



Jobs, Investment, and Industrial Renewal: An Action Plan for Canada's Pulp Sector



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Canada's Pulp Advantage: Strength through Integration

Canada's pulp industry¹ sits at the centre of a highly integrated forest value chain, linking together sustainable forest management, timber harvesting, wood product manufacturing, and advanced industrial processing. The industry plays a pivotal role in this system—transforming fibre and residues from upstream activities into value-added products. By serving as a key offtake for byproducts and residues generated through sawmilling and generating heat and power through [co-generation](#), the pulp industry maintains circularity across the broader bioeconomy.

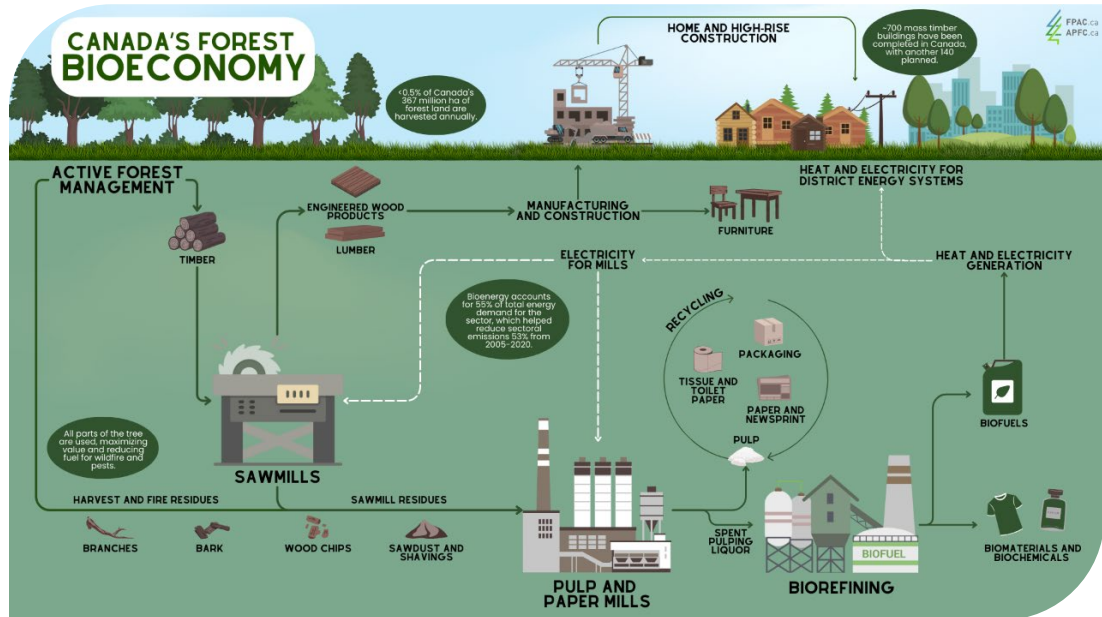


Figure 1. Canada's highly integrated forest sector value chain (FPAC infographic).

Increasingly, this integrated role extends beyond material transformation to energy production, positioning pulp mills as both industrial manufacturers and strategic energy assets within Canada's evolving power system. With established on-site generation, access to renewable biomass, and continuous-process operations, pulp facilities are uniquely positioned to produce low-carbon electricity and thermal

¹ For the purposes of this policy product, FPAC defines the 'pulp sector' according to the North American Industry Classification System (NAICS) [322 – Paper manufacturing](#): "This subsector comprises establishments primarily engaged in manufacturing pulp, paper and paper products. The manufacture of pulp involves separating the cellulose fibres from other impurities in wood, used paper or other fibre sources. The manufacture of paper involves matting these fibres into a sheet. Converted paper products are produced from paper and other materials by various cutting and shaping techniques."

energy at scale—supporting mill competitiveness while contributing firm, dispatchable power to local and regional grids.

This deep integration is a strategic advantage for Canada. It means that targeted investments and policy improvements in the pulp sector have multiplier effects across the forest sector, supporting sawmills, harvesting operations, transportation networks, and downstream manufacturing. The sector's ability to convert by-products into energy, biofuels, and recyclable materials positions it as a foundational platform for low-carbon industrial growth in Canada. As electricity systems decarbonize and demand for reliable, locally sourced power increases, the pulp sector's capacity to convert residual fibre and process by-products into energy also represents a growing opportunity for revenue diversification, grid resilience, and "residual-to-value" innovation—particularly in rural, remote, and Indigenous communities.

