The Globalization of Timber

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"*When I look at trees, the branches are dollar bills.*"
-- lumber baron Jean-Jacques Cossette, Groupe Forex, Quebec.[1]

The effects of deforestation have been known since ancient times. Empires from Roman to colonial times have expanded to acquire wood supplies for shipbuilding and fuel for industry, and have collapsed when those wood supplies were depleted.[2] The post-World War II ascendancy of U.S. timber corporations has brought the industry to new heights, and promises to take it to new lows as well. The global timber industry has tried to escape the ecological limits to raw materials, and the social and economic limits to markets, by relying on frontiers. While multinational timber corporations use the rhetoric of sustainability and jobs, the centuries-old reality of cut and run continues. Despite the public relations strategies of the corporations, timber industry overcutting has been confirmed by numerous industry, academic, and government studies. Now that the end of the forest frontier is being reached, free trade agreements are threatening to remove the last barriers to total industrialization and depletion.[3]

Globalization is a current term for the horizontal and vertical integration of manufacturing and trade on an international level. The vertical integration of the wood products industry "is probably the single most recognized characteristic of the industry" -- for example, most paper sales are by corporations which also control timberland.[4] Now the horizontal integration of the industry is also being completed, as corporations like International Paper spread their operations to dozens of countries.

Globalization forces everyone to compete with the cheapest producers. In the early 1990s, bleached hardwood pulp cost $78 per ton to produce in Brazil, $156 per ton to produce in eastern Canada, and $199 per ton to produce in Sweden.[5] Capital is naturally shifted to the places of greatest externalities, and workers and governments are drawn into competition.

Corporations, aided by their governments' agricultural and foreign aid policies, regularly dump products into overseas markets at prices below their real cost. This destroys local economies and self-sufficiency, and further promotes the externalization of costs. For example, since joining GATT in 1986, and especially since the passage of the North American Free Trade Agreement in 1994, tariffs on Mexican imports of pulp and paper have been decreasing. As a result, the Mexican paper market has been glutted by imports of U.S. paper and by the entry of global corporations like Weyerhaeuser and Smurfit-Stone -- and the Mexican paper industry has been gutted as paper prices collapsed. As one industry observer warned, "Dumping is a common behavior pattern that many large containerboard producers practice in down cycles to the export market. With globalization, this unfair trade practice will eventually effect us all."[6]

Overinvestment in particular regions puts the entire system at risk. As production and consumption are concentrated in particular regions, the global timber economy results in the vulnerability of regional economies. When the Asian economies collapsed, the regional timber economies in the U.S. Northwest and South were hurt. When Columbia Forest Products closed its hardwood veneer plant, 225 workers lost their jobs. Michael King, an attorney representing Columbia, "listed a number of factors that conspired against the plant, none of them related to the work force or management. 'It's part of the whole global economy sort of thing.'"[7]

Globalization destroys jobs in several ways. Jobs are shifted overseas as corporations seek cheap resources, cheap wood, and foreign markets. And jobs are also lost in an absolute sense, as the hyper-competition causes consolidation and sell-off of facilities. This is exacerbated in the pulp and paper and panel industries, where excess capacity has been a long-standing problem.

Capital-intensive manufacturing (such as pulp and paper) destroys local small-scale ecological and economic systems such as farm forestry. It also reduces employment, as technology and mass production replaces human labor. World-class pulp mills, which can cost $1 billion to build, create additional debt in poor countries -- and can require $1 million in capital investment *per job*.[8] The increase in capital required to continue growth in the industry has perhaps hit its limit, and capital expenditures are increasingly going towards consolidation -- buying out competitors rather than building new capacity.[9] Globalization helps the biggest corporations, not small companies. "It has been more than a quarter century since the primary producers in the paper industry created a new job."[10]

Mergers and acquisitions destroy forests as well as jobs. When timberland is sold, the buyer's debt often forces quick liquidation of timber assets and mills. Examples of this process include James Goldsmith's takeover and dismantling of Crown Zellerbach, Georgia-Pacific's takeover of Great Northern Nekoosa in Maine, and MAXXAM's buyout of Pacific Lumber.

Paper manufacturing capacity far exceeds consumption. As prices slump, investment in huge paper-making machinery becomes possible only for the largest corporations, and even they require larger and larger subsidies from their governments in the form of low-interest loans, tax breaks, and infrastructure subsides. Further consolidation of the industry, over-capacity, over-consumption, and resource depletion are further encouraged.

