contractor and woods foreman or key crew members of each logging operation complete the LP regional training requirements for sustainable forestry. Where regional training is unavailable, LP will encourage & support the development of such programs. Mead goes a step further by setting a goal that 100% of all pulpwood consumed by their Rumford mill will be harvested by trained loggers. Finally, as already mentioned, IP now requires that almost all suppliers have logger training.

A committee known as the N.B. SFI Implementation Committee has taken the responsibility of defining what will constitute a trained forest worker in the province of N.B. The criteria for logger training are now being developed and will be ready by year-end. This will mean that any organization will be able to develop a training program of its own provided it meets these criteria. INFOR is taking a lead role in this area on behalf of the provincial marketing boards.



THE FINAL SEARCH

If you are planning to place a bid on one of those Doaktown Lumber woodlots, don't forget to factor in the extra cost of the province's new land titles registry system. Completed with the addition of Northumberland County in March of last year, the new system eliminates the time-consuming historical title searches required by the current grantor/grantee registry system and replaces it with a provincially guaranteed title system by issuing a certificate of registered ownership. Each time a new transaction on the parcel is registered, presto, the title register is updated and a new certificate is issued. The catch – in order to convert your property to the new system, a lawyer must conduct one last search and because the title is being guaranteed, the final search is more complicated and naturally more expensive. According to Gary Graham, who recently purchased a new property, "By the time I was done registering it, it cost me about \$1000 per PID."



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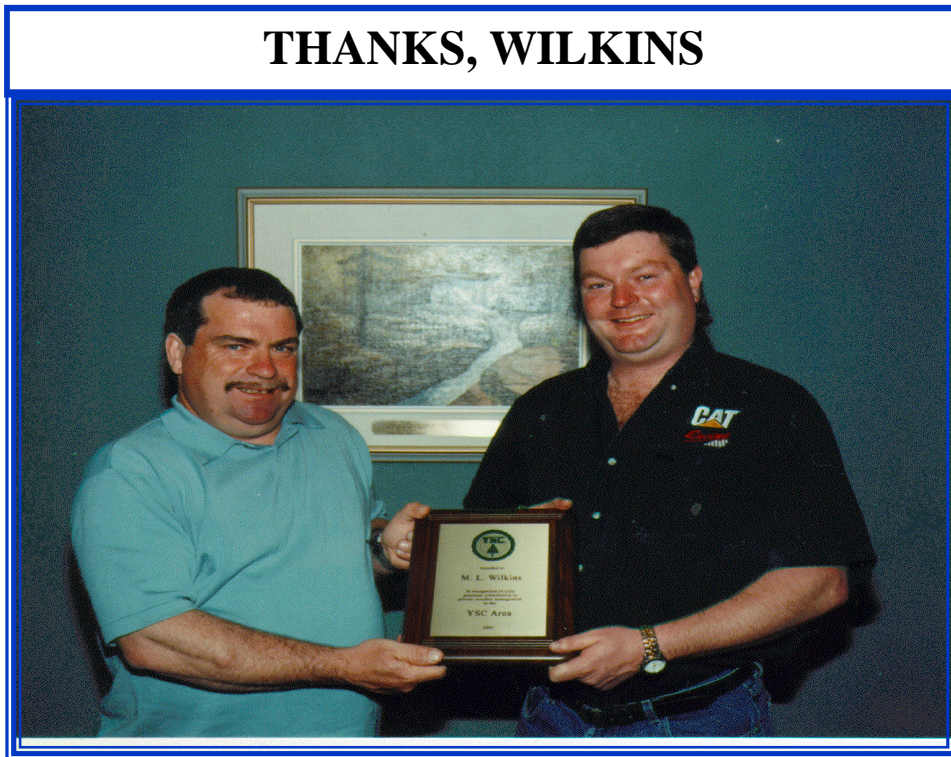
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Mailing Label

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THANKS, WILKINS



Board Chairman Rod Mott presents an appreciation plaque to Brent Wilkins of M. L. Wilkins for the company's support of private woodlot forest management programs in the YSC area. For a number of years the sawmill, which has been YSC's most important softwood customer, has been contributing over and above the basic levy –this money has primarily been used for forest worker training.