Chapter 43
Tolling for dollars

The Columbia Falls Aluminum Co. marked its second year as a success with an open house for employees and family members at the plant on Aug. 14, 1987, and an open house with tours of the plant for the general public on Aug. 17 and 18. [1] Cowboy music filled the air as 775 people showed up for Employee Appreciation Day at the plant on Aug. 14 and workers' families toured the plant to see its operations. Roger Wendt, a machinist who began as a construction worker at the plant in 1955, reflected on the new owners and management. "Overall, I would say there is a very positive attitude in the plant," he said. "There isn't an unusual amount of grousing up here. I think they're happy to have a job." Regarding the promise of profit-sharing announced in September 1986, Wendt said, "It eased it some, but it didn't replace what was lost in wages or benefits, either one." He noted that some workers weren't sure if more profit-sharing checks were coming. Wendt also commented on the new management. "There is more of a hands-on style now, more of an attempt to work together," he said. "They're interested also in making money. What makes them money makes us money." Jim Graham, a sheet metal worker, also commented on the new owners. "They've been darn good," he said. "If it hadn't been for Duker taking over, the plant would have closed. No fooling about it." Graham also noticed a difference in management style. "It's quite a bit different," he said. "When you step from multi-national management like ARCO down to practically a one-man show, everything is very simplified." Jim Schmauch, an oiler and union leader at the plant, described the increase in involvement and openness at the plant. "ARCO was just a big company – you were a number," he said. Decision making was faster now because ideas crossed fewer desks and top management lived in Columbia Falls, he said. [2]

In an Aug. 19 editorial, Hungry Horse News publisher Brian Kennedy described CFAC's success after two years of operation and reported that another round of profit-sharing checks were expected to be distributed soon – "probably larger than the last." Kennedy noted that the recent Employee Appreciation Day event at the plant was a good idea since the workers had taken significant wage and benefit concessions to help the plant stay in business. [3] By October, plant managers announced they would soon be distributing profit-sharing checks to the plant's employees. "The union membership is tickled pink we had a good year and that they're still working," Aluminum Workers Trades Council President Ken Beck said. "They realize through their hard work they made this happen, and they're looking forward to improving on it next year. Every year there is profit sharing, it sure helps morale out here." Jerome Broussard, CFAC's general

manager and co-owner, praised efforts by plant employees to control costs and work harder. Increased productivity and higher aluminum prices had helped the company operate at a profit, he said. Aluminum metal prices were the highest since 1980 at 92 cents per pound – nearly double the price in September 1985 when CFAC began operating. Worldwide aluminum inventories had dwindled in recent months, driving up prices. [4]

The perceived unfairness of CFAC workers receiving profit-sharing while the company received a tax break from the state legislature continued to be a contentious issue for locals in Columbia Falls. In a Nov. 11 letter to the Hungry Horse News, Cheryl Richmond pointed out that the small profit-sharing checks for 1986 combined with the larger checks in 1987 did not make up for the wage and benefit cuts CFAC workers took in 1985 to help keep the plant operating. Richmond also wondered how high local taxes might be if the plant closed. [5] Brian Kennedy commented on CFAC's financial success and the loss of tax revenue by School District 6 in a Nov. 18 editorial. "School District 6 taxpayers had to bear the brunt of a legislated devaluation of the aluminum plant because other property owners' taxes were raised, in part, to make up the difference," Kennedy said. "We've all become partners – willing or not – in ensuring the future of CFAC here." The next seven years, however, would see CFAC encounter one hurdle after another as plant workers continued to toll alumina for other customers, comply with state air pollution regulations, and keep the smelter's aging equipment operating beyond its rated capacity. Two of the hurdles were beyond the company's control – aluminum market changes and increasing power prices. The third hurdle was well within CFAC's control – making sure the employees got their fair share of the company's profits.

Global market impacts

By July 1988, the market price of aluminum had climbed to $1.30 per pound on the London Metals Exchange and $1.20 per pound on the Midwest Transaction Price index. According to CFAC spokesman Jack Canavan, demand for aluminum continued to outstrip supply. "Everyone is a little nervous with these prices," he said. The current prices were the highest he had ever seen for aluminum, and Canavan suggested several reasons for the rise. Inventories of aluminum had sharply declined in the mid-1980s due to economic situations, but after that the U.S. dollar lost value on international markets and more aluminum was sold to foreign markets, which further reduced inventories. [6] Strong metal prices that year generated larger than expected profit-sharing checks for the workers that year, and no doubt helped generate support for a new labor contract. On Oct. 17, CFAC's hourly workers voted to extend their existing labor contract for another three years. The agreement came one month before the contract was

scheduled to expire on Nov. 19. The contract signed in fall 1985 soon after CFAC was created had reduced wages and benefits by 31.3% but, with significant improvements in the aluminum market, profit-sharing appeared to be making up the difference. [7]

A blizzard descended on the Flathead Valley in the first week of February 1989, bringing with it severe cold and winds. CFAC continued to operate around the clock, but the extreme weather led to a 25% power curtailment by the Bonneville Power Administration on Feb. 3, 1989. The BPA arranged to purchase power for CFAC from outside the Pacific Northwest. Instead of shutting down any potlines, CFAC reduced current to its reduction pots from 105,000 amps to 90,000. Loss in production was directly proportional to the reduction in electrical current. [8] On Sept. 17, 1990, CFAC marked its fifth year in operation since it took over the aluminum plant from ARCO. The company's success included firm alumina tolling contracts for the next five years that provided secure jobs for 746 employees. Jack Canavan attributed the company's success to the employees and the community. "The employees themselves are responsible," he said. "If it wasn't for their dedication and commitment to making the company run, it wouldn't have." He also pointed to the backing the company received from the community during its transition. "Without that, it would have been much more difficult," he said. [9]

On Oct. 19 and 20, 1990, union workers voted 234 to 137 in favor of new shift schedules at the CFAC plant. The agreement, worked out between company management and the Aluminum Workers Trades Council, ended the 8-hour 3-shift around-the-clock system in use since the plant began operating in 1955 and replaced it with a new system of 12-hour shifts. The call for new schedules was initiated by production workers seeking a new lifestyle, according to AWTC Secretary Jim Schmauch. The new schedules answered this need by providing one straight week off in each 28-day period. [10] Schmauch said the new shift schedule had been adopted by CFAC's security force earlier in the year. A team of management and hourly employees had visited two aluminum plants in Oregon and Washington earlier in the year to study how they had implemented their new 12-hour shift arrangement. Beginning Jan. 7, 1991, shift workers would switch to the new 28-day schedule – four day shifts on, seven day shifts off, four night shifts on, three day shifts off, three day shifts on, one day shift off, three night shifts on, and finally three day shifts off. [11]

CFAC's prominent role in the local economy continued into the 1990s. In July 1991, while commenting on the centennial anniversary of the city of Columbia Falls, Mayor Ed Toren described a shrinking and shaky timber economy and expressed hope that the tourist industry would help the city prosper in the future. The city had gained notoriety when its population declined in the 1990 census and when the city was put on a

national list of the top-10 endangered cities. Columbia Falls continued to be the center of industry for the Flathead Valley, and many of the city's residents worked at the Plum Creek timber plant or CFAC. [12] Hourly workers approved a new four-year labor contract by 357 to 63 on Nov. 4, 1991, following two weeks of negotiations. According to AWTC President Larry Craft, the vote represented 76% of the plant's 552 hourly workers, the second-highest voter turnout in the plant's history. The new contract provided no pay raises but included some benefit increases, he said. The company had requested a four-year rather than a three-year contract, he said. [13]