Like other forest industries, pulp manufacturing is also closely tied to the economic vitality of rural and Indigenous communities, where mills anchor employment, infrastructure, and long-term regional development. In 2025, FPAC identified 85 communities across 9 provinces where pulp and paper manufacturing operations take place, constituting a key pillar of many local economies.

Challenges Shaping Sector Competitiveness and Investment

The pulp industry is currently navigating a period of structural transition driven by shifting global demand, heightened international competition, capacity removals in solid wood manufacturing, and the need to modernize aging mill assets. Between 2019 and 2025, sector output declined by approximately 18% (\$1.4 billion),² reflecting both market pressures and deferred investment amid trade uncertainty, including recent U.S. countervailing and anti-dumping duties which affect the entire forest value chain. In this environment, the industry's most acute challenges include both sector-specific imperatives and those that are shared with other capital-intensive industries:

1. Aging Assets and Constraints on Sustained Reinvestment

Canada's pulp industry remains anchored by a large, integrated manufacturing footprint, but much of this capacity is operating with aging assets in an increasingly trade-exposed environment. Sustaining competitiveness is

² *Pulp and Paper Stabilization FPAC Proposed Mitigation Policy Measures by Deloitte (2026).*

challenged by the difficulty of moving from episodic reinvestment toward a repeatable pipeline of mill retooling, productivity upgrades, and product innovation. Investment decisions across the sector are shaped by the availability of federal incentives, permitting certainty, and policy signals that affect the economics of deploying capital into existing facilities—particularly where upgrades deliver emissions reductions, cost efficiency, and product diversification. In the absence of these clear, predictable and attractive hosting conditions, the sector faces a growing risk that reinvestment is deferred or redirected to jurisdictions with lower perceived risk and clearer pathways for industrial renewal.



2. Regulatory Barriers to Fibre Predictability and Capital Investment

Regulatory barriers like duplication undermine fibre predictability and ultimately limit capital investment in Canada’s pulp sector. Overlapping federal and provincial processes—often pursuing the same environmental outcomes through parallel, uncoordinated requirements—create delays and uncertainty across forest operations and downstream manufacturing, pushing timelines beyond commercial planning horizons. These fragmented regulatory systems constrain fibre access, destabilize integrated supply chains, and elevate regulatory risk for capital-intensive mills considering modernization or retooling.

Recent sawmill curtailments, particularly in British Columbia where 2023 harvest levels were roughly 42% below the allowable annual cut,³ have highlighted how

³ [“We need to invest in B.C.’s forestry industry as it transitions”](#) by British Columbia Council of Forest Industries (COFI) (2024).

upstream regulatory uncertainty cascades into downstream manufacturing instability for pulp facilities reliant on integrated fibre systems. For many mills—particularly those in remote regions—these impacts are compounded by longer fibre haul distances, increased reliance on long-haul transportation, and persistent rail service unreliability. Together, fibre access constraints and freight system failures exert cumulative pressure on delivered-cost competitiveness, directly affecting mill viability and reinvestment capacity.

At the mill level, duplicative permitting and reporting obligations divert time and resources from productivity, decarbonization, and product innovation, weakening Canada’s competitiveness and increasingly influencing investment decisions away from Canada. FPAC members estimate that navigating overlapping federal and provincial requirements contributes \$46 million annually in reporting costs.

3. Freight System Failures as a Drag on Competitiveness

Persistent rail service challenges, port congestion, and labour disruptions continue to function as a “logistics tax” on Canadian pulp producers—undermining delivered-cost competitiveness and eroding returns from mill modernization. FPAC estimates that rail and terminal costs can exceed 25% of delivered product value during price downturns, with sector-wide costs between \$2–3 billion annually. Pulp shippers consistently report that the cost to move product from mill to port is several orders of magnitude higher than the cost to move from port to distant offshore markets, yet Canada’s reputation as a reliable supplier in those markets is repeatedly undermined by freight-system disruptions and work stoppages.

