

Interview

Interview with Kenneth Hall

Vice-President and Resident Manager
Weldwood Canada—Hinton Division

Interviewed by
Peter J. Murphy



Part of the Forest History Program Interview Series

May 25 1997

[Rev. April 25 1998]

Edited by Bob Udell and Jeff Zroback September 2009



fRI *Research*
Informing Land & Resource Management



About the Forest History Program at fRI Research

fRI Research, originally the Foothills Model Forest, has been conducting research in sustainable land and forest management in Alberta since 1992. The positive impacts from the application of this research (e.g. Grizzly bears, watershed, forest history) to improving forest management and resource sustainability can be seen across Western Canada and beyond. The Forest History Program began in 1996 when Pete Murphy, Bob Stevenson and Bob Udell began a project to record the natural and management history of its Hinton Forest. This project soon expanded to add more reports and to encompass the entire model-forest land base. The program has produced a series of seven books and e-books including an Ecotour, an Ecotour App for west central Alberta, one DVD project and a series of reports about the evolution of adaptive forest management in the West Central region of Alberta.

Learn more at fhp.fRIresearch.ca

The Forest History Program Interview Series

Between 1997 and 2000, the Forest History Program conducted 33 interviews with various people who played important roles in, or were connected otherwise with the development of the remarkable forest management operation at the Hinton Forest of Weldwood of Canada. These were background information that would be used in a series of books and reports that would follow, all initiated by one book project linked to Weldwood's 40th anniversary celebrations in Hinton in 1997. Some of these interviews are posted to the fRI Research website for general reading, others are available only with permission for research purposes. All interviews were professionally edited to retain content but improve clarity but preserve content.

However, Dr. Peter Murphy had previously conducted interviews with Des Crossley and Reg Loomis, the two prominent foresters whose influence permeated the Weldwood history. These interviews are included with the Forest History Program Interview Series, with permission from Dr. Murphy and the University of Alberta, because they are too important to be left out.

Dr. Peter Murphy—Interviewer

Interviewer Dr. Peter Murphy is Professor Emeritus in Forestry at the University of Alberta, where he taught and conducted research in forest policy and forest fire management from 1973 to 1995, during which time he also held positions of Chair of Forest Science and Associate Dean for Forestry in the Faculty of Agriculture & Forestry. During his time at the University he was active in promoting the study of forest history and its importance as guidance for the advancement of forest science today. As part of this he initiated and conducted a number of important interviews with key players in Alberta's forest history, most notably Des Crossley—Hinton's first Chief Forester—and his counterpart in the Alberta Forest Service, Reg Loomis who together established the foundation of Alberta's forest management agreement system. Dr. Murphy is the Chair of the Forest History Association of Alberta, and has been a member of the Forest History Program team at Foothills Research Institute since the program began in 1996, where he has authored and co-authored a number of books and reports.

Interview Date: May 25 1997

Interview by Peter J. Murphy

Edited by Bob Udell and Jeff Zroback



*Ken Hall, 1982.
Weldwood Photo Collection.*



TABLE OF CONTENTS

Interview	5
Ken Hall's Written Summary of Activities, Events, Decisions, and Lessons from the Expansion Project.....	23
1. Formative Meeting with Province, April 1986.....	23
2. The Government Response to April 1986 Meeting and Next Steps	24
3. Announcement of Expansion and Commencement of Project Design	26
4. Some Issues Still Remained Unresolved	26
5. Project Summary Submitted to Minister Sparrow as Background to November 7, 1986 Meeting	26
6. Chronology of Events from Ken Hall's Monthly Reports.....	28
7. What can be learned internally	34
7.1 Significant Changes in Management Initiatives	34
7.2 Issue No. 1.....	36
7.2.1 Details	36
7.2.2 Impact	37
7.2.3 Recommendations.....	37
7.3 Issue No. 2.....	38
7.3.1 Details	38
7.3.2 Impact	39
7.3.3 Recommendations.....	40
Obituary	41



Interview

Murphy

I would like to start by saying thank you very much Ken for coming in from White Rock on the SkyTrain, and joining me here in the Hotel Vancouver to do this interview. To begin with, could we start with a few comments about yourself to put you into perspective. I wonder where you were raised, where you went to school, what your interests were and what got you into the business that you went into.

Hall

I was brought up in Chilliwack, BC and attended high school there. My interests were primarily in things mechanical. When I graduated from high school, I sought an apprenticeship in Vancouver and succeeded in getting an indenture with Canadian Sumner Ironworks as a machinist apprentice. I left the ironworks part way through my apprenticeship to join the RCNVR (Royal Canadian Naval Volunteer Reserve). After the war I completed my apprenticeship and attended the University of British Columbia graduating in 1950 with a BAsC in Mechanical Engineering. Following graduation I joined Bloedel, Stewart & Welch as Maintenance Engineer and subsequently Maintenance Superintendent at their Port Alberni sawmill division. Following the merger of Bloedel, Stewart & Welch with the H.R. MacMillan Export Company to form MacMillan Bloedel I was promoted to Western District Engineering Supervisor for district sawmills, plywood and shingle operations. In 1956 I was transferred to the kraft pulpmill at Port Alberni when it was in the process of being expanded and newsprint and kraft paper manufacturing added to its operation. I left MacMillan Bloedel in 1959 when the opportunity arose to join Celgar Development Ltd. as Resident Engineer in charge of the design and construction of a new greenfield sawmill at Castlegar, BC. Following completion of that project, I was assigned the task of conducting a study to determine the feasibility of integrating a sawmill operation with the existing Columbia Cellulose pulpmill operations at Watson Island. On completion of the study, I returned to Castlegar as Plant Engineer at the pulpmill. I left there in 1968 as production manager to take a job at the KVP (Kalamazoo Vegetable Parchment Company) mill in Espanola, Ontario, as Pulp and Paper Mill Manager. After a period of time there, I joined Sandwell Co. (pulp and paper consultants) in Vancouver in their management and feasibility study group and for the next four years, I was involved with management consulting activities in the UK, Mexico, and Canada for the private sector, and feasibility studies in Turkey and Nepal for the World Bank—both in identification missions and feasibility studies. In 1973 I joined Crestbrook Forest Industries as Resident Manager of the kraft pulpmill at Skookumchuk, 35 miles north of Cranbrook, BC. The mill's capacity, product quality, safety and costs results were significantly less than its potential because of a combination of a number of equipment and process deficiencies and a poor labour relations situation. I was pleased to be given the opportunity—and subsequently the satisfaction—of turning the operation around. On the other hand, the attitude of Premier David Barrett's NDP government towards the private sector was a frustrating and negative influence that, when combined with the BC forest products industry-wide labour-management bargaining results over the years, made it impossible to achieve the full potential of the provincial forest industry. Being aware of the substantially better work ethic of Albertans and the positive attitude of the Alberta government toward the private sector, being approached to move to Hinton, Alberta was indeed attractive.



- Murphy** That is a succinct, comprehensive review. So, you came to Hinton with a pretty substantial background in the pulp and paper industry, and the whole forest products industry. Had you had any association with the St. Regis people previously?
- Hall** No. I don't know how they happened to contact me, but the industry is fairly small.
- Murphy** You had obviously developed a great reputation at that point. Let's just talk a little bit more about what brought you to Hinton.
- Hall** What brought me to Hinton—I was approached to replace Jim Bowersock, Vice-President and General Manager of Northwestern Pulp and Power Ltd., effective November, 1977 on his promotion to the headquarters staff of the St. Regis Paper Company of New York. The company name was changed to St. Regis (Alberta) Ltd. from Northwestern Pulp and Power a short time later to reflect the St. Regis ownership, since the North Canadian Oils' interest as the other founding partner in the company had been acquired a number of years before.
- Murphy** Was it fully owned by St. Regis when you went there?
- Hall** Yes, it was. I accepted the offer based on an assessment of the Northwestern Pulp and Power Ltd. assets, operating, economic, and financial results, labour, provincial government and community relations—and particularly the potential of its under-utilized forest resource base which revealed an exciting opportunity to play a part in the challenge of initiating and hopefully achieving the unrealized potential of this company that had obviously eluded it for too long.
- Murphy** That's an interesting comment. Did you go to the company to explore things, to do some inquiries before you accepted?
- Hall** Absolutely.
- Murphy** It sounds as though you must have done a pretty thorough review.
- Hall** The single most attractive element identified in the review was the potential of the under-utilized forest resource base and the adjacent available unallocated forest land. The key to a successful forest products operation is obviously a quality forest resource well-located relative to its infrastructure needs (e.g. community, water supply, and transportation) and its manufacturing facilities. Northwestern Pulp and Power had just such a resource, well-located to its manufacturing facilities and infrastructure needs.
- Murphy** That is a remarkable comment Ken. In my mind, it distinguishes you from other mill managers or CEOs that I have met in many national meetings. I have the impression that the CEOs assume that the timber is there and focus more on the manufacturing and the economic environment. Were you able to form an opinion about that in your own dealings? Is that a fair statement?



- Hall** Yes, I concur with what you are saying. I found the industry (with the exception of a few companies) lacked interest in managing their forest resources effectively or insistence on provincial governments who owned 97% of the whole forest resource in the country (south of the 60th parallel) doing so. Having come from BC I was well aware of the mismanagement that existed there: the lack of tenure, the diversion of the proportion of the stumpage and royalty fees collected that were required to provide for effective forest management and renewal on Crown land by successive governments over decades to fund more vote appealing projects. Any forest renewal section promises were low on the general public's priority list and were soon forgotten or given token attention. That whole history is one of the primary reasons we have such a disaster in this province right now.
- Murphy** Let's come back to that. I would like to talk some more about it, but I don't want to interrupt the flow of your thoughts. So going back to how you accepted the offer...
- Hall** The relationship between Northwestern Pulp and Power Ltd. and the parent company, offered a management climate that was decentralized and would provide local management with the terms of reference needed to realize Hinton's potential.
- Murphy** Did you visit New York as well?
- Hall** Yes. Equally important is the fact that Jim Bowersock, who had spent a good many years in Hinton, was being moved from Hinton to the New York office, so I certainly would have a sympathetic ear since I would be reporting to him.
- Murphy** Had you met Jim previously in your association with the industry?
- Hall** Just briefly in a Canadian Pulp and Paper Association (CPPA) technical session group meeting.
- Murphy** OK.
- Hall** Some of the primary observations that were part of the assessment that I made after being approached to go to Hinton to determine whether I wanted to accept the offer were these factors:
1. It had an excellent, economically competitive northern softwood forest resource base that was under-utilized.
 2. The forest management agreement between the Province of Alberta and the company signed in the mid-50's, and its actual field application since, was and still is a model to the rest of Canada of how to achieve increasing sustained yield and virtually constant average haul distance over time.
 3. The annual allowable cut was not fully utilized and would support the addition of further lumber and pulp and paper capacity to the existing operations.



