Transformation of Canada's Forest Sector

Backgrounder to Inform for Public Engagement

Purpose

The global economic landscape is shifting, creating new opportunities for Canada's forest sector. By acting with urgency and purpose, Canada can accelerate the sector's transformation—diversifying markets, moving up the value chain, and building resilience to compete and succeed in a rapidly evolving global economy.

Over a 90-day period starting January 19, 2026, the Canadian Forest Sector Transformation Task Force ("Task Force") will identify priority actions and pathways for industry and federal and provincial/territorial governments to accelerate the transformation of Canada's forest sector. The Task Force will develop a high-level roadmap outlining the actions required to restructure and reposition the industry, as well as provide recommendations to support workers and communities whose livelihoods depend on the industry.

The purpose of this document is to guide partners, stakeholders, and interested Canadians in providing written input for the Task Force's consideration. It provides an overview of the state of the sector, proposes a vision for the sector's future state, and identifies opportunity areas that the Task Force has been asked to consider. A number of key factors influencing Canada's forest sector and potential transformation pathways are identified, including forest ownership and public/private roles in the sector, regional distinctions, and the potential associated with increased Indigenous participation in the sector. Discussion questions are provided to guide those providing written submissions to the Task Force.

Context

Background

Canada is a global leader in the forest sector, ranking as one of the world's top manufacturers and exporters of forest products, including newsprint, northern bleached softwood kraft pulp, and softwood lumber. Canadian wood products are widely used in construction and premium paper and packaging applications that require predictable strength and fibre characteristics.

Our competitive advantage comes from our vast forest resource (9% of the world's forests) dominated by softwood species that are sought after for their strength and durability. It comes from our strong industrial processing base, and our sustainably managed and regulated forest system that delivers reliable quality, traceability, and supply consistency for international buyers.

Canada's forest sector supports nearly 300 forest-reliant communities, particularly in rural areas, and provides other economic opportunities through indirect employment in upstream industries, estimated at approximately 148,000 jobs in 2024. It spans ten

provinces and two territories, directly employing nearly 200,000 workers, including over 11,000 Indigenous people.

In 2024, the forest sector contributed $23.5B or 1% to Canada's real GDP. However, domestic markets account for only a portion of this production. For example, out of traditional forest products Canada consumes roughly a third of its softwood lumber (SWL) production, a quarter of its pulp production, a fifth of its oriented strand board (OSB) production, and barely any of its newsprint production[1].

Most of Canada's production is destined for export. In 2024 Canada exported $37.0B in forest products to the world. The U.S. remains Canada's primary export market, accounting for 76% of total forest product exports: 86% of Canadian softwood lumber exports (valued at $7.3B), nearly all structural panels ($3.4B) and builders' joinery and carpentry products ($2.2B), and 44% of Northern Bleached Softwood Kraft pulp (NBSK) ($2.0B). Other key markets include China (accounting for $3.7B in total exports, including 41% of NBSK exports ($1.9B)) and Japan ($1.1B).

Federal, provincial and territorial policy (e.g. housing and clean energy) along with increasing global demand for sustainable, responsibly sourced products and bioproducts offer opportunities to develop domestic markets and diversify trade relationships.

Roles within Canada's forest sector

Sector transformation will rely on **private sector** investment and continued innovation – both in manufacturing and in the management of the 6% of managed forests owned by large companies, First Nations, individuals, municipalities and pension funds. According to Canadian Forest Owners[2], private forests supply 10% of Canada's harvested timber and supported approximately 37,500 jobs in Canada in 2020, concentrated mainly in Quebec, British Columbia, and Ontario.

The **federal government** is responsible for market access, trade, and international forest policy. It provides science expertise and develops policy and programs to support the sector's competitiveness. A number of federal departments and agencies develop and implement policies, fiscal/tax measures and regulations that impact forest management and industry, such as nature conservation and biodiversity protection which can impact wood supply; standards and regulations affecting markets for bio-based carbon and other renewables; and innovation. Coherence of policy approaches across the federal government is important for unlocking the sector's potential. The federal government owns 4% of managed forests, primarily in national parks, Department of National Defence lands, and on reserve.

