

SE Yukon Forest Management Authority Business Plan

Building stronger links in the SE Yukon forest industry value chain

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Strategic Vision

The forest resources of the Yukon hold immense potential for the creation of economic wealth. Out of the Yukon's total land area of approximately 47 million hectares, some 27 million hectares are covered by forest. With the bulk of the territory's commercially viable forest resource located in the SE Yukon, the logical starting point for forest industry development efforts is in that region.

With the long-awaited devolution of responsibility for the management of the Yukon's forest resources now a reality, Yukon people are poised to tap into the forest resource wealth located in the SE Yukon. In recognition of that potential and of the existing aboriginal rights, titles and interests of Kaska Dena in the SE Yukon, the Government of Yukon and Kaska Dena entered into a Bilateral Agreement which provides the opportunity for the parties to develop economic partnerships in areas of mutual interest, such as forestry.

Taken together, the devolution of forest resource management responsibility and the Bilateral Agreement form a blueprint for the mutually beneficial development of forest resources in the SE Yukon. All Yukon people now have the opportunity to ensure that SE Yukon forest industry development is undertaken in a sustainable manner which ensures that the economic and social benefits are retained to the fullest extent possible in local communities.

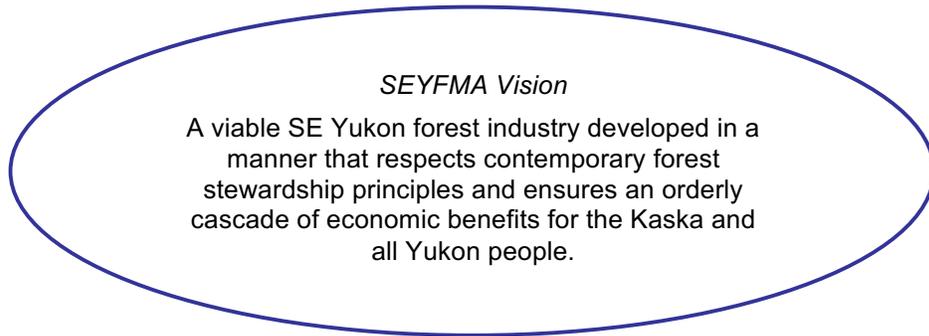
Three underlying circumstances will facilitate the joint work of the Government of Yukon and the Kaska in the development of the SE Yukon forest industry. First, in contrast to the situation in Canada's provinces, none of the forest land base in the Yukon has been assigned under large-scale forest tenure arrangements to vertically-integrated forestry companies. As a result, the development of the forest resource in the Yukon may immediately proceed in a manner clearly consistent with the principles and objectives of Yukon residents.

Second, the long distances to raw fibre markets from the SE Yukon presents an opportunity to nurture a local secondary forest products industry. While it is true that economic forces will sometimes converge to make raw log exports of interest to southern mills, the equilibrium economics of the sector will more likely favour local secondary production over the long term.

Third, advances in forest management practices, harvesting methods and production technologies in Canada and other countries will facilitate the development of the Yukon's forest resource such that the interests of all stakeholders can be optimized.

The SE Yukon Forest Management Authority (SEYFMA) has been created to capitalize on the opportunities aligned for the first time through devolution of

forest management responsibility, the Bilateral Agreement and the three underlying circumstances. The strategic vision of the SEYFMA is:



In line with its vision, the SEYFMA will facilitate the development of the SE Yukon's forest resources in accordance with the principles outlined in the *Canada Forest Accord* and the *National Forest Strategy (1998-2003)*. As stated in both documents, those principles are exemplified in the goal:

"...to maintain and enhance the long-term health of our forest ecosystems...while providing environmental, economic, social and cultural opportunities for the benefit of present and future generations."

The SEYFMA's vision also recognizes that the benefits of development projects are often experienced by the many while the costs are experienced by the few. Thus, the SEYFMA will work to ensure that, to the greatest extent possible, both the costs *and* benefits of forest resource development are concentrated in the SE Yukon. The result of matching of benefits with costs within the host economic region will be an "orderly cascade" of economic benefits. By bolstering employment and wealth creation opportunities in the SE Yukon, the same orderly cascade will also reinforce efforts to improve community well-being in the SE Yukon.