4. Favourable provincial government, community, and employee relations combined with the forest resource benefits provided an opportunity to initiate a forward, integrated, value-added development as well as increased lumber and bleached kraft market pulp production.
5. The overall operations at Hinton were competitive internationally but were restricting the forest resource potential return per unit of fibre utilized because of their scale of size, process, process control, and environmental equipment was lagging behind available technology.
6. The capacity of the manufacturing facilities for both pulp and lumber were too small to be able to remain cost competitive in the world market for its products and to avoid eventual obsolescence and consequent shut down.



Ken Hall (Centre) with Ralph Wehmhoff (left), Sr. VP, St. Regis and Jim Bowersock, V.P. St. Regis at Hinton Pulp 25th Anniversary Celebrations, May 29, 1982

- Murphy** Just to clarify a couple of things, when you commented that the allowable cut was not fully utilized at that time, were you counting on the provisional preserve or had that been taken up?
- Hall** No. The provisional preserve in the Berland had already been taken away because of the failure of the company to meet its commitment to increase production from its facilities to utilize the reserve. When it didn't occur, the government was quite right in taking it back and allowing somebody else the opportunity.
- Murphy** Did you gain any insights as to why that took place? Did the company appear to be reluctant to invest further?



- Hall** Yes, I believe they had been for some time because of the difficulty they experienced and the money they lost in the early years of the operation's history. The kraft mill had a very difficult start-up and it took an abnormal length of time to consistently reach annual design capacity. As a consequence of the experience, they would have obviously been reluctant to repeat the experience. On the other hand, they fully appreciated the potential of the forest resource and the installation of the studmill in the early 70s was probably motivated not only by an effort to better utilize the resource by integrating lumber manufacture into the operation, but also to demonstrate their continuing interest in further resource utilization.
- Murphy** Were they in a profit-making position at the time you arrived?
- Hall** Oh absolutely, and they had been for some time, but I presume that when proposals to expand Hinton were compared with other opportunities to invest available corporate capital, it didn't have sufficiently greater return on investment potential to offset the adverse experience associated with the original investment.
- Murphy** My impression was when they began, that there were technical problems in getting this new system to work smoothly, but that there were other concerns—other factors that we weren't aware of—such as global marketing and competitiveness aspects.
- Hall** No, there wasn't a problem with the marketing side of it. St. Regis, for starters, could have utilized the whole production in their own papermills in the United States. It appeared to me, your observation was correct, I think, it was primarily a whole series of technical problems that they were running into, that they weren't able to solve. That was how Harry Collinge arrived on the scene from Sandwell & Co. The St. Regis Company approached him to take a look at assessing and correcting the problems that they were facing. During the course of this assignment, he was approached to take over as general manager of the operation, and from there it was gradually turned around. When I got to Hinton, it was indeed a profitable mill. It had an excellent return on investment. However, by the mid-1970s the return on investment couldn't be sustained into the future. It was at the level it was because of depreciation; that it could favourably compete with newer mills built at significantly higher capital cost. The flipside of the coin was that while the scale of size and technology was the latest when it was built in the 1950s, it was no longer a competitive scale of size, nor was it technologically competitive to convert the forest resource—which was the jewel in the whole enterprise—in terms of quality, quantity, haul distance, and cost in the wood yard in the long term.
- Murphy** With that background, and your size up—how did you assess things at that point?
- Hall** Opportunities existed to improve the existing operation's return on investment in the long-term through operation quality, cost, and production improvements and by capital expenditures for



those projects that would be compatible with subsequent major modernization and expansion of manufacturing facilities. It would be essential to:

1. ensure that the well-established stewardship responsibilities for the forest resource were fulfilled and enhanced, not only as a commitment to the Forest Management Agreement (FMA), but to carefully guard the primary asset of the company and the key to its future.
2. identify and implement modernization and expansion projects that would sustain an attractive long-term ROE (return on equity) and hence the long-term viability of the operation for its shareholders and for the Town of Hinton, through the economic and employment contributions of the company to it and the Province. Contributions that at best would otherwise be in decline, and at worst, in time, would cease to exist. This was a scenario that was already starting to occur in other parts of Canada to the detriment of other resource-based communities.



Ken Hall strongly supported community involvement by the Company. Here he presents the First Place Trophy of the 1980 St. Regis Marathon—Hinton to Robb, 60 km—to Rocky Notnes of Hinton Nordic Skiers. Weldwood Photo Collection

Murphy

When you talk about the long-term, what time frame were you thinking of?

Hall

A long-term time frame for financial feasibility analysis of capital intensive projects is generally limited to no more than 20 years. A longer period doesn't improve a financial analysis, and the



validity of the results would be downgraded by the increasing risks of plant technical and product obsolescence.

Murphy In your notes here, you have a brief history of the initiatives—could you comment on those?

Hall I thought it would be helpful to elaborate on the implementation of those plans because there are some rather important and interesting developments that occurred—as there usually is between what you would like to achieve and what really happens. Perhaps this is the one area that has more meat in it than anything with regard to what one can learn from past experiences. So to go on with that sort of a brief history to implement the plans ...

Initiatives to address organization, productivity, cost, quality, and environmental requirements to improve the performance of the existing operation as it was, and develop the organization to address the future was an ongoing activity—just basically minding the store.

Murphy Is this what you would do first anyway?

Hall You would soon find yourself unemployed if you didn't. They don't hire you to be a dreamer.

Murphy That must be part of it.

Hall It certainly is, but you'd better mind the store first. If you don't do that, there isn't a future. The following is a bit of an outline I put together of the key events that were associated with the initiatives that took place in pursuit of the modernization and expansion of the existing operations beyond incremental capacity increases, cost improvement, or environmental improvement capital expenditures.

First was a proposal for a major expansion of pulp capacity by the addition of a bleached chemical thermal mechanical pulp (BCTMP) plant adjacent to the bleach kraft mill, the addition of a two machine light weight coated paper mill, and expanded and modernized sawmill facilities that would optimize the utilization of an expanded Forest Management Area, maximize the manufacture of solid wood products from saw logs previously chipped for pulp manufacturing, and increase the value-added benefit of high quality paper manufacture from bleached kraft pulp (BKP) and BCTMP.

Murphy Just to clarify—this plan was beyond the capacity of that present mill. When you talked about an expanded Forest Management Area, were you anticipating you could obtain an additional lease area?

Hall Yes, and overcome the stigma of having not utilized the reserve in the Berland that had been previously taken away, and quite rightly so, by the Province.



Initiating discussions with the Province of Alberta to obtain additional forest resources to supplement the existing FMA triggered the area being advertised for development with some, as I recall, 17 proposals being submitted to the Province for that resource.

Murphy I wasn't aware of that seeming incongruity in the straightforward exploration of increasing your area—that you in fact triggered events that led to the competition.

Hall I'm quite sure we did. It would be understandable that the Province would seek other proposals for the resource.

Murphy I think that is a fair assessment, because the company had its opportunity previously.

Hall That is right. Even if they hadn't, it just wouldn't be a good business decision to not do that.

Murphy Fair enough.

Hall There are some other aspects later on in that process that I took exception to. The area that had been requested was the Berland area. I think that was what it was called, wasn't it?

Murphy Yes—it was called the Berland Timber Development Area (TDA).

Hall The area that had been requested was the Berland area that had been designated as a reserve for Northwestern Pulp and Power but had been withdrawn in the past when the company failed to expand. The proposal submitted by St. Regis (Alberta) Ltd. would have more than doubled the sales return per unit of harvest compared to the best of the competing proposals that were rejected in favour of the British Columbia Forest Products (BCFP) proposal. The BCFP proposal was based on an exaggerated assessment of the wood resource in terms of total volume, and particularly with regard to the saw log component.

Murphy I'm not sure just what is coming, so tell me if I'm asking something that you will come to later. You used the term "exaggerated assessment"—did you know at the time that the assessment was exaggerated?

Hall We knew it as soon as we had an opportunity to examine BCFP's proposal. We were fortunate that we had people in our Forest Resources Department, the likes of Jack Wright, Jim Clark, Bob Udell and others, who were very familiar with a large part of that area because it was the old reserve. Because of that circumstance the company had far better knowledge than anybody else about that particular resource.

If you went back and looked at the various proposals, you would find that our assessment of the resource and the assessment of the resource done for the Alberta Energy operation, by a Vancouver forestry consultant who had previous first-hand experience with the resource area, was very close. It was regrettable that the Forest Service really did not have the information in terms of their own inventory to equip themselves as well, I gathered, as they themselves probably wanted



to be. I can recall meeting with the Forest Service and saying: "Win, lose, or draw—assess what these proposals, ours and everyone else's, are going to do for the province on the basis of what the resource is, not what somebody says it is, because each of these proposals, each one is based on a different resource assessment in terms of quality and volume. It is just ludicrous, comparing apples to oranges—you just can't do it."

Murphy Is it your understanding that BC Forest Products accepted the Forest Service inventory figures.

Hall No, they didn't.

Murphy They had an assessment done of their own?

Hall Yes, they did. Des Crossley, who was retired from St. Regis, was retained by them to assist with the work because of his knowledge of the area involved. However, the lumber production in their development proposal could not possibly be sustained by the resource base. This was subsequently clearly demonstrated at the Grande Cache mill. Even the short-term solution of concentrating on the best stands to find sawlogs didn't solve the problem.

Murphy Ken, could you comment how the decision was made from the point after the proposals had been submitted?

