

This is an interview with George H. Weyerhaeuser recorded on Tuesday, April 2, 1985.
This is Tape XIII, side one.

Edgerly

The last time we met, we were focusing on research and development and some technological advancements and research contributions to the company. We also talked a little bit about High Yield Forestry and its growth and development. I have one additional question about High Yield Forestry that I would like to ask, and it relates to opinions that I've heard voiced by people whom I guess one would consider doubting Thomases. Despite the acknowledged benefits of the program, some of the observations I've heard could best be summarized as being something like: Market prices were up and when High Yield Forestry was adopted, the predictions for prices were good; the company needed capital; High Yield Forestry provided a way for the company to harvest more timber than it ordinarily would have without seeming to step away from responsible forestry practices. Do you have any responses to that kind of observation?

Weyerhaeuser

Well, the implication sort of comes in backwards. High Yield Forestry after all is more intensive use of the land and more intensive use of the inventory that's on the land, but the implication is that we discovered a way to justify something we wanted to do anyway, and that's not accurate. I think the economics are an important element in it. Whether we would have arrived at the same conclusion under different scenarios of values in the timber and in the prospective value of the harvest under a different set of conditions - well, I think you can come to all kinds of different conclusions. But we did not manipulate or start with some kind of an objective which was then factored backwards. The relative economic efficiency associated with retaining timber over long periods of time is certainly affected by growth rates versus appreciation rates. And, in examining those factors carefully, there's no doubt that we arrived at a conclusion that husbanding the resource for future generations with relatively low physical volume growth rate and some deterioration going on in old-growth stands was not in the best interests of present or future shareholders. Now you would arrive at a different conclusion if you were to change the assumptions drastically. Let's say you assign an increasing scarcity value to old-growth timber for the kinds of products it would produce, and let's say very much lower value for cellulose per se grown in the form of young trees because they were going to be in relatively abundant supply. Reasonable people could disagree on what the rate of declination in supply was relative to consumption, and what

future investment levels and intensive plantation management might produce in the way of the volume of future forests relative to consumption. So I think there was plenty of opportunity in the analysis and in the way we went at it to test different assumptions and theories. Whether the ones that we selected and chose to believe at that time were substantially correct or substantially off the mark, I think we could, with the benefit of hindsight, go back and test the validity of them and see whether our conclusions were right. But we did not start out with a set of objectives which were then factored back into a model and then forced us to choose certain assumptions. I guess that's my long-winded way of answering, "No, it's not the case."

But I think that the factors that sort of urge you towards a higher level of harvest and management and investment on the plantation side were reasonably valid, with the benefit of hindsight. That is, we were getting a fair amount of deterioration and a fairly nominal net growth in mature stands. I think the presumed yields and investments on reforested acres and plantation acres were also reasonably valid. Now we've changed those upon further analysis South and West, subsequently, some up and some down. But I don't think any of those changes on net has invalidated what we said was likely to be the case in growth and yield.

The big imponderable, of course, that you can't answer yet, is what is the value stream that is likely to generate out of that second-growth forest? We aren't there yet. You look back at the old-growth forests and say, "What did we do? What was the result of all this?" I'd say perhaps to some degree, unfortunately, what we predicted was in a sense too optimistic about the sustaining of value in the old-growth forests in light of recent events. So, if anything, it would have underpinned our argument for a reason that we were not making; namely, that there would be a big falldown in values because of over-supply and under-consumption in a sense, but that's looking at it from one vantage point. We also had a very much larger runup in value during that period which, if it had been sustained over a long period of time, would have invalidated our argument. We would have had appreciation occurring even in spite of the fact that we had no growth, appreciation meaning that there was more demand for the material relative to supply than we had predicted. So, in that event, if you'd known those things, you would have drawn a different kind of a curve. We were kind of going along like this and it actually took off like this. So, depending on if you stopped up there, then you would have said, "You guys were expedient but wrong." And if we stopped down here, we were whatever we were and right. But, you know, you've got to take the ten-year or even the five-year

wiggles out of it and say what is the picture on trend. That's what we were trying to discern. I think that the target forest and the High Yield Forest were supported by reasonable assumptions, and the economics that came out of those assumptions were fairly compelling favorably toward what we did. They also supported a fairly strong rate of growth in earnings and cash flow from timber and a fairly strong growth reinvestment plan for the whole company, and also quite obviously resulted in a lower inventory of timber during the intermediate years, over a long period of years, than would otherwise have been the case, until we get to somewhat of a balanced condition. So, between the years of 1970 and the year 2000, we will be living with a much better balance of a higher rate of growth than would otherwise have been the case; a lower inventory, because of the accelerated harvest schedule, than we would have; and with the benefit of hindsight, I think, in economic terms, we produced a higher present value.

If we can presume that we did a decent job of reinvesting the dollars that were surplus as a result of that above and beyond what we put into timber, then you've got an even stronger case. The allegation really is that's all you were setting out to do. But I say it again - I think that the underpinnings of that were relatively sound and not jimmied to produce a particular result. On the other hand, I would say it did not come as a surprise that some of the factors that were working there had these results. We didn't put it all into the computer and then find out at the end that the effect was as it was. There was certainly understanding that one of the issues was the level of inventory that we would maintain and/or the rate of conversion of the old-growth into cash. It's not an immaterial matter. It was not totally unrelated, and they were looked at in total.

Weyerhaeuser

You've got to look at a resource base a number of different ways because obviously it is time-related. That's the critical dimension in this kind of 40-, 50-, 60-year asset base. In one sense, you could make the allegation another way - weren't we really engaged in disinvesting in the West and reinvesting not only in other assets but in other geographies? Is one better off to have twice as much growing on twice as many acres with one-half the inventory? By virtue of buying 3 million acres of land in the South, we will be growing 9 million cunits a year instead of what would have been more likely 2-1/2. All right. We would also be at this moment in time managing a much bigger inventory of timber upon which at this point you could liquidate or borrow money or do other things. So you really have to model the dynamics of that before you can.... What point in time do you want to optimize, and who's to say that a given amount of inventory

is, from a number of different points of view at a given point in time, optimal? Is it the local community, is it the shareholder, is it employees, is it support of plants? These kinds of arguments are what you get involved in in public policy discussions as to sustaining jobs, plants, communities. Of course, that again has a time dimension associated with it because, if you take a long enough period of time, there isn't any question that the more intensive management of more land produces a larger resource base. So if we said, "Okay, now let's take two cycles. It's perfectly obvious that we're generating more raw material base over two cycles by a very, very large order of magnitude than if we had stretched the resource over 80 years instead of 40." There's no doubt about that. Now, if you like big trees instead of small ones, that produces a different balance of game. You can define it a lot of different ways, and I would be the first to say we are a business enterprise and presumably one of our principal responsibilities is to try to optimize the values for the shareholder without doing inordinate damage to the interests of stability and employment.

Edgerly

It's a well-reasoned answer and it gives a lot of perspective upon the situation.

Weyerhaeuser

Well, all those factors are debatable depending on what point of view you want to take, but all I can say is that none of them was ignored or not thought of. But it is certainly inaccurate to say that the sole objective was to devise a rationale for what we'd already decided to do.

Now I go back to the folklore, family lore, and I don't know whether it's accurate or not, but I believe my great-grandfather has been quoted in the folklore as saying that no one can afford to - I shouldn't quote him; doesn't sound consistent with anything else for four generations - no one can afford to own more than 20 years of timber behind a given facility or, in other words, that the economic horizon is not forever. I noted in Chuck Twining's biography of my dad that there were fairly significant references to real doubts by various of the partners, etc. as to the amount of timber that could or should be acquired or retained. I'll admit we are talking about the pre-sustained yield or continuous management days where the techniques were not available or known. The economics were different and would not permit, with fairly abundant supplies of timber and a somewhat nomadic industry following timber supplies [as much timber being held]. I think those issues were rational in their time. So what we're talking about here is really

the next phase of that, which is now, with new evidence. Now the frontier isn't expanding. What are the factors which in a static land base that come to bear on what you can afford to grow and how much timber you can afford to retain in inventory and in what form? That equation will change again. It changes with a lot of factors one doesn't think about automatically. Certainly it changes with the transportation factors, the proximity to consumption centers, alternate availability and materials to those consumption centers. All of those things, strangely enough, have a bearing on what one can afford to do in developing a resource base. We're today doing a differential set of treatments on land depending on site, location, etc. I guess what I'm saying is, you could extend that further and say the degree of intensity with which you manage lands could and probably will be further differentiated in the future by factors that don't have a lot to do with the soil or the type of timber that you're growing. This is to say, competing pressures for land, the values associated with those competing uses, and the proximity to where the major consumption centers are, are going to greatly affect what is or is not done in forestry. And I think as we go along, we're going to have to get and will get much more explicit about what we do where than what we did with these back-in-time, rather broad generalities about Douglas fir timber in general, which is more of what we did in the first iteration of the target forest.

Edgerly

You've given some interesting insights on that. And I think the people who have voiced those views come to it with a certain predilection for looking at forests a certain way.

Weyerhaeuser

Well, yes, I think so, too. I think you'd come up with a different answer on the national forest too. Even if you took all the factors I set into account - economics and everything else - there are other factors to add in, or you weight them differently. What about the retention rate of the forest primeval? What are the values associated with old-growth forests and all the recreation associated with it and the visuals? How do you put values on those? You have to. If you're going to allow the premise that economics has something to do with it, then in order to balance economics against other things, you almost are forced to assign values to those. You can say it's wrong or it's right; these are moral values and, therefore we set aside wilderness or we do this or we do that. But at the point of issue, which is somewhere there is a fringe on the forest that is not a national monument - somewhere that forest runs into use. At that point, you have to begin to decide - whether or not we do it explicitly. We haven't done it very well. In the U.S. it's

been a continuous debate, man and the frontier, I guess. But we're talking about, or were at the time, 3 million acres or something like that, or 2.8, out of the 600 million or whatever it is. I guess we were not trying to solve society's balances, although as I said, we were not unconcerned with continuity and sustainability, nor are we now. I think there are people that would argue that we're wrong now on the side of over-conservative management of, retention of, forest inventory.

Edgerly

That's a different group that's talking now.

Weyerhaeuser

Yes, it is. Yes, I just changed the group. (Laughter)

Edgerly

You might be talking about some young turks there.

Weyerhaeuser

Well, or the financial world. (Laughter) It's a great satisfaction, as far as I'm concerned, that we have increased, not the potential, but certainly the productivity of these lands by several orders of magnitude and there are several orders still to be done. But it is certainly different looking at a southern plantation than at a mixed hardwood forest, and I can understand how people in Oklahoma and Arkansas see a big change with us, managing tens of thousands of acres and changing the nature of the forest. To some of us, it looks like it's very well managed and very efficient, and to some people it looks like we're a pretty heavy-handed agent of change in something that they consider to be, to a significant degree, in the public realm. There's lots of usage of those lands for other purposes. And loblolly pine doesn't grow very many acorns. (Laughter) It's interesting. I think there were plenty of questions at the time within the company, I mean the people who knew something about forestry and historical values. And, of course, we always did have a hell of a lot of interest and debate. I don't think the foresters won the day very often in the early days between the loggers and the foresters. This was not the Weyerhaeuser Forestry Company when it was founded, and it still wasn't the Weyerhaeuser Forestry Company in the 1920s either. I'm not arguing that it is now, but it's sure one whale of a lot closer.

Edgerly

I'm hoping we'll learn a little bit more about those internal views with the oral history project on High Yield Forestry that we're hoping to undertake. I think it might give us some interesting insights that we might not gain any other way.

Weyerhaeuser

It's interesting because this is right on the point. I think, depending on what your background, training and views were, there were very different inputs, whether they were people with pretty intimate knowledge of the growth problems or of the financial aspects of it. It was an interesting time.

Edgerly

What I'd really like to see come out of that project is some insight that can be used in the future in terms of how those decisions were made, what the elements were, what was taken into consideration and why, so that those same equations don't have to be figured out all over again. When that harvest is ready, what factors will need to be looked at again? I'm really hopeful that we'll get something out of it that's going to be beneficial in terms of where the company is going, partially because you do have to make an investment so long in advance.

Weyerhaeuser

It's unbelievable, different than anything I know of. It's interesting, too, that in part of that equation, you have to separate the land from what's on it, and that's a difficult thing to do conceptually. What I'm saying is, how do you think about land? Is it of no value and permanently set aside for a use? Or do you think about land as though it were a transferrable asset with a value at any point in time apart from the timber now? This is like some of the real estate problems. If you have, which we do, land right in the center of Los Angeles and on it sits a distribution center. Their land value clearly is relevant to the overall value that you've got there. You're running a business on it and you ignore the land value; you've got a very real economic asset sitting idle. It's relevant if you're going to put the economic model together to ask yourself, are they necessarily tied together? Do I have to be on this location, and if I am on it and the land is appreciating at 15 percent a year, do I afford myself in trying to assess what kinds of returns I have in the entire occupancy of that distribution center the appreciation rate that's occurring in the land? We have something of that same kind of a question in land that is adjacent to population centers. If you ignore it, you may be paying taxes to some degree on

appreciating values, even though you're not realizing the value which, in the short run, makes you appear as though you're taking a lower rate of return. The only reason I mention it is because of the different characteristics of land than anything else, both in terms of "they aren't making much more of it these days" and therefore, there is a legitimate question as to whether with increasing population and inherent appreciation rate in owning land, if you don't afford an appreciation rate, you pretty quickly arrive at the conclusion in most instances that you shouldn't be holding onto it.

Edgerly

Okay, this leads into something that I wasn't necessarily going to include today, but it fits so we'll talk about it. So here's Weyerhaeuser holding land adjacent to population centers, some of them new population centers or fast-growing population centers. At the same time, the company's buying timberland and timber cutting rights in Oregon at a noticeable clip. Is it one of the goals to leave the company with a greater flexibility to make decisions relative to alternate uses for the land near population centers?

Weyerhaeuser

Yes. I wouldn't want to overstate it because the percentage of the land that has significantly different values deriving from uses other than growing trees is low - 10 percent or something like that. That's not insignificant, but the percentage of that land that is appreciating at a very high rate or has achieved a very high value because of water or proximity to lakes or streams, topography that generates views, or is close enough to commuting distances is small. But those kinds of lands on the one hand pose a problem and, as I say, they can get in effect taken away from you by economics. They can get taken away from you by virtue of sensitivity to public view. So they can get too valuable to grow trees on or they can get too restricted to use. Now if you want to take a fairly long span of time and say, "What are the consequences of that?" Obviously, if you want to grow a given amount of timber or you're trying to manage lands economically efficiently with good growth potential and not carrying values that are too high and buried underneath there and not earning anything, you have to address the problem of don't I have to be nomadic to some significant percentage? Just extend the time period and the answer is, "You bet."

Edgerly

It's interesting. That goes back, in a way, to the industry as it has been.

Weyerhaeuser

Of course. I mean, farming is a higher value in the South. It hasn't always been. It went the other way in cotton. If the product that you can produce on forest land in farming use has low yields and the quality or competition for that crop is too great - let's say if you can produce it on 10,000-acre flatlands somewhere else at one-third the cost or something - okay, cotton isn't going to be grown on forest lands, and so they go idle. So when we go to Mississippi, what do we do? We converted an awful lot of old cotton and corn and small plots of land that have been managed first for timber, second for farming, and went right back. The other thing that is also going on, which is in the Mississippi delta lands, many of them, where soybeans became very, very manageable with good yields and values.... And that's not limited. There are other crops, too. An awful lot of those lands with good, rich soils and farmable have been going right out of forestry now. If we happen to be in those kinds of lands, you don't sit there and say, "I dedicated this land to this use irrespective of all that goes on around me." So you, in a sense, need to be prepared to grow your crops in geographies and on soils and locations that are economic to do so. So that's what we're always searching for. I don't think that's going to stop. I think if you wanted to say, "Well, let's take another 80-year crack and see what our 6 million acres look like. Where will they be and how many of the lands that we own today will still be in Weyerhaeuser's possession and growing timber?" I can't even answer it on the first 900,000 acres. I know for sure one thing - a good deal of lands on the east side of Seattle were ours at one time and even if we'd held them as long as, with the benefit of hindsight, as we could have or should have, we would have been holding them for a different use and we would have disposed of them by now. So it got to be a question of not whether but when. You can resist the flow of population, but you're not going to stop it and you shouldn't. Highest and best use. It isn't accidental that the Forest Service is all up on the top of the hills. (Laughter) Just lengthen the time horizon and all kinds of different questions come to bear. It's only when you put it in your own immediate time frame or experience that you tend to think things are as they are and ought to stay that way. Well, that's just a short time horizon of man, I guess.

The interview recorded with George Weyerhaeuser on Tuesday, April 2, 1985 continues on Tape XIII, side two.

Edgerly

Does it ever bother you to try to manage something that is so long term, something you will not be able to directly see the results of or get the returns on psychologically?

Weyerhaeuser

Quite the contrary. I think once you get over the economic burden of putting money into the ground every year.... That's a burden that we carry and we think it makes sense over long periods of time, but it is clearly a burden that others are not necessarily carrying. But the flip side of the coin is that we were and are given that opportunity by virtue of acquisition and management that went before. So I think of it in a sense as the seed corn that comes out of the previous harvest. Now in an economic sense, the negative in the economic sense, is the problem that the oil companies have and we have and other resource companies have. They (the oil companies) chose to intervene in that process through liquidation to generate more immediate values. Therefore, you have a degree of jeopardy that says you're in a sense economically vulnerable because you are managing for the longer term. Now we're benefiting from the previous and we're putting some substantial amount of sustenance back in. So long as the underlying economics, however vague.... They are vague; they were when we did the High Yield Forest, they are still vague, and they always will be. When you try to push out 40 years or 25 or 30, what are the techniques going to be? What are the costs of harvest? What are the utility values of the material going to be? On the one hand, you say I can't predict that, it doesn't match up with anything else we do, but we do try, well, it's a matter of degree, I guess. You would like to be more certain that you're making sense over time, even if you can't defend it at a moment in time and you don't have the comfort of that. You're traveling on faith is the long and short of it. Now I would like to be more certain about that, but after all, don't we all live with a certain amount of uncertainty, and in this business more so perhaps than others. But it isn't the last decision you ever made to put those trees in the ground and to keep it in perspective, their value does appreciate through time. You are not the only one that could liquidate those values, so they are, to use a financial term, fungible in some degree. So that if there's a point in time ten years from now or five or 15 where we have to withdraw some of those values by sale, we can do so. Now I didn't say the timing will be perfect or that the return will be. So in one sense it's way out there and it's improbable that you can ascertain any range of values.

On the other hand, we have a long, long history of multiple uses of the products from the forest and improving utilization and technology, and I have no doubt that that's going to

continue. So to try to divine precisely what the value of 2x4s is going to be 40 years from now is almost immaterial because I think they're going to take it all apart and take the chemicals and the fibers, and there we know there are a lot of techniques that can be applied. So I don't spend a lot of time worrying about it. I worry more about being able to generate, over a reasonable length of time, values from the entire process, which is what we do largely downstream from the resource base.

I said, "Quite the contrary." It gives you some sense of stewardship and security for the enterprise to be working on a resource base which is, through time, getting larger. I say that in spite of the fact that we're making it smaller through 1990 or 1995 or whatever it is. That doesn't bother me. We know whether we've got 500 trees per acre or 400 or whatever that the occupancy of that land with what we're putting on it, barring disaster, is generating a terrific raw material base. And two or three iterations can take place in conversion and markets and so the pillar you're building on has got multiple possibilities and we've got a pretty high degree of assurance that it's a sound pillar.

I guess my answer is sort of nine pluses and one minus, and the pluses are all in the direction of soundness and versatility and stewardship, and the minuses are in the sense that if few others are doing it, you're bearing a burden that can result in poorer intermediate-term performance and lower values for shareholders and some risk of somebody shorter term interfering in that process which, as I say, is happening at some of the other resource companies and some of our industry, too. Not many of them are spending a lot of their development dollars in forestry anyway, not enough of them. Certainly not many, not many companies and not very extensively, and there's a reason. With interest rates at 11, 12, 13 percent, something that you do and retain for 30 or 40 years has to have very, very high utility values out there in terms of combination of growth and usefulness. It's tough. This was a much sounder business when interest rates were at four percent. But the other side of the coin is as the company grows and grows down the stream from a resource base, its percentage of investments and assets are shifting ever farther away from the forest in the sense of percentages. So you become less and less a forestry company, even while you're enhancing the size of the resource base, or even the size of the resource base relative to primary conversion facilities that use the trees. You're further and further into conversion and refinement, and if those are well managed they become more and more the dictators of financial performance. But it's a positive thing to be working with. It's positive for employees, and I think the satisfaction, perception of the company and what it's about by the general public - it's a wonderful image to be working within.

Edgerly

When you refer to image, you're talking about the tree growing image?

Weyerhaeuser

Yes. We're a resource manager, we're not just a miner. If I were a copper miner, I think I'd feel quite differently. I think the people that work for the company, I think their communities would feel differently. I think how you feel about what you're doing has something to do with its continuity and perpetuity and replenishment, which has to do with the trees, not the fact that we're loggers or make lumber. It's interesting how positive people around are. We had a retirement party for three cruisers, 100 years of service last week.

Edgerly

Who were they?

Weyerhaeuser

Art Maki, who was one of our top cruisers and the head of our evaluation group; Tunny McCullum, who was the number one Indonesian, New Guinea, Southeast Asian cruiser; and Dave Lyons, who was evaluation cruiser. They've all been on acquisition crews and assignments. But it was interesting; there were a lot of people there and we had just announced that we were buying 135,000 acres down in Eugene. It was interesting how many people, in spite of the fact that we don't have enough capital to go in a lot of other directions and there's a fortress mentality because of the general market and earnings and a few other things, were positive about what it said about our faith in the business. This struck me as damn interesting. Shouldn't have surprised me, but it did a little bit. But I've had a heck of a time trying to decide whether we really ought to - we're not exactly land poor. (Laughter) Everybody else is selling. I mean literally, all the major companies in the West, I would say, the big integrated companies, are pulling out. A slight exaggeration, but not really. IP. G-P. ITT would like to, but can't figure out how to. Champion. None of them is going to be playing a significant role in western forestland management, which is astounding. If somebody had told me that five years ago, I'd have said, "You're out of your mind." So we're running against the tide, but it's fun to see what the morale effect is, will be.

Some of our people were concerned that it was going to transmit the wrong message; namely, we've got a lot of other priorities that ought to be occupying us. I don't think we would have done it except, I guess, the thing that brings it to mind is that.... I'm probably bragging because I consider myself to be, to some degree, the steward of the longer-range interests of the shareholders, and therefore I'm a step back away from the pressures of the moment relative to most of the guys that work for me. I do it with some trepidation, but we'll see. And, of course, part of this, what we were talking about earlier, our acquisition down there and elsewhere, is a refinement of the process or an extension of the process that you're talking about. We're trying to position ourselves on better lands. These are low elevation, close proximity and in a permanent Weyerhaeuser area. We're committed in a lot of ways to that whole integrated resource base and the conversion facilities and people. And at the same time, we're also on all the perimeters trying to divine where we can sell, trade, get out of, so that we're not just trying to get bigger in land. We're trying to get better, and this is part of that. We will be disposing of some. We find it very hard to dispose. (Laughter) Other people are selling and moving on, and we should be more than we are.

Edgerly

Is the difficulty with disposing, as you refer to it, a reflection of an emotional commitment?

Weyerhaeuser

Sure, sure. Yes. I use the broader "we". I think we believe our own propaganda. (Laughter) We're not nomads, you know. I can't even get our timber people.... While others are busy trying to figure out how to redeploy assets, I think 90 percent of what we've been doing is repositioning. We're trading with the Forest Service, we're trading with the state of Washington. When we get something that we see that we want to buy, like this thing, we're trading St. Helens' liquidation lands and dollars into Oregon, and we're trading southern, to some degree, lands on the perimeters of our southern holdings, and we're trying to find buyers for those lands, and then we say, okay, you go to G-P and we will trade lands with G-P and you buy the lands that we trade. Now that's tax efficient, but the net of that is that we wind up being traders, not disposers, in that framework. Now if you were trying to optimize the short term what we should be doing probably is selling those lands that we were identifying out there, we're identifying buyers, and taking cash for them and reporting the profits and redeploying the money into higher return assets and current businesses.

Edgerly

My only question about this way of approaching the land base is does it leave the company vulnerable vis-a-vis the shareholders who may feel that they can't leave their assets in the company's pocket?

Weyerhaeuser

Precisely. That's what I meant by the intermediate-term effects of somebody coming in and saying, "Hey, what have you done for me lately?" Because one of the things that our shareholder does not see an increase in earnings, an increase in dividends as a result of that transaction that I just described. Whereas he would otherwise.

Edgerly

So how do you assess the relative risk of that? I'm not talking about small shareholders; I'm talking about large institutional shareholders who can change your situation in a day's trading - how do you see that risk right now?

Weyerhaeuser

It's significant. The general market every year is becoming more institutional so the percentage of institutional effect in the stock values is higher and higher. They're traders; they're not long-term investors. A long-term company managing, even if you had it perfect over the long cycle, might be significantly disadvantaged if everybody else is, in effect, managing in the shorter time frame and showing better values; they're going to buy them and sell us; our stock value is down. So is our shareholder's. Even a long-term shareholder gets affected. He isn't getting the same flow of dividends and doesn't see the stock values going up. And then you're more subject to vulnerability in terms of raiders, if somebody comes in and wants to force liquidation. This is why the resource companies are somewhat more vulnerable.

Edgerly

So that also means managing the psychology of the investment community out there.

Weyerhaeuser

Sure. We've been accused, in various times past and I'm sure we are now to some degree, of sitting on our assets, and it's true. And if they aren't realized over long periods of time, then you can legitimately question, is that the highest and best use of the stockholders' money? It's a tough question.

Edgerly

Has the company been successful in managing its position vis-a-vis the investment community?

Weyerhaeuser

Oh, I'd answer that differently at different periods of time, and I certainly wouldn't be quite as confident in the "yes" answer today as I have been most of the time I've been around. I think that we have suffered performance-wise, partially but not only because of what I'm talking about, which has always been to some degree a part of what we've been doing, which is to say the expense portion that goes into land management, whether that be property taxes or reforestation expenses that come out of your income flow, we've always differentially carried a hunk of that. But now that's further compounded by our being involved in a lot of high-volume commodities in the forest products field. By virtue of our size and our tie to the forest, we're much more primary than secondary conversion or refinement of the products. We're much more commodity than specialty, we're much more international than domestic, in relationship to the rest of the industry. All of which is in a downward trend. Now we rode the tide upward in '72-'73; '77, '78, '79. So we go like this, and we aren't on the cycles necessarily that the industry is, so we suffer in comparison. I think the relations with the financial community have been managed reasonably well. We've a very sound, solid credit rating all the time. We've worked at that. But when you finally come down to talking about what you mean by the financial community, I think the most compelling thing is have people made money investing in your stock, and the answer is "no" over ten years, and that's a very long, long period of time. That affects the institution, it affects everybody. I think we would certainly not be ranked up in performance in the forest products group, which does bother me, and I don't mean just in the short run. We used to be. That's partly because we were riding the curve up on exports and timber appreciation, so that the wood products part of our business - timber, logs, lumber and plywood - have gone from generating \$700-800 million a year to \$300 million. That's a tremendous swing in a relatively short number of years. And we haven't been able to offset that with performance in the other smaller parts of the company by any stretch of the imagination. I think we are legitimately being downgraded in relationship to some of the other investments in forest products companies. We have always, within the range of my memory, and still command a much higher price earnings ratio than darn near any other company. I mean on average we've been way above any other company, but not every

year above every other company. But that's eroded some - the spread between us and the industry. That's a proper spread in my sense, because we got it through absolutely tremendous financial underpinning and resource underpinning, which says that we ought to be worth more in relationship to every dollar of earnings than somebody who hasn't got that. The flip side of that is, somebody can ask the question, you've got all those resources, why aren't you earning a higher rate of return on the resources? Because our rate of return on that base is grossly inadequate in this time period.

Edgerly

So what's the strategy to counteract this?

Weyerhaeuser

We have to concentrate on improving our short-term productivity and product yield and do a better job of getting the lineup between what we can produce and where we're delivering the product. Both the costs and quality of the service we're providing have got to be improved, and we've got to direct our attention to that. You can't earn the right to investing somebody's money for 40 years. There is no way to do that that I know of. I mean our old-time shareholders, some will retain. It's great to talk about the satisfactions of being in a long-term business, but in capital markets of today and with the institutions' time horizon being three months, maybe they're 35 percent of our stock quoting and maybe they're 60 percent of the general market, and it's going up. How are people saving, you know? They're saving through life insurance, pension funds, and so the financial intermediaries are the ones that are making the decisions, so-called institutions, and if they're like most of us, I'm willing to take a long time on Weyerhaeuser stock, but I'm completely unwilling when I turn my money over to somebody to have them underperform on a one-year basis or six months or two years. That's the way most people are. If you're going to do that, why don't you hire somebody just to buy the averages or something? In the last analysis, this is a capitalist society and you have to compete for capital, even if it's historical capital. It won't stay there forever.

Edgerly

Presumably marketing efforts such as the First Choice effort and trying to address the so-called remodeling market, the recycling of housing market, would be part of that. Has that been successful to any noticeable degree in supporting your strategy?

Weyerhaeuser

Well, I'd hedge that again by saying Rome wasn't built in a day. I think that the initiation of that and the emphasis on that is both timely, appropriate and being reasonably well done. But you build that relationship over time. What we're trying to do is understand our customers' needs better. We're trying to package our product better, and we're trying to deliver it to them in a form and with timeliness and also, in a sense, in places where we are logistically able to do a very good job - very good meaning good service and economic. So if we're trying to deliver stuff down in Savannah, Georgia that's originating in Longview, Washington, we may be trying to do the wrong thing. You can be doing everything right out here and still be wrong. So we've got a logistical problem on our hands, which is to say, where are we trying to service people? Are we in the right places? We've got a reconfiguration job to do, which is another dimension to being darn sure that when we've got industrial customers or we've got people that are relying on us, are we understanding what their needs are and do we understand our economics in serving their needs? And in some cases, that latter one will say we don't belong there even though we may out at the point of marketing be doing a good job. In the latter one, we are not anywhere near finished with it; we're going to have to rationalize our situation. That's because freight has run amok in terms of its relative portion of the total sales price. Freight factors have changed the regional competitiveness, and we've got to get our system turned around. Or, where we're serving a customer out there in the wrong geography from our production system, we're going to have to do it on purchased materials, and that's the other thing we're trying to free them up to do. So we could have a free-standing service unit out there that's perfectly able to do the job and earn a decent return on its assets largely through supplies coming from its own region and substantially from outsiders. This is to say we're trying to free the distribution system to some degree, too.

Trying to understand the customers' needs and what we're capable of doing and optimizing there is a very important part of what we're doing. That's packaged, of course. The First Choice program is to try to tell customers that we are concerned with quality and service and we'll remain competitive in price, and they can count on us. I think that's been, as I said, reasonably well handled, but I would characterize it in startup rather than bottom line. Champion is evidently going to sell all of its distribution centers, and G-P is shrinking its system some - I don't know about dollar-wise, but location-wise. We are going to be shrinking, shrinking geographically where we are not in a position to do a good job. So we're seeing a realignment.

