FOREST INDUSTRY OUTLOOK 1986

ISSUES AND CHALLENGES

By

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This is the first time I've had the privilege of talking to your association, and I must tell you that when Al Brown invited me to your Sixth Annual Meeting, I jumped at the opportunity......because it's been a long time since I've met with a group of forest industry representatives whose operations have consistently made money over the last four years.

As the two associations I represent will be involved in the only significant collective bargaining to take place in the Canadian forest industry in 1986, I want to take a few minutes to discuss the outlook for our industry in 1986 and review some of the issues and challenges we face.

But our industry - nation-wide - has common problems in trying to make economic ends meet in an increasingly competitive global environment; and the issues and challenges we face here in B.C. are similar to those in the rest of Canada.

Canada is a major player in the world's forest products industry. The industry is also one of the key building blocks that supports the Canadian economy. In 1982, in excess of 260,000 people were directly employed in these activities. The volume of shipments was over $26 billion and represented 13-1/2 per cent of all the manufacturing shipments in the country.

In 1981, Canada accounted for 20 per cent of the world's exports of forest products - British Columbia's share alone was eight per cent. By comparison, the Americans accounted for 12 per cent of world's forestry exports in that year.

Approximately half of total forest industry shipments for Canada are exported, accounting for nearly 15 per cent of Canadian merchandise exports thus making a major contribution to Canada's trade balance. For British Columbia, approximately 75 per cent of forest industry shipments are exported and comprise 42 per cent of all provincial shipments.

For almost three decades the forest industry, like many other resource industries in Canada, was sheltered by a global demand that permitted prices always to exceed costs and which permitted sloppy work practices to develop. That condition no longer prevails.

In 1981, the illusion of an ever expanding global economy was shattered by a continuing recession in the resource industries unparallelled since the thirties. The price of lumber dropped from $250 per M to $150 per M in six months - the price of pulp dropped from $540 to $350 in the same time period. And while that was happening we watched the rest of the world catch up with us in terms of product quality and the ability to deliver at a price which offset costs. A lot of this catching up by other countries has been financed by ourselves and has further intensified competition.

Since 1984, our Scandinavian competitors have had tariff free access to the European Economic Community while their currencies have been drastically devalued. Until very recently they were able to undersell us virtually any place in the world.

The MacDonald Commission on the economic union and development prospects for Canada has recently concluded its study and has made the following observation about Canada's position in the global economy.

> "As we peer into the future there is only one central fact about which we can be reasonably certain. There are powerful forces loose around the globe that will profoundly affect the lives of all of us here in Canada. The global outlook is full of dangerous signals and the majority of the world's citizens are facing very troubled prospects."

Those words have a special meaning for those of us engaged in the forest products industry anywhere in Canada. The vast majority of our customers are located beyond our borders and can buy from our foreign competitors who can now operate in conditions much more favorable to their economic prosperity than we can.

We have to recognize that no form of legislation or any condition in a collective agreement can shelter any individual who earns his living from this industry from the advantageous position of a growing number of world competitors.

As an industry we are in considerable trouble because generally speaking, we have not - and we are not - making any money.

Two years ago, the B.C. industry lost a billion dollars before taxes and we still have not recovered from that financial blow. We have big debts incurred for such modernization and expansion that has taken place and many companies are unable to repay their debts. For some, the banker has provided much needed breathing space but for far too many, the receiver in bankruptcy has moved in to dispose of the assets and terminate employment.

The net result is that balance sheets are in a very unsatisfactory conditions. Fifteen years ago, the financial structure of most companies was $2.00 of equity to $1.00 of debt. Today the situation is reversed. We have gone from a position where shareholders owned two-thirds of their company to a point where they own only one-third. Borrowing power has been exhausted. As a result, balance sheets must be repaired by internally generated funds if companies are to survive in their present form.

What has caused this unsatisfactory state of affairs in a regional industry always looked upon as robust and strong - particularily in coastal British Columbia? Let me give you one man's perspective.

The coastal B.C. timber resource used to be very high quality and relatively accessible. Following the second world war, its products were in such strong demand that price increases generally matched any increases in cost. Operating costs increases, particularly labour cost increases, were not offset by productivity gains and as a result, we became high cost producers.