Hall The decision was made by the government on the basis of the recommendations of the Forestry Caucus Committee to diversify the utilization of the resource to Grande Cache and Whitecourt.

Murphy I think at the time, that's what it was.

Hall Following the Province's decision to award the utilization of the forest resource to BCFP I pursued the matter with the Hon. Mervin (Merv) Leitch, Minister of Energy and Natural Resources and evoked the response that the reason for the award was that St. Regis was an American company and that the Town of Hinton was successful and didn't need any further assistance.

Some of the background reasons why I believe the decision to award the resource to BCFP was made are as follows:

1. The Province had a policy to diversify development throughout the Province, e.g. the gas ethylene plant near Red Deer versus Fort Saskatchewan.
2. Extensive lobbying by Peter Trynchy, MLA. for the Whitecourt area.
3. Dr Ian Reid, MLA. for the Edson-Hinton constituency believed that St. Regis would proceed without the additional resource, assuming I presume that the unutilized annual allowable cut from the existing FMA was sufficient.

He and others on the Forestry Caucus Committee also probably misread the fact that St. Regis had arranged with TransAlta Utilities to proceed with ordering power line towers, subject to cancellation, for a line extension from Entwistle to Hinton to supply the substantial amount of



electrical energy required for the proposed new facilities. I believe this was so, in spite of the fact that they were advised very carefully and explicitly not to misinterpret this event as our being presumptive about their decision about the resource. This was of great concern to us that the move would be misinterpreted by them.

The sole reason for the order "subject to cancellation" with TransAlta was because the time required for the Provincial Public Utilities Board (PUB) approval process and the subsequent line construction would considerably exceed the engineering and construction time for the Hinton mill expansion project.

This time difference was critical because Time Inc., a prime and long-term light weight coated paper customer of St. Regis wanted firm assurance of additional paper supply prior to sufficient power being available at Hinton, based on the normal time lapse of at least 24 months for the PUB approval process for power lines.

Once the forest resource award was made to BCFP, the cancellation provision of the contract with TransAlta was exercised at a cost of about \$9 million and the decision was made to expedite construction of the BCTMP and light weight coated paper mill at the existing St. Regis Sartell Minnesota paper-making facility. The Hinton project was cancelled and the bleached kraft pulp required at Sartell was shipped from the existing Hinton mill. The result—we as Albertans lost the opportunity to produce a sophisticated high value-added product requiring a highly skilled well-paid work force. The BCFP project failed.

The provincial government—which did such an excellent job of developing the Forest Management Agreement at Hinton (the first in the province) with the St. Regis Paper Company in the 1950s, with both organizations being advised and guided by dedicated and skilled foresters, Reg Loomis of the Alberta Forest Service and Des Crossley from St. Regis, that provided long-term tenure, regulations that insured compliance by the Company and free of the influence of the short-term horizons to which politicians and corporate directors are exposed—lost a golden opportunity to build on this excellent base. An opportunity to forward integrate into top quality sophisticated paper-making technology because of a concept of spreading development around the province regardless of economics and employment benefits. The sad result—perpetuation of Canada continuing to be only slightly ahead of being "hewers of wood and carriers of water."

A new solution to address future survival of St. Regis (Alberta) Ltd. had to be found. The parent company's foreseeable future need for additional capacity in any of its paper products was no longer an option, which left some combination of solid wood products and market pulps as the alternative to pursue. Analysis of a number of options revealed the best choice to be a combination of utilizing the full potential for lumber production from the forest resource in a state-of-the-art lumber mill facility of a size that would be cost competitive and increasing the bleached kraft softwood market pulp capacity to the level required for the pulpmill to also become



scale of size competitive, by modernizing and expanding the existing pulpmill, utilizing the latest proven process, process control, and environmental technology. For a number of years following the award of the Berland TDA to BCFP, the outlook for St. Regis (Alberta) Ltd. to secure the additional resource that would be needed to supplement the existing FMA was confined to the area south of Highway 16 and east of the FMA, an area that already had quota assigned throughout to existing sawmill companies. As a result—even after allowing for the increase in the existing FMA Allowable Annual Cut (AAC), due to the results of forest management practices, yield improvement, and years of demand falling short of the AAC—securing sufficient tenured fibre supply was marginal. Any further significant quota sales to others in the area would prevent cost competitive modernization and expansion of the Hinton operation to secure its future viability. St. Regis (Alberta) Ltd.'s annual and five-year strategic plan submissions to the parent company continued to propose modernization, and expansion plans so vital to its long-term survival.

During the same period St. Regis Paper Company was subjected to repeated takeover attempts that each, in turn, prevented any consideration of large capital expenditures for new facilities—made any consideration virtually impossible. A number of these attempts, for example by Rupert Murdoch and Sir James Goldsmith, well-known greenmailers, were avoided by St. Regis selling off divisions of the company to try to survive. This left a cloud over all of the St. Regis operations, and St. Regis (Alberta) Ltd. was no exception. The final outcome was the demise of the St. Regis Paper Company after 85 years, but, fortunately under the circumstances, the greenmailers were avoided and what remained of the company was merged with, and became part of Champion International in November, 1984.

The future of St. Regis (Alberta) Ltd. remained potentially vulnerable with the added requirement of Champion International to assess how the various operations fit into the needs of the enlarged company, which operations were logically part of the long-term objectives, which if any would not meet return on equity objectives to ensure future success of the new company. Eventually during the same period, the non-performance of BCFP left the Berland area essentially unallocated and potentially available for development. This made sufficient additional forest resource area free of quota conflict adjacent to the existing FMA boundary. This resource area had an improved average haul distance and better resource quality than the southern resource option to fulfil the additional fibre requirement needed to make an economically viable modernization expansion project possible. Our 1985 strategic plan to modernize and expand the Hinton operations—which became Champion Forest Products (Alberta) Ltd. in October, 1985—was favourably received. Capital funds were approved to conduct a more detailed analysis of the plan enabled a funding quality, modernization expansion project proposal to be prepared to confirm projected costs and benefits for presentation to the Board of Directors.



Murphy Are you are saying, Ken, that you needed this study in order to know whether it was worth pursuing, obtaining additional lease area? At this point there was no immediate prospect of obtaining additional land?

Hall No. The technical, economic, and financial feasibility studies upon which the 1985 strategic plan was based revealed that if additional resource area adjacent to the existing FMA. could be obtained it should be possible to reach the level of return on investment set by the parent company to consider opportunities for investment that would favourably contribute to its corporate objectives of return on equity to the shareholders. The next step after the approval of the 1985 strategic plan was the preparation of a detailed feasibility study to review all of the project inputs of resource, product markets, capital and operating costs, risk analysis, etc. in much greater detail than a preliminary study warrants in order to determine that the project will in fact produce the results expected and warrant the approval of the Board of Directors. This process itself requires a significant capital expenditure to conduct that would not be justified in the pursuit of every investment opportunity at the preliminary study stage. Obviously a key part of this detailed study involved detailed discussions and reaching agreements with the Province not the least of which was the necessary additional forest resource.

This work proceeded through the fall. I might interject right now—before we get any further in this—that obviously many of the key inputs to a feasibility study, particularly one that is resource-based, must come from government in terms of resource availability, environmental assessments, taxes, levies, permits, etc. Consequently given the organization structure of government and the decision-making processes proceeding through a number of different departments to final cabinet approval can result in conflicting decisions between departments that are not evident until they reach ministerial levels. This can occur even if “one-window” access to government is provided with the result that an inordinately long time is required to finally obtain concrete approved answers to essential inputs to a feasibility study. This adds very significantly to the cost of a study and can cause sufficient delay, so that engineering and construction costs are significantly increased and start-up dates delayed to the extent that significant market commitments and opportunities are adversely affected. The elapsed time to obtain all government inputs from initial project proposal presentation to government was 33 months. This protracted time evolved from the negotiations on a number of issues with the federal, provincial and municipal governments—including the key element of determining a specific additional resource base to be added to the existing FMA, and the terms and conditions of a renewal of the existing FMA incorporating the additional area. The reason for that latter part is that we were approaching the 20 year renewal of the existing FMA , and renewal was essential in any event. During this period, all other project-related outstanding issues, terms and conditions (including financial, tax, transportation, and environmental matters) were included, and the permit to construct the pulpmill modernization



project was issued January 28, 1988 by the Province. That's how long it took. In fact we lost a piece of the market as a result.

Champion Forest Products (Alberta) Ltd. was sold by Champion International to Weldwood of Canada Ltd. of which Champion was the majority shareholder, in order to consolidate its holdings in Canada. The last project management meeting for the pulpmill project was held March 14, 1990 and all outstanding items of the pulpmill expansion modernization were transferred to Mill Operations with the project in start-up mode. By this time, the planning and development organizational requirements to manage the expanded FMA were well in hand. The sawmill development to replace the existing studmill was proceeding at a study level under the direction of Weldwood of Canada personnel and consultants. Deadline for its completion was specified in the Forest Management Agreement with the province, and was a specific requirement to retain the additional resource added to the FMA. The renewed Forest Management Agreement specified that the granting of the additional resource area addition to the FMA was contingent on completion of the sawmill project within five years. This was a logical and proper decision by the Deputy Minister, Fred McDougall, given the recent experience with BCFP and their earlier experience with St. Regis not utilizing its provisional reserve.

Murphy Given the complexities of the previous negotiations and what all was going on, how did you handle the new FMA negotiations—with whom were you dealing and how did you go about it?

Hall The negotiations to renew the Forest Management Agreement and establish and incorporate the source of the additional wood supply required by an expanded operation into the Agreement required the involvement of a number of people each with specific expertise and background knowledge acting for the Alberta Forest Service and the Company.

Murphy Do you want to return to it later?

Hall I think it would be better because you asked for a section about dealing with the government and so on. Basically your question is very pertinent.

Murphy What did you feel best about your term at Hinton?

Hall To have been able to fulfil my objectives in going to Hinton and particularly in being able to see the operation expanded and modernized to the point of being state-of-the-art to secure its future viability, and it's long-term employment and economic contribution to help ensure the future success of the town of Hinton.