After half a decade of tolling for dollars, CFAC workers were awakened to the plant's vulnerabilities by sudden changes in the global aluminum marketplace. The speculative effect of futures markets first became evident on aluminum prices during the 1990s. Aluminum prices no longer followed just supply and demand – it also followed the perceived direction of the market as reflected in the futures exchanges. A major influence in the early 1990s was the collapse of the Soviet Union. To generate hard currency, large quantities of Russian-produced aluminum ingot were shipped to the world market. This took place just as the global economy began a downturn, and the market could not absorb all that Russian metal. This period was characterized by oversupply, decreasing demand, increasing inventories and falling prices. Market conditions changed again by the mid-1990s when production cutbacks, increased demand, declining inventories and the perceived improvement in the global market led to a dramatic rebound in aluminum prices. By the end of the decade, prices began to cycle back down again as an economic crisis in the Asian market exerted pressure on the prices of several commodities, including aluminum. The aluminum market once more appeared to be a victim of oversupply, but the Asian market problems may have hastened the fall of aluminum prices. [14]

Global aluminum markets had experienced momentary gluts of Soviet aluminum in the 1950s and 1960s as the Communist economy artificially spurred aluminum production. The growth of the Soviet Bloc aluminum industry was described in a "secret" Aug. 10, 1954 memo by the CIA's Office of Research and Reports. "There are indications that the Soviet satellites will become self-sufficient in aluminum production during 1954 and that production in the USSR is now on a scale that allows increased allocations for civilian consumption in addition to wider military end-use and increased stockpiling," the report said. "The U.S. and Canada are the only countries which annually produce greater quantities of aluminum than does the USSR." After World War II ended, while aluminum companies around the world were cutting back production, Soviet plants had accelerated output and expanded facilities. "The 10 Soviet aluminum plants are large, integrated installations," the report said. Soviet aluminum capacity had increased 400% from 1943-1953 and was expected to more than double before 1960. [15]

On May 1, 1964, Soviet officials announced the start of operations at a giant new aluminum smelter at Krasnoyarsk in Siberia. The first section of the plant would begin producing 300,000 tons of aluminum per year – nearly double the size of the CFAC plant. The Krasnoyarsk plant was one of four major new industrial centers slated to begin operating in 1964. Statistics from the Soviet Union were difficult to ascertain, but best estimates put aluminum production there at about 1 million tons per year, about half the size of the U.S. aluminum industry. Production in the Soviet Union had doubled since 1957, and more expansion plans were in the works despite a raw materials problem. The Soviet Union possessed very limited supplies of high-grade bauxite and, for political and strategic reasons, did not want to become dependent upon foreign sources, so it turned to new processes to produce alumina from domestic clay deposits. [16] In August 1991, a failed coup d'état was attempted by Communist Party hardliners in the Soviet Union. Russian President Boris Yeltsin played a high-profile role in facing down the coup, marking the end of Communist Party rule in the Soviet Union. Mikhail Gorbachev resigned as the party's secretary-general on Dec. 25, 1991, and the constituent republics emerged as independent post-Soviet states. The Russian Federation assumed the Soviet Union's rights and obligations and became the recognized primary legal successor of the Soviet Union. [17]

The flood of cheap Russian aluminum during the global recession in the early 1990s drove metal prices downward. In early December 1991, CFAC spokesman Jack Canavan told local media that the drop in metal prices was expected to affect profit-sharing checks, which were to be distributed to plant workers the following week. CFAC's strategy for competition was to implement more cost-saving measures, such as spending $270,000 less for natural gas from the Montana Power Co. CFAC paid more than $66.8 million for electrical power in 1991. [18] As aluminum prices fell to 52 cents per pound – the lowest price ever when adjusted for inflation – consumption in the free world also declined about 3% due to a worldwide economic slump. Aluminum companies, however, continued to produce aluminum and increase inventories. [19] As the year rolled to a close, aluminum prices on the London Metal Exchange fell to 48.7 cents per pound, down from 69.3 cents one year earlier and $1.50 in 1989. [20]

Toughing it out

In February 1992, global aluminum prices were severely depressed with a market that had far more capacity to produce aluminum than to consume it. The price on the London Metal Exchange was at 55 cents per pound and was forecasted to either drop as low as 43 cents or to rise as high as 59 cents. According to CFAC co-owner Jerome Broussard, the cost of production for about three-fourths of the world's aluminum producers was higher than the price paid for primary aluminum. That kind of situation

would lead to “a long war of attrition which the lowest cost and/or the best integrated producer will eventually win.” Broussard believed the CFAC plant, despite its age, was well suited to handle the tough times – with no debt to service, no inventories to support and firm tolling contracts with Billiton and Norsk-Hydro through 1995. “If you have a plant like this, you’d better hang onto it or someone will build that billion-dollar plant in Brazil,” Broussard said. [21]

The big variable that could upset the precarious balance for CFAC was the cost of electrical power, Broussard said. CFAC paid more than $67 million for electrical power in 1991, most of which came from the Bonneville Power Administration. Aluminum producers in the Pacific Northwest had negotiated a variable rate from the BPA in the 1980s based on aluminum market prices. When metal prices at the London Metal Exchange were in the cellar, the BPA charged aluminum plants its lowest rate of $17.50 per megawatt-hour. When metal prices went up, the rate increased to as high as $29. Fish remediation projects in the Columbia River basin ordered by the National Marine Fisheries Service, however, could force the BPA to raise electrical power prices. The remediation projects included expensive modifications to the hydroelectric dams as well as cutting the flow of water to turbines, thereby creating power shortages. [22]

By April 1992, the global recession had dampened world aluminum demand, aluminum prices were at 58 cents a pound, and the global stockpile was about twice its normal size at about 1 million tons. Demand was down for building materials and automobiles. Part of the blame was also placed on cheap aluminum ingot from Russia and the cyclical nature of the aluminum industry. In the mid-1980s, depressed prices and an over-supply of aluminum had driven prices down to 45 cents per pound and forced severe production cuts at many aluminum producing plants. As high inventories were used up, prices surged in the late 1980s to as high as $1.40 per pound or more. The high prices of the late 1980s had brought back to life some older plants that were closed or re-energized curtailed potlines, and the result was a surge in production to start the cycle again. [23] CFAC set an all-time production record in 1992, according to operations manager Chuck Clugston. The record was set with 681 employees at the plant, the fewest number of workers ever when the plant was operating at full capacity. For the 366-day period, a total of 374,863,790 pounds of aluminum was produced. The previous 12-month records were 371.2 million pounds in calendar year 1987 and 372.8 million pounds in August 1986 through July 1987. Clugston added that 1992 was also the company’s second-best year for controlling fluoride emissions. [24]

Drought and power plant problems caused momentary cutbacks to Pacific Northwest aluminum producers in 1992. On Aug. 17, Jerome Broussard announced that a drought-related cutback in power from the BPA would cost CFAC $3 million in operating costs.

