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Landmark forestry agreement in Alberta

A deal with Northern Alberta Métis that involves long-term commercial rights to 200,000 hectares of forestlands is said to be a landmark agreement and could be worth millions of dollars to the community, say its backers.

By Tony Kryzanowski

The lives of 2,800 Métis people living in three communities in northern Alberta are about to change dramatically. Their Métis groups recently signed a long-term exclusive commercial rights agreement to about 200,000 hectares of forest with a joint venture company that includes a British multinational partner in exchange for an interest in the joint venture.

Named the KAQUO Forestry and Natural Resource Development Corporation, which means “All Together” in the Métis Cree dialect, it has been created to commercialize this vast forest resource.

It has been described as a long-term deal that is unprecedented in Canadian history, and it could work as a template for other Canadian First Nations communities and result in billions of dollars flowing into the communities.

The agreement is between the Peavine, Paddle Prairie, and East Prairie Métis Settlements and British-based multinational Active Energy Group Plc (AEG). It took over five years to negotiate.

“The joint venture is mandated to seek investors who wish to purchase the long-term tree farming permits over portions of the forest on the three Métis settlements,” says Richard Spinks, AEG Chief Executive Officer. “The company’s shareholders will share in income from the sale of these tree farming permits and in addition proportionately from any other subsequent downstream activities, all of which will be carried out by the joint venture company.”

In an interview with Logging and Sawmilling Journal, Spinks says the exact size of the area is turning out to be a lot more than they initially thought, with the initial estimate in the 100,000 hectare range. Now, he says, it seems closer to the 200,000 hectare range and in terms of value, the partners have come to realize that they have something of “great value”—in the range of several thousand dollars per hectare to as much as $7,000 per hectare, with most “closer to the higher end”.

This is how the joint venture will generate a considerable amount of its income; for example, if it were to sell a tree farming permit to 25,000 hectares at $5,000 per hectare, that would generate $125 million for the joint venture.

“But there is no guarantee how soon that will be,” Spinks says. It could happen as soon as this fall or it may take more than a year. The goal is to negotiate the best deal possible with potential purchasers of tree farming permits, while preserving the integrity of the forest resource.”

He adds that the hope is that the joint venture partners will decide to re-invest some of the proceeds from the sale of these tree farming permits back into wood processing facilities that provide jobs to individuals in and around the communities.

Logging & Sawmilling Journal

AEG is listed on the London Stock Exchange and is an international supplier of industrial wood chips, timber products and forestry management and development services. It is the largest producer and exporter of MDF-quality wood chips in Ukraine for export to Turkey, produces biomass-to-energy wood chips in Spain and Montenegro for use in European power plants primarily in Italy, and also operates a research and development facility for its new biomass fuel granulating systems in Northern Ireland.

The company has agreed to commercialize the forest as part of its equity stake in the joint venture and says that the 200,000 hectares of prime forest consists of about 70 per cent hardwoods such as aspen and poplar and 30 percent softwoods such as spruce, pine, and fir species in the 50 years and older range. They expect to yield more than 200 million cubic metres of commercial standing timber from the forestlands.

AEG is funding the start-up costs of the new joint venture, and has also agreed to pay an advance against future revenues of $300,000 to the settlements “so we can begin immediately to improve the social and economic situation within our partner communities,” says Spinks.

The Métis are descended from First Nations and European families and are considered an aboriginal group under the Canadian Constitution. Alberta’s Métis live in eight settlements scattered throughout the province and are the only Métis in Canada with a legislated land base covering a total of about 567,000 hectares.

A key figure in these negotiations resulting in the commercial rights agreement and joint venture company was Ronald M. Derrickson, voted Grand Chief of British Columbia for Life by his peers and Chairman of RMD Group. Derrickson says he was approached six years ago by Iner Gauchier, Chairman of the Peavine Métis Settlement, about helping the communities commercialize their forest resources. Kelowna, B.C.-based Derrickson has numerous business interests in real estate, ranching, farming, and construction in both Canada and Europe.

Derrickson says he agreed to become part of the discussions only on condition that a fair deal for the Métis group could be negotiated. His accomplishments include fighting for the rights of First Nations peoples across Canada, including the establishment of the Canadian Native Legal Fund to protect and serve native laws and treaties.

“It was probably the most difficult agreement I ever did, but it was the most fulfilling one, to see people who are living in abject poverty, to suddenly see hope come back into their eyes,” he said of the Métis/AEG agreement.

“I first became aware of Richard Spinks, Active Energy Group’s CEO, through his ground-breaking work with Landkom International in Ukraine, where he successfully created a co-operative agricultural business that transformed the lives of many thousands of private landowners,” he added.

Derrickson says that he and Spinks were able to negotiate a deal, “that finally gives the Métis an equitable share in the economic development of their forests”.

“And I know that it will set the standards and terms for further agreements with other Métis, First Nations and aboriginal groups across Canada, to enable them to develop and commercialize their assets in an equitable and sustainable manner to bring long-term economic growth, employment and stability to their communities and their peoples.”