The regrets—that we were unable to convince the Province of Alberta of the overwhelming benefits to the Province and Hinton of the first plan previously proposed—that would have seen both sawmill and pulpmill facilities modernized and expanded, but also a major improvement to the value-added contribution to Hinton and the provincial economy by the addition of a very large



light weight coated paper mill, the first in Canada—an addition that would have more than doubled the value-added per unit of fibre harvested, compared to the next best proposal presented to the provincial government for the development of the Berland.

Murphy

I had asked you what you felt best about. It was a very inspiring comment because I think we have the impression that companies are largely self-serving—but this suggests that there is more to it than that. Do you think that people of Hinton or the Town of Hinton itself understands what was going on here and the implications for them?

Hall

Sure they did. They were not only aware of the importance of the project to the future of Hinton—they also were proactive in their support when specific issues arose that threatened the project. For example, The Committee of Concerned Citizens for the Survival of the Hinton Expansion Project spearheaded by Brian Guthro assisted by Freda Sornberger and Ross Risvold¹ as an initiative of the membership of Hinton and District Chamber of Commerce was formed in 1986 when the project's feasibility was threatened by issues concerning matters of federal government jurisdiction, rail freight rates and the proposed imposition of a value added tax (subsequently created as the GST). Rail transportation particularly of pulp and lumber products from inland western Canadian mills is a very significant factor affecting cost competitiveness. The Company had approached CN to request a review of the following issues:

(a) Existing Hinton pulp rail rates had increased to a point that they did not meet the long standing government directive to the Canadian Transport Commission (CTC) that western Canadian pulp freight rates be competitive with western US rail rates to midwest and eastern US destinations;

(b) The proposed project would double Hinton's pulp shipments, and its inbound raw material shipments and treble lumber shipments, and since rail freight was a very significant component of our total cost and we were competing with other projects in the US and Brazil for the parent company's available capital, what would they do to assist us to secure the project considering that their revenue from Hinton would more than double?

CN responded with a five percent increase in rail rates for a cumulative percent increase in rate of 19.67% for the 1983-1986 period compared to a cumulative 6.93% rail cost adjustment factor approved by the US Interstate Commission for the US railroads for the same period. CN were clearly not living up the competitive rail freight directive for inland western Canadian pulpmills, nor was the CTC ordering them to do so.

¹ Editor's note, Brian Guthro and Fred Sornberger were local business people. Ross Risvold was Town Mayor at the time.



This situation was taken up with the Rt. Hon. Joe Clark, MP, for the Yellowhead Constituency on the basis that CN, a Crown corporation, was not living up to the CTC order and by so doing was putting an expansion project in his riding at risk—and was also in conflict with the government's often repeated objective of job creation and the intent of its Bill C-18 "Freedom to Move" legislation that proposed deregulation of all transportation modes in Canada to make them more competitive.

After a number of meetings, correspondences, and innumerable follow-up calls with the Minister and his executive assistants over a period of months the result amounted to bureaucratic stonewalling.

The other federal issue, the pending value added type tax bill, was unknown, when it would become effective and what would be the percentage amount and to what would it apply. Given the uncertainty of the potential negative impact of the tax on the capital cost of the project, we requested that the initial capital cost of the project be grandfathered, exempt of this proposed tax, particularly when no information as to the application and the percentage of the tax or the timing of its implementation would be provided to allow assessing whether or not the project would be viable or not. The subject was also addressed in the same manner as the CNrate issue by our elected representative in Ottawa. It was the fall of 1986, and these issues were unresolved, with no indication of when they would be addressed by Ottawa.

People in the community were interested in our progress and we shared with them as much as we could ethically do. Their level of interest was no doubt due in part to the loss of the previous attempt to upgrade and expand the facilities, and a genuine concern that it could be repeated.

It was upon becoming aware of the stalemate of these federal issues that The Committee of Concerned Citizens for the Survival of the Hinton Expansion Project was formed.

The Committee was very effective in lobbying both the government and the opposition, organizing a citizen's phone campaign to their MP's office, arranging meetings in Ottawa for a committee delegation and myself to meet with government and opposition members of the House, and attending a meeting chaired by the Rt. Hon. Joe Clark with members of the Canadian Transport Commission staff, David Kilgour, MP for Edmonton-Strathcona and Parliamentary Secretary to the Minister of Transport, and Keith Thompson of the Transport Minister's office. Mr Thompson was responsible to the Minister of Transport the Hon. John Crosby, for development of the proposed National Transportation Act (NTA) to replace the Canadian Transport Commission and its function when the proposed "Freedom to Move" Bill C-18 was passed and enacted.

This meeting was a pivotal event and certain undertakings by the government were made with regard to CN modifying their previous position on Hinton freight rates.



On returning to Hinton from Ottawa, I received word from CN that they would not fulfil the Ottawa meeting commitment to roll back the pulp freight rate increase that violated a Canadian Transport Commission policy.

I advised David Kilgour, of the event and that CN's action as a Crown corporation was absolutely unacceptable and arrogant and advised him that I was going to contact the Edmonton Journal Business Editor. Mr. Kilgour's response was not dissimilar, and he advised that he would also contact the paper—which he did right after I had. His comments, as reference to December 1987 copy of the paper will reveal, were supportive of the project and scathing with respect to CN's position.

A flood of phone calls by the citizens of Hinton to the Rt. Hon. Joe Clark protesting CN's response combined with the effective role of David Kilgour, in the Ottawa meetings and by his immediate response to my thoroughly frustrated phone call paid off. A significant cost impediment to the project proceeding was removed, although it still took months of subsequent persistent effort to finally conclude a binding contract. The passage of Bill C-18 "Freedom to Move", the replacement of the CTC with the NTA, and the deregulation of transportation in Canada has also changed that industry for the better.

This was not the only occasion where the Concerned Citizens Committee very effectively assisted the project. I am also certain that although the resolution of other issues of a provincial and municipal nature were protracted and consequently increased project costs; just the very existence of this committee and its proven abilities helped to reduce the time and effort required to resolve them.

Another meeting was also arranged during the delegation visit with senior staff in the Minister of Finance's office regarding the matter of "grandfathering" the capital cost of the project from application of the pending value added tax. This request was turned down and the project was left at this point at an unknown cost risk that had to be resolved.

A number of weeks later this was concluded during a subsequent visit to Ottawa. At a meeting in the Rt. Hon. Joe Clark's office attended by David Kilgour, a senior officer from the Minister of Finance's office, and myself following my presentation at a Common's Railway Committee hearing on behalf of the Canadian Pulp and Paper Association Board in support of the government's proposed Bill C-18 legislation. The purpose of the meeting was to advise me of the government's assurance that while they could not reveal when the value added tax legislation was to be tabled in the House, the legislation would not become effective until after the pulpmill project was completed, and it would not be subject to this new tax, but the subsequent sawmill construction would.



Murphy

For the record, we've taken a lunch break and we're set to resume. What we agreed Ken, is that we'd get your impression of your dealings with the provincial government. We had talked about some of the federal government intricacies, but since you were operating in a province on provincial lands, this must have been a pretty vital component of your job.

Hall

It was, and of course, without the resource, you've got nothing so that was the key element of the exercise. However, there are other issues of a provincial nature that also needed to be addressed. Before reviewing the dealings we had with the provincial government it would be helpful to briefly outline the government's objectives at that time with respect to economic diversification, the role of forest utilization in diversification, and the state of forest resource utilization and development in the period just prior to initiating discussions about a potential modernization and expansion project at Hinton.

The provincial economy of the 1983-84 period had become severely depressed, particularly because of the oil and gas industry downturn. The provincial government had resorted to the use of its Heritage Fund resources to finance its current deficit. A large number of bankruptcies—particularly in the secondary manufacturing and service sectors related to petroleum, real estate development, and construction—occurred and a consequent high level of unemployment existed.

As a result the Premier, Cabinet and Caucus were actively pursuing opportunities to encourage business development in the Province, and industry comments of assistance were requested by the Premier in the 1984 budget address.

The results for the forestry sector were positive. The Energy and Natural Resources Minister (Merv Leitch) took a more direct involvement role in the forestry section of his department—that had previously been given very limited attention due in large measure to the level of activity in the oil and gas sector of the Minister's portfolio. Forest resource business development had been perceived as, and tended to be, the responsibility of the Deputy Minister and the Forestry Caucus Committee with the Economic and Business Development Ministry playing what appeared to be a minor and tolerated role. This changed and the two ministers were seen to be required to work together more cooperatively.

By 1986 a further transition had occurred and a new Department of Forestry, Lands and Wildlife was created with Don Sparrow as Minister, and a Forest Industry Development section added headed by Al Brennan as Director reporting to Fred McDougall, Deputy Minister. Early in 1986 public speculation anticipated a provincial election in May-June with announcement as early as the first week of April—and it was.

On the industry front a number of forest industry development proposals that were potential threats to Hinton's future had been approved or were under review by the Province, commencing with the loss of the Berland area to BCFP. Also by 1984 the St. Regis Paper Company was looking at



potential sites for additional light weight coated paper capacity and Hinton was one of the locations being considered, and St. Regis (Alberta) Ltd. was still pursuing modernization and expansion of the existing facilities that had continued since the loss of the Berland resource to BCFP.

St. Regis (Alberta) Ltd.'s plans for modernization and expansion and St. Regis Paper Company's plans to increase its light weight coated paper capacity were placed in limbo by the repeated raiding of the parent company by a number of greenmailers including Rupert Murdoch and Sir James Goldsmith. This fortunately culminated in acquisition by Champion International in November 1984, another forest products company rather than acquisition by a greenmailer with no regard for anything but break up and sale of the acquired company's assets for quick profit. BCFP announced in the spring of 1984 that it was not proceeding with its proposed sawmill and newsprint mill at Whitecourt and subsequently lost its FMA, but they were given a quota to supply the Grande Cache mill with a long-term right given to Hinton to 65,000 cunits² of chips per annum or equivalent timber lands if they should default in the Berland area.

The Brazeau Timber Development Area south of the Hinton FMA became available when proposals by ATCO-Northwood and MPK Inc. did not materialize. Alberta Energy Company also announced their decision to proceed with a particle board plant instead of participation in a pulpmill development to fulfil its FMA commitment.

