George FROEHLICH
BUSINESS EDITOR

One of the great myths in our so-called free enterprise system is the theory that organized labor is the only group in Canada which is greedy.

Business leaders are more than eager to paint union leaders as being unreasonable in their demands come contract time.

And while there is no doubt that more than often the business community is absolutely correct in its assessment, there are enough instances at hand where it would behoove the corporate sector to examine its own backyard.

In British Columbia we have a most blatant example in the form of the Automotive Retailers Association, which represents the majority of the province's autobody shops.

Long ago executives in the autobody industry in British Columbia learned that nothing succeeds like a little blackmail once in a while to keep the public and the Insurance Corporation of British Columbia in line.

The strategy is simple. You ask ICBC to increase the hourly rates your company receives for repairing all those broken fenders and if they don't come around to your point of view you threaten to close your business. Needless to say the public is left in a lurch, the theory being that the public desperately needs the automobile and sooner or later the public pressure will cause ICBC management to cave in to your demands.

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NOW IT CAN BE ARGUED, AND ARgued effectively that in a free market system (the free enterprise system died a long time ago) that is the way the game is played.

The forces of supply and demand ultimately determine price.

All of this is a valid concept were it not for a Catch 22 proposition. Simply put that proposition is the wage and price controls imposed by the Trudeau government last fall.

In case the autobody industry has forgotten what the prime minister said last year on why he imposed controls let us remind them.

"Tonight I am making a direct appeal for the co-operation of all Canadians in the practice of individual restraint. Although the guidelines will be enforced against relatively few groups, they can only work if everyone is willing to accept these new limits and considers himself bound by them.

"This battle must be fought by all of us. Specifically, I am asking you to do what only you can do to knock the wind out of inflation. I am asking you to live by the fact that all Canadians must restrain their rising demands upon the nation's wealth, so that Canada as a whole will be able to live within her means."

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THE MAJORITY OF THE CANADIAN labor force and the country's 1,500 largest companies had to comply with the guidelines whether they liked it or not.

The autobody shops in B.C. did not fall within the guidelines and in effect they have said, "the hell with them. We are going to try to get as much as the traffic will bear."

Before going into their current demands let's look at the whole situation from a historical perspective.

The facts speak for themselves: they clearly indicate that the autobody shop operators in B.C. haven't the slightest intention of trying to curb the inflationary spiral.

In 1974 autobody shops here were being paid $14 an hour by ICBC. On Jan. 1, 1975 that hourly rate increased to $15.50. By July 1 of that year and until May 1 of this year the rate was $18.50 for basic work. As well ICBC was paying $2.85 extra an hour for certain body shop work and $4.30 an hour for paint and materials.

So you have the situation where some autobody shops were getting as much as $22.80 an hour from ICBC, depending on the nature of the work.

But greed being what it is that was not enough.

Last Saturday, Len Macht, chairman of the bodyshop section of the association, said the corporation's enforced rate of $18.50 an hour had expired and most of the shops would start charging $21.50 to $23 an hour.

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WHAT MACHT CONVENIENTLY FORgot to mention was that those new rates would be the highest in North America.

If you don't believe it consider some comparative rates in effect during March throughout Canada. In Nova Scotia autobody shops were charging $14 to $17 an hour; in Quebec $14 to $18; Ontario $14 to $18; Manitoba $12.75; Alberta $16 to $18.50 and in Saskatchewan the highest rate is $16 an hour.

Another point Macht forgot to mention was a report the association had commissioned by a firm of chartered acountants.

The report was to be delivered to ICBC management. It was to show the industry's costs and discuss its profitability.

But so far ICBC hasn't received the report. The association now says it wants to wait until a new contract has been signed with the 700 union employees at 12 Lower Mainland autobody shop.

Apparently the autobody shops have offered eight per cent, while the union is seeking a 10 per cent wage hike.

Why the contract negotiations between the union and the autobody shops are holding up disclosure of the CA's report is anybody's guess.

