

Canadian Forest Sector Transformation Task Force

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Contact

Lana Payne

National President

lane.payne@unifor.org

Executive Summary and Recommendations

In the face of structural pressures weakening Canada's forest industry, an ambitious and integrated response is required to modernize the sector, secure jobs today and into the future, and ensure an orderly transition toward a more resilient, value-added model. This transformation rests on three complementary pillars.

First, the implementation of a **national industrial strategy** must serve as the foundation of this effort. It should be based on a comprehensive assessment of industrial capacities, supply chains, and development opportunities, and be guided by an inclusive body bringing together key stakeholders, including workers. It must set investment priorities and leverage regulatory tools to stimulate demand, notably by increasing the use of wood in construction through embodied carbon standards, modernizing building codes, leveraging public procurement, and strengthening the capabilities of industry professionals.

Second, the creation of an **industrial transformation fund** with significant resources would support the conversion and modernization of existing capacities while catalyzing private investment. This fund, aligned with strategic priorities, should include conditions ensuring the sustainability of jobs and operations, leverage financial tools such as the mobilization of escrowed duties related to the softwood lumber dispute, and facilitate the development of partnerships with institutional investors.

Finally, the success of this transformation depends on a **proactive approach to stabilize workplaces and keep people working in the forestry sector**. A just transition for workers requires shifting to forward-looking planning by strengthening income support mechanisms, establishing a federal transition office to coordinate interventions, and deploying regional teams capable of supporting workers and communities. The development of labour market information systems and support for innovation in transition measures will help tailor reskilling and diversification pathways to local realities.

Ultimately, the working group must send a **clear and unequivocal signal regarding the urgent need to modernize forest governance**, which falls under provincial jurisdiction, by promoting more predictable, coherent frameworks adapted to regional realities. This modernization can only succeed through structured dialogue with all stakeholders – including Indigenous communities – in order to rebuild trust and social acceptability. Without this shift, neither industrial recovery nor private investment will materialize.

No renewed governance, no sustainable recovery. Period.

Introduction

Canada's forest industry has long been an industrial cornerstone in many regions and a major national economic driver. However, the industrial model on which it has relied for decades is now showing clear signs of strain.

Built around the production and export of pulp, paper, and primarily softwood lumber, this ecosystem is facing a series of structural transformations that are undermining its viability.

Several traditional segments of the sector are in marked decline, and the sawmilling industry remains heavily dependent on the U.S. market, exposing it to chronic price volatility and an ongoing trade dispute.

This context is already resulting in facility closures, increased pressure on corporate profitability, and a risk of deteriorating working conditions in a sector that has historically provided high-quality jobs in many regions of the country.

The forest industry is facing a dual fragility that is compromising its recovery. On the one hand, wood supply is becoming increasingly uncertain and volatile, due to the combined effects of climate change-driven wildfires, insect infestations, environmental restrictions, competing land uses, and tensions with Indigenous Communities, all of which undermine the predictability of operations.

On the other hand, deficient forest governance — characterized by fragmented, inefficient, and inadequate frameworks, particularly in public forests — is undermining the coherence and profitability of the value chain. Without rapid modernization of this governance, recovery from the crisis appears unlikely, as does the ability to attract the private investment required for sector transformation.

At the same time, the increased use of wood products is struggling to grow at scale, and several promising higher value-added innovations are failing to reach commercialization due to insufficient investment and a lack of a domestic market capable of supporting their deployment.

Despite these warning signs, public interventions remain largely fragmented and reactive. To date, Canada does not have an integrated industrial strategy capable of guiding the modernization of its forest sector, supporting value chain adaptation, and mobilizing the public policy tools needed to structure a new phase of development. Ultimately, the country also lacks the capacity and appropriate mechanisms to effectively support workers affected by these disruptions in order to achieve a just transition.