In early 1986 Millar Western were rumoured to be planning to build a CTMP plant at Whitecourt. This would be a competition for part of the ex BCFP FMA.

In all, it was a frustrating mixture of good news and potential bad news. The good news—a potential now existed to develop an expanded cost-competitive resource base for an integrated lumber and pulp operation. The potential bad news—would Champion have to sell off Hinton as a source of capital to manage the acquisition of St. Regis assets without too high a debt or would the time it would need to sort out its assets and future direction leave a window of opportunity for another company to acquire the resource? Millar Western for one.

Finally, the Hinton FMA was approaching the 20 year renewal date and the AAC was not fully utilized, partly because of government directed sawmill chips. Hinton had kept to its strategic plan for modernization and expansion based on an integrated plan of integrated lumber and bleached kraft market pulp and an organization effectiveness project in place focussed on its long term goal, as well as its current needs, and was able to present a detailed plan of the merits of a Hinton

² Editor's Note. A cunit equals 100 cubic feet of wood, 2.83 cubic metres.



expansion and modernization on the first visit of Champion officials to assess their newly acquired Alberta facility.

Fortunately for Hinton, the Champion International team led by Mr. Jud Hannigan realized its potential and expeditiously ranked all of the significant opportunities for development throughout the combined assets of the expanded company, ranking Hinton well up the priority list.

Under the circumstances where Champion had acquired St. Regis, a company of approximately its own size, it is remarkable that from November 1984 until April 1986 a period of only 15 months Champion had approved the "Hinton Modernization and Expansion Project" subject to favourable consideration by the Province of Alberta and confirmation of the initial feasibility studies regarding acquisition of resource, capital and operation costs, etc.

End of Interview

Ken Hall's Written Summary of Activities, Events, Decisions, and Lessons from the Expansion Project

This background data is important to review in order to have a better understanding of the dealings the company had with the Province on the 1986 Modernization and Expansion Project proposal. The following data is based on excerpts from my monthly project reports.

1. FORMATIVE MEETING WITH PROVINCE, APRIL 1986

A meeting was held to apprise the Province of Alberta of St. Regis (Alberta) Ltd.'s proposed modernization and expansion project April 1986.

The meeting was attended by Premier Don Getty; Minister of Forestry, Lands and Wildlife Don Sparrow; Solicitor General and MLA for the West Yellowhead and Member of the Forestry Caucus Committee Dr. Ian Reid; and Deputy Minister of Forestry, Lands and Wildlife Fred McDougall and members of his staff with Whitey Heist Champion International Vice-President of Pulp and Paper, myself and Don Laishley Forest Resources Manager from Champion Forest Products (Alberta) Ltd. representing the Company.

The agenda for the meeting included:

- Advising the Premier that the proposal to modernize and expand the Hinton operations was being favourably considered by Champion International and that Champion International was prepared to approve \$2.75 million to upgrade the engineering studies to funding-estimate quality as soon as the previous operating cost study can be revised that is valid except for assumptions that were made with regard to: 1) the sources, security and cost of wood; 2) taxes, investment, and other related considerations that should be revised or incorporated.



- Informing the Premier of the key factors that impact on the feasibility of the project.
- Determining from the Premier the climate for investment in terms of specific resource availability, tax, and incentive factors in Alberta that should be incorporated in a final detailed economic and financial investment quality study to compare the Hinton location with other opportunities available to Champion International.
- Appraising the Premier of the following background pertinent to the proposed project that the Company, in cooperation with the Provincial Government and the Alberta Forest Service has been a leader in forest management in Canada in the fulfilment of the company's Mission Statement commitment to the stewardship of the forest resource entrusted to it:
 - That the result is a forest management area that has increased sustained yield, provides an economically competitive wood supply, and has effective multiple use, conservation and protection of the resource.
 - That Champion Forest Products (Alberta) Ltd. has been a reliable employer and tax payer that has operated continuously in Hinton since 1957 and that its future survival depends on being able to attract the investment dollars to modernize and expand.
 - That the pulpmill is thirty years old and requires modernization and expansion to insure continued success in an increasingly cost-competitive international market for its products.
 - That the process technology incorporated in the proposed project design will enable the additional bleached kraft pulp to be produced well within the limits of total colour and biological oxygen demand and air emissions permitted by the current environmental permit.
 - That the success of the modernization and expansion project depends on having a secure supply of wood at an economically viable delivered cost in sufficient volume to supply the increased lumber and bleached kraft production levels.

2. THE GOVERNMENT RESPONSE TO APRIL 1986 MEETING AND NEXT STEPS

The proposal to modernize and expand Hinton was favourably received by the Government as it fit well with their objectives of economic diversification and interest in the forest products industry, particularly pulp manufacture to improve forest resource utilization.

Since timing was of the essence in pursuing the project while a window of opportunity existed for forest resource acquisition and the climate was favourable within Champion International and the forest products market I requested the Premier to consider allowing us to have a "one window" arrangement with his government in order to expedite decision making by avoiding the delays that the private sector often experiences in its interface with governments. The example that came to mind was the great difficulty and cost incurred by the Oilsands project. In that case the project management were faced with a total of some 21 "windows" on government (Federal and Provincial combined). These "windows" all too often expected responses that were in direct conflict with one or more of the other "window's" stated requirements— that resulted in excessive direct cost and time delays.

The Premier's response was direct and to the point, no doubt because of his experience as Minister of Energy and Natural Resources and on his own interface with government while in the private sector. His response was: "Your



window is right there," and he pointed to Don Sparrow, Minister of Forestry, Lands and Wildlife. As the meeting was concluding, I asked the Minister when we could get started. His response was: "How about right after this meeting?" This we did and that first meeting carried on into the evening. This response to my request certainly exceeded my expectations in terms of timing.

Within a few weeks, we had identified in broad terms the government response to our various needs as expressed in the meeting with the Premier and elaborated on in more detail in subsequent sessions that were summarized as follows:

- The suggested resource that could be allocated was south of the existing FMA boundary with an average haul distance of 100 miles versus other available timber in the original provisional reserve now available with the default of BCFP.
- The Province would make in the order of \$8 million available to the company if it would continue to provide water and sewage treatment services to the Town of Hinton.
- The machinery and equipment tax impact on the project, estimated at \$2.5 million per year, would be negated.
- The government would assist in providing financing of the project in the order of \$200 million in the form of straight preferred shares with a royalty collected on pulp sales. These approaches have tax implications of concern to the Company, but understand the Province will make financing assistance available that best fit the Company's needs.
- Analysis of project costs based on the Province's responses revealed a need to reduce annual operating costs by \$2.8 million and suggested the following from other options discussed during joint sessions as a feasible solution to achieving the required operating cost reduction:
 - Make the additional timber resource request available from management units E6 and E7³north of the FMA instead of the proposed allocation south of the FMA which would reduce annual operating costs by approximately \$1.6 million.
 - Reduce the Provincial tax on diesel fuel used to haul wood resources to the Hinton facility.
 - Make funds available for the building of haul roads within the expanded FMA .

This information was communicated to the Minister of Forestry, Lands and Wildlife on May 1, 1986.

³ Editor's Note. In 1948 the province of Alberta set up the primarily forested part of the Province as a "Green Area" to be restricted from settlement or private land sales. This area was further divided into administrative "Forests" which were then subdivided using primary geographic features into management units. Although the "Forests" boundaries and names have changed over time, the management units have remained relatively stable. These references would be management units 6 and 7 of the Edson Forest.



3. ANNOUNCEMENT OF EXPANSION AND COMMENCEMENT OF PROJECT DESIGN

May 5, 1986 Champion Forest Products (Alberta) Ltd. announced that it would commence a \$3 million feasibility study to modernize and expand the Hinton operations that will focus on engineering design construction and funding of the project as it continues to work cooperatively with the Provincial and Federal Governments and the Town of Hinton to establish the viability of the project. Good progress has been made in continuing discussions with the Hon. Don Sparrow, Minister of Forestry, Lands and Wildlife.

By late October 1986, the Company, with the assistance of Simons Engineering of Vancouver, were making good progress on the preparation of the engineering design and construction funding-estimates. The operating cost estimates were also progressing at a comparable rate for the manufacturing part of the project.

4. SOME ISSUES STILL REMAINED UNRESOLVED

The forest resource, transportation, taxation, sewer and water supply to Hinton, virtually all of the Federal, Provincial and Municipal issues were still unresolved. The non-forest resource issues were stalled in spite of the best efforts of Al Brennan, Director of Forest Industry Development acting for the Minister as our "window" on the day-to-day issues of dealing with departments other than Forestry, Lands and Wildlife. It was difficult to arrange meaningful meetings with individuals who would or could make decisions. Written decisions represented as a department position would be subsequently reversed or modified at another level or levels within the department up to and including Deputy Minister and Minister.

A project status report meeting with the Hon. Don Sparrow was held November 7, 1986 to bring him up to date with our work and to review the Government's progress and identify means to expedite the flow of approved government decisions:

The to-date results of the initial review and update of the Preliminary Project Feasibility Study based on inputting the Government's inputs regarding forest resource allocation wood costs, depreciation, Municipal, Provincial and Federal taxes, variable costs of manufacture and capital costs revealed that the project internal rate of returns and delivered cost of sales was at best marginal. The project would not fly in terms of meeting corporate investment objectives and would certainly not compete against other opportunities being worked on by other locations in the US and Brazil for corporate investment dollars.

5. PROJECT SUMMARY SUBMITTED TO MINISTER SPARROW AS BACKGROUND TO NOVEMBER 7, 1986 MEETING

A detailed study of selected alternatives to improve project results was carried out and economic and financial analysis of each alternative were conducted.

The results showed that we have identified a modernization and expansion plan that with the help of the Province on some specific issues and from the Federal Government in others, the project can succeed against the other projects with which it is competing.