Value Proposition

In addition to ensuring that the development of the SE Yukon forest resource is sustainable and accompanied by an orderly cascade of economic benefits, the vision of the SEYFMA also intends that industry development be viable. While the Yukon's forestry industry clearly holds potential to provide stable business and employment opportunities over the long term it is currently, however, at an infant stage of development.

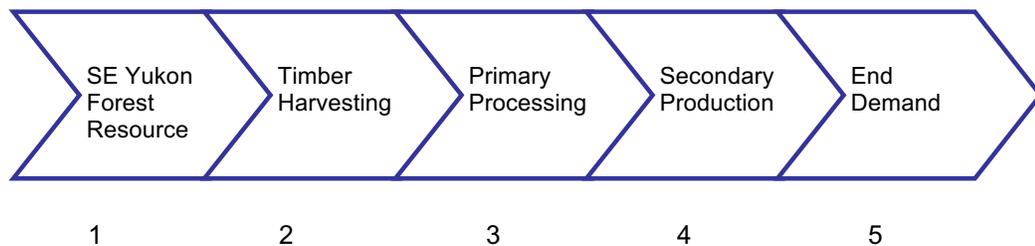
Past efforts to develop the SE Yukon forestry industry, constrained by inflexible forest tenure arrangements and a piecemeal approach to development, have proven to be ineffective. As concluded by George Tough in his report *Yukon Forestry Issues: A Reality Check and New Direction*, "...if there is to be sustainable forestry and a sustainable forest industry, large gaps in the policy, planning and legislative framework have to be filled as soon as possible." Work is well underway by the Government of Yukon, the Kaska Forest Resources

Stewardship Council and the Yukon public to address those policy, planning and legislative gaps.

Looking further to the future, Figure 1 below describes, in the form of an industry value chain, what a mature and viable SE Yukon forestry industry could look like. The first link in the value chain is the SE Yukon forest resource, and includes trees, other flora in a wild state and mushrooms. Access to the trees for purposes of timber harvesting leads to the second link in the value chain, timber harvesting. Primary processing of the raw logs into cants, rough lumber and residues constitutes the third link in the value chain.

At the fourth link, primary forest products are transformed into secondary products such as certified kiln dried dimensional lumber, log homes, cabinets, flooring, furniture and fuel wood. The fifth and last link in the chain represents end demand for secondary products by individual, commercial and institutional customers.

Figure 1: SE Yukon Forest Industry Value Chain



The value chain is a simplified way to look at the overall structure of the industry. Many activities and processes, however, are associated with each link. For example, sustainable management of the SE Yukon forest resource requires proper forest planning and silviculture measures. Similarly, timber harvesting involves road building and trucking as well as felling, bucking and skidding.

Among the five links in the value chain, the strongest are the first, fourth and fifth. Regarding the first link, the SE Yukon is home to significant quantities of merchantable timber. The Kaska Forest Resources Stewardship Council has recommended an interim wood supply limit of 128,000 m³ per year over the next three years for the SE Yukon.

The fourth link (secondary production) draws its strength from an already well-established wood products industry in the Yukon. While the overall scope and scale of the industry is not currently known, a variety of wood products are currently produced in the Yukon from both Yukon-sourced wood fibre as well as fibre from sources outside the Yukon. Goods being produced include log homes, roof trusses, cabinets, core sample crates, pine flooring, willow furniture and fuel wood.

With regard to the fifth link, end demand for wood products is thought to be very strong in the Yukon. Correspondingly, significant potential is believed to exist for the displacement of imported wood products with wood products manufactured in the Yukon.

Currently, the weakest links in the SE Yukon forest industry value chain are the second (timber harvesting) and third (primary processing). With newly-achieved local control over the management of the forest resource in the SE Yukon, the potential for the timber harvesting link to grow stronger in a sustainable manner has increased significantly.

The strength of the third link follows directly from the second. As larger volumes of trees are harvested, primary processing volumes will also increase thereby creating new opportunities for value added production using Yukon-sourced wood fibre. With a secure supply of a variety of primary products derived from Yukon trees available for purchase from local sources, secondary producers will be able to focus on improving their competitive advantages.

