

UNCONVENTIONAL WISDOM

Reflections on Polarization, Politics, **Prosperity and the Future of the Canadian Forest Industry**

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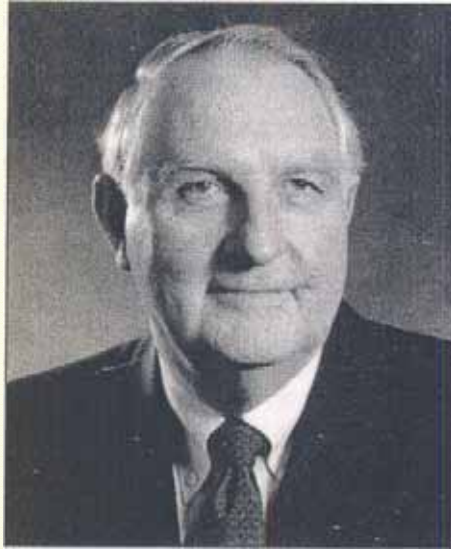
Forest Industry Lecturer

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FOREST INDUSTRY LECTURE NO. 30

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A native of Nelson, B.C. Mr. McInnes is a graduate of the Faculty of Forestry of the University of British Columbia. Following graduation, he was employed in the coastal region for two years. In 1955, he moved to the BC Interior, joining a lumber company which was subsequently acquired by Weyerhaeuser in 1965.

In 1970, Mr. McInnes was appointed Vice President of Wood Products and Timberlands, and a Director of Weyerhaeuser Canada Ltd. In 1973 he was appointed President, and in 1976 was named President and Chief Executive Officer.

Mr. McInnes has participated actively in many industry associations, including service as Chairman of the Council of Forest Industries of BC (COFI), Canadian Pulp and Paper Association (CPPA); Forest Engineering Research Institute of Canada (FERIC); BC Forestry Education Foundation; and the BC Forestry Association (BCFA).

Mr. McInnes is incumbent Chairman of the Pulp and Paper Research Institute of Canada (PPRIC). He currently serves as a member of the Forest Sector Advisory Council to the Government of Canada; Director and Chairman of the Environmental Issues Task Force, CPPA; Past-Chairman of the Dean's Advisory Committee of the UBC Faculty of Forestry; and a member of the Business Council on National Issues. He remains a Director of the B.C. Forestry Association and the Pulp and Paper Industrial Relations Bureau (PPIRB).

THE FOREST INDUSTRY LECTURERS

The forest industry in western Canada cooperates with Alberta Forestry, Lands & Wildlife to provide funds to enrich the Forestry program at the Faculty of Agriculture & Forestry at the University of Alberta through sponsorship of noteworthy speakers.

The Forest Industry Lecture Series was started during the 1976-77 term as a seminar course. The late Desmond I. Crossley and Maxwell T. MacLaggan presented the first series of lecturers. The contribution of these two noted Canadian foresters is greatly appreciated.

Subsequent speakers in the series have visited for periods of up to a week, with all visits highlighted by a major public address. It has indeed been a pleasure to host such individuals as C. Ross Silversides, W. Gerald Burch, Gustaf Siren, K. F. S. King, F. L. C. Reed, Gene Namkoong, Roger Simmons, Kenneth A. Armson, John J. (Jack) Munro, Peder Braathe, K. N. Johnson, V. J. Nordin, J. Paivanen, Conor Boyd, Peter Rennie, John A. Marlow, Gordon W. Gullion, Hugo Von Sydow, Mary Jo Lavin, Harold R. Walt, Adam H. Zimmerman, T. M. (Mike) Apsey, Bjorn Hagglund, Jerry F. Franklin, John Zasada, Clark S. Binkley, J. P. (Hamish) Kimmins, Don G. Roberts and David L. Wood.

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INTRODUCTION

I am honoured to have been selected as this year's guest lecturer in the University of Alberta's Forest Industry series. Through Dr. Dancik and Dr. Beck, I have enjoyed the privilege today of meeting both faculty and students. I am delighted to be here, and to share some thoughts with you.

Visiting this University takes me back - way back. - to my own school days at UBC, where I was an undergraduate Forestry student. One of the first things I learned after graduating was that education and schooling are not the same thing. As Mark Twain put it: "I have never let my schooling interfere with my education."

Education is the whole experience of life, both at work and at home and in all the other places and situations in between. I like that broad definition of education, and it is that base from which I would like to draw in speaking today.

As I prepared my remarks, I considered a range of potential topics near and dear to my heart: enhanced forestry, tenure systems, the challenges and opportunities of forest research, and others. I began by jotting down ideas. Very quickly, the list got fairly long. Then I tried to think of topics I thought an audience such as this might like to hear about. The list got a lot shorter.

In the end, I decided to talk about polarization, politics, prosperity, and the future of the Forest industry in Canada. As far as a modest claim to wisdom goes, I figured I would be far enough away from the office and out of earshot of my colleagues, so I could probably get away with it.