The BPA had announced it would cut back power to some direct-service industrial customers from Sept. 1 through Dec. 31 and purchase replacement power from elsewhere in the West or from Canada and sell the more expensive power to its DSI customers. The total cutback amounted to 550 megawatts for the Pacific Northwest, about half the power consumed by a city the size of Seattle. The power cutback was not expected to reduce production at the CFAC plant, Jack Canavan said. [25] Four days later, an unexpected event forced another partial power cutback. The BPA began restricting power to CFAC beginning Aug. 21, 1992, following an unscheduled shutdown of the nuclear plant at Hanford, setting CFAC back about $300,000 in operational costs. The BPA's 25% power cutback to its direct-service industry customers from Sept. 1 through Dec. 31 for drought reasons was expected to cost CFAC about $3 million in operational costs, but CFAC planned to keep up production levels by buying additional power on the open market. Aluminum prices remained low at about 60 cents per pound. [26]

CFAC dropped from first- to third-highest property taxpayer in Flathead County in 1993 at $1.5 million, about $59,000 less than in 1992. Altogether, the county collected $51 million in property taxes, with utilities and industry paying the largest share. Plum Creek was ranked number one at about $2.4 million, and Northwestern Telephone Systems was second at about $1.9 million. [27] As CFAC workers plugged away at their jobs in the face of uncertain market and power prices, the profit-sharing dispute led to a management shakeout at the smelter. On Jan. 8, 1993, CFAC President Jerome Broussard and CFAC Chairman Brack Duker announced they would remove themselves from active management of the plant pending a resolution of the employees' profit-sharing lawsuit against the company. [28] In a letter to the CFAC's employees, the two said they would remain owners of the plant and their hands-on successors would be in place by the end of January. [29] On Jan. 27, Jack Canavan announced that CFAC's new president was Richard L. Humphrey, a retired vice president and general manager of Kaiser's primary aluminum products division. Humphrey had spent 34 years with Kaiser before becoming vice president of Dooyang Corporation in Seoul, Korea in 1990 to 1991, where he was responsible for the design of an aluminum smelter to be constructed in Venezuela. Canavan said Humphrey would continue to live in Oakland, Calif. while he was CFAC president. CFAC's new corporate secretary was Charles J. Giroir, a partner in the law firm of Giroir and Gregory in Little Rock, Ark. Giroir would continue to live in Little Rock, Canavan said. [30]

Humphrey announced a corporate reorganization on Feb. 24 that made Lee Smith vice president of external affairs. Smith began working at the plant in 1956 and had been plant manager since 1985. In his new position, Smith would be responsible for energy, environment, and public and governmental affairs. Humphrey explained that Smith's new job was created because "our company's very survival is virtually dependent on

things that are beyond our ability to control," such as energy costs and availability, environmental regulation and tax issues. [31] Smith, a native of Butte, received a bachelor's in chemical engineering from Montana State University in 1956. He was first employed at Columbia Falls in June 1956 as a chemical engineer and served as paste plant superintendent, assistant potline superintendent and potline superintendent. Over the years, Smith also served on the Columbia Falls City Council as a councilor and council president. [32] Humphrey also announced that John Cook, a former project manager at Kaiser's headquarters in Oakland, would take over CFAC's plant operations. Cook was born in Yorkshire, England, and earned degrees in mining and mechanical engineering in England. He began working with Kaiser in 1966, where he held engineering and management positions in Ghana, the Arabian Gulf, the United Kingdom and the U.S. Cook planned to move to Montana with his wife by mid-March. [33] The management shakeup continued when Humphrey surprised all plant personnel by abruptly resigning as CFAC president on March 24 after only two months on the job. Cook and Smith took over leadership of the plant for the time being. CFAC's board of directors met in Missoula on March 24, but no long-term decision was made about replacing Humphrey. [34]

Power curtailment

Tying the price of power for Pacific Northwest aluminum producers to the global price of aluminum had worked for the BPA and the smelters until new reasons for rate hikes came along. On Jan. 8, 1993, the BPA proposed a rate increase of 11%, larger than all rate hikes combined over the past 10 years. The BPA blamed the rate hike on the need to improve fish runs around hydroelectric dams and to meet the growing demand for electrical power. The federal agency had recently begun purchasing power from Southern California after years of selling power to the region over the Pacific Northwest-Pacific Southwest Intertie. The BPA's financial reserves were down by $500 million, which threatened the agency's ability to make its annual payment to the federal government for long-term investments in the Columbia River dams. In October 1992, the BPA had paid the U.S. Treasury $678 million, leaving only $365 million in reserves. The new proposal for a rate increase also called for an additional increase in rates by 10% if the financial reserves fell below the level needed to make the annual federal payments. It was estimated that the rate increases would mean increased electrical costs to CFAC by 11.6% for guaranteed power and 11.5% for power available during times of surplus. [35]

On top of the rate hike proposal, the BPA was still hampered by drought and needed to curtail power. On Jan. 12, 1993, the BPA notified its 15 direct-service industry customers that beginning Jan. 16 the agency would cut off interruptible power for six weeks –

considered a new record for the BPA. The 10 Pacific Northwest aluminum smelters, which produced about 40% of the nation's aluminum, accounted for most of the interruptible power sold by the BPA. A combination of drought and cold weather caused the problem, BPA Deputy Administrator Jack Robertson said. The BPA had tried to deal with drought conditions that had more or less ended in 1992 by setting aside $50 million for extra power purchases in the winter of 1992-1993, but the coldest winter in years had boosted energy consumption and even caused water in hydropower reservoirs to freeze. Rivers and streams feeding the Columbia River were running on average 50% below normal flow, Robertson said. [36] In 1993, CFAC shut down 180 of its 600 reduction pots as a result of the power shortages. Restarting costs were around $6 million by the time operations returned to normal in spring 1995. [37] With the BPA curtailing power to CFAC by 25%, the company reduced production and cut its workforce twice, eventually reaching 75% capacity. [38]

CFAC faced double setbacks from the BPA in early January 1993 – a 25% cutback in power because of low reservoirs and proposed rate increases of 11.6% for firm power and 11.5% for interruptible power. The BPA cited several reasons for the rate hike, including drought, the cost of salmon restoration efforts and the growing demand for power in the Pacific Northwest economy. [39] The power cutback was expected to last through February 1993. In response, CFAC announced on Jan. 13 that it would shut down 1 1/2 potlines, or 30% of its total capacity. Jack Canavan explained that when the BPA had cut back power in August 1992, CFAC was able to find higher-cost alternative sources of power, but with the combination of drought, cold weather and economic growth, alternative power could not be found. The BPA's action affected the entire Pacific Northwest aluminum industry. Alcoa announced it would shut down one of five potlines at its Wenatchee smelter. [40]

The BPA was permitted to cut power to direct-service industries if the power was needed by residences and other preference customers. [41] With the 25% power cutback possibly lasting until April, CFAC offered employees a chance to use vacation time during the curtailment to avoid laying off skilled workers. But by late-January 1993, seven workers had been laid off because there were not enough eligible workers taking vacations. [42] The first employees to be laid off on Jan. 22 were three employees in the company's accounting office, but CFAC managed to keep the rest of its workers on the payroll. [43] By March, the plant's workforce had lost 88 workers as a result of the power curtailment. The company had shut down 180 pots in January, but 30 pots were restarted. [44] Humphrey said the 88 employees were no longer working due to layoffs, sick leave, unplanned vacations, reorganization or early retirement. Humphrey said the plant would be operating at 75% capacity "for the foreseeable future." [45]