So far Education Minister Pat McGeer, responsible for ICBC, has stuck to his guns and has indicated that the corporation will not accept the unilaterally declared new rates by the autobody shops until the ICBC board has had a chance to discuss the matter.

Let's hope the board doesn't cave in.

'A tremendous poker game'

Selling spruce to the U.S.

By JIM LYON
Sun Business Writer

The conversation sounds casual, aimless gossip that is strangely inappropriate on an expensive long distance call.

"How's the weather down there?"

"Much building going on now?"

"Many people bidding on jobs?"

The chit-chat is low key and very amiable.

This, however, is intelligence gathering and the lumber buyer in Alabama is being milked for every bit of information that can be extracted from him about conditions in his home area.

Intelligence means a lot if you are in the lumber wholesaling business; it's an intensively competitive way of making a living and the guy who gets up a little earlier in the morning and knows how to hustle can often get the jump on the competition.

The U.S. rail market for lumber is a classical example of the free market system straight from the textbooks. Adam Smith vindicated.

It answers precisely to the elementary forces of supply and demand; a strike or transportation problem and supplies will be cut and prices will rise; a sudden period of fine weather and building activity will quicken and with it the demand and price for lumber.

It's a volatile market, the price swings around constantly and much money can be made or lost — guessing what's likely to happen next week or next month.

There are lots of sellers and lots of buyers and information flows very rapidly.

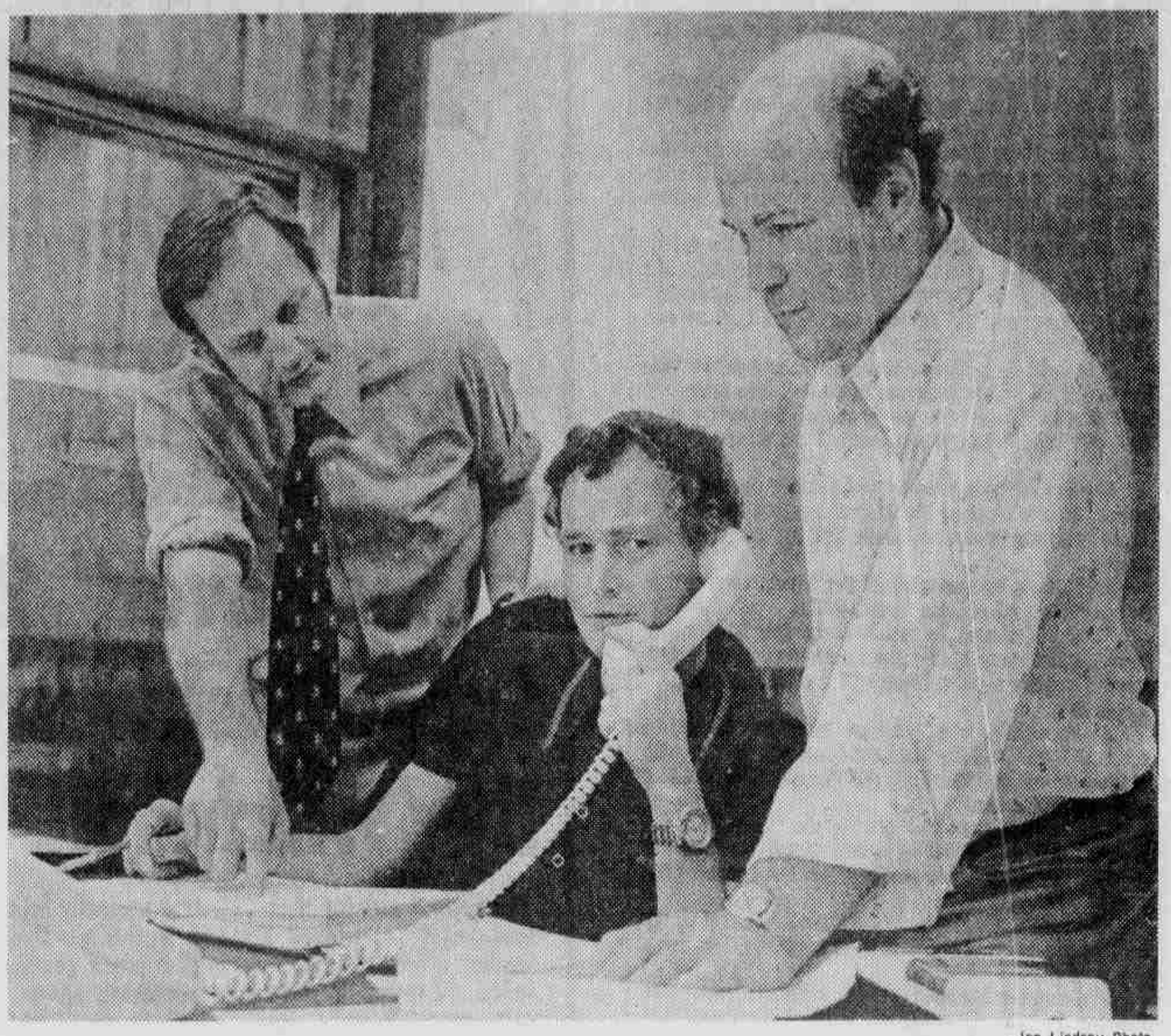
Pacific Rim Mills (1973) Ltd. is one of about 15 to 20 lumber wholesalers in Vancouver who help sell this province's lumber production to buyers in the U.S. It's also one of the smallest — a three-man operation that works out of an office block behind Park Royal in West Vancouver.

