



# Striking a Lethal Blow to Canada's Forest Industry

A number of factors have played a role in the downward spiral of Canada's forest industry, and labor disputes, such as the one between manufacturers and union workers in British Columbia, have made the economic situation even worse.

By Dan Veniez

**Watching the sawmill owners** and the United Steelworkers of America (formerly the IWA) embroiled in another labor dispute in British Columbia is an all too familiar sight. The current work stoppage—much like watching the decline of Canada's forest industry—is like being witness to a slow-motion train wreck. As Yogi Berra said, "It's déjà-vu all over again."

This strike, centered at least for now on BC's decimated coast, illustrates the fatalism that has infected the industry. By now, it's become an overused cliché to say that BC's and Canada's forest industry is in crisis. Most companies have not enjoyed more than a couple of profitable quarters at a time for a decade. Few have covered their cost of capital over that time, resulting in a massive destruction of wealth and jobs along with it. Mills have closed and there hasn't been new investment in productivity enhancing technologies for many years.

In the last 18 months alone, the industry has been hammered by the Canadian dollar approaching parity with the US. In British Columbia—the heart of Canada's lumber business—the industry has been pummeled by high logging and stumpage costs and the collapse of the US housing

market. More recently, credit markets have had a cold shower triggered by the near collapse of dubious sub-prime mortgages.

Adding further insult to injury, the deal to end the Canada/US softwood lumber dispute is the furthest thing from free trade that I can think of. Since 2003, Canada has won every substantive legal challenge (both at the NAFTA tribunal and the WTO) that mattered.

Last year, the Canadian and US governments negotiated an end to this long-running dispute. The Canadian industry had little choice. Over \$5 billion of tariffs and duties were seized at the US border for every stick of Canadian lumber shipped to the US. From my perspective, it was a forced and shameful capitulation to a shrill and protectionist US Congress, and a highly effective lobbying effort by the US lumber industry. Politicians in Canada heralded the agreement as a new era in Canada/US relations. Nonsense. The softwood lumber agreement was a surrender to extortion and an urgent financial reality. Without those cash refunds much of the lumber industry would have been forced into bankruptcy.

Less than 20 years ago, BC's coastal forest industry was responsible for over 32,000 direct jobs. Today, it's about 7,500. Unless something changes, the prognosis isn't any better. To many observers, this decline looks irreversible and we are told it's something we must just accept as inevitable. Steve Hunt, the United Steel Workers representative, drove that mindset home in a recent opinion piece published in *The Vancouver Sun*. In it, he said, "the industry and government don't care about workers,

their families or their communities; they plan to run their mills into the ground and close them."

Reasonable people can agree that this is preposterous and irresponsible rhetoric, particularly coming from an industry leader. The only people anxious to see the death of the forest industry are our global competitors. But the frustration, anger, and fear at the core of those sentiments are completely understandable. Their industry has been decimated by forces well beyond their control. Job security, retirement dreams, and many communities have been ravaged.

The current dispute isn't fundamentally over wages, although they are too high relative to Canada's competitors. With benefits included, the average entry level hourly cost of work in the expired collective agreement, is \$35.00. That jumps to more than \$50.00 per hour with over 7 years seniority. Pension and post retirement benefits are highly attractive.

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The fully loaded compensation for a sawmill worker, which is essentially a low skill material handler, is highly attractive by any standard. No one disputes the need for workers to have a living wage. But let's call a spade a spade: 90% of sawmill workers have little or no education beyond high school and what they are paid is out of whack with what the work is actually worth. While the percentages vary and depend on the function and trade, the same high pay for low skill jobs can be found in loggers, and pulp and paper operations.

This is by no means a new phenom-



District 3 Director Steve Hunt provides bargaining background information to supporters at a Campbell River rally.

enon. The unions have been extracting a punitive economic rent on the forest industry for decades now. Over the years, management and boards have been complacent, and even complicit, in caving to wage and benefit demands. More significantly perhaps has been the handcuffs that collective agreements have imposed on management's ability to make common sense decisions. Flexibility and contracting out non-core functions is an absolute non-starter. And matching jobs with skill and competence? Forget about it. That's the Holy Grail of union politics. In 20 years, management has basically handed over control of the mills to union bosses.