Donna Mast and Ann Everett were among the 88 workers trimmed from the CFAC workforce. Mast, at 60 the oldest woman at the plant, had been at the aluminum plant since 1979, where she worked as a tapper or a pot tender. The layoff was Mast's fourth, including a 2 1/2-year layoff in 1981 to 1982, but she was trying to remain optimistic. "There's not much you can do except take it day by day and have faith that things will open up again," she said. Mast was able to find odd jobs during previous layoffs, but she never gave up hope she could return to her job in the potlines. Everett was angry about the situation. "It's kind of like a kick in the teeth," she said. "After four and a half years, they say 'we don't need you anymore.'" Everett's husband was a logger idled by winter weather, and the layoff came at a bad time for her family. "Things are looking kind of bleak right now," she said. "It's going to be tough for all of us. There's no way to find a job that will pay as well." [46]

Dave Bennett, who had worked for CFAC for 4 1/2 years, planned to look for new work immediately. "Unemployment just doesn't cut it," he said. Bennett's wife worked full-time, but he believed his family could not make it without two incomes. Carl Ladenburg, who had worked as a laborer at CFAC for four years, also planned to look for new work right away. "There are jobs out there if you want to work," he said. CFAC was in the process of setting up employee assistance programs through the Montana Job Service and the AFL-CIO, according to Steve Seifert, CFAC's personnel director. Of the 88 jobs trimmed from the plant, 69 were direct layoffs and 19 were attributed to retirements, attrition and reorganization. When the plant restarted 30 of the 180 pots idled beginning March 1, thirty-seven workers were brought back. Some CFAC officials predicted the power curtailment could last the whole year – or maybe longer. [47] In the third week of March, the BPA announced it would extend the power curtailment past April 1 to April 14. CFAC postponed plans to restart another 30 idled pots because of the BPA's two-week extension announcement. The estimated total cost for restarting the 30 pots in March was $500,000. The power curtailment forced CFAC to reduce its workforce by 125, most of whom used vacation time to wait out the slowdown. Meanwhile, CFAC told its tolling customers to expect only 75% of the aluminum called for in their contracts. [48]

While CFAC struggled with BPA power problems, metal prices continued to fall. In late March 1993, the Wall Street Journal reported that global aluminum prices were at their lowest in history and "virtually all major producers have dipped into the red." CFAC management said their plant could continue to operate profitably by using a business strategy aimed at surviving hard times in the cyclical aluminum industry. That translated into tolling as a swing plant. [49] While metal prices fell, increased foreign competition could be found all over the world, including Canada, Australia, Norway and Russia. Analysts also saw potential competition in new places – Venezuela had ample supplies

of bauxite and 10,000 megawatts of installed electrical capacity not being used to produce aluminum, compared to the 3,000 megawatts used by all the direct-service industries in the Pacific Northwest combined. [50] In October, Sen. Max Baucus said he was lobbying the Clinton administration to see if there was some way to address the "disastrous" impact of Russian aluminum flooding global markets. In a letter signed by 22 other senators, Baucus warned about the number of American jobs lost and the impacts to a vital U.S. industry. Russian aluminum exports to the U.S. had grown from about 1,500 tons per year to 14,000 in 1992 and then to 230,000 tons in the first seven months of 1993 – a 15-fold increase. During the same time period, U.S. aluminum production was cut back by about 600,000 tons and more than 5% of U.S. aluminum plant workers were idled. "My objective is to make sure that companies like CFAC are able to operate on a level playing field," Baucus said. [51]

The third big rally

Flathead residents and government officials had rallied in large numbers to show support for lower power prices during BPA hearings at the Columbia Falls High School on April 22, 1985, and Jan. 29, 1986. A third rally took place on June 1, 1993. Sen. Baucus helped arrange the meeting with BPA Administrator Randy Hardy to allow residents an opportunity to comment on the BPA's proposed 24% rate hike before the agency made its decision on June 30. [52] The rate hike was the topic of numerous public talks in the two months leading up to the rally. In April, Lee Smith told the media that CFAC would be "in trouble" if the BPA raised its rates 22% to 25% as was being proposed. He stopped short of saying that the company might "shut down" if the rate effect went into effect and aluminum prices remained low. "I don't like to use those words," he said. Smith was interviewed after another company spokesman had used stronger language to explain CFAC's position should power rates increase. [53] Smith explained at a Columbia Falls Chamber of Commerce meeting on April 13 that the BPA was in "deep, deep trouble," and as a result the aluminum industry in the Pacific Northwest might be, too. Smith called on local residents to pressure Montana's congressional delegation to take action on power costs. As a result of drought, power shortages, falling revenues from customers and costly conservation measures, the BPA had proposed raising power rates in October 1993, he said. The BPA had initially proposed an 11% rate increase, Smith said, but in the past three months the agency had discovered 11% would not be enough and began negotiations with its customers. The BPA opened with a proposal for a 28% rate increase, and by 1996 rates would be 50% higher than current rates in 1993, Smith said. [54]

A rate increase of just 20% would cost CFAC $14 million per year, Smith told the Chamber group. "BPA could find itself priced right out of the market," he said, especially

if some aluminum companies in the Pacific Northwest were forced to close. "Independent power producers are arching the region like a bunch of vultures" hoping to sell power to aluminum plants at lower prices, he noted. In addition, a BTU tax proposed by President Bill Clinton could add 12% to the cost of making aluminum. The aluminum industry argued that smelting should be exempt from the BTU tax as a non-fuel use of electrical power. The BPA's income from aluminum producers had declined in recent years because the power rate was tied to the world price of aluminum, and as prices fell to an extreme low at 50 cents per pound, so did revenue from power sales. A drought in the Pacific Northwest had caused a 25% curtailment in power to aluminum producers, further reducing revenues. Smith noted that a mandate to finance conservation efforts to benefit salmon in the Columbia River could cost the BPA as much as $40 million in 1993 and maybe $200 million per year after that. [55]

Smith also praised BPA Administrator Randy Hardy for recently announced efforts to put the BPA on a sound financial footing, but he questioned whether Hardy could cut costs enough – the BPA had only recognized its dire situation in the past three months. Smith also pointed to the positive economic impact of the aluminum plant on the Flathead. The plant's average annual base payroll was $18 million, with an additional $12 million in profit-sharing payments. The combined personal and corporate income taxes for the plant totaled $3.3 million. County property taxes paid by CFAC in 1992 were $1.5 million, about 4% of the county budget. CFAC spent $427,000 on various supply purchases in Columbia Falls in 1992 and $2.2 million in Flathead County as a whole. Annual average power costs for the plant were $65.5 million. If the plant shut down, the cost to the state in unemployment payments would be $4.1 million, but each one of the 591 jobs at the plant created two support jobs in the local community, Smith noted. [56]