One thing I have found is that through sheer endurance in a career, people will eventually credit you with some "sage-like" insight into forestry and the industry where you work. And gray hair helps.

But before the idea of imparting wisdom went to my head, I recalled a cautionary tale about being a sage.

Back in Scotland - home of my ancestors - there were two men living in a small village who got into a terrible row. They bickered and fought and argued, and could not resolve it. So they decided to talk to the village sage, a man named - coincidentally - Angus McInnes.

Angus invited the first man to his home and listen intently to his story. The man recounted his version of the dispute, and the righteousness of his position. When he had finished, Angus said: "You're absolutely right," and sent him home.

The next night, the second man recounted his version of events, and explained he was the truly injured party. When he was finished, Angus responded: "You're absolutely right," and sent him home.

After the second man left, Angus' wife, who had heard both accounts of the same dispute, sternly rebuked her husband. "Angus, those men came in here and told you completely

different stories, and you told them both they were absolutely right. That's impossible. They can't both be absolutely right!"

Angus turned to his wife and said: "Dear, you're absolutely right."

And so it often is with sages and with Forestry issues. The issues are complicated and confusing, and defining absolute truths becomes ever more difficult.

I've learned some other things over the years. For example, I've learned that whenever world pulp supply and demand show the remotest sign of reaching a balance, you will open the newspaper the next day and read that somebody, somewhere, is building three new pulp mills.

And I've learned that if you get all the facts, search your heart for the right thing to do - and then in good conscience try to do it - at least three protest groups will probably attack you.

But, seriously, one thing I've learned from a lifetime in the forest industry is that like a lot of other groups these days, we have a tendency to get pretty wrapped up in our own problems. As our critics never tire of pointing out - sometimes we can't see the forest for the trees.

That's why we need to continually reach outside our own circle to bring in fresh perspectives on where we are, and where we ought be going.

Excellent schools like the University of Alberta are where these people can be found - including both faculty and students - people who have new insights, who think in new ways. We need that continuous renewal of human capital in the forest sector - both in industry and government.

It isn't that those of us already in the industry don't want to look for answers ourselves; but we've been awfully busy lately. Since I am most familiar with the business side, let's look at it from the perspective of a company.

Weyerhaeuser Canada represents an international export business in a global economy. Our business is based on harvesting of publicly-owned trees during a period of shifting and conflicting public values. Our survival and prosperity involves the manufacturing and marketing of forest products during a period of worldwide economic, political, and social upheaval - accompanied by a revolution in communications and information-handling technology.

Let me assure you: life is never dull! And you probably won't be surprised to hear that circumstances like these don't leave much time for deep thinking and quiet reflection.

But, even as we're struggling to put out this fire or respond to that change, the forest industry in this country cannot afford to lose sight of the fact that society moves and evolves as a result of the constant interplay and evolution of ideas.

It's important to understand that corporate strategies or official government plans are not themselves instruments of change. They are usually responses to broader changes happening elsewhere - well beyond the direct control of any private industry or public agency.

Leaders, whether in business or in government, may occasionally nudge the ship of civilization a few degrees to port or starboard. But the wise leader knows that he or she alone cannot make the ship move - let alone stop it!

What moves the ship and determines the course are the widely-shared ideas and values that society as a whole subscribes to.

A generation ago, it was ideas about growth, progress, more and more, and bigger and better, that determined where we went and how the forest industry got there.

Today, ideas about sustainability, conservation, equity, and public participation are pulling us in a different direction.

In such a changed social environment, the forest industry cannot afford the luxury of isolation. Academia, industry, labor or government cannot be islands unto themselves. We need each other.

We need to combine our individual capabilities into mutual strength. We need to challenge each other - through the exchange of ideas - to see the world through each other's eyes.

That's why I'm here today. I want to share some perceptions of the world as I see it. And I want to know who the world looks to you.

Many in the room share a common background in Forestry. Those of you who are or aspire to be professional foresters today face some special challenges.

A better educated and informed public has more doubts - and demands - of the Forestry profession. And they wonder what forests really mean when they invoke the arcane jargon and acronyms of the trade: things like AAC, MAI, LRSY.

The public has come to suspect that when foresters talk about practising integrated resource management, they really mean they'll manage for timber harvesting, and try not to mess up the other resource values too much. They are suspicious that when foresters talk about sustained yield, they really mean harvesting all the old growth.

The growing complexity of the Forestry profession confuses people. As foresters, you are challenged by public skepticism to declare where your allegiance lies: To the profession itself? To your employers? To science? To the resource? To future generations?

As foresters, you are challenged to define what it is you do: are you merely tenders of merchantable timber, or are you defenders of the ancient forest? Are you focused on raising trees as a crop, or are you responsible for entire ecosystems?

Some of the issues foresters face are purely technical: questions of biology, geophysics, soil science, hydrology, and so on. But some fall into the social and economic realm.