Of course, there's a whole new sector developing in the warehouse selling, the home depot, do-it-yourself kinds of thing - Pay 'n Pak and Payless and all of them - where there's very high turnover, low markup kinds of retail outlets. They are beginning to dominate some of these markets. They need a particular kind of replenishment service, which we're trying to also understand and accommodate to, which is different than the old-line retailer or even competing with the stores that are retail-oriented hardware-type stores now. So the distribution patterns are changing. At the same time, our raw material base is getting narrower and narrower in the sense that younger trees don't produce the same spectrum of products that older trees do, and there isn't anything we're going to do to reverse that tide in the West. We're producing less clear and less shop and fewer timbers. So, we are going to have to package smaller and smaller pieces more effectively or remanufacture them into different sizes, and that's where Structurwood and some of these other new panel products are going to come into play. They're going to be substituting for the older, larger trees with an engineered set of properties, which you can machine or configure. If you were to go out another 15 years or whatever, the products are going to be quite different and they're going to be manufactured out of what we would call composite panels, and they're going to be manufactured into engineered systems for structural purposes and for industrial uses, cabinet work and all. They're going to be multiplied or multi-characteristic boards that are tailor-made with particular finishes and machinable. So it's going to be a different world. The big tree is clear lumber and the big trees are going to disappear.

That's not to say there isn't going to be any wood. There are some amazing successes in terms of improved finishes in hardwoods and grain printing is moving along. You'd swear it, if we can't do it, the Japanese can. So it's going to be interesting. But in the meantime, we're making an awful lot of 2x4s and 2x6s out of small trees that are not exactly in short supply, so that the economics of converting our small timber a long, long ways from market are darn marginal. I'd characterize what we've been trying to do at Raymond with an average diameter of 7 inches or something like that, as producing a commodity product to compete with the Canadians coming out of eastern Canada or out of small timber, with half the freight costs. Between labor and freight, we aren't competitive. We can't go that far with it, until the Canadians run out of timber, which may be quite a ways downstream. (Laughter) Have you ever spent any time up there? They talk in cases of thousand square miles instead of acres. Now it's an exaggeration to say theirs is all sweetness and light, because as you get up into the Canadian, more

remote timber as they harvest that which is closer in, they're into marshlands, they're into long-distance hauls, they're into small timber that doesn't grow fast. So they've got a lot of logging costs. It isn't all just a matter of cheap trees and going forever up there.

Edgerly

They might be able to put out enough to compete for quite some time, though.

Weyerhaeuser

Well, that's the point. We've got a couple of operations up there that aren't all in the remote north that are paying essentially nothing to the B.C. government for stumpage, and with reasonably efficient mills, we're just barely covering costs. We couldn't go another 50 or 100 miles north. The quality of their natural stands is a variable. There's a lot of rot in hemlock and white fir, and you're talking about lodgepole pine, which is pretty darn small - you've got to handle a lot of pieces. Nothing is limitless. Economic timber availability has always been part of the issue and, with the exchange rates where they've been, 27 or 28 percent under par with the U.S. dollar, you've effectively lowered Canadian costs by that amount, including stumpage and everything else. If the Canadian dollar deteriorates further, which it might, that could push that frontier further north all the time. That is to say with our costs in U.S. dollars, whether they be labor or freight or whatever, we're losing some competitive ground just on the exchange rate. The same thing is absolutely true in Europe versus the Scandinavians, who have never, never had it so good, since maybe World War II or something like that. They've got margins. The Swedish crown went from 4 to the dollar to 9-1/2. Why, there's an unbelievable difference in the economics that the pulp and paper businesses have to face on those international commodities anyway that can go across the ocean, which certainly includes the two or three that we're in.

So, if I had it to do differently, what would I do? I guess in this decade, I would be closer to the U.S. population centers. I would be producing more fine paper in the Southeast closer to market. And I would not have bet as much money on the international market being served from the West Coast. I remember the days when I would have said that in reverse.

Edgerly

Not very long ago, either.

Weyerhaeuser

No. (Laughter) It still hurts. Maybe it hurts more for the memory.

Edgerly

It's after 5; I didn't realize the time. If you have time to continue....

Weyerhaeuser

I have time. I was an hour late getting to you, so whatever you want to do.

Edgerly

That's great. Let me put in a blank tape.

This is the end of Tape XIII, side two. The interview continues on Tape XIV, side one.

This is a continuation of the interview with George Weyerhaeuser recorded Tuesday, April 2, 1985. Tape XIV, side one.

Edgerly

If we could go back to R&D for one more question. It relates essentially to a change in condition and is primarily centered around the Technology Center, which was, I think, a \$40 million facility consisting of 450,000 sq. ft. or something like that, designed to bring together in one place, and therefore facilitate communication, the scientists and engineers of this company. That obviously has not been without its problems and, in point of fact, the company has to a substantial degree begun to reverse that, mainly returning some of those people to the mill sites, taking them closer to where the technology and sciences apply. Could you give me some insight relative to the elements that have led to that change in policy?

Weyerhaeuser

I don't know whether it's policy or emphasis at a point in time. I don't think we arrived at a moment in time when a new truth was thrust upon us; I think it has been more of a question of evolution which is not unassociated with the economic conditions around us. I don't mean solely the availability of money to invest in research over a long period of time. I think, consistent with what we've been talking about in terms of a much higher degree of need and emphasis on short- and intermediate-term performance, we have looked much more carefully at our competitive situation vs. other pulp and paper mills and producers. Now some of these things we've been talking about, we can't change - our posture, our exposure to international markets, our commitments to those markets in terms of shipping and our unfavorable logistics vis-a-vis U.S. markets from the West Coast. All of those have produced a more competitive set of conditions and we have had to look pretty carefully at our individual units. We've done much more of that in the last four or five years. We said, "What does it take to bring them down the cost curves?" We can't dictate market conditions; we rarely exceed six or seven percent of any market, so we're in commodities and we're on these kinds of transportation lines, and we have to understand where we are vs. the competitor in terms of the costs we can manage. I'm talking now primarily about the pulp and paper mills, but it would apply elsewhere as well. I was just going to the point of how we're now thinking about the technical resources of the company.

We did conclude, some time back, and we still believe, that we have a lot to do in our mills within the framework of known technology. This is largely process I'm talking about now, making very substantial commitments to upgrading our productivity, in the largest sense of the word, which includes the concept certainly of yield of quality materials out over yield of materials coming in. We are talking about volume and quality, control of the process, consistency of the product whether it be moisture content or basis weight or yield out of digesters or whatever. There are all kinds of things that can be done and in order to implement that, we have concluded that we were significantly short of the application capability at the mills. We'd fallen behind in that regard and felt it was not an appropriate thing to try to center at the Technology Center. So we then asked ourselves, "Where do we turn for technical resources?" Obviously a good part of that, a significant portion of it, rests in the technical training, the backgrounds of people that are in our technical center. So we were meeting a need, a different kind of a need. It's a long-winded way of saying we didn't decide we were going to scrap research; we decided we needed to divert a resource to a different set of priorities - shorter term.

That's only a portion of the answer, because that deals with one area, namely process control. But it's true in energy. We've got a very good energy group over there, but we wanted to apply their talents instead of trying to invent the next generation of wood gasifier, which I say reluctantly because I think we still have some technology leapfrogging to do that the industry isn't doing and that isn't going to be done for us. We, Weyerhaeuser, have quite an economic carrot out there if we could solve some of these.

But in any event we've got these big mills that are under competitive pressure and we'd better get them straightened around as best we can with people that we have, which meant directing some of them out into the field, which we've been trying to do, which resulted in shrinking some of the personnel in R&D. Now the other part of it is, of course, that we have a portion of the budget in the technology area directed to a long-term, call it more basic if you will, and which is not directly relevant to what any of the businesses is doing at a moment in time. We have pulled back on that to some degree. I'm not sure that the percentage of it has dropped all that much, but it's dropped some in relation to the overall picture, that's against a smaller base. We've really been holding the total dollars about constant over there, but that's a decline in real expenditure. I would say we're guilty of what companies are often accused of being guilty of: "What goes first under pressure?" What goes first under pressure is you try to improve your

performance in the short run, and so you direct more of your efforts at short-term improvements, and we've been doing some of that. At the same time, of course, we maintain, versus other companies, a higher total amount of dollars and percentage going in, not than all of them, but I think maybe most of them, if not all. We're certainly higher than the industry by far, because we are still supporting everything associated with forestry at a much higher level than anybody else. I don't blame that on the technical side; I think we're doing that in the field as well as a certain amount of work in tissue culture and genetic work and the whole tree improvement program. Even there we're trying to make sure that we're looking over those programs carefully and determining those that have either a high probability or a short-term payback, so that in a sense we're subtracting some of the pioneering effort and trying to increase the percentage of applied work going on. We're still supporting some long-range work in genetics, and we're still supporting and think there's potential in creating other forms of cellulose with the help of bugs and enzymes. So it isn't absolute, this focus on the shorter term. I think what's happening in the research budget is consistent with what we're doing across the company, which is trying to focus more on the operating efficiency and effectiveness of the individual units. And we're trying to do that organizationally, too. We're trying to de-layer the organization and decentralize, in a sense, and focus the technical resources and other resources on the operational parts of the enterprise rather than on the, call it, planning and strategy and long-term planning.

Edgerly

I can understand that that's true except that probably it is of a higher profile at the Technology Center, because you've got a huge investment in a building, in a facility, and therefore changes that relate to that facility are more easily seen by people like me.

Weyerhaeuser

Probably. I think about the buildings about the same way I do about land. However, once done, I would not then worry about whether I fully occupy it. But the occupancy of it is more visible, there's no question, because of the centralization of it.

Edgerly

The philosophy behind WTC was communicated quite broadly, partially to justify the move of those people away from the communities in which they'd been located, for one thing, and also because it was important for the shareholders and the other employees to understand why that investment was being made.

Weyerhaeuser

It's interesting, I guess I am somewhat insensitive to images and I like the idea of tomorrow's technology and us leading, in a sense, towards new products. We don't do it very well. I don't know anybody in this industry that does it very well - we don't, certainly. We've had a much higher degree of emphasis in the last 10 or 15 years, all during the existence of the Technology Center and before, on process than we have of product, which is a disappointment and a failure, and it speaks somewhat to our inability to bring identified needs back into the technology arena and direct the technology toward needs, which says we're not a good marketing company. We're much more comfortable coming from the tree forward through the process. We are high-volume-producing kinds of people and not very dedicated to, have not historically been dedicated to, market development. Therefore, product development becomes awkward at best. And when, under the press of time, we direct ourselves to efficiency, we revert to form, which is process. We're still at it. If we had a stronger capability of understanding uses and requirements out there, I think we could do a better job of guiding product development - I don't know what percentage of our effort has been on it, but not high and not very effectively done, not consistent, and partly because our marketing is not that strong and our business managers are managing commodity businesses. By definition, almost, commodity businesses do not form as strong a relationship with their end users. There are so many of them. They are diverse, they are changing, and therefore, one does not organize in such a way that they have both people and communications in the tie-together. So it's a difficult role for us to play.

It's kind of interesting, as we work with the composite panels; coming off a relatively big platform like a 16x24 or a 12x24 of varying thickness and densities. The process now gives you a wide range of things that you might produce with relative efficiency as a starting point. It opens up the opportunity to develop from that specific fabricated products, designed products, which we have to get better at. Now that may allow us to concentrate some on process and improving the control of that fiber mat and all that. Add a dimension, instead of having to go back and find out whether White River can make a 12-inch board so I can sell it, I know what my engineering limitations are and they're much broader. Maybe I can get to market then with fabrication off that kind of platform without having to change the whole production system back here and back to the forest, which is a long way away and supplied by a lot of different people, which makes it very difficult to make it adaptable to sell and service, we traditionally make it first and inventory it and sell it.

We were much better at technical service when we had specialty pulp plants where we had a relatively small number of people servicing a relatively small number of customers and we could put in the technical people, and did, quite effectively, into service for Eastman's and Kodak's and the others. There I think we did a reasonable job of lab work and support work and technical work with mill support. But that's the exception to the rule. How the hell did we get off on that anyway?

Edgerly

Well, because we were talking deployment of technical resources, which is in essence symbolized, however one might think of it, by that building over there.

Weyerhaeuser

(Laughter) Ah, you heard me.

Edgerly

Whether it's full or empty, or half full.

Weyerhaeuser

(Laughter) Well, is it half full or half empty? I think that we still have very much before us the issue of how many resources to put into differentiation of the product and into long-term basic work, changing the nature of either the tree or, say, of cellulose. Those are and will remain primarily corporate strategy questions which we're going to have to manage with a combination of the technical leadership and the business leadership on a corporate basis. How big that might get and whether we fill that Center up with that or not... I already told you I'm not worried about images, so if it's half full or half empty doesn't bother me. I'm more concerned about whether the programs are getting the right kind of direction, and that's to say, is there an appropriate time dimension on what we're trying to do? There is an issue about everything becoming coupled with a short-term focus, and when you get it that way, you might well ask the question, "Well, shouldn't it be done in the field?" This is part of the question we have asked and are answering. And the answer is, "Yes, to some degree." So the total amount of technical effort may not be as subtracted as is implied by looking at a half empty building or one three quarters full or whatever at this moment. And the growth may take somewhere else, too. That still may be 75 percent and the expansion largely in the field with a few people here working with more people in the field. That's on the applied side. Now, we still have a fair

amount of pioneering going on in the energy field - in the field - and a damn good energy group here. But if we expand it, we may just expand the amount of activity at Plymouth or somewhere else where we've got pilot plants or full-scale development activities going on in terms of the big boilers that we're running. They're at Cosmopolis. This has to do with improved ways of burning particulates, being able to control the fire, being able to mix it with other fuels, being able, where we have to, to gasify it maybe. So there's still a lot for us to do, and I think that could be both big payoff and reasonably accommodated in a time frame that is not ten years plus out there. I don't think we're going to be doing a high percentage of stuff that gets way out into the time horizon. I haven't changed my mind about the desirability of doing some of that; I've only changed my mind about how much I'm prepared to pay for in the short run. (Laughter) Which is back to our institutional investor again.

Edgerly

Right. We talked a lot about the natural resource base, and this question regarding the use of the building and the deployment of the Company's technological resources which can be defined in human expertise as well as in other ways. This leads me into the subject that I'd like to work on next and that is the human resource related questions that I think we should try to look at. Certainly the policies relative to the company's human resources have gotten a lot of attention over the years, not as much as its approach to its natural resource base, but certainly a lot. In going back through the files, I came across a quote which was reported in the New York Times. You were quoted as saying, "Business should be conducted within the framework of human relations rather than at their expense." Last year the company was identified as one of the ten best companies for which any employee could hope to work. Having said that, nevertheless, there have been some really painful contractions of the company's work force during the last 20 years. The most visible of them would be the so-called PIP, the Profit Improvement Program, in the late '60s, and of those that relate to the reductions in the last few years. Looking at that and perhaps especially with reference to those two reductions as examples, how do you see the company using its human resources, both historically and projecting that into the future as human resource policy is concerned?

Weyerhaeuser

Well, let's separate a couple of things here first. There are periods of growth, there are periods of rapid growth, there are periods of shrinking. I don't know whether I'd say unfortunately, but we're not a technology-driven company where products and markets

seem to grow in endless chains. We are cyclical, and we are in the middle of a cycle now that is long and downward, and the company is going to be driven, if not later, sooner depending on how fast we respond to the conditions around us, to employ less people in certain functions and in certain geographies. No matter what our human relations objectives are or policies, it is not a static world and it is not an always growing environment. Now, it's a lot easier to manage recruiting, training, organization building, career planning in a growth environment; I won't say high growth, but let's say growth environment. If one could dictate what kind of a business you would like to be in, you'd like to be in one that grows at seven percent a year or eight or something like that, or even five every year. Then you, in fact, can match up the resources that you have with the opportunities that you can count on. You can anticipate so that the training and development of individuals collectively matches the opportunity. The fact of the matter is that we're not very good forecasters and that we are both cyclical and severely so in parts of the business surely, if not in the aggregate. Now part of what we're trying to do, of course, is have a reasonable amount of growth at all times and an average amount of growth which is conducive to mobility and opportunity. But that's been the farthest thing from the case in terms of several of our major product lines in recent times. I would say whether it's PIP or whether it's been several other iterations of reorganization, when we have gone from relatively fast growth to more moderate or little growth, we have certainly not anticipated the human resource requirements and opportunities in those periods, and therefore we have accelerated retirements and have employed policies, I think, way over on the liberal side in terms of severance; we tried to work hard and, I think, somewhat effectively at times, in outplacement. So the benefits and the framework within which reductions have taken place, I think, have been reasonably well handled, which is consistent with our objective of trying to create the minimum amount of disadvantage for the human resource while we're trying to get the company to its appropriate growth pattern and competitiveness.

Now, just as we've talked about in research, the same thing's true in engineering - we went from a \$750 million a year budget to \$300 million. It's pretty obvious that requires a different amount of engineering. In hindsight, you know, you can say you wish you could anticipate these things, and the next time you always tell yourself, and everybody would like to say, "Let's staff up at the level that you can sustain." That presupposes an ability to understand where you're going to be over a fairly longer period of time and in periods of very high need and high growth you contract for services or whatever. Well, we've talked about that and tried to do it in terms of, let's say, our technical effort.

Maybe we got up to the grand total of 5 percent or something like that. We never have been a contracting company, we've been way too far over. Well, I can say the same thing in engineering vs. our competition. We tended to want to build internally and we did build and overbuilt staff in a lot of different areas, not just technical, but all kinds of things. Then I guess the other thing is, we're growing fairly fast, we've got a lot of planning, a lot of activities going on at the corporate level, which, in a low-growth period, are not needed and inappropriate, and we've tried to shift more of the emphasis out to the localities. So we've had not only a difference in the overall need, not only in technology, but in other areas there's been a geographic dislocation.

Now, let's go back to the statement and the philosophy. It sounded good to me, and it still does. What, of course, you're trying to do is reach a given level of employment. Setting aside for the moment the disemployment problems which you try to handle in the most humane way possible. And it's not only the people are going, it's the people that are left that you're concerned with, too, which is to say you certainly don't want an atmosphere in which people are forever fearing whether or not they're going to have a job or not have a job or that the size and objectives of the unit they're associated with are forever changing. There is a stability and a continuity and opportunity aspect to the whole thing. But I think we feel that we're making some progress on trying to identify training opportunities, career objectives of people so we at least have some communication and understanding between the individual and whoever he's working with. Lots of times you find out they don't have the faintest idea (what an employee wants). I mean, we have found out that somebody's boss has never entered into that kind of a conversation, that somebody has ambitions along lines that we're unaware of. So we're trying to, on the one hand, treat the individual with more communication and planning. It's quite an assignment, but nevertheless, I think some progress has been made in that regard. And obviously we're trying to think through more effectively what services really ought to be placed where so that in a geographical sense, we have a sounder base to start from rather than building up the, let's say, the corporate staff, trying to make sure that we have the support services supporting the operations closely where they can.

Now there's an efficiency question here, because obviously we can't afford to have 100 law departments or lawyers scattered all over the country, or the treasurer's and credit functions. There is a question about efficiency of systems and direction of systems. There's a central element in most of these questions, but we're trying to understand what

really needs to be done with the efficiency of centrality and the control, let's say, of services as close to the users as we can get them. Now that's an organizational issue rather than one directed at how we manage individuals.

If you want to look at overall levels of employment in the company or hourly or salaried and overall growth rate, there are very different-looking numbers in the last five years. Even if the business is not shrinking, certainly the numbers of people supporting the businesses are and will continue to. As we tie these things down closer to the essentials and we tie them closer to the operations, there is a relatively lower level of support from corporate, salaried side. That effect, just as you described the building over there (WTC), produces a very different set of conditions in corporate staff, which also tends to be much more highly visible to us here, and is a negative, and a major one. It's interesting to see the difference. The morale and everything else seems to be very much better in the field, in spite of the competitive conditions, etc.. They're sort of at the locus of the action and we are in the process of trying to restructure downward.

All that is by way of saying I wouldn't change my definition of what we ought to be trying to do. I think we're making some real and continuing and conscious effort to understand better what individuals would like to do. We're trying to improve the training available to them, and we're trying to improve the process of job identification so that we avoid the pitfalls that are associated with promoting somebody who's in close proximity and give better job visibility, if that's the right word, or opportunities, which are fewer in number, to a broader range of people. But that does not produce the same result as a 7 percent growth rate and more people and, therefore, a much higher rate of turnover, particularly for the younger people, I think. It's sort of like the society. I think in a sense there are more resources available, they're brighter, they're abler, there are more women available, they're capable, and there are less opportunities. So we're going through more like the good old days. When you ask me about people that are willing to go out there and spend six or seven years to learn something on the ground, in the last 10 or 15 years, you might say, "Damn near nobody." I think that's changing. I think the rate of movement is going to change. That's a negative. But I think willingness and attitudes are going to have to change, too.

Edgerly

Just because of the pressures of the environment.

Weyerhaeuser

Yeah, and it isn't fun. I mean, I'd rather be in the other environment, but realistically, as I guess I started by saying, as harsh as it may sound, I think that all starts from the point of view of the needed resources in a period when resources can't be wasted, and that's people. Staffing levels are going to start from that point of departure, which says we've got good people that opportunities are not coming fast enough for, so we'll lose some. Are we meeting our hoped-for human resources climate? No, because the opportunities are not as great as we certainly anticipated or expected. Now, on the other hand, I hope and think we're making progress in getting people better prepared and selecting on a broader, and not so narrow or personalized basis of selection, for promotion. That's easier said than done, but since that declaration, I think we've made a lot of progress. But it's a tough one. I guess we've gone from 13,000 down to 10,000 of salaried people, and we're going to go further because we're going to be shrinking some of the parts of the business radically in terms of the operations, and the support services absolutely have to come off with it.

It's interesting. I don't know if it has anything to do with this, but if you want to see some curves that would scare you if you were in my job, you can look at the cost element curves and revenue curves and stockholder earnings, either defined in terms of value per share or dividend. Chart some 10 or 15 years, and the dramatic thing that has happened over that period of time is that the human resource, namely employees, is the only curve that's moving up. It has been moving up in spite of all the, let's say, reductions, whether they be PIP or whatever. And the wages and fringes and total costs of compensation or per capita costs - those curves are just going (up steadily). I don't know if we're all that different than a lot of other enterprises, but it is absolutely dramatic. Now, you can chart that against inflation or you can chart it any way. What we're doing is that we're keeping people more than whole in terms of inflation and benefits. Whatever reductions in force have occurred have, in the aggregate, been absolutely swallowed up in both the nominal and real increase, when you look at compensation in its totality.

Continuation of the interview with George Weyerhaeuser, April 2, 1985. Tape XIV, side two.

Weyerhaeuser

Retirement and health (insurance) and workmen's compensation and everything else, all those fringes that you sort of forget about when you look at your paycheck, is 33 percent of the total or something like that.

Edgerly

Ultimately, do you see that as a negative impact on the company?

Weyerhaeuser

Oh, I would phrase it this way, that anytime you have a major cost element rising faster than sales... and this is partly the world competition in our situation. If you look at what the Swedes or the Finns or anybody else, they look different because you translate them into dollars. The competition is in a sense not being forced with these kinds of costs. These are significantly people costs. Now, petroleum's another one, and you can find some others in there, but the thing you worry about is you are less and less competitive. It's coming out of margins is what I'm saying, and that can't go on forever. So what we're facing, let's say, taking a narrow illustration in the West Coast labor situation is that we not only are not competitive with the Canadians, we are not competitive with what's going on in either the South or what's going on in the West Coast, and I'm talking about on trend, not just level. Now there's the very, very significant element of people buying a shutdown plant or whatever and start it up by posting a new wage scale and it's non-union and it's 30 percent under ours. Then we find out how in the world people can be producing at these rates with these prices. That's part of the answer. That places a level or a lid on what we can charge our customers for the same product delivered to the same place. Now that's more dramatic, and I'm taking the worst illustration of that because there we are clearly non-competitive. Now we are paying a lot of attention to what competitive compensation is in different skills and in different areas. We're trying to, and we have through all time tried to, treat our people fairly in the sense of what's going on outside. We believe from all the evidence we've got that we are in the upper quartiles in most regards, in the fringes for sure and in total compensation at least consistently in the upper half. So we are compensating more than fairly and competitively, and that's a stated intent. But the bottom line on that is in order to do that, we have to develop a high degree of efficiency, which means that we have to do better with less people, which is in a sense saying, we have to earn it in order to pay it.

So does it worry me? Yes, it worries me in a sense that it puts a higher degree of necessity and premium on finding the right way to do things and not doing things we don't need to do. Now that's a management problem, it's not just people working longer hours. We're talking about the degree to which we are appropriately applying systems and also we have to look carefully at the activities we're engaged in, whether that be technical or human resource or other areas. It's interesting because I think there is a difference in perception now because we are not moving as fast, neither is society. We see the competitive environment; we're trying to study it, not perfectly. But there's a big discrepancy, I think, between what our employees see or feel, which is the lack of rate of progress in competition, as opposed to what we see in terms of levels thereof. I'm always amazed when people say, "You know, you're not doing what you set out to do." There is a fair gap between the perceptions and the facts, and we're trying to communicate a lot more, to have managers have a lot more information about the companies and the skills in their areas so that we at least get reasonable credit for what's going on around us. Now when inflation goes down to 3 percent or 3-1/2 percent, and thank God it has, and people have been getting 9 percent or 10 percent raises, they tend to forget that there is a difference between 10 percent inflation and 10 percent wage increases and 3 percent inflation and 7 percent wage increases. What they remember is the 10, not the 3. But, in any event, I guess that's a long-winded way of saying the needs have changed, the necessity for efficiency is way up, and we're trying to meet that with a lower level of work force, and trying to do it in a framework that capable people are being fairly compensated. But that environment is a hell of a lot different than a 15 percent growth rate. A lot of the compensation has to do with mobility and "I've been promoted." That's a different statement than "I'm in the same job and I've been asked to do more because there are fewer people around me, and by the way, my wages are rising at 5 percent instead of 10."

Edgerly

That's a little like your own situation - "I'm in the same job; I'm being asked to do more." You must feel like that sometimes.

How do you explain a situation like NORPAC - a non-union facility in the midst of one of the biggest union facilities in this industry? What's the future of that kind of situation vis-a-vis unions?

Weyerhaeuser

I think the future of it is quite bright. Why do I say so? If you look at what happened: we had excellent jobs; we selected the people carefully; we had a broad base of people to choose from; we set up a fully competitive situation. It isn't a matter of going non-union and posting a wage base that's half the going rate. Here we've got a very, very high degree of capital intensity; we need a very, very high performance level and we've got good people. They're well trained and I think they've been well treated. We have what is in effect almost a guaranteed annual wage. There's a high degree of security. There is opportunity to learn and get training on the job, so I think it's a good place both to work and learn. Now all that presupposes that the work force has a voice in what's going on and that they are not being ushered around by a lot of heavy-handed foremen. They're running that place. I think that the way in which the management team works and interfaces is critical. They have absolutely no need for a union to solve, if we work it right, either grievances or pay levels. So they've got the best of both worlds, it seems to me. Will the biggest union in town, other than Raymond, in the Northwest be able to sign them up? No.

Now, what's the future, let's say in other locations? We're not the only ones that ever have done this. Others have done it - Procter & Gamble has. Others have done it in the pulp and paper industry. Prior to that time I don't think there was a major unit in the United States that wasn't unionized. I'm not sure of that, but I don't know where it would have been. Of course, we've done the same thing with an awful lot of training, and we've spent an awful lot of money hiring and training people in Mississippi. Now obviously that's a different situation because that's not highly unionized. It isn't just a union issue, of course. If you approach it that way, and all you're doing is trying to organize so that you keep the union out and you don't pay attention to what people want and need in the way of a working climate and relationship with their supervisor and with their work, then you may win the short-term battle, but you're certainly not going to keep them, what should I say, feeling like they're a part of the action and that their needs are being met and understood. It's a different kind of a contract in a sense. It's not a union contract, it's a work contract, and what we obligated ourselves for was an open atmosphere, training and, as I say, continuity of employment. We shut the mill down, they can take vacations, but we keep on the job. They in effect have very close to a guaranteed annual wage without quite saying that. So they're in effect salaried people with a pretty high degree of security. At Grayling, or our new plants, where we understand the process and we've got good people to head up the plant - which is to say they're reasonably good

communicators - and we know what we're doing in terms of training, I think you can take a relatively unskilled work force that's reasonably well motivated and led (and be successful). I think that is probably indicative of the way we and others are going to be building plants and managing them.

Edgerly

Given that kind of pressure on the unions placed partially by the company but also by circumstances, by the industry and the economy, how would you characterize the evolution of the company's relationship to unions over the last ten years? And projecting into the future and what appears to be a move away from union plants, what will happen?

Weyerhaeuser

I kind of differentiate between different levels in the union. I think we are going to continue to work hard to involve the hourly work force in the problems of the unit, which means quality, consistency, continuity of supply, which means no strikes and walkouts and all that monkey business, an understanding that we're in business to serve customers. To have that understanding, the managers at those production units have to have some knowledge of it. So exposure to the customer is part of what we're going to be increasing, and decentralization helps that. We have a need for different kinds of attitudes on the part of supervisors, different kinds of supervisors, which is to say, the old practice of taking the better workers and promoting them to foremen and assuming that they're going to be supervisors is going to change. So will the selection of supervisors, the way they work with their crews. In turn the relationship with the local union, I think, becomes different. If you do that first job better, there's less persistent problem in terms of grievances, there's less need for union backup of the individual and his problems if we respond better and communicate better. I think that is happening, even in places like Longview and the old pulp mills. Those are tough guys down there and they've been union all the way. But do they understand more of the problems that we're facing in that unit in terms of cost and competitiveness? I think so. I think that's because our management team down there understands it a hell of a lot better and they're trying to work the problems.

Now then, we're working at removing some of the rigidity of work rules, which is a craft kind of orientation - "I only do this and I don't do another damn thing because that's what my trade calls for." There are too many people standing around, there's too much transit time. We've got to couple those maintenance and operating people together more. So we're changing the work rules and hopefully building up more of a team working together.

That leaves the union more in the role of negotiating for wages, if you will, or benefits than it does in making sure that the company's honest in terms of its relationship with you. In other words, we're trying to and going to achieve something significant in the way of taking some of the wedge out between the guy on the job and the company and the foreman, at least to the extent that they've got some common purposes and are working them. The unions over time have played on that grievance thing. That's part of their role is to make damn sure that the companies and the foremen are not arbitrary, and they're there to protect. That's old-line unions; you're flying in the face of what they consider part of their primary job to be, and the degree of alignment and affinity of the workers to the union as opposed to a worker to his job, we're trying to shift, and I think it will shift. I think the union function becomes, if that's worked right, significantly less. And then as the union segment lessens. Whether it's in construction or whether it's in the South or whether it's seven other ways, as they lose their dominance, they lose their power to dictate settlements, the power of shutting everything down, and that's happening. That's partly economics. I'd say at this point, certainly in the western unions, they don't have, I think, the faintest glimmer of how severe the economics are and what the direction is. So far, they have chosen largely to ignore it and say, "We never gave on wages in our entire existence and we're not going to start now." Well, what's happening is in effect they're choosing the economic route which is less and less employment and less and less union content, and at some point they become, in a given sector, irrelevant. I mean, they can't dictate it.

Edgerly

They're creating their own minority status.

Weyerhaeuser

If we can't survive, they can't dictate wage levels to us. You know, I'm not setting out to bust the union, but what's going to happen is, we're not going to let them bust us, so our alternatives are either shrink it, which we're doing, or negotiate and shrink, negotiate for competitiveness. At the bottom line, if there is a lot of available labor and a different rate structure and a different productivity structure, that will dictate our price for the product. If we lose money at that price, somebody else is going to be in the business. That's what's happening in plywood in the West. The industry, I would say, is over the hump. But it's either going to be non-union or very, very efficient union plants - very efficient, or co-ops, which are non-union.

Edgerly

Would you characterize the relationship between Weyerhaeuser Company and the unions until the last few years as being substantially rancorous?