On May 4, Smith addressed a Flathead Business and Industry luncheon and talked about the proposed power rate increases. CFAC was operating at 75% capacity with 146 workers laid off resulting from a drought-related 25% reduction in power by the BPA, he said. The plant had stayed profitable throughout 1992 while most aluminum plants in the Pacific Northwest had lost money. The next 12 to 24 months would be critical for the global aluminum industry, he said, since the market was flooded with cheap aluminum from the former-Soviet Union. With all this in play, a BPA rate increase of 14% to 15% would put the CFAC plant in the red by autumn 1993, Smith said. The BPA's proposed rate increase, combined with an energy tax proposed by the Clinton administration, could raise CFAC's energy costs by a third. The BPA was in financial trouble, with nearly $250 million in losses for 1993 resulting from its high-cost operations, and the agency was in the process of making cost-cutting moves in an effort to reduce its proposed rate increases. Smith noted that Sen. Baucus, a ranking member

of the Senate Finance Committee, had supported the aluminum industry in the debate over power rate increases in Congress. [57]

In May, CFAC sent out requests to 30 or 40 electrical power suppliers in a search for alternative power sources. The requests were left open to proposals for anywhere from 25% to 100% of the plant's needs, with a 10-year commitment if possible, Smith told media. CFAC's power contract with the BPA extended through 2001. The smelter used 340 megawatts of power, and CFAC had paid the BPA on average $65 million per year since 1985. The company anticipated the BPA would announce on July 2 that rates would increase by 15% to 20% beginning in October. Smith pointed out that if drought conditions continued in the Pacific Northwest, more rate increases could follow, even as high as 50% by 1996. "It's real easy to put together a sequence of events that puts Bonneville up there at ($30 per megawatt-hour), and we can't stand that," Smith said. By June, the company was paying $18 per megawatt-hour based on a variable rate tied to the world price of aluminum, and world prices for aluminum were at a record low. Smith warned that future rate hikes could price the BPA out of the market – a gas-fired turbine plant could produce power for only $30 per megawatt-hour, he noted. [58]

The May 27, 1993, issue of the Hungry Horse News was filled with stories about the upcoming meeting with BPA officials at the Columbia Falls High School gymnasium on June 1. Smith and other CFAC officials encouraged local residents to attend the meeting. Citing a $250 million loss in the first quarter of 1993 and year-end reserves down by $360 million to $100 million by mid-March, the BPA had announced it would make a decision on a proposed 24% rate hike by June 30. The agency also said it would slash administrative costs by 50%, but Smith said that wasn't enough. "We want people to ask the question, 'Why do you need a rate increase of this magnitude when you could do a lot more to clean up your own act?'" Smith said. "We're hoping to get as many people to turn out as we can." CFAC had unsuccessfully tried to negotiate a rate increase closer to the 10% range and warned an excessive rate hike could force the plant to shut down, he said. [59] "It's critical that we get our message to Hardy now because he'll have to make some preliminary decisions on the rates by the end of June," Smith said. He and other CFAC officials wanted to drive home the message that the entire Pacific Northwest region was built around the BPA's hydroelectric power and that the BPA must consider its effects on industry. [60] In an editorial in the same issue, Hungry Horse News publisher Brian Kennedy urged residents to attend the meeting and call for no more than a 10% rate hike. Kennedy reminded readers about a similar meeting in April 1985 when 3,200 people showed up. "CFAC remains the valley's largest taxpayer and its second largest employer," he wrote. "Its closure would affect everyone financially." [61]

About 1,200 local residents showed up at high school gym on June 1. While BPA Administrator Randy Hardy appeared at times to be sympathetic to residents' claims about job losses and economic impacts, it was a bitter pill for residents to hear him say that the BPA could do better financially if the aluminum plants no longer operated in the Pacific Northwest. "You need to understand what you're up against," Hardy said. "There are many that would argue that the aluminum industry should go away." If half the region's aluminum plants closed, the BPA could save 1,500 megawatts in the long-term and reallocate that power to other purposes. In the short-term, however, the BPA would lose important revenue, he said. CFAC had shut down about 25% of its capacity in January when the BPA cut back some of the smelter's interruptible power, and the BPA had made significant cuts in administrative costs, but not enough to satisfy CFAC officials. "BPA has to stand some pain," CFAC Vice President John Cook told the crowd in the gym, disputing the need for a 20% rate hike. When a member of the public said excessive draw downs at the Hungry Horse Dam was harming fishing and recreation, Hardy replied, "You tell me, what's the choice? It's a recreation versus power trade-off." [62]

Many of the residents at the June 1 meeting sported badges reading "10 percent or less" in response to the proposed 20% rate hike. The crowd was dominated by CFAC workers and questions were cordial but critical, with pleas to protect families and jobs. Hardy, who became the BPA administrator in 1991, said the rate increase would be "measurably below 20 percent." The BPA had expected to end 1993 with reserves of $1 billion, but by June 1993 the figure was projected to be only $90 million. The BPA lost $250 million in March through May alone. Columbia Falls City Councilor Colleen Allison, the former mayor, asked Hardy how the BPA would manage if the aluminum plants went out of business. He explained that special interest groups believed power used by the aluminum industry should be used instead to meet growing power demand in the Pacific Northwest, thereby saving the BPA the high cost of building new generating and transmission capacity. Hardy explained that the 10 aluminum companies in the Pacific Northwest used about 3,000 megawatts at full capacity that could be allocated for other uses but, he added, "I can't conceive of losing all 10 of the aluminum plants." He also noted that new Environmental Protection Agency emission-control regulations that required a major investment by the aluminum plants could also affect the industry. When asked about delaying the BPA's required payments to the U.S. Treasury, Hardy said severe political repercussions would result. Politicians from parts of the U.S. where electrical rates were much higher would have no sympathy for the Pacific Northwest, he noted, and they would demand a payment plan with even higher rates. [63]

State Rep. Doug Wagner of Hungry Horse questioned Hardy at the meeting about the BPA's administrative efficiency, calling it "pretty extravagant." Hardy explained that the

BPA planned on cutting administrative costs by 50% in 1993, but he conceded that no amount of administrative cutting would compensate for the loss of revenue from aluminum plants, and possibly the BPA would default on its U.S. Treasury payments. The BPA was trying to streamline operations and become more competitive, he said, but about 85% of the BPA's $2.4 billion budget was tied to fixed costs. Some residents criticized the BPA's mandate to protect salmon in the Columbia River. R. Glenn Kennedy, a former CFAC employee who helped build the aluminum plant in the 1950s, argued that the fishing industry should pay for the costs of restoring salmon, a comment that drew resounding applause. Others argued that severe reservoir draw-downs would not benefit salmon, comparing it to draining a bank account. Hardy conceded that scientific evidence about the benefits of the draw-downs was controversial, but he pointed out that federal wildlife agencies had directed the BPA to use draw-downs to help the salmon. [64] Sen. Baucus commented on the impact of Hardy's trip to Columbia Falls several days later. "The lion's share of the credit goes to the people of Columbia Falls who turned out in such great numbers to tell Mr. Hardy how important the plant is to the Flathead Valley," he said. Baucus said Hardy recalled in particular a comment by Lloyd Fine, a CFAC employee, who asked the BPA administrator to "remember Kerry," Fine's daughter, who would not be able to attend college if her father was laid off at the plant. [65]