In the current BC strike, now into its third month, the gridlock appears to be centered on a seminal question: The past versus the future. The union is looking for security against the onslaught of an industry in apparent freefall. While no one can fault them for that, all they are doing is putting their finger in the proverbial dike. And management are holding on, or trying to, with the skin of their teeth. It's becoming sensible for some in the industry to seriously contemplate selling their land to make way for property development rather than to run their mills. There's more value there.

Meanwhile, the supply of chips to BC's pulp and paper mills is drying up. That is already forcing firms such as Howe Sound and Catalyst to curtail operations. There will be more to follow.

What's urgently needed is a concerted focus by government, industry and labor to aggressively deal with the industry's deep structural deficiencies. The slow death has taken a toll on everybody involved and it's almost become a self-fulfilling prophecy. The forest industry remains vital to Canada's economy. Yet economic policy makers treat it as a historical anachronism. It's tough to blame them. Many have tuned-out the industry and have moved on to places where there is a lot less risk of being hammered politically.

The federal and provincial governments are also sick of industry and union whining over how bad their lot in life is. They expect the industry—and by that I mean management and unions—to buck themselves up and come to them with solutions where they can participate and declare victory. Instead of forging creative solutions, industry leaders manufacture defeat. They waste precious time and energy fighting old battles that mean very little to today's hard realities.

Managers and union leaders must shake themselves out of their collective depression. Today's challenges require a new brand of leadership and new thinking for a very different world. Union and management generally agree on the diagnosis of the problem and the stakes involved. The true test of their mettle is whether they have the resolve to take the blinders off and get creative. It's not as if Canada doesn't have quality products that customers want. It does.

We are also blessed with the untapped vitality of First Nations, a

secret weapon that the industry has yet to use to distinguish itself in a crowded commodity marketplace. Aboriginal Canadians are at the forefront of environmental consciousness at a time when that awareness is at an all-time high among industrialized and emerging economies. They can and should play a leading role. In this region, for instance, First Nations have an historic opportunity to take the lead in resurrecting a dead forest industry. I hope they will seize it.

But on a national level, the industry's costs are still too high. Partly because of that, it has not had the capacity to reinvest in itself. That drives

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a downward productivity cycle. Over time, industry leadership has lost confidence in its ability to radically retool. More than anything else, that has resulted in capital markets putting their money to work elsewhere.

Pulp and paper collective agreements are up for renewal in 2008. I shudder to think about what union demands will be after three years of pretty good pulp prices. I hope that management is educating them about the realities of their economic performance. Unions will seize on pricing to justify what will no doubt be nonsensical "demands."

So, bet on either a strike next year or another short-sighted industry capitulation that will further handcuff its ability to build a competitive future. In the meantime, Tembec is reviewing its "strategic alternatives;" Pope and Talbot is doing the same; Domtar is essentially

a subsidiary of Weyerhaeuser; Abitibi and Bowater are now one (and have been greeted with a loud thud from investors); and mills, once the mainstay of their local and regional economies, continue to shut down.

I get the distinct sense that unions and their members are taking an untenable stand at the worst possible moment from their strategic and tactical perspective because they feel that they have no other choice. They are in a state of despair over the plight of their industry and deeply insecure about their future prospects. They should be. Shutting down their industry, especially in this economic and market context, is a cry for help. Unions are struggling to protect a past that they know, deep down, is gone.

Leaders on both sides of the table need to stop playing defense. They need to understand that they are in this together and are in for the fight of their lives. That fight isn't against the guy on the other side of the bargaining table. It's against existing and emerging competitive threats thousands of miles away in South America, Indonesia, China, and Russia. It's a fight they are losing, and will continue to lose until and unless they get the energy to pull their heads out of the sand (or elsewhere on their anatomy).

The ongoing cost of not doing so is borne by those who have most at stake—the workers who need these disappearing jobs and the communities that rely on them to sustain their very existence in Canada's heartland. ■

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