Overcapacity, boom and bust. The cyclical nature of the paper and wood products industries is caused by fluctuations in inflation, currency and interest rates, demand, and supply. Every five to ten years the downside of the cycle leads to price drops, wage cuts, mill closures, and ever-tighter market control by the corporations large enough to survive the recession. Traditional over-capacity in the timber industry exacerbates economic cycles, and results in the continuing consolidation of regional industries into a global industry dominated by a few huge international corporations, as less efficient (or less subsidized) producers go out of business. Although five corporations produce 60 percent of all pulp in Japan, and five corporations produce 85 percent of the newsprint in Europe.[11] Despite complaints of a supply shortage, and despite the drop in Asian demand, U.S. and Canadian mills produced 61 billion board feet of lumber in 1997, the highest annual production in a decade. One business paper, whose analysis admitted that "growing economic uncertainty and gyrating currencies" had affected the situation, reported that there were "too many North American mills" -- and continuing the myth that more consolidation in fewer hands would be good for the industry and the economy.[12]

Alternatively, in the highside of the cycle, lumber and pulp prices soar, easy credit becomes available to build greater capacity -- and then the inevitable collapse makes debt harder or impossible to pay off. As the industry loses money (the Canadian pulp industry lost $4 billion from 1991 to 1993), cost-cutting leads to layoffs and wage cuts, reduced environmental protection, and delayed maintenance. The U.S. paper industry permanently lost 6,000 jobs during the 1990-91 recession alone, and the current wave of consolidation in the pulp and paper industry is expected to cost another 50,000 jobs.[13]

Globalization shifts overcapacity from place to place. Since the Asian financial crisis, Canadian producers have increased exports to the United States to compensate for the loss of markets in Asia, so timber-product producers in the western United States have begun shipping their goods to the South.[14] And despite the Asian economic crisis, which will likely result in the shutdown of more than a million tons of paper manufacturing capacity in Indonesia, 15 new paper machines are scheduled to go on-line in the Asia Pacific by the end of the year 2000.[15] Regardless of the environmental and social costs, it's all business to some. "Global suppliers of forest products to the Pacific Rim see an opportunity to advance free trade in Asia as the region tries to recover from its financial crisis… Monetary and trade policy interests must be coordinated and integrated. Asian nations must be pressed to open their economies," according to the head of the American Forest & Paper Association.[16]

Mechanization, exports, and industry consolidation destroy jobs. Corporations make workers and environmentalists into scapegoats, while engaging in wage cuts and routine violations of environmental protections. In reality, jobs are lost through the overcutting caused by overconsumption (encouraged by advertising), mechanization (called "increases in productivity"), exports of raw logs, woodchips, and pulp (International Paper, Georgia-Pacific, and Weyerhaeuser have been major raw materials exporters), and the other effects of globalization.

In the 1970s and 1980s, the number of paper mills in the U.S. decreased by 21 percent, but the average output per paper mill increased by 90 percent. Paper production in that period increased by 42 percent, while employment in the industry decreased by 6 percent. The amount of timber cut in the U.S. increased 55 percent, while the number of logging and sawmilling jobs decreased by 10 percent, or 24,000 jobs. In just the last decade (1987-1997), employment in U.S. pulp mills has decreased by 2,900 jobs, and employment in paper mills has decreased by 12,100 jobs. Output per employee in the U.S. paper industry has increased four-fold in the last 50 years.[17] A corporation's "increase in productivity" is a person's unemployment.

In 1998, of the 38 primary sawmills in British Columbia, six were closed permanently, six more were shut down for an indefinite period, and the others were operating at reduced levels. An industry analyst drew the connections between mergers, job loss, and wage cuts when he predicted that "whether it is more shutdowns, mergers, or whatever, I think… there will be fewer people standing… I think the future… will be downsizing, amalgamation, union renegotiation."[18]

Industry critic M. Patricia Marchak explains that, "Because of automation, the globe-trotters offer much less employment… even while producing much more lumber, pulp, and paper. The decline in employment began before the development of plantation economies [in the South]. The emergence of global competitors, however, has challenged northern employers to reduce labor costs even further. Flexibility is key here: companies challenge unions to allow workers to undertake a wider range of jobs. The struggle over flexibility and employment levels is particularly heated in North America, where huge companies have control of woodlands as well as manufacturing plants, frequently have shallow roots in rural communities, and are embedded in the adversarial system of company-union bargaining."[19] Most of the new pulp and paper mills are non-union. And the numbers of wood products jobs being lost permanently does not reveal the full extent of wage and benefit cuts, the increase in part-time and contract jobs, and routine "temporary" layoffs.[20]