Key Concerns

- **An industrial ecosystem affected by declining demand**

Most companies in Canada's forest sector are part of an integrated value chain centered on pulp and paper production, several segments of which (graphic paper, newsprint) are experiencing structural decline or are affected by increased foreign competition (pulp, cellulose).

Other segments are more resilient (tissue paper) or growing (packaging), but converting existing production sites requires very significant investments that few private investors are willing to make without substantial public support.

The large volumes of wood chips required by the pulp and paper industry have largely structured the magnitude of upstream sawmilling activities, whose business models have been oriented toward exports to the United States to absorb production exceeding domestic demand. This commercial strategy is now a source of vulnerability.

While bioenergy presents a viable pathway for redevelopment, it cannot replace the structural role of the existing industrial base and it appears unlikely to sustain current levels of employment.

➤ **Dependence on the U.S. market highlighted by the tariff war**

The sawmilling industry is heavily dependent on access to the U.S. market. This situation makes it partially captive to a commodity product whose quality is not fully recognized and which remains particularly vulnerable to destabilizing price cycles.

Canada's competitive advantage in softwood lumber has also weakened. While the United States is not self-sufficient and relies on Canadian supply, Canadian production faces increased competition from U.S. southern yellow pine and growing imports of European lumber.

The long-standing softwood lumber dispute now appears insoluble. Canada is facing a confrontational administration, and existing trade measures enjoy bipartisan support in the United States. Recent provincial policy adjustments and federal support measures further reinforce the U.S. narrative.

The current situation is unsustainable, as Canadian lumber is subject to combined duties ranging from 26.47% to 47.59%, in addition to a 10% tariff under Section 232 of the Trade Expansion Act.

➤ **Industrial erosion threatening working conditions and forest communities**

The deterioration of financial performance among the large firms that dominate the current industrial ecosystem, along with successive closures, poses a risk of widespread weakening of working conditions in the sector.

Union presence among these employers has historically ensured strong working conditions (higher wages, defined benefit pension plans, job security, etc.). Pattern

bargaining practices in the sector have also enabled the broad diffusion of these conditions to other workplaces, both unionized and non-unionized.

The disappearance of many unionized workplaces and the loss of mature collective agreements have a major negative impact on the vitality of forest communities.

Located in rural, often mono-industrial contexts, the impact of these developments can be devastating for communities, especially given that Canada currently lacks the institutional capacity and appropriate mechanisms to support a just transition for workers and their communities.

➤ **A wood supply marked by uncertainty and volatility**

The viability of manufacturing activities in the forest sector depends heavily on a stable, predictable, and cost-effective wood supply.

However, several factors are currently undermining access to the resource for companies: climate change-driven wildfires, insect outbreaks and infestations, harvesting restrictions resulting from legislative frameworks protecting endangered species, growing conflicts with other land users, and non-timber forest activities (maple production, recreation and tourism, hunting, fishing, etc.).

The economic, cultural, and environmental claims of Indigenous communities can also have a direct impact on the predictability of supply for harvesting and processing companies.

In several regions across the country, trust has broken down. Perceptions of inadequate benefit-sharing and a lack of collaboration are leading local actors, including families and land stewards, to block access to harvesting areas in order to demand better consideration of their interests.

➤ **A recovery undermined by deficient forest governance**

The predictability, efficiency, and coherence of forest management activities are fundamental to the profitability of the entire forest value chain.

At present, the various regimes and frameworks governing planning, harvesting, infrastructure construction and maintenance, transportation, and silvicultural treatments – all of which are essential to regeneration and the long-term sustainability of forest assets – are faltering. The situation is particularly critical in public forests.

The diversity of frameworks across the country makes it impossible to develop a single, unified response. Moreover, these responsibilities fall under provincial jurisdiction and cannot be addressed through a top-down federal approach.

However, a strong signal must be sent regarding the need to modernize this governance. Without it, recovery of the sector appears unattainable. Furthermore, access to the

private capital required for industrial reconfiguration will remain largely out of reach until this issue is resolved. This situation shifts the financial burden onto public funds, which alone cannot sustain the cost of this industrial transition in the long term.