The SE Yukon Forest Management Authority will bring value to the Yukon forest industry through strategic initiatives designed to **build stronger links in the SE Yukon forest industry value chain**. The SEYFMA's integrated approach will advance forest industry development from its current state of stagnation to a state characterized by strength in every link in the industry value chain. A fully functioning value chain will allow specialization within the SE forest industry which will in turn spawn further economic growth throughout the Yukon.

That same strong and fully functioning value chain will also be the foundation for the orderly cascade of economic benefits envisioned by the SE Yukon Forest Management Authority. The expected economic benefits include:

- stable and long-term employment for Kaska people and Yukoners;
- training and capacity development for Kaska people and Yukoners;
- Yukon forest industry business development;
- Yukon support services business development; and
- resource revenue (stumpage) sharing.

The SE Yukon Forest Management Authority

The strategic initiatives intended to enable a strong and fully functioning value chain will be designed and delivered by the SE Yukon Forest Management Authority.

Structure

The Kaska (Liard First Nation, Ross River Dena Council and the Kaska Dena Council) and the Government of Yukon signed a Forestry Agreement-in-Principle (AIP) on January 30, 2004. The AIP formed the basis for a Final Forestry Agreement (FFA) which is in turn the enabling document for the SE Yukon

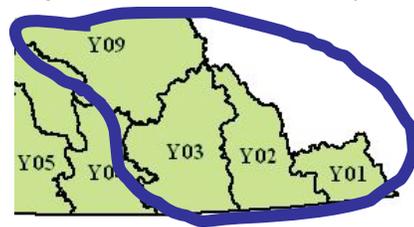
Forest Management Authority. The mandate and powers of the SEYFMA are to be confirmed in forthcoming changes to Yukon forestry legislation.

The SEYFMA is a 50/50 joint venture between the Kaska and the Government of Yukon and will be legally structured as a for-profit business corporation. The corporation's articles of incorporation will be modeled on the joint venture agreement. Corporate operations will be guided by a Unanimous Shareholders Agreement and the SEYFMA will be governed by a board of directors composed of an equal number of Kaska and Government of Yukon representatives. Under the terms of the joint venture agreement, the Government of Yukon will retain regulatory responsibility for the SE Yukon forest resource and will continue to provide fire protection, forest inventory, research and pest management functions.

Operations

The SE Yukon Forest Management Authority will be headquartered in Watson Lake and will be managed by qualified professionals. The SEYFMA will seek to hire individuals primarily from the Yukon Kaska and Watson Lake communities with a goal of having at least 50% of SEYFMA's officer and staff positions filled by Kaska Dena. Similarly, the SEYFMA will ensure that 50% of the work it undertakes is offered to Kaska companies. The authority will conduct its business with the intent to facilitate the creation and expansion of businesses in SE Yukon over the long term.

Figure 2: Kaska Traditional Territory



The annual allowable cut (AAC) for all lands that fall within the Kaska Traditional territory will be assigned to the SEYFMA. The annual allowable cut will be based on a Forest Resources Management Plan. Currently, the Kaska Forest Resources Stewardship Council is preparing its recommendations to the Forest Resources Management Plan for review by the Government of Yukon. The management plan will reflect the SEYFMA's vision of industry development that respects contemporary forest stewardship principles and will embody Kaska traditional knowledge.

Revenues

The SE Yukon Forest Management Authority, structured as a for-profit business corporation, is designed to be a model for financial viability in the SE Yukon forest sector. The Kaska and the Government of Yukon will share 50/50 in the net revenues of the SEYFMA which relate to operations on public lands. Upon completion of a land claim settlement agreement, the Kaska will be entitled to keep 100% of the net revenues generated by the SEYFMA on settlement land. Net revenues are gross operating revenues minus allowable expenditures as determined by the SEYFMA Board of Directors.

With respect to resource revenues, the Government of Yukon has agreed to reassign its right to collect stumpage fees in Kaska Traditional Territory to the SEYFMA. Under provisions of the Forestry Final Agreement, those stumpage revenues will be set aside for the exclusive use of the Kaska. Reforestation levies will be paid, on an interim basis, to the Government of Yukon's Forest Management Branch until such time as the SEYFMA is confident of its capacity to carry out the associated work. To facilitate start-up of the SEYFMA, the Government of Yukon has agreed to provide \$200,000 and one person-year of in-kind assistance to the project. An estimated total of \$4.0 million to \$6.0 million will be sought from both private and public sector investors of which \$2.0 million will be required for start-up cash flow purposes.