[1] State of Canada's Forest (Natural Resources Canada). Annual reports 2022-2024.
[2] https://www.forestowners.ca/wp-content/uploads/2023/10/CFO-Economic-study.pdf

Provincial and territorial governments own 90% of managed forests and have authority over associated forest resources, including tenure systems, harvesting rights, and management of Crown forests. Provinces and territories set the Allowable Annual Cut ("AAC") for their jurisdictions and develop and enforce forest laws, issue timber licenses and supply agreements, set harvesting standards, monitor compliance, collect royalties, and manage protected areas like provincial parks. They also implement programs that support innovation and transformation of the sector, and set direction via strategies, for example, to enhance biomass utilization and increase value-added activity.

Indigenous participation and leadership in the forest sector is growing. The forest sector is one of the largest rural job bases for Indigenous people in Canada, and a key entry point into the workforce in rural and remote communities. There is higher participation of Indigenous workers in the forest sector (6%) than in the labour force overall (4%). As of 2024, Indigenous groups hold 11.1% of annual harvest allocations from Provincial Crown forests across Canada (up from 5.6% in 2003). There is a growing presence of Indigenous-owned mills, or partnerships with Industry in forest products manufacturing; including strong interests in bioeconomy markets.

Action to support the transformation of the sector will depend not only on the stakeholders involved, but on **regional and local context**. There is high variability that will influence actions not only among provinces and territories, but in smaller clusters of opportunity within and across jurisdictions. Some of these variable factors relate to: adaptation measures to wildfire and other climate-related risk; housing development initiatives; proximity to advanced manufacturing opportunities and transportation/trade corridors; opportunities for consolidation with other bio-based inputs; integration with innovation clusters.

Forest Sector Challenges

Demand of softwood lumber and other wood products are affected by many factors, including macroeconomic fundamentals such as inflation and interest rates, but also broader factors, such as tariffs, changing consumer preferences, and technology change, among others. Corresponding declines in production affect supply and costs for downstream industries (e.g. pulp and paper, bioenergy).

Canada's forest sector has undergone a dramatic contraction over the past two decades. Between 2004 and 2024, softwood lumber production fell 42%, from 83 million cubic meters (m^3) to 48 million m^3, while pulp production dropped from a peak of 26 million tonnes in the early 2000s to 12.3 million tonnes by 2024. The newsprint segment of the forest sector saw the steepest decline with production plummeting nearly 80% from its 1990s high to just 1.76 million tonnes by 2023. These declines contributed to the sector's shrinking economic footprint: its share of Canada's GDP fell from 3% in 2004 to roughly 1% in 2024. Despite employment being mostly stable since 2009 it remains 41% lower today

compared to 2004. In addition, the sector faces supply constraints, changing consumer preferences and changes related to global markets and trade.

a. Factors affecting supply

Province and territories set the AAC, or maximum sustainable harvest limit, based on tree species, age, and health to ensure long-term ecological stability. In Canada, AAC has been on the decline since 2007. Jurisdictions have reduced supply in response to natural disturbances—including mountain pine beetle and spruce budworm outbreaks, hurricanes, and severe wildland fires—as well as expanded conservation measures, including for woodland caribou habitat and old-growth forests. Land conversion and the need for balanced monitoring of both commercial exploitation and conservation add further considerations to forest management decisions.

Canada continues to harvest at levels that are below AAC. In 2022, Canada harvested 129.5 million m3 of industrial roundwood, while sustainable wood supply level was 213.6 million m3[3]. Key factors contributing to this gap include operational and economic constraints, such as limited access to some areas of forest management units – particularly in northern and remote areas where there are few to no road networks – and distance to mills concentrated in southern regions.

b. Changing consumer demand and preferences

Consumer demand for forest products is in transition. While demand for many conventional forest products is declining, demand for packaging products is expected to grow, and Canada is seeing growth in advanced wood products and circular bioproducts[4], including mass timber and other engineered wood products for construction, biochemicals, bioplastics, and bioenergy. Biomaterials are projected to comprise 20% of global material supply by 2050[5], much of it from forest biomass. Biomaterials are projected to comprise 20% of global material supply by 2050, much of it sourced from forest biomass. Consumer choices are reflecting this trend, with 85%[6] of Canadian consumers being more likely to buy from companies with a reputation for sustainability, presenting market opportunity for advanced bioproducts.