A significant caution is warranted regarding how such reforms are undertaken, in a context marked by increasing land-use conflicts, the growing political assertion of Indigenous Peoples, and challenges from environmental organizations regarding the sustainability of forest practices.

Modernization approaches focused solely on removing constraints on industry, while neglecting structured social dialogue, are doomed to fail. The collapse of Quebec's forest reform initiative in 2024–2025 provides a clear example – one that must not be repeated.

In 2026, it is no longer possible to achieve social acceptability and build a stable and predictable business environment in forestry by focusing exclusively on wood supply while sidelining other stakeholders and partners in the forest sector.

By definition, forest management is extensive and closely tied to land use. It is both distinct from and more complex than mining operations in a confined area or manufacturing in an industrial park. Social acceptability remains a fundamental prerequisite for any effort to renew forest governance.

➤ **A transformation capacity overly focused on softwood**

The large-scale deployment of a business model focused almost exclusively on the export of pulp, paper, and softwood lumber has limited the development of a hardwood processing sector.

This excessive concentration on softwood reduces the adaptability of the current industrial structure. It contrasts with more flexible processing models observed in countries such as Finland and Sweden. This inability to accommodate a broader range of species reduces the versatility of companies and limits access to certain forest stands.

As climate change accelerates, its impact on softwood stands and the increasing presence of hardwood species in future silvicultural strategies will place additional pressure on Canada's forest industry to better utilize this resource.

➤ **Second- and third-stage processing struggling to take off**

Governments have long promoted the development of second- and third-stage wood processing. However, this objective has never been fully realized due to the lack of a clear, long-term implementation strategy.

For their part, companies – particularly large firms – have opted for caution given the high upfront investment costs, focusing instead on high-volume production segments largely geared toward export markets.

There are numerous innovations that could support higher value-added industrial activities (engineered wood, mass timber, prefabricated construction, bio-based insulation, biocarbon, etc.), but they struggle to reach large-scale commercialization due to insufficient scale to achieve profitability and the absence of a market capable of absorbing this supply at viable prices.

➤ **A lack of an integrated strategy for sector development**

Canada does not have an industrial strategy capable of providing a comprehensive long-term development vision for the forest sector. Public interventions remain largely reactive, piecemeal, and fragmented. To date, the approach has been to manage the decline of an increasingly outdated industrial model through targeted interventions with mixed results.

There is currently no industrial reprogramming effort specific to the Canadian forest sector that could build on its strengths by adapting existing value chains and developing new ones focused on innovative, higher value-added activities.

Canada is not effectively mobilizing and aligning the various regulatory and public policy levers at its disposal, particularly in terms of acting more decisively on domestic demand to support an increasingly necessary industrial reconfiguration effort.

For example, raising awareness among construction sector practitioners, improving the state's leadership in using wood products, and implementing incentives must be complemented by more proactive and binding measures. Simply put, governments must better use both the carrot and the stick.

Recommendations

➤ **NATIONAL INDUSTRIAL STRATEGY**

Develop a national industrial strategy that identifies the distinctive strengths and gaps of Canada's forest sector, establishes medium and long-term development priorities, and mobilizes all legislative and regulatory levers to achieve them. This strategy should include an inclusive steering body and provide space for the voice of workers.

- **Establish a steering committee**
An inclusive body bringing together key stakeholders, including unions, with the responsibility to work with government to design, oversee implementation, and assess the outcomes of a sectoral strategy.
- **Conduct a diagnostic**
Map assets, strengths, supply chains, value chains, and innovations to provide a comprehensive overview necessary to define a new strategic direction.