Today, I'm going to leave most of the scientific questions aside, even though defining the right solutions based on science is vital to the future of the forest sector. This afternoon, I want to focus instead on some of the economic and social issues that you will have to deal with.

The war in the woods is - or should be - over. And it doesn't matter who won. What matters now is finding workable solutions and a common commitment to putting them into action.

Naturally, those solutions will have to be scientifically sound. But just as importantly, they will also have to pass a social litmus test. They must meet the public's expectations of what constitutes good economics and good ecology.

And they must be capable of sailing the troubled waters of politics and polarization in the 1990's.

So, those of you about to take up the profession of forestry are entering the field at a time when society is saying to Canadian foresters: "show us".

Foresters have told Canadians that they can manage the forests for a wide range of values other than merchantable timber. And Canadians are waiting to see if your walk matches your talk.

This is an important time for foresters, a pivotal time in the evolution of the profession and the industry. And without hesitation I can say to you: It is an exciting time to be practising forestry.

Fortunately, foresters are not expected to solve all the problems of the forests and the forest economy, all by themselves. Others have skills to contribute. Others have the mandate to take action.

But you should expect to be an important member of a team that will work to set things right. And if you know what you're doing, if you have what it takes, then you have an opportunity to lead that process, and to lead your organizations.

Now, let us take a look at the state of the Canadian forest community in 1993. I'll begin with a brief economic overview; later on we'll consider the social and political dimension.

First the economics. You've probably heard it said that the forest industry in this country is in a period of transition.

It's a wonderfully neutral word, transition. And in the forest sector at least, it is often the word of choice for people who know they can't keep on doing what they've been doing - but may not be sure yet what they're going to try next.

Personally, I think transition is a fair description of the restructuring the industry has undergone, though "upheaval" comes closer to describing what it feels like to live through it. Moreover, I would argue that, although there remain some outstanding issues, and although we are still feeling our way along, the new shape of things in our industry is well advanced.

Of course, I speak mainly from my perspective as part of a western Canadian forest company, based in the nation's environmental hotbed, British Columbia. But I think what holds true for western Canada generally fits in with the rest of the country.

The forest industry's restructuring has been in response to massive changes in the global competitive environment that the Canadian industry has had to accommodate over the past ten years.

Canadian Competing in Global Industry

US South (Southern yellow pine; hardwoods) US West (softwoods)

Sweden, Finland, UK, Germany, France (softwoods)

- Eastern Canada (softwoods; hardwoods)
- Chile, New Zealand (plantation radiata pine)

Brazil (softwood; hardwood plantations)

Indonesia and Malaysia (hardwoods; eucalyptus pulps)

(potential) Russia, former Soviet states (softwood)

We still produce some of the best quality fibre and lumber in the world, but there are more producers and more capacity today than even before. For example, in Alberta we are seeing a major capacity expansion in aspen pulp by Daishowa and Alberta Pacific.

We face new competitors in the US South, South America, Asia, Australia and New Zealand. Some of them producing and selling low-cost fibre like eucalyptus, that used to be considered virtually unmarketable.

Trading Blocks

regional free trade zones (EEC 1993)

Canada/US FTA

NAFTA

tariff and non-tariff barriers falling between blocks, but persist between

Not only have suppliers and products changed; the trading entities themselves have changed. The economy is global, but a lot of the trade tends to cluster into large new trading blocks - North America, Europe and Asia-Pacific.

And of course, between and within those blocks, we can run into any number of trade restriction ploys - from visible tariffs to spurious countervail actions to sudden drops in currency values; from carefully tailored building or product codes to trade barriers dressed up as environmental concerns.

British Columbia/Canadian Companies in Global Context
Ranking of Largest Forest Products Companies in World
(1991 Sales, U.S. \$ million)

	<u>Country</u>	<u>Sales</u>
1. International Paper	U S A	\$ 12,703
2. Georgia Pacific	U S A	\$ 11,524
3. Stora	Sweden	\$ 11,136
4.* Jujo/Sanyo-Kokusaku	Japan	\$
5. Weyerhaeuser	U S A	\$
6. Kimberly Clark	U S A	\$
7. Fletcher Challenge	New Zealand	\$
8. Repola	Finland	\$
9. Svenska Cellulose	Sweden	\$
10. Stone Container	U S A	\$
11. Scott Paper	U S A	\$
12. Champion International	U S A	\$
13. Oji Paper	Japan	\$
		4.75
BC's Five Largest Combined	Canada	\$
		4.66
14. Mead	U S A	\$
15. James River	U S A	\$
16.** Arjo-Wiggins Appleton	France	\$
17. Boise Cascade	U S A	\$
18. Noranda Forest	Canada	\$
19. Amcor	Australia	\$
20. Honshu Paper	Japan	\$
21. Kymmene	Finland	\$
22. Buhrmann-Tetterode	Netherlands	\$
23. Union Camp	U S A	\$
24. MODO Group	Sweden	\$ 2,889
25. Daishowa Paper	Japan	\$ 2,836
26. PWA	Germany	\$ 2,661
27. Abitibi Price	Canada	\$ 2,424
28. MacMillan Bloedel	Canada	\$ 2,359
29. Enso-Gutzeit	Finland	\$ 2,316
30. Westvaco	U S A	\$ 2,301

* Jujo Paper & Sanyo-Kokusaka announced merger 1992.