Weyerhaeuser

Sure. Well, I wouldn't generalize all over the country, but I certainly would say so in the West and with IWA and certainly the AWPPW, that whole union, even though it's strongly democratic and it's a local to regional union. But they were split off from the Papermakers' Union because the Papermakers were considered to be a company union. So they're militant, have been, the leadership has been all along, and anything that's been done in the way of progress has had to be done by brute force, in terms of strikes. The only way we really turned that around some is by demonstrating that we can run the plants without them, which was a first time in this industry in this area anyway. So rancorous, yes; at least adversarial, if not rancorous. Now that's changing some, you know. Now we've got mills in trouble, and we're making some progress in acquainting our own people, meaning supervisory, with that and they're sharing that with crews. I think we have some different attitudes emerging in the pulp union, even with the leadership they've got. Now they'd better change, because they're getting on the fringe of competitiveness, which is to say, we've got to get the productivity up - that's what they're working on. We're not talking about wage cuts in that case, but we sure as hell are talking about some mills in some considerable competitive jeopardy.

Edgerly

Among the people who are in the union movement in this part of the country, are there any whom you would identify as individuals deserving of respect in particular?

Weyerhaeuser

Now you recognize that I've been around a long time, but I think we had a great deal of respect for, and I think he deserved it, Harvey Nelson, who headed the IWA - in his time frame. He was doing a very good job for the union, intelligent, able. He played on the strings that were playable, with a lot of work rules and other things. We created a lot of bad habits. I don't think that's appropriate anymore, but maybe it was in their day. I would draw the distinction from what union leadership I know now. First of all there is not much leadership and it is sort of hanging on and/or combative. I think they may win a few more battles, but they're going to lose the war in the sense of their own unions.

Jim Bledsoe is, I think, a very capable, intelligent guy, and I'm not sure, from his vantage point or his union's... I think he's made a wrong decision in the sense that, if I understand it, he thinks his union is finished and he's going to hang in there against concessions come hell or high water. Then they're probably going to merge that union into the Carpenters and Joiners. He's the closest thing to intelligence in leadership that I've run into.

IWA leadership is sort of unbelievable, and it's not really strong either. But unfortunately, they're very big in our picture and I guess we represent 50 percent of this whole region now, and they've lost half of their membership. Unfortunately, part of that is shrinkage in the industry. It's interesting and painful that the level of production isn't going down all that much, which tells you something about what's happening. There are fewer units, there are fewer union units, and production's staying up pretty well. So productivity's coming up and union membership, percentage-wise, is going down. Weyerhaeuser, unfortunately, sits here in the Northwest totally union in the mills, except for NORPAC. Not in the woods, we're contracting some in the woods and we're going to be more. God, I don't take any great delight in watching the unions go down the tube because I'm going with them. To the extent that we're slower because of our size and because of their position with us, we can't accommodate to the competitive economics. What we wind up doing is shrinking. Then finally, we'll have to do what the others do some way or another, either somebody else will be operating on our materials or with our mills, for that matter. I suppose at the bottom line, we will have to become reasonably competitive. If it takes us five years to get there, we're going to be a lot smaller in conversion and therefore our employment level and their union membership are going to be. That's what we believe and that's what we're telling them. But you've got a guy a couple years from retirement, he's not about to stick his neck into any noose that says, "I'm going to preside over the first wage decrease that ever occurred in this industry in this union." It's a tough one. I don't know - we're it. The rest of the industry is going to love it.

It's interesting, you know - here we've gone all the way through the era, 50 years, and I'd say add 10 and in maybe 60 years we will have gone from a whole bunch of rugged individuals and no unions all the way through the era of build-up, and I think we're going to go back down through a period. I wouldn't forecast that there aren't going to be any unions, but I would forecast that their role's going to be different, and they're not going to be in a position to dictate broad-scale industry wage and benefit conditions. On the other hand, when and if that condition prevails, I don't think the companies are going to

be taking undue advantage of them in the sense that I think we're going to be interested in retaining our people and I think we're going to be interested, as we are with our salaried people, maintaining competitive wages. Meaning now, in this case, if inflation or other things are taking place, we'll be compensating in proportion. I don't think that non-union means arbitrary and go back to the good old days where you do whatever you darn well please.

Edgerly

On average, how much time - if you can take it over a period of almost 20 years - how much of your time, or what percentage of your time, would you say has been devoted to human resource, union, labor relations issues?

Weyerhaeuser

Oh, you've got to be careful mixing those together because the union part of it is a very small part of it. We got into, with the AWPPW, a couple of contract periods. Five or six of us CEO's sat down opposite Ferris Bryson, and we thought it was important that he hear us directly. I spent some time on those occasions. But that's the only direct union time, other than informal conversations here and there. I've spent some time with the other CEO's talking about bargaining positions and I then spent some time with our labor relations people certainly. But that wouldn't be 2 percent.

Now when you start going over into people-related things, whether that be benefits or compensation... I include what we're trying to do in career planning or training or reorganization, whether it be many different forms. Or, then, if you go up one more step and say, "Really, what are you doing?", a fair percentage of your time is dealing with people. That can be senior management people, too. That's not in the narrow definition of human resource areas. Boy, I don't know. It would be a significant portion of my time, maybe a third or something like that.

Edgerly

What was the occasion when there were five CEO's who sat down? What was that about?

Weyerhaeuser

That was bargaining with the pulp union. We decided that we had better get our heads together because the union had developed, after it split off from the Papermakers, a very pronounced strategy of ratcheting the individual companies. We split out of our joint

bargaining and now we were facing a militant, independent union who, in bargaining, always stepped up one at a time, took the weak link, made a deal, then imposed some more, more and more. So we arrived at the conclusion that, even though we were not bound together in bargaining, we must necessarily decide together what we were willing to do and not willing to do. And then we also decided, in order to stop the unions and change that pattern, they had to understand that they were hearing from the guy who was running the company what we were going to be willing to do. We were trying to make them believe us. The first time, I would say, they did not and we stood together and took a four-month strike or whatever.

Edgerly

What year was that, do you remember?

Weyerhaeuser

Oh, I can't remember dates. The next time by, I think they began to believe us a little bit, and we ran the mills. So, in a sense, we felt, even though we weren't bound in bargaining together, we had to break that pattern of them dictating to us one at a time, which we did. But normally, if you send your labor relations guys in there to tell the union that, they didn't have that much believability or credibility. Neither did we when we started, but I think once the CEO tells them six at a time, or one at a time, "Hear me now," that's a different matter than negotiating in the smoke-filled rooms. All of the area reps were there so we were in effect either going to mean what we say or forget it. There's an element of, in a sense, saying you'd better stop kidding one another; we'd better decide what we're going to do and we'd better let them know what we're going to do and we'd better mean what we're going to do, and we did. That changed the pattern. We had strike insurance and other things when we entered into the thing to try to weld some kind of unit. You can't do it all by yourself. We're not talking about operations that are at the margin on whether they shut down or not. We're talking about pulp mills with a tremendous amount of capital in there that have to run. They had us right by the neck, so to speak, because no one of us was going to shut down for extended lengths of time when they had a pattern established of getting around us.

With the IWA, Weyerhaeuser was in a different position. First of all, they've got all our units and second of all, I think they have an understandable attitude that those trees are out there and they're of value and we're going to have to take them to market. In order to take them to market, they were going to have to log them. Now, we're going to break

that pattern by contracting. They're in a sense saying they still feel whether we're making money or losing money in the mills is irrelevant. They're one union and they represent the woods workers as well. So we negotiated a contract which said in effect, during the period of this contract and ending in 1986, we are going to measure the cost of our logging against competitors and against contract loggers, etc. or trucking. And if we are not competitive, we're going to get competitive and we're going to pay you on a per thousand basis or whatever or a minimum pay. And they had two different choices - I've forgotten how it works, but they could either take a very high guaranteed pay, not 100 percent, or a relatively lower one with a much higher payback if they got the productivity up and our costs down, then their wages came up. In any event, they're compared during this period and at the end of the period, providing they are not competitive, we are going to be free to contract where they are not competitive. So we're gradually going to free ourselves from company logging and presumably from the IWA's perceived and perhaps real stranglehold. Of course, it is not a complete stranglehold because there's nothing to prevent us from selling the timber, which we do do in certain locations from time to time. And in that case, whoever buys the timber can certainly put a contractor in there to get it to market. So, in a sense, these big pulp mills and big capital-intensive units in the pulp and paper side make you somewhat of a captive because the labor factor is not that compelling, 10 percent or something of the cost. The only way we're going to be able to combat that is to try to work together and not let them ratchet us and secondly, run the mills anyway. Nobody knew whether we could do that, but we brought people out of R&D and everywhere else. Then in the wood products side, it's the bigness and the profitability of the company, the knowledge that the timber's out there and we are different than anybody else in that regard. Everybody else, almost everybody else, contracts. So the IWA and we are locked together in a fashion that we may have to unlock. You are learning more about labor than anybody reasonably needs to know.

Edgerly

I know it is much later than probably you ever anticipated sticking with this, and I apologize.

Weyerhaeuser

Well, I think I at least owed you a couple of hours. We did get that.

Edgerly

You're going to be sick of me by the end of tomorrow. We have got some time scheduled tomorrow afternoon if your calendar remains intact.

Weyerhaeuser

I don't know that Barb's going to do anything to me on that. What is tomorrow, Wednesday? Should be all right, but it never is completely guaranteeable.

Edgerly

Well, again, thank you.

Weyerhaeuser

Well, I've enjoyed it.

Edgerly

So have I.

This was the end of the recorded portion of the interview made on Tuesday, April 2, 1985 with George H. Weyerhaeuser. This is the end of Tape XIV, side two.

This is an interview with George H. Weyerhaeuser recorded on Wednesday, April 3, 1985. The interview took place on the 5th floor of Corporate Headquarters, and this is Tape XV, side one.

Edgerly

It's interesting that, given the topic of part of our conversation yesterday concerning the labor union situation, more came out today in the press on the IWA strike in Arkansas/Oklahoma. Since we had talked a little about the labor situation in the South, I thought maybe we might take a look at that particular circumstance and the strike as it has developed there. Can you put the strike in Arkansas and Oklahoma in the perspective of the generally non-union situation in much of the South, as compared with here in the Pacific Northwest?

Weyerhaeuser

Oh, I don't know. I think I said yesterday down there, we don't have the disparity between union and non-union that exists in the West. The South never got those highly elevated rates. It's a fractionated industry with bargaining having taken place generally against lower living costs, conditions, and lower expectations, lower income levels, and available labor. So whether a predominant difference, union vs. non-union, is questionable. It has more to do with the fact that the portion of the South that is unionized, some portion of it is represented by big companies, G-P and ourselves and others. We have and they have, against the pattern I've described, not in history been forced to elevate wages above prevailing conditions. We certainly have regionally and to some extent nationally led the wage patterns in the West because there were big operations, large-scale and successful, and economic times were such that we bought labor peace most of the time instead of going the route of trying to manage labor costs related to inflation. So in the South there is less discrepancy between the wage structures in our industry or unionized plants vs. general area rates. We are represented, again, by the IWA, which in modern history has a fair Canadian element in the leadership, which is militant. I'd say if you wanted to find the locus of the poorest work practices and the most rigid rules and labor laws, and the resulting rigidity, non-productivity and adversarial situation, Canada, B.C. has got to be the epitome of that. The leadership of the IWA, the president of the IWA - I believe that's the correct term - over all the regionals, is a Canadian, and maybe his cohorts have a fair amount of that in them. They have taken that down South and tried to help their southern regions bargain with us and G-P. So part of the disease, if that's the right characterization, has been transmitted

into our negotiations down there in the recent past. Of course, Dierks had a non-union history and a very, very fair degree of blowing up of bridges and burning stuff and a long strike, and the union got in down there. Then when we came in, I'm a little bit vague on all this, but I'm not sure the IWA didn't follow us down there and then unionize the part of the Dierks operation that was not immediately previously unionized. So all that by way of background. Now, not having wage patterns which are way out of whack with the competition and the surrounding regions and all, we have been in recent negotiations not tried to roll back wages. We've been willing to put some increases into effect, and we, in this particular case, tried to make it plain to the union leadership that our final offer was, in fact, a final offer. It wasn't a roll-back. We were improving both fringes and wages over a three-year period. Rather than build an increase in the wage base, we were going to pay the equivalent of a first-year increase in cash, but it's still an increase in cost any way you look at it. Then a 4-1/2 percent increase the second year, etc., and some improvement in pensions and other things. This is in contrast, of course, to the West, where we're way out of line and have serious competitive problems where we've got to do something about rolling them back. So in that context we said to the union, "All right, here's what we think we are willing and able to do." In previous history there's always been a pattern in the South, in our negotiations, where they go to an offer and vote it down and then finally we come up with our final offer of some kind and they would approve it. In this case we said, "No, this is what we mean," and the union leadership did not believe that, went out and worked to get it defeated, got it defeated by a 60-40 vote, and then took us out on strike because we meant what we said. So it's an entirely different situation working out a very different package. The whole structure is different now. And then, of course, the benefits up to and including pensions are roughly a third less. Yet they are good jobs in the South and they're competitive down there. So it's a different situation. There's a difference, area by area down there, and we're bargaining all over.

Edgerly

Do you see the union being any more successful there in the years ahead than they probably will be here in the Pacific Northwest? In other words, is it as much a suicide mission there as it seems to be here?

Weyerhaeuser

Maybe not. I don't know. I think there's going to be further erosion down there. Of course, they start from a very much lesser percentage representation of the industry and they may well have as low a position or profile down there in the next five years as is true in the West. But, of course, they're not faced with the fact that non-union plants are paying half the wage rate or 60 percent or whatever it is. I suspect if they don't push too hard in trying to differentiate themselves from the general pattern of compensation that they may be able to stay in the role they are in. It remains to be seen. If they push us too hard in this one, we will be forced to open up the plants and implement whatever final position we can. If the union doesn't agree to that, wants to stay on strike, we may thereby increase the percentage of our units down there that are operating non-union, or, in any event, at a lower wage structure than we offered. I think the economics do not warrant increases down there, well, more than they do out here, but declination is warranted out here.

So it's a different mix of things and, of course, we have a different mix of plants. Some of ours in Mississippi and Alabama are largely non-union. The woods operations are largely contracted, so it's a very different situation. Each of the plants is different. This bargaining unit in this region encompasses a plant in North Carolina, one in Georgia, and the woods products plants in Oklahoma and Arkansas. There are all different kinds of problems, the offers are somewhat different, and in some we have a different local climate and some are very productive and some aren't. So it's a funny mix of things. But I'd be very surprised if the end result down there is radically different than the patterns around us, or it may take some time before we get them all straightened around. I don't like it, but it's silly because our offer is both competitive going in and competitive with what's going on. It isn't as though it were a poor offer, and I think it's just a failure in communications and strategy. You don't like to have those kinds of situations. Out here, it's all the history plus some very, very compelling economics. Sometimes the only way to resolve them is really to work the economics, and that's some combination of shutdowns and reductions in operations and compensation levels. Conditions are not all that good and rosy because of the marketplace, and margins aren't any good, but they're not one-third under water either.

Now this is all wood products we were talking about. Pulp and paper is a very different set of combinations.

Edgerly

All right, let's talk about that. You mean, the pulp and paper unions in the South.

Weyerhaeuser

Different union. The militant West Coast split-off union has been much harder to communicate with, deal with in the past, and the economics are very greatly different. Those southern mills are in better shape generally economically. The industry patterns aren't the same. Everybody bargains by themselves and the pulp and paper industry's continuing to implement some level of wage increases. We've been successful in our main plants at New Bern and Valliant negotiating new contracts. That union is not affiliated in any sense of the word with the IWA. Those are separate and distinct. The other thing is that the wage structure in pulp and paper mills in the South and the benefits structure is not different than it is out here. So there's a very big difference between the woods, which have been dominated by seven-, eight-, nine-man contracting crews with low wage rates and non-union, entrepreneurial operations, if you will, and small logging. They didn't need gigantic equipment. So that is much more like a typical southern agricultural kind of an enterprise. And parenthetically - I don't have any numbers to substantiate this - but a much heavier percentage of blacks that are relatively unskilled and out of a rural setting. So the whole structure is different.

Now as you get over into pulp and paper, then, it's much more of a high wage scale relative to what else is there in the South, much more training, seniority-oriented and therefore the black population historically did not have the seniority. As we've put more blacks into the pulp and paper operations, they, by virtue of the union contracts, start in the starting jobs, so it takes a long time for them to work up. So there's a different labor pool, there's a different training and a different wage scale and everything else. The pulp and paper jobs, of course, are super jobs compared in pay level and any way you want to look at it.

Edgerly

But that has been traditionally true in pulp and paper overall. They tend to employ a slightly more educated worker, a more sophisticated worker.

Weyerhaeuser

Yes, and they hire from one another's mills so there's a progression of job skills that you accumulate as you move up. There's a lot more seniority and experience as opposed to a plywood plant or certainly the logging operations are at the low end because that's hand work largely, or now it's small equipment. Then when you get over into plywood, starting a new operation and all, you didn't have seniority and all that, so we hired out of the labor pool. Again, the jobs were not as well paid or attractive, we did much more training on the job.

Generally, of course, the relative degree of labor peace has been higher in the South, even in pulp mills. These are primary operations for the big pulp and paper companies, and they work very hard at keeping them running, and they've kept the wages and benefits at a different scale. Whereas the small wood products operations or the woods operations are fragmented. I suppose the translation of that is that the competitive world prevails and there isn't any real combined force that the unions can mount to either command representation or deliver greatly improved wage conditions above those which prevail locally. I presume it's true in textiles and a lot of other industries in the South. The South's coming but it's sure a different atmosphere.

Edgerly

Among the more noticeable changes in terms of labor which have come during the time that you've been CEO, is that of the entry into the market of a more assertive, better-educated pool of women, many of them probably more ambitious than they had been in the past. Can you assess the company's success in integrating these people into the company's work force and giving them job opportunities? The fact is that we're still dealing with a pool that at tops is about 18 or 19 percent of the total employment at Weyerhaeuser overall, and of the 18 or 19 percent, still many of them are clerical.

Weyerhaeuser

I don't know what's happened to that. Certainly the percentage has been rising, as has the minority percentage, but that's around 9 or 10 or something like that. As you say, if you go up a pyramid of the levels of responsibility and construct the female or minority percentages, they go down as is the case in most industry, I think. We haven't been able to make any gigantic steps. I think we've been able to recruit and bring in a higher level of education and skill. I think the female capabilities are substantially higher, whether defined by education or ambition or the percentage that are career-oriented as opposed

to temporaries working until they get married or until they have children. So there are more career women and they're more capable. I'd have to say it this way - I think we search very hard for outstanding and promotable females, and it's much easier to find them than it is to find minorities, although I would say that we shouldn't really generalize about that because we have Oriental and Spanish-speaking minorities. But I think when you get to the black side, the educational level, even the kinds of people that we have been able to get into managerial or supervisory jobs are more limited in number and potential. You almost have to, it seems, go out and work very hard in the competitive recruiting environment to get high-potential blacks, and you have to pay a premium for them, which is kind of interesting. In other words, the ones that are good command a higher price because they're scarce. Companies reach out, partly because of the EEO requirements or exposure, depending on how you want to state it, and the job market is more competitive.

The progress over time is apparent and, of course, I see some of the outstanding ones coming up in the middle management ranks. There are a lot more there in that pool that in the next ten years we're going to do a lot better with. Now there are areas that we really haven't had women in - not by any plan, but by fact - that increasingly we break through and get a capable female in there and that opens the door, and then somebody else can come into that job. It's a sort of a one-step-at-a-time proposition. It's too slow, but it's interesting to see when we go over high-potential people, the incidence now where outstanding performers are female. I'd say that's a lot of progress, not in massive numbers, but in the upper ranks and in the quality of the women that are in them is visible to me. But statistically we're talking about they're probably a couple of decades behind, and it'll probably be another decade before there's full representation statistically. As long as you're working with 20 percent of the employee base... 50 percent are female now in the working population. There are almost as many working women as there are men.

Edgerly

Oh yes, in the society at large.

Weyerhaeuser

So obviously they're not working in the woods in any great proportions. We have whole segments of our work force in which there are no women. And then, as you say, they are, certainly in numbers, concentrated in the clerical kinds of jobs. There's no particular

reason for that, other than historical. Well, I suppose there's a reason for it, too. We do find, with the education base, a few in engineering and forestry, so there's a penetration level from the training in the more professional kinds of work here. But typically they're not going down and starting to work in the labor pool in the sawmills. That I don't think anymore is because it's back-breaking. It's still considered to be harder work and more exposed. I don't know how much of that is at work. We're not hiring a lot of people either, I guess. We're shrinking to some degree now in those entry-level jobs. Maybe I'm wrong about my decade statement. Maybe they'll still be concentrated in certain sectors, but I don't think that in the sectors that they are they're going to be inhibited in promotions. But you do tend to promote from within, so with the experience quotient, it still takes time to get them up through the ranks. We're trying to recognize those that want to and make sure that they're getting moved, so that the mobility isn't being impeded by lack of visibility. And I think we're making a lot of progress on that. But it still is, in the upper middle management ranks, working off a relatively small percentage pool of a 20 percent base.

Edgerly

When Harry Morgan and I talked about this, he expressed some frustration about the fact that Weyerhaeuser had not been too successful in keeping more professional women, and cited some statistics which I did not have access to, but apparently he had during the time that he was handling the human resources area. Those statistics seemed to indicate that while some of the recruiting had been successful, the women had not stayed at Weyerhaeuser, had gone elsewhere. He speculated about why that might be the case. Do you have any thoughts on what he perceived as being a tendency?

Weyerhaeuser

I don't know what that would be. My only level of awareness is that there's a certain amount of frustration in some of the corporate functions about mobility and opportunity. I don't think I've ever seen turnover figures - I couldn't negate it either. I see the aggregate numbers and they indicate a sloping increase. For the last seven or eight years we've been conscious of and trying to measure our progress both in terms of vertical positioning and in terms of penetration. We're gaining, but so is the percentage of the women in the population that want jobs and so are the education levels and the relevant pool around us, and we're not really gaining on that. In other words, we're still behind. My impression is that we're developing a fair number of role models that are successful and that are playing quite an important role. There's nothing that encourages

one like obvious success, and a few of them are so outstanding and in pretty important jobs that I think it encourages managers to take chances with the lower levels of experience. I think some of that's going on. But I don't know whether in that total process we still have a lot of women trapped in relatively slow or non-moving situations that have abilities that are marketable elsewhere and say, "Enough's enough." I wouldn't have said that, but he's much better at statistics than I am.

Edgerly

It could be that those women who chose to leave were more visible to him and those statistics therefore stood out in his mind.

Weyerhaeuser

Well, one stands out in my mind - Shirley Durgan's over there running the personnel department or human resources at Rainier Bank, and she was doing quite a job for us, too. No question, she's an outstanding person. And I think we got into personality problems with her, with or without merit. That's one - she was up as high as anybody. So that's a setback any way you want to look at it, but I'm sure there are a number of other occasions. I'm also aware that we have some really outstanding performers that have big responsibilities now, so we're gaining ground in one direction anyway.

Edgerly

History's a hard thing to push against.

Weyerhaeuser

You don't change habits very quickly. What we've tried to do is get more and more visibility on it requiring people, when positions open up, to demonstrate that they have looked at the relative people that are available, and we have tried very hard to recognize the good performers in the female ranks and make sure we reach out and put them in a more responsible job. I think it's happening slowly. We certainly have not required that quotas be established and people have to select a, b, c out of applicant pools. I think we would do so reluctantly, but we will do so if we can't continue to get a reasonable degree of movement. Now what's reasonable? I guess I'm somewhat frustrated by the pace, too, but I feel quite differently about the female side of the equation, because I think a reasonable review of the facts on performance and education and work accomplishments would support the proposition that we have a good pool. So it isn't a matter of having to go out and try to comb the streets.

Edgerly

An issue that is somewhat related to this, and probably a knotty problem for almost any industry at this juncture, is the issue of equal pay for comparable work. That is, of course, less troublesome in a situation where the percentage of women is lower. Nevertheless, it is an issue that's pressing in on business. Has Weyerhaeuser addressed itself at all to the issue of comparable worth?

Weyerhaeuser

Oh, we've got it in a number of different ways. In the state of Washington where Judge Tanner made it the law of the land in this state anyway. We have used a form of job analysis which tries to dissect job elements and assign weights to them, upon which a fragile base of comparability is constructed. We tried to do it for internal equity; it didn't have anything to do with sex. In recent years we've had occasion to look at that carefully and we feel that it is arbitrary. We now use it as one indication, but we used to be married to it, in salary, in setting salary grades and assigning jobs to grades. I'd say we moved from that system, which was partly constructed by the same outfit which did it for the state of Washington....

Edgerly

It's a descendant of the Hay system. I'm not sure what the name is here, but it's a descendant of the Hay system.

Weyerhaeuser

Yes, and there are two or three systems. I think we used a combination of systems, but my point was that we went through a fairly rigorous process of trying to slot everything. And we have come to the conclusion that that's not all that reliable - that there's a heck of a lot more to it than that, and that no matter how hard you work at that, trying to evaluate the weight of X vs. Y vs. Z in terms of its profit impact or the number of people reporting to you or the training required - there are a whole series of factors to think about. And they are indicators. Those can include manual factors and safety factors and everything else. You can describe jobs by difficulty of learning or by exposure or by foot pounds of effort or by numbers of people supervised. How do you weight them? How do you weight those factors? The answer is in the last analysis, arbitrarily. We had a whole committee here, and the managers would come in to me and recommend that so and so be moved up a grade or two or three or whatever, and I'd say,

"On what basis and what did our system say? Pretty soon you begin to slot people because they're hard to get, which has something to do with supply and demand, the system which prevails. This is a laissez-faire kind of a world rather than a highly ordered world. I guess it's a long-winded way of saying that we were quite rigid in trying to work the system and we, after years and years, have concluded that it is not a sensible way to do it, that you should in fact bring judgment to bear and that we want to pay and should pay a lot of attention to the competition. In other words, what are good people paid to do a job in Seattle? Or in Tacoma? Or in Little Rock, Arkansas? Or somewhere else? So we are trying to balance now, in some very real sense, the realities of what it does take to recruit good people and retain them and compensate them competitively and fairly in relationship to other people - which says, if there are a whole lot of people that want to be nurses or want to be truck drivers, it affects that balance. That is not the theory upon which comparable worth is based.

Dan Evans is a pretty strong supporter of comparable worth, and our people tried to educate him on its weaknesses, not its fallacy, but its weaknesses. I think it's going to be an issue in the United States for some time. My guess is that it isn't going to go away in a hurry, and my guess is also that it will not become the law of the land, a la Judge Tanner. I think it's worth trying to do. I don't think they're going to be able to find a way to establish comparability and defend it in the courts. I'm skeptical.

So, what have we done? We have rather broad salary ranges, which means pay grades overlap widely, and that even though you're slotted in one or another, you may be paid more or less depending upon how long you have been in that job. You build up not just seniority, but what's your experience quotient? It isn't just what you are being asked to do, but presumably there's some learning curve there and we pay in some proportion on how long you've been on the job. I mean, most companies do. There's a progression. It doesn't have much to do with comparable worth if you just analyze the job on its own merits. So there's a seniority factor and there's an overlap factor and by the time you get through with that, what you have is a number of different tests by which you judge where to slot somebody. Then how you treat them within that salary framework is some function of performance and seniority and, if the job content changes materially, then maybe you've got more leeway in the compensation, which would be to say you establish a job at a little higher worth and there's more pay progression in it. I know it's kind of a pragmatic answer. I don't think personally that it's a matter of moral rights or wrongs, nor do I think it is a solution to pay inequities between the sexes. I guess we've said we

don't think it's a solution as a way to establish pay differentials between widely divergent categories of jobs either. We're relying much more, trying to, and we intend to more in the future, on an awareness of what people of similar education and bent, etc. are in fact being paid in the geography in question. And that produces all kinds of pain and strain in a big company because if they're paying \$7,000 in North Carolina and \$10,000 in Chicago and \$15,000 in Seattle, and you transfer somebody to do the same job, now there's a different kind of an element of fairness. Companies establish differentials by geography based on cost of living. What we're saying is, failing all else, what we think we ought to be is trying to understand what the environment is in terms of alternative pay in similar type work in the areas in which we're working and make sure that we know where we are so we're not underpaying people. I suppose the bottom line on that is we're defining comparable worth for ourselves.

Tape XV, Side two

Weyerhaeuser

We should be able to do this if for no other reason than that we can recruit and retain capable people, which is to say, willing buyer/willing seller sets the price if you had a perfect world. That would be consistent with our President's view of the world, too, probably. As a practical matter, we're going very much more to decentralized systems, and to do so, we sacrifice uniformity and we sacrifice comparability in a sense, and we introduce increased problems of mobility. One is a career question. I expect to be treated like an individual by this company, and if I'm asked to transfer - now I think I could understand if I were paid less because it cost me less to live, but I couldn't understand very well taking a pay cut to go to a different piece of geography. I would expect the fact that I'm doing comparable work and I've got another year of experience or whatever to mean something. I'd expect to have my personnel file go with me. That's not an easy thing to do.

Edgerly

It is especially puzzling in a company in which one of the hallmarks of career development is moving from one piece of geography to another and being willing to take an assignment in one of the so-called outposts with the eventual promise of being brought back to Headquarters or a region headquarters.

Weyerhaeuser

And what that does is produce distortions because we will not be cutting people's pay to go out into the field where we need them. Of course, one of the things that we try to do that's also very expensive and difficult for people, this movement, is we come to realize that you pay a penalty in terms of their affiliation with the area in which they work, which means they're less effective in community and public affairs. It's not unimportant. Number two, there are tremendously escalating relocation costs, and I'd say those are also personal. I think there's a disinclination, and people in modern times say, "I don't want it; who needs that? I don't want to move, number one, I don't want to move long distances, I don't want to uproot my family." Those have always been considerations, but in the modern age, I think people are disinclined to disrupt their families for what they're doing, less inclined to stay with it come hell or high water, so the "Now Society" is not accustomed to sacrificing very much in the interest of career mobility within a big company. One of the consequences is we are moving less people. So you develop a local and regional pool. Generally, I suppose what's happening is that you tend to force the moves down into younger age classes. It's very hard to move people with school children. So before they have children, or the younger men, say, that have a profession and are more mobile. But the trend is away from it, and that's economic and it's social and it's everything else. But, you're right, we still, in a big multi-unit company, have a need that is higher. The oil companies are the same way. There are a lot of big enterprises that cover a lot of the globe that have the same or a greater problem than we do. I think we're going to have a high percentage of the work force that stay in the locales that they're in.

Edgerly

Does that necessarily mean, then, that personnel policy relative to promotion will change radically. In other words, perhaps it will not be necessary for one of the great labors to be going off to Hot Springs. What do you do then in a situation in which you have someone at a more senior position who doesn't have the experience in Hot Springs or Twin Harbors or Plymouth? How do you deal with that?

Weyerhaeuser

I think that's a problem, but I'd say it even differently, I'd put a different flavor on it than geography. You can ask the same question on the mobility side as between functions. We have historically had relatively minor movements across product lines and across parts of the business, and we have built up an engineering progression ladder, and

we have a lot of possible movement, not necessarily geographically or into production or in other phases of the business. What we've generated is a fairly gigantic problem in that the big enterprise becomes a whole series of pockets of expertise in relatively narrow fields with narrow business background. To some extent, we're finding we've got to move against that trend because we're not generating enough generalists. People do much better coming out of a small business that has all aspects of it. We're trying to build the entities around smaller units, smaller businesses that have more direct contact with marketing, more direct contact with customers, and credit and financing, and you can see the differences. There are gigantic differences in the kinds of people, both in the satisfactions they get of seeing a bigger part of the picture and in the training it presents for the guys up in the roles that have some exposure to the four or five different facets of the business, because they're just in close proximity working together. As opposed to a credit function in Chicago and doing it for all the Midwest, and then a marketing group sitting out in a CSC somewhere and a manufacturing unit supplying it from Longview.