Globalization causes income to shift from workers to investors, and costs to shift from investors to communities.[21] A week after the merger of Jefferson Smurfit and Stone Container, the new Smurfit-Stone said it would pare its work force by up to 3,600 jobs, or 10 percent. "The restructuring is a difficult action to take, considering the impact it will have on jobs and on communities," said Roger W. Stone, president and chief executive. "However, it contributes significantly to achieving our synergy goals, increasing our competitive edge and building shareholder value." Meanwhile, International Paper and Union Camp announced their merger, and a spokesman said that closings are possible but that no decisions had been made.[22] An International Paper manager has observed that "[Job losses are] a regrettable situation. However, we live in a free market economy." [23]

Consolidation doesn't increase profits -- it just shifts income from one sector or one place to another. Few analysts understand that "size is a hindrance to success," or admit that most industry mergers and acquisitions do not generate the results expected. There is actually a *diseconomy* of scale among the larger producers.[24]

Consolidation encourages more consolidation. Share prices jumped on the announcement of the merger of International Paper and Union Camp, and Wall Street analysts and traders said they expected more consolidation in the paper industry. "This really begins to put pressure on other paper companies to become serious about deal-making," said one analyst.[25] Further consolidation in the industry is inevitable, according to another, who predicts that the number of U.S. containerboard mills (currently 50 to 60) will be cut in half by the year 2005.[26]

An industry journalist in Asia justifies the restructuring by concluding that while "being number two (or worse) at a time of overcapacity can be the kiss of death… The process [of consolidation] will be a painful one for many… but a leaner, more efficient industry will emerge from crisis… Rich Western companies have started to move in [to Asia]. Local M&A [mergers and acquisitions] is sure to follow."[27]

The chairman of Smurfit-Stone, seemingly a winner in the corporate race to survive, takes an even more enthusiastic view of the trend for a corporate CEO: "Undoubtedly, the increasing globalization of our customer base has also been a catalyst for the spate of mergers and amalgamations that are currently reshaping our industry. This most welcome process of industry consolidation will, I believe, secure a much brighter future for our businesses for the next two years and beyond."[28]

Consolidation further encourages globalization. Saying that that Mexico was currently reaping the benefits of the NAFTA free trade agreement and the market was growing very strongly, Smurfit announced plans to spend $120 million to expand its corrugated and folding carton business in Tijuana, Mexico, by introducing to the Mexican market a new patented carrypack aimed at the beverages and beer industries. Smurfit also intends to plant hardwood trees in the Campeche district to a level which could support a new mill. In 1996 Smurfit derived 14 per cent of its sales and 18 per cent of its profit from Latin America, with packaging operations in Colombia and Venezuela as well as Mexico.[29] But all is not well in Mexico. From 1995 to 1996, Mexican employment in wood products dropped 30 percent and production was cut in half, while consumption increased by 16 percent. Imports and the entry of foreign corporations has destroyed the Mexican paper industry, which had been using wastepaper for 75 percent of its fiber needs. The Mexican government's response has been to offer even more incentives to foreign corporations.[30]

Global cut and run called innovative. In 1995, *World Paper* wrote that "Diminishing access to forests, timber certification and recycling regulations have drawn innovative responses from our industry… The search for fibre is moving offshore.[31] In 1995, blaming everything from a proposed federal forest plan, high demand, disease, and forest fires, Boise Cascade said it was seeking timber outside the Northwest. Boise Cascade CEO George Harad admitted that private timber was "being cut at an unsustainable rate," and corporate spokesman Doug Bartels admitted that "in any [public timber supply] scenario we're still going to have to look offshore for timber supplies." Boise Cascade vice president Dick Parrish and other corporate officials had toured Siberian timberland. Radiata pine forests in South America, South Africa and the South Pacific (principally New Zealand) were also being considered.[32]

In an example of the schizophrenic analysis and sloppy thinking used in economic reporting, one news report cited domestic transportation costs as a limiting factor to operating mills in the Northwest, without considering the costs (financial, environmental, and social) of shipping woodchips from around the world. "While local companies can ship raw material from across the country, at some point the transportation costs are greater than the price of the finished product." Yet the article goes on to claim that "the tight supply of wood products is forcing Washington pulp mills to search far and wide for raw materials. And with pulp prices continuing to rise, analysts expect more of the mills to close as financial Darwinism takes its toll on companies that can't find the fiber." The author throws together an economic and evolutionary stew to explain why numerous U.S. paper producers were importing woodchips from South America.[33]

Free trade agreements encourage globalization by reducing tariffs and by removing labor, consumer, and environmental protections -- all of which encourages multinational corporate investment in foreign countries. Non-tariff barriers to trade that could be considered inconsistent with WTO rules include:[34]

- export controls that are used to protect local jobs or native forests.
- requirements for the reuse and recycling of paper, or for controlling the use of packaging materials.
- recovery or return schemes and certification and labeling of forest products.
- performance requirements for foreign investors such as requiring investors to take local partners, to hire local workers, to make certain levels of investment, or to transfer environmentally beneficial technology to the local government or to local companies.
- National Treatment and Most Favored Nation provisions that allow discrimination against foreign investors based on poor environmental records.
- National Treatment restrictions on foreign ownership of forest land.
- phytosanitary measures intended to control the invasion of exotic species.