** Merger of Wiggins Teape Appleton (UK) and Arjo-Prioux (France) in 1991. Source: Price Waterhouse.

Canada has historically been a major player in the world forest products industry, but the structure of that industry is changing. Customers are reducing the number of suppliers they use, and are demanding products manufactured exactly to fit the needs of the end user.

Internationally, we are witnessing the emergence of fewer and larger manufacturers. US, Swedish, and Japanese companies have expanded through international acquisitions and mergers to achieve economics of scale, which in turn drive:

- greater expenditures on research and development reduced dependence on commodities

- international competitiveness in era of trading blocs

In this new order, there is not one Canadian Company among the ten largest in the world. With the recent Noranda sale of MacMillan Bloedel shares, a Canadian firm will no longer be among even the top 20 firms in the world.

Sweden and Finland have three companies among ten largest in the world. Combining B.C. operations of five largest B.C.-based companies (MacMillan, Canfor, Fletcher Challenge, Weldwood, and Weyerhaeuser) would create an enterprise ranked only between the 13th and 14th largest in the world.

Canadian governments - federal and provincial - still get uncomfortable when major companies merge and grow within their jurisdictions. But there are some lessons of world-scale economics that we as a nation must better understand.

Industry Response

- shift from commodity to value-added products application of new technology

- emphasis on marketing

- customer-focused

- changing ownership/strategic alliances

Against this backdrop of change, the Canadian forest industry is also being reshaped. Although commodity production remains our main stock in trade, there has been a definite shift toward more grade and value-added products.

The industry has moved pretty boldly into the age of computerization and high-tech manufacturing equipment. The pre-1980's focus on production volume is giving way to a new priority for the marketing function.

Today, much more attention goes to product development and meeting the specific needs of the customer. The distribution chain has been shortened, there is a real commitment to customer service, and a real commitment to environmental protection.

And, while the operating style of the industry has been changing, the ownership profile within Canada has also undergone some restructuring.

The operations and assets of some of the Canadian forest industry's best known corporate names have been on the selling block in the past decade (e.g. Noranda sale of MacMillan shares; Procter & Gamble sale to Weyerhaeuser; Fletcher Challenge sale to Interfor). So there have been mergers and acquisitions.

Lately, big and small companies with parallel interests and complementary strengths have formed alliances. In Alberta, Weyerhaeuser Canada has developed a strategic alliance with TrusJoist, a major manufacturer of wooden I-beams. TrusJoist uses a proprietary web manufactured exclusively by our Oriented Strand Board facility in Drayton Valley. We are exclusive supplier to four of their plants, and we work continuously with them to optimize the properties of our panel for their use.

Our newly-acquired pulp mill operation at Grande Prairie maintains a strong, on-going supply relationship and alliance with Procter and Gamble, who manufacture the pulp into various consumer products.

Suffice to say there has been tremendous change in both the international and the internal operating environment.

The more compelling question is - how will our restructured Canadian forest industry fare in that new environment?

Market Outlook for Forest Products

Lumber: constrained timber supply; improving demand; strong price

OSB/Panels: strong demand

Softwood Kraft Pulp: over-supplied markets; weak price

Newsprint: reduced demand; record low prices now improving
prosperity can be restored, if

In the short-term at least, it depends on which segment of the industry you are looking at.

Incidentally, whenever I am pressed to predict the future, I am reminded of a story about American financier J.P. Morgan. Considered one of the financial geniuses of his time, Morgan was asked one morning how the stock market was going to do that day. Morgan replied: "It will fluctuate."

I always remember that phrase when it comes to predict future markets for forest products.

In late 1992 and into 1993, lumber has been a hot performer. The price for benchmark SPF 2x4 for March delivery is over \$400(US)/MFBM, compared to \$240(US) per thousand in December 1992.

The reason: timber supply constraints now being felt in the market. In the US Pacific Northwest, for example, there has been no new timber sales from federal public forest land for two years due to concern about spotted owl habitat. And major harvest reductions are sidely anticipated in BC over the next three years — in the magnitude of 20 to 30 percent.

Annual US housing starts are on the rebound from one million in 1991 to a projected > 1.5 million by 1994. North American lumber capacity was estimated at 56.6 billion FBM in 1992, versus projected demand for 62 billion FBM in 1993. Since there is no supply elasticity, timber shortages are expected to drive lumber prices even higher as the economy recovers. As prices rise, however, the likelihood of product substitution increases, and products such as steel studs become competitive with wood.