Logging & Sawmilling Journal

Spinks says exactly how this will be achieved has yet to be determined.

"While we have the capability to bring funding and production under the KAQUO umbrella in terms of processing and production, including our overseas partners from Europe who have shown a strong interest in partnering on such downstream production facilities in further joint ventures, it is not yet a given for anything other than the biomass power generation segment," he says.

AEG intends to build biomass power generation infrastructure on its own through KAQUO within the settlements, or in partnership with buyers of tree farming permits, which Spinks says will allow them to generate improved yields from their operations through the utilization of the waste and non-sawlog production.

The plan is for considerable thinning and pre-commercial thinning to take place around the merchantable fibre, which will be the feedstock for the biomass-fueled power plants. He has noted, in particular, the power demand being generated by Alberta's development of the oilsands and his belief that the joint venture company could profit from that demand. What else is developed remains wide open.

Derrickson says the goal is to use the approximate 30 per cent of unmerchantable wood fibre as fuel for two, 30 megawatt power plants located within the settlements. There is no intention to harvest and market raw merchantable timber—but instead develop manufacturing facilities locally to process it through such facilities as sawmills, chipping plants, pellet plants and charcoal plants.

"There will not be one raw log leaving the settlements," says Derrickson. "Everything will be produced on the settlements."

Spinks agrees with this assessment, adding that, "we don't want to be exporting logs."

As a first step, an independent firm of surveyors has been appointed by the joint venture along with a team of Métis and international timber experts to prepare a detailed mapping and valuation report on the forestry assets, including an analysis of the existing transportation, manufacturing, logistics and utilities infrastructure.

The joint venture has three partners. The Métis settlements and AEG will each hold a 45 per cent equity interest in the joint venture, with the remaining 10 per cent held by Chief Derrickson, who has also been named Chairman of the KAQUO board. Spinks is the Chief Executive Officer (CEO). The Chairman of each Métis settlement will have a seat on the board, AEG will have three seats, with Derrickson holding one.

The joint venture has the authority to enter into sub-leases for a period of approximately 200 years with third parties, which may include Timber Investment Management Organizations (TIMOs), joint venture partners, and timber industry firms.

Logging & Sawmilling Journal

Derrickson says that he expects that many jobs in forest management and production of wood products will be filled by residents of the Métis settlements. The agreement states that all commercial transactions that the joint venture may enter into will include an obligation to provide local employment for Métis citizens, and a commitment to contribute to corporate social responsibility programs that benefit Métis communities.

The intention is to aggressively seek out tree farm license purchasers and investors.

“We are in negotiations with a number of the most prominent timberland and natural resource investment organizations and institutions,” Spinks says. “There are a number of financial options open to KAQUO. All developments and investments will involve the Métis, our partners, and will benefit them equally with AEG’s shareholders.”

The forest will be managed under strict sustainability guidelines by both the joint venture company and its sub-leasees, and will remain sensitive to Métis traditional practices. Agreements with licensees and investors will spell out in detail what they are and are not allowed to do, with such practices as clearcutting not being permitted.

There will be no “pillage” in the forest says Derrickson. “This is a business deal to last centuries.”

Forestry deal would mean further economic development for Métis

“We need to do something that is self-sustaining and not dependent on handouts. We are a proud people eager to contribute to the Alberta economy.”

That is how Iner Gauchier, Chairman of the Peavine Métis Settlement, described the motivation behind three northern Alberta Métis settlements joining forces to negotiate a deal granting commercial timber rights to a joint venture company of which they are 45 percent owners.

Gauchier says that settlement residents are in the process of transitioning from traditional practices to participating in the wage-based economy, and have already been quite successful participants in the oil and gas sector.

They acquired fee-simple ownership of their lands, which includes all surface rights, in an out-of-court settlement with the Alberta government related to a disagreement concerning petroleum extraction funds that were supposed to be shared between the settlements and the province, but went into government coffers instead. The province’s eight Métis settlements acquired ownership of their land as part of the Métis Settlement Act that was passed in 1990.

Gauchier described the settlements’ granting of the commercial timber rights and subsequent stake in the KAQUO Forestry and Natural Resources Development Corporation as a major step forward for the Métis communities. It would enhance economic development of their resources.

What’s particularly attractive with the approach taken by the settlements with this agreement is that they won’t simply be suppliers to the joint venture company, but will be significant owners of it.

Logging & Sawmilling Journal

“It certainly would be nice to have 45 percent ownership of West Fraser Timber, wouldn’t it?” Gauchier says. That’s the level of participation this deal offers to the communities.

A huge amount of detailed planning and public consultation is taking place within the communities to discuss how the funds flowing to them will be used, to the point where community leaders are showing up on people’s doorsteps to ensure that adequate public consultation occurs. Gauchier expects that there will be investments in housing, where settlement members will be able to finance the purchase of homes, investment in the development of tree nurseries to replenish harvested timber, and also the establishment of legacy funds for children and grandchildren to use in future.

“By no means are we writing cheques to individuals,” he says.

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