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British Columbia Labor Dispute Spells Trouble and Opportunity for Lumber Companies

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Forest product lumber and plywood sawmills in British Columbia's Southern Interior could be in for a nasty labour dispute and work stoppage.

An extended [strike](#) could hit several private lumber and plywood companies, but also the B.C. interior sawmill operations of Weyerhaeuser ([WY](#)) and Tembec ([TMBCF.PK](#)).

Conversely, any loss of southern interior plywood production could benefit West Fraser Timber's ([WFTBF.PK](#)). It operates three plywood mills, including the Williams Lake and Quesnel operations in the central and northern regions of the province.

United Steelworkers represents 11,000 union members working in the B.C. Northern, Central and Southern Interior regions. Chapters in the Kelowna, Kamloops and Cranbrook areas voted 95% in favor of a strike this past week.

The forest product companies are represented by the IFLRA (Interior Forest Labour Relations Association), which is meeting with union reps who hope to hammer out a new contract on behalf of their mill employee members. The previous employment contract expired on July 1, 2009.

The Southern Interior union leaders are sour-faced because the IFLRA has so far refused to accept for them the same four year collective agreements inked with Canada's two biggest forest product companies.

The renewals were finalized with Canfor ([CFPZF.PK](#)) in February of 2010, West Fraser Timber (in late 2010), and other operators of Northern and Central Interior sawmilling and plywood operations.

Over the next few days, union representatives want to force employers to throw out a changed drug plan, make pay hikes retroactive to July 1, 2009 and change alternate shift language and related work description boundaries.

The Southern Interior has not suffered a strike since 1986 and the current dispute could escalate, as I was told by one chapter head.

B.C. Coastal mills utilize employees represented by two different unions and experienced a 7 week strike in 2007.

A quarter of B.C. softwood lumber production came from the Southern Interior in 2010, with 46% and 19% from the Northern and Central areas, respectively. The Coastal sawmills produced 10%.

Ironically, private producer Tolko, one of the biggest employers in the affected area, signed a deal to sell their Armstrong Plywood mill's whole month of April production to Japanese buyers, who were looking for temporary shelter material.

If Tolko can't supply the plywood, the alternatives are few, because US Pacific Northwest plywood producers have been making inroads into Canada due to the high Canadian dollar. This forced smaller or less competitive plywood mills to shut down.

International Forest Products (IFPA on the TSX) has their three biggest Canadian sawmills in the affected areas mentioned above, but won't be impacted directly by the strike threat.

Their newly constructed Adams Lake mill is non-union and the other two, at Castlegar and Grand Forks, are not party to the current USW negotiations, because Interfor opted out of the IFLRA when they bought these two mills from Pope and Talbot.

However, their labour contracts also ran out June 30, 2009 so Interfor will have to negotiate them as they determine the best course of action.

The upshot of the current uncertainty, in my book, is to stick to a bet on panel makers that would benefit if there is an extended strike in the Southern Interior.

This would include West Fraser Timber and Ainsworth (ANS on the TSX).

Note that to export panels such as plywood and Oriented Strand Board to Japan, one traditionally needed Japanese Agricultural Standard certification with a "JAS" stamp on the product. Owners of the JAS stamp included many Canadian producers, but few American producers.

Temporarily, Japan is allowing non-JAS panel to be imported, leaving open a window for US panel producers to export in competition with the Canadians.

In addition to Canadian names, one could buy US log producers that sell to local lumber and plywood makers, and hedge both the source of supply and the currency.

The export of logs to China and Japan is becoming a "hot" political issue because some feel the export market with its higher log pricing is penalizing the domestic wood product companies lacking a substantial fiber basket.

In the US timber REIT category, I continue to recommend Plum Creek Timber ([PCL](#)) and Rayonier ([RYN](#)), both having timberlands in the PNW.

A junior Canadian play in the log space is Timberwest ([TMWEF.PK](#)), which has been getting several brokerage upgrades lately. Tuesday, BMO Capital Markets upgraded their ratings of Timberwest, Tembec, Canfor, Fibrek, and several other names.

Timberwest owns private timberlands on Vancouver Island and the company's contractors are experiencing some delays in getting logs out due to the heavy snow conditions experienced this winter. In addition, B.C. logs must be advertised domestically before they can obtain an export permit, limiting big short-term surges.

I would trade this stock and a likely range would be \$5-6 during April. I'd be out of it before their Q1 earnings are released, typically in mid-May.

Canadian forest product stocks for the most part have been enjoying a big rally during the two and a half weeks after the devastating quake and tsunami in Japan. In my view, we must temper this enthusiasm for the potential windfall coming to Canadian forest product champions with a dose of reality.

US new home sales seem to no longer have a pulse. The latest [report](#) (for February) estimated them at a new record low annual rate of 250,000 seasonally adjusted. Foreclosures will continue to hold up new home production, the main user of lumber and panel, because new homes are priced at a significant premium to existing homes.

B.C. lumber exports to China and Japan were seasonally weak in January and lumber producer 2011 Q1 earnings releases will be weak, barring a surge in Japanese sales, which I do not expect to occur until the second half. Only panels are being demanded presently.

I suggest taking trading profits when major bank-owned brokerages are recommending the stocks and gains appear easy to make. At that point, you might expect issuances of stocks to start sprouting up like tulips in May.

Disclosure: I am long [PCL](#).

Additional disclosure: The above information was disseminated to clients and subscribers of the BCMI Report and the BCMI Flash anywhere from 12 to 48 hours before appearing on Seeking Alpha.