Rising US housing starts are also fueling demand for panel products such as OSB, which we produce in Drayton Valley, Edson, and Slave Lake. Lumber and panels are the good news.

Kraft pulp is the bad news. With a world surplus of supply, pulp prices went into free fall in recent months. Every time we think the market has bottomed out, we discover it was a false bottom. Western Canadian Kraft pulp faces new competition from lower-cost mills in the US South, Chile (radiata pine), Brazil (eucalyptus).

In the late 1980's, pulp prices peaked at around \$800(US) per tonne; today's prices are closer to \$400(US). This is a good example of market "fluctuation".

Newsprint — which is primarily a North American market, is better than has been, but still now. Requirements for recycling and intense competition have resulted in a permanent, structural drop in demand.

In the longer term, there is no doubt that worldwide demand for forest products will grow. It has been estimated that between now and the middle of the 21st century, the world would double its consumption of wood and paper.

So looking ahead, we can predict with confidence that the future markets for forest products will continue to "fluctuate". But if we can build on our strengths and address our weakness-es, the Canadian forest industry's future is very positive.

In other words — provided politics and polarization don't get in the way — prosperity can be restored to the forest industry. In a few minutes, we will talk in more detail about what it will take to achieve this goal.

As an industry, let's look at where we stand on balance right now, beginning with the positive side of the Canadian forest sector's balance sheet.

Canadian Forest Sector Strengths

excellent resource base and world-class manufacturing livelihood for one million

Canadians; 350 communities political stability

skilled workforce

key economic contributor

On plus side, we have, first and foremost, the resource itself. Canada still has the second largest supply of forested land of any fibre-producing country in the world.

We have built on that resource an industry which is becoming increasingly more sustain-able as we learn to farm the forests through silviculture and intensive management.

The industry is constantly upgrading its technology, though as noted earlier, the size of even our largest companies falls short of "world-scale". Our trade and distribution networks are well developed. Total annual shipments of forest products are worth nearly \$40 billion, and the industry contributes a net \$20 billion to Canada's balance of trade.

Over one million Canadians are directly or indirectly employed in the forest sector, and some 350 communities depend on forest industry operations for the bulk of their livelihoods.

We operate close to our major market — the United States — connected by an improving transpiration infrastructure.

All of our existing strengths carry forward into the future, and as an industry we are committed to sustainability. We are operating in a politically stable country — notwithstanding a compulsion for constitutional introspection. And we are a country with a relatively skilled and educated workforce.

Finally, we are an essential contributor to the economic well-being of Canada as a whole, and to most regions of the country.

Well, that's the sunny side of the street. Now for a walk on the shady side.

Canadian Forest Sector Weaknesses

manufacturing over-capacity.

higher operating costs

capital demands for environmental compliance

high taxation and regulatory costs

polarization on issues (e.g. wilderness demands)

The Canadian forest industry's weaknesses include operating costs which are high by world standards: not just wages and benefits, but the increasing cost of energy and raw materials. We are distant from many major markets, creating a transportation disadvantage.

B.C. is experiencing an over-capacity of manufacturing capability for the available timber supply, based on current levels of forest management. The circumstances which lead B.C. to over-commit its forest resource - which included political demand for new mills, along with the need for existing mills to grow to stay competitive - will hopefully not be repeated in Alberta.

The financial profile of the industry is also undergoing a transition. Forest products have always been a capital-intensive business, but lately the focus of investment has been more on meeting stricter environmental standards, and less on additions to productivity which improve the bottom line.

No discussion of investment patterns in the industry can fail to note that, historically, returns to investors have often not been worth cracking a bottle of champagne for. Over the past 10 years, investment in the industry would have shown a substantially higher return invested in Canada Savings Bonds.

The economics of the industry have also been arbitrarily changed by regulatory and taxation measures that do not take account of market factors.

The costs of taxation and regulation — and their insensitivity to market and financial conditions — is a source of deep concern. In B.C., there is growing worry about inconsistencies in forest policy ranging from allowable cut methodology to forest tenure to demands for wilderness preservation to the impact of Aboriginal land claims.

Given a reasonably stable and economically rational policy environment, the private sector will have the incentive to adopt the most effective and efficient means of managing forest land on a sustainable basis. But industry cannot develop the economic rationale for sustainable management in the absence of a clear understanding of what portion of the forest is available for commercial harvest, and under what conditions.

Compounding the uncertainty is an immobilizing lack of social and political consensus over some of these issues, and the potential for destructive polarization between interest groups.

Differences between industrial and environmental players on these issues represent only half the problem. Growing differences between rural and urban perspectives on resource issues in Canada have ominous overtones for existing social and political institutions, and for the forest sector across Western Canada.

Generally speaking, we are a rural-based industry operating in an increasingly urban-dwelling society. Canadian of a generation ago could see a direct link between resource industries and their own prosperity. That's because a higher proportion of them handled those commodities at some stage of the production and distribution process.