Free trade increases consumption. According to studies by the World Trade Organization's Committee on Trade and Environment and the American Forest & Paper Association, tariff elimination for forest products could generate a 3 to 6 percent growth in consumption and an annual increase of $350 million to $472 million in worldwide trade for selected forest products in key markets.[35]

In May 1999, the U.S. International Trade Commission (ITC) held hearings on barriers to trade in forest products; the ITC conducting a study which will be released in October.

Free trade and globalization lead to more subsidies. Subsidies to the wood products industry include publicly-funded timber sale administration, road construction, forest fire and erosion control, tax breaks for job-destroying log exports, and hazardous waste clean-up at abandoned mill sites. Job blackmail occurs when corporations threaten to close an operation, or promise to move a mill to a new location. Workers are pressured to accept wage reductions, and local governments compete with each other to attract or retain timber corporations by offering reductions in property, sales, or other taxes, free sites for mills and port facilities, and low-cost loans or grants for equipment and modernization. The 1994 budget for Washington State, which already included $47 million in tax incentives for manufacturers that built or expanded facilities in distressed counties, "ballooned as lawmakers added provisions tailored to specific projects, such as a Boise Cascade recycling plant… and a Weyerhaeuser co-generation plant."[36] For years Ohio and Kentucky have been engaged in a multimillion dollar competition to subsidize international paper's "restructuring." The public is paying for deforestation and the shifting of jobs from one place to another, and the taxpayer and worker always loses this race.

As free trade agreements encourage the closing of domestic mills, a new layer of subsidies to globalization has been created: the U.S. Department of Labor gives "NAFTA aid" to laid-off workers for job retraining, relocation reimbursements, and extended unemployment benefits when plant closures have been caused by cheap imports or the relocation of operations to Canada or Mexico.[37]

Meanwhile the World Bank and other multilateral development banks, flush with endless taxpayer monies, provide loans for destructive and unnecessary timber operations. When local politics are not amenable to the invasion of foreign corporations, the U.S. State Department's Overseas Private Investment Corporation provides government-backed political risk insurance, such as for International Paper's takeover of a paper mill in Russia.[38]

The lobby for global timber. In May 1999, a bipartisan letter from members of the U.S. Congress urged the President to stop negotiating a forest products agreement at the World Trade Organization (WTO) until a comprehensive environmental impact assessment could be conducted.[39] Despite widespread opposition to the destructive excesses of globalization through "free trade," multinational timber corporations actively push for cheap wood, ever-increasing consolidation, production, consumption, and profits. The paper and lumber industry sector advisory committees for U.S. trade policy include the top corporations and the main industry lobby associations.

These giants of the industry have also been involved in the ongoing dispute over the importing of Canadian lumber into the U.S. -- not least because they do much of the importing. In 1994, when a free-trade panel struck down a U.S. tariff on lumber imported from Canada, the Coalition for Fair Lumber Imports, a U.S. timber industry lobby group, dropped its legal challenge of the ruling. A labor researcher said the U.S. lobby lost its strongest supporters, Georgia Pacific and International Paper, because it realized success in attacking the dispute-settlement mechanisms could have destroyed more than Canadian exporters -- the U.S. industry would also lose the market opportunities NAFTA had opened in Mexico.[40]

An independent millowner pointed directly to the conflict of interest of "companies like Georgia-Pacific, Weyerhaeuser, Louisiana-Pacific and Boise-Cascade [which] are not competing with the Canadians for the U.S. market with the same intensity that the small independents do. Those companies buy [or produce] Canadian lumber for U.S. distribution, and they thus have a vested interest in maintaining a supply of imported lumber. An [import quota] agreement that looks good to the larger companies may well lead to the demise of the independent operators."[41] The 1996 accord on Canadian lumber has not slowed the trade.[42]

These global timber giants continue to expand their overseas presence while shutting down operations at home. They are the subject of the four case studies in *The Global Timber Titans: Profiles of Four U.S. Wood Products Corporations Driving the Globalization of the Industry* (a report Commissioned by the International Forum on Globalization's Committee on Corporations).

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