- **Identify priority actions**
Identify priorities for adapting or converting existing value chains, as well as developing new high-potential production niches aligned with forest resources and regional industrial footprints.
- **Regulate increased use of wood in construction**
Introduce embodied carbon regulations in construction to support domestic demand by significantly increasing the use of wood products. This approach would require new buildings to meet lifecycle emissions caps, including the carbon embedded in construction materials.
- **Accelerate the deployment of Build Canada Homes (BCH)**
This new agency can become a key driver of increased adoption of wood products and wood-based construction systems across Canada. The industrial capacity to build modular homes at sufficient scale will not be developed overnight, so the funding, implementation, and coordination related to BCH should be fast-tracked as quickly as possible.
- **Leverage public procurement**
Maximize the structuring impact of public markets and procurement by requiring the use of Canadian wood and promoting uses in the institutional, commercial and industrial building segments.
- **Modernize building codes and standards**
Accelerate the modernization of building codes to facilitate the use of wood and standardize construction systems to enable industrial-scale adoption. Address any issues related to insurance premiums for wood construction.
- **Continue education efforts for practitioners**
Significantly increase funding for organizations that raise awareness and provide training to construction sector stakeholders on integrating wood products (e.g., Canadian Wood Council, CECOBOIS).

➤ **INDUSTRIAL TRANSFORMATION FUND**

Create an industrial transformation fund to send a strong signal and restore confidence. For decades, parts of the forestry sector have suffered from chronic underinvestment, leaving some facilities in a deteriorated state and complicating the path toward renewal. However, the purpose of such a fund must be to support a genuine structural transformation of the sector, aligned with a coherent national industrial strategy. In other words, public funding must be conditional on modernization and forward-looking investments. It cannot be used to sustain business as usual.

- **Capitalize to transform**
Provide initial capitalization of \$10 billion. For a sector of this strategic importance, resources must match the scale of the challenges.
- **Align funding with the strategy**
Allocate funding based on alignment with the objectives and priorities of the national industrial strategy.
- **Establish conditions for public funding**
Attach requirements to funding (e.g., union neutrality, the creation of a viable transformation plan, sustainability of operations and jobs).
- **Buy back and mobilize U.S.-held duties**
Mobilize escrowed duties held by the United States in the softwood lumber dispute through a partial buyback program by the Canadian government.
- **Establish partnerships with institutional investors**
Create financial partnerships with Canadian institutional investors and labour-led funds (e.g. Fonds de solidarité FTQ).

➤ JUST TRANSITION FOR WORKERS

It is time to adopt a proactive and forward-looking approach to transitions. Move from a reactive (post-closure) model to a preventive approach that enables workers and communities to prepare in advance for structural changes in the sector. Workers require stabilized workplaces, and their priority is to adapt unionized workplaces in ways that preserve existing working conditions. In cases of more significant disruption, they require robust immediate support to keep people at work and comprehensive transition assistance.

- **Create a dedicated emergency wage subsidy program**
Complement or go beyond Employment Insurance to increase income replacement levels in cases of layoffs resulting from industrial restructuring or trade-related disruptions. Such a program would help retain a skilled workforce in rural forestry communities – keep people at work - and address job flight to the mining sector and other opportunities.
- **Establish a federal forest transition office**
Create a national body responsible for coordinating (in collaboration with provinces) existing programs, anticipating sectoral shocks (closures, restructuring), aligning federal and provincial interventions, and ensuring stable, strategic funding for transition measures.

- **Fund regional transition teams for workers and forest communities**
Support the establishment (in collaboration with provinces) of local teams with sufficient resources to provide personalized support, skills assessments, career guidance, psychosocial support, and individual transition plans (e.g., U.S. federal Rapid Response Teams).
- **Develop regional labour market information systems**
Fund and deploy (in collaboration with provinces) local data systems to anticipate job losses, identify regional economic opportunities, and inform decisions on training, diversification, and relocation.
- **Support experimentation and innovation in industrial transition**
Provide funding for pilot projects (in collaboration with provinces) aimed at better aligning workers' skills with new opportunities, developing more effective transition pathways, and testing new support models.

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