In the three western provinces, most people are now several steps removed from the messy business of generating wealth from timber, oil and gas, agriculture and minerals.

Today, city children have to be taught the relationship between cows and milk. Many of them grow up with notions of the forest that have more to do with Disney films and TV nature documentaries than with industrial processes.

Nor is there an understanding of the connection between economic activity in the resource sector and the extent and quality of social services society has come to enjoy and take for granted. Although people are exposed to more information than ever before, few understand how the economy works, or the compelling reasons why provinces that rely on exports must maintain competitiveness.

Taking all of these strengths and weaknesses together, how does the Canadian forest sector shape up? My view is that, by investing in the right places, we can capture some of the 21st century's increased market for forest products.

But the extent of our opportunities will be limited by reductions in the available supply of fibre, and by our continued high operating costs.

And it must be acknowledged by everyone from the shop floor to the boardroom that our industry's diminished stature in public opinion is partly a result of failing to take seriously the new ideas and values that have been percolating through Canadian society.

Despite these difficulties, we are an industry with a frequently-tested and well developed instinct for survival. We will do what we need to do to survive; and if we are successful in working with all of our stakeholders, we will also prosper.

We are also more open to change than many people may think. If this were an industry that could not - or would not - change, we'd have bled to death the way other North American industries did in the 1980's.

I have grandchildren, so am reminded of a passage about change in Alice in Wonderland. Soon after falling down that fateful hole, Alice is confronted by a big blue caterpillar. "Who are you?" the caterpillar asks. Alice answers, her voice uncertain: "I hardly know, sir, at present. I knew who I was when I got up this morning, but I must have changed several times since then."

Since I began my career, we have indeed changed more than a few times in the forest industry. Here we are in the nineties. We're still on our feet, we're still moving, and we're handling what the world is throwing at us.

Beyond new products and production methods, beyond retooled mills and revised marketing plans, we are growing a new culture within the Canadian forest sector.

We're looking for ways to move beyond the old style confrontation between labour and management. A collaborative approach, flattened organizations, employee empowerment, ownership of problems - these are not just buzz words. They are practical methods for getting the job done.

And it's becoming clear that companies that practice these new values score highest in the real world of innovation, productivity and global competitiveness.

Unfortunately, the full answer to the question about the Canadian forest industry's future does not solely rest with the industry's capacity to change. We are only contributing authors of

The other chapter of the story will be written by Canadians themselves.

Just as individual forest sector employees must take responsibility for what happens to their companies, so Canada as a whole must be responsible for the health and well-being of the industries which generate wealth in our economy.

The forest industry may do its utmost to become fit to survive and prosper in a competitive world. But if those efforts are not supposed and reinforced by the actions of others, they may well be in vain.

I think what I'm saying is that to make it in the tougher, less forgiving world of the 21st century, the Canadian forest sector — industry, labour, federal and provincial forestry agencies, and the academic community - must work as a team.

We have to work together to bring down costs, increase our productivity and create a climate that encourages people to invest in new products and production systems.

And we must work together to win the support of one other important stakeholder in this equation: the owner of the forest resource.

The people of Canada must be shown that the forest sector works to their benefit. They must realize that a service economy without a strong goods-producing sector will eventually have very little economy left to service.

It is not just the forest sector that is going through a time of transition: it is our whole society.

And you see evidence of it everywhere - in our political systems; in stresses on our systems for health care, education and social services; and in other relationships throughout society.

The changes happening within the forest community must be complemented by changes in our social and political institutions. Otherwise, we will lose our sense of common purpose.

All of which brings me back again to the social and political context in which the forest sector must function in the nineties and beyond. And the best way to describe current circumstances is in four words: "All bets are off."

Look at what's happening around us. We are in an election year which may put five parties into the Canadian parliament — two of them regional, one of them openly separatist.

We have just seen Bill Clinton launch the first effort to regain control of the American federal bureaucracy and deficit. Russia and eastern Europe are struggling to rebuild local economies in the debris of communism. The United Nations struggles to address atrocities of ethnic strife deeply rooted in history.

Today, nothing stands still. Nothing is for certain, at least not for long. Yesterday's for sure is today's maybe. No premise remains unexamined.

Again, "All bets are not".

Since the alarm bell of accelerating change sounded in the forest sector, there has been no opportunity to hit the snooze button. We are wide awake.

The ferment that now boils up across the world and our country forces us to know what we're doing and why we're doing it. It forces us to make clear to ourselves — and to all the other stakeholders — the real state of the forest sector, the real problems and the real opportunities we face, and the need for a shared vision of the future.

And that's what's been happening. In B.C., we've had boards and commissions and inquiries and task forces. We've had square tables and round tables, white papers and green papers.

Everybody's been invited in to take part in this process of deciding where to go and how to get there. Everybody's had a kick at the can. If anything, we are on the verge of "process grid-lock".

