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In addition to the familiar challenge of a highly volatile product market, the plywood co-operatives of the Pacific Northwest face a rapidly shrinking supply of timber. Their survival depends on their ability to concentrate on high-quality, high value-added segments of the market and on renewed investment. Investment has been difficult to sustain while owner-members' real incomes have been in decline. Industry and resource supply conditions and environmental regulation provide an increasingly difficult environment for this cluster of co-ops.

For over half a century the plywood co-operatives located in the Northwestern United States have been the enduring example of successful industrial co-ops in this country. They have been survivors in a very cyclical industry characterized by a high rate of failure by conventional firms during periods of depressed markets for plywood. The plywood co-ops have generally been responsible for 10–15 percent of their industry's output. During hard times they continued operating because their owner-members relied on the income generated by them for their livelihood. Members' incomes fluctuated with the market, but production usually went on.

For several of the plywood co-operatives, this may be the final year of operation.[1] Two current conditions make this a perilous time: the familiar problem of a weak product market is now accompanied by a dramatic decline in raw material supply. These two conditions add to the difficulties of a cluster of co-ops that has struggled for the past decade with problems endemic to their industry, and to their own structure.

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Recent History

A decade ago the plywood co-op cluster numbered eleven firms operating in the states of Oregon and Washington.[2] Economic conditions for most of them peaked in 1979; the back-to-back recessions of the early 1980s left them providing less income to owner-members than they had through the late 1970s. Still, the established co-ops were able to continue producing. While production in the industry was shifting to the Southeastern US, the co-ops continued to produce a quality product from the high-grade Douglas fir of the region.[3] In addition to softwood plywood and fir-sheathed siding, some of the co-ops produced hardwood plywood from veneer from other parts of the country, marine plywood and a few other specialized products. Buffelen Woodworking, counted as a plywood co-op in earlier data because it produced some hardwood plywood in addition to doors, is now solely a door producer. The changes it has undergone are described below.

Two prominent features set the plywood co-ops apart from many other producers' co-ops. They have been written about extensively (see Berman, 1967; Bellas, 1972; Gunn, 1984; Greenberg, 1986) and a summary will suffice here. One is the working share arrangement in their ownership structure. Owner-members buy into the co-op by purchase of an ownership share first issued by co-ops-in-formation, and then transferred in external market transactions. What owner-members buy is the right to work in the mill and to share in its income. Since dividend distributions of the kind usually made to common stockholders of corporations are not the rule, the value of a working share lies in its access to a job, job security greater than that of employees in the industry, a vote in running the firm and an income differential above prevailing wage rates for similar work minus the opportunity cost of the investment.

The second prominent feature of the co-ops is that they employ hired, non-member workers. In only one of the co-ops, Multnomah, is there currently union representation of hired workers (International Woodworkers of America, IWA). In June 1991, hired workers constituted from 20 to 60 percent of the co-ops' workforces. Hired workers have no role in the governance of the co-ops. I have argued elsewhere that their presence gives the plywood co-ops the character of egalitarian capitalist partnerships (Gunn, 1984: 129–31). They are egalitarian in the sense that owner-members are generally paid equally and have equal voting power in electing boards of directors. They can be considered capitalist in the sense of the wage relationship between owner-members and employed labor, and workers' vulnerability to layoffs or dismissal.

The plywood co-ops' objective function is clearly more complex than maximizing income per worker. Levin's insight into more likely aims in a capitalist environment comes closer to the patterns of behavior they exhibit. Levin argues for understanding the objective of producer co-ops in a capitalist, as opposed to a more supportive environment, as that of maximizing 'employment, or perhaps employment stability, subject to the boundary constraint on the long-run economic returns' (Levin, 1984: 22–3). This goal is met in two ways, both of them dependent on a hired workforce. Most obviously, hired workers make up a part of the workforce that can be adjusted to meet market conditions while keeping owner-members working full-time. Alternatively, during periods of slump, owner-members can take higher paying jobs outside the firm while the mill uses a greater proportion of hired workers. When earnings for owner-members increase, they can return to assured jobs 'working their share'.