Despite the addition of three newsprint machines and a doubling in size of one pulp mill in recent years, the Canadian Paperworkers Union (CPU) and the Pulp, Paper and Woodworkers of Canada (PPWC), have seen their members decline from over 13,000 to just over 11,000 in the primary mills. Plant closures, technological change, absence of capital for improvements and tightening up in all areas of the organization for purpose of survival have taken its toll in lost labour and managerial positions. At the same time, all employees have seen their real wages decline during the last three years.

But there is a positive side to all this and I want to emphasize particulary our productivity record in B.C. where there has been a most impressive increase. The increase in productivity in the wood products and logging sector has been in the order of 35 per cent and in pulp and paper approximately 25 per cent. Much of this is from streamlining work practices and a more committed effort by employees. In addition, the benefits of a number of significant capital expenditures are evident.

This performance has resulted in B.C. lumber producers realizing higher levels of productivity than most of our U.S. competitors - helping to offset lower wage rates in the U.S.

Despite these improvements we still have a long way to go to win the competitive race.

During the same period of time, we liquidated the vast majority of our high quality timber resource and we are now logging poorer quality timber which is more remote and more costly to log. The costs, which we could justify on high quality timber, are not acceptable on low quality timber. That is the dilemma for coastal B.C.

Meanwhile, as the result of new technology, very small trees are being harvested and processed into lumber in highly efficient mills anywhere small trees grow. The centre of gravity of lumber production in Canada has shifted from coastal B.C. to the interior of B.C. and east of the Rockies. At one time, the B.C. coast produced two-thirds of B.C. lumber. Today, it accounts for one-third. Moreover, growth rate in lumber production east of the Rockies now exceeds that in B.C. The same situation prevails in the U.S. where the South has become a dominant lumber producer at the expense of Pacific Northwest producers.

Another structural realignment has been forced by the development of new panel type products such as waferboard, particleboard and oriented strandboard. These products have replaced coastal plywood in a majority of applications because of lower cost. As a result, employment in the Coast plywood industry has declined 60 per cent in five years. In the last four years, four large plywood plants have closed and two others operate partially on one shift.

In pulp and paper, we are attempting to catch up with the rest of the world in "state-of-the-art" plants but we have a long way to go and we will have to invest a great deal of money to get there. Technologically, a lot of our machinery is obsolete. It is a fact that over 50 per cent of our paper machines are over 35 years old as compared to 25 per cent in the U.S. and only five per cent in Scandinavia. Old machines are small and slow and hence inefficient. Unlike the Scandinavians who have religiously replaced their old machines, we accept government policies that maintains our competitive weakness by preventing the shutdown of uneconomic facilities.

Oversupply in a global context is a fact of life for producers of pulp and paper. Not only traditional suppliers in Canada, but the Scandinavians and particularly the U.S., have added to capacity. In addition, many of the developing countries, previously importers of pulp and paper, have built their own modern pulp mills and are now exporters. Currently, global capacity in pulp exceeds demand by 18 per cent. In paper, the excess capacity is ten per cent. Clearly the world no longer has to depend on us for supply. The impact of this over supplied global market has been more severe on companies and employees in British Columbia than probably any other part of Canada.

Labour has had similar problems as it strives to maintain services to its members in the face of shrinking memberships. The extent of union membership loss in B.C. is staggering. The International Woodworkers of Canada (IWA) used to be the largest union in the province with approximately 55,000 members - today, membership is no more than 35,000.

This increasing productivity is reflected in the levels of production that have been achieved. They are at record levels and unfortunately the world markets cannot take it all. Rather than hope that increasing demand will permit our plants to operate full out, we have to learn to operate them profitably at 70 to 80 per cent of capacity.

This then is the environment in which we operate and in which we will be conducting labour negotiations in 1986.

Let's look at some of the significant issues.

1. Structure of Bargaining

One of the issues that is currently being addressed by management and labour in the pulp sector of the industry is how the parties should structure themselves in preparation for bargaining. I might add this is an initiative by management and its outcome could affect bargaining structures in other industries in the province.

As you are probably aware, industry-wide bargaining is practiced extensively in B.C. and there are various statutory provisions for this in the B.C. Labour code. For the most part, it has served the parties reasonably well. However, pressures do develop from time to time. When economic conditions are favourable, companies generally want to stick together and when they are poor they lean towards independence whereas, the unions want the protection the larger group can provide.

