

As log export market booms, Astoria partnership dissolves into acrimony

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ASTORIA -- Relations between an Astoria log exporter and its giant Chinese customer have suddenly turned nastier than the Columbia River bar in a winter storm.

And that has set up one of the most lopsided corporate legal battles in recent memory -- Westerlund Log Handlers, a deeply indebted Clatsop County timber operator, against **China National Building Materials Import & Export Co.**, part of a \$30-billion-a-year enterprise partially owned by the People's Republic of China.

The dispute threatens dozens of jobs in this **working-class town** and casts a pall over what has been an all-too rare economic success story for rural Oregon.

Westerlund wants to end its relationship with China National and move on. China National is seeking to install its own executive atop Westerlund and is demanding immediate repayment of the \$3.55 million it loaned Westerlund. It has even hired an auctioneer to sell off Westerlund's heavy equipment.

Westerlund has found a key ally and a new customer in Astoria Forest Products. Over the objections of the Chinese, Astoria Forest shipped its first load out of Astoria in January with logs provided by Westerlund.

All sides have lawyered up and claims and counterclaims are flying.

"The Chinese think they have an exclusive right to export in Astoria," said Dennis Murphy Jr., of Astoria Forest Products. "They're trying to control the port."

Strong Asian demand has pushed log prices to near 20-year highs. Oregon exports have spiked since 2009. From Coos Bay to Everett, Wash., companies, cities and port districts are maneuvering for their share of the action.

The export boom has been a boon for timberland owners, loggers, log truck drivers and processors like Westerlund.

Exporting logs from state and federal land is banned. But log exports remain controversial, even off of private land. Domestic mill owners claim the hot export market has pushed up their raw material costs while demand for finished lumber remains soft, due to the weak domestic market for new houses.

Legal dispute over log exports could hurt Astoria's economy

Mike Weston, interim executive director of the Port of Astoria, talks about the impact a legal dispute over log exports could have on the local economy.

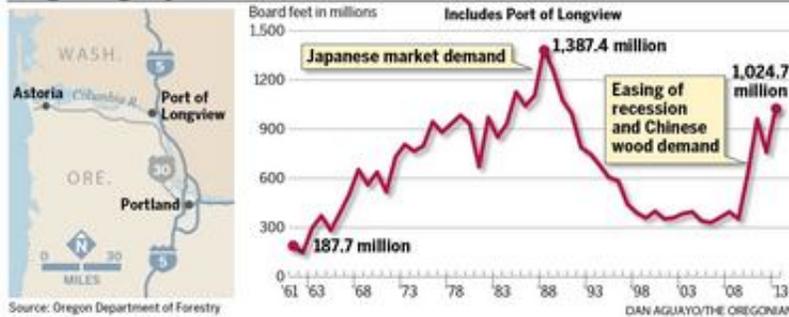
"There were 2 billion board feet of logs exported from Oregon, Washington and Northern California last year," said Steve Zika, chief executive officer of **Hampton Affiliates**. "That's enough to supply 25 large mills here in the Northwest. Before we start spending a bunch of public money on these exports, people need to think about that."

Westerlund comes to Astoria

With his black logging boots, jeans and suspenders and impressive expanse of facial hair, David Westerlund looks like central casting's version of the Northwest lumberjack. He grew up in a logging family. He shipped logs out of the Port of Bremerton and Tacoma before coming to Astoria in 2009.

With unemployment in the double-digits, Astoria desperately needed the jobs. But city leaders had misgivings. They worried about the impact hundreds of log trucks, not to mention the dirt and noise of a busy log yard, might have on the city's mainstay tourism business.

Oregon log exports



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Westerlund convinced the naysayers. The port granted Westerlund an exclusive lease in 2009. Since then, 43 freighters loaded with 183 million board feet of logs have departed Astoria. The company employs more than 70 when busy.

The Westerlund operation even proved a big hit with tourists.

To the surprise of the locals, vacationers line the deck of the huge cruise ships that periodically call on Astoria to watch long-shore gangs load the logs.

"I was wrong," said Astoria Mayor Willis Van Dusen, an initial log yard opponent. "I've told every port commissioner and I've told Westerlund himself. They've been a really important addition. In a town of

10,000 those 70 jobs are huge."

Westerlund's log exports quickly became one of the largest revenue producers for the Port of Astoria. Between lease payments and tariffs, log exports have generated more than \$4.2 million for the port since 2010.