The phones are in use constantly. The monthly bill comes to $5,000 and the trio expect to gross $12 million in sales this year.

Their working day — like that of the stock exchange and most people in the brokerage business in town — is synchronized with business hours in the East, which means that they start at 7 a.m. and knock off around 4 p.m.

"I have even been in early enough to call Newfoundland when they open up — which means 5 a.m. our time," says Lloyd Marlor, company president.

The two other principals, who are described as vice-president-traders, are Roger Ovens and Bryan Hall. They are assisted by an accountant and a secretary who also takes charge of traffic routing.



—Ian Lindsay Photo

HUSTLING AND HAGGLING . . . from left, Roger Ovens, Lloyd Marlor and Bryan Hall

Marlor said the company had been run for about five years as a subsidiary of a U.S. outfit. The local principals bought rights to the company name almost a year ago and began business for themselves.

At the outset he cautions that the lumber wholesaling business — at least as they practice it — is not nearly as speculative as many people believe. It's possible to expose yourself to big risks — and the possibility of huge profits — but they are sufficiently cautious, he says, to avoid over-extending themselves.

They will, on occasion, sell both "long" and "short", that is try to benefit by anticipating a rising or falling market.

Ovens says they will not short the market nearly as much as they would on the other side. "You can get really badly gored on the short side."

Pacific Rim Mills deals almost exclusively in kiln dried spruce from the Interior. Even so, the traders must be able to quote four different grades and many combinations of length and width which means they have to put an instant price on 70 to 80 items. Hence the need for specialization.

They are not brokers or agents working on commission. They buy and sell for their own account.

They will make offers to sawmills throughout the Interior — and sometimes to mills in other provinces and various states of the U.S. — and they will solicit orders from buyers south of the border.

It's all done by word of mouth and integrity is at a premium — "if we ever went back on our word we might as well go out of business," says Marlor.

Each trader will probably make about 40 calls a day.

Hall says a retail lumber yard may buy only one car load of lumber a month — 50,000 board feet — and yet he will receive two or three calls a day from wholesalers.

He gives an example of the speed at which information travels in such a competitive business climate. Within a couple of hours of, say, a strike ending on the BCR he will telephone a buyer in the southern U.S. to make a sale.