The trouble is, we aren't going to change completely the nature of our business, which is a long-distance business between markets and manufacturing. We have the problem of professional capabilities, sophistication, training and experience of the efficiency associated with centralizing that often dictate that you establish it on a functional basis instead of in a complete business unit. So we've got the counterthrusts of trying to make things smaller where we can and get a broader set of business responsibilities centered in a small group as opposed to the law department or economic research or something where you need highly skilled people. You can't afford to have them all over the place. We're struggling with that mix of centralization and decentralization. But the way it's happened in Weyerhaeuser has been largely too highly specialized engineering in one place and research in another and production in another and marketing in another and the parts don't communicate very well with the whole and you don't produce general managers. When you finally come down the line and relatively high in the company, you've either got a marketer or you've got somebody out of an engineering or technical background. Now not all of those will make business managers anyway, but we don't even find out until they're way up in the structure. Mobility, meaning that you get exposed to more things earlier in your career in smaller units, is a problem for us, and it's a direction we're trying to go in. I'd say that starts from a pretty narrow experience, generally, in this company.

Edgerly

To some degree, from my perception, Organization Redesign does make an attempt to address that issue. Has Organization Redesign been successful?

Weyerhaeuser

Well, it depends on your vantage point, like so many other things.

Edgerly

Well, I'm asking about your vantage point.

Weyerhaeuser

I've been kind of astounded at the success, but I'd hedge that by saying that it's very differential if one had become, which sometimes I do, highly optimistic about the rate at which you change and said, "Okay, the concept we're talking about is very sound and we ought to be able to implement it in a reasonable period of time." I would say I think there was plenty of room to be disappointed in the sense that not everybody understood it, not everybody pursued it, and not everybody who pursued it was successful. But in unit after unit after unit, the change has been dramatic, both in terms of broadened responsibility, better feel for what they're doing, more independence and bottom line results. So where it has been effective, it's been highly effective. And I don't know where we are in the spectrum - I'd say I'd be surprised if we were more than halfway there, and that's after several years of effort. It went from a good idea to a really dramatic process of narration and enthusiasm, so we took the heavy hand of centralization and layering and, to some degree, the bureaucracy, off a lot of units. That's why I say I think it's been sensational because that doesn't happen often in companies, and my frustration is if it's that sound, why is it so slow?

Edgerly

Has it been in your estimation equally successful in the manufacturing situations and in the staff areas?

Weyerhaeuser

You have to be a little selective in defining staff, because I think the successes are more dramatic in the geographically dispersed areas and units that are production largely, or conversion. No, I shouldn't say that. There have been dramatic changes in the distribution chain, too. But they are geographically dispersed and where freedom and

initiative and purpose are visible as the teamwork comes together, they have gotten a better sense of mission and teamwork. In a sense, the field units have gotten more freedom of action and taken hold of it more than have the centralized functions. In the central staff area in one sense, they've lost part of their mission and authority and so it's not too surprising that the answer is differential between those. Now there's a lot of staff out in the field that I'm not sure I'd make that distinction about, because where it is attached to a going concern they're going with it. I think it's been a very, very healthy direction to go into and it's been reasonably well executed from what might have been. Some of the changes we've made which we thought were correctional and traumatic and all that have been much, much less effectiveness and have not been lasting. I think this is fundamental and sound, is working well, and will be permanent. Not overnight in the sense of uniformity or as readily grasped and worked in some units as others.

Edgerly

I'd like to change the topic to that of the company's corporate responsibility and its relationship to society, I guess one could say, in a number of different forms. Probably the first years in which people were more aware of social unrest and the need for change came in the '60s when, as a result of a number of political confrontations as well as other things, the corporation found itself as an adversary in a role that it probably had not been in before vis-a-vis society. Some corporations were accused of not being responsible citizens. Some corporate executives did take steps to try to participate a little bit more in communicating with society at large. You were one of the people who did do some of that. The first example I could find was in 1973 in which you participated in teaching a course at the University of California at Berkeley, which was entitled "Public Policy in Industrial Forest Management." There were several other situations in those years of the early '70s in which you were either part of panels or you went on to campus as a representative of the business community. Can you recall for me as you as a CEO felt about the anti-business sentiment of those years and the challenges that presented for you?

Weyerhaeuser

I don't know whether I can or not. I suppose the clearest part of recollections are those campus things when we organized or tried to spend some time describing what we were doing as a resource manager. Of course, we were imbued with the idea that we knew what we were doing and it was responsible and certainly if the people understood it, they would agree with us. We were well aware that there were all kinds of anti-business and

anti-big business in connection with a lot of environmental concerns - local, regional, global. We spent time, largely led by Charley and organized by him, I think, at Yale, Colorado State, Michigan, Cal, Idaho. That's a small part of the total confrontation scenario, but at least I think we felt that to the combination of forestry and business students and faculty at some of the leading universities we had something to say and that we would be credible. We were not concerned that we were going to be faced with a lot of difficult situations. In any event, we approached it, I think, with a challenge. I remember the days at Berkeley and at the University of Washington and other places where, hell, the facts didn't have anything to do with it. The climate was one of confrontation all the way. There was a high degree of skepticism in the general student population. As I say, we didn't think we were going to change the world; we thought we had a good, sound set of answers for what we were doing technically, economically, in the public interest, and I think we got a lot out of that. We had, of course, everybody including George Staebler. We gave them our best shots in terms of trying to explain what we were about and how we saw it. I think we got our eyes opened somewhat by some of the radicals, some of the smartest students, some of the most challenging. Some of the wildest ideas came out of some pretty bright students. It was an interesting, two-way, open atmosphere, which is not the usual that you're involved in in corporate life. But I wouldn't want to overstate that. I think the experience was a very, very solid one. I think some of our assumptions and convictions certainly got challenged.

What kind of a dent did we and others make in that process? Not much, probably. You can't reach very many people no matter how hard you try, and when you've got 500 people sitting around, you don't get the same depth of discourse or it becomes a show rather than an exchange. You got down to the smaller groups, and our people did, though I didn't often, and got a chance to visit with them and socialize with them and really talk about the various things, not just present them. Out of the classroom, I think it was very interesting. I would say that we went away from those campuses thinking that if we hadn't changed minds, we had established credibility that we knew what we were doing even if they disagreed with us.

There was a whole great battle going on - I don't care whether you were talking about clean air or clean water - and we were involved at various levels. I'm off campus now, but there was some of that. We've come a long way since then. We've certainly had a tremendous change in the attitudes about a lot of things in that time period. I'm not so sure that the attitudes about the environment have changed all that much. Here we are

15 years later still battling over secondary treatment out of Seattle and it's just as illogical now as it was then, and we still haven't done it in terms of spending several billion dollars to implement a technology which is not really directed to the primary problems. It was straightforward and simple. Then Senator Muskie got himself married to a popular concept, zero discharge, and off we went. I think in a sense society may not realize it has paid a tremendous bill and we now come to find that there are an awful lot of toxic substances around in different concentrations, different situations, that we should have been addressing and should be addressing. At the same time, we've still got something in excess of \$120 billion to spend in this country to effect secondary treatment of all sewage. Still have, which is an outfall from that battle over what to do about water. I guess I'd say an awful lot of water's gone over the dam and an awful lot has been accomplished and at terrible expense. And we still don't know how to go after finding needs much better than we did clear back then. I just picked that as one illustration because it seems to me it's one where I think we would agree with now much more than we did going in, that there's a real priority need. But I don't feel any better about our process by which we get at the problem than I did then. Unless you can capture the public with a grand theme and then propose some kind of a dramatic solution.

Edgerly

Well, the environmentalists captured the grand theme.

Weyerhaeuser

Yes, they certainly did. And you mobilize the political and you mobilize the legislative and you do not solve the regulatory or the technical. So you are, in a very real sense, putting a terrific load on the economy which impacts all kinds of things. All of which, in retrospect, makes us say, "Well, should we have done what we did or should we have spent the money we did?" I'm kind of inclined to say yes, but I'm still left with the dilemma that we shouldn't have spent it on the things we did, and the things we spent it on were dictated by some people that didn't know what they were talking about who were supported by a public which was aroused and legislators who responded. You dump it over into a regulatory environment without the technical background or the differentiation capability, and everybody plays the game. Now it's done; we passed the legislation and we're still mired in that. So putting the economic side to it, the society's paid a fairly terrific price and hasn't solved some of the priority problems because of that failure. Okay, who's paid the price? Well, our standard of living has paid it. You say in one sense we've got cleaner water. Okay, but we've got cleaner water with the

toxics still largely in it because we directed our attention to a technology standard which emanated from a concept which was in itself attractive but unachievable. We aren't 10 percent to zero discharge; that didn't have anything to do with it. So they sold a bill of goods at tremendous cost. Once you get that thing started down the track, then we don't seem to have the mechanisms to turn the solution to where the technology is. Nobody ever wants to back up one inch on the concept and once it's into the regulatory framework the regulators are protecting themselves by doing precisely what the legislation says, and they're given not enough direction and not enough leeway to alter course.

We're still there and here, and we'll be there in acid rain and we'll be there in a whole lot of other places there are problems. We're back on it again with this acid rain thing. People keep asking me, "Aren't you concerned about the growth rate of trees?" Everything I can learn from the work we've done and others have done is that that's an absolutely false, overblown, overstated dramatization of a problem which occurs in about 100th of 1 percent of our land area as far as trees are concerned. It's affecting some trees down in the San Bernardino mountains and it's affecting some in the higher elevations in Appalachia, but I see the train coming down the track. Let's get all this SO₂ out of the air and out of the coal-burning plants, and it isn't even an SO₂ problem. It's an ozone problem, which comes from nitrous oxide - if it is a problem - and it's related to about one half of one percent of the land area in the United States. So what we're going to do is throw X many billions of dollars down the tube and we're going to tax one way or another the American population, either on its energy bill or general fund or somehow or another. There are all different ways of impacting a tax. And we will do so because there is a dramatization of a problem. There are high-elevation lakes where acid conditions prevail with perhaps 10 percent of the problem contributed to by SO₂.

Edgerly

You seem mildly amused, if I can put it that way, about the prospect of yet another train, as you say, coming down the tracks. Is it just because you see the problem as being so intractable?

Weyerhaeuser

Yes, intractable in a supposedly reasonably well-educated, free society that presumably ought to be able to adapt itself in some fashion to solving problems that present themselves. I guess I am resigned in a certain sense and defeated in a certain sense

because I think that the priorities of the country are being misdirected because we are keyed around dramatizations of situations captured by our media. I'm not a media-hater - I think it's the process. I don't think it's malicious. I just think the whole process of sitting in front of our tubes and looking at the blowup of isolated situations and problems mobilizes us politically and regulatory-wise. The side effects of that are never addressed, the consequences. We never make a conscious prioritization of effort as between creating a better environment in X situation or taking care of health problems or of providing employment or of remaining competitive so that we can in fact have some growth in terms of our overall earning base and standard of living. It doesn't even come into play. I don't know why I should smile.

What's astounding to me is that when we started into this battle I talked to Muskie and I talked to the National Commission on Water Quality. I know that we lost that battle, but they set it up the wrong way and they persist in it, and they can still get that kind of a sufficient public and political support to continue to misdirect. There's something wrong with that whole system that is highly disturbing to me. I don't know what to do about it. Some of us have tried from time to time and still do.

Edgerly

Over the years Weyerhaeuser has spent probably a great deal more money than many companies in communicating with the public and environmentalists on issues related to those about which you're speaking. In fact Audubon gave Weyerhaeuser the classic name "the best of the SOB's." Still, the company maintains contacts with people in Audubon, in the Sierra Club, in the circles in which water quality is being monitored. Do you see that relationship as antagonistic and with no or few redeeming results, especially given the money that Weyerhaeuser's invested in it?

Weyerhaeuser

No, I wouldn't say that. I think that we've had reasonably good relationships, and just as I said about the campus situation, I think with everything except the fringe elements in the environmental movement, we have some degree of credibility. I think that partly is because of what we do and partly is because of what we communicate. I don't think we wear the blackest of black hats. I don't think we deserve it and I think to some degree the communications and relationships have something to do with that. That does not stop the Audubon people or anybody else from joining in the forces on a wonderful issue like the Nisqually Delta, which I would say after seven years and 700 pounds of environmental

impact analysis was almost totally without merit. I'd say, okay, I don't look at that as an anti-Weyerhaeuser; I look at it as they grabbed hold of a pretty sexy issue and were able to dramatize it and keep people sending in money to pay their legal bills. But at the bottom line, it was highly obstructionist from our point of view, it probably stopped us, at least delayed us a monumental amount of time to the point where economic conditions have changed. Maybe they will have succeeded for the longer pull in eliminating a few Washington State investments and jobs. I'd say, from our point of view, that I think it helps their cause and helps their membership, and you've got something that all the groups could kind of rally around.

Being on the other end of that, I don't take it personally, I don't take it as anti-Weyerhaeuser, I just think it's unfortunate that those talents rally around that kind of a cause. Seemingly, there ought to be some problems that can be addressed and solved, if that's what your objective is anyway, that could command their attention. I think it's an illustration of the tolerance in our political system, legislative system, for endless impediments and delay in the process, irrespective of the merits. I don't think there's another society in the world that would tolerate that kind of monkey business, without penalty. I used to talk to Dan Evans and others about all I would really like to ask for in this state. That is, lay out a process, and whatever it costs to execute that process. If it takes 12 months or 16 or 18 or whatever, every relevant consideration should come in there. And then put somebody in charge of that process that knows that the decision comes out the end. But that's not our system. It's a multi-splintered monster that depends on a multitude of agencies and the courts to get anything approved. Change is imperceptible.

Continued on Tape XVI, side one.

This is a continuation of the interview with George H. Weyerhaeuser recorded on Wednesday, April 3, 1985. Tape XVI, side one.

Weyerhaeuser

But we went ahead and we put in the water facilities, we've been improving the particulate air emissions. A lot of things have happened around our facilities that make sense that others have also done. So there's a substantial amount of good that has come from all this. But it's the waste that bothers when you realize you've really tried to address that which appears to be wasteful, and been frustrated by the process, because it's arbitrary and bureaucratic. On the one hand you have the kind of uniform standards that ignore the conditions around you, which is wrong. That's technology based as opposed to air quality or water quality based. A lot of the standards are technology based. It's simpler. They can pass a law, best available technology - that's it.

My favorite comparison is that beautiful little river down there called the McKenzie River that we sit on in Springfield vs. West Point on Puget Sound or on ocean outfall. Without the legislation saying anything about it, or initially saying anything about it, they have found a way to delay the implementation in the public sector of the ocean outfalls as opposed to those in the rivers. Through process of delays and waivers and ignoring the deadlines and extending the deadlines, they did not force all of the public money into the less-justifiable projects. However, they are still \$120 billion away from completion 15 years later. You see, with that kind of money, if you were running this country and didn't have to answer to anybody and were trying to do what is very best for human health and recreation, I think you would find a very different way of setting up the schedule of priorities. But once you say that, then you introduce the question of even-handedness. On the other hand, if everybody's required to do the same thing, it presents an apparently fair solution.

Edgerly

Of course, the environmentalist would ask you whether you would have taken action without the pressure of political action, legislative push, and so on.

Weyerhaeuser

No, but what I'm saying is that if I were the czar, I'd make that push and then I would say, "Now, wouldn't it be relevant to try to understand? In a given time period we only have so much, whether public resources or private, and we're going to order these things

on a schedule which says I'm going to take the most cost-effective things or the most environmentally sensitive or the biggest problems and solve them first." Instead of saying, "I'm going to do something similar to everybody because I don't know how to differentiate and I don't choose to. Therefore, I legislate simplicity, direct technology-based answers." So the argument isn't that they would have had the same degree of effort or change from us or anybody else without legislation, because in one sense you can say, "I don't want to, I won't, I can't afford to do it if nobody else does it." So there is that; I'm very cognizant of that. And you can find arguments that say, if your competitor has to do A, you have to do A, irrespective of whether you're sitting on a body of water that's a thousand times as big and with more flushing capability, etc. So there's a philosophical problem. I've got my economist's hat on when I say I think there should have been some differentiation process. It's not easy; it never will be easy. We've still got the problem. What do we do about various degrees of toxic concentrations? I'm not sure where they're coming from and I'm not sure of the assimilative capacity or the retention capacity of a landfill or an estuary, so we're probably going to hope the secondary treatment does something. It's complicated, difficult when you're trying to balance, what shall I say, political, which is public awareness, with economic, with hopefully some element of technology which says this is an efficient way to get at the problem. But the problem is not defined to the public in technical terms, and the solutions don't come out in a technical/economic balance. I can understand how we got there. I just say that there's got to be a better way.

Edgerly

You're talking about an enlightened czar, of which there have been very few in history, and there certainly aren't many now.

To move across the spectrum of corporate responsibility a little bit, the Weyerhaeuser Company Foundation, the most visible arm of corporate philanthropy for the company, has changed markedly since you became CEO, probably most notably at the time that it was what I would call professionalized in the mid-'70s. Can you enlighten me as to what factors moved it in that direction and currently what philosophy is behind the Foundation's giving?

Weyerhaeuser

Same answer, I guess. I don't know if I can or not.

Edgerly

You always say that, but you come up with some very good answers.

Weyerhaeuser

We might be hitting around the fringes.

Edgerly

Perhaps professionalization is not, then, really the key. It is, however, the most apparent element of a change of some sort.

Weyerhaeuser

Well, it's been through a series of changes, I suppose partly driven off of growth. The size of our giving program kept on getting larger over a period of time and the percentage of funds that were available to go outside the traditional "community chest" approach, UGN (United Good Neighbor), and/or education, scholarships, for the traditional, either local or company, charitable trusts, grew beyond that in size. We were giving money to a broader set of things, including, to some degree, larger national kinds of things. I think as we grew in the Seattle/Tacoma headquarters, we've gotten into more things in this region, in Seattle. I think we began then to look at and think about, within that larger framework, what should the priorities be? At one point in time - I can't put a date on it - we were concerned with how proactive we were. Shouldn't we be trying to do more than parcel out our funds to the traditional agencies because the needs were changing in society? And what about the agencies that had not reached a point of development or seniority where maybe we could make a bigger difference supporting agencies and people addressing some of the new problems? That hasn't been answered yet, but I think at that time that came into it. Then we began to ask ourselves, "Well, shouldn't we be paying some attention to, let's say, issues that are related to our own industry and society's concerns as related to the types of things that we were involved, in land and other matters?"

So we've been through several stages of trying to think it through. I guess, as I said, first we thought to change elements in the community involvement and then change elements in the company's sphere of activities as opposed to joining in various broader, national

charitable things. It's easy to ask the questions and hard to administer. We decided we should look harder at what we're doing and certainly that gave rise to some level of staff activity. You get people working at it so you can get to that stage. We had a sufficiently large program and sufficient uncertainty as to what directions to go.

There was an administrative element and a mission element that had to change, and then a financial. Then we said to ourselves, "We really think we're a lot more effective and our dollars would be more effective where we got people personally involved." So we tended towards setting up the regional committees and tried to establish a better process of screening and follow-up by letting the local committees have much more leeway and a responsibility, personal and collective, for administering and allocating those dollars. So we sort of first built the giving program and then built the staff and tried to improve the administration and then tried to improve the local content, if you will. I know you know better than to ask. I couldn't even tell you in precisely what sequence this happens, let alone what dates. Certainly Bill (Ruckelshaus) worked hard at it in the mid-'70s or late '70s, but it was an evolutionary process. Way back in the inception of the thing, we tried to involve some owners and directors and outsiders in the scholarship part of the thing. That survived on through to the present. Then on to the period when we tried to encourage more employee giving by having company funds build up in these local areas as the local drives were more effective. So we tried to work at the organization of raising money for UGN (United Good Neighbor) and others at these various places and then putting more company money in there. We've tried to build up our allocation system by having some people who are willing and interested work hard at looking at some of the requests in areas that we might fund. We've been in a hold period in the last couple or three years on the size of the thing and trying to evolve better ways of getting at some of these national issue things.

We also at one point got into matching gifts and, in the interests of economy, we cut that out. I don't know that I think of anything with a flash of brilliance along the line. It certainly has been a significant improvement. The improvement in the administration has been dramatic. They handle things very effectively in communications. But we haven't come to the final solution on what's the proper mission and balance in all this. I think that's an evolving thing.

Edgerly

It will change probably as much as society changes, I expect.

Part of, from my point of view, corporate responsibility is the idea of having some kind of code of ethics. In the case of Weyerhaeuser, it's called the Code of Business Conduct. For many years, that was never written down, and then following some litigation concerning price fixing on the part of some Weyerhaeuser employees, the code was published and distributed to all employees. Do you feel that that has been effective in its purpose beyond the obvious protection that it provides the company by having stated that unethical practices are not condoned?

Weyerhaeuser

I don't know. I had the feeling that people that worked for this company would have learned through association and time what kind of a set of rules (there were) and what ethics we expected. I guess I would list myself back in history as being of the opinion that actions speak louder than words. I think we were surprised in several instances, not just the most dramatic one, which was the shipping container situation. I guess I would characterize it, to some degree, as in acquired businesses and acquired people and acquired geography and remote geography, it was probably an unrealistic assumption to feel that they would assimilate what we felt we had. I think that had something to do with it. It wasn't just for legal protection reasons. We went through a fairly rigorous legal review, first of all of the communications process, trying to dramatize to people - even up to and including mock trials and other things - that the laws meant what they said and that there was a very, very tremendous jeopardy personally and to the company in practices which historically may have been accepted as the norm in different parts of the business, which was true in the shipping container business to some degree. So I think that played some role in this, but our response to the legal exposure was much different, much more directed to the people who sell and the people who are in contact with competitors in the various businesses. First, the exposure for just the antitrust aspects of this were dealt with and we thought we had to be very, very rigorous, and we had every reason to be. There's nothing that gets people's attention like something that has happened as opposed to something that theoretically might happen. So we did work hard at that.

But then it's broader than that. There's some concern with new people and a bigger company and changing environment that there was exposure to a lot of new situations

and people. Also there was a sense that there was a good deal of laxness in a lot of companies and we were sure we had a fair amount of use of company property and stealing, though not considered the same thing: "I'm just borrowing the thing." That doesn't confine to any particular level, and it goes on. It's the same thing, in some cases, the government faces if your people are offered various forms of incentives - free this and free that and entertainment. It goes on. I think it's an awareness that we ought to try to think through those different kinds of situations. We ought to try to address them, to articulate them and caution and communicate about them. We ought to provide an avenue where people can blow the whistle, which is the ethics kind of committee which doesn't carry the jeopardy of having to go to your supervisor if he happens to be involved or whatever. We wanted to have an open system. I think we've achieved some of that. I think it's been a plus.

We go further in trying to say, "What kind of a company is this; how do we want to treat our people?" I was a little bit reluctant to try to set these things all down in black and white and pronounce them. We debated a long time about various pros and cons, the different ways of doing it. I guess my sense was that, as I said, you don't do these things by proclamation. Are they believable? We went back and looked at the various things that the company had said and what we thought they stood for and articulated, and I guess they made me feel better. I would have said, "There's nothing new in this," and there wasn't anything new in it. When we really went back, the things that we're dealing with had been dealt with before. It was one thing to have said, "There's nothing new in this." I didn't feel very comfortable trying to say, "Hey, we discovered morality here and therefore we're going to issue new proclamations and we're going to do this and that." So we kind of picked up on the company background and history and reaffirmed it. I guess in a sense it made me feel better that I was not quite willing to accept the fact that we didn't have it, or that we hadn't had it, or that there was something new here.

Clearly we had a bigger company and all kinds of points of exposure, increased exposure and different kinds of people, it was not something that we could or should ignore. You can take the antitrust things and put them on one side and say there are certain kinds of things, which certainly was a concern, but there were a lot of others, too. We tried to lay out also sort of a declaration of what an individual might reasonably expect of the company as well. What's the effect of all that? It's been well-conceived, certainly the antitrust thoroughly pursued, and it doesn't stop there. You don't do it one time and forget it. We're going to have to continue to reaffirm it. I think we set into process a way to have people explore their concerns.

I still see cases coming through the security people and others where there's plenty of continuing cause for concern. Other people characterize it more strongly than I. Some consider the company's property to be their own, and I don't care whether that's very sloppy administration or usage of company cars or whether it's borrowing things out of storerooms and not returning them and packing off materials. There's a certain level of that going on. I think it's way too high and general in society and also in this company, there are plenty of instances of it. And in dealing with suppliers or in sales, people are people and there's a certain percentage that will use, either for their own benefit or in trying to buy or sell, employ tactics that we would not authorize or condone. You can't spell out every single instance. We tried to set up a mechanism where, when in doubt, we have avenues for you to ask your supervisor or, if you're uncomfortable in that relationship, then we do have an ethics committee and we will work at responding to that. We're concerned about it. I think it's not overloaded - there aren't thousands of inquiries being made, but I think it was a sound and useful set of steps to take.

Edgerly

You've also known the frustration of trying to deal with an international situation in which the standard of business conduct is quite different from the standard which Weyerhaeuser itself may wish to follow or, for that matter, which is required of a U.S. company under certain legislation that's been passed. How do you feel about the kind of circumstance in which one is faced, as the company was in Southeast Asia, for example, with that kind of circumstance?

Weyerhaeuser

It's very difficult. Now you're going to get me over on my environmental message again. The U.S. in its wisdom tries to handle these things universally and globally and on our standards in circumstances and situations that are completely inappropriate. When we went into this very elaborate system of reporting and approval and auditing, you put a whole lot of process into place. I understand the motive - it's a moral objective - but it's two things: onerous and process-oriented and, in many degrees, will not direct itself towards the substantive problems out there. In Indonesia we were dealing with literally thousands of transactions by civil servants who were underpaid, grossly underpaid, who expected to earn their living out of very modest payments, in the individual instance. But in the aggregate, this was the way they in effect made most of their pay, which was not very grand, at the lower levels. Now, it's very frustrating to have to take that kind

of thing and record every transaction and bring it up to the level of your Board of Directors and report it to the SEC. You had to set up elaborate procedures to ensure that you in fact knew what was going on.

We didn't change the government's practices in Indonesia one iota as a result of that. They may have made some pronouncements, but the honest truth of the matter is that in that society, the level of exchanging government permits up to and including forest concessions and everything else by some degree of quid pro quo, whether it be money or whatever, extended way up to the top of the government. The bureaucratic and the small we could deal with, I mean the customs thing. Just as a matter of business principle, we would not entertain bribing. You could call the customs agent payment the same thing. It's a question of how customary is it and how small is it? Now it wasn't small to them in the aggregate, because in a sense nothing happened out there unless you got your civil service permits of every different kind and they could take literally years on a small transaction. So I set that over to one side and say, "I don't consider that to be a bribe." You could if you were a purist - that's a bribe, but that's usual and customary in our sense of an allowable expense deduction in this country or whatever.

Now where do you depart? It's a pertinent question because the Japanese, Chinese loggers, Chinese businessmen, they are fully practiced in and have no moral or legal scruples about doing whatever has to be done to move government actions, at any level. So we found ourselves out there in situations where we just literally couldn't get anything done on boundary disputes. Every time you would go through the process, and months and months later solve one, another one shows up. Nothing is spelled out. You can't go and have it engineered and take it to court. There's no process of either survey or jurisprudence or courts. You are at the mercy of administrative decisions made by many, many levels of government, in which there are many people who make them on the basis of who's going to favor them with whatever consideration they want. So it is a very, very difficult problem. We just suffered with that. We didn't do it and we didn't report it, but we did report all the stuff we were doing.

It's like so many other problems - I don't have a solution. I know this: when in Rome, you do as the Romans do; and when in Italy, you go to another place. It's almost impossible to conduct a business in Italy by the books; they don't do it. They've got double and triple books, and they don't pay taxes. We've done business in Italy. Do I have our people go over there and keep dual books? No. And we didn't do very well in Italy. What do other

people do? They have Italians running Italian companies, even if you own half of it or whatever. They keep their own books, and they have problems. Okay, we send our auditors in there, and what's going on? And if they're keeping dual books and all and if you are the majority owner of that business, we would do that. So you have the choice of being a minority partner and letting Italians run an Italian business in which you own a share, or you have to face up to the issue, which is what we had to do in Indonesia. Finally, at the bottom line, it's impossible to be an American-owned large business and conduct your business the way you would in the United States according to our rules. Do I quarrel over the rules? No, because I'd turn the situation right around and say, "In the shipping container business that these are our rules. I don't care what the rest of your competitors are doing or have done in history. We are going to live by the law of the land, antitrust law." There are always grey zones. Can you sit down in a bar with a competitor's salesman and talk about price? Well, there are certain rules. You can talk about what prices were or you clearly can't agree on prices or you can't agree on a lot of things. Do you think for a minute that we can control with an auditor what our salesmen are going to do with his competitors on Friday night? Probably not. So then you're over to matters of degree, and you hope to influence that degree by how you conduct yourself and I suppose partly, to some degree, by what you say your intent is. So publishing has some role to play here. Probably more importantly the way the managerial ranks treat the matters and the grey zones when they come up is more to the point. So you'd better have your managerial people believe what your intent is in terms of your own practices.

All that's a passing parade. People will be people. I was shocked, and I know others were, when we found the degree to which the carton businesses in the country, ours included, really were busy communicating with one another on prices and volumes and everything else. I think we learned a lesson. It sure hurt. Because no matter what I might feel about it or how I might have felt about the fact that we were a very ethical company and it was understood and all that, it is eroded significantly by an incident of that kind, or a series of incidents of that kind, where you're so far over the bounds that the U.S. government is taking you on. It was painful, I'll tell you. We tried very hard to turn around and use that occasion and other occasions to reinforce what we meant. But I wouldn't be able to answer... I see some of the business practices around us in various kinds of businesses, and I continue to be horrified.

This is a continuation of the interview with George Weyerhaeuser recorded Wednesday, April 3, 1985. Tape XVI, side two.

Weyerhaeuser

I guess I'm naive in a sense. I believe people are fundamentally good and honest and would prefer to be. So I think if we encourage that kind of behavior, we're going to get 98 percent of the way there - we're not going to get a hundred. I sure felt badly about the ground we lost reputation-wise. It probably hurt me more than anybody else.

Edgerly

After all, your name is the same.

Weyerhaeuser

It does make a difference. Yes, I'd hate to try to explain to my family. I don't know that I did try to explain it.

Edgerly

I never thought about trying to explain it to one's family, but obviously that would be part of it in your situation.

Weyerhaeuser

I don't mean my immediate family; I mean the large family. I felt a certain amount of personal responsibility for that.

Edgerly

I have identified a couple of other issues, or subject areas, with which to deal. I don't know if you can give me some guidance as to how much more time you'd like to spend, we will either embark on another or not.

Weyerhaeuser

What do you think? How about half an hour?

Edgerly

It's fine with me. Whatever you're willing to spend. We haven't talked much about something that probably was very critical to company policy in the '70s, and that is energy. The oil embargo of 1973 probably influenced more major business decisions by corporations of all kinds during the early '70s than anything else. I'm sure it influenced everything from capital expenditure decisions to what the temperature was going to be in

the office. Now oil, of course, is again more available. During the interim, the company has made a lot of steps toward greater self-sufficiency. But I'd like to know a little bit more about how prepared the company was to deal with the shortages that came about in the early '70s, first of all, and what kinds of planning efforts came out of that pressure.