These disruptions impose particularly acute risks for pulp mills, which operate on a continuous-process basis and typically maintain only 6–7 days of storage capacity. Once this threshold is reached, mills must secure scarce off-site storage or shut down production, with each day of idling costing approximately \$1 million per facility in overhead, maintenance, and lost output.⁴ As a result, freight supply chains have functioned less as enablers of competitiveness and more as a persistent structural drag on sector performance.

4. Trade Exposure Amplified by Weak Delivered-Cost Competitiveness

Canadian pulp mills compete directly—asset-to-asset—against U.S. facilities on cost, reliability, and investment returns. As a result, domestic policy choices that increase input, energy, transportation, or compliance costs have a direct and immediate impact on Canada’s competitiveness relative to U.S. producers operating under materially different policy and cost environments.

⁴ Estimates based on survey of FPAC member companies.

In this context, domestic cost-competitiveness conditions shape the sector's ability to absorb volatility and sustain operations during periods of disruption. Cost structures driven by regulatory burden, logistics performance, and capital efficiency increasingly determine whether mills can reinvest, retain production in Canada, and withstand trade uncertainty. Weaknesses in delivered-cost competitiveness heighten exposure to external shocks, constrain resilience in the U.S. market, and limit the sector's capacity to pursue incremental diversification opportunities over time.

While market diversification is often cited as a long-term resilience strategy, for commodities such as pulp and paper it is ultimately constrained by delivered cost. In many non-U.S. markets, lower net pricing combined with materially higher transportation costs can erode margins—reinforcing the notion that diversification is only commercially viable once sustained improvements in cost competitiveness and supply chain performance are achieved.



5. Workforce Availability and Skills as Constraints on Modernization

More than half of the forest sector workforce is expected to retire over the next two decades, compared to approximately 43% economy-wide.⁵ For pulp mills, this demographic shift intersects directly with the sector's ability to plan and execute modernization projects, adopt advanced technologies, and operate increasingly automated and data-driven systems. Workforce availability and skills

⁵ [*Diversity in the Canadian forest sector: Trends, actions, and results*](#) by the Canadian Forest Service (2024).

alignment have emerged as binding constraints on investment readiness, particularly in rural and remote regions where replacement capacity is limited.

For smaller and remote mills, execution risk extends beyond labour availability to include limited internal engineering capacity, constrained access to capital, and the administrative burden associated with complex program requirements. Without program design that recognizes these realities, otherwise viable investments may fail at the execution stage. Addressing execution capacity through flexible delivery mechanisms and support for project development will be essential to ensuring broad participation across the sector.

While the above factors have constrained capital deployment, they also underscore the scale of the opportunity should Canada succeed in unlocking greater productivity, efficiency, and value through targeted modernization. For the pulp industry, these barriers are not structural disadvantages, but rather opportunities to rebuild and revitalize through fresh policy thinking.

In doing so, it is important to recognize that these challenges are not evenly distributed across the sector. Single-line and rural mills—often operating without the scale, diversification, or balance-sheet flexibility of larger, multi-line producers—face heightened exposure to market volatility, cost shocks, and policy timing risks. Without deliberate consideration of this differentiation in policy design, there is a risk that the most vulnerable operations may be least able to access or benefit from investment-enabling measures.

Solution: Implementing a Federal Pulp Sector Action Plan

International competitors demonstrate that well-timed public policy can accelerate this transition. Finland's pulp and paper transformation shows that strategic government investment—aligned with private capital and deployed during periods of market disruption—can drive mill modernization, improve competitiveness, and position the sector for long-term growth. Canada has comparable resource advantages, industrial expertise, and innovation capacity, and now faces a critical policy window to convert these strengths into renewed global leadership.

This policy brief outlines **three targeted federal policy measures** that—when implemented within an efficient, harmonized federal-provincial regulatory system and alongside a reliable and cost-competitive transportation system—can help reposition Canada's pulp industry as a competitive, investable pillar of the

low-carbon economy. FPAC has partnered with Deloitte Canada to model the economic impact of these measures and finds that they **could generate an estimated \$6.7 billion in additional real GDP and support more than 12,000 net new jobs annually between 2026 and 2030**,⁶ while stabilizing operations, accelerating modernization, and crowding in private investment.