For the Canadian sector where a large share of industrial infrastructure has formed around the manufacturing of conventional products for export, new capital investment and supply

[3] https://natural-resources.canada.ca/sites/admin/files/documents/2025-08/StateofForestReport-2024-EN.pdf
[4] https://natural-resources.canada.ca/forest-forestry/state-canada-forests/state-canada-forests
[5] https://renewable-carbon.eu/publications/product/global-carbon-demand-for-chemicals-and-derived-materials-png/
[6] https://www.bdc.ca/en/articles-tools/sustainability/climate-action-centre/articles/how-to-get-started-with-sustainable-procurement

chain relationships will be needed to meet demand for new types of products. In some cases, dissemination of these products will require meeting and/or developing and introducing associated standards and certifications to access markets.

c. Changing global demand for Canadian products

Weakening global demand – particularly linked with recent reduced construction in the U.S. – has had significant impacts on Canada's highly export-oriented forest sector. Monthly export volumes of SWL in August and September 2025 were the lowest monthly volumes in more than a decade. Volumes over the first nine months of 2025 were down almost 10% as compared to the same period in 2024.

Other forest products also saw declines in exports in that same nine-month period compared to 2024. Lower prices for oriented strand board (OSB) have resulted in a decline of 17% in value ($1.9B vs $2.3B), although volume decline was just 3%. Newsprint exports were down 13% by value (15% by volume) continuing the long-term trend. Pulp product exports were down 10% by value (12% by volume).

These recent decreases come after declines in export volumes for many of these traditional forest products over the last five years. In 2024, compared to 2019 volumes, Canadian exports of SWL were down 17%, pulp exports were down 17% and volumes of newsprint exports were down 21%.

At the same time, a confluence of factors (such as the war in Ukraine and insect outbreaks) has increased the availability of relatively low-cost European lumber in North American markets traditionally served by Canadian production, affecting demand for Canadian products further.

d. Trade action

Between the summer and fall of 2025, the combined duty and tariff rate facing most Canadian softwood lumber exporters to the U.S. rose to 45.16%, up from the previous 14.4%. Companies have also paid more than $10 billion in U.S. duties since 2017. The resulting pressure has affected profit margins, liquidity, and credit available to weather these current market conditions. These pressures have also affected SWL exporters' ability to sustain domestic investment in industry transformation, as they continue to pay duties and bonds required of exports to the U.S.

Redirection of Canada's softwood lumber to other international markets is a longer-term prospect rather than a near-term solution, owing to long established north-south supply chains, the constraints to availability of alternate transportation and shipping arrangements, differing product standards and quality expectations in offshore markets, and the competitiveness of Canadian products in those markets.

There are also regional and country-specific challenges in securing access to international markets. For example, emerging regulations overseas requiring traceability and sustainability certifications for wood products are leading to higher administrative costs for exporters. Policy revisions in various international jurisdictions related to renewable energy standards could similarly increase compliance costs for demonstrating environmental credentials. There can also be phytosanitary restrictions on wood products that require scientific documentation on measures for mitigating movement of pests and pathogens, along with certifications proving that these measures have been fully implemented.

Questions for discussion:

- Given the significant challenges faced by the industry, what are the expected longer-term impacts and how will the industry need to restructure and retool to adjust?
- What measures and actions will be needed to drive this transformation, including to mitigate the potential impacts on workers and forest-dependent communities?

Near-term Areas of Opportunity

Despite current challenges, the demand for Canadian wood products is expected to remain strong, with the need for new housing in Canada and the potential opportunities to increase the use of wood fibre for new bioproducts and bioenergy driving demand. Housing initiatives are expected to drive demand for wood-based construction materials, including prefabricated modular components and mass timber. The forest sector is also well-positioned to capitalize on growing interest in sustainable bio-based products, with biofuels, biochemicals, biomaterials, and advanced textiles presenting significant opportunities. Canada is also well-positioned to take advantage of reduced availability of European wood-products that are expected in the short-term. With the declines of export volumes over the last few years and harvest levels below AACs, the forest sector can meet these opportunities with sufficient wood fibre supply without risks to sustainable forest management practices.

The Task Force has been asked to consider the following four areas of near-term opportunity, which could help the sector advance toward the above vision for Canada's forest sector: wood-based modern methods of construction; new domestic and international markets; diversifying products into bioproducts and advanced wood materials; and, enhanced productivity through innovation and technology.

Wood-based modern methods of construction

Increased demand for prefabricated construction could drive forest sector investment in wood-based modern methods of construction (MMC). Ramping up MMC production to manufacture mass timber, modular components and other engineered wood products could increase domestic consumption of lumber and generate significantly greater economic value than commodity outputs such as lumber. The adoption of MMC could improve certainty for lumber supply chains, help drive workforce transformation, create

skilled jobs in advanced manufacturing, design, and digital construction, and offer new opportunities for Indigenous-led enterprises across the value chain.