Strategic Initiatives

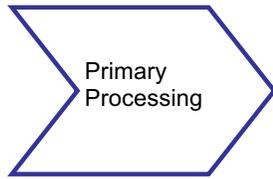
The SE Yukon Forest Management Authority will be the lead agency for the development of the forest-based economy in the region. Its efforts to strengthen the forest industry value chain will be undertaken in an integrated and systematic manner. The key strategic initiatives that will be implemented by the SEYFMA, in both the short and long term, are shown below.

Short-term

Efforts of the SEYFMA during its initial years of operation will focus on strengthening the first three links in the SE Yukon forest industry value chain.

<u>Value Chain Link</u>	<u>Short-term Strategic Initiatives</u>
	<ul style="list-style-type: none">○ <i>Backlog reforestation</i> – at existing timber harvesting sites where reforestation is incomplete, undertake scope of work identification including associated costs and employment/contract opportunities○ <i>Forestry engineering and technical support</i> – prepare site-specific implementation plans for the SE Yukon Forest Resources Management Plan including silviculture requirements○ <i>Public involvement</i> – facilitate the involvement of stakeholders and the general public in forest development planning in the SE Yukon○ <i>Economic benefits</i> – prepare an assessment of employment, training and business development opportunities associated with management of the SE Yukon forest resource
	<ul style="list-style-type: none">○ <i>Access design</i> – develop standards and protocols for road access into timber harvest areas○ <i>Access construction</i> – undertake or contract the building and decommissioning of access roads to priority harvest areas○ <i>Timber harvesting</i> – making use of the AAC it has been granted, undertake or contract timber harvesting to secure an initial supply of wood fibre○ <i>Economic benefits</i> – prepare an assessment of employment, training and business development opportunities associated with timber harvesting

Short-term Strategic Initiatives (continued)



- *Primary processing facility* – explore the feasibility of operating or participating in the operation of a primary wood products processing facility
- *Fibre utilization and optimization* – oversee and finance the design and construction of a sort yard in the Watson Lake area that will make available to local and Yukon value added manufacturers a secure supply of a variety of primary wood fibre products
- *Market identification* – conduct research to identify new markets for Yukon-sourced primary wood products
- *Economic benefits* – prepare a needs assessment of employment, training and business development opportunities associated with primary forest product processing activities

Long-term

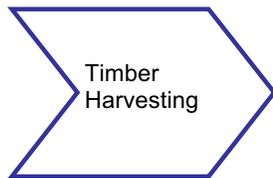
As growth in local capacity is demonstrated, the SEYFMA will continue work to strengthen the first, second and third value chain links and will expand its efforts to include the strengthening of the fourth link in the value chain.

Value Chain Link

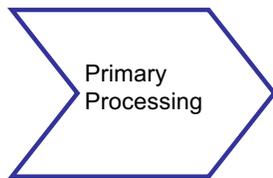
Long-term Strategic Initiatives



- *Resource management consulting* – market the expertise developed by SEYFMA during its start-up phase in other Canadian and international jurisdictions
- *Research and development* – partner with forest research institutions and make the Yukon a leader in northern boreal forest management practices
- *Economic benefits* – update assessment of employment, training and business development opportunities associated with management of the SE Yukon forest resource

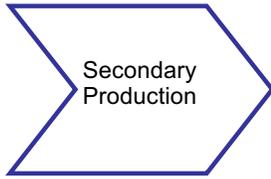


- *Economic benefits* – update assessment of employment, training and business development opportunities associated with timber harvesting activities



- *Market identification* – update research to identify new markets for Yukon-sourced primary wood products
- *Economic benefits* – update assessment of employment, training and business development opportunities associated with primary processing activities

Long-term Strategic Initiatives (continued)



- *Secondary production facility* – explore the feasibility of operating or participating in the operation of a secondary wood products processing facility (e.g., finger jointing, edge gluing, drying, dressing, packaging, etc.)
- *Electricity generation* – explore the feasibility of operating or participating in the operation of a bio-fuel electricity generation plant
- *Economic benefits*– prepare an assessment of employment, training and business development opportunities associated with secondary production activities