On June 6, 1993, McGuire Research Services of Nevada conducted a poll of 373 residents in the Flathead to determine how residents rated their economic situation. The professional poll was commissioned by CFAC while the BPA was still considering rate hikes for Pacific Northwest aluminum plants. Some respondents were CFAC employees. The poll found that 86% of Flathead residents believed they had a better quality of life than people elsewhere. About 42% expected to be worse off one year later while 21% expected to be better off. Looking back, about 32% believed they were worse off than a year ago while 18% believed they were better off. Economic security was cited as the top concern, followed by personal health and then education for children. Of five economic issues impacting people's lives, taxes were named as most important by 30%, with unemployment chosen by 26%. Nearly 70% of respondents believed the U.S. as a whole had "gotten off on the wrong track," while 19% said things were going in the right direction. Limiting their opinion to just the Flathead Valley, 49% said things were on the wrong track and 36% said things were going in the right direction. The survey found that 73% of respondents had a favorable impression of CFAC, while 28% had a favorable view of the BPA and 44% had a negative view of the BPA. Regarding the CFAC profit-sharing lawsuits, 73% said they were aware of the lawsuits and 70% tended to agree with the employees over the company's management and owners. [66]

As the public awaited word on the BPA's wholesale power rate increase, John Carr, executive director of Direct Service Industries Inc., spoke to media about the proposal. "Any rate increase is going to be hard to handle in the current market," he said. Global aluminum prices were at record lows, hovering between 50 and 55 cents per pound at the London Metal Exchange, which was less than the break-even mark, he said. Lee Smith said the impact of a 16% rate hike on CFAC would depend on what the price of aluminum was when the rate took effect in October, but a 16% rate hike "is going to make this plant very marginal, at today's metal prices. Some months you'll make money, and some months you'll lose money." [67]

Another rate hike

On July 1, 1993, the BPA announced it intended to raise power rates for aluminum plants by 14% beginning in October. CFAC had until July 14 to respond to the rate proposal. The increase would cost CFAC nearly $9 million more per year, depending on aluminum prices. With aluminum prices at 55.8 cents per pound, up 3 cents from a month ago, the plant could just sustain the rate increase. The 14% rate increase was the most that CFAC officials said the company could absorb without closing down, but it was only half the 28% increase the BPA had wanted during negotiations. "I have to believe the meeting in Columbia Falls had some impact," Smith told media. "I'm convinced it did." Smith also credited Sen. Baucus with coaxing the BPA to better manage its business, but Smith was critical of how the BPA charged ratepayers for drought-related losses after the losses were recovered in two years. He claimed that half the new rate increase amounted to charges for past drought costs. [68]

The 14% rate hike would impact nine aluminum smelters in the Pacific Northwest. "It's difficult to say I'm real happy that it was only 14 percent, because I'm not," said Chuck Reali, vice president and general manager of the Vanalco smelter in Vancouver, Wash. The BPA rate change proposal also included a change in the way power rates for aluminum smelters would be tied to world aluminum prices. Beginning Oct. 1, the power rate would be tied to median aluminum prices, which would translate into an overall rate hike of 18% for aluminum smelters. Some members of the Northwest Power Planning Council said they worried the rate hike was insufficient to help the BPA meet its obligations to the U.S. Treasury and to provide for fish and wildlife mitigation. Council member Ted Hallock of Oregon suggested the rate hike should have been closer to 20%, adding, "I think the utilities and industry have an out-of-proportion voice in running the Columbia and Snake river system, and more attention has to be paid to what Congress wants us to do." Council Chairman Stan Grace of Montana disagreed. He argued that deep cuts in BPA programs would not be necessary after Randy Hardy had launched

cost-cutting measures earlier in 1993 that were expected to reduce the BPA budget in 1994-1995 by $459 million. [69]

Sen. Baucus responded to the proposed rate hike on July 2, noting that Montanans could live with the 14.6% hike. Baucus said he was confident the higher rate "will not throw employees at the Columbia Falls aluminum factory out of work." Baucus said he believed the lower-than-expected rate hike was a direct result of the large turnout at the June 1 meeting between Hardy and Flathead residents. Gov. Marc Racicot, however, expressed concerns that the rate hikes could impact the state's economy. [70] Lee Smith warned that the rate hike could put the company in the red by fall 1993. The rate increase was less than the 20% proposed earlier by the BPA and averaged 14% across the board, but it amounted to nearly 18% for CFAC, he said. [71] CFAC would pay 17.9% more for power until aluminum prices climbed above 61.6 cents per pound, Smith explained. But if metal prices rose to $1.02 per pound, the effective rate increase would be only 11.2% because the BPA power rate would have increased anyway as a result of the variable rate structure tied to metal prices. CFAC, however, did not expect metal prices to rise much through 1993, and the company forecasted it would be operating in a loss situation by the fourth quarter, Smith said. [72]

By late July 1993, CFAC faced aluminum prices at a 30-year low, a future power rate hike of 18%, a 25% production curtailment with 88 workers laid off, lawsuits by CFAC employees seeking missing profit-sharing payments, and possible energy taxes proposed by President Clinton. Plant managers expressed grim optimism that the company could survive the tough times with its "lean, mean, aluminum-producing machine." The smelter had set a production record in 1992, and crews had recently installed $60,000 worth of new casting equipment in order to produce ingots for Kaiser's Trentwood rolling mill in Spokane. The plant was also trying to reduce electrical consumption – a one-tenth of a volt drop per reduction pot would save the plant about $1.25 million per year. "I see a well-built facility here, and a good work force," John Cook said. "This plant continues to improve its performance." [73]

Lee Smith acknowledged to media that CFAC used older Soderberg pots rather than prebake pots, but the Soderberg pots were by no means a dinosaur, and converting the plant to prebake pots was prohibitively expensive. The plant was also trimming its workforce – its current workforce of 590 employees was the smallest in the plant's history. Since the smelter fired up its fifth potline in 1969, the plant generally employed from 1,000 to 1,100 employees. Laid off workers also were adapting to the new times. Tim Werner, who was laid off after working for CFAC for five years, was preparing to move to Texas where he had work lined up as a mortician. Stan Downen, 59, was still awaiting a call back to the smelter. "There ain't many jobs for a guy my age," he said.

"I'll be able to get by on my unemployment for now. I'm fourth or fifth on the list to go back." Ann Everett also awaited a call back. "I haven't found a job yet," she said. "And I won't find one that pays as good." According to CFAC personnel director Steve Seifert, unemployment benefits for workers laid off in March would begin to run out by Sept. 6. CFAC had tried to extend benefits by using the federal Trade Adjustments Act but was denied. [74]

On Aug. 23, John Cook notified CFAC employees that 32 salary jobs would be cut by early September, downsizing salaried staff by about a third. More salaried positions could be cut in the future, Cook noted. The cuts would add to the layoff of 14 salary employees and 82 hourly workers at the plant since January, but no more cuts were planned for hourly employees, Cook said. The letter also asked for volunteers to leave in order to avoid forcing additional layoffs. If there weren't enough volunteers, salaried employees would be laid off based on position and job performance. An undisclosed financial package was available for volunteers. "We can no longer place people on temporary layoff status and hope that business will improve," Cook said. "The time has come to permanently address our organization's deficiencies." In addition to restructuring management staff, Cook hoped to change the way the company did business with suppliers, the BPA and transportation companies. CFAC could turn to contracting out services, which would offer a chance for laid-off salaried employees to return to work at the plant as outside contractors, Cook said. [75]