Weyerhaeuser

There were a lot of dimensions to that. The one that I have the most fun thinking about and talking about, of course, is the focus on increased energy efficiency and reduction of consumption of petroleum-based fuels. We're still at it. It's a decade-long effort. You get so many ramifications in a business like ours because, first of all, we're gigantic users of transportation fuels, boiler fuels, and electricity. The power costs and petroleum costs in our products probably rank third behind wood and, depending on what the operation is, maybe labor or chemicals. But it's right up there. Then we transport the raw material all over the place, and we're affected by long-distance transportation on the outbound side, in economic terms, even if we aren't transporting it ourselves. So it's had a profound effect on the transportation side of things and on the sense of geographic competitiveness. Ramifications are still changing market destinations for many of our products. But at the heart of it is a great big energy-using pulp and paper process, and facility. We engaged in, and are still for that matter, an extensive effort to examine the options of decreased consumption, which range across a whole lot of process control technology and equipment changes, against a whole spectrum of, in steam generation, of its being a very crude process with a very low efficiency level, from theoretical Btu values in fuel and the realized Btu's, whether it be in steam or in the conversion to electricity. Big capital requirements, very expensive equipment, changing technology and changing instrumentation. As I say, we're still at it. We probably will be for the next ten years. So it's commanded a lot of engineering, a lot of analysis, and a fair hunk of the capital. Probably followed behind the environmental surge and then the energy part of it came banging in behind that.

Edgerly

Did it really catch the company, and the industry for that matter, by surprise?

Weyerhaeuser

Sure. Petroleum values had been low for years and years and years, and you never worried much about the inflationary effects - out of sight, out of mind - so we were very casual in our practices. So we had inadequate procedures and controls and equipment,

and any time you treble the relative cost of something, all kinds of things happen. It had quite a little effect on the relative competitiveness of different parts of the world in terms of pulp and paper, and still is having quite an effect.

Edgerly

But in that regard, did it not leave the United States in a better relative position?

Weyerhaeuser

I suppose in a sense. You almost have to talk about the difference between electrical and steam in different regions, because in a certain sense, the countries that had a whole lot of hydroelectric like eastern Canada and Scandinavia relatively benefited because they had less petroleum in the generation of their product. The price effects were felt worldwide. I mean, the transport costs involved were not large in relationship to the well-head costs. So what happened when they slammed the brakes on the supply side and jacked the prices was that world prices came up, more or less simultaneously. Except where governments interfered and, of course, Canada interfered and it affected different regions differently. The other aspect of the petroleum thing, of course, was that it made us look very hard at alternate fuels and, of course, we have alternate fuels, so long as you've got the capital to burn wood or coal, which is what we've been busy converting to. There's a technology and energy consumption side which is modernization and improved utilization, then there's a fair amount of real progress made on the generation side, and at the bottom line was coal. Our industry and we have been moving towards to taking petroleum out of the mix. We've still got some further to go, but mixing wood and coal or burning each one separately is progress. I think in another ten years, we're going to make another big step to get the rest of the oil out of there, out of lime kilns, where wood will be gasified or burned in suspension. There'll be much improvement in the utilization of existing boilers through better monitoring and control techniques and getting better distribution of fuel and air. Combustion controls will save heat, get fuels burned more efficiently and get the Btu's out of it. So there's a lot yet to be done. That takes a lot of capital, a lot of effort. And that's true, that's been going on since 1973. A lot of progress has been made and that's why, in an industrial sense, the burning of oil and gas is heading towards zero. To some extent, the increase in price in transportation fuels shortens the distance which you can afford to haul, and even in a marketing sense, tends to shorten the lines and cut the consumption. Well, there was a dramatic degree of emphasis. I think we did a pretty good job of looking at our facilities, and upgrading energy generation and use in installations that we were modernizing. It also tended to obsolete older facilities that weren't fuel-efficient, as has environmental regulation.

All that has driven the capital allocation and the technical allocation in a new set of directions. When they go in that direction, they're working at efficiency, not capacity. And they are generally not creating jobs except in the sense that the production of the machinery and the controls do. The capital expenditures create jobs, but they don't create permanent jobs. So you shift capital away from growth. Now I'm generalizing, but certainly that's happened in our case. The proportion of capital, growth generating, has been dramatically reduced.

You asked how well prepared were we. We certainly didn't forecast it, and we had quite extensive plans, directed around the shortages. That's a different question, one we were all worried about, either not being to get it or the interruption of it. We had a lot of planning and action and purchasing changes and storage plans. That was in a relatively short period and temporary in nature. And, of course, we went through the carpooling and vanpooling, and we made a big reduction in the energy consumption by lighting and heating and ventilating office buildings. It absorbed a fair amount of human energy and capital, but it had the interesting effect of tangible results. In contrast to a lot of things we do, there was an obvious need and we respond well to those situations. I feel pretty good about where we find ourselves. Where we haven't made the great big capital expenditures, we are in economic trouble in Rothschild and Everett Kraft mill, and where we've got a relatively written-down plant, by the time you go in there and try to solve the energy efficiency equation, you more than double the capital investment base on a marginal plan. So it's hard in those cases to come by. We poured an awful lot into other installations. Now we're pretty well along. We got Plymouth over that hump and very efficient, it's burning very little petroleum.

Edgerly

It's interesting that even now some 12 years later, decisions are still being made based upon that event.

Weyerhaeuser

Oh, yes. Of course, you know, energy prices took another big hump in 1979, but that's six years later still. I would say a decade from a major change, you will still be affecting things that are of long life. That's the capital-intensive, long-life assets. They don't obsolete easily or in a hurry, and you'll run them down to a marginal level and do something that either creates more product or a superior product in preference to

throwing a lot of money on top of an older facility. Now, the returns are more certain. Okay, they cut the price of oil in half, and now they're not quite so certain. I made some very grand pronouncements to our guys that the price of oil was going somewhere and that I didn't care what anybody else said, they were to plan on \$30 oil. I never was going to second-guess what we did, but I wanted to be damned sure that what we did was aimed at freedom, in economic terms, from \$30 oil. So we're pretty far along. Now, I think there's a pretty fair prospect that that \$30 may become \$23 or \$22 or something, but once having made the conversion, you never go back, because of the capability of burning wood or coal, the fuel cost, once the installation is made. I don't know how low oil would have to get. I would guess it would have to get down around \$15 before you'd begin to switch fuels. You can burn oil in these things, but you can't burn coal or wood in an oil or gas boiler.

It's had effects all the way through, but I tend to focus on the big energy generators. Depending on how you get your electricity, whether it's hydro or whether it's co-generation, and what your balance of steam and electrical needs are, you can get very different solutions to what process you ought to have, both in the generation and perhaps, to some degree, in whether or not you're making chemical or mechanical pulps. I think that, there again, the company's done a pretty fair job of adaptation, and we've got some out there that are still in front of us, where we're burning quite a lot of gas. We will continue to until it takes another big jump, unless and until. In the case of gas in this country, it's not obvious to me that it's going to.

Edgerly

So, in other words, things like Weyerhaeuser's projected fines burner, those kinds of technologies which are still not on line, will not necessarily go into the closet simply because the price of fossil fuel goes down.

Weyerhaeuser

That's exactly right. We've been in effect paying the development money. In a sense, we would subsidize the conversion, to some degree, because if the fuel is available internally, we have an insurance policy that's worth something, insurance against inflation in your basic fuel cost. Or an alternative. In the best of all worlds, like Columbus, if we can get to the point where we can burn pulverized coal, and we have a floor then under massive supply in the sense of cost, then maybe we can mix wood into that equation when it's economical, or you can burn oil or gas if it becomes competitive

with the fuel cost of coal. So energy independence is something that's not just independence from oil. It's more than that.

Edgerly

It's really energy flexibility, fuel flexibility.

Weyerhaeuser

Yes. It is important. In the pulp and paper business, it is an important element of cost. Therefore, your regional competitiveness or your mill competitiveness is affected dramatically by how you solve that. What goes up sometimes comes down, as the Middle East is finding out. And where there is enough incentive, there is a way to get it, whether that's out of Indonesia or Mexico or Canada. It's interesting to see how all these countries that didn't want to export too much or get too dependent on this or that, when their needs get there, the difference between \$28 and \$26 is not half as significant as another 10 percent in volume. It's interesting how many holes spring up. That's what's happening. I think the Middle East is down to half or less of its current capacity, and maybe of its sustainable capacity. Unfortunately, we're going through some of the same thing in pulp mills and paperboard mills and most of the metals. What's happening, of course, is that a fair amount of the sources around the world that were not economic now are economic and once they get started they need the foreign exchange. Whether they're fully economic or not is immaterial. If they can generate more than their out-of-pocket costs, they're going to be moving goods around the world. So when you look at the difference between what's happening in terms of price trends, almost without exception, the world commodities are going down. They're certainly going down in real terms, and they're certainly going down relative to services with a high labor content. That's because wherever these commodities can be produced, they become important in foreign exchange. And commodities move across the borders without a lot of, or not anything like, the political interference that comes when you get labor added. If there is 5 percent more capacity in the world than we're consuming, those prices tend to get forced down to the marginal cost of producing. Economics does work sometimes, eventually.

Edgerly

Well, the pendulum keeps swinging.

Weyerhaeuser

Well, what do you think?

Edgerly

You sound like maybe you're ready to sign off. Are you?

Weyerhaeuser

No. Well, I'm just looking at my watch. Did you finish the question?

Edgerly

I still have a few more, but we're getting towards the end, believe it or not. You probably are so tired of seeing these meetings on your calendar. But we're getting down to the bottom of those that I have. You mentioned DuPont earlier as being one of the situations in which the environmentalists may have in the final analysis, maybe not even in accord with their own plan, succeeded in putting off long enough the export facility there.

Weyerhaeuser

It's kind of ironic that after all this time, we might wind up getting a General Motors assembly plant out there. If we were to, and if they needed to import materials, we would then be started through another environmental impact process in order to delineate what the impact might be of a different vessel size or frequency in carrying whatever's coming in.

Edgerly

Do you see Weyerhaeuser's use of these very arduously attained and expensively attained permits as being unlikely?

Weyerhaeuser

Oh, I wouldn't say unlikely, but I see a different sequence of events being possible out there where, under the guise of the impact on the Nisqually Delta, the heart of the concerns that came out were really the development of the upland. What I'm saying is, here's this great big area which probably can and will accommodate multiple uses - residential, commercial, light industrial, heavy industrial. If we get the whole master plan of DuPont approved, we may well see a number of upland developments emerge that will, in point of time, maybe even impact on the area, taking precedence over the use of

the export facility in volume. It's obvious, from the time we started to now, the relative attractiveness and the volumes associated with the export market have followed the dollar in a reverse direction, I guess, so that new installations and new volumes concentrating on export were really integral to this thing. I don't know whether we are going to be able to generate those volumes overseas or not. Now that's a short-term answer, but certainly if we were to lay out today what we would expect to happen in the next four or five years, moving in larger ships for export would be radically different than what it was when we started. The economics and the timing are certainly shifted outward and downward. They, in a sense, in final permitting, lost all the way and in the sense of delay, have won all the way. So here we are at the end of the line, and I'm not sure if anybody won. They spent whatever and maybe they accomplished something in the process. We didn't.

Edgerly

Like a lot of people who were working for Weyerhaeuser in May of 1980, I remember exactly what I was doing the morning of May 18. I remember where I ran that morning up on the Burke-Gilman Trail, and how far. Do you recall where you were, what your thoughts were, what it felt like during that day and the days succeeding the eruption of Mount St. Helens to try to cope with a disaster of that magnitude?

Weyerhaeuser

Oh, some parts of it. I don't think we had any idea what the significance of it was. Certainly, I remember seeing the plume. By the time I saw it, I think Wendy had seen it on the TV. I was out in the garden. By the time I got there, it was way up in the sky, clearly visible from my yard. The events that followed are kind of a maze of problems and plans and organization. I give our people in the area an awful lot of credit for coming out of the chaos with a very solid recovery plan and being able to implement it, many, many aspects of which we hadn't ever had to cope with before. It was interesting to watch. I say that advisedly. I think we were kind of a corporate policy group, trying to give some guidance. The team down there really did some miraculous things in terms of speed and sensible ways to get back into operations and the way they handled the planning, focused all the efforts in that area and dropped everything else they were doing. It was an astounding thing. We were certainly concerned about what else might happen down there afterwards. An awful lot of time and effort and thought was given to the communication linkages, control of access, the tie-in with the Geological Service, and the handling of scheduling of crews and establishing movement of crews out of the rest of the tree farm in there. They had a monumental set of logistical problems.

I remember going down there in the early stages of that. We had got back in there and were doing some logging and I spent a little time with the buckers, watched a little of the tree planting later on. You had to look at all that to see how they got it all done and what it looks like now. I was shaking my head at the time. It would be very hard to say that I thought we had much of a chance of being able to rehabilitate very much of that area, and yet they're going to get a very high percentage of it done successfully.

You wonder about what happens in the logging and what happens in the utilization of all that material. That's after we get over the shock of recognizing we just lost one of the most beautiful areas of second growth plantations, and one of the prettiest areas in the state, for that matter. But from a forestry point of view, it was just appalling, and from a human point of view, it was an appalling problem, not only the risk, but the exposure that nobody could answer. We were preoccupied with the kinds of questions of quantifying the risks, trying to understand them and getting the most professional advice we could, evaluating and trying to set up plans around what we could reasonably do, and what steps we could take to minimize the exposure. Primarily the problem was one of defining what kinds of events that mountain might trigger and most of it was related to elevation and evacuation to high ground. They were mostly concerned about mudflows, and that was true both before the eruption and after. Unfortunately, they were wrong about the eruption, but the afterwards (involved) still trying to define escape routes in the event of a large movement of material blocking the road systems. That was interesting to talk to some of those loggers and watch them go about it.

Edgerly

What did they have to say about it? What did they feel important to tell you about what they were doing?

Weyerhaeuser

I think that the primary thing you got was that they were going to do that job and it was dirty and difficult, but they did not convey any great concern about personal safety. They had confidence in what was going on. I don't think it was misplaced. Of course, we were trying very hard to say we were doing everything that we knew how to do in terms of early warning systems and evacuation planning. In the early stages, that was of great concern and then, of course, as time went along, we were still trying to work out techniques of how the devil you keep the power saw sharp and how do you get a seedling

that isn't going to get buried under ash the first time it rains. So they were experimenting around with various forms of ash scarification. The first systems they tried weren't worth a damn. They'd clear out a little hole around the thing and the stuff would come right back into the hole. But not everybody wanted to work under those conditions, so it wasn't as if we got 100 percent of the crews in there. I wasn't surprised, particularly. They are pretty independent, self-dependent and confident kinds of guys, didn't spend a lot of time worrying about things. They did a very impressive job of organization and communication. We felt pretty good about it all the way, after we got over the first shock. Certainly, it could have been a different answer if that had happened on a work day and we'd have lost a whole raft of people. Thank God it was Sunday. But you'd have to be impressed and proud of the way it was handled after the event. Boy, was it a terrible-looking mess, though, in terms of the second growth. No salvage of some stuff 20, 25, 30 years old. I haven't been down there for quite awhile now. I've got to get down as soon as the weather gets half decent and see what's going on. I think this is the last planting season - maybe there's a little bit next year.

Edgerly

Weyerhaeuser's mostly out of it now?

Weyerhaeuser

Yes, but we've still got a little planting left to do, though. Coming into this planting season, we had quite a bit to do and I don't know whether it's fully completed now or not, or whether we've got some next winter. I keep forgetting it's April. Maybe up at that elevation you can plant in April.

Well, I'll tell you what we could do. We could put in a bid for Crown Zellerbach at a billion dollars and we could buy two million acres of land. We lost 65,000 acres or something like that and the value of that timber at the time was probably 35 or 40 percent of the total value of Crown Zellerbach, if the billion dollars is the right number.

Edgerly

That's incredible.

Weyerhaeuser

Of course, they aren't paying Crown very much at that price for land and timber, either. Nor is there in our stock, for that matter.

Edgerly

You really would turn the heads of the people down in IED.

Weyerhaeuser

Had enough trouble with Georgia-Pacific. You don't get to billion-dollar deals by asking the guys in IED. At least I don't get to the point of conviction that way. I might get to the conviction and then ask them to tell me what they think, but I wouldn't tell them about that (laughter).

Edgerly

We may actually get to the end in another session or two, if you think you can bear it for that much longer.

Weyerhaeuser

Sure. Well, you've got me down to some reasonable range of memory anyway.

This is the end of the interview.

This is an interview recorded with George H. Weyerhaeuser, on Friday, June 28, 1985. The interview was conducted on the fifth floor of Corporate Headquarters. Tape XVII - Side 1.

Edgerly

Actually we're beginning to get towards the end of this project, believe it or not. I'm down to the category called Miscellaneous Questions which I couldn't seem to fit in anywhere else. We had talked about the environmental issues and the period of time in which the greater awareness of environment came with some of the social upheaval of the late 60's and the early 70's. Since that time, which was a time of relative prosperity, we've seen quite a modulation in the stridency with which such matters have been addressed, at least on the part of some members of the public. The Reagan administration too, at least in the eyes of some, has been less strong in the enforcement of environmental protection regulation. How do you see that from a current industry standpoint?

Weyerhaeuser

Well. The agenda keeps changing. I don't think that the public's interest in or concern about the environment has perhaps changed all that much since the movement got well underway. I think the momentum of public awareness, public concern, has been pretty well, first of all generated and then sustained. All that interest and enthusiasm, however generated, resulted in the champions in Congress being successful in writing environmental laws that are very very broad and the country has spent over a decade trying to comply with those laws and define what they mean at the same time. You know the clean air and clean water acts were so broad in their implications. Technical solutions were needed but not available and the economics and economic impacts that were implied in meeting very broad objectives were overwhelming. We have not found either the means technically nor the economics to achieve many of the objectives. The clean water act I think of as being the one I know a little bit more about. It called for technology solutions and it was written in such a way that it didn't differentiate between local conditions. This approach made easily enactable legislation, was politically attractive and was undoubtedly easier to regulate. It did not contain the provisions which allowed for intelligent application of differential technical applications applied in different ambient conditions. You know, I'm still in the old-fashioned class that says that while we might all agree on the environmental objectives, I don't think that argues that they ought to be blindly and uniformly applied and ignoring the consequences of

doing so. The consequences go something like this: you can't do it all at once, there must be some set of priorities in there that's different than uniform technology applied uniformly across all different situations and instantaneously. There is no priority - there's no economics - and so here we are 10 or 12 years downstream and as I understand it, we still have to expend more money in achieving secondary treatment of the municipal waste than we have yet spent. So, I suppose you look at that and say, "Well, we hit it with a broad scale, blunt instrument." We're busy still a decade later; it's kind of a two-decade problem with a tremendous impact and from many points of view, I think, is poorly managed, both in the legislation and then in the prioritizing of projects.

Edgerly

Has the Reagan administration been easier to deal with on enforcement than previous administrations, or is that an illusion on my part?

Weyerhaeuser

I think that there is certainly a different point of view. When you say, "Has it been easier to deal with?" I think you'd have to go on and look at the particulars. Generally, I don't think so. I think we're a long ways downstream and an awful lot has been done. The standards have been pretty well worked out and from an industrial point of view we've been busy implementing. I don't see any difference in the regional regulatory process as a result of changes of changes of administration or through time. The issues are changing, though, and the concern with toxic waste has risen. This is in the public's view and is being translated into different priorities legislatively and otherwise. Various kinds of activities have gained public attention, like Bhopal, and there is concern about groundwater quality and contamination, toxic problems and waste disposal problems. Certainly the focus legislatively and otherwise has turned from the large scale, shall we call it, quality of life toward health issues because, you know, fishable and swimmable waters didn't necessarily have much to do with health. We are concerned about smog and air pollution in general, but maybe we're more concerned about health hazards now. So, I see the movement going forward kind of in waves as public concerns shift and legislators respond to them. The problems that are out in front are still immense. What do we do with our solid wastes; and I'm not just talking about industry, I'm talking about everybody and it's a municipal waste disposal, hazardous waste disposal, nuclear waste disposal set of issues.

Edgerly

By comparison, Weyerhaeuser's waste disposal problem is very small.

Weyerhaeuser

Well, you know, industry got in way up front in this and was required to clean up its effluents much earlier than public entities waiting for government financing which came slowly, in the water clean up area. We had to go and make the changes that were necessary. So, in a sense, the curve hit industry early and then the interest curve shifted away, and I don't mean the standards were lax, but the concerns shifted and, perhaps, appropriately so. We got 90 percent of the organic demand for oxygen out of the waste stream of industry. Well it's not perfect, you've solved 9/10 of it, maybe, and we're on to the next set of priorities. But, most of these big ones (including municipal wastes) are still out there whether they be broad scale air pollution, acid rain issues, or ground-water contamination issues. The nation, as you look at it, still has needs to grow and develop. There are more people around, there are more jobs, you're generating more waste and we're finding out more and more about the consequences of not treating all of it properly in the past. If you're going to do something different, what is involved? That something different includes imposing significant economic burdens on municipalities, industry, people, user fees, all of which is taking place. Maybe, as that happens with a heck of lot more concern about standards of living, jobs, income, with the whole system under more duress and restraint, we are forced to think somewhat more about priorities. I think this is happening, not just in the administration, out in the state, local areas, etc.. I didn't say there's any less concern, because I don't think there is any less concern, I think there's more. People do get concerned about or scared about contaminants and hazards. There are a lot of buried problems and a lot of those buried problems are undefinable. You can worry about them. The trouble is, getting the facts and developing a plan of attack takes a lot of time and a lot of effort. I don't care whether you're talking about acid rain or whether you're talking about studying various waste sites. There are literally tens and tens of thousands of them and many reasonably stable and, therefore, not urgent or no problem. We don't know how to evaluate all the different conditions and there isn't any way to go in there and write a national standard any more than we had a way of approaching, let's say, pipeline technology on disposals into the water under the clean water act. I think these problems are going to be with us in large degrees and for a long period ahead.

To the extent that we are big processors of material, they will affect us and our industry differentially as time goes on. Fortunately, we're not as some industries, heavily into the use of toxic materials, but we still have an awful lot of waste to dispose of, either in the water or on the ground or in the air and it doesn't just disappear. They talk about more efficient ways of incinerating and doing other things, but it takes energy, it takes capital, it takes transportation. It's awfully easy to go out in the back 40 and dig a hole and that's exactly what we've been doing in this country and being a big disbursed country, we have more capability of doing that than a lot of others. I think we're going to have to find better ways. I think legislatively, reflecting public opinion, the country's been more or less at a balance point. I won't call it an impasse, but I think there's recognition that we can't throw immense amounts of money at everything that comes down the pike environmentally. There have been attempts more or less continuously to refine and amend the base laws to make them more economically sensitive and practical in a sense, but those changes have not been major. I would say there's a balanced political or balanced legislative position where not much has happened, either more stringently or to amend and correct the basic laws. They're just on the books and going along. It looks like super fund might be funded at \$10 billion, again in a difficult economic environment. It isn't as though it's going to go away. \$10 billion is a great big assignment of priority and that may be just the tip of the iceberg in terms of what one might eventually determine the full scope of the problem is. But I think they're going to get at it, selectively and you just wish we had a better means of identification, analysis and planning. We should recognize this as a 50-year problem and take the time to identify and prioritize. I don't have sense that that's going to happen. Lawsuits somewhere will trigger actions. That is a grossly inadequate approach to prevention, let alone solution. There have been diminishing problems for us and our industry and the amount of resources that have had to go into pollution control are now much less as a percentage of total capital being spent. It isn't that the problems are all gone by any matter of means.

Edgerly

We talked some about domestic acquisitions and about the company's energy policies, but one acquisition that I didn't ask you about and should have was that of Combustion Power Company which was a developer of manufactured products that dealt with both energy and I guess environmental protection as well. I must say that I have never been quite sure of what role Combustion Power played in the company's work on these issues. And I wondered if you could enlighten me about Combustion Power and what it actually did lend to the company's work at the time.

Weyerhaeuser

Well, let me see if I can do a little bit. It was a pretty good think tank working on various combustion technologies and doing so, partly under government contracts. I think they had a number of areas that they were working on that we felt were of interest and attractive in themselves as fields where there was going to be a good deal of development and where we wanted to do two things: (1) Be upfront on the technology, perhaps in finding things that could be applied by us in our processes and sold to others, where we had internal applications, a set of possibilities in various of these things, and (2) a desire to recognize that energy and handling of these materials were pretty important areas of technology for us. We felt this was a good small company and we thought we could run it and do development work, get paid under contract to do some of the development work, and then work on some applications that either they might develop improved equipment or sell the technology. We weren't trying to go into the equipment business really. We did, however, wind up going into the equipment business to some degree, to quite a degree. There were, as I recall, three areas that they were working on and we continue to work on and some evolved into other things. One was fluid bed technology. They'd gotten into inburning coal and other solids in an air suspension in contrast to the ways historically most solid fuels have been fired. They tend to have the boiler acting partly as a dryer and partly as a generator of steam, partly as a waste disposal unit. All of this is to save you efficiency, utilizing more of the BTUs that are in the material being burned and extracting out more in the way of steam. Well, fluid bed was kind of a way of introducing a heat sink in the form of incombustible inorganic material being suspended by airlift, by injecting hot air underneath it. It was a bed of sand, more or less, which retained heat, so when you introduced the fuel into it, it didn't depress the temperature so far. It held a more uniform temperature, did a better and more uniform job of drying. You got better combustion, more thorough combustion in the lower parts of the boiler and, therefore, a higher heat recovery. So, let's just talk about it as the efficiency with which one can burn variable fuels which God knows we have. We didn't have to buy that company to get that technology. They were working on that and we were trying to apply it to different kinds of fuels we had to see how they worked. Our objective was to advance our rate of progress toward efficient energy with our fuels. We have all kinds of bark from our log yards, which has sand, dirt, and moisture and non-combustibles, all of which don't make a very good fuel. So to have a better combustor really had potential application and we're still working on some of those things and various spinoffs from that technology.

Now that's one whole area burning low grade. I'm not sure how far they were ahead on these various things but the second thing they'd worked on, on a contract basis for the government and others, was on gas turbines. Gas turbines should burn clean fuel, natural gas, or something without contaminants in it. They're one thing that you can get a lot more efficiency out of with a combined cycle of hot gas going through a turbine and then taking your waste heat out in the form of steam later on as opposed to what we normally do which is burn the fuel and generate the steam and then run the steam through a steam turbine and take the low end of that steam out and use it for process steam. So this is sort of a reverse cycle turbine technology. Now one of the problems is that turbines operate at high temperatures, you've got hot gas going through it and there's a lot of corrosion. So one of the problems is, how do you keep a turbine running when you've got various kinds of materials going through in the hot gas stream. The fluid bed burner combined with a gas turbine offered a potentially efficient system with cleaner gas.

That had various applications and potentials, but we finally decided, I think, that the General Electrics of the world, the big guys, were way ahead in terms of the stake they had and the commitment they had to solving a lot of these problems which would be in turbine design, etc. I think Combustion Power was doing some work for them, testing the fuels or whatever. But, anyway, we thought we were too small a runner and this was not something that appeared to be terribly applicable to what we were going to be doing - the gas turbine part of it. So, that was sort of contract research and could have had a spinoff and something we might have been interested in - small turbine, gas turbine, wood gas, but we never did much with it.

The third area was the removal of particulate material by dry scrubbing. We saw the environmental requirements going up and were very well aware that in the pulp and paper industry electrical precipitators were very expensive to build and also had relatively short lives with corrosion problems. They did a poor job, were hard to maintain, expensive, so the idea was a dry scrubber which used an inert, gravel, granular material through which the hot gas was passed. Then you circulated the granular material outside of the airstream and dropped it or rapped it to remove the accumulated dust particles and collected the material and then recycled it. So that the idea was you had a relatively cheap material and a simple mechanical process. It was lower capital cost, didn't have the maintenance requirement, at least theoretically, that the electrical precipitator did. Now there are other ways of collecting dust: there are bag systems

which are explosive, hard to operate and not all that adequate. They're used with coal dust and a lot of different kinds of materials. As the particulate waste regulations and requirements got tighter and tighter and tighter for all kinds of industries, we saw this dry scrubber technology having potentially wide application. We had a lot of installations around of different types that were going to need improved particulate control, and we subsequently put in quite a few of their scrubbers. We modified their basic scrubber and put a little electrical charge on it. So, instead of just a dry scrubber, we made an electrically charged scrubber. Not these great big, high voltage rods that electrical precipitators require. So, it was low cost, hopefully low maintenance, low installation, efficient means of removing particulate material. I suppose we got four or five of them in and then they went into the business. When we put a couple of them in, other people began to see that they might make some sense. Although ours didn't work perfectly, we sold quite a few in our industry and quite a few outside the industry. So they got eventually over to the business of bidding for and installing scrubbers which became the business they survived on as time went along. That's what they're going to be doing, or that and variations of it, I guess, in the future. So, it turned out to be a small, after the design stages and all, sort of metal bending kind of a operation. We'd contract fabrication. You get into all of the usual problems of contracting equipment, erected and guaranteed. If you run into problems, you've got quite a lot of exposure out there if it isn't properly fabricated and installed and maintained.

We knew we had a lot of materials and a lot of burning problems and potentials. We were generating a lot of particulate waste that needed better control and, obviously, the whole area of technology was going to be getting larger and growing and we thought we could steal a march by having a good little technology company lead us through that. And, I think in retrospect, conceptually this was reasonably sound. You do get into the question of what are the skills that you need to run a little company like this effectively and I don't think we ever solved that problem. It was operating out on its own and I think we did a pretty good job of development and selling the scrubber. But, at some point you ask, "Where is it going?" and it got to a stage of maturity. Somebody who's in the business of contracting and installing things probably ought to be running it rather than somebody who's going to be using one occasionally. So, we decided we better cut and run on it.

Edgerly

It sounds as if it sort of appealed to you.

Weyerhaeuser

It still does. I think there's a lot more to be done yet. The frustration is knowing how to do it and how to manage it. I think we're only half way there, or less, even though we've made tremendous strides in energy efficiency. We've a long, long ways to go to what is theoretical high efficiency. And not entirely theoretical, because there are other parts of the world, Sweden certainly, in our industry that because of higher energy costs, earlier, are way ahead in terms of the applications in both combustion, use, and conservation within the pulp and paper process.

Edgerly

Is any of those scrubbers still operating?

Weyerhaeuser

Yes.

Edgerly

Can you tell me where?

Weyerhaeuser

Well, I think we have one in New Bern, a big one, maybe two, a great big installation back there. We have one at Snoqualmie, one of the early ones. There are three or four others of ours, I think, and there are probably a dozen others outside. Some of the later installations are much bigger and more sophisticated. The City of Los Angeles has a great big one burning sludge, I think. It is very large and not fully operational yet. So the scrubber went from an idea to a full scale, reasonable successful technology. Now the spinoff from that at Weyerhaeuser, we kept right on going. We still have a lot of things that we're going to be doing. Instead of having to gather up and haul off and sanitary land fill a lot of these materials, we will apply the various techniques of fluid bed to handle very low grade materials such as wet mixed bark and dirt - clarifier mud and sledge, etc. - clearly, its day is coming. Having gotten involved in this, having gotten to pilot scale and then gotten an installation or two, we're farther along in terms of solving some of those problems, though we haven't installed a lot of these units all over the company. And, we have put an awful lot more emphasis on combustion

efficiency. We've learned an awful lot more about boiler efficiencies. Now, that's not all CPC. I mean a lot of that activity is going on within the company as well. But, the right hand did know something about what the left was doing in the sense that Merrill Robison and Alec Fisk and these guys were, in terms of engineering and mill applications, cognizant of it. So we took them into account when we did some of the things at the mills and are still doing them. I think in the next ten years, there's going to be a lot more of that. But, I don't think we need the CPC anymore to do it.