The changes to the preliminary project study were:

- Increase pulpmill production to 424,000 tons per year.
- Incorporate process and process control technology to reduce material and labour costs.
- Obtain a favourable ruling from the Canadian Transport Commission regarding the four percent increases imposed on western Canada pulp freight rates effective January 1, 1986 and January 1, 1987 in violation of a previous commission order and having the proposed "Freedom to Move" legislation enacted that was tabled in the House of Commons November 4, 1986.
- Expand the Forest Management Area to provide the additional fibre resources from the management units that have been previously discussed with your department. These volumes and costs are essential to the success of the project. The Forest Management Agreement also requires renewal to incorporate the additional areas and the current terms and conditions and modifications that have been discussed to reflect current practice.
- Obtain a capital allowance of \$8 million from the Province in return for an undertaking to provide water and sewer services to the Town of Hinton on the basis of extending the current agreement for a period of 21 years at an increased volume of 3.5 million imperial gallons per day.
- Exemption from any future adverse tax changes such as Provincial and Federal Sales Tax, Value Added Tax, or Business Transfer Tax, which would impact negatively on the capital expenditures of the Modernization and Expansion Project.
- Elimination of the Municipal tax assessment on machinery and equipment in the Province. In the meantime make provision for exemption of the machinery and equipment associated with the Modernization and Expansion Project.
- Environmental conformance specifications as per preliminary discussions with Alberta Environment that comply with the Province's new mill standards need to be expeditiously developed into permits to construct.
- Support of the Provincial Government on previously specified Federal Government related issues.
- We need to have favourable decisions, on those issues just reviewed, in principle by the end of November. We are confident we could then sell the Project. We would then wish to take up your Government's offer to examine financing assistance alternatives.
- Our target is to be in a position by year end to:
 - Proceed with the additional detailed engineering required to upgrade the capital cost estimates to funding quality.
 - Obtain formal Board approval.
 - Proceed with detailed design engineering and equipment procurement in 1987 and commence construction in the spring of 1988 and start-up in the first quarter of 1990.

I would recommend that before we conclude our meeting that we use the list of the specific issues that need to be acted on assigning specific Government officials and Company personnel to work together on each issue by a specific date.



We are ready to devote whatever time is required, including sessions with other Cabinet Ministers, if it would help in any way to appraise them of our project to assist in expediting resolution of the unresolved issues to be addressed by the Province.

6. CHRONOLOGY OF EVENTS FROM KEN HALL'S MONTHLY REPORTS

June 1987

- CN freight rate issue favourably finalized and Bill C-18 "Freedom to Move" passed third reading in the Commons and first reading in the Senate. Expected to be law January 1, 1988. Will provide competitive freight rates and a major milestone for transportation in Canada which will benefit Hinton's competitive cost position.
- New tax law introduced by Federal Minister of Finance will lower the percent corporate income tax rate but extend capital cost allowance. Preliminary assessment - a reduction in Hinton's Federal tax bill and no increase in Federal sales tax on construction or application to export products.
- Provincial Cabinet approved \$225 million loan guarantee.
- Province to provide a maximum of \$10 million to assist with timber land roads and silviculture.
- Wood resources have been identified to meet project needs.
- The existing Forest Management Agreement will be revised to reflect new timber supply areas and incorporate mutually approved practices. Timber dues and other Crown rates will not be increased.
- Utilities grant for water and sewer services of \$8 million in consideration of the Company continuing services to the Town of Hinton to 21 years for a maximum population of 20,000.
- Protection from Provincial sales tax is implemented during construction of the pulpmill expansion.
- Protection from increases in Municipal machinery and equipment taxes as per the agreement negotiated between the Company and the Town of Hinton.
- The financial assistance package will be subject to the Company fulfilling the environmental standards established by the Province of Alberta.
- Cabinet approval allows negotiation of the specific terms and conditions of the financial assistance package to proceed for subsequent final approval and execution by Order-in-Council by the Cabinet.

July 1987

- Negotiations continue to finalize terms and conditions of the loan guarantee, road and silviculture funding, water and sewer funding and the Forest Management Agreement.
- Completion of the Environmental Impact Assessment and permit to construct approval now targeted by November 1987.
- Bill C-18 "Freedom to Move" legislation received both Commons and Senate approval to be proclaimed by year end.



- Negotiations are still not proceeding as they should to finalize the terms and conditions of the loan guarantee, road, and silvicultural, water and sewer funding and the Forest Management Agreement previously approved by the Provincial Cabinet.
- Another follow-up meeting held with the Minister of Forestry to have the issues resolved by September 30, 1987.

September 1987

- Submission to the Board of a revised March 19, 1987 project feasibility report to incorporate funding grade capital and expense estimates and current operating costs and benefits is planned for October 1987.
- The key issues and concerns to meet this objective relate entirely to the continuing lack of progress by the Provincial Government to finalize previously approved Cabinet decisions. These issues are:
 - Loan guarantee terms and conditions.
 - Forest Management Agreement terms and conditions related to: seedling compensation, payment of sand and gravel royalty for road construction and maintenance, the specific timber resource area to be forfeited if the sawmill expansion does not proceed on schedule.
 - The water and sewer grant.
 - The road funding grant.

October 1987

- The key project issues and concerns all relate to completing the protracted negotiations to finalize the terms and conditions of agreements with the Province to reflect the intent of the issues approved by the Provincial Cabinet that were the basis for the Company Board's approval of the project of March 19, 1987. As a result, the Province was advised on October 16th that the project has been placed on hold pending the satisfactory resolution of the issues approved by Cabinet June 3, 1987 as the only sound business decision that could be made under the circumstances.

November 1987

- The Forest Management Area has been defined in detail and a draft agreement reached on the basis of evaluations of the Forest Management Agreement defining tenure, area, forest management ground rules, Crown royalties, and charges. The agreement is consistent with all of the conditions that were the basis of the feasibility study presented to the Board of Directors in March with one exception. That exception is a 50 cent per cubic meter royalty on sand and gravel, excluding in return right of way material—that is based on a change in government statute that prohibits exceptions. The Forest Management Area consists of 3937 square miles with an annual allowable cut of 696,000 cunits of roundwood. In addition, a total of 249,000 bone dry units of sawmill by-product chips have been directed by the Province to the Company and 40,000 cunits of round wood are available for purchase per year. In the event of default in chip delivery by any of the suppliers the Company has direct access to harvest an equivalent value of standing timber assigned to the chip supplier.



December 1987

- The Forest Management Agreement draft approved by the Company is under review by the Provincial Attorney General's office and final documentation ready for Company and Provincial Cabinet approval is now expected to be ready in January 1988.
- The legal documentation for detailed terms and conditions of the loan guarantee agreed to by the Company and the Province is being expedited by the Province and is expected to be ready early in January 1988.
- The revised sewer and water services supply agreement with the Town of Hinton is being drafted to reflect the understanding reached by Company with the Town during negotiations earlier in year.

January 1988

- The draft Forest Management Agreement between the Province and the Company approved by the Company in November has now been reviewed by the Provincial Attorney General's office and the final draft received for approval by Champion January 27th. Following final approval and agreement by the Company and the Alberta Forest Service the Agreement will be progressed through the Provincial Cabinet by the Minister of Forestry to obtain approval by Order-in-Council. Estimated final gazetting of the Agreement is March 30, 1988.
- The Environmental Impact Assessment was approved and permits to construct issued to the Company January 27, 1988.
- Finally construction of the project can commence 21 months after the initiating meeting in the Premier's office in April 1986.
- The loan guarantee documentation by the Province doesn't properly reflect the conditions agreed.
- The draft water and sewer services supply agreement with the Town of Hinton, reflecting the term and conditions of the \$8 million Provincial funding arrangement, was discussed with the Town Council and a follow-up meeting scheduled for February 11, 1988.

February 1988

- Provincial Attorney General's Department lawyers anticipate completing the final Forest Management Agreement by month end for the Minister of Forestry to progress through Cabinet for formal Order-in-Council approval.
- Forest road funding payment arrangements to be finalized in March to administer quarterly payments based on the Company's actual road and bridge construction status.
- A meeting by the Company and the Town of Hinton Council February 11 at which:
 - a draft agreement on the Province's \$8 million sewer and water funding and Champion's continuation of these services in the future to Hinton was reviewed.
 - a draft agreement was presented to the Town for review reflecting the terms and conditions of the previously negotiated municipal tax reduction for machinery and equipment.

March 1988



- The Forest Management Agreement finalized by the Alberta Forest Service, the Company, and the Provincial Attorney General's Department with the documentation to be ready by March 21 for the Minister of Forestry to progress through Cabinet.
- Order-in-Council approval now expected by April 30, 1988.
- Forest road funding agreement completions by the Province is now scheduled before month end on the basis of \$2 million per year for years 1988-92 inclusive, with the 1988 payment expected in the 2nd quarter.

April 1988

- The Forest Management Agreement completion has been delayed and is now scheduled to go to the Priorities Committee of Cabinet in the last week of the month and to full Cabinet for decision and Order-in-Council approval of the Agreement the week of May 16-20, 1988.
- A third draft of the loan guarantee by the Province expected for Company approval by month end.
- The Forest Road Funding Agreement scheduled to be ready in March is now promised by the Province by the end of April.
- Delays in completing the F.M.A., Loan Guarantee, Forest Road Funding Agreement and the Water and Sewer Services Agreement have become what seem to be never ending, despite persistent follow-up.
- There are no fundamental issues involved and while progress has been absolutely glacial, and consequently frustrating, agreements consistent with the understandings previously reached that were the basis of the project approval will be achieved.
- A current issue of concern caused by the delay of the loan guarantee agreement is the interim cost of meeting project cash flow requirements if this amount isn't reached soon.

May 1988

- The Forest Management Agreement has passed the Priorities Committee of Cabinet and went as scheduled to the full Cabinet May 18, 1988 but decision was deferred until the next scheduled meeting May 25, 1988.
- The Company advised the Minister of Forestry, Lands and Wildlife why it is critical to the project that the Forest Management Agreement and the Loan Guarantee are approved at the May 25, 1988 Cabinet meeting.
- The Forest Management Agreement was approved by an Order-in-Council May 25, 1988.
- A fourth draft of the Loan Guarantee documentation to reflect the requirements of the lenders and the Company was being prepared by Treasury and due for review by the Company and the lenders.
- The Road Funding Agreement draft was received from the Alberta Forest Service for review by the Company.
- The Water and Sewer Services Agreement drafted by the Company was ratified in principle by the Town Council and is being given final review by the Town and Company lawyers.

