

FOREST INDUSTRY AT A CROSSROADS (Part II):

**Stakeholder consensus is needed to rescue industry in crisis**

**Shortsighted market-based management approach has to change**

**Governments and their agencies**

**still sitting on the sidelines**

*By Paul Tulloch*

Part I of this essay provided a brief overview of the crisis in Canada's forestry sector. Part II focuses on finding a way forward, briefly outlining directions and possibilities. This is by no means an exhaustive list of options, but rather a selective review of research, experience, policies and ideas stemming from a variety of sources. These include union research, documents and interviews; government and non-government information and publications; business research and journals; and environmental and Aboriginal resources, both domestic and international.

As noted in Part I, the current crisis in the forest industry is nothing short of a national tragedy. The industry has shed over 110,000 jobs (about one in four workers) over the last five years. Given the piecemeal and haphazard approach by policy-makers to date, one is hard pressed to believe that government leaders realize how deeply and broadly this crisis has spread. It is going to take concerted leadership, planning, and action by all levels of government, as well as labour and management, to restore a viable and prosperous industry to these beleaguered communities and families.

The future of forestry in Canada also transcends our borders. The industry is now operating in an environment dramatically affected by climate change and the calls for massive reductions in greenhouse gas emissions. Ecological experts tell us that healthy, CO<sub>2</sub>-breathing forests are highly correlated with forest management, which now figures prominently in the international community's plans to curb global climate change. This will increasingly give rise to both constraints and opportunities in the future regulation of the forestry industry. As a developed nation, Canada is expected to meet this challenge head on. The world looks to our country for leadership and guidance. We can improve our international reputation by taking a leadership role in the global effort to protect the world's environment.

At the crossroads where the forestry sector now stands, we have a critical choice to make. We can choose to ignore the mounting pressures for change and keep following a business-as-usual course, with all the risk of further industrial decline this would entail. Or we can respond to the challenge for change by developing new ideas and resources, forging an industry-wide consensus, and then taking the necessary remedial actions. The prospects are bright that, with this kind of resolve and collaboration, we can transform the industry and assure its future economic success and sustainability.

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New leaders will emerge in the world's forest industry in the coming decades. Those who can innovate and effectively meet the challenges the industry now faces will create thriving plants, communities, and markets, bolstering the national economies of their home countries.

To forge this bright future, however, a process of change must be carefully thought out and implemented. The process must involve the input and participation of all key stakeholders. Business interests must be induced to provide the needed new investment, but the short-run profit motive alone must not dictate policy-making, as it has so many times in the past. It was the companies' fixation on profitability, along with government's reliance on deregulation and market-based outcomes, that led to the Canadian industry's current plight. In retrospect, nothing better could have been expected from the resulting boom-and-bust cycle, the increasing export of raw logs, the torrent of layoffs, and the complete or partial shutdowns of hundreds of mills.

The Steelworkers' union, in its *Ten-Point Plan for the B.C. Forest Sector*, described the industry's decline in graphic terms: "From a tiny fraction of the total provincial harvest in the 1990s, log exports surged to 3.2 million cubic metres in 2001 and now exceed 5 million a year. A February 2002 order-in-council allowed export of up to 35% of all the logs harvested in the Kispiox, Kalum, and North Kalum Forest Districts. The situation is even worse on federally-regulated private lands: two Vancouver Island private-lands operators are responsible for 90% of all exports."

The Steelworkers' document also reveals that health and safety measures are being violated, resulting in more workers being killed or injured. It notes that "questionable" environmental practices are becoming the norm. For example, with only prime logs now being collected, the less desirable logs and waste fibre are left to rot in clear-cuts. And this is happening despite a shortage of chips for several paper mills. The rising price of fuel has also made the lower grades of fibre even less profitable to collect. This trend, of course, is recorded only on public lands. The owners of private lands are not required to keep such records of log harvests, so it is anybody's guess what is being collected and in what amounts. This underlines the problem posed by the lack of reliable information that in turn stems from the lack of effective regulations within the industry. Even the weak regulations that do exist are not properly enforced.

As a result, wasteful and irrational actions are starting to pervade the system, but they are excused as rational market forces necessary for weeding out inefficient operations. These market forces--or so the thinking goes--will somehow guide us to the next upturn in the business cycle.

Avrim Lazar, chief executive of the Forest Products Association of Canada, expressed this management view in a recent interview in *The Financial Post*. "Although the restructuring has caused much pain," he said, "it is also visibly leading to a more cost-competitive Canadian forest industry. The further progress required to enhance our cost competitiveness will require a more business-friendly investment climate."

Further progress? Somehow the destruction of forest-dependent communities, fatal health and safety violations, massive increases in raw log exports, environmentally damaging logging practices, and the closing of scores of value-adding forestry processing plants is felt by the industry to be “further progress.” The industry will doubtless deny that such damaging activity is ongoing, but it is apparent from much of the union and academic research that an official inquiry is needed to establish the extent of these harmful practices and press for their termination.

Clearly, industry executives have a limited vision that requires enlightenment if the present shortsighted managerial approach is to be corrected. Effective planning for the future can only be made when representatives of the industry join those from governments, unions, Aboriginal and environmental groups in coming to the table with open minds and an awareness of the need for major changes. Anything short of this inclusive process will deter the kind of participation and input from all stakeholders that a united and effective response to the crisis calls for. One of the first changes must be the adoption of tougher regulations, since no effective reforms can be accomplished within the existing deregulated market system. Given our export-based economy, dominated by multinational corporations, we need protective safeguards. We need regulations to curb arbitrary and unilateral business moves, to ensure a joint decision-making process, and give equal importance to the interests of all stakeholders.