Edgerly

As I said, I'm really dealing with miscellaneous questions in that I'm jumping around a bit. I hope that doesn't make this more difficult.

Weyerhaeuser

Well, as long as you ask me something I know something about.

Edgerly

Well, this one I hope you do because it's another area that I'm confused about. I know that there was a dispute between the SEC and the company in 1978 and as a result of that, the company agreed to repurchase some 3.5 million shares of stock and the employee stock purchase plan was changed in some aspect and then resumed. Do you recall any of the circumstances that surrounded that dispute and exactly what the issues were?

Weyerhaeuser

You amaze me. I don't have any recollection of that. You know, I'm sure you're talking about something and I ought to be able to recall.

Edgerly

Well, maybe I haven't made the right connections. If I could give you more information, I'm sure you'd know what it's about. I'll try to do that, to find out something more about it.

Weyerhaeuser

Bob Schuyler probably will be able to make the connection. I can't. I'm a blank.

Edgerly

Well, we'll come back to that when I've got more to go on.

Weyerhaeuser

Yes. Well, let's just set it aside. It's not going to come to me.

Edgerly

Merrill Robison, following what by his own admission, was a very difficult time in his own life, undertook a new project in 1978 which was a productivity study. His recommendations included a lot of policies and actions which, as far as I have been able to research it, appear not to have been applied at the time. They later resurfaced in some of the work that was done relative to Organization Redesign. Was that study sort of put on the shelf at the time and, if so, why? If the ideas he had developed did become more applicable in '82, what was the different set of circumstances?

Weyerhaeuser

I can't do it, Linda. The things that stick in my mind are more of the technology projects.

Tape XVII, Side 2

Weyerhaeuser

I was, we were, very much interested in trying to step forward and get up at the front edge in some of these pulping and bleaching technologies. We were aware that work was going on in different areas of the world and we had ideas about the applicability of various technologies and the most obvious result of that was the attempt to go right to a mill scale installations at Everett called the Everett Technology Project. That is what comes to mind when I think of Merrill and me trying to do some pioneering. Most of that fell on its face for one reason or another. We added to facilities and duplicated them in a sense up there and tried to go to more continuous bleaching sequences and theoretically it could be more energy efficient. We were thinking about, in those days - I still dream about it and I guess it's going to happen - getting oxygen into the bleaching sequences in place of chlorine. One of the consequences could have been and may yet be, I guess, a more benign form of bleaching in the sense that the effluents, without the chlorinated products, are much less difficult to reprocess, to recycle. We used to talk about the closed mill where we wouldn't, in effect, have to be worried about water or at least large

amounts of water we could recycle and be much, much tighter in the sense of giving any load of contaminants to the effluent stream. Now, various kinds of oxygen stages are in place and are here and in Sweden. We haven't made the ultimate breakthrough yet. The other things that were contemplated then were moves toward so called dynamic bleaching where you don't have to stop after each bleaching stage and wash the product and then start over again. It takes a tremendous amount of water and there's contamination and use of machinery, capital, and there have been subsequent, ours and other's installations, more or less continuous bleaching plants, and continuous cooking as well where you're containing within one vessel the heat. There are reaction zones and dilution zones and you're drawing off materials more or less continuously and adding instead of going to batch systems. You didn't even want to get into the subject. But, at any rate, the evolution of some of these mechanization and different process changes which were trying to deal with capital intensity and energy intensity were a great deal of interest to us. We were trying to see if we couldn't get at least up in the forefront of one of these things. And, to some degree we were successful. We certainly weren't leapfrogging the front edge of the industry or anything which I regret because I sort of felt with our scale and technical capability and growth rate that we could, in fact, go faster and we could introduce enough efficiency into the thing from a process point of view, widen our margins, and improve our competitiveness materially. New technologies take time, they take capital, and the traditional processes have been refined so that the new processes aren't necessarily that far ahead of the refined old. Even with a lot of continuous cooking in the industry (it has become the norm in some products) I think it's true today that the improvement in the control mechanisms makes batch systems sufficiently better that they're competitive with the best of the new continuous. So that, contrary to what we thought or what I thought, the great leaps forward in process were not necessarily going to be a breakthrough to the point of major changes in processing in the whole industry. We have been interested from a technical side. We had a pretty good sized technical effort, and we felt we had a big enough base and big enough stake in some of these processes that if we were successful that we could, in effect, apply things broadly to new and old installations and, in fact, take advantage of that technical superiority. I would have to say, frankly, I think it's helped us, but it certainly hasn't put us in a leadership position. We haven't been that good at it. I wouldn't say that has changed my interest any, I'd still like to do it and I think we're still spending quite a lot of time trying to think about and evaluate what competitors are doing and what's being done in the best of the art. Which is to say, we're trying to direct our mills in that direction and our technical effort that way still. There's a lot more to be done. I think,

perhaps, we're a little farther ahead in the combustion area now and that's very important. The whole energy balance thing is a very important part of the basic fiber mill economics. We're certainly not ahead of the leading, of the cutting edge mills in Scandinavia. I think we're ahead, or up to the front end, of in most areas of the world, I think. The Scandinavians are still significantly ahead in application.

Edgerly

Is that because of the pressures of their resource situation?

Weyerhaeuser

They started earlier and they've got a much stronger technical orientation and they do a lot more stuff collectively. The equipment people and the equipment users in some cases are one and the same; they're interrelated so they're in the business of inventing, designing and applying and selling technology which we're not. In this country those are different people. The machinery people are separate and they don't do the same amount of research and application that they're doing in Scandinavia. The industry is much more concentrated and cohesive and the covers these various sectors in both Finland and Sweden. I think they've done an effective job of integrating those various factors.

Edgerly

I could be wrong, but it seems to me that in connection with that productivity study that Merrill did, he did go to Sweden and looked at methods that he felt would improve productivity. One of the places that he looked was Sweden. I know he visited Procter and Gamble. I believe he even sailed around on one of these big ships for awhile, one of these huge tankers that runs with something like seven people and everyone is very productive.

Weyerhaeuser

Yes. I just can't tie it to Merrill. With Procter and Gamble you've triggered something.

Edgerly

It was an opportunity for him, probably, to do something for the company while evaluating where he wanted to go with his own career. Until the 80's, I never saw results of that study in any applicable form and I wondered if you had any recollection of it.

Weyerhaeuser

Not really. That's probably a problem with memory, but I'm much more aware of John Shethar picking up later on in terms of this. He pursued very vigorously and meticulously over time trying to direct us toward a greater awareness of competitive practices and get us back to the grass roots, mill by mill where they were working on a combination of productivity and technology and priorities in each installation. We're still busy at that. We're now in an organizational sense trying to get more of that in the rest of the business by decentralization. We did decentralize albeit after John's death, the mills and Dick Erickson's working hard with them. So, we're reverting a bit to history here. I think, one element of systems, which Procter and Gamble triggers, we have applied at NORPAC, Columbus, and Grayling, a system which places much, much greater emphasis on individual skills, skill development, pay for knowledge rather than seniority and that's being done in all those instances by carefully selecting and training. Training is not just for the job, it's not just what we traditionally have done, trained on a piece of equipment. It's training yourself to a set of skills including those which are not necessarily relevant to your current job. I would characterize Procter and Gamble as being the leader in this country and, I think, all of their's and all our new ones that I mentioned have been done non-union. That wasn't the main objective, but it has been done in the sense that we're going to hire the best people we can, we're going to promise them progression and we're going to work at it in terms of personal qualifications with a much, much stronger emphasis on people and training and work teams. I don't know to what extent Merrill affected this. My memory's blank - whether he started all of that back there... You know normally that's what I think of when I think of productivity in a non-technical sense. I know he was driving on the technical side of things to look at try to apply the new and the best practices we could. But, on the human resource side of it, if there was an element of that it would have been probably the fore runner of what we've been doing after his era of responsibility.

Merrill has always been interested in people, was always an interested observer and more than an observer, open to change and open to new things, but much more effective, perhaps, at the investigation, articulation and conception than we were prepared to carry out. I'm sure that's true, still true. I mean, in other words the difference being when you have to change the habits of an organization and get into application and change on a local level and make a lot of people do things differently, I don't think we ever did that very well. Although, I think we're gaining some momentum in that regard. Merrill always had a fairly broad set of eyeglasses on, kind of interested in different things. Still does, of course.

Edgerly

The way you're talking about him does bring up again the whole issue of the dynamics of a senior management group and how that works. One of my miscellaneous questions, in fact, deals with a specific year, so it might be a good time to talk about it. Certainly Merrill's role, to anyone who looks at the senior management team, was kind of an unusual one. He appeared from an outsider's standpoint to have been a person who both interjected both humor, as well as some push in areas where other people weren't willing to push. I don't know if that's true from your viewpoint or not. But, in looking at senior management here, one of the years of most dramatic change would have been the year in which Harry Morgan retired, John Shethar died and Bill Ruckelshaus went off to Washington D.C. Within a year's time senior management, in essence, changed radically, three members of a relatively small and very intimate group of people are taken out of the equation. What happened here?

Weyerhaeuser

I don't think it happened in that short of time span. I was amazed to... Now wait a minute, I guess you're right. I think it might have. It did.

Edgerly

It did. Yes. Now I know Harry Morgan's retirement was planned for, I realize that.

Weyerhaeuser

Yes. John's death was shocking beyond all. Well, I don't really know, but I don't think he knew that much about his exposure, although he was clearly having a terrible time in terms of smoking and whether that was contributory, it was just terrible. I mean, the only awareness I had was that he wasn't all that well in that dimension. Certainly, John was pulling a major part of the load in his sector and the way we have run this company, contrary to popular opinion, individual personalities have played a large role all the way through in their own sectors particularly. John was somewhat quiet in a way, but nevertheless very much giving the direction to his group. Certainly, Bill had constructed a team of people very broad in dimension, external, and has a wonderful mind and sense of humor and a lot of loyalty. I guess I describe the changes as individually important because all of the loyalties shift and the personal relationships are important in a sense of belonging, a sense of accomplishment. You do relate to one another and people that work together in these sectors, I think, get an important part of their satisfaction, or

lack of it, from those relationships. So when you pull that many relationships out at the top, it puts a lot of people afloat. Even though their responsibilities haven't changed, their relationship certainly has with whoever new is coming in there. You lose a sense of commitment, trust, irrespective of their loyalty to the company. Their working relationships, personal relationships are the way things really get done. So I would say certainly from my vantage point, Harry's departure was not unexpected so we were planning some of those things. But, even if you plan for them, I would still say the same thing that forging of the new sense of direction, sense of affiliation, and guidance systems change and I don't know any way to plan for that. It just does happen when you change leadership and having all of that in a reasonably short time span certainly leaves one in a transition period, I would have to say at the very least. You've got a period of redefinition, of realignment, of redirection, of strength of what you have been doing; some of those things are challenged and new points of priority and emphasis come to bear. You lose some sense of satisfaction, of completion.

There are some pluses. It's not all minus. You get some aeration in the sense that new directions, if you have good people coming in, can develop a sense of renewal or a new set of missions. But, that takes time. It doesn't happen overnight. It doesn't happen by just changing management. Of course, we are going through that all over again. Some people would say there's way too much of that. We seem to do it every three or four years. No matter whether it's new people or not we go through major changes. Whether that's because of external forces or just an inclination to shake up the tree a little bit and see whether there are some things we've been missing... We do get new ideas and pursue them through a new organizations, whether or not it's through retirement and death. The concentration of that I would not want to go through if I didn't have to. A lot of things go loose.

From a personal point of view, to the extent that you rely on those relationships and the informal, easy working relationship and knowledge of what one's thinking about without him saying it and without having to start from ground zero and talk out in detail (I personally am disinclined to do that), it took a lot away from me in the sense that I either have to become concerned with things I haven't been concerned with before or miss a lot. When somebody starts on his own new track, you discern that through time by a lot of different forms of communication. They are not as effective in the forging as they are in the mature stages. That's just the way it is. I think it works; it's not only me down, I'm sure it works the other way, because I've been at those lower levels and know

how I felt then. I think that the momentum you have and the confidence you have is built, to a fair degree, out of those internal relationships. And, if you've done some things right in the past, you build a sense of trust in judgment, even though mistakes are made.

I think back on Merrill. I always liked to kid Merrill and Erk Ingram were two of my good friends for a lot of years. I grew up with Erk and I worked with both of them for a long, long time. We built a monstrous failure (maybe we've talked about this before) of a little plant that sprayed ammonium waste out on the fields to get rid of it instead of burning it. We didn't want to put in a recovery system.

Edgerly

I didn't know about that. Wait a minute. Tell me about that.

Weyerhaeuser

Anyway, we wound up we were either going to get sued to death or...

Edgerly

Where was that?

Weyerhaeuser

Oh, back in Maryland, I think. It was a little medium plant or something. We were making corrugating medium from ammonia base, and it was cheap enough so you didn't have to recover chemicals. We bought and modified it or something. It was an absolute disaster, economically, environmentally. I used to jab those guys. I said, "Did you guys do that?" I was just as much in it as they were, but I always like to hang it on them.

Edgerly

No, I'd never heard about that.

Weyerhaeuser

I can't even name the location any more.

Edgerly

I'll see if I can track it down in the directory. Was that during 1960's?

Weyerhaeuser

Yes. I think we just shut it down. We made a few mistakes along the way, but you do learn from doing and you learn what people can do and you do forge confidence that way. There is no substitute for that that I know of. So, continuity and relationships are important in the leadership.

Edgerly

Since we've started talking about management, though I'm not quite prepared with this, I'm going to throw it out because it fits into the subject of management. One of the things that intrigues me is the choice that you have made relative to separating the solid wood business and the paper and diversified and corporate sides of the business, into parts, with Charley Bingham and Bob Schuyler and Jack Creighton doing sort of a tripartite arrangement. I found myself thinking back to Walter Wriston and what he did at Citibank. In essence he did a very similar thing; he divided the bank up at a time when it was under tremendous pressure. They had loans that had failed; their exposure internationally was a terrible risk for them; they had made some dreadful mistakes on the retail banking side; and again, they had had several failures in a couple of major loan portfolios. In doing this, Wriston threw out a challenge to the three men whom he chose. With the new arrangement, as you see it, are you in essence throwing out a challenge to see which parts of the business can bring change fastest?

Weyerhaeuser

Well, I don't know whether it's parallel or not. I can show you some of the difference between your age and mine. I can remember when we were wondering who was going to run Citibank before Walter was picked. We knew Walter when he was in the international side of Citibank and doing an outstanding job there. I remember more about that than your later example.

Splitting these responsibilities had a lot dimensions. It's not exactly new. They serve entirely different markets. The technological content is entirely different. The unit scale, in the case of the real estate company and the companies and the diversified businesses is greatly different. We have a sense that we need to get a much stronger emphasis against the current and future competition, which is changing, in that the need for getting emphasis closer to customers and individual plant customer relationships is great. If you are shipping products all over the world and you are going with large-scale investments, you've got a lot of engineering content and you are trying to manage mega

projects, there's a lot more to be said for central control and central service and central support. Now, what we are trying to do, of course, is manage the parts more effectively, much closer to the configuration that they are in now and to what the competition is, than we are to trying to build and grow. The conviction that I have, that in order to do that, performance is the key. Before, we had sufficient financial growth and margin and profit so that managing the mixed set of businesses and locations, first of all selecting those areas and then designing, building and managing them was a preoccupation. That would have been true in other eras of the company too, in high growth periods. I think the name of the game was to position yourself and do it well and get those operations up and running. So, the slower rate of growth, the premium on doing more with what you have and less with new capital and vying differentially with technology and marketing skills. I say that is very differential because it seems to require a concentration on those different elements.

Irrespective of the top three guys, we were talking about what should the various parts of the company be doing. I guess that's a way of saying, we've come to the conclusion that desegregation and decentralization and concentration of management teams on these sub parts is what we need to emphasize. Let's forget who's at the top, let's talk about what we will do. We are trying to make the tie between technology and these pulp mills much stronger. Have the pulp and paper mill managers, all the pulp and paper products, in effect be directing their own technical efforts and trying to bring Eric and our technology people and an awareness of what's available to that site, in other words, instead of trying to invent it or do something from a central platform here. So, we'd already decentralized in the sense of having the pulp and paper individual units, each of which is several hundred million dollars, practically all of them are - they would be if you went to build them today anyway. So, that's one set of problems. The smaller businesses, we felt, the independent businesses, had their own marketing. We'd been moving in that direction. Their own manufacturing and marketing tied together and did not interface significantly with either raw material sources or services. They're serving different markets and were not on common plant sites already. So, we think they take on the characteristics if they're best run by a much more of the independent, entrepreneurial kind of basis.

We looked at both the diversified business, which are not all that large in number and are intermediate in size, and said, "Well, maybe they fit that description and maybe the businesses we are running under the mantle of wood products, but do not fit the

integration model (going through a common sales force or to the same customers or sharing raw material, working on byproducts or utilities and services of a common, integrated mill site), in fact, those which could be separable, ought to be." So we went through them and it wasn't all that clean. There were shades of grey in there and we decided, because of somewhat closer proximity in the structurewood to plywood distribution and competition, and particleboard, which has some elements of integration on both sides, both marketing and raw material, that we would leave them under the marketing arm of the Wood Products group. They are kind of an exception. Those are the two that are exceptions. All the hardwood businesses have little or nothing to do with the softwood business, we took them all out _____ and, in effect, said to Jack, "Okay, you are the diversified, small business manager." That's how that logic comes together. Jack understands those kinds of businesses and knows how to run decentralized operations. That's where all his biases lie, so we kind of said, "We do a no-no and we won't change the intermediate supervision but we will put all of those under you." So he does have all of those kinds of businesses now, which encompasses Real Estate, the so-called Diversified and most of the independent wood products, independent as I defined it.

It's a combination of things. You say, "Okay, the pulp and paper businesses are a great big business with a high technical content. We want to run them much more efficiently and effectively and we want to upgrade them. We are stuck in these businesses on a world-wide commodity scale. We're so large and you can't take the mills apart and you can't change them completely. What we've got to do is fine tune those things with the best combination of instrumentation and computer control and new process systems." All of this I would characterize as more than fine tuning, but in the nature of effectiveness, rather than high growth, big capital users. Now, the other dimension that is missing in that is differentiation of product, not process, but of product. That is a job yet to be done and we think that having that headed up by a company, in a sense, separate top leadership, giving some guidance to the product development side of things, has been a missing link. So, we are trying to think about how we develop product specialties or niches off of the production platforms we've got and that's going to be something that's going to be driven by the marketing divisions and Bob Schuyler at the top of that organization coupled with the technical support from the R&D activities. I would say that's a recognized need. The other thing is that while these businesses serve very different customers, therefore their touch with the market is very different, their competitors are very different, there is common process technology. Completely

splintering them doesn't make sense. We really want to splinter them in the sense of relationships with their customers and support them with whatever technology changes and strengths we can bring to bear collectively. Obviously, a paper machine doesn't know what the hell kind of a bleaching system is in use.

Continued on Tape XVIII - Side 1

This is a continuation of the interview recorded on June 28, 1985 with George Weyerhaeuser. This is Tape XVIII - Side 1.

Weyerhaeuser

Most of the leadership that we have from the business divisions has been market-oriented, so we've got kind of a three-part problem: how to manage the changing technology across common systems and into the various groups of products. We want to apply differential emphasis on marketing and finding product changes that permit a better set of margins. All the commodity products we're in, driven largely by the international scene, are at depressed price levels and there's little to differentiate them from others. What we've got to find is the combination of efficiency in the mills and the ability to modify the product in various ways, whether that be further coating or development of different packaging systems so that the marketing type guys are supported by technology and in a group that's high enough up in the organization that that focuses at the full two billion dollar paper company level. How do you build new products in here? That's not something that's easily managed or delegated to either operations or to marketing groups that are dealing in hundreds of thousands of tons. You really have to work at that. We think we've got a set of problems that deserves separate attention. They're essentially different than anything else that the company's doing. So, it's a big enough company.

You know we were talking about wood products with the Wood Products Group yesterday. They're split into four geographical divisions. The thing that struck me about that is that they talk about how they look at their challenges in each one of those divisions. The thing that strikes you is that not that they're the same, but that they're different within those four, let alone in contrast to pulp and paper or real estate. So, I guess what I'm describing is a sense of diversity and a sense of truly different opportunities and certainly different perceptions for opportunity in the various sectors. To get at them, I think we felt that we needed to get more singular attention on them and less apex. Now the fact that we've cut a hell of lot of guys out of the apex, I'm not saying that has nothing to do with it. But I do think that of these three guys as giving particular direction to different problems, at the same time having exposure to the total corporation in the sense that we are going to be trying to guide some of these things in term of resource allocation, whether that be human organizational aspects or whether it be the technical aspects, or the financial. Overall they'll be getting general management and large corporate experience at the same time. So, I'm taking the best senior guys and

giving them both breadth and a particular assignment. Underneath them will be fully structured. If you look at how we run the Real Estate Company, there is no question about who is running it. But, if you ask, "How did you run it?" he would say, "These guys don't work for a boss, they never have." Which is true. I mean the guys that run not the whole Real Estate Company but some elements, they work as associates and that's the way they've built it. The same thing is true in Diversified Businesses. There's little corporate senior management or bureaucracy sitting on top of those guys. They're running their own businesses. Sure, we provide them capital and we permit them to utilize capital or not, I mean, it isn't an absolute. They don't go to capital markets, although the Real Estate Company does. It floats its own commercial paper, but it does it with a hell of lot of counsel and direction from corporate financial and legal. That's more in the nature of a holding company, which is what we're conceptually saying we're trying to do with these big sectors. My point is, I guess, underneath the big sectors there's an awful lot of differentiation in how they're going to be organized and to what degree they, in turn, ought to be centralized. There's a big variable: the greatest degree of decentralization being in the smaller businesses and the least in the Timber and Wood Products. And, yet as between the Timber and Wood Products divisions, geographical divisions, the Washington Division, for instance, will be very heavily export-oriented and log-oriented. The Canadian Division is just the reverse. There there is no resource base of ours and what we're doing there is trying to add value to what we have in the way of access to public timber. The whole thrust is efficiency and effectiveness in getting to domestic markets with low cost and reasonable margin on quality wood products, lumber and chips. Canada and Washington are quite different. Big asset values are sitting on 1,700,000 acres in Washington and we described their mission as the long-term management of the timber resource and the enhancement of its value. You can translate that through providing the best conversion alternatives that you can for it, either by third parties or ourselves. But that's a very different statement than what we think we're trying to do in Canada. In Oregon we think we can compete down there in the local markets for raw materials, buy, sell and trade and run a bunch of mills. Maybe we won't be able to, I don't know, but at least they're trying to do something quite differently, at least in terms of the priority.

So, Don's (Don Rush) has all the export stuff attached him, even though he's running a Washington operation. That's kind of a reflection of the difference in industries in the two states, of course. And, I think the degree of independence the geographical units in wood products have is substantially different than any other businesses. (That is) Partly

because they're going through largely a common sales organization, both direct and distribution center, and partly because they're sharing, well, they're working off of a great big corporate asset called the timber resource. That's not yet pertinent with respect to the pulp and paper business, but it may be some day. I can see the day way out there in the future where you're growing little tiny trees and in some geographies the whole flow will be going through to paper products. The values today are such in Washington that they're way over on the side of the timber and our job there is to make damn sure we get the values out of them, one way or another. This is to say, buy and sell timber or buy and sell land, or buy and sell logs. We don't think we're very competitive with labor costs and productivity in mills, so we may shrink it and grow some of the others.

Now, if you started out and said that your mission is X or Y and tried to apply that, as we have, sometimes uniformly across the product line, let's say lumber, you come up doing different things. We'd like to steer them off in a new direction. We'll see. I'm certain of this, we'll either be making very different contributions at some of those or they won't be running very long. We're not going to have anything to subsidize anything else if we can possibly help it. That's contrary to what we have in mind.

Well, you asked the question more in the vein of succession and leadership when you contrast it with Citibank and certainly, after I get through describing what we're trying to do in these sectors that are assigned to these three guys, there are certainly other dimensions. Let's talk about how the company is organized. We're going to try very hard to make these businesses make effective use of professional staff and staff services. We've been moving towards having various parts of the business pay for or charge out through accounting, budgeting and profit and loss over the last couple of years. We're moving another big step in that direction. To these companies we are saying, "You are going to be free to use what services you need and not use those that you don't need. You'll either have to provide them for yourself or you'll have to pay the full load if you're going to use corporate support. So, we're going to downsize the corporate staff in a major way, dependent on what they come up with in definition of their needs and we're going to define, as best we can, four or five needs at the top, what we consider to be necessary from a corporate point of view. So, we'll have a corporate staff of much smaller dimensions and then some element of supporting services going either directly to the various sub-parts of the business (directly meaning that they go to work for them) or, in some cases, we'll have shared services (take the computer or the Law Department). It

doesn't make sense to fractionate it. We will try to try to scale it to the service requirement plus what we think this corporation needs and maybe continue to provide it from a central point. But, with the responsibility for the use of the service, the payment for it, and the maintenance of it really determined by the needs of the businesses. And, of course, these guys are going to be engaged with me in directing that and how we go about that. They are getting an overview of what the corporation is, needs, and does. To that extent, I hope to get three guys that are more generalists. The leadership they can provide will certainly give some reading on their general management and leadership skills. So, and all that certainly will play a role in who's going to run the company next, but that's not the primary objective. I'll ask Walter why he did it. See if he gives me an answer like that.

Edgerly

I don't know, I'm sure the financial press liked the poker game quality of it. Unfortunately, we've reached 4:45 and regrettably, and I think this is a mistake on my part, I have a dinner engagement with some friends. So, I'm sorry I must go today.

Weyerhaeuser

I've got a son coming in who's getting married this summer. I've got to go over to the airport and pick him up in a while.

Edgerly

So you have things you need to do, too.

(This is the end of the interview recorded on Friday, June 28, 1985. The interview continued on Monday, July 1, 1985.)

Edgerly

I did a little investigating on the 1978 SEC dispute to see what else I could find out. As it turned out, the dispute, in essence, concerned the SEC's request that the company include and separate out in some particular way information in the 10K.

Weyerhaeuser

All right. Now is this on business segments?

Edgerly

Yes. It was in 1978 that the SEC finally hassled the company to the extent that they made these demands. The company was reticent to comply with them. As a result, the employees' stock purchase plan was suspended because the SEC would not permit the sale of the stock to employees without what they considered to be adequate information in the Form 10K. Apparently, the company finally complied.

Weyerhaeuser

No. I think we negotiated -- I don't know whether "negotiate" is the right word -- I think we did segment the report, but we combined the land and timber and wood products in one business segment, thereby avoiding the issue of trying to set market prices on logs as a separate interbusiness transfer. So, our land and timber, including all the harvesting and converting to wood products and exports all show as one business segment. Other companies have handled those differently. Most of the large paper companies that had the land and timber, I think, combined the land and timber with their paper business. Therefore, they have a different segment than we do and I think the SEC originally was trying to force on us their definitions of a segment. I can't remember whether land and timber and logging operations were a separate segment. They must have been. In any event, we wound up with something which was manageable, namely, setting the pulp and paper operations out as a separate segment and combined timberlands and wood products transfer prices on everything (logs, timber, etc.) thereby eliminating the need to get into... other than chip prices, which are pretty much definable and market driven. So, we got a clean segment we felt.

Edgerly

What was their reason?

Weyerhaeuser

They want to see all businesses out there on segments so that investors, in effect, can take each business and say, here's this business in Company A and this business in Company B - so we can look at the various segments of the business across industry. Our argument is that you can't do that. You have to introduce arbitrary rules for interbusiness transfers which are, essentially in the lumber business, tied. Timber is inseverable. You get into having to make arbitrary allocations of raw materials and overhead and a lot of things that we don't do internally. And if we were to do it, we'd have to write our own rules, therefore, you would be misleading anybody, if you thought

that looking at IP and looking at Weyerhaeuser, you would see the same thing even the titles were identical. So, we said it would not only not be informative, but would be misleading. They couldn't write the rules and neither could we. That may not be true when you're in a retail drug business or something else when you're buying materials and selling your product and without all integration issues. We have integration issues up to here. Shared costs at every major site. Shared costs on the raw material side. Shared costs at the overhead level. It sounds fine theoretically until you start looking behind it. First of all, it's an awful lot of work and recordkeeping if you have to change the whole thing. And, second, if you're looking for comparability, you can't get it unless you write rules. Those would have to be arbitrary and not necessarily then reflect comparability between businesses.

The thing I've forgotten and still can't recall exactly is that pending that we had to stop the stock plan because we were, in effect, offering stock to our employees.

Edgerly

Yes. That's right. Until there was a settlement I guess.

Weyerhaeuser

Yes. I had forgotten that. That was just a temporary suspension.

Edgerly

It was a matter of a couple of months' time.

Weyerhaeuser

What got you started on that? I forgot what brought the subject up.

Edgerly

It was something I had seen in an annual report and I didn't understand why that had happened.

There's some admittedly confidential correspondence in your files for the years 1979-1980 which are closed to research in which there are your notes on exit interviews with Merrill Robison and Ted VanDyke. One of the things that you had written down in each case was their comment that the environment at Weyerhaeuser did not provide for risk taking, that there was a lack of reward for risk taking. Did you feel when you wrote that down that they were correct in their opinions?

Weyerhaeuser

Well, I think as a generality and a matter of degree, yes. I am not sure that I would agree, particularly with Ted's views, on what might constitute good balance in that arena. But I think certainly then and now one of the things you worry about are the pressures and forces in a large organization towards safety and conformity. The forces all work against people who want to do things differently and I think that results in a lack of innovation because the rewards are not all that great and the forces aligned against change are pretty strong. There are usually penalties associated with trying to rock the boat too far in one direction or another. I think the successes that we have had in the smaller businesses that have been pretty decentralized, to some significant degree, arise out of the fact that they're not caught up in the central culture and a lot of problems that we deal with in Corporate Headquarters. We tend to, I think understandably, view things on a broader, more uniform basis so corporate actions and policies and procedures tend to form a web around behavior, which is maybe necessary, but certainly not conducive to a high rate of innovation or change. You have to say, you know, that's a matter of degree. It's a matter of balance and weight in the scale. I think Merrill and I did not disagree in the sense that we wanted to do things differently in certain ways. He more than I. A good many of the things that we tried to do, with the benefit of hindsight, as many new things do, failed and not simply because of the corporate culture. I mean, they just don't prove to be sound in a technical or cost sense. But, would you conclude from that that you shouldn't try new things so that we shouldn't have a higher degree of technical innovation, for instance, or new product innovation? Quite the contrary, we still have the problem. So, I would say it then, and say it now. It's one thing to recognize it and another to know how to do very much about it.

On the flip side of risk-taking, of course, is the ability to carry forward when you have something - a kernel of an idea, or a new business or whatever, a product - to give it the full time and attention it needs to get it through its baby stages. That is hard to do in a big organization. There's much more stigma attached to failure in a big, conservative organization. The penalties aren't as great as when starting your own business. Obviously, if you fail there, you fail, but in a big business you get off into a by-line and it doesn't work, and people will avoid it like the plague and you kind of get bogged down and trapped in that environment. Maybe you don't lose the business and maybe you don't lose your job, but it certainly carries with it major negative consequences. The reward side of things, we are not all that good at. In a smaller environment, or small business, I

think, the rewards are both personal and monetary. When somebody does something very, very well he doesn't get personally rewarded in the same degree that he would if he were in an organization that sort of celebrated in every sense the differentiation and successful innovation. So, it's a problem. It's a problem that comes along with the big long-term-oriented organization where affiliation and security are at a much higher level than in a lot of companies. In a lot of companies, one of the consequences is that the rewards for aberrant behavior, even with a company with success, are not nearly as strong as they should be.