" 'No thanks' will say the U.S. customer. 'I'll hold off until the price drops now that, that strike of yours is over.'

"The strike settlement was announced only two hours ago but he has already heard about it," says Hall.

Such a competitive business engenders little loyalty between firms and their clients.

Buyers and sellers are both out to haggle for the best price they can — which makes work an exciting place to be if you like that sort of thing.

For instance, this is the sort of incident that happens: A trader will offer a mill $150 a thousand board feet for lumber. The mill manager says that's not nearly enough and wants $160 and in any case he won't be able to deliver for three weeks, he's so busy with orders.

Reluctantly the trader agrees to the higher $160 figure and within seconds almost the office telex machine begins chattering with a car number and tally from the mill indicating that the lumber is already on its way in a boxcar.

For once the trader has been outfoxed.

"It's a tremendous poker game" says Hall.

Having bought carloads of lumber from the mills, these will be sent by rail to various marshalling points in the U.S. — such as Marshalltown, Ohio, or Savage, Minn. While this "rolling inventory" is on its way the wholesalers will attempt to find a buyer for it. If they choose to turn over their investment quickly they can often sell the lumber before it even leaves the producing mill; but it's often better to hold off a little for a more lucrative price.

The wholesalers must pay the supplying mills 15 days from the date of invoice and they in turn receive payment five days after a car of lumber has arrived at its destination. Since a car can take 21-23 days say from Prince George to Alabama the wholesalers' money will be outstanding for about 15 to 20 days.

"We have to draw very heavily upon the equity. It is the name of our business. If you do it very astutely you can get money in as quick as it goes out," says Marlor.

In the past year the company has suffered $7,000 to $8,000 in credit losses (which means one to two carloads of lumber not paid for).

"We are terribly careful who we sell to," says Ovens. To protect against such losses the firm carries $300,000 in credit insurance.

There is criticism sometimes levelled at lumber wholesalers that their activities aggravate the cyclical price swings of the market.

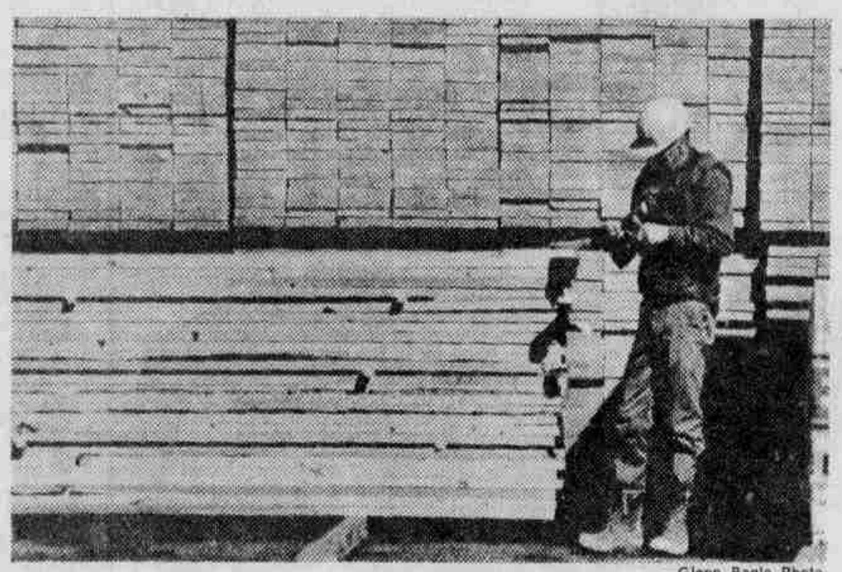
Marlor has a ready answer to this.

"If the mills run it (lumber) we will pay a price for it. Even on a collapsing market we are constantly feeding the mills orders. We tend to take the extreme volatility out of the market."

It's a job that has its fair share of tension at times. "Our prices can jump $10 a thousand (board feet) in a matter of four hours — that's only half a day's work," says Hall.