The proposed measures are designed to address near-term barriers while unlocking long-term opportunity:

- 1. Establish a Pulp and Paper Mill Competitiveness Program (PPMCP).**
- 2. Make Capital Cost Allowance (CCA) improvements permanent; and**
- 3. Implement Clean Economy Investment Tax Credit (ITC) eligibility for biomass systems.**

Deloitte's analysis suggests that these policy measures can bring much-needed stability to pulp operations, and in doing so can accelerate modernization and foster long-term competitiveness in one of Canada's foundational industries.

Projected Economic and Workforce Benefits

To quantify the economic and workforce impacts of strengthening Canada's pulp sector, FPAC partnered with Deloitte to undertake independent economic modelling using Deloitte's Dynamic Access Economics Regional General Equilibrium Model (DAE-RGEM). The analysis assesses the anticipated impacts of targeted federal policy measures designed to stabilize pulp operations, improve investment conditions, and support sector competitiveness across the Canadian economy.⁷ The policy measures were developed through a collaborative, multi-stage process that engaged FPAC members to identify and prioritize sector challenges. Insights from stakeholder consultations were refined and validated to ensure alignment with industry needs and regulatory requirements.

As summarized in *Table 1*, these policy measures have the potential to generate meaningful economic and workforce benefits, including billions in additional real GDP and thousands of net new jobs annually. More broadly, they provide a

⁶ *Pulp and Paper Stabilization FPAC Proposed Mitigation Policy Measures* by Deloitte (2026).

⁷ To quantify these impacts, Deloitte used its Computable General Equilibrium (CGE) model, known as the Dynamic Access Economics Regional General Equilibrium Model (DAE-RGEM). DAE-RGEM is a dynamic, multi-region CGE model that captures interactions across all components of Canada's economy, including production, consumption, employment, taxes, and trade. Impacts are estimated by comparing a policy scenario against a baseline scenario over the analysis period. The model's core database is derived from the widely used Global Trade Analysis Project (GTAP) database maintained by Purdue University. Additional methodological detail is provided in *Pulp and Paper Stabilization FPAC Proposed Mitigation Policy Measures* by Deloitte (2026).

coherent framework for stabilizing the sector in the near term while positioning it for sustained growth, innovation, and resilience over the long term.

Table 1. Summary of anticipated economic and workforce impacts of proposed policy measures modelled by Deloitte using their DAE-RGEM modelling approach.

Policy Measure	Real GDP created (2026-2030)	Annual Net New Job Creation (2026-2030)
Establish a Pulp and Paper Mill Competitiveness Program (PPMCP).	\$1.1 billion	1,860
Make Capital Cost Allowance (CCA) improvements permanent.	\$2.3 billion	4,020
Implement Clean Economy Investment Tax Credit (ITC) eligibility for biomass systems.	\$3.3 billion	6,240
Total	\$6.7 billion	12,120 jobs

Steps to Operationalizing a Federal Pulp Sector Action Plan

Canada’s pulp industry is well positioned to deliver economic growth, emissions reductions, and regional stability—provided federal policy aligns with the scale, timing, and capital intensity of the industry’s next investment cycle. As mills transition toward more advanced, efficient, and low-carbon production, government action can play a catalytic role by reducing risk, improving certainty, and accelerating reinvestment.

The policy challenge is not a lack of viable projects, but the gap between technical feasibility and investment-ready hosting conditions. In a global investment landscape where capital can quickly shift to more competitive jurisdictions—particularly the United States—policy stability, cost structures, and investment incentives play a decisive role in reinvestment decisions. Together, these measures address current transition pressures by addressing cash-flow constraints, improving project economics, streamlining regulatory processes, and aligning climate policy with industrial realities.



At the same time, the effectiveness of any investment-enabling policy depends on the regulatory environment in which it operates. Regulatory efficiency is a critical enabler of timely investment. While environmental oversight remains essential, overlapping federal and provincial requirements can introduce unnecessary delay, uncertainty, and cost—particularly for low-risk modernization projects. A growing regulatory burden has contributed to millions of dollars in duplicative reporting costs at the mill level, diverting capital away from productivity-enhancing and decarbonization investments.