The wide-ranging action plan that the crisis demands will require large outlays of resources. These should be provided at a level comparable to those that were marshalled in the government and industry response to the east coast fishery crisis triggered by the collapse of the cod stocks. The forest industry, its workers and communities surely deserve no less generous a public response to its present crisis than that so quickly and deservedly bestowed on the cod-fishery and its communities in their time of need.

Several proposals for dealing with the forestry crisis have already been put forward. The latest, at time of writing, was presented by the Canadian Council of Forest Ministers (CCFM) in the draft version of a document titled “A Vision for Canada’s Forests, 2008 and Beyond.” The CCFM is comprised of ministers from the provincial and federal jurisdictions charged with setting policy direction. The organization has no official powers, but provides a forum for debate and discussion of future directions. Its document, although quite informative on the implications of climate change for the forestry sector and the need for sustainability, is regrettably weak on policy ideas.

Both the Steelworkers and the Canadian Energy and Paperworkers’ unions have released policy plans and even collaborated in developing a joint proposal for capacity building to address needed changes in the industry. The USW’s *Ten-Point Plan* offers some excellent ideas that deserve consideration by policy-makers. The CEP has promoted a private member’s bill in the House of Commons stating that, “in the opinion of the House, the government should introduce a series of measures to assist businesses, communities, and workers hard hit by the forestry crisis.” The bill then goes on to outline recommendations for action that parallel both the USW’s and CEP’s joint action plan.

As for the forestry industry itself, it has been quite vocal through its various associations and has made several proposals for change. Most of these ideas, however, are based on the same purblind market-based “solution,” with little or no involvement by governments, unions, or other stakeholders. The most “progressive” of the industry-backed plans, surprisingly, has come from none other than *Financial Times* interviewee Avrim Lazaar. He outlines a strategy from the Forest Products Association that it calls “the third way,” which gives government a more pronounced role than does the traditional market-based model. The term used is a government “hosting role,” whereby governments act as facilitators of change by providing financial, tax, and R&D support.

It is stated at the beginning of this document, by the way, that this government help, if it is provided, is not in way, shape or form to be considered a subsidy. This brings us to a final point on the process of change. With the softwood lumber agreement negotiated and signed so triumphally by Prime Minister Harper and President Bush, it seems that every time any level of government offers to help ailing workers within the sector, a legal international challenge is launched by the U.S. softwood lumber industry. This, of course, is an exercise in sabre-rattling in bilateral trade circles, but eventually one of these protests could be upheld by a NAFTA tribunal, and that would have serious consequences for our troubled forestry communities and workers. It could even deter our federal and provincial governments from coming to their aid financially. That would be blatant foreign interference with our political sovereignty, but it might be welcomed by the political and business free-marketers who still want market forces to reign supreme over other stakeholder interests.

So far, not a single government or government agency has shown the slightest sign of wanting to participate in a joint effort to deal with the forest industry crisis and help formulate long-term strategies for the sector’s revival. If this nation-wide political indifference to the crisis continues, the groups that do want to hammer out workable solutions—unions, Aboriginals, environmentalists, and other NGOs--may be forced to set up their own independent review process. Although having to operate outside official policy circles, they might collectively still be able to generate enough pressure and public support to compel government and industry policy-makers to join them.

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The task ahead is formidable, and further complicated by the need to focus on short-term as well as long-term adjustments. The short-term needs are for preserving the economic, social, and cultural resources of the many forest-based communities scattered across our nation. These communities, with their thousands of skilled workers, are currently under serious threat. Their social and economic survival will be pivotal to establishing a focal point for creating a new future for the forest industry.

These communities are more than just places for “doing business”—places the multinational companies can feel free to abandon when they no longer see any profit to be gained from them. Discarding communities that have long served the needs of this industry and our country is not the way Canada is supposed to work. Breaking up families and severing social ties that have endured for generations should be neither perpetrated by corporations nor permitted by governments. That such social vandalism is tolerated is an indictment of both our business and political élites. If these blighted

towns and villages are turned into ghost towns, the future of forestry as a viable industry may die with them. Their preservation and revival must be the first step in any program to ensure the industry's future.

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Part III of this essay will focus on the short-term and long-term solutions, such as the creation of green jobs, silviculture programs, carbon offsetting, moving away from food-based ethanol to wood-based ethanol, setting up biochemical wood-fibre-based industries, and creating high-value-added forestry jobs.

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*(Paul Tulloch has worked for over 14 years at Statistics Canada, assessing and measuring work and labour trends. The third part of his essay on the travails of the forest industry will appear in our June issue. Visit Paul's website: [www.livingwork.ca](http://www.livingwork.ca))*

CALL-OUTS:

**“It’s going to take concerted leadership, planning and action by government, industry and labour leaders to restore the ailing forest industry—and the communities dependent on it—to health and sustainability.”**

**“The wide-ranging action plan the forestry crisis now demands calls for help and resources on a scale comparable to those marshalled to aid communities in eastern Canada devastated by the collapse of the cod-fishery.”**

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