According to Cook's Aug. 23 memo, Smith would continue as vice-president in charge of external affairs, and Bob Smollack would become CFAC's full-time power manager in Portland. Harold Lockhart's position as operations support manager would be eliminated, and he would leave the company after 38 years with Anaconda, ARCO and CFAC. Salaried personnel who would continue in their present roles included Chuck Clugston, operations manager, Tom Payne, technical manager, Steve Seifert, employee relations manager, Steve Thomas, information systems supervisor, Jerry Miller, financial coordinator, Allen Barkley, engineering superintendent, and Lyle Phillips and Lyle Lindsley, maintenance superintendents. Purchasing, warehouse and traffic management would be combined under Ken Erickson. [76] In mid-September, CFAC permanently laid off 50 salaried workers, including 32 from all departments and another 14 who were on temporary layoff since January. The staff reductions were the first in a series of planned cost-cutting measures which would bring the plant's total workforce down to 514. The plant typically employed about 700 employees but had turned to contractors, including former employees, to handle some of its work. [77] Before the layoffs began in January, there were 147 salary positions at the plant. Cook tied the layoffs to a restructuring effort to change how the company did business. [78]

George Wilcoxen, one of the salaried employees laid off by CFAC, found himself with a new job as a painter after being helped by the Montana Job Service and the AFL-CIO's Project Challenge. Wilcoxen had been laid off by the plant in the past, but he said he was not prepared for the disappointment and frustration of being unable to provide for his family. "I got really depressed around the time of the layoff," he said. "You have a lot of fears. You have house payments and other bills. There are a lot of guys who have real high house payments, and those things just eat at your gut." Wilcoxen credited support from his family and regular prayer meetings with other aluminum workers at local churches. According to Scott Clarke at the Montana Job Service, the Flathead was not a good place to lose a job in 1993 because of frequent layoffs across the local economy. Only one-third of the jobs in Flathead County paid more than $7 per hour, and options for people who lost high-wage jobs were limited. According to Rita McLeod, a salaried CFAC employee with 20 years at the plant who was laid off in September, "It was very stressful. You put things on hold, and you try to figure out what you're going to do if you get laid off, but you can't make any plans." [79]

BPA raised CFAC's power rates by 14% in October 1993, costing the company about $6.75 million. Another rate increase was expected to take place in 1994. [80] But by Nov. 25, twenty-three of the 88 hourly workers laid off at the smelter in February had returned to work, replacing other workers who had retired or quit. At the same time, four of the 32 salaried workers laid off in September were called back, and another four were "last-minute takers" for a special severance package. Some of the laid-off employees had found work elsewhere in the Flathead. Vicki Bartlett, a single mother with 16 years at CFAC, and Craig Goble, a former CFAC security officer, had found jobs at Costco. Roger Parker, with 20 years in computers, seven with CFAC, began to look for work outside the valley. Beryl Wagner, a maintenance foreman for 27 years at CFAC who opted for voluntary layoff, was managing a mint farm near Kalispell and checking into starting his own business. Mike Chapin, a former security officer at CFAC, was rehired to work in CFAC's laboratory. Howard Rundell and James Schwalk took advantage of job retraining programs and were attending school in Missoula. Rita McLeod, a potline foreman with 20 years at CFAC, was happy to be a housewife while her husband continued working as an athletic director and biology teacher in Whitefish. [81]

In November 1993, officials at CFAC and other direct-service industries expressed support for a measure in Congress that would allow the BPA to sell bonds on Wall Street to pay the principal and interest on the U.S. Treasury loans used to build the federal hydroelectric dams in the Columbia River system. Over the past 60 years, the BPA had borrowed money from the Treasury at 3 1/2% interest to pay for construction of the dams. The Office of Management and Budget, however, said it wanted the money

repaid to the Treasury at the existing interest rate at the time the projects went into service – usually much higher than 3 1/2%. Sen. Baucus said the federal government had attempted to accelerate the BPA's repayment schedule since 1984. The bond measure would protect the BPA from "time consuming, frustrating repayment battles each year," Baucus said. As part of the proposal, the BPA would remain "rate neutral" for the next 15 years. [82]

Seeing red

On Dec. 8, 1993, John Cook sent a memo to all CFAC employees with the simple statement, "Due to the forecasted financial position of the company in 1994, the Board of Directors has determined that there will be no distributable profits for the year 1993." [83] Lee Smith had told media at the end of November that the company continued to be running in the black despite record-low aluminum prices, reduced production and higher electrical rates. [84] But as Cook explained later in December, the plant had run at a loss during November and December, which suggested the plant could be in trouble for 1994. The losses for November and December 1993 were not unexpected, but the outlook for 1994 was bleak and the company wanted to keep more cash in reserve for potential difficulties in 1994, Cook said. As a result, the company's board of directors, composed simply of owners Brack Duker and Jerome Broussard, had decided no profit-sharing checks would be issued for 1993. Cook explained that CFAC had cut its workforce by 124 jobs from a previous workforce of 700 and begun a serious restructuring effort to trim costs by changing the way the company conducted its business. That included looking at reducing labor costs, but when asked if that meant seeking wage concessions, Cook said no exact plans had been worked out. [85]

"It's alarming to say the least," Smith said about running in the red during November and December when questioned by media in late December. "We were in the black until the November books closed. Now that has changed. Our forecast shows we'll finish the year in the red." Aluminum prices had dropped from about 50 cents a pound to 47 to 48 cents in fall 1993, and CFAC management was keeping a close eye on negotiations between the Clinton administration and Russia over exports of cheap aluminum that caused world aluminum prices to plummet. "The forecast for 1994 is really more of the same, as world inventories continue to grow," Smith said. "At this point, my crystal ball is pretty cloudy." [86]

CFAC management continued to issue gloomy forecasts a month later. In early January 1994, Cook predicted that CFAC could run in the red through 1994. The same problems that plagued the company in 1993 continued – record low international aluminum prices, escalating power costs and a shortage of power forcing the plant to run at 75% capacity. "We are facing the East and praying the aluminum price goes up, which is

probably the biggest break we could get," Cook said. That was wishful thinking, he pointed out, because aluminum prices were likely to remain at about 50 cents per pound. A snowy winter would help the power problem, but Cook thought that was unlikely, too. [87] In late January, Smith repeated the grim news for the coming year. He called 1993 a bad year and described two factors which could make things worse for 1994 – continuing low aluminum prices along with electrical shortages and rate increases. [88] While CFAC management claimed the company had run in the red since November, meaning no profit-sharing checks would be issued to plant employees, Platt's Metals Week reported a different story. "The northwest Montana smelter has operated at a profit all year, despite a BPA rate hike costing $9-million, falling aluminum prices, and several employee lawsuits alleging improper distribution of past profit-sharing monies," the trade journal said. Platt's noted that 1993 might be the first year profit-sharing checks were not issued. [89] In April, Smith announced that he would retire from the plant by June 1. He had worked for the plant for 38 years. [90]