We've talked, we've studied, we've consulted, we've reasoned together — but now I believe it is time to get doing. We could keep on fiddling with details forever, but a broad consensus is slowly taking shape as to what industry, labour and the governments should each contribute.

Personally, I set a lot of merit in the plan developed by the Forest Sector Advisory Committee to the federal government. This committee, called FSAC, is chaired by former IWA President Jack Munro and George Petty of REPAP.

Last year, it consulted forest communities from St. John's to Victoria. And then it put out a report entitled "Strategy for Growth" which presented a vision for the future. It is a broad vision that sees a restructuring of forestry in Canada.

It calls for larger companies and more strategic alliances. It recommends a shift toward products with increased margins and more value-added, as part of a strategy to bring sustainable development to the forest sector.

It lays out the ground rules for tripartite cooperation among industry, labour and government, with consistent public-sector policies that support competitiveness, and practical help for workers and communities affected by restructuring.

The FSAC report is no magic wand to make us all live happily ever after. But it is founded on some tough-minded principles.

Number one is: We are all in this together. Number two is: you don't get unless you give.

I would like to lay out for you some of the responsibilities the FSAC plan puts on the four key players in the forest sector. It calls upon all of them to put some new cards on the table.

New Cards: Federal and Provincial Government

allow rationalization to proceed

foster investment

coordinated response to European boycott threat

labour adjustment measures

"competitiveness audits" to ensure taxation and regulation enables competitiveness

address issues around landbase, fibre availability, tenure

alignment of stakeholders

It calls upon the federal government to let marginal manufacturing operations die a natural death, and to encourage policies which foster investment in the industry, particularly in research and development.

It wants Ottawa to back up the Canadian Pulp and Paper Association's new office in Brussels to vigorously respond the threat of product boycotts. It recommends putting more forest sector trade specialists into priority markets.

And when workers lose their jobs because of necessary restructuring to make the industry competitive, government must be ready with retaining and relocation programs that help these people make a comeback.

The FSAC reports calls upon provincial governments to help strengthen our international competitiveness, by creating a regulatory and taxation environment that takes account of industry's need to restructure and consolidate. As well, it recommends "competitiveness audits" to compare Canadian taxation and regulatory requirements with other producing regions.

The provinces must also take a practical, longterm approach to resolving resource issues, including forest land preservation, access to fibre, delivered wood costs, the cost of energy, and opportunities to support exporters through better alignment of industry, government, and labour.

New Cards: Labour and Industry

reshape and resize industry

innovation and flexibility in work systems identify skill needs and

address

renewed "social contract" with public landowners marketing, not public relations

FSAC calls upon labour to get involved in the restructuring of the industry, and to help pursue new markets and plan for the retraining and other support programs needed to reshape — and perhaps resize — the forest sector workforce.

Industry and labour must both be prepared to put some sacred cows out to pasture, and come up with innovative new ways to achieve workplace flexibility and employment security. My own experience tells me those two objectives are compatible. The trick will be to achieve a few early wins that will encourage people to take on the larger, more complex and to some extent more difficult, issues.

For its part, the industry has to allocate up to \$30 billion of new capital investment over the next five years. It must also look at ways to achieve better forest land productivity through intensified forestry. And we must do more research into new, value added products.

Operations that do not meet world competitive standards need to be phased out. The industry must also specify the skills that need upgrading in the work force, and then start working to help people attain those skills.

Finally, we in industry have to face the fact that we do not have the automatic understanding or sympathy of Canadians in the 1990's.

It would be a lot easier for governments to support a competitive forest sector if the people of Canada were comfortable with allocating the working forest to industry, and with the way we tend their forests.

And without putting an economic gun to the public's head, we must help people understand how much of their own well-being depends on whether we can sell their wood and paper.

We've lost touch with Canadians, and we must re-establish a relationship founded on mutual understanding and trust. Stated another way, we must move to narrow the perceived gap between industry's practices and policies and "greened" public values.

Of all the tough things we've got on our plate to do, this is perhaps the toughest.

Since I am getting ready for retirement, when I say we, I really mean you in this room, especially those who represent the new generation of foresters. Whether you work in private industry, a government department or a university lecture hall, you must play a lead role in fashioning the forest sector's new relationship with the public. You might call this relationship a new "covenant" — to borrow a phrase with Bill Clinton, who borrowed it from the Old Testament. What is represented is a new social contract with the public who owns the forest.

Because just as we must change, so must they.

At Weyerhaeuser, we have been studying the past communications efforts of the forest industry to understand how and why people perceive that while forests benefit humans, industry harms the forest. Industry has tried to change its negative image with information and education campaigns, along with advertising, public consultation, and other activities.

As many in this room know, the results have not been encouraging. In the ear of the public and in the eyes of our critics, industry's well chosen words have the hollow sound of slogans.

Our claims to having adopted "new, improved" forestry practices are portrayed by our critics as giving new names to the same old practices.