So, we do not tolerate very well either change or different styles. I say with Ted it was a style matter to quite a degree. Bill (Ruckelshaus) recognized it when he brought him here. Ted was a wild man on many subjects, but very, very good at certain things, too. So, you had a lot of talent, a lot of ideas come crashing in. He is anything but a conformist. The organization found ways and means of slowing him down, but I don't think it was as rewarding to him and I don't think he was nearly as effective as he could have been. So, this is different. I think the criticism, to go to the generality, I guess, in this case, you could say, doesn't necessarily fit the character of risk-taking as much as coming at things from an entirely different point of view and being frustrated when he couldn't get a lot of acceptance or get a lot of change here. But if you have the kind of a culture we do, you tend also to both attract and retain people that are more comfortable in that setting. I mean, it's a self-perpetuating kind of a thing. So, we don't have a lot of people with very high degrees of artistic and writing skills.

Let's go back to 15 or 20 years ago, you know, we were emphasizing improvement in planning and analysis and to some degree engineering. So, you become an organization which is cool, calm, analytical and logical and, even though I draw a contrast with Ted, I think those would probably all be valid. I don't think it is a matter of all one or all the other or right or wrong, but it certainly does produce different kinds of results and encourages different kinds of people. Encourages or discourages. If I were to try and change it, what I'd like to do is try to find a way to have somewhat higher proportion of inventors and innovators working in certain sectors, but that's much easier to say than to do. I think in certain areas you need that, certainly, the ability to come from an idea to a new product or a new business. In that arena we could use a lot more motivated people and move the organization faster. But, it's hard to find a guidance system within which to make that happen and to insulate it in a sense from the mainstream of our businesses. I think the relatively low degree of spawning of new businesses and of new

products is partly the function of lack of commitment to change and in tolerance for risk-taking that we have built up.

Edgerly

Has that frustrated you?

Weyerhaeuser

Well, it has in the sense that I've seen the need for a fairly long period of time to make some of those things grow faster and get them implemented faster. It certainly continues to frustrate me that we have a few people, too few people, and quite a number of ideas in areas that have high potential, but nothing comes out the end of the tube. I think we're going to do something different about that, particularly, concentrated on the technical side of the Fiber Businesses. We're awfully internally oriented and insular. We've been changing it slowly, though, and Merrill had quite a good deal to do with it and John Shethar and others. Now Dick Erickson's the new one at it. For that matter, some of the companies are differentiating themselves by a commitment to both process and product. There are some significant process changes going on. We were talking earlier about the technology project and that was an attempt to get a broader view, of what was going on in Australia and Scandinavia and so on. It was a big disappointment that we couldn't come out with enough solid ideas to implement. We didn't get the mills involved or get the company more in the mainstream. We had ideas. We didn't get beyond, with some of them, pilot plant stage. If we had been more successful at carrying them on through, I think we would have generated a climate where more people were thinking about change and we would be farther ahead in terms of implementing process changes. Some have been smashingly successful, like extended nip presses, and we were out front. We put the development money up with Beloit and worked with Beloit. It was a very big step forward in energy efficiency, productivity. We've applied it in four or five, whatever places it made sense. We had a Beloit blocked out from selling them, as long as we purchased them, selling them to the industry. We finally waived that after we had a number in. But that's the kind of thing that could have been multiplied 10 or 20 times in different areas, if we'd been as up front in other ways. You can't lead everything, you know. There's a strategy that says you're a fast follower, much cheaper and let the first guys take the hit and risks on misengineering and misapplication and buy in later on the technology. That's not necessarily poor strategy. I'd rather do the other or some of each. I'd rather be up front some. But, realistically, we've been a hell of a lot better at being in second or third or fourth position on those than we have at inventing them. I

would like it to be different, but that's a long ways away from saying I think we ought to be forcing ourselves to get up front. I think it can be expensive and the cost-benefit relationship may be way out of whack with the kinds of people and the kind of company of we are. So, I think that's something I've learned along the way. My grey hair shows you don't always find things the way they ought to be.

Edgerly

You don't think they would have fit your grey hair anyway? (Laughter)

Weyerhaeuser

Probably would have, but I'm saying that concurrent with the grey hair came some of those realizations. I think everybody would like to be a leader and then coupled with that, of course, is sort of a feeling I have that we have built a very big system, enterprise, and that we're up in the top two or three in most of our product segments in size. Then if you look at that, there are certain penalties associated with size, they're not all benefits. I would have said, "No, I think scale is terribly important." But, I think that to whatever degree scale was the driver in years past, the conditions have changed and there are additional penalties associated with size. I have a different view today. I'd rather find us at medium scale and be able to move faster and work on optimal lines of transportation and maybe at an optimal rate somewhat below the front in terms of technical innovation, etc. There are a number of areas that are not any longer offset by the fact that you can buy something 40 percent cheaper on a per unit basis because it's 100 percent bigger. We drove beyond the limits of our capabilities and perhaps, in some cases, the industry's scale. And, we wound up with great big businesses that have to reach very long distances for their market and very big mills.

SIDE 2

They have to reach farther for their markets and that means they have to pay additional transportation costs. They're bigger and they have to draw their raw material from longer distances so they're paying more for their material transportation and being the scale they are they have to kind of take on all comers in terms of customers so that they have the ability with a very, very broad customer base to move the volumes that you're dealing with and I think you could afford to be more selective if you're not quite so big in a marketing sense. Then what happened was you lost a fair amount of the advantages of upscale. The curve used to like this, and now, you know, it may even go somewhat down

in terms of just the capital cost per unit of capacity. That's a function of a mature industry, or of maturing technologies in one sense. So, along with a lot of other things in our society, bigness is not necessarily the best route to go. And, once you've built a big system, then everybody is geared to the structure you've set up and they're harder to change and move because anything you do at the margin is small relatively and a nuisance. Whereas if you come from a smaller entity, you're used to coupling with customers and suppliers and you're growing off of that kind of a base. You've got people that are used to working in close couple and can build on that somewhat differently than these great big interrelated things. The same thing's true of integrated mill sites. I think there's a scale problem there. This is probably heresy, you know, since this is my father and me and everybody else. Seeing the advantages of integrated support systems around multiple units, you come to realize that our biggest problems are centered in our bigger, older facilities. Well, maybe older's part of it, but bigger's part of it, too. Whether that's a function of the impersonality of it, I don't know. Maybe too many people crowded into too much of a mill site sharing too many things not under their control and then maybe you go to the lowest common denominator in terms of the bad habits of parts of the organization or people. You find it difficult to separate out in terms of the way you run things differently, small businesses from large, if they're all on one mill site. So, I think if we were to do it over we would look at it differently and very carefully. We don't automatically jam a structure-wood plant onto the Plymouth Mill site with different unions drawing on the same raw material from a longer distance. Now on particleboard, we have had a long debate; we are going to go ahead and put a particleboard plant alongside of the medium density plant in Moncure. We thought about procurements and we're going to set that up separately. I don't know whether we're right or not. There's some real advantages on paper to shared facilities. Same thing as back in the 'forties. I mean, you can find good reason. Sometimes the qualitative differences you don't see. They're down scale. But, the little plants that we have set up on their own merit, trained people for, have generally been successful and I think that's the way we will probably go. You know, Procter and Gamble, I guess, tries never to put more than 300 people on one plant site or whatever. There are arguments, good ones, for that.

Edgerly

Just like the Hutterites, they sent out a new colony once they got to 100 or something like that.

Weyerhaeuser

Yes. Well, there's the management theory about that and I think it's valid, you know. But, it's certainly in direct contrast to what we've been doing for years and years. It certainly seemed attractive to be able to feed all of the waste streams into a power house and to be able to interrelate the materials flowing from our log center in different directions. I'm not saying it wasn't right, I'm just saying, there's some other factors working there that we're more aware of that mitigate those economic benefits and lead us to different conclusions. I haven't changed my mind completely, but I think it's open a little wider.

Edgerly

Yes. Some analysts and people inside the company are expressing feelings that in the long and short-term for that matter, the answer for Weyerhaeuser is diversification on a much broader scale probably than anything that the company has considered in the past. This would take it away from the more traditional areas of forests, land management, use. Do you agree with that? If not, why not. Or, if you do, what kinds of businesses would you anticipate the company might successfully pursue? Or, which ones would be most attractive to you?

Weyerhaeuser

Oh, a host of of things come to mind, but the way you phrase it, away from the forest or traditional businesses or away from integration, my first reaction to that is, I don't agree. I don't think it's necessarily advisable and it certainly is not required to find growth when we're enjoying market positions of 3-4-5 percent and not to exceed 10 and, well, 15 maybe in diapers. Even though we're in many relatively mature industry segments in the industry, you do not have to have the vigorous industry growth rate in order to grow either vigorously or certainly within the constraints that we have in capital or any other dimension. You could grow at a 15 percent to 20 percent growth rate for a long time and not hit constraints in our main segments, if you're smart enough. This is to say, we're not a General Motors, IBM isn't a good choice but they don't seem to let market share bother them any.

Edgerly

Yes.

Weyerhaeuser

So, I think that the relative attractiveness of growing in our segments will depend on our ability to find different ways of presenting our forest materials in new forms. I don't mean that we necessarily have to invent new forms, but to the extent that they are invented and that we get up in front, whether it be in structural or non-structural form, communications materials, packaging. I think that there's plenty of room. None of them is growing at high rates. Most are growing some and most on big bases so that there's increased consumption going on. And, a lot of that consumption increase is going on outside the U.S. so certainly one consideration is whether this country is going to get its fiscal and monetary affairs in order to permit access to foreign markets. I don't know the answer to that question. I would have said any time up until the last couple of years that I would bet pretty heavily on our industry and even more so on our geography in that industry being situated so that we could, in a practical matter, be competitive in part of the growing markets, certainly including Asia, which we see as a continuing high growth area of the world. It is becoming the high growth area, the aggregate, much more so than Europe or Africa or Latin America or the U.S. So, I think the key, in a sense, to which way we ought to go is going to be segment by segment, whether we're smart enough to be reasonably well up in the pack in terms of being able to engineer and produce the new products. If we can't, we're just talking about commodities and staying even. If the country, in a sense that it is now doing, forces itself increasingly to deal within its own borders, I think that says something very different about what happens in the West and whether we have to move further to the South and East. I would see a differential growth rate for us within the forest products businesses and for that matter, some of our other businesses nearer the population centers. This big Western base is the one that has the largest set of questions around it from a proximity to market view (meaning economic proximity), which is radically affected by how we conduct our capital markets and exchange rates. If you were just going to freeze them in the present position and say they stay where they are forever, which they won't, or, if they were to move disadvantageously, the dollar gets stronger over a long period of time, the Northwest, I think, will shrink down to serving as a regional supplier to the Western States (which don't go very far East). You become a California and West Coast supplier. That would mean that we probably would not have a very high growth rate, even though the timber growth rate is not bad, I think that the ability to compete in these markets against a lot of small operators and Canadian competition will restrict to what degree we convert and refine the products we're making out of the timber harvest. So, I would say, you could see a reasonably stable, at the best, moderate, rate of growth

in that part of our business and much stronger emphasis on a geographical dispersion. I would think that to the extent that we get into businesses, whether it be the nursery business, diapers, or anything else that serves the U.S. market nationally, they'll follow the pattern that we've been following which is 75-80 percent will be disbursed central to eastern U.S. Now, that's not to say that we're not experiencing growth in the South, but a lot of that growth will be served out of non-northwestern locations.

Diversification always looks, sounds and smells good until you get 5-6-7 years down behind some acquisitions and begin to understand the problems that they face and the warts that they bring to the party. I've never thought that acquiring your way into things per se is preferential to internal growth. I think that where there's a certain amount of real synergy, not just theoretical, where you can build something in addition to what you have by some degree of good reason, that's the route we'll be continuing to look at. But, I don't think that necessarily means taking us into other commodity forest products that we're not in simply to get bigger or to broaden the pipeline. I think we'll be trying to upgrade both the paper and the wood products technically which will take us into specialty smaller, higher growth product areas. I've looked at that over a 10 or 15 year period. I think we'll make a whole range of products that are not now being made. I think we'll learn how to do a lot of things about laying down different kinds of fibers differently. And, some of that technology is going to come out of Germany and Sweden and other areas and I don't think we necessarily are going to invent a lot of it. But, I can see all kinds of mixtures of these materials with other materials as is happening in the composites where, you know, somebody says, "You're going to make airplanes out of the mixture of graphite and fiberglass and organic chemicals binding and make it strong, resilient, resistant, lightweight." It's obvious there's a revolution going on there and I don't see any reason in the world why our fibers are not, in due course, going to get introduced into different product form. Maybe, if some of those areas were to take off on the growth curves, we would buy companies or try to accelerate our rate of growth into those rather than build one from scratch. That's sort of what we're looking at in a couple of areas. You could find other areas that are of interest, specialty chemicals, that stay in the industrial marketing. I don't think we're going to be industrial intermediates. I don't think we've got a lot of skills in this outfit in terms of consumer marketing even though a lot of the consumer products are showing better stability or higher rates of growth than ours. We'd have to have a different kind of organization of people, and I don't really see that being our cup of tea. You could change that, but you'd have to change it through acquisition and I don't think you're going to convert a lot of the

people that are from the kind of businesses we're into those kinds of activities. We're certainly, I think, going to be growing in the financial services area which is a tremendous big field, but let's say spinning off from the combination of mortgage banking and insurance, real estate marketing, and the securities associated with those. I think that it's a gigantic field and is one to which we bring some experience and skills. It's one that generally doesn't require vast amounts of capital. Everybody is in it, it isn't as though it's going to be non-competitive in any sense of the word, but I think that there's a mixture of things there that we could grow into and will.

Now, you always like to think that coming out of the labs we're going to find a lot of miracle materials, but wood is such complicated chemistry, it's not the easiest material in the world to understand and modify, that the route is much more likely to be dealing with upgrading of the physical and chemical properties that are inherent in some pretty gross mixtures of these things, as opposed to highly specialized. It will be in the marriage of our materials with others that most of the progress is going to come. When you look at the specialty side of it, it might be a plant here or a plant there that might make some very high value products, extracted, but it's hard for me to see those avenues becoming primary large building blocks.

Edgerly

How do you react to the idea of the company selling its expertise in such things as information processing, personnel training programs, corporate conferencing, those sorts of areas?

Weyerhaeuser

I think it's probably a plus to get your professional and technical people interfacing with the outside world as opposed to totally internally oriented. So, I think first of all as a good, solid way of making sure you're staying up to speed and you're linking to people who don't have to buy your product is a good way of keeping you vital and up-to-date. I think it's a good idea, but, I've looked at enough companies doing this that I think it gives them scale, it gives them movement and they build their capabilities that way so they've got first rate service themselves. Those things have generally been, where they're well done, really positive moves for the company. But my impression is that it is a very great exception that those become major profit contributors per se. In other words, I don't look at it as a way out of our earnings problem or into broad scale diversification. I look at Boeing over here in the computer business, and I think they've done a darn good job,

but it's a gigantic operation. Ten or 15 years downstream they've sold their services all over the country. From what I know of it, it's done a lot in the vitality area and darn little in the income producing area. I shouldn't judge just by that, but I'd say that looking at companies trying to do these kinds of things, large companies carry with them certain drawbacks in the capabilities. If you're in a service business, again, I think it's probably a truism that those businesses that succeed there are pretty closely coupled with their customers. They move fast and they provide for needs efficiently and the big companies are better off when they come to something that a big company needs, which is efficiency and effectiveness at scale and somebody who can design and implement big systems. If somebody's got that big of need, often they'll do it for themselves eventually or whatever. I'm not describing the IBM's of the world, but I am describing the big industrial companies, I think, and the difficulty of doing a good job of service on a small scale to multiple customers. It isn't accidental that Boeing is pretty good at managing gigantic systems. They have to manage their own and the people they have, the skills they have tend to read more closely on the top hundred companies or 50 than they do on the tens of thousands of small ones.

Edgerly

I keep hearing people talk about a mythological company that will represent the so-called "soft fit" with Weyerhaeuser. It's almost like the mythological, mellow woman that people talk about. (Laughter) I can't help but question or wonder what people are thinking of, what they have in mind when they talk about that company, that other business, that's the so-called "soft fit". What do you think of when you think of that?

Weyerhaeuser

First of all, I think different people think different things. I'm sure you'd get a very different answer.

Edgerly

I thought maybe these other things might provide opportunity for young Turks who don't have enough to do. They give them chances to get out of the hot house environment of Corporate Headquarters perhaps. But, by your own admission, they're not intended to change the profit situation.

Weyerhaeuser

That's my sense now, not everybody's. But, of course, you have to allow time for change. Nothing changes much in the time horizon that we're working on, normally. Take a three-year, four-year, five-year set of plans. You look at, let's say, 6 billion dollars of sales and assets all embedded. Go ahead and extend that by three years just in a mathematical sense. Let's say, for instance, you added a billion dollars in three years. Well, if everything came on line instantaneously or if you acquired, you've only made a 16 percent change. And, that's assuming that everything went in the new direction, not any increment in the old, which is not the case. You almost always continue to feed the businesses you're in with a certain amount of training, people, capital, product addition, even at a slow rate of growth.

So, I'm saying that it's like trying to turn a battleship. If somebody falls overboard, you better launch a life boat, which is to say the small ones are going to do their own thing and the big guy isn't going to change momentum very far. So, then I get out into a ten-year time frame, or fifteen. In order to make the move, I've obviously got to change the course heading. And, you can say, "Well, okay, what about over time?" The reverse cycle than that I've been describing is if you did nothing in the existing businesses and you turned the entire commodity businesses into cash generators instead of cash consumers. The only business we have that fits that description is timber that is not a cash consumer. Let's say that they're only very limited. If we turned off the investment going into pulp and paper, composite panel and said, "Okay, now we're truly going to change the course heading." You then begin to disinvest in the present businesses, invest in the new, and you can write a scenario there that in 10 to 12 years, you've got an entirely different company. That's not my vision of we're going to be. I think we're going to be changing. If you were to describe the new businesses only, you will be changing direction there and the rate of new business development will be such that over ten to fifteen years you'll change dramatically the mix, but you'll still have the very large portion of the base businesses which, after all, is dictated by your planting the tree. Unless they change the tax laws the way they're proposing to, you have cast the die. If you don't dispose of the land underneath it for 25 to 40 years, you build a pulp mill, a paper mill. Again, if you don't dispose of the underlying business, you imbed 20 years of cash recovery, that investment stays in there, maybe you can get it back in seven or eight, but it's still there with a usable life, another 10 - 15 years. So every time you do that, you are doing something about the year 2000, which is the nature of our business.

Edgerly

So, in other words, what you're saying is, there is no such thing as the "soft fit"?

Weyerhaeuser

We can and will buy some pretty good size businesses which will change that equation. Obviously, to the degree that you use stock, you aren't constrained to change the cash flows within the existing businesses. In other words, you can do just what I'm talking about, and, as we did in the real estate business, you can launch some pretty good size diversions. And, in the aggregate, they can, in a ten-year period, in themselves become substantial in size and change the mix. But, it's bracketed between those two statements, I think, as I see it. So, yes, if you look at it from a 1995 point of view, you stick to a ten-year time frame, you and I would, I know I would, be surprised at the degree of difference and change. That will be affected by how successful you are in what you buy and launch in the way of expansion off of your base.

I can see three or four areas that, you know, fit that description. Take something like, which we shouldn't but I will, Thousand Trails and it sounds like it's compatible in the sense of land, but that's about where the comparisons stop. Things it takes to be successful in a business, the financial characteristics, the actual people that you have to have, the way you market, all were about as different as night and day. I would not characterize that business, if I understand what "soft fit" means, as soft at all. But, we got pretty close to getting serious about that primarily because we thought we could do something for them and because we thought they were absolutely leaders and if we were going to go in that business we thought we were going with a Cadillac and we're prepared to take on that management assignment because they had such a good track record and we thought we could reinforce it. Now you get a high rate of growth, a high rate of return if you're successful. But, if you looked at it and said, "Okay, what do we with that business in 1995?" You'd have a growth spurt, you'd have major amounts of assets generating and certainly taking capital, too. Those things usually go together. Then if you turned around and looked at yourself five, six, or seven years later, you'd have a pretty mature business, drawing off cash. It would no longer be the shining star in the heavens. But, it could produce a lot of earnings and make a lot of sense, if well managed. It's not at all obvious to me how you anticipate perfect marriage and the good fit and maintenance of the culture in the business to be acquired which is important if it's a successful, leading business. I don't know how to sit down and write out a

prescription that would say, "Here are the characteristics that we would describe that would be sufficient to define one, two, or three different sectors that we could or ought to be in. So, now there are a lot of people around here who would like to have that definition. They'd like to have it about our business, too.

Edgerly

They're waiting for you.

INTERVIEW CONTINUES ON TAPE XIX, SIDE 1.

This is a continuation of the interview with George Weyerhaeuser recorded on Monday, July 1, 1985 - Tape XIX Side 1.

Weyerhaeuser

That is not to say that there aren't people around here that would have an answer if they were allowed to pursue it.

Edgerly

You mentioned that there were three or four areas that you think might be good possible matches, and I'm not referring here to specific companies so much as areas of interest. What would they be if you were to name three or four?

Weyerhaeuser

The way I tend to think about it is where we have a certain amount of either technical parallel or fit or they would be in a field that is somewhat similar in business characteristics so that we would have a core of people that after acquisition can work with the new business. Following that kind of logic, some chemicals businesses could, from a technical point of view and a marketing point of view, because of industrial selling, industrial distribution on the marketing side and a core technical capability on the chemistry side, give us two cuts, other than financial. Any business that we acquire, we are going to understand a hell of a lot going in about the financial characteristics and we are going to continue to stay closely coupled as we have with the real estate or others on the financial management. Moving over into wood products area, as I said, toward mixtures of our products which could lead you to various kinds of composite materials other than wood or in combination with wood. There are companies in this field in the formulation and fabrication, again, generally industrial marketing.

Edgerly

So those companies are out there, that's not something brand new.

Weyerhaeuser

It is an evolving field. Yes, there are companies in various segments. Those could be either chemical or structural or nonstructural and one of the key things is whether we think there is a prospect, not only of going with that business, but of the amalgamation of that business, drawing on our materials and our technology where it might reinforce what they are doing or lead us into, in a sense, further vertical integration - taking our

product into specialized industrial use, or paper, or packaging. Those all would be steps toward the marketplace where I think we need to go - we would be looking for acceleration of our involvement and therefore, progress towards specialties and towards specialized marketing. That is not vertical integration in the sense that it has to use an immense amount of our product. I mean, it is not the shipping container/linerboard, just convert one step. It's trying to get companies with the market presence and the capability and the technical capability that we can work together to carve a product and service niche. I think that's where we ought to be going.

We have looked at various of the financial services. I think we will go into some of them probably further, but it's a very broad set of activities contained within that general nomenclature. Some of them seem to fit closer and go further, much further, like insurance, which brings with it money management. Our little annuity business, GNA, is essentially two-part, one of which is money management, of course. I see all that fitting in with our doing more and more managing our own pension funds and I think we're going to build continuing strength in that area where we have some pretty good people. I don't think that it is necessarily going to take an immense amount of capital at any one move, but over time could build some pretty good size businesses, each of which probably brings with it a fair amount of leverage. So the business could become a lot bigger than just the initial capital. That is part of the attractiveness of financial services, you are managing someone else's money, if you do it well . . .

Edgerly

Looking again at something like Thousand Trails -- you said you get to a certain point and it seems as if there is no longer a very good correlation. But the company knows a tremendous amount about public sensitivities regarding environmental issues; the company owns land which could easily be converted to recreational purposes; the forestry skills are there; the land management skills and know-how are there. In a case like that, what causes you to draw back.

Weyerhaeuser

So much marketing and such a different kind of marketing that you are dealing with an awful lot of development of customer lists, a fair element of high pressure selling. Thousand Trails, I would say, is a leader in its field, but it still skirts the line fairly closely on ethics. I am sure they do everything legally, but an awful lot of the success of the thing is being able to convince people they are really buying a place in heaven and

they have to share it with at least ten other people. Selling each plot of land ten times is part of their success. They take on an awful lot of consumer paper. I am sure that understanding the market and being able to locate is a critical part of it. They have to be able to get in the right places. But, the things that are key to that, we don't bring an awful lot to it. We bring some of the things you mentioned and certainly affiliating Weyerhaeuser with Thousand Trails would produce some good and some unwanted side effects, looking at it from their point of view of the market. I think we would be reluctant to push as hard as they do on signing people up, getting them out, promises of this, that, and the other thing, which they deliver on in a legal sense, but it is a lot of image building. It's a lot like selling something that you can't quite put your finger on, life time use, and you go out and sell nine other people the same thing and if all ten of you buy it, it may be that statistics will say that if ten people own a plot of ground they all aren't going to get there at the same time. On the other hand, if they truly have sold to all ten of them and people want to spend the Fourth of July week there all at once, they will find they won't be able to reserve it. I don't know what happens when they get filled up. The models all say it will work.

Edgerly

What you really are describing is a psychological difference then that is the real sticky point perhaps more than anything else?

Weyerhaeuser

Well, yes. I would say that we probably came apart on financial reasoning, but they believe so strongly in what they are doing that they extrapolate it out to infinity. Basically I am the problem in that I am willing to grant them a large measure of success, but I am not sure how long they can sustain it. If we are going to pay for seven years of futures and the curve turns from this to this [up to down], you get a very different present value. They have a very inflated idea about what they are doing. But, we came very close. We might have bought it notwithstanding. My concerns finally get translated into will I or won't I pay a given price, but without any of those concerns I would have paid very much closer attention to their ideas. I know that I don't want Weyerhaeuser Company to get in a position where we have unhappy people out there because we have oversold. The minute we put our name on the door we are going to be there for a long time. That is not to say that Thousand Trails doesn't expect to be too, but I think they hold themselves and I think they are held, to a lesser standard. They probably wouldn't agree with that.

There is more than an economic fit question. If I understand what "soft" means, I think it's compatibility through time with the activity and the type of people. Our people were terribly impressed with enthusiasm and the culture [at Thousand Trails]. I mean they have a bunch of young people charging over there. They really believe in what they are doing and they are having a lot of fun doing it. It is a very open style of management and you can't help but feel the enthusiasm. It wasn't all done with mirrors, by any matter of means. So, we got relatively comfortable with who was doing it and the way they were doing it internally. They also have been the pioneer and they have very major tax risks, which we would not undertake. They are, through interpretation and a lot of other things, way out there on the tax front and Weyerhaeuser Company couldn't do that. First of all, we wouldn't, and second of all, we wouldn't be allowed to. So, now you've got a gap between what comes down to the bottom line, even in the intermediate term which was a part of the problem. But with every one of these, you know, we have the same problem as in the real estate business. You take on some guys and how do they run their business? What are they doing when they meet the customer? You know, it is a little bit like the used car business. You have effective people selling the real estate, they know how to push pretty damn hard and sign people up. They may not know exactly what the laws are and they're getting stricter and stricter. Our companies are. . . I'm confident now. We've had them for ten years, too. That doesn't mean we changed them, but we know we haven't got a bunch of swingers out there. It is part of the big company versus entrepreneur versus little guy. It is industrial selling, as I say. We aren't used to high-powered advertising, promotion and personal solicitation. You don't turn the same people loose doing that. That is not to say we couldn't acquire them, but then if you do that you had better be prepared to let them run their own business. I've been burned doing that on the antitrust laws and a few other things where people, in fact, that we assumed knew what the laws were and believed us when we said, "We obey them." It was not the practice in their industry, so because we didn't yank them in close, we paid a real penalty.

Edgerly

Are you talking about the box incident.

Weyerhaeuser

Yeah. It's a tough business and particularly the folding carton business. I don't think any of the big companies, almost without exception, has been able to do well or stay in it. That is a slight exaggeration. All the deals behind the scenes, some illegal and some not, were really the nature of the business in the marketing of folding cartons. We inherited a certain amount of that and let them run it the way they were. They didn't say they wrote in asking for company policy endorsing A, B, C, D, E; they just went on doing business as they were doing it. And when you had seen what they were doing you wouldn't have allowed it.

Edgerly

Some people have said the same thing about Roddis.

Weyerhaeuser

Yes.

Edgerly

A lot of people have said that Roddis was real tough because they had a whole different idea about how to do business.

Weyerhaeuser

That is a good illustration. Certainly we had a culture shock between Roddis and Weyerhaeuser.

Edgerly

They were operating in a different environment and perhaps things were not quite so strictly watched.

I thought I would ask you about the company's price to earnings ratio which has had a couple of ups and downs. Since my own ability to see these things is better helped by putting it on paper, I took the quarterly ratio and plotted it so I could see what it looked like. Then I went back to the annual reports and the explanations that you had given in the annual meetings for some of these ratios. Of course, this is the most extraordinary one right here, that 1983 first quarter upturn. You addressed that at the April meeting with some cautious, but nevertheless optimistic remarks and then we very quickly headed back down the curve again. What do you see happening to this line, given the climate that you yourself are projecting?

Weyerhaeuser

Well, there are a lot of theories about price-earnings ratios, you know. I don't presume that I have any great insight in it, but let's start out by saying that price-earnings ratios are the functions of at least two variables, one of which is earnings in the short range. When you plot something quarterly, if the earnings drop by 80 percent in a quarter (which they do) there's a big change. This company is owned by a lot of people who have owned it for a long time and are not buying and selling quarter-to-quarter. It is obvious that the price of the stock has ranged between \$25 and \$40, so in a sense if you want to drive your price-earnings ratio down, drive your earnings up, which is the inverse of what might be implied if you just look at this.

Edgerly

So what you are saying is that this really is . . .

Weyerhaeuser

A function of low earnings, well, in a very short term. If you took a twelve-month or twenty-month rolling average, you then begin to see trends. Now if we are talking about trying to draw it out, I know I can't draw quarterly earning beyond about three or four quarters, even if I can get them in a zone of ± 40 percent. Price-earnings ratio has much more to do at any given point in time, with a perception. You have to start with the perception of level, which means if earnings have been depressed, and they are looking back at earnings levels that have been much higher, they are discounting the present level of earnings. This means that price-earnings ratio will tend to be high on that count and if it is cyclical, which we have been in history, they will be looking forward as well, to the next up cycle. A combination of those two things has produced in history, very high PE ratios for Weyerhaeuser at these points where we have low earnings, and we have had a reasonably good history - 2 to 3 years or whatever - and maybe the industry cyclically is up. The industry PE ratios for all industry, to complicate matters just a little bit, the price-earnings ratios in one calculation translate into rate of return. Rate of return on equities is related to the rate of return on bonds. So, one of the variables is, are we in a high interest environment, or a low interest rate environment. Of course, we have been in a very high interest rate environment. We were up in this range in the 70's, but interest rates were low and obviously as the price goes up, the rate of return goes down so when you had low interest rates you could have a high price on the stock and you were still earning - in relationship to bonds - maybe 4 or 5 points under bonds. When

bonds were 14 percent and they expected the equivalent, you would have to drive the stock price down to yield the combination of dividends and expected appreciation in the stock at least 9 or 10 percent. So, in effect, you go back a year and say we were at 13 percent or 14 percent, now its at 10. It is tending to force the PE up, not because of earnings obviously; we don't have good earnings and haven't had good earnings. So you have the general PE level that is moving with interest rates and then you have the industry cycle, as perceived by the analysts and others, and Weyerhaeuser gets into that. Then they superimpose on that our international exposure and particular commodity mix versus the industry. Well, on the export exposure and the commodity exposure, we are suffering in comparison with our industry so our PE ratio is tending to be depressed relative to our own industry.