For over a decade the industry, in the interests of treating employees equally, has established similar high profile terms and conditions in contracts with all three unions. In bargaining these contracts, the union that settled first set the pattern. But invariably, this would be resented by the other unions who would resort to strike action to achieve more.

In recent years, the IWA has settled first, possibly because they structured themselves in a relatively small group that allowed effective dialogue. The pulp unions, on the other hand, have normally bargained together with a very large number of delegates that inhibited the kind of dialogue that leads to consensus. For over a decade, pulp bargaining has been characterized by confrontation and work stoppages that are no longer acceptable. The industry has advised the pulp unions that unless significant changes are made in the process, industry-wide bargaining could be a thing of the past.

But before taking such an irreversible step, the industry invited the two pulp unions to participate in a task force to determine if sufficient change could be agreed upon to accommodate the requirements of the parties.

These discussions have taken place over a six-month period and have produced the best dialogue between the parties in many years. At this point the two unions have proposed that bargaining start on January 31st - two months earlier than the statutory requirements. This could be a move by the unions to force companies to decide how they intend to bargain in 1986. It will be interesting to note how many companies appear to bargain on January 31st.

2. Competitiveness

Competitiveness, or rather the lack of it, best describes the underlying problem of the forest industry as we look to the uncertainties of the future. Too many old plants, too high labour costs, and too many restrictive work practices are symptoms of our dilemma.

The lowest cost newsprint producers in the world are in the U.S. south where wages are 20 per cent lower than ours and work restrictions are minimal. In sawmilling southern wages are 50% of ours. If we are to remain in the competitive race, labour and management must address this matter more constructively than in the past.

In our industry today where capital is simply not available to help close the competitive gap, the stakes for both parties are too high to push the problem to one side in hopes that a market improvement will provide some kind of a shelter. Most forecasters suggest that growth in demand for forest products in the future will probably be much slower than it has been in recent decades so we can't depend on the market to bail us out.

In order to compete we have to make better use of our equipment. For example, in logging on the coast it costs upwards of $2 million to equip one site - yet we operate this equipment only 40 hours/week because the penalties in our collective agreements make Saturday and Sunday operations uneconomic. Employees in pulp mills, refineries, smelters and a majority of people servicing public needs work Saturday and Sundays with no penalties for Saturday work and minimal penalties for Sunday work.

3. Settlement in U.S. Pacific Northwest Solid Woods Sector

Some of the major competitors for B.C. wood products producers are in Washington, Oregon and Northern California. These competitors enjoy lower wage costs than B.C. even after taking into account differences in currency valuation. Hence, B.C. producers can ill afford to see the U.S. producers competitive edge widen further.

Labour agreements for the vast majority of these U.S. operators expire May 31, 1986 and we know that the major companies will be seeking significant concessions from the unions. Pacific Northwest employers who found themselves non-competitive with producers in the U.S. South, have already demanded major concessions from their unions - the IWA and Lumber Production Industrial Workers (LPIW) - midway through the current three year agreements.

The unions countered by offering to defer wage increases, cut vacations, and reduce health and welfare costs until the termination date of the agreement. Unlike Canadian unions they were prepared to make concessions - in the order of $3.00 an hour in wages.

Bargaining in the U.S. Pacific Northwest next year is bound to be intense with B.C. producers anxious to see the results before their own negotiations are concluded.

4. Non-Union Competition

Apart from logging activities in the B.C. interior which have been non-union contractor type operations for many years, non-union operations have not been a significant factor in the forest industry in B.C. This pattern is now changing.

In pulp, a new thermal mechanical pulp operation of 400 tonnes per day has been completed by a company that rigorously strives to be non-union. This is the only non-union pulp operation in the province.

The shingle and shake sector which must respond quickly to market changes is now dominated by non-union producers. With one exception, the major companies have dropped this product line because of non-union competition.

The plywood sector, has been decimated by substitute competition. One unionized plant, shut permanently a year ago, has reopened as a co-operative of former employees. Financing of this venture was provided, in part, by a provincial government agency. It's start up helped trigger the permanent closure of a large unionized plant when it was determined the wages paid by the co-op were to be \$8.70 per hour - approximately \$5.00 per hour less than unionized plants.