Some in the industry have concluded that the public is illogical, emotional, and ignorant both of the value of good forest management, and of industry's contribution to the economic and social fabric of our communities.

That old Scottish sage Angus McInnes would say to both critics and defenders: "You're absolutely right."

As an industry, we have a track record as being good marketers of our products around the world. But we are poor marketers of ideas, and of our own activities and practices.

Even when we talk in terms of "marketing", the word itself carries a negative connotation in the minds of many — the proverbial making of a silk purse from a sow's ear. But if we have learned anything in the past decade, it is that environmentalists are highly sophisticated in their approach to marketing their vision and ideas for the forest.

Jean Mater, a marketing vice president with an engineering firm in Oregon, pointed out in a speech to forest sector researchers last year that:

"The essence of modern marketing — identifying customer demands, then designing and supplying products to meet these needs — applies to perceptions as well as products."

As wilderness preservationists have long recognized, public perception is a powerful toll in prompting regulatory action by government. In European markets where extremist environmental groups have begun actively promoting boycotts against Canadian forest products, the clout of public opinion can also be felt in determining product sales.

Mater noted that marketing is based on meeting people's demands and requirements — instead of trying to persuade them to buy what industry wants to sell. We need more arrows in our quiver, and what we know about marketing products can help in marketing ideas.

For example, let's look at our toughest issue from a public perception point of view: clearcutting. For many years, we have been trying to persuade people that clearcutting is necessary. But they have not bought the idea about the negative aesthetic appearance of a clear cut is a sacrifice they must accept.

How can we apply a marketing paradigm to clearcutting? We need to better understand customer, i.e. public demand. What are public expectations about clearcutting? What are the most unacceptable attributes of clearcutting?

Historically, foresters tended to make cut blocks in the shape of squares and rectangles, making area calculations easier. We now know that we can change the size and shapes of harvesting blocks to reduce the negative visual attributes as perceived by the public.

We need to use more research to solve the problem, rather than trying to use public relations to convince people there is no problem. Once we implement changes, we need to tell the public what we have done, and how it will help us meet their expectations.

Since many in the industry are spending as much time in the market place of ideas as we are in the market place for our products, we must find a way to do it better.

Can this approach solve a problem as intractable as clearcutting? Well, probably not. On this issue, we are playing a game of catch-up. The powerful visual images which have been used around this issue, and the negative perception which has coalesced around clearcutting, are likely irreversible.

But for most other issues, we still have an opportunity to influence public opinion where the public debate is still young, and public perceptions have not hardened. Many issues fall into this category, including tenure, forest land zoning for commercial forestry, harvest levels, and forest practices.

All of these issues are fundamental to our future, and we need to be more creative in maintaining our place in the economic order by effectively presenting our ideas in the arena of public opinion. There is clearly a benefit in bringing the tools and discipline of marketing to bear in the public debate.

New Cards: The Public

dedicated land base for commercial forestry

realistic expectations

understanding of competitiveness

Just as industry must be prepared to work with government and other stakeholders, Canadians must be willing to support government policies that work with industries, not against them.

They must be prepared to support public policies that will provide stable and secure access to a sustainable supply wood fibre — policies that recognize the close relationship between certainty and predictability in allocation policies and sustainable forestry practices. It must begin with a landbase dedicated to commercial forestry and sustainable, competitive forestry practices.

Most important of all, the public must have realistic expectations of what governments can do and understand the relationship between global competitiveness and the quality of life here in Canada.

But even as those of us in the forest sector seek to restore public trust and confidence, it is important to appreciate the elusive nature of the task force before us. In many respects, it is a goal that can never be fully achieved.

A report prepared by Peter Woodbridge for the Forest Summit '92 conference in Vancouver last fall sums it up well.

The paper, titled a Strategic Framework for B.C.'s Forest Sector, says:

"The forest sector will never be able to say "we've arrived" in terms on achieving full public trust and confidence. Instead, the process of constantly striving to achieve dynamic, reasonable expectations, and being seen to do so, will ensure British Columbia's forest sector will be well positioned to receive the support of most British Colombians"

Those of you embarking on careers in Forestry in the 1990's obviously have a big job ahead of you. And while I can assure you that it will not be without its trials and tribulations, it will also have its rewards.

The future of the forest sector will be an achievement, not a gift. It has to be earned, and everyone in this room can make a difference in achieving it. As foresters in business, government, and academia, you all do important work.

That is the conclusion of my formal remarks, but I would like to leave you with a few words of practical advice.

Although I don't have any hard and fast prescriptions for you to follow, I would like to finish with a few suggestions about some of the strategies you might employ to cope with the politicized and polarized groups you are bound to encounter.

You can divert attention to other foresters, making them the target of environmental attacks.

You can do your best to attract them into situations where you can give them your messages.

You can appeal to their interest in the hope of distracting them from the real issues. You can joint venture with them on tourism in the woods.

Or you can take up a restful hobby like painting wildlife.

Thank you very much for inviting me.

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