Where provincial regimes deliver outcomes equivalent in rigour and environmental performance to federal requirements, the federal government should adopt a backstop approach—similar to the applicability framework used under the federal Output-Based Pricing System—to minimize duplication and promote efficiency gains while preserving strong environmental outcomes. Applying this approach to the Pulp and Paper Effluent Regulation (PPER) would be a critical starting point. Establishing an effective equivalency-based regulatory framework is a necessary precondition to fully realizing the impact of targeted investment measures.

Within this enabling context, three time-sensitive federal actions would materially improve investment conditions for Canada’s pulp sector by de-risking modernization, strengthening competitiveness, and accelerating low-carbon reinvestment.

Establish a Pulp and Paper Mill Competitiveness Program (PPMCP).

A modernized competitiveness program would provide a targeted, time-limited catalyst to accelerate mill reinvestment at a moment when many projects are technically viable but financially constrained. Building on the demonstrated success of the former [Pulp and Paper Green Transformation Program](#), a renewed program—funded at \$1.34 billion between 2026 and 2029⁸—would help de-risk capital-intensive upgrades and encourage private investment during a critical transition period.

A PPMCP can support projects that materially improve mill performance and long-term viability, including upgrades that enhance reliability, reduce downtime and chemical demand, increase throughput, lower cost per tonne, and improve product quality. Upfront planning and execution capacity are often binding constraints on investment, so designing a program that can cover these costs (such as feasibility work, capital equipment, automation and controls, integration, and workforce training) can maximize modernization opportunities in the sector. To be effective across a diverse mill landscape, the program should include mechanisms such as advance funding, staged or milestone-based payments, and eligibility for reliability-driven investments that sustain operations and preserve capacity—even where projects do not immediately increase output. Program effectiveness would be maximized through flexible delivery mechanisms and a performance-based allocation formula tied to production volumes or other appropriate metrics.

Assuming a \$1.34 billion federal investment, **this measure could generate an estimated \$1.1 billion in additional real GDP between 2026 and 2030 and support approximately 1,860 net new jobs annually.** As a condition of funding, successful projects will be required to demonstrate material benefits that will be generated in terms of community economic impact, job creation, and/or air and water quality improvements.

Make Capital Cost Allowance Improvements Permanent.

Capital cost allowance (CCA), managed by the Canada Revenue Agency (CRA), refers to the portion of an asset's cost that a company is permitted to deduct from its income as depreciation for tax purposes. CCA is a core determinant of investment timing and location for capital-intensive industries. Accelerated CCA

⁸ Reflects a 34.56% inflation adjustment (Bank of Canada) to the original \$1 billion PPGTP over a 13-year horizon.

improves project economics by enhancing early-year cash flow, increasing after-tax returns, and reducing payback periods—factors that are particularly important for large-scale mill modernization projects.

Canada's current phase-out of accelerated CCA contrasts sharply with recent U.S. policy, including full expensing for qualified property, creating a growing competitiveness gap for mobile capital. Making the positive CCA measures introduced in the 2025 Federal Budget permanent—and introducing a time-limited enhanced rate (e.g., 100% immediate expensing) for pulp sector investments—would send a clear signal of investment certainty.

Such an approach could stimulate **up to an estimated \$2.3 billion in sector investment between 2026 and 2030 and support over 4,000 net new jobs annually**, enabling mills to advance productivity-enhancing upgrades, renew aging equipment, and deploy advanced technologies more quickly. Permanent, predictable CCA treatment would improve Canada's attractiveness as a destination for long-term industrial investment while reinforcing the sector's capacity to modernize at scale.

Implement Clean Economy Investment Tax Credit (ITC) Eligibility for Biomass Systems.

As Canada's electricity system undergoes rapid decarbonization and demand for reliable, firm power increases, pulp mills are uniquely positioned to function not only as industrial energy users, but as contributors to local and regional power systems. With the passage of the 2025 Federal Budget, equipment that produces heat, electricity, or both from biomass is slated to be eligible under the Clean Technology and Clean Electricity ITCs. Expanded eligibility for biomass-based heat and power systems under the Clean Technology and Clean Electricity ITCs through Budget 2025 represents a high-impact opportunity to unlock near-term investment while advancing emissions reductions and energy security.

For the pulp sector, biomass energy investments represent a dual opportunity: enabling further decarbonization of energy-intensive operations while also creating pathways for revenue diversification through on-site generation, exportable electricity, and grid-support services—particularly in rural, remote, and Indigenous communities where energy infrastructure is constrained.