Prices of plywood co-op shares vary widely over time,[4] and the past decade has brought a marked drop in their value. The industry has experienced a dramatic downward adjustment in real wages, and the product market is competitive enough that the co-ops could not escape this trend short of significant adjustments in technology. With declining income potential, share prices have fallen. For many co-ops in the industry, significant new investment was all but ruled out by owner-members' attempts to get real wages back up to the level of the late 1970s. In a classic case of conflict between the need to reinvest and the desire for more immediate improvement in income, most of the co-ops chose income restoration. Even as a short-term strategy, it was less than successful. The 1980s brought a steady erosion of income and benefit levels for the co-ops.[5]

The plywood co-ops are small, independent firms relative to the giants of their industry. It has been clear for years that the supply of high-quality logs for veneer has been decreasing; there has been gradual depletion of old-growth logs. Major political battles have taken place in the region and in Washington, DC over the export of logs from private sellers to Pacific Rim production facilities, but to date the outcome has been determined by the commitment of the US to 'free trade'. Not owning significant amounts of timberland to which they could turn in times of tight supply, the co-ops became increasingly dependent on rights to bid on timber parcels to be cut from the extensive national forests of the region. Small business set-aside regulations in the bidding rules for federal resources enabled independent firms to tap those resources successfully. However, in 1991 a significant part of this flow of raw material came to a dramatic halt. In May, a US district court ruling blocked timber sales from expected spotted owl habitats in seventeen national forests in the Northwest. Spotted owl habitat is old-growth timber, the source of the industry's best veneer and the raw material most needed by the co-ops for their high-quality plywood.

Co-op responses to their dwindling resource base have varied. Most obviously, they now buy at a far greater distance from their mills. For many the short-term strategy has been movement further into the most specialized corners of their product market. Top-grade sanded plywood, marine plywood and paper-faced plywood forms for concrete construction have all provided niches pursued by the co-ops. Several of the firms have added enough new equipment to produce plywood panels in a variety of sizes in order to service markets in Europe, the Pacific Rim and the Middle East. Most have de-emphasized production for the 'commodity' end of the market — T-111 siding and poorer grades of plywood. Brief profiles of four of the co-ops will emphasize the range of survival strategies they have employed.

The extreme case of pursuit of a different market is that of Buffelen Woodworking, located in Tacoma, Washington. While it has been included in most writers' lists of plywood co-ops, Buffelen no longer produces hardwood plywood. Buffelen's other product, since its inception as a private firm in 1913, has been doors. Today it is one of five producers nationally of stile and rail doors, a high-quality, all-wood product that competes for the top-end home and commercial entry door market.

Buffelen is dependent on premium quality fir for its product, and it was being heavily outbid by Japanese buyers. The company has gone through a reinvestment program to enable it to get as high a yield from its raw material as its international competitors. Buffelen searched for appropriate new equipment in Italy and Japan, and worked closely with a major US equipment maker to develop the flexible, quick setup boring machinery that it needed in order to respond quickly to customer's custom orders. Buffelen has changed from annual sales of $12 million in plywood and $3 million in doors in the late 1970s to sales of $40 million in doors today. It has undertaken $7 million in new investment in that time, and plans to invest the same amount in the next few years. It has modified some of its co-op practices, and is now described as a worker-owned company. The CEO who has led this transition is Joe Guizzetti, a former electrician in the plant. He has plotted a strategy to build the value of stock shares through earnings at the same time that the firm buys back shares that come up for sale. Share prices are currently in the range of $30,000–40,000, and owner-workers make $30,000–35,000 annually if they work available overtime. Buffelen operates on an 'old-fashioned pay as you go basis', with very little debt. It fended off one outside takeover effort by making an immediate counteroffer to shareholders that was close to double the offer of the outside buyer.

Another co-op in transition is Multnomah Plywood, located in St Helens, Oregon. One hundred of Multnomah's 160 stockholders are working, along with 170 employees. Non-owning employees are in three groups: production workers represented by the IWA, supervisors and management and the office staff. Since early 1991 Multnomah has been in Chapter 11 bankruptcy proceedings. It seeks a rapid reorganization that will include use of an ESOP to bring in new capital, and make ownership available to all who work in the firm. Multnomah is on the path to satisfying its ten major creditors, including Security Pacific Bank, the lender that forced its bankruptcy. This bank and others have made it clear that they want out of the timber industry.[6] Multnomah is one of the co-ops counting on specialty markets and overseas sales in the future. Current plans call for a search for a marketing partner if and when the firm is back on its feet.