Another plywood co-op that has been in business for many years, has expanded to the point it is the largest plywood plant in the country. With the unacceptably high level of unemployment in B.C., increased competition of non-union operations is not surprising. However, non-union competition in B.C. is minor compared to non-union competition in Washington and Oregon where it is now close to 50 per cent of lumber and plywood production.

Meeting this competitive threat will be of growing concern to both management and labour as they sit down to renew their collective agreements which expire in June 1986.

5. Unemployment and Job Security

Employees are beginning to realize the only real job security they have is when they work for a well managed company that earns a profit. In 1986 we will have to do a better job in gaining union appreciation of this fact.

6. Lumber Import Restrictions into the U.S.

Everyone in this industry has to be concerned over the present trend towards protectionism by politicians in the U.S. Suffice it to say that if severe restrictions on the imports of Canadian lumber into the U.S., such as took place in the 1930s, are imposed - all bets are off and we have a brand new ball game in which the rules will have to change.

7. The Challenge for Labour and Management

The biggest challenge facing labour and management in the forest industry today is finding an answer to this question. Can we jointly find ways to regain company profitability without lowering the standard of living of company employees?

I like to think the answer to that question is 'yes'.

I do not think the militant approach of former years can be supported in the current environment, even though it might have been perceived by labour to have been successful in the past. A better approach must be created and can only be created by co-operation between management and the unions - co-operation such as we have never had before.

We can no longer afford the luxury of fighting each other. The energy wasted in that exercise has to be put to more productive use.

From management's standpoint a far more open approach to unions and employees about all of the factors that affect our industry is important. Any effort such as more participative management, quality of working life activities, profit or gain sharing, or any programs that will create a sense of ownership in all levels of the organization, should be encouraged. In this area, management should be prepared to take the lead and involve the unions in these activities. The objective has to be a profitable industry in which all of the stakeholders can share equitably in that profit - which hopefully will continue to grow.

For our union leaders, it will be more difficult because they must fill a different role. They will have to show they have some flexibility by working with their members and assisting them in understanding the basic economic problem we all face; and they must show a resolve to work with management to solve our common problems. If they do not and companies fail, the banker and his agents will move in and take what action is necessary, irrespective of the interests of labour or management.

Let me say something about the Canadian Labour Congress policy of no concessions. To me, it doesn't make any sense for an employer to go out of business and throw many people out of work because some kind of temporary adjustment was necessary to permit a business to survive. Adjustments which are readily accepted by employees have been totally rejected by their unions.

In a province like B.C. where the unemployment rate has been close to 15 per cent and work opportunities for unemployed people in resource industries is minimal, such a policy makes no sense, but that is what is going on. "No concessions" is starting to mean fewer jobs. I suggest labour seriously review this policy before the system is forced to work around it.

Whether we like it or not, we are all in this together and together we must find an equitable solution.

8. A Challenging Future

After what our industry has been through for the last three to four years, it would be easy to become pessimistic over its future economic prospects. I am not one of those who fear the future.

I say this because I think the changes that have and are tking place will place use on a more solid footing.

On a global basis the value of the overvalued U.S. dollar has declined by 20% and is still declining - this will make us more competitive overseas.

The U.S. appears to want to assist the developing nations in resolving their financial problems - this will enhance world trade.

Inflation is low and interest rates are falling generally world wide - this bodes well for new housing and household improvements - the major markets for lumber and other wood products. But, more importantly, we have made major changes in order to compete in a changing and more difficult international environment.

- We are doing a much better job of managing our forest resource.

- Our companies have restructured themselves financially and organizationally.

- Our employees have recognized the need for higher levels of performance.

- We are extracting more value from our logs and we are directing higher valued products into more customer oriented needs.

- Our mills are getting more board feet out of each cubic metre of wood.

- Our newer sawmills and pulp mills of which there are many in B.C., are state of the art mills and can compete with anyone in terms of productivity.

- We are developing new uses and better products for species often ignored such as aspen, cottonwood and even hemlock.

- We are penetrating new markets such as China and Korea.

- Even though there has been a significant decline in lumber and plywood production in coastal B.C., other sectors of the industry, such as yours, have picked up some of the slack. I am advised that waterborne treatment alone has grown by 10-15% a year since 1975. Keep up the good work.

It is easy to look back and shed a few tears but its more rewarding to look ahead at a challenging future with the confidence that we can successfully adapt to a changing world because of the foundations we have built.

I say bring on the future.