Federal initiatives such as Build Canada Homes[7], Buy Canadian Policy[8] and the Build Communities Strong Fund will prioritize Canadian inputs such as softwood lumber and send a strong demand signal for advanced wood building products. This demand signal can attract investment, increase valued-added production, and create economies of scale to establish MMC as a productive sector in Canada.

Questions for discussion:

- What is needed from governments, industry and others for the forest sector to capitalize on this opportunity?
- What are the primary barriers preventing the forest sector from contributing to the rapid scaling of wood-based MMC? What can be done to overcome these barriers?
- What gaps need to be addressed to ensure that Canada has capacity to meet projected increases in demand for advance wood construction projects?

New domestic and international markets

Canada can solidify its position as a preferred global supplier of forest products and forest-sector expertise by diversifying markets for conventional products and accelerating the growth of exports of higher-value wood products, bioenergy, and advanced bioproducts. This includes strengthening Canada's presence and visibility in international markets, increasing awareness of Canadian forest product offerings, quality, and availability, and providing technical leadership through codes, standards, and regulatory support to enable wood construction and biobased solutions entry into new markets. By developing new value chains that stimulate domestic demand, Canada can support sector transformation while capitalizing on growing international interest in wood- and bio-based solutions.

Questions for discussion:

- What actions are needed for the forest sector to develop new domestic markets?
- What are the most effective ways to diversify international markets and which market opportunities should be examined and further pursued, and why?

Diversify products into bioproducts and advanced wood materials

In comparison to other major wood-producing countries, Canada has room to expand its production of higher value product. Canada's engineered wood products and prefabricated buildings, cellulose materials, and pulping by-products and other advanced forest

[7] https://housing-infrastructure.canada.ca/bch-mc/approach-invest-approche-eng.html
[8] https://www.canada.ca/en/public-services-procurement/news/2025/12/government-of-canada-implements-buy-canadian-policy-to-strengthen-canadas-economy-and-support-homegrown-industries.html

bioproduct exports, represented just 2% of Canada's overall forest product exports in 2024, notably lower than Finland (13%) and the United States (12%)[9].

The federal government's commitment to increase housing by scaling up the production and use of mass timber and modular building components will create demand for advanced wood construction products. Growing interest in bioproducts sourced from sustainably managed resources offer opportunities for business to derive more value from underutilized biomass. Demand for products like renewable and low-carbon biofuels, biochemicals and biomaterials is growing worldwide. Canada's circular bioeconomy was projected to have the potential to reach $150-240 billion by 2030, building on renewable and sustainably-managed forestry, agriculture, fisheries and aquaculture.

Questions for discussion:

- How can forest-based inputs grow their market share to achieve greater penetration in other parts of the economy? What key actions are needed? What barriers need to be overcome?
- What near-term and longer-term opportunities should be considered?

Enhanced productivity through innovation and technology

New technologies and practices can improve the productivity of Canada's forest sector. Digital and automation technologies used in engineered wood product manufacturing and the prefabrication industry can reduce costs and address skilled labour shortages but can involve large capital investments and require higher quality input (e.g. precision-cut lumber) which may have cost implications upstream. Currently in Canada, automation is not widely adopted in panels and volumetric modular construction.

Bioenergy with carbon capture and sequestration (BECCS), represents an opportunity for the forest sector to produce energy, reduce emissions, and create new value from biomass through the supply of carbon credits. BECCS captures and permanently stores CO_2 from biomass-based energy and fuel production. However, large-scale deployment is currently constrained by the logistics and economics of carbon transport and storage. Other biomass-based carbon dioxide removal technologies, like biochar-based carbon sequestration, could provide further opportunity for the forest sector across Canada.

Questions for discussion:

- Which emerging technologies or practices offer the greatest potential to improve productivity and efficiency in Canada's forest sector?
- Through what means can innovation and productivity gains be driven in the industry?
- In what areas could coordination and collaboration with other bio-based industries yield efficiencies and increase effectiveness of action?

[9] Natural Resources Canada. Internal analysis.

Conclusion

Canada's forest sector is undergoing a period of immense challenge and significant opportunity, highlighting the need for transformation. This document has detailed promising opportunities for transformation, including advanced manufacturing, market and product diversification, and enhanced productivity through innovation and the application of new technology. Now, we'd like to hear from you!