Currently the U.S. rail market is slipping because the big buildup of inventory in the Interior during the B.C. Rail strike is now flooding the market. Prices have dropped $5-$6 a thousand board feet for the past three or four weeks, says Hall.

Studs are now selling at $189.50 delivered in New York.



—Glenn Baglo Photo

READY TO MOVE . . . lumber awaits outcome of haggling

Pros and cons of classes: you can share in tax delay

By ALLAN WILSON
Sun Business Writer

Recently two B.C. firms have changed their capital structures to offer shareholders a choice of two types of shares. One share pays a regular dividend, the other pays a "tax deferred" dividend.

The two companies, Cominco Ltd and Trans Mountain Pipe Line Company Ltd., follow 24 other major Canadian corporations who have taken advantage of 1971 revisions in the federal income tax act.

The thrust of the legislation was to allow individuals flexibility in paying taxes on dividend income so that they would invest in Canadian companies.

Babson's Reports, a Canadian investment letter out of Toronto, said that in general, those in a tax bracket of over 45 per cent stand to gain from taking the "tax deferred" dividends.

Those under 45 per cent should stick to the regular dividend, the report said.

But Babson warned this is an oversimplification, and a tax expert should be consulted to work out individual advantages.

A company usually creates class A and class B shares.

The class A pay a regular dividend. At tax time it is treated as a regular capital gain, and 50 per cent of it would be taxable.

The class B shares pay a smaller dividend than the class A, but no tax would have to be paid on it in the year it was received.

For example, if the class A shares paid a dividend of $1, then the class B would pay 85 cents.

The 15 per cent difference is a tax the company pays before passing out the cash.

The company can draw the class B dividends only from specified sources in the company's income. These are outlined in the 1971 tax clauses.

Of course the 85 cents you receive is not tax free forever. You have to pay when you re-sell the stock.

It works this way.

Suppose you bought the "tax-deferred" series B stock at $15 this year, and sold it at $15 next year.

With the regular stock you would have no capital gain to declare, since you didn't make any money on the deal.

But if the "tax deferred" series B stock has paid a dividend, for example 85 cents, while you held it, then you have to declare the 85 cents as capital gain when you sell the stock.

So in the end you pay capital gains on the dividend income.

Tht advantage lies in being able to have the dividend income now, tax free. When you figure it is to your advantage to pay the tax you sell the stock and declare the dividends on that year's income tax.

"Since payment of the capital gains tax is postponed as long as the shares are held, the deferred tax is effectively an interest free loan from the government," Babson said.

The 24 firms across Canada who have set up the new capital structure include: Brascan, Canada Packers, Electrohome, Huron and Erie, Imperial Oil, Molson Companies and Thompson Newspapers.

The object of the income tax changes was to allow some tax-paying flexibility to shareholders.

This, hopefully, would allow Canadian companies to raise more money.

The Cominco recapitalization, approved at the recent company annual meeting, created a preferred class of eight million shares. (At the same time the authorized number of common shares went from 20 to 30 million.)

The new share class will pay "tax deferred" dividends, and will be issued in series at $25 a share as the company needs the money.

The company is now working out the first issue of the new stock. Details are not yet available.

The Trans Mountain annual meeting recently approved dividing the company's authorized 25 million shares into 12.5 million series A and 12.5 million series B.

All the common shares of the company now outstanding (7.5 million) are included in series A, which will pay a regular dividend.

The series A are convertible into series B which will pay a "tax deferred" dividend.

In answering a shareholder question at the annual meeting company officers said they had made the move as a matter of individual shareholder convenience.

It's 100 million for MacMillan

MacMillan Bloedel planted its 100 millionth seedling this week as part of its reforestation program.

A symbolic Douglas fir seedling was planted at VanDusen Botanical Gardens by former MB executive and now an honorary director, W. J. VanDusen.