June 1988

- The Forest Management Agreement was formally signed June 16, 1988 by the Province and the Company.
- The Loan Guarantee is scheduled to be closed with the Provincial Government June 24, 1988 and with the lenders in London, June 29, 1988.



- The Forest Road Funding Agreement draft received from the Alberta Forest Service May 19, 1988 was not acceptable since it did not properly reflect the intent of the agreement in principle approved by the Provincial Government June 3, 1987. The specific unacceptable aspects were reviewed with the Minister of Forestry, Lands and Wildlife and subsequently with the Minister of Labour and MLA. for West Yellowhead, Dr Ian Reid. The intent of the Alberta Forest Service was consistent with the original agreement but was being distorted by the Attorney-General's department and requires ministerial action to get back on track.
- Agreement with the Town of Hinton on the Water and Sewer Services Agreement has been reached. First reading of a by-law for the purpose of entering into an agreement with the Company for the purpose of entering into a water supply contract has been given as required by the Public Utilities Board.
- The Town of Hinton has filed an application with the Public Utilities Board for approval of a water supply contract between the Town of Hinton and the Company for a period not to exceed twenty years from June 15, 1988.
- A meeting was held with Alberta Transportation and Utilities—Municipal Utilities Branch attended by the Company and the Town of Hinton to complete the data required by the branch to provide \$8 million funding to the Town of Hinton who will in turn, as a condition of the Water and Sewer Services Agreement between Hinton and the Company, pay the Company the \$8 million.



Signing the 1988 Forest Management Agreement, June 16 1988. L-R. Iain Reid, MLA West Yellowhead, Leroy Fjordbotten, Minister of Forestry, Lands and Wildlife, Tom Buell, President, Weldwood of Canada, Dick Sainsbury, Senior VP Weldwood of Canada, Ken Hall, Vice President Hinton Pulp. Photo credit: Bob Stevenson.

August 1988



- A third and unsatisfactory draft Road Funding Agreement was prepared by the Alberta Forest Service. The issue has now been again progressed to the political level by the Company to obtain a satisfactory working agreement that finally reflects the previous Cabinet approval and minimize any further delay in recovering payment against the increasing adverse effect on project cash flow.
- The Public Utilities Board approved the proposed agreement between the Town and the Company at a meeting August 5, 1988. The applicants were successful in having the agreement classed as a supply contract rather than the Company being classed as a public utility subject to all of the regulations and hearings associated with this classification.
- Alberta Transportation and Utilities have recommended approval to their Minister of the full \$8 million funding to flow to the Company through the Town of Hinton based on a review of the engineering design and cost estimate data supplied by the Company.

September 1988

- The refundable portion of the performance bond of \$625,000 to retain the forest land designated for expansion of lumber manufacture was deposited by September 15 with the Alberta Forest Service.
- Limited progress has been made to finalize the Forest Road and Water and Sewer Services Agreements to obtain the funds in fulfilment of the Provincial Government funding commitment. Resolution of these two key monetary issues is being pursued with increased political pressure that includes active and solid support from the community.

October 1988

- Received Cabinet level word on the Forest Road and Water and Sewer Services Agreements outstanding.
- The Minister of Forests has instructed his department to reverse their latest Forest Road Funding Draft Agreement and proceed to set up payment arrangements with Treasury to quickly and properly fulfil the original Cabinet commitment conditions as contended by the Company to fund the expansion project roads in the amount of \$10 million at the rate of \$2 million per year for five years commencing in 1988.
- The Minister of Transportation and Utilities has similarly instructed his department to abandon pursuit of the normal procedure of requiring a 50-50 cost-sharing of water and sewer services with the Town of Hinton. The Province in this special case will pay the full amount of \$8 million to the Company either by direct cheque to the Company or in trust through the Town of Hinton and proceed to make the necessary arrangements with the Provincial Treasury.
- It will be essential to continue to follow-up on these issues.
- The civil service procrastination on these issues was so bad that after a little persuasion even their Minister noticed! Or were they scapegoats when an attempt to not fulfil a previous Cabinet commitment failed?

November 1988

- Ministers of Forestry, Lands and Wildlife and Transportation and Utilities have authorized payment of \$8 million water and sewer services grant and \$10 million forest road grant.



December 1988

- The Water and Sewer Services Agreement was formally signed by the Company and the Town of Hinton and a cheque in the amount of \$8 million was presented to the Company on November 28, 1988.
- The first of the five equal \$2 million Road Funding Agreement payments due in 1988 was not received as anticipated and agreed to and is once again being pursued with the Province.

January 1989

- The Loan Guarantee, Forest Management Agreement, Forest Road Funding Agreement, Water and Sewer Services Agreement funding, new machinery and equipment tax assessment exemption agreements, environmental permits and a project exemption from any contemplated Provincial sales taxes have all now been completed and are consistent with the effect of this data incorporated in the application of project funding submitted to the Board of Directors for approval to proceed with the project.
- The elapsed time from initiation of discussions with the Province on April 1, 1986 to conclusion was 33 months.
- That concludes my summary of the Company's dealings with the Province of Alberta in establishing the inputs required to determine whether a cost-competitive modernization and expansion of the Hinton operations was possible that would provide a return on investment to the shareholders which would successfully compete with other investment opportunities available to Champion International Ltd. from its other locations.

7. WHAT CAN BE LEARNED INTERNALLY

Here is what I think can be learned internally, within the Company, from the events involved in the process of modernizing and expanding the Hinton operations.

Some background that is primarily organizational in nature is essential to put the learnings into perspective. The following chronological list documents the significant events with respect to management initiatives and changes that were related to Hinton's organizational effectiveness.

7.1 Significant Changes in Management Initiatives

May 1981

- An organization effectiveness project was commenced within the company to develop a more effective organization necessary to cope with an increasingly competitive international market for its products and the modernization and expansion of the operations, employing the latest process and process-control technology, essential to the operation's future in fulfilling its obligations to the shareholders, employees, and community and its commitment to the forest lands entrusted to it. This project was in effect terminated in 1987 when Champion Forest Products (Alberta) Ltd. became part of Weldwood of Canada Ltd.

February 1982



- A St. Regis (Alberta) Ltd. mission statement was developed and issued setting out the Company's beliefs and intentions to assure continuing responsible stewardship of resources entrusted to us so that:
 - we can produce an attractive return on our shareholder's investment
 - we provide a dependable source of employment and revenue for our community
 - we provide quality products to our customers throughout the world
 - we obtain maximum possible utilization of our harvested wood fibre
 - we value, protect, and share the natural environment in which we work and live
 - we ensure sustained yields from the renewable forest resource we manage

November 1984

- Champion International Corporation acquires St. Regis Paper Company

February 1985

- Jim Bowersock resigns. Hinton operations to report to Whitey Heist/Jud Hannigan at Stamford, Connecticut

July 1, 1986

- Hinton operations—Champion Forest Products (Alberta) Ltd. reports to Coleman Larlee

February 2, 1987

- Harry Karasiuk hired in new position of Pulpmill Manager Champion Forest Products (Alberta) Ltd. to build organization and free up time for Kenneth Hall to deal with expansion project issue

March 1987

- K. Hall named Project Director reporting to J. Hannigan, Sr. V-P Manufacturing Support and Engineering Services, Stamford Conn.
- H. Karasiuk reports to C. Larlee V.P. Manufacturing Newsprint, Kraft and Pulp for Hinton operations, Stamford Conn.

May 15, 1987

- H. Karasiuk promoted to V.P. Operations reporting to C. Larlee

June 30, 1987

- The expansion project management responsibility guide prepared and reviewed by the project management team completed

December 1, 1987

- H. Karasiuk reports to Ted-Crane, Stamford Conn. who replaces C. Larlee



December 9, 1987

- H. Karasiuk reports to Richard (Dick) Sainsbury, President of Caribou Pulp (50% owned by Weldwood) on sale of Champion Forest Products (Alberta) Ltd. to Weldwood

September 1, 1988

- Don Bunbury, Hinton Div. Controller and Wood Processing Manager promoted to Gen. Mgr. Williams Lake Division of Weldwood
- Martin Elefson, Weldwood, Vancouver transferred to Hinton as Controller
- Don Laishley, Forest Resource Manager reports to Leon Pond, Weldwood, Vancouver
- Gary Dewhurst reporting split between Dave Milligan, V.P., Human Resources, Weldwood and H. Karasiuk
- H. Karasiuk's role changed from V.P., Hinton Operations to V.P. Pulp Mill

September 15, 1988

- John Darker Purchasing, Transportation and Material Control Manager, Hinton promoted to V.P. Purchasing and Transportation, Weldwood headquarters, Vancouver

March 1989

- Graham Bender (Ex. M&B Powell River, GM) hired as V.P. Pulp, Weldwood replaces R. Sainsbury—retired

October 12, 1989

- H. Karasiuk, V.P. Pulp terminated by G. Bender, V.P. Weldwood

December 1989

- Ron Staple transferred from Manager of Caribou Pulp replaces H. Karasiuk at V.P. Pulp, Hinton Division, Weldwood

March 14, 1990

- Last project management meeting held and all outstanding items transferred to mill operations

March 1990

- Project Director retired as planned on project completion

The specific issues, details of the issues, impact of the issues, recommendations, and learnings from each one for future reference in planning and management of projects are described below:

7.2 Issue No. 1

Frequent corporate line management changes of individuals to whom Hinton operations management reported, plus a significant change in corporate policy interventions and method.

7.2.1 Details

See preceding chronological list of management events, "Significant Changes in Management Initiatives".



7.2.2 Impact

Hinton was subject to a combination of changing management styles and directions with less than ideal continuity that adversely affected it from July 1, 1986. Particularly after Weldwood took over and understandably commenced integration of Hinton into Weldwood in terms of organization and policies and beliefs at a very critical time when a major fast track project to modernize and expand the operation was underway. Local management was already fully occupied with developing an organization to operate the modernized and significantly expanded operation and the demanding additional task of participating in the engineering, design, and construction of new or modified facilities from the forest land to the finished product loading docks.