Astoria Plywood in Astoria, Oregon is a clear case of the failure of a co-op. Astoria ceased operations in February 1991. It had produced under the burden of several severe problems through much of the 1980s, and depletion of working capital and termination of its line of credit with its bank forced closure. The consensus at a number of other mills was that Astoria's demise did not have to happen. While its coastal location added shipping costs for rail transport, it was located at an excellent port for export trade. It was also well situated for timber supply. Astoria had been a profitable mill throughout the 1970s, and had made it back to profitability for two years in the mid-1980s. However, several decisions taken over the past decade spelled doom for the co-op. Most notably, it took advantage of a low-cost federal loan following the damage caused to some of its timber by the eruption of Mount St Helens. Rather than use the loan for plant renewal, it largely served to subsidize income levels for owner-members. At the time that the mill was closed $2.5 million of the $3 million loan was still outstanding. Another major blow to the co-op was the criminal conviction of its log buyer for collusion in bidding on federal timber. The conviction brought a $1.25 million fine, and, equally important, denial of rights to bid on federal sales for a year. Several people that I interviewed argued that the co-op was not doing anything unusual in the industry at the time, but as a co-op it was more public about what it was doing and an easy target. A third problem confronting Astoria was demands by the Environmental Protection Agency (EPA) that it clean up its operation. A half million dollars was spent on air pollution control equipment in 1990, and several hundred thousand dollars more would have had to have been spent to bring the plant into compliance with EPA regulations. Lastly, when Astoria's long-term manager retired in the late 1980s, the co-op went through three managers in as many years. Astoria's demise seems to reflect the extreme form of a pattern common to the co-ops in the 1980s — the attempt to keep members' income levels up while wages were being squeezed in the industry as a whole. What suffered was new investment. For Astoria, the $3 million Mount St Helens loan went to short-term income maintenance, rather than improvement of the future competitive position of the co-op. Other problems crowded in, and the market did not revive in time to make the co-op viable in its 1970s configuration.

Is there a success story in this depressing period? If so, it would have to be Hardel Mutual Plywood in Olympia, Washington. It has committed approximately $10 million to new investment and renewal over the past decade, and in twenty-two years it has not failed to turn an operating profit. Its rate of pay for owner-members has remained at $10 per hour for the past ten years, but its current availability of unlimited overtime means that owner-members average approximately $37,500 in annual income. The vast majority of the 136 working shareholders (of 144 outstanding shares) work seven ten-hour days per week. The plant runs twenty-four hours a day. Fifteen new products have been added in the past three years.

To what can Hardel's success be attributed? One factor is remarkable stability in the general manager's position for a co-op. Vic Durham has been general manager at Hardel for over twenty years. In anticipation of his retirement, Hardel's board is attempting to mix a variety of skills and a team process among its current management group. Hardel's board has also changed to staggered terms, a trend among the co-ops. It has taken many of them decades to recognize the costs that could result from possible turnovers of entire boards in one year. Most now elect a third of their members each year. Hardel has also mixed owner-members with production skills with others with management skills on its board, which currently includes members who are the plant safety director, an accountant and a shipping director, along with production workers. The plant manager was unanimously re-elected to a five-year term in 1990. Hardel has computerized its sales and clerical operations over the past two years, and its office staff functions in spartan but new facilities across from the mill.

Despite its success, Hardel is also threatened by dwindling resource supply. Hardel buys its veneer. As is the case with many of the co-ops, it has given up the 'green-end' operation of peeling veneer, and now buys that input from veneer mills. The mid-1991 runup in plywood prices enabled Hardel and other firms to pay the fast-rising prices for 'A' quality veneer, but its supply over coming years remains in doubt. A drop in product price as construction slows could squeeze producers severely. Given new supply constraints, quality veneer prices are expected to remain firm or higher. As an increasingly expensive resource, quality veneer will have to go into more specialized final products such as marine and overlay plywoods, finger joint panels and premium sanded A/C plywood. In general, the co-ops point to the need to end reliance on 'commodity' products, such as poorer plywood grades and siding, that can be produced more cheaply in the South and abroad.

Competitive Disadvantage

The rough-and-tumble competitive world of plywood production is changing in ways that leave the co-ops at a disadvantage. The industry giants such as Weyerhauser and Georgia-Pacific manage millions of acres of timberland, and they can smooth the flow of logs to their mills in ways that are unavailable to the co-ops. They can also shift production to areas of the country and the world where raw material is readily available and cheap, and where labor is inexpensive. Their current strategy de-emphasizes production in the Northwest. Should a new generation of timber and other conditions make production there viable again they can return and reopen or build new mills. If conditions are not favorable, they can ship logs to production facilities in other regions, or sell them domestically or abroad. The co-ops, of course, are location bound. They also must keep producing no matter what the disadvantages they face. Concentration and centralization of capital are hardly new phenomena, but changes in this industry remind us that they are associated with more than economies of scale in production. In the wood products industry, being a giant producer, carries with it the ability to rationalize operations on a global scale.