J. Ernest Richardson, MB chairman and acting president, told the gathering that "the B.C. forest industry is not just converting trees into lumber, pulp and paper, but is managing a resource that is harvested, renewed and improved. We are tree farmers who harvest our crop and then plant for the next."

VGH strike: will winner emerge?

George DOBIE
LOOKS AT LABOR

It's the futility of the hospital strike that hurts.

The dispute boiling around Vancouver General Hospital should have been settled because the government had put in an industrial inquiry commissioner and the commissioner worked out the terms.

An industrial inquiry commissioner happens to be the final voluntary step provided by the government's labor code to get settlements. If labor and management agree to go that far, it should be with the understanding the IIC recommendations are the settlement.

If labor and management groups cannot see the light or the logic of this, then either the IIC procedure is going to be discredited or it will have to be changed.

The change would be to appoint an industrial inquiry commissioner only when both sides agree formally in advance to accept the terms. That's voluntary arbitration, which is not such a bad thing when considering there are no other avenues open to a settlement short of a strike.

The trade union movement generally is opposed to arbitration in any form, but the most abhorrent form is compulsory arbitration. That is when government ends a dispute and orders a settlement without either side participating in the decision.

Perhaps if the labor and management groups knew in advance that an IIC would be binding they would make a greater effort at direct negotiations or mediation.

They have to know it's game over when they get to the IIC stage.

Of course the hospital case isn't the first of its kind. The long grain export dispute here less than two years ago was triggered by employers turning down a federal settlement report, saying it was inflationary.

In the end Ottawa had to legislate the grain elevators back into operation, impose the settlement, and accept the responsibility for its inflationary effects.

The hospital administrators here are taking the same stand regarding the D. R. Blair settlement recommendations. If they don't give in it's likely Victoria will have to legislate the Blair report into operation.

Another IIC that has been rejected is on the B.C. Railway where the United Transportation Union continues to balk.

Complicating factors permeate the UTU dispute — the trainmen were virtually forced into the IIC, they have a special demand for daily overtime, and other unions with unsettled contracts also rejected the settlement of Mr. Justice Craig Munroe.

But the other unions went voluntarily into binding arbitration after that and the UTU should have gone the same way. Unions generally cannot expect victory every time they come up with something new. They can only try, try, try again in subsequent talks to renew their contracts.

A matter worth considering in the future is whether to allow workers a vote on accepting an IIC settlement on binding terms.

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As for the hospital strike itself, the issue is how a strike regulated by a government board can be resolved.

As just about everybody knows by now, the labor board met its first challenge under the essential services section of the labor code. It did a fine job determining workers who would not be allowed to strike and reducing the bed capacity at VGH to manageable proportions.

The board's purpose is to permit the employees in essential services such as hospitals to continue to have the right to strike by removing the danger of hurting people. The "hurt" is supposed to be economic, as in the case of all strikes.

So now a new question arises — how do you economically "hurt" a tax-supported public institution such as a hospital? Won't the government make up any budgetary deficit? Sure it will.

It's then suggested the pressure may come about in another way — the union, non-union, supervisory workers continuing to operate VGH will wear down from long hours and the additional load.

But that doesn't really hold water, either, since the labor board has observers on the scene to make sure the "controlled" strike is operating properly.

That would lead us to believe the VGH strike will last longer than a few days and the Hospital Employees Union will have to consider hitting another institution to mount the pressure it needs to break the impasse.

In turn that might force the government to order the workers back to their jobs and impose the settlement. And the futility of it all is that's exactly what would have happened in the beginning if the strike had been a wildcat or a full-scale walkout.

Besides making the workers fight to get the Blair report, it's said the only value of the VGH strike might be to allow the workers to let off steam and air their criticism of the administration. The workers and their leaders are quite vocal about how their jobs have been run over the past several years.

A second possible benefit might be that the labor experts will try to devise some formula tied to the private sector that will provide fair wages and working conditions for hospital employees. If the results were to come under some type of proper review every few years, these workers might not be concerned about the right to strike.

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