A detailed Project Management Organization Plan to integrate pulpmill engineering, procurement and construction, forest resource development and training, and development of the operating organization agreed to in April 1987 was superseded by and became in conflict with the changes Weldwood was making to integrate Weldwood into its organization in December 1987. This caused confusion and loss of common goals previously agreed to and forced re-defining the project terms of reference of tasks as detailed in the expansion project management manual as the coordinating document for the overall project by Champion management at Stamford and Hinton.

All organization design and development, part of technical training, all people skill development training, and all forest resource project tasks were consequently re-assigned from the Hinton Expansion Project (whose Project Director reported to J. Hannigan, Champion Senior V.P. Manufacturing Services and Engineering responsible for all Champion projects that included Weldwood) to Weldwood as the "client" on October 11, 1988 to minimize conflict of direction regarding mill operations, human resources (training), and forest resource development activities that were frustrating, confusing, and caused considerable friction throughout all the organizations involved at Hinton.

7.2.3 Recommendations

- Avoid all other organization changes impacting a location during the life of a major project from inception until at least two years after start-up.
- The Corporate Business Unit executive V.P. and Manufacturing V.P. should be actively involved to support and monitor the locations operations organization climate, mission, and its design development and training in people, supervising, and management skills and technical training.
- The Location Resident Manager should report to the Project Director for Project related activities and be a key member of the Project Management Team with the engineering, procurement and construction financial, government, forest resource, marketing and sales, environmental, transportation organization development and training managers assigned to the project as its scope would dictate.
- The Project Director would also report to the Executive V.P. of the Business Unit (the client) and be clearly designated as a key member of the business unit organization. Not as a corporate staff organization person dictating to the line organization at the mill level.
- The Project Director and the Project Management Team's first task would be to develop a project management manual containing a mission statement, objectives, organization intentions and beliefs, code of ethics and courtesies, organization design, management task and responsibilities.



- Review and obtain approval in detail for the manual content from the Executive V.P. Business Unit and his organization as well as the Executive V.P. of Manufacturing Support and Engineering. This would also apply to all other corporate staff departments that would be directly involved with the project.
- Project Review meetings would be chaired by the Executive V.P. Business Unit and attended by the Executive V.P. Manufacturing Support and Engineering and attended by the Project Director and the Resident Manager.
- Organization design and development must be a top priority and concern of the Business Unit from the top down and given as much attention as the Engineering, Procurement and Construction (EPC) aspects of a project.
- It must also be recognized as a long term multi-facetted issue that competes for key mill personnel time at a critical stage when EPC demands are also great. If mill operations are to effectively participate in both it demands detailed planning of tasks and personnel requirements to cope with both by increasing the organization on an interim basis. This is particularly more difficult for an operating mill such as Hinton undergoing a major expansion as compared to a new mill where the operating personnel can devote their full attention to EPC liaison and mill operations organization design and development.
- It would also be absolutely essential to make sure that the location management group understands the importance and are fully committed and able to develop an effective organization capable of bringing the new facility up to full production in minimum time.

7.3 Issue No. 2

Hinton Division Management changes (see “Significant Changes in Management Initiatives” above.)

7.3.1 Details

- H. Karasiuk hired as Pulpmill Manager by K. Hall as part of organization effectiveness project February 2, 1987.
- K. Hall moved from President, Champion Forest Products (Alberta) Ltd. to Project Director, Hinton Expansion Project reporting to J. Hannigan, Sr. V.P. Manufacturing Support and Engineering Services, Champion International, Stamford, March 1987.
- H. Karasiuk promoted to V.P. Operations, Hinton reporting to C. Larlee, Champion International, Stamford, March 1987.
- H. Karasiuk reports to R. Sainsbury, President of Cariboo Pulp (50% owned by Weldwood) on sale of Hinton to Weldwood.
- D. Bunbury promoted from Hinton Division, Controller and Wood Processing Manager to General Manager, Williams Lake Division of Weldwood, September 1, 1988.
- J. Darker promoted from Purchasing, Transportation and Material Control Manager, Hinton, to V.P. Purchasing and Transportation, Weldwood corporate headquarters, September 15, 1988.
- D. Laishley, Forest Resource Manager, reporting changed from H. Karasiuk, V.P. Operations, Hinton, to L. Pond, Weldwood corporate, September 1988.
- G. Dewhirst, Human Resources Manager reporting changed to H. Karasiuk and D. Milligan, Weldwood V.P. Human Resources.



- H. Karasiuk's role changed from V.P. Operations to V.P. Pulp, Hinton to meet Weldwood change in Hinton Division organization September 1, 1988.
- G. Bender hired by Weldwood as V.P., Pulp, Weldwood of Canada, Vancouver, replacing R. Sainsbury on his retirement, March 1989. H. Karasiuk reports to G. Bender March 1989.
- H. Karasiuk terminated by G. Bender October 12, 1989. R. Staple transferred from Manager, Cariboo Pulp, to replace H. Karasiuk as V.P., Pulp, Hinton, December 1989.

7.3.2 Impact

Hinton's former division executive management team was dismantled. Two department managers were promoted to new positions at other Weldwood locations, one was terminated, and two were retained in their department manager positions at Hinton. Overall direction and coordination of Hinton department functions was divided between four existing Vice-Presidents at Weldwood headquarters in Vancouver. The Hinton President and General Manager was re-assigned to the position of Hinton Expansion Project Director reporting to the Champion International Sr. V.P. Manufacturing Support and Engineering at Stamford, Connecticut.

The result was a loss of Hinton's management team who had developed and were key leaders of the organization effectiveness project and the parallel modernization and expansion of forest resource and manufacturing facilities project, both of which were keystones in the location's long term strategic plan. Key initiatives essential to the success of the first of these two projects (organization effectiveness) that was vital to successfully prepare for and operate a modernized and expanded Hinton operation were rendered ineffective or ignored. This was particularly so in the pulpmill when the attention of the location personnel was re-directed by the necessity to address the directions given by the Weldwood personnel to whom they were reporting. By way of example: a major modernization and expansion program particularly to an operating mill requires a temporary bulge in personnel to cope with the following needs (in addition to keeping the mill operating cost effectively):

1. Key personnel familiar with existing operations are required throughout the engineering and construction and start-up phases of the project to (a) participate in engineering design and selection of process, process control, and equipment, (b) provide existing mill data for engineering for design purposes, (c) review ongoing design data with mill personnel to obtain their timely input for project design and their subsequent participation in design review and approval meetings representing mill operations, (d) participate in the development of training manuals, simulation training programs for operating, maintenance personnel, and (e) conduct training sessions.
2. Hire and promote and train personnel for key supervisory operating, and maintenance, process engineering, project engineering, and process control as required to operate and maintain the modernized and expanded plant. Phase in this requirement to coincide with the needs of a phased plan of numerous check-out and start-ups of new facilities to be integrated with existing operations with minimum downtime and loss of production and quality during the start-up.
3. Train personnel to replace personnel temporarily re-assigned to activities such as those described in items 1 and 2 above.



These functions were not adequately addressed, starting with the promotion of H. Karasiuk without replacing him in the key role to spearhead them as planned. The reason for hiring a pulpmill manager was to strengthen the organization to cope with the very substantial additional demands involved in carrying out the modernization and expansion project while keeping the existing plant operating successfully. His duties and responsibilities included manage the existing operating and maintenance and technical departments; continue the pulpmill section of the Organization Effectiveness Project to prepare its organization and personnel to successfully start-up and operate the modernized and expanded facility; and plan, lead, organize, and control all of the activities required to provide the mill input required from mill operations to modernize and expand the existing facilities as generally described in item 1–3 above.

Failure to provide for these vitally important needs resulted in a prolonged time required to reach project production levels with a consequent significant loss of earnings that are critical to meet cash flow in the first years after start-up.

7.3.3 Recommendations

A company that has a successful record of performance and a detailed plan it developed to modernize and expand its operations that has been approved by the parent organization and is in the process of carrying out such a plan with the direct involvement of an experienced engineering, procurement, and construction organization supplied from the parent organization to manage this key part of the overall plan should not be subject to new and conflicting directives and organizational changes during a fast moving complex major expansion so intimately tied into an existing operating facility.

The merging of the Hinton mill into the Weldwood of Canada Ltd. organization would have been a logical and beneficial move for the shareholders of Champion International under normal operating conditions.

Since there were no external factors affecting timing of amalgamation of its Canadian operations, the incorporation of Champion Forest Products (Alberta) Ltd. into Weldwood of Canada Ltd. should have been deferred until after the expansion project had been completed and the planned production levels attained.

Kenneth Hall



Obituary



HALL, Kenneth William P.Eng
March 14, 1924 - June 16, 2012

Kenneth Hall passed away quietly at Peace Arch Hospital on Saturday, June 16, 2012 at the age of 88. Ken was born in Vancouver, B.C. and moved to Chilliwack at the age of four. After high school he first went to work as an apprentice machinist, before enlisting in the navy during World War II. Ken attended the University of British Columbia where he attained a degree in mechanical engineering. He continued his apprenticeship while going to school. He began his engineering career in the sawmills of B.C., starting in Port Alberni, where he met his wife Betty. The majority of his working life was spent in the pulp and paper industry. From an early age Ken was a talented craftsman. He applied these skills, along with his abilities as a machinist and an engineer to fulfill his dream of building a steam engine, machining each part himself. He was an active member of the Northwest Steam Society and he and Betty spent many wonderful days on the SS Oesa. Ken also gave his time to the preservation of the SS Master. He was passionate about preserving this piece of B.C.'s maritime history. Throughout his life Ken enjoyed spending time in the outdoors. He was able to travel and see much of the world with Betty. Ken is survived by his wife of 59 years, Betty, children Howard (Bronwyn), Susan and David, grandson Alex, cousins Bev Teerink, Glenda Hodgkinson, Keith Partlo and Spence Partlo and their families, and his sister-in-law, Peggy Pullen. Thank you to Dr. Spanghel and the nursing staff of 6th floor at the Peace Arch Hospital, who took great care of Ken in his last weeks.