

## INDUSTRY AT A CROSSROADS (PART I):

### **Canada's forestry industry reeling from monetary, market shocks**

#### **Future for forestry is still bright if new potential is tapped**

**Joint labour, govt.,**

**industry initiatives**

**would be effective**

*By Paul Tulloch*

The Canadian forestry industry, long one of the stalwarts within the Canadian economy, is now at a precarious crossroads. "Crisis" is the term being used by union, business, and political leaders to describe the parlous state of the industry. An estimated 110,000 workers—about 25% of the entire forestry workforce--have been displaced in the past five years. Scores of sawmills, wood fabrication plants, and paper mills have been permanently or temporarily shut down.

The Canadian Forestry Service estimates that, between January '03 and April '07, over 112 mills were closed and another 72 were temporarily idled. Most of these mills were located in smaller forest-dependent communities where over 50% of the workforce derive their main source of income from forestry-related economic activities. This is an industry and group of communities that, since Confederation, have served as one of Canada's economic staples in creating prosperity and wealth for generations of forestry workers. Forestry products have traditionally been the workhorse of the Canadian economy, generating more than \$80 billion a year, or 3% of the country's current Gross Domestic Product (GDP). Despite the recent massive declines, its products are still currently Canada's third largest export.

A host of factors have combined to cause this crisis. Over the last decade, growing international competition, declining demand for paper products due to the increased use of alternative communication tools such as the Internet, dramatically rising energy costs, the greater recycling of paper products, and some negative consequences of the prolonged trade dispute with the United States on softwood lumber—all these developments have played leading roles in the forestry industry's decline. The resulting reductions in market share and market demand have forced a painful process of continual adjustment over the last five years.

Ken Neumann Canadian Director for the United Steelworkers (USW) who represents thousands of workers in the industry states, "The lumber deal with the US is just one of the problems -- it actually *encourages* companies to export logs and to shift production to the US to get around a punitive 15 percent border tax and that is exactly what has happened. Instead, we urgently need government measures that encourage domestic manufacturing and job creation. Governments and companies have let down workers and communities and this severely impacts the Canadian economy, by a loss in wages, an outflow of investment capital and loss of the revenues that pay for quality services to Canadians."

Two recent major events have accelerated the formerly slow decline into an avalanche that has precipitated a major crisis within the industry. The rapid rise of the Canadian dollar and the meltdown in the U.S. housing industry stemming from the sub-prime mortgage debacle have combined to deliver what many experts describe as a devastating one-two punch to an already troubled industry. Instead of trying to minimize falling profit margins, as the goal had been over the earlier declines, most firms are now merely seeking survival for the short run, while contemplating quite dramatic strategic changes for the longer term.

Many of the mill closures to date have been within the small and medium-sized, less integrated business enterprises. The larger multinational companies, although seriously affected, had managed to weather much of the turmoil within the market--that is, up until last year. But when the Canadian dollar surged to its height of \$1.10(US) last fall, and now settling in at or above parity with the U.S. dollar, the cost of doing business in Canada has escalated to artificially uncompetitive levels. In just a year, the cost of doing business in Canada for these U.S.-export-dependent companies has soared by 20%, increasing the cost over the past five years by 60%. Such massive cost increases have become intolerable for even the largest multinational pulp and paper corporations.

Some might argue that these firms previously profited considerably from Canada's lower-than-justified dollar. True, but "correcting" such a perceived currency rate imbalance so rapidly over such a short time-frame has been blatantly destructive for workers, communities, and society. Even those with a less than progressive viewpoint must see this "overcorrection" as an excessively inefficient act of market failure. The time frame for this radical reversal of the exchange rate has not been nearly long enough to allow for any industry dependent on exports to make necessary adjustments, let alone one that was already facing many other serious problems.

As if the steep rise in the dollar was not enough of a challenge for the forest industry, the other shoe to drop was the collapse of the U.S. housing market over the past several months. This has shrunk a once lucrative export market to a shell of its former size. Rubbing salt in the wound, this much lower American demand for lumber can now be easily met by the multinationals operating in Canada from their much-lower-cost mills located within the U.S. (due to the dramatic rise in the Canadian dollar). The U.S. housing decline shows no sign of abating. It will be some time before the bottom is hit and one of the larger markets for Canadian forestry products to once again regains its former strength.

The pressures on the forestry industry in Canada, given the current state of the market, do not offer much respite. On the contrary, there are growing fears that the Canadian dollar will only continue on in its ascent and that the American dollar could eventually be even further devalued in the hope of recharging the now recession-bound U.S. economy. Along with these devaluing forces, we have the pegging of the Canadian dollar to the price of oil and other commodities such as gold by international financial speculators. The price of oil has continued its climb and now is above the \$100-a-barrel level, while gold has shown dramatic strength in surpassing the \$1,000-an-ounce level.

Compounding the problem is the refusal of the current federal government to make any effort to manage the country's currency or intervene in its appreciation. There are some very tangible policy responses that the Harper government could have implemented to curb such a rise in the dollar and its impact on export-oriented industries. Instead, it has sat watching idly from the sidelines as forestry and other industries, communities, and workers have been victimized by the exchange-rate-generated economic turmoil.