The port has floated a plan for an \$8.8 million renovation of its pier 3 into a considerably larger log export operation. Mike Weston II, the port's interim executive director, was in Washington, D.C., two weeks ago hoping to wrangle federal grants to fund the expansion.

Astoria is not alone. From Coos Bay to Everett, coastal cities are jumping on the export bandwagon. And more want in. The ports of Newport and Toledo, both on the central Oregon coast, are moving ahead with log exporting plans of their own.

Fueling the frenzy is China. The country's appetite for logs remains enormous even as its economy slows. Oregon log exports topped a billion board feet in 2013, more than double from 2009, the year sales to China began to surge.

The downside of exports

At about the same time Westerlund came to Astoria, so did Hampton Affiliates, the large Portland timber company. In 2009, Hampton Affiliates paid millions of dollars for the former Weyerhaeuser sawmill in Warrenton.

Zika, Hampton's CEO, said he might have held off on the Warrenton purchase if he'd known Astoria was about to begin exporting logs.

Hampton's Warrenton mill managers prowl the same North Coast Range timberland that Westerlund does for logs. But the Chinese pay as much as 20 percent more than Hampton can afford, given domestic market conditions. "It's just so frustrating to see these people come in," Zika said. "They're taking away from our business to get just a few jobs. It seems like poor public policy."

Zika has allies in the Oregon Legislature. Rep. Paul Holvey, D-Eugene, wants to make tax credits available to Oregon timberland owners who sell their product to domestic mills. Though his bill has gone nowhere in the last two sessions, Holvey vows to fight on.

"We should be shipping lumber and plywood overseas, not our logs," he said. "I don't know why people aren't outraged."

Free traders counter that property owners should be free to do what they please. "If you're a forest owner, is it your duty to take a loss for the sake of jobs," asked Ivan Eastin, professor at the University of Washington School of Forestry and director of the Center for International Trade in Forest Products.

Claims and counterclaims

In 2012, Westerlund landed a whopper of a new customer. China National did more than \$30 billion in revenue in 2010. It employs more than 40,000 people.

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Westerlund negotiated his company's contract with China National by himself, without a lawyer present. "It was an agreement to agree and as far as Westerlund was concerned it was subject to further negotiation and fine-tuning," said Gordon Carey, a Portland lawyer now representing Westerlund. "That never happened."

By late 2013, Westerlund had become convinced he was being taken advantage of. For instance, he'd been assuming that with every shipload of logs, the contract called for his firm to get a \$60,000 credit toward repayment of the \$3.55 million Westerlund had borrowed from China National.

He was shocked to learn his Chinese customer interpreted the contract differently -- that it, and not Westerlund, was entitled to the \$60,000 credit.

Westerlund Log Handlers filed a breach of contract suit against China National in Clatsop County Circuit Court on Jan. 31. China National counterclaimed, accusing Westerlund of breaching the contract and demanding immediate payment of \$17.4 million.

China National has also gone after Westerlund's creditors, including Astoria Forest, claiming that they are liable to repay Westerlund's debt to China National, which prompted Astoria Forest to file a lawsuit of its own in early March.

China National upped the ante in recent days when it hired an auctioneer to sell off Westerlund's equipment. Twenty-four log loaders, dump trucks and other equipment will go on the auction block on May 12, according to the auctioneer's website.

This is more evidence, as far as Westerlund and Astoria Forest is concerned, that China National simply wants to choke Westerlund out of business.

"If you were a creditor and you were most interested in getting paid, you'd think they would be encouraging Westerlund to do more business," said Mike Esler, a Portland lawyer representing Astoria Forest. "Sending notice out to Westerlund's customers and suppliers and attempting to sell off their equipment out from under them is a sure way of driving the company out of business."

Brian Esler, a Seattle lawyer representing China National (no relation to Mike Esler,) dismissed as ridiculous Westerlund's claims that China National is somehow trying to exert control over the port. Company officials simply want Westerlund to comply with the terms of their log-supply contract and

repay their debt.

"We're not sure what has happened to most of that money," Esler said.

Port of Astoria officials have watched in horror at the sudden souring of relations between Westerlund and China National. The port is officially neutral in the dispute, although it arguably sided with Westerlund when the port commission granted a sublease to Astoria Forest.

"We were all shocked," said Weston, the interim port director. "The log business brings in a lot of money to this port, about 10 percent of our revenue each year, and creates a lot of jobs. If that goes away, we're all going to be hurting."

-- Jeff Manning

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