Changes in environmental regulation and in the economy as a whole challenge the co-ops. The Northwest's economy is undergoing a dramatic shift from resource processing and old-style manufacturing to the world of Nike and Microsoft. Environmental abuses are no longer as easily excused as a part of doing business. More subtle forms of pollution around the Interstate 5 corridor will gradually replace clear-cutting, a practice that is not only under attack for environmental reasons, but detrimental to the growing tourism industry of the area. The practice of forest management will change dramatically in the near future, particularly with increasing concern about protecting salmon habitats in streams and rivers.

Co-ops that will survive these changes will be those that can innovate and find market niches. They will be co-ops that can contain the short-term demand for higher income while generating the reserves to update plant and equipment. Only with new investment will they be able to distribute higher incomes. Their owner-members will learn to speak a new language of marketing and specialty product and equipment, or yield more power to managers who can lead them in new directions. In addition, factory work at lower rates of pay will not remain attractive to industrious new share buyers in an economy that is providing alternative forms of employment. In the end, the co-ops will only remain a viable alternative if they can continue to attract a dynamic group of owner-members.

Lastly, the plywood co-ops face the challenge to react in new ways to environmental regulation. As local small businesses in the Northwest, they might lead a campaign to create a new, sustainable-yield timber industry for the region. The Northwest's extensive federal timber holdings provide the logical resource base for such a development, and the public seems anxious to stop the exploitation of timber resources that have been endemic there. This is a heavy burden for these unusual firms, but it also may be the most likely path to their continued survival.

Notes

This article is based on interviews at five plywood co-operatives and two former co-ops in June 1991, and on telephone interviews during 1991 with representatives of all of the co-ops. Interviews took place with a mix of general managers, plant superintendents and members of boards of directors. I am indebted to Hazel Dayton Gunn and participants at the Sixth International Conference on Workers' Self-Management for comments on an earlier draft of the article. Any problems remain my responsibility. My thanks to Hobart and William Smith Colleges for funds that made this research possible.

1. As of June 1991 firms in operation were, in Washington, Ft. Vancouver Plywood, Hardel Mutual Plywood, Hoquiam Plywood, Mt Baker Plywood, Puget Sound Plywood and Stevenson Co-Ply; and in Oregon, Linnton Plywood and Multnomah Plywood. Astoria Plywood still exists as a legal entity and physical plant, but it ceased production in February 1991. Its assets are for sale. North Pacific Plywood of Tacoma, Washington was sold in the mid-1980s to WTD Industries of Portland, Oregon. WTD is now in bankruptcy proceedings.

2. The census presented in Gunn (1984: 101) is based on data assembled in the summer of 1982. Gunn (1986: 347–8) noted the addition of one new co-op for the cluster in 1984. It was Anacortes Plywood, created from the plant closed by the Forest Products Division of the Times-Mirror Corporation. That plant was originally Anacortes Veneer, founded in 1939 as a co-op, and later sold to Times-Mirror. Anacortes Plywood was undercapitalized and lasted only eighteen months. Its assets were sold to a private owner who now leases the mill to another operator.

3. In 1979 there were 96 mills operating in coastal Oregon, Washington and California. At the end of 1990 there were no mills operating in coastal California, 42 in Oregon and 13 in Washington State. This total of 55 in the region included 9 co-ops at the end of 1990, prior to the closing by Astoria. (Source: American Plywood Association Management Bulletin (1991) No. FA-260. Co-op number is from author's census.)

4. See Gunn (1984: 112, 1986: 346) for earlier range of share prices. Linnton Plywood's shares led the co-ops in price when they peaked at near $100,000 in 1979. Today they sell for roughly a third of that figure. Astoria's shares sold at $20,000–30,000 during the summer of 1990; today they are worthless.

5. Current hourly rates for owner-members range from $7.50 to $12.50 per hour, with most firms in the $8–10 range. Overtime is paid at time and a half. Most paid holidays have been eliminated. The union wage at Hardel has remained in the range of $10–10.50 for approximately eight years.

6. Old-timers in the industry indicate that banks have done this in the past. They retreat for a period, wait for the industry to shake out, and then begin to lend again. The diminishing significance of the timber industry in the region's economy may alter this pattern of bank interaction with the industry.

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