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Weyerhaeuser eyes growth sectors

Timber firm sizes up the market

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By BILL VIRGIN

FEDERAL WAY -- Weyerhaeuser Co. plans to invest in sectors in which it has the size to make a competitive difference and which have the potential to grow, the forest-products company's chief executive said Thursday.

Those could include international timberlands, such as expanding ventures Weyerhaeuser already has in Uruguay and Brazil, or rebuilding China's forests, said CEO Steve Rogel.

Homebuilding and engineered wood products are also areas of interest, he said.

Without naming any particular business segments or units, Rogel said Weyerhaeuser will continue to look at those lines where it isn't a sizable player and growth prospects aren't bright. Last year Weyerhaeuser spun off to Domtar Inc. its fine-paper business, sensing that market would continue to decline because of the greater use of electronic data transmission.

"If we decide a business has a flat or declining future, and we don't have scale, we have to do something about it," Rogel said.

Rogel's remarks, at a news conference following Weyerhaeuser's annual shareholders meeting Thursday, were made against a backdrop of sluggish short-term conditions in some of its markets, long-term shifts in others, and the calls by some large investors for a radical makeover of the company to boost returns, such as conversion into a real-estate investment trust. One drawback of such a move is that Weyerhaeuser could be forced to sell off much of its manufacturing operations.

"While any discussion of Weyerhaeuser will always involve trees, we are not wedded to one structure or particular mix of businesses," Rogel said during the meeting.

One measure that would help Weyerhaeuser and eliminate the need for a conversion is a change in the federal tax code to give conventional companies like it comparable treatment with REITs. Weyerhaeuser reported Thursday that such a measure was introduced in the U.S. House on Thursday, with U.S. Rep. Jim McDermott, D-Wash., one of the co-sponsors.

"I certainly am optimistic," Rogel said of the bill's chances. "We have a large number of supporters who we hope will sign on. The first thing you need is broad-gauge support."

Rogel said he believes investors will give Weyerhaeuser the time to prove that its extensive restructuring program, which has included mill sales and closings, will produce the desired

bottom-line results. "The investor base we have now has shown a good understanding of what it takes to do the job properly."

In the short term, Rogel said Weyerhaeuser's wood-products business, which uses the marketing name iLevel, has been experiencing low demand and weak pricing due to a slowdown in the national housing industry.

But in its homebuilding operations, Weyerhaeuser is actually seeing some improvement in such markets as Washington-Baltimore and Phoenix. The Seattle area "has had its bumps along the way," Rogel added, but has generally been good. Las Vegas and Southern California, however, are "still a bit slow" and the Houston housing market has been flat.

Weyerhaeuser reports its first-quarter results May 4.

Thursday's annual meeting was marked by a continuation of the dispute between Weyerhaeuser and the Rainforest Action Network over logging on lands in northwest Ontario that the Grassy Narrows First Nation considers part of its ancestral lands.

The environmental group has targeted Weyerhaeuser with demonstrations and protests, including suspending a banner from the Eastgate offices of company subsidiary Quadrant Homes on Wednesday, accusing Weyerhaeuser of human-rights violations. Bellevue police said four were charged with trespassing, and two of them had additional charges of obstructing.

Weyerhaeuser doesn't log the area in question, known as the Whiskey Jack forest; that is done by Abitibi Consolidated, which has been granted a license by the province to do so. Weyerhaeuser buys timber from Abitibi for its Kenora, Ontario, mill.

Brant Olson of Rainforest Action Network, speaking at the annual meeting, said the group has proposed alternative sources of timber for the Weyerhaeuser mill and called the company isolationist and non-collaborative. "This is an easy problem to solve if you put your mind to it," he said.

Weyerhaeuser contends the dispute is between the government of Ontario and the Grassy Narrows band, and said it has urged the province to resolve the issue. It also says comparable timber supplies for that mill aren't available "within reasonable transport distance."

Shawn Stevenson, area supervisor for the Kenora district of the Ontario Ministry of Natural Resources, said the province believes Abitibi is harvesting timber in a sustainable fashion in accordance with the license it has been granted.

The company is in the middle of one five-year plan for managing that license, and is working on the next one with the ministry as well as three First Nations groups. The Grassy Narrows band was invited to participate but has declined to, Stevenson said.

RAINFOREST ACTION NETWORK NEWS ARTICLE

A shareholder resolution calling for a feasibility study of suspending purchase of timber from the Whiskey Jack forest received 5 percent of votes cast. Another, asking for greater disclosure on political contributions, received 6 percent.

But a third shareholder resolution calling for a simple majority vote, rather a supermajority, to ratify certain measures such as changes to corporate bylaws or major transactions including merger, received 77 percent of the votes cast. Rogel said the issue will be taken up by the board's corporate governance committee, and said the size of the vote in favor is "operative."

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