FPAC views forest biomass as a strategic, next-generation opportunity—primarily a 2030–2040 play, with near-term activity centered on pilots and early commercial projects, with broader deployment requiring time for project development, technology validation, enabling infrastructure, financing, and market formation. **From a policy design perspective, governments should avoid forcing forest biomass into frameworks built for agricultural or conventional biofuels and instead recognize forestry as a distinct feedstock category,** supported through residues-first approaches, improved feedstock and fibre availability analysis, regional supply and infrastructure mapping, and first-of-a-kind/demonstration support that de-risks investment without predetermining a single technology or product outcome.

In the nearer term, clarifying and implementing ITC eligibility for biomass heat and power systems would unlock investable projects at pulp facilities. **FPAC estimates that clarified and timely ITC implementation could mobilize \$1.5 billion in early project investments, with the potential to unlock up to \$6 billion in total biomass investment between 2026 and 2034.** These projects would strengthen mill competitiveness by lowering energy costs, reducing exposure to fossil fuel price volatility, and improving overall system efficiency—while supporting renewable power generation in rural and Indigenous communities.

To maximize uptake and ensure the ITCs deliver intended outcomes, federal action should focus on three targeted adjustments:

- 1. Rapid implementation** of expanded eligibility for biomass heat and power systems that received Royal Assent in March 2026;

2. **Explicit recognition of black liquor**, a widely used carbon-neutral by-product of the pulping process, as a qualifying renewable input for heat generation; and
3. **Removal of heat-rate thresholds** that inadvertently exclude viable projects at legacy facilities.

Together, these refinements would align climate policy with industrial realities and accelerate decarbonization where it can be delivered most cost-effectively. They would also enable the pulp sector to more fully realize its role as a provider of low-carbon, locally sourced power—supporting Canada’s clean electricity objectives while reinforcing the long-term viability of a foundational industrial sector.

Conclusion

Canada’s pulp industry is a strategic asset within the forest bioeconomy and a proven contributor to economic growth, regional stability, and climate progress. With deep integration across the forest value chain, established industrial capacity, and growing alignment with low-carbon markets, the sector is well positioned to deliver sustained value for Canadians.

The pressures facing the industry—aging assets, evolving fibre dynamics, workforce transitions, regulatory complexity, unreliable and costly transportation systems, and trade exposure—are best understood as signals of a sector entering its next investment cycle. For a highly trade-exposed manufacturing industry, productivity growth and cost competitiveness remain the primary levers of resilience.

Until Canada is consistently positioned as a cost-competitive jurisdiction for pulp production, diversification beyond the U.S. market will remain incremental rather than transformative.

These challenges are well defined and manageable. With targeted, timely federal action, they can be addressed in ways that improve project economics, reduce uncertainty, and unlock private capital already poised for deployment. The three policy measures outlined in this brief provide a practical, fiscally responsible pathway to accelerate modernization, strengthen competitiveness, and encourage investment. Underpinning the success of these measures is an efficient, harmonized regulatory system between provinces and the federal government that minimizes duplication without compromising environmental outcomes.

By aligning tax policy, investment support, climate objectives, and regulatory efficiency, the federal government can help position Canada as a globally

competitive destination for pulp sector investment—supporting good jobs, resilient communities, and long-term economic and environmental outcomes. Enabling pulp mills to deploy biomass-based power systems through the Clean Economy Investment Tax Credits would allow the sector to convert residual fibre into firm, low-carbon electricity—supporting grid reliability and local energy security while strengthening mill economics and accelerating green industrial transformation.

With decisive action, Canada’s pulp industry can continue to deliver enduring value—reinforcing the forest bioeconomy and contributing to national prosperity for decades to come.

Acknowledgements

FPAC would like to thank Deloitte Canada and participating member companies for their collaboration on this initiative. Deloitte undertook the independent economic modelling of FPAC policy measures referenced in this brief using its Dynamic Access Economics Regional General Equilibrium Model (DAE-RGEM) to assess the projected economic and workforce impacts of the proposed federal policy measures. The findings presented reflect Deloitte’s modelling and analysis, informed by data and inputs provided by FPAC and its members.