



MADISON'S TIMBER PREVIEW

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British Columbia, the largest lumber producing region in North America, is likely to enter a period of labour strife. The potential for conflict is high because the companies have issued offers that amount to a challenge to a United Steelworkers union that has grown in strength since the last labour negotiations. Thus, until negotiations resolve, lumber prices will likely rise and share prices change.

The current contract between mill employers and the United Steelworkers union expired on June 30, 2009. The union representing mill workers today is stronger than the former union, the International Woodworkers of America, which was founded in 1937 as part of the Congress of Industrial Organizations. In the early years, the union organized loggers and millworkers whose employers were taking advantage of their labour, and was among the first industrial unions to eliminate wage inequality for women and workers of colour. In 1994, the union changed its name to the Industrial, Wood and Allied Workers of Canada (IWA).

In 2003, the union decided to merge with a "larger, compatible union." In 2004, the IWA selected the United Steelworkers and a merger took effect on September 1, 2004. An element of the merger agreement was the creation of the Steelworkers – IWA Council, to represent and coordinate the interests of the former IWA local unions, renamed the "Wood Council" in 2006.

There are around 60,000 Steelworkers in Western Canada that form the Union's District 3, approximately half of which works in the forest industry. Should there be a labour dispute, workers will be supported by a large strike fund which has been paid into by all the union members in the region. This is in stark contrast to the former IWA, that consisted only of forestry workers thus did not have a sizable strike fund. The merger between the IWA and the Steelworkers in 2004 caused a fundamental shift in the power structure for labour issues in the forest industry in western Canada which are now being tested for the first time. The strike fund's potential for leading to a breakdown in negotiations is accentuated by some workers who will believe that strike pay during summer is better than a looming curtailment layoff without pay.

Last week, employer groups presented their proposals to the Steelworkers union, and Canfor Corp's proposal was released outside of union members. The proposed six-year contract seeks a simplified collective agreement that covers all of Canfor's operations. Canfor says the \$50-million cost reduction, possibly involving a 20 per cent labour cost cut, will enable it to reduce cash losses and survive.

By contrast, the union has already indicated it's looking for wage increases and a shorter contract. On Friday, June 26, the Chair of the Steelworkers Wood Council, Bob Matters, informed Madison's that the union had met with all four major employers' groups and will research their proposals to seek a "progressive agreement". Matters described all four industry presentations as "ugly".

In contrast to Canfor's six-year contract offer, Matters explained the union is looking for a shorter, likely two-year, agreement. He also said that there is still speculation within the union as to whether the new contract will be tied to lumber prices. Matters said the union is working hard to "pick a winner, quickly." When compared to the state of the lumber industry, producers might prefer workers to strike or be locked out rather than suffer through protracted labour negotiations. The majority of sawmills in BC are already indefinitely closed or curtailed. It would make sense for employers to close for the rest of the summer, then come back online in September when the rising US housing starts will bring an increase to demand for lumber. However, if the industry were to limp along through the summer while contract talks go on,

then have a labour interruption in September, companies could miss out on the bulk of business for all of 2009.

From the union's point of view, the above scenario would give them greater bargaining power. There is no reason for workers to sign a long-term agreement involving a major cut to pay and benefits. Many are off work now anyway, and could get strike pay out of a labour interruption.

The union has been searching the province for a 'weak' mill, which cannot currently afford to close, in order to get an agreement preferable to the workers. On the flip side, the employers have banded together, presenting proposals that are essentially identical.

One problematic issue is a rather poor deal signed by the Pulp & Paperworkers union with a struggling pulp mill in northern BC earlier this year. The employers may try to use that contract to get similar concessions from the Steelworkers.

Of the companies involved, West Fraser, Canfor, and Tembec have significant operations in the BC Interior. Tembec is in a poor financial position and has already closed mills in BC, with rotating closures in Ontario. Western Forest Products and Catalyst Paper operate on the coast of BC, which has a separate collective agreement. Tolko will not automatically fall in line with the demands of Canfor and West Fraser.

Both Canfor and West Fraser have sawmills in the US. Of Canfor's five mills in South Carolina, only one is curtailed, thus the company would likely put an emphasis on lumber production on its US operations if there was a labour disruption at its BC locations. West Fraser has 15 dimension lumber mills in the southern US, just over half its total primary sawmill operations. The company is well positioned to transfer production capacity from mill closures in BC to those in the US. Clearly this fact will be on the minds of negotiators.

What will this mean for the lumber industry in 3Q 2009? If the union and employers argue all summer, stocking wholesalers, builders and traders will start to get nervous. Lumber futures could shoot up under a perception of threat to supply. Lumber inventories across North America are low, but nobody has been restocking as mills have been able to deliver within two weeks until now. If there is an interruption to lumber production in BC, two weeks could become two months.

Lumber prices have been rising in recent weeks but are still below cost of production. Customers may decide to order extra wood, given the expectation that prices are only going to rise as US housing recovers. If the two sides settle in late August and there is no labour interruption, lumber prices may level off or even slide.

If the union and employers find this week that they are still very far apart in terms of an agreement, there may be job action. Either the employers would force a full-scale closure or the union would walk. The Steelworkers have already been given a strike mandate in a vote two weeks ago.

Regardless of what does happen, if there is not enough lumber available out of Canada, east and west, during a short building spurt in the US before winter sets in, first privately-held mills in Canada would receive a surge of orders, as would producers, large and small, public and private, across central Canada. Then interest would turn to the Pacific Northwest, with mills in Oregon, Washington State and surrounding regions likely seeing rising demand. A spill over of demand would likely reach as far as the southern US mills, giving a boost to Southern Yellow Pine suppliers.

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