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The forestry sector is spread from one end of the country to the other. Typically located away from major cities, forest industry operations serve as one of the major providers of high-quality, high-paying jobs for these smaller communities. The average annual wage reported in the sector by the Forest Products Association of Canada in 2005 was \$46,300, a rate that is significantly higher than the national average. These wages are also what drive the growth of indirect supportive jobs in these communities, many of which also send intermediate goods to larger Canadian cities, helping to create jobs downstream. So the loss of all these forestry jobs has had adverse effects on Canada's socioeconomic structure that, while hard to measure, have assuredly been far-reaching and destructive.

Given the geographic and demographic dynamics, efforts to ameliorate the effects of the huge job losses in these rural communities are more difficult and complicated than they normally are in larger cities. Typically, a response by policy-makers to such workforce adjustments takes the form of worker retraining. However, given the limited economic opportunities within these remote communities, retraining is not as readily implemented as it might be in the larger urban centres. This usually means that, if a displaced worker opts for retraining, labour mobility must also be provided. But, considering that many of the laid-off forestry workers are in their 40s and 50s, is it really feasible to consider retraining them, uprooting them from their homes, moving their families, and finding suitable alternative work and housing for them in the cities? For many, perhaps most of these workers, this not a workable solution to their plight.

Kim Ginter, newly-elected Vice-President of the Communications, Energy and Paperworkers Union of Canada (CEP), has spent many years representing workers in these communities and has an intimate knowledge of their make-up.

"Many of these small cities and towns," he says, "have become familiar with the crisis in the forest industry, with the ebb and flow of temporary and permanent layoffs, but in the last two years the devastation has become far more critical, resulting in complete shutdowns. Mortgage foreclosures and personal bankruptcies are some of the personal effects caused by this downturn. This has been hard on workers and their families, and in some cases it has resulted in severe mental distress leading to suicide. This tragedy is not only related to the forest industry, since many of these high-quality jobs are interconnected to others in the community. The CEP has gone so far as to set up a mental health outreach program to help cope with the pain of adjustment and the whole brute force of change."

The entire future of the forestry industry in Canada is currently at stake. A crossroads has been reached. The industry needs some serious rethinking and reshaping for both the short-term transition period and towards defining a longer-term future. Accepting the status-quo will only invite further

decline. It is time that government, organized labour, industry, and environmental groups came together to chart this course and bring about change and innovation that targets a whole new level of prosperity and sustainability for the longer run.

The dramatic changes brought on by the environmental movement have far-reaching implications and opportunities for forestry industries around the world. Canada has been blessed with some of the largest tracts of forested areas on the planet, and our legislative jurisdiction over these vast domains has also vested us with the responsibility to act as their wise guardian and custodian. We must take up this challenge and set policies that are not confined—as they have been in the past—to short-term, market-oriented, profit-maximizing goals. There is too much at stake here to let these narrow market forces continue to prevail.

We need a process that invites all participants and stake-holders to join in shaping the required long-term priorities and vision. And once this consensus is reached, we need to craft the appropriate policies to implement the requirements of this custodial role. Labour leaders from both the United Steelworkers (USW) and the CEP have been calling on the federal government to take the lead in developing such a task force, but so far their calls have fallen on deaf ears.

“We are working hard,” says Kim Ginter, “to persuade governments at both the provincial and federal levels to speed up their decision-making and provide support and assistance to these workers. So far, governments have been less than responsive and it really is a travesty in how slow that required response is making it down to the shop floor. We need to get help to these communities now!”

The B.C. government recently set up a consultation process and an advisory committee, but, while it is at least more than the federal government has done, most of those invited to participate have been business leaders. Without the balanced views and proposals of all stakeholders, nothing but a return to the blind reliance on market forces can come from this process. Labour and environmental groups must be invited to serve as equals in any meaningful effort to save and reinvigorate the ailing forest industry. Such a process needs to be set up in every province, but most importantly at the federal level to oversee, moderate, and mediate different provincial views and approaches.

In a recent show of solidarity, labour representatives from the Canadian Union of Public Employees and the United Steelworkers joined in a fact-finding mission. They visited many smaller communities in northern British Columbia that are suffering the devastating effects of mill closures. This was an attempt to raise awareness of the need for action to relieve the burdens that have fallen heavily on these workers.

Ken Neumann, Canadian Director for the United Steelworkers summarizes, “We need solutions to the forest-sector crisis right now. Both the federal and provincial governments have been very slow to understand the magnitude of the problem, let alone deal with it. In British Columbia, for instance, there has been a flood of raw-log exports since 2001 at the same time that at least 46 wood-processing plants and sawmills have closed, at the cost of over 20,000 jobs. There have been similar job losses and impacts on communities in Ontario. Yet neither the Harper Conservatives nor the BC or Ontario Liberals have done anything other than make the situation worse.”

There is a possible future that shines brightly for the forest industry. The traditional methods have run their course, but a great potential remains to be tapped. New technologies, environmental priorities,

alternative fuels, and new product markets offer innovative and fruitful avenues that could be taken by the forestry industry in Canada. It will take research and development, plenty of original thinking, some retraining of the workforce and a lot of investment in asset development to make this happen. But, with the right leadership and a commitment to needed change, our forestry industry can be restored to its former health and economic power while concurrently becoming a lot more environmentally responsive—perhaps even to a new level of sustainable prosperity.

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**“The rapid rise of the Canadian dollar and the meltdown in the U.S. housing industry stemming from the sub-prime mortgage debacle have combined to deliver a devastating one-two punch to an already troubled industry.”**

**“New policies must be set for the forest industry that are not confined—as they have been in the past—to short-term, market-oriented, profit-maximizing goals. There is too much at stake to let these narrow market forces continue to prevail.”**