So my answer on where is it going to go goes back to four our five fundamentals: Where are interest rates going to go? Where is the perception of Weyerhaeuser, which includes its foreign trade exposure? We keep talking about it so I tend to reinforce it in a sense by what I say because we are super sensitive. We are sensitive to the exchange value of the dollar and we are in these international commodities, more so than most of our competitors. Not only are we internationally oriented in terms of the export proportion, but affected domestically by the product mix that we have as a result of the foreign overcapacity. So, in a sense, now we are in the wrong sectors at this moment in time and in the wrong commodities. The direction of this is influenced certainly by the number of guys back in here saying, "Well, the next thing that's going to take off is linerboard and shipping container." The conventional wisdom was that we were running up at 95 percent of capacity and there is going to be a certain amount of growth up there. But we all missed on the international front with two or three million tons moving internationally, and moving in the wrong direction, collapsing back into the United States because of the strong dollar. So, the expectation was much better in that sector than has turned out to be the case and I don't think there's anybody forecasting a big recovery at this moment. So in order to construct this, you should draw an interest rate curve and then we should draw commodity curves on Weyerhaeuser and what the market is saying, the analysts and the people who are buying and selling the institution stocks, and what the cyclical timing is. I can't even get any agreement from anybody around here with me. Well, that's not quite right, but the conventional, economic advice on interest rates I've been getting is counter to my own thinking. I've been right so far, but I think interest rates are still headed down and I think the dollar is going to strengthen somewhat. We are going to have a two-year pull through some of these commodities on the paper side to get a strong

response in terms of margins. But we are starting at a PE ratio of 20, which is double the market. I would not be surprised to see that PE ratio hang in there and if we got very good increases in earnings, I would expect it to fall. Which is to say, I would expect the stock to go from 28 to 35 if our earnings went up 50 percent and instead of the 35, it should go to 56, but I don't see that.

Edgerly

What's interesting to me, and I'm sure that this is partially because my knowledge is very unsophisticated, is that we are still within a relatively small range there, with the exception of this.

Weyerhaeuser

Yes.

Edgerly

This begins in '77, so right there is eight years and it's still within a few points.

Weyerhaeuser

That surprises me too. I haven't looked at this. You know, we had a pretty earnings surge in here. It didn't move the PE, that meant the stock was moving, at least from let's say '77 to '79. If you held PE ratio and our earnings went up quite a bit, our stock went to 40 or something like that. It was following earnings is what you're seeing when you see something flat. If you drew a straight line across there, of course, it would be a perfect correlation with earnings. But we have had gigantic interest rate changes from 1979, as I say, and unfortunately, in the early part of the curve in the wrong direction. Interest rates took off when Volker changed the monetary policy and we drove interest rates way the hell and gone up. You would have expected it to force the yield on stocks up and stock prices down. It would have been kind of the reverse of what's happening. There are a lot of factors at work there, because the stock market typically is given credit for looking forward and I think they do anticipate cyclical shifts much better than anything else, but maybe that's a six- to twelve-month phenomenon. I think interest rates are probably going to stabilize and not move in as violent a fashion. We've got inflation down. We are properly viewed as something of an inflationary hedge security, and we had a high PE ratio partly because of that. Now that they are not so concerned about inflation again, you would expect not the paper stocks but the forest stocks to come down relative to the market. We get an industry comparison and a Weyerhaeuser

comparison and, of course, you can get the S&P or whatever PE ratios. What's happened is that some of the premium has come out of that. Certainly some of the premium that we've had versus our industry has come out, even though we are still on the high end.

Edgerly

You mentioned earlier the impact of the strong dollar. I do want to ask what Weyerhaeuser and representatives from other industries are doing concerning this issue in lobbying with the Reagan Administration and the Fed.

Weyerhaeuser

Are you talking about the deficit or tax bill?

Edgerly

Well, the strong dollar is really a function of both actually.

Weyerhaeuser

Yes. And you can find experts that will argue on either side of the relevance of interest rates to the strength of the dollar. Some say it has something to do with it.

Edgerly

Well, let's say you could make monetary policy at this point that would benefit Weyerhaeuser and other companies that are in a similar position. In view of the fact that you are on the board of a Fed bank, you obviously have some ability to express your opinion about that in a forum that supposedly has an impact.

Weyerhaeuser

I would say it the same way, "supposedly". Somebody wrote a poem, one of the guys that's on the Seattle Fed Board or that comes to some of the meetings. It goes something to the effect that the bankers (three out of nine of us are bankers) wish that Weyerhaeuser would disappear. They've got all kinds of logic and are generally sympathetic with higher rates and something to the effect that I sit over there and vote for lower discount rates. There's a lot of technical argument about what affects interest rates and it is pretty clear that long rates are affected differently than short rates. It is not obvious to the technicians, at least, and a lot of other people as well, that lowering the discount rate or having the Federal Reserve Open Market Committee purchase government securities and thereby inject reserves into the banking system, necessarily

will lower interest rates over time. This is the first order effect, one would think: if you make money more available it will be cheaper.

There is certainly, in the long market, a second order effect, which is to say that if the money supply continues to be fed over any length of time, you have an inflationary effect of more dollars chasing the same amount of goods and the inflationary expectation goes up. There is clearly an inflationary expectation or a view about inflation incorporated into the willingness of people to lend money over long periods of time or borrow it over long periods of time. So, you could have the combination of forcing down rates in the short run by increasing the money supply and the outfeed effect of that being a higher long-term interest rate, which is of great consequence to home builders and to us. For that matter, it also affects the foreign exchange picture. One of the reasons foreigners are pouring money into this economy is because it is stable and not inflationary. You could have the interesting phenomenon of increasing the money supply and having foreigners less willing to lend into it and having the net effect be an increase in the money supply with less money available, long money, by virtue of the foreigners anticipating inflation and not being willing to put the capital into the United States, I'm just giving you all the exotic arguments now. It is not how you vote on the discount rate or how you feel about the rate of increase in the money supply. You come out with different actions than might be implied if your objective is to get stable and lower interest rates over time, which is what mine would be.

How do you get stable and lower interest rates over time? It's pretty obvious to me, even though you can find technical arguments about this, that if our savings rate is as it is only 5 or 6 percent, a low savings rate, and that savings rate has to accommodate new investments, growth, and has to finance whatever difference there is between income, revenues, Federal Government, and expenditures, and if we allow the Federal Government to be in there to the degree that they are, which is 5 or 6 percent of gross national product, then they are, in effect, taking all of the savings. If we cannot in a major degree reduce the draw of the Federal Government on the savings pool by cutting the deficit, we are not going to get interest rates down. It is also a fact that \$200 billion worth of deficits, no matter how much the economists argue or anybody else does, that it is relatively unimportant, we can accommodate it, etc., it tends to confirm in people's minds the fact that we have a runaway government. The Treasury comes to market every couple of weeks in gigantic amounts and people put those two things together and say, "Boy, we are not able to control spending, therefore, I anticipate further inflation."

If you anticipate further inflation, you are not about to lend your money for 20 years or 15 years on the long market. Long bond rates will tend to go up. It's just that simple. I say we have to make a large, incredible move on the deficit. The Fed can't do it. The only thing they can do is pump the money supply to accommodate it. Then you've got long-term inflation and you've got high interest rates in time, in the long-term market. So they can't do it, literally cannot do it over any length of time. So, it isn't the Federal Reserve as I see it. I'm in Volker's camp on that. I think we must bring better balance to the budget, the fiscal deficit. So long as we don't, the best they can do at the Fed is to maintain a reasonably steady rate of infusion of money into the economy related to anticipated growth.

Side 2

Weyerhaeuser

The Fed is trying to, and I think appropriately, keep the money growth related to the physical growth in the economy. So if the economy is growing at 3 or 4 percent and their money target rates are in the 7 percent range, in a sense they are increasing money supply to keep that growth rate going and they are feeding inflation to the extent of 3 or 3 1/2 percent on top. There is a phenomenon called velocity which gets in there because we find more efficient ways to build the economy with the faster turnover of money. That's the electronic transfer of funds and all of that. It's not quite as simple as those two numbers, but normal velocity increase might be 2 or 3 percent. With let's say a 3 or 4 percent money growth and a 2 or 3 percent velocity growth, you could theoretically handle 6 or 7 percent growth without inflation. The Fed is going to bring that rate down slowly over time. We were at much higher growth rates for awhile. I think they are doing what they can, reasonably. I'm no expert, but of course the supply and demand for money in the United States does not stop at the border. We are in an international set of capital markets and trade markets and it is theoretically possible for the United States to continue to borrow money from overseas capital markets for five, six, seven, eight years. There are arguments that say you are not even talking about the appropriate subject when you contain your argument within the money supply in the United States and the growth rate in the economy here. We are, in fact, being allowed to continue to do what we are doing because we are politically stable. We have relatively high interest rates and we have a low rate of inflation so people with money place it here for safety reasons, for yield reasons, and they are not worried about the exchange rate because we've got a low rate of inflation. But we are siphoning money out of South America and out of places that need it. To handle this, the biggest economy in the world, we have big net borrowers. Down the line, somebody is going to suffer and suffer a lot. I think it's not going to be sustainable over an extended length of time. If we were able to make progress along that line, reducing it each year toward some better balance... I'm not a dyed in the wool budget balancer, I don't think it has to be perfectly balanced, but we are so far out of whack now that we are putting all these stresses on. We are having to hold our interest rates up in a sense to pull in this foreign capital and that's not sustainable, in my opinion, over an extended length of time and it is something that ought to be at the top of the priorities of things to do.

Then you get over into the arguments about, well how to you control the budget deficit? A lot of people, and knowledgeable ones, say that the problem is not revenues. We are taxing ourselves at the rate of 19 percent of the GNP, not very far out of whack of what it's been over the last seven or eight years. The problem is that we've got runaway spending. So, therefore, concentrate everything on the spending side. I think that's got a lot of validity. There's a lot of room in there, defense and domestic. Also, there are a lot of political constituencies. The political realities are that we are not going to get it all out of the spending side and, I believe, contrary to some of my very best advisors, that we need to find something in the way of a revenue enhancement. I think it ought to be a consumption-based tax. It's not going to come in this round of so-called reform or deficit reduction, but I believe it's the soundest way to go.

What are we doing? We are trying to argue very strongly against the reform proposals because they impact very heavily on heavy industry, on capital intensive industries. Right when they are in the worst trouble. They are being killed by the dollar and we are busy de-industrializing the country from a heavy industry point of view. Even if we are right over the longer pull, the proposals would make capital investment costs substantially less competitive with all of the other developed countries at a time when they (industries) are already in great trouble. We just don't think it makes any sense. They of course also have provisions in there which require the capitalization of all the costs of acquiring and maintaining timber until harvested. Not only that, they go to a punitive position, which says we also impute interest preferentially to timber, so that if you have any debt, you are assumed to have borrowed the money which you are using to establish the timber stands, therefore, we disallow all the interest preferentially that you have assignable. They are saying in effect that since it takes so long to grow timber and you are not generating revenues, you are in fact tax sheltering all that. Therefore, you ought to be forced, if you are borrowing any money, to have the interest disallowed, which would absolutely put the reforestation out of business. Whether that's worse than - of course it is for us - the capital allowance provisions of tax reform, is debatable. Extending the depreciable lives, removing the investment tax credit, there are three or four major provisions in there that are very bad, so we are going to do everything we can to work against that.

Edgerly

Does the industry already have in place organizations that are equipped to handle these things? Is Weyerhaeuser finding that the need to address itself very strongly to this issue requires another kind of approach, a new association, or different leadership position?

Weyerhaeuser

Industry has the Business Roundtable and the Chamber of Commerce and others which have been focal points for previous tax fights or reforms, but the Administration drew this proposal together in such a manner that it split the industries in the United States significantly. For one reason, the relative attractiveness of lower corporate rates and individuals, but let's say corporate, from 46 percent to 33 percent, is very attractive to less capital-intensive industries. It's all beneficial to them and they don't lose a great deal of benefit by having to have depreciation reduced and the investment tax credit in a non-capital intensive industry is not as important relative to their income. You see, retailers are relatively happy about it. I think that in addition to the retailers, for whatever reasons, General Motors, IBM, there are seventeen or eighteen companies that have signed on with the Administration to promote it. They also vote within the Roundtable and the Chamber. There are enough companies in there so that, to avoid splitting those organizations permanently they backed down. In effect, a minority can and has neutralized the position of those organizations. Therefore, on the general issues of investment tax credit and accelerated depreciation, ACRS, we are forming a new group to try to work those. Capital gains is kind of left out of the thing too except that the small businesses and venture capital have been very active, were the last time, and are on the capital gains side for individuals. They still are in the Administration's bill proposing to phase the capital gains out. They take it up to the effective rate that is equivalent to the 33 percent rate on all corporation income. We are trying to defend that, but then these expensing rules, of course, are just like a rifle shot right at us, our industry and we have the organizations that are working on that within this bill too. I don't think much of that is going to come to pass, but it is terribly risky and very, very important to us, particularly on the timber side. The other provisions are every bit as important to us in the dollar sense as we are capital intensive. We invest \$300 or 400 million a year and they extend these lives and knock out the investment tax credit and all. The consequences are large. It's all very important.

The other part of the coin is that I'm still just as concerned as I was. They have done nothing to eliminate the deficit. The tax reform proposal is, whatever was motivating

the Administration, has been a diversion so far on the budget deficit cutting. So is the Middle East and a few other things, but they have made very little progress to date in reaching any kind of accommodation between the House and the Senate, even to get a \$50 billion down payment on what will be an escalating deficit in the absence of major moves to cut spending. Of course, there they can't agree on impacting the Social Security and Medicaid and military pensions and on the balance between military spending cuts and domestic. That I'm terribly concerned about because even if none of tax reform went through, we're still left with, what I would characterize as incompatible policy between budget and fiscal and monetary. It's mainly the mix of those things. Most other countries are maintaining fiscal discipline and monetary ease. That produces this high dollar which means lower interest rates in foreign countries. So, they are nailing us up on the wall, us in this case being the exporters. The budget thing is a very real, long-term, very major impediment to getting down to sustainable growth and non-inflationary, with any kind of reasonable interest rates and trade picture. It is now seriously impeding our trade and our growth because of the trade picture. It promises to get bigger because the growth rate is a good deal lower than the Administration thought it was going to be, or at least said they thought it was going to be, and I think most people would agree that it may only be in the 2 percent range next year. That's a long ways away from 5 percent and their revenue base is not growing and, of course, whatever job implications and unemployment and all the other things that come with a relatively full economy are being withheld because most of it is being siphoned off overseas. We are taking their money and we're taking their goods. That's what it amounts to.

Edgerly

Over the years, you have served on the boards of a lot of other companies and organizations. Is there any one of them that strikes you as having been most beneficial to you and to the company in terms of the insights that you've gained, the experience or exposure?

Weyerhaeuser

They are all different. I don't think so. I think I get a much broader view of a much wider spectrum of finance, foreign trade, and commodities at SOCAL. There have been just five or six of us outside directors and we're very much more familiar with the business by virtue of that. They are all over the world and so I see more, it's more parallel with our business on a ten-fold scale than Boeing or SAFCO or Equitable or the bank boards. You get a mini view of things. If you say, okay, what about the

Northwest? Why obviously I see a good deal more of that in the context of SAFCO and the Washington Round Table. Boeing is a very large manufacturer and technology user. I get a lot on engineering and the world marketing. They are all different. But certainly that oil company gives you very, very broad look at things. That's, as I said, world trade and finance, political, every way. They are very much in the mainstream. I think that the Northwest is not all that important to us in a marketing sense or competitive sense. It is from a people point of view. If you associate with people around here, you're not talking either on the same scale or the same issues. It's just as different as night and day, which is part of our isolation. You can go down four companies in the State of Washington and you're down to \$500 million or something, or they're big retails companies. So this is not the industrial center of the universe, nor is San Francisco for that matter. It's more financial down there. I've avoided the Eastern boards for a lot of reasons, but certainly travel is one of them. I don't like the... I'm not nearly as compatible, I'll put it that way, with the Eastern businessman mentality.

Edgerly

Why do you say that?

Weyerhaeuser

Oh, they are caught up in the Washington, D.C., New York syndromes. I guess it's a social statement maybe. Maybe it's just because I'm not a member of the club. We are sort of out on the frontier so to speak.

Edgerly

You are just saying you are a country boy at heart. (Laughter)

Weyerhaeuser

Yes, I like the country. I would define the country as including California. It's not rural necessarily. I wouldn't disagree with what you said. You shouldn't generalize about things like that, but the Bob Andersons of the world are more independent thinkers, doers. They don't have as many peers to exchange notes with, and wouldn't if they did. The Westerners are more wide open, somewhat more gung-ho, less system. I don't know how to... A lot of things. They are more removed from the center of government and the center of finance. We are that much farther away from Europe, which is a blessing.

Edgerly

(Laughter) These days you are probably right.

Weyerhaeuser

Well, European businessmen - French, English, I'll exempt the Germans, some of them, and the Scans. They are so used to sort of a carve-up-and-manage-things mentality. There's much more of a status quo, hierarchical environment. I'm talking about businessmen. It's the consequence of regulations, cartels, what you can do and what you can't, age, custom.

Edgerly

Is there any other job around this company that you would like to have had?

Weyerhaeuser

No, I would just as soon go back.

Edgerly

Go back to what?

Weyerhaeuser

Well, any number of levels back.

Edgerly

Managing Springfield?

Weyerhaeuser

Well, I would take the Pulp and Paper Business or some business segment.

Edgerly

Would you?

Weyerhaeuser

Sure.

Edgerly

Do you get tired?

Weyerhaeuser

Yep.

Edgerly

Are you tired of doing this job?

Weyerhaeuser

I never get tired of the job. The job satisfactions come with planning and seeing things happen and sharing in the burden and I think we are back on the subject we were on a few times back. It's not half as much fun when I haven't got the same sense of shared satisfactions and problems with changing guys around me. We had a lot more fun when we were making a lot of mistakes, with Merrill and we were younger. Of course, we were growing faster and the whole climate was much more positive. I think it takes its toll. It's not as much fun figuring out how you are going to affect a lot of people and shrink parts of the business and I spend a lot of time worrying about taxes and budgets and the national scene. So much of that is just frustrating because it's that not only that I can't affect it, but the frustration of seeing things so far out of kilter and adrift. It's the futility that's associated with the degree of problems and, I think, mismanagement. Then you see a heck of a lot of it being solved along political lines that don't address the main problems. I suppose that's true in the company too, in a sense. Being somewhat removed from the day to day, I have a tendency to watch some of the more arcane maneuvering that goes on. I've never liked that much. A lot of the time is spent on how to get something done, not what ought to be done. Whereas, in the good old days I would have been much more preoccupied with some combination of where are we trying to go and how do we get there in a closer coupled fashion. But, I wouldn't trade it. I think I would trade an individual job here and there maybe.

Edgerly

It would be real interesting to see you back in a mill.

Weyerhaeuser

Well, I guess before I went back there I would have to qualify that. I would want to know who I was working for. (Laughter) I don't know whether you can have it both ways.

Edgerly

You are in an ideal position. You can appoint the person you want to work for and then go work for him. (Laughter) You've been astonishingly patient, even with some of my very simplistic questions.

Weyerhaeuser

Oh, it's fun to listen to what you chose to ask. It's fun. It's a lot easier to sit back and answer than to try to divine what's of consequence.

Edgerly

Well, the problem is that I may not have chosen the things that are of consequence. The other thing that's difficult is trying to get a balance between the subjects that are covered on paper somewhere, that we have recorded in some way and the aspects of the business that we will never know about unless we capture them in an oral form.

Weyerhaeuser

Yes, and that is getting worse and worse, of course, because there's less and less in the written records.

Edgerly

I've spent a fair amount of time trying to sort out what to ask about and probably have made a lot of mistakes. And of course, I'm hampered by the fact that, as I said, my understanding of fiscal matters is not very sophisticated at all.

Weyerhaeuser

Unless you had a whole battery of people with different backgrounds, I don't know how you would get at that. There is nobody that is going to have a full range of areas that you are reasonably well versed in. You could pick anybody around here and you say well, I know an awful lot about this business, but that doesn't draw the circle around, necessarily, all the considerations that come to bear on what direction you are trying to go. There are really only one or two people around here that I have any degree of comfort with on that subject. I don't mean about their own areas. As I did with you, I

can describe better a point of departure on diversification and with each of these businesses, I have a point of view about the directions that it ought to be looking in. Each one of them have got some kind of idea about what they might like to buy or some increment here and there. But to put that into any kind of perspective about the larger company, there really only are a handful of them that can. They keep trying to do to me what you were trying to do: get a little more explicit about diversification areas and they keep saying, "Give us a better roadmap. Where do you want us to take the company and then free us up to fill in our part of the chart." I say to myself and sometimes I'm so short tempered as to say it to them, "Don't ask me for the roadmap. You tell me what your opportunities and challenges are and we will build a series of launchpads and then I will draw the circle around and tell you whether you are going to get half of yours or two-thirds, or whatever." So, it's kind of a chicken-and-egg proposition. We still do a lot of that.

I had, a few years back, a condition which I really did like, which was a pretty solid recent history of earnings and then it opens up the horizons, so to speak, because you are not now talking about the allocation of a super scarce capital resource. You are talking about a range of opportunities in which I felt it was not necessary to unreasonably constrain parts of the business by predirection. I'm still trying to carry on in that framework when everybody knows the constraints are much greater, so they want a predefinition. They don't want to waste their time if nothing is there that can be done. Well, we are going to sit down with the paper business. They finally heard me, I guess. Bob (Schuyler) in his new role understands. That starts all the way from, let's call it, stay-alive capital for legal, environmental and safety matters. Then comes the maintenance, non-deferrable and deferrable increments, to present facilities and then new facilities in the same product line and acquisitions. Even in that latter category, we've got a dozen of them or so. That's in a \$2-1/2 billion out of \$6 billion business. Those various options could easily use all the capital we have available. At least within that framework we are going to get a reasonably thorough discussion, I think probably a good one. Maybe out of that I will get some better definition of what to forget about. As I started to say, a few years back we did that in an unconstrained manner and we built these five-year plans and kept updating them so that they had some sense of a road out there and then we would modify it and upgrade, at least periodically. I think that was a pretty good system because you could draw out of that middle range plans that would say, "You should be doing x,y,z and even if we don't finally fund it you've got a little longer time frame." When you get down in what we've been in the last couple of years,

shrink and chop capital budgets down to practically no discretionary capacity, all these things are left hanging out there. You are just concentrating on how do you get your costs and efficiency and maintain the property.

Edgerly

What do you do about the fact that in this kind of an environment a lot of the people whom one will need when things look a little better will have gone elsewhere, simply because the situation internally is so difficult? Morale is low, opportunities are few, and some of that very imagination that you want has walked out the door.

Weyerhaeuser

We may have constrained it in the past. It's never left. We may never have had it, but we never drove them off with a climate that says there wasn't an opportunity to grow. We've never had, since the '30s, anything that's been such an extended set of constraints. You have to understand that my answer, therefore, is based on experience that says we have never lost key people or any significant number of them. I don't really expect to. That's not to say that when we take the engineering workforce from 200 or 300 to 100, we aren't losing talented engineers or capable engineers. My answer there is we'll hire more outside engineering the next time by and our guys are convinced that's perhaps the more efficient way to do it anyway. We aren't going to have a steady load so we shove over onto the contractors or onto the engineering firms, or both, more of the construction, which tends to go like this anyway. We are trying to push out into the mills more of the technical talent, for instance. Now, that's not all positive. It doesn't happen easily and people have to relocate. We may lose some people in that process. I think we are strengthening the mills and not necessarily depleting our total technical capability. Hopefully getting it more in places where it ought to be. Obviously, we've slowed down the recruiting of bright young people coming in, whether it's in the financial or investment evaluation or market planning, or whatever. That's a reservoir that we've used to fan out into line jobs. So, that's a concern and I'm sure it's been a concern of Bob Schuyler's for some time, several years, of course, with our intern programs and everything else. The younger talent pool is narrower and we will probably lose more of them as the mobility upward is slower, once they get started. There is no question it's a problem.

I don't know what to do to improve the morale. I think the first order of business is to get the business healthy. I told these guys the other day, "Look, I don't like it any better

than you do, but we've all got to understand we haven't got a permanent license either to capital. There is nobody that has to stay in this business and what happens is your shareholders will leave you. You wind up in the hands of speculators or institutions. I don't want to change the stockholder base." I said, "I have an obligation, we have an obligation to them that we are going to meet, which is to say we are going to get earnings up first, and worry about everything else second. It's been too long a time with ten years of no stock appreciation and five years with no dividend increases, all in the face of being able to go out and put money to work, whether it's in government bonds or ten percent returns. That PE ratio won't stay there forever." Twenty PE implies that you are willing to take a 5 percent return in the combination of dividends and appreciation. Right now, that, in effect, is all they are getting. We are earning a dividend and an inadequate one at that. So, just as a matter of priority, I worry about it and you would like to do all the things you can to protect and enhance training, but there is a limit. If mobility goes way, way down it's true, I'm sure, that it has a big impact on people. Then we reach the upper age scales on retirement and in effect are forced to retire and lay off large numbers of people. But, it's got to be done. I also know that nobody can do it unless I'm fully behind it, so I can't go in there halfheartedly and tell everybody, well, "Have patience, it will all be over December 31." One of the problems in getting understanding of the depth and severity of the problem at the management levels is that we've got to have a commitment. I think you have to start with the cards on the table and that's what we are trying to do, but it isn't much fun. I'm sure that we are depleting our reservoir of good will and hiring ability and a whole lot of other things that we just kind of take for granted.

Edgerly

One last question if you have a few more minutes. At one point I think I had given you a written question about archives and their value in the corporation. Unfortunately, I didn't bring a copy with me today. I wondered if you had had an opportunity to think a little bit about that and I think I can paraphrase that question if you thought you could answer it for me.

Weyerhaeuser

I carried it around for awhile. I did some thinking about it.

Edgerly

Well, if you could speak about it that would be fine. I think I tried to set it up in a hypothetical way insofar as the question itself would be directed to you by someone who didn't have a more traditional view and the length of experience with the company. For instance, a younger person coming into the company who is eager and sees a situation in which the times are difficult and seeing this, asks you why you are willing to support the expenditure of valuable company funds on supporting a corporate archives. The reason I am looking for an answer to that is because of the fact that I've been asked by Harvard Business Review to do an article that would put some kind of rationale behind why a company chooses to do this.

Weyerhaeuser

Of course, I come at it from an unusual vantage point with name and family and a family tradition that has meant a lot to me personally so I would be hesitant to expect others to feel about it or see it the same way.

End of Tape XIX, Side 2

This is an interview recorded with George H. Weyerhaeuser on Monday, July 1, 1985.
Tape XX, Side 1

Weyerhaeuser

I, with several generations of family and business affiliation and history, have felt the benefits of having some sense of where we've come from and some sense of why. It has to do with something of a memory which certainly largely has been verbal, but still very important and very powerful as far as I'm personally concerned. That's shared by a fair number of my compatriotes, and my family and relatives. We have been associated together in various businesses for a long time so that family and business are not two different things to the degree that many people would separate them. So when I start talking about it, it's from the point of view of a tradition of communications across generations. I think, to quite a degree, important matters of right and wrong and ethics and things that wind up being important to me are imbedded in what went before. The situations and the business decisions that were made, the specifics of them, all sit over on one side of my history. When we start talking about what are the benefits of knowing something about business history and our business back in time, I think it's the culture we're talking about and then further than that, I have a sense that the principles are important in surviving. They don't change all that much and I'm not even sure that the important business decisions don't come in cycles. In fact, I'm pretty sure they do. I know it's been interesting to me and helpful for me to form more of a conviction about what we are doing in the knowledge of and sense that to some degree I've been there before. Now I didn't obviously get that by spending a lot of time reading in the archives, but the extractions out of the archives, some of the things that we do recreate and make visible, have reinforced some of the things I feel and know. I would like to think that we can capture some of that feeling and some of those principles by a knowledge of what went before and that other people can draw on that. To the extent that they are buried and never extracted, then we have to be talking about capturing it for historical purposes, which certainly is not our only objective. I am aware, from the number of times that things have come up, time and time again, that one wishes they had some way to draw on people that are gone and to remember circumstances. Now I'm talking in connection with other companies that the family was associated with and other eras, but I know that I'm not the only one that has felt that the ability to recall and draw back has been of benefit, because I've seen it happen time and again with what memory system we had. In St. Paul, for instance, my predecessor, my uncle and his peers, were influenced

by and shared in their mutual background the problems that they faced. As you get bigger and more dispersed and there's less continuity, I feel like I'd like to have as much memory as we can pull along with us. I think in the oral histories, though they are not perfect in any manner, way or shape, you get a dimension of what went before.

When you talk about the modern day manager and how much affiliation or interest he is going to have, how much initiative is he going to assert in trying to go back into history, I get very mixed kind of emotions about that. I guess you always judge by the people you work with. A fairly surprisingly high number of people that work for this company, I think, and not way back, consider it to be important. I think that may be a function of the sense of personal affiliation with what went on and maybe you get that more as you get up in age. Obviously you do, but for me, it didn't start when I was 55, and thinking about retirement. I've had it for a long time, but I think, as I said earlier on, I'm probably different. I just feel that it is certainly worth a modest to moderate amount of time and effort and care to maintain a sense of where you've been. I suppose every company is going to have to make their own judgment about that. I think it's probably true that those that have a family affiliation are universally going to do more, because there you've got both blood and business mixed in.

Edgerly

Except, in a way, if you have a family connection you almost don't need it as much, which is the ironic part about it.

Weyerhaeuser

Maybe.

Edgerly

You've got that oral tradition. Whereas, those who don't have that oral tradition or that family connection ultimately have even less information and therefore, at least in the ideal sense, would need it to even a greater extent. I understand your position and I certainly wouldn't utilize anything in an article that you had said without asking you about it first.

Weyerhaeuser

That really wasn't my intent. I just have to qualify it because I realize that I'm not typical, but it's not with any reluctance that I would be quoted. It's not as relevant.

Edgerly

This statement, like everything else you've said, falls into the category of being confidential until you release it, so I wouldn't use it in any event unless I asked you about it. Not only that, I seem to be rather slow in getting off the mark on putting pen to paper. I seem always to be able to find lots of other things that I want to do besides sit down and write for Harvard Business Review.

Weyerhaeuser

I know how that goes.

Edgerly

As nice as that would be in some ways, somehow the idea of seeing my byline just doesn't seem to have the same pull that other aspects of my work do.

Weyerhaeuser

I have some things that I absolutely cannot get done. I keep trying and I know I have to sometime.

Edgerly

Once again I want to thank you, as I said, for being patient and not only that, for sticking with it over a long period of time.

Weyerhaeuser

Oh, I've enjoyed it. We've spent a lot of hours.

Edgerly

I really do appreciate it.

Weyerhaeuser

Well, I'm reading transcript along behind you.

Edgerly

I hope I'm not the only beneficiary. As I said, I have ready for you, whenever you want it, another installment. You've asked me not to give you any more until you'd finished what you have.

Weyerhaeuser

I don't want to get the pile so big that it challenges my imagination. I'd rather work on this level.

Edgerly

That's fine. I realized after giving you those first transcripts that I hadn't separated them according to the tape numbers and I should have done that. I'm doing that on this next segment so that you can just take one out of the folder at a time. I should have stapled each one together.

Weyerhaeuser

It's alright. I'll get there.

Edgerly

Thank you very much.

End of interview with George Weyerhaeuser, recorded on Monday, July 1, 1985. This is the end of tape XX. No further recording can be found on this tape.