Copper, zinc and nickel prices increased in 1994 while prices for aluminum continued to be depressed by the glut of Russian aluminum. As a result, while producers of other base metals increased capacity for production in 1994, aluminum producers did not increase plant capacities. [91] Aluminum market prices had a profound impact on the Pacific Northwest. Growth and economic diversification in the region over the past 15 years had reduced the economic influence of the aluminum industry, which employed 7,500 people and offered among the best-paying manufacturing jobs in the region. Aluminum was Washington State's fourth-largest export, worth $840 million per year, and the aluminum industry contributed $1.6 billion a year to the state's economy. By comparison, the Boeing Company employed 20 times more people, paid 10 times more in wages, and consumed less than 3% of the power consumed by aluminum plants. [92]

As the Pacific Northwest's historical power surplus became a deficit, regional power planners looked for ways to avoid building new power-generating plants that were estimated to cost about $800,000 per megawatt to construct. According to David L. Moison, an aluminum industry consultant, "You can bet that one or more of the smelters up there will be thinking about selling their power back to the BPA. In fact, you might get one smelter to sell the whole amount. At $800,000 a megawatt, 325 megawatts comes to $260 million. I know of at least one smelter up there that would sell out for that in a heartbeat." The BPA had raised power rates to aluminum smelters by 18% in October 1993, and the contract tying power rates to metal prices was slated to end in 1996. Power availability was another problem facing the aluminum companies. With high demand and low snowpack, the BPA had cut power to the region's aluminum smelters by 25% since 1992, forcing the companies to look at power sources outside the BPA. Only two of the region's 10 smelters so far had chosen to purchase outside power,

with the rest opting to operate at 75% capacity. According to Moison, nine out of 10 smelters in the Pacific Northwest were operating below their net operating costs. On the other hand, once the world aluminum market recovered and prices went back up, the global market would need all the region's 1.6 million tons per year of aluminum, Moison said. [93]

The cartel solution

In 1994, U.S. primary aluminum production fell to its lowest level in seven years. Thirteen companies operated 22 aluminum reduction companies across the U.S., with one plant temporarily closed. Montana, Washington and Oregon accounted for 36% of U.S. production. With continued rising inventories and depressed prices during the first half of 1994, U.S. smelters had announced temporary curtailments. A major factor was rising aluminum imports, particularly from Russia. Worldwide, primary aluminum was produced in 43 nations, with the U.S. being the top producer at 17% of total global production followed by Russia at 14% and Canada at 12%. Worldwide production fell by 3% during 1994. [94] In hopes of shoring up declining aluminum prices, the governments of the U.S., the European Union, Norway, Australia, Russia and Canada agreed in 1994 to a voluntary two-year cut of primary aluminum production by 1.5 million to 2 million tons. At the time, primary aluminum inventories were at 2.5 million tons, many times above normal. Less than 1 million tons of inventory was eventually taken out of the world market, but prices increased just the same – by as much as 20 cents per pound from 56 cents. Paul O'Neill, head of Alcoa, was a key player in forming the cartel agreement. By 2001, O'Neill was President George Bush's Treasury Secretary and aluminum was one of the most profitable metal commodities in the world. [95]

The cartel arrangement emerged from a January 1994 meeting of representatives from 17 nations in Brussels, Belgium. Also present were three anti-trust lawyers from the U.S. Department of Justice, who watched as the representatives created what the Wall Street Journal called "the world's newest cartel." The former Soviet Union was rich in natural resources, and one of its most important resources was aluminum. Most of the aluminum produced in the Soviet Union under Communism went to the military, but once the Communists lost power and the Soviet Union broke apart into independent republics, the surplus was exported. In many cases, smelters in the former-Soviet Union were financially near the breaking point and exporting the aluminum was the only logical choice. The cheap aluminum undercut prices of Western aluminum by as much as 50%, and ingots began to stack up on docks in Rotterdam in the Netherlands until no one was sure of the stockpile's size. V. Bond Evans, a former president of Alumax, had flown in a small plane over the Rotterdam docks to take aerial photos. "We started to think at one point, 'My God, what are they going to do with this metal?'" Evans said. [96]

When commodities traders received complaints that sunlight reflecting off the aluminum stored outdoors in Rotterdam was affecting local air-traffic control officers, they were asked to place a tarp over the metal ingots. [97]

Stockpiles at the London Metal Exchange skyrocketed from 58,500 tons at the end of 1989 to 2.5 million tons by the end of 1993, the Wall Street Journal reported. Prices dropped from 93 cents per pound in September 1990 to under 58 cents in September 1993 – too low for many aluminum smelters to operate profitably. In 1992, Alcan lost $112 million and Pechiney lost $36 million. By December 1993, the U.S. aluminum industry had idled 20% of its capacity. Major U.S. and European aluminum producers considered a plan to loan Russia $2 billion to shut down one of its huge smelters for two years while it was modernized, but President Bush shot down the idea as an attempt to prop up prices. The European Trade Commissioner, Sir Leon Brittan, a free-trader, agreed with Bush. In August 1993, the European Union imposed a quota limiting imports of Russian aluminum to 180,000 tons per year, but while the quota did little to bolster aluminum prices, it did galvanize U.S. aluminum companies into seeking help from the government. In September 1993, the Aluminum Association met at the Greenbrier resort in West Virginia where the board turned aside calls for anti-dumping lawsuits against the Russians and instead requested that the U.S. government pursue negotiations with the Russians. U.S. government officials and politicians wanted to encourage the growth of democracy and free markets in Russia and were afraid of sending the Russians the wrong message if they filed anti-dumping lawsuits or caused hardships to Russians by forcing a smelter to close. The State Department pointed out that aluminum exports were one of the few sources of hard currency for the Russians, and it was better for the Russians to export the aluminum than use it for military purposes. [98]

By the time aluminum producers from around the world met in Brussels on Jan. 18 and 19, 1994, aluminum prices had fallen to 50 cents per pound from $1.10 in January 1989. Adjusted for inflation, according to the Aluminum Association, prices in January were the lowest in the industry's history. The huge excess in supply coincided with recessions in many of the world's major economies, so demand was unable to absorb the unusually high supply. The alternatives facing the aluminum industry included allowing the free market to kill off weaker producers until supply and demand reached equilibrium once more, or accepting voluntary production cutbacks that would dry up inventories, speed the recovery of metal prices and allow all producers to survive. Initially some analysts forecasted aluminum prices would rise and stabilize by 1996, but that forecast was based on the assumption that the former Soviet Union would only export 600,000 tons per year. Instead, the East Bloc exported nearly 1.5 million tons per year. According to some industry watchers, the former Soviet Union was willing to cut production so long

as its cuts were matched by cuts in the free world. Facing the need to reduce production by 1.5 million to 2 million tons, the major problem facing negotiators in Brussels was stringent anti-trust regulations in both Europe and the U.S. As one analyst noted, the U.S. government had looked the other way when the steel industry faced a similar crisis, but the industry agreements to cut back were not allowed by the courts. [99]

Finally Russian officials met in Europe with representatives from the Western aluminum producing nations and agreed on setting up mutual production quotas rather than export restraints. U.S. producers, however, worried that the Russian borders were too porous to enforce. Negotiations were hamstrung by the presence of U.S. anti-trust attorneys who hovered over the meetings. Price-fixing was not allowed by the U.S. government, but production quotas were allowed. A goal was set at reducing the world aluminum market by 1.5 million to 2 million tons per year. The Russians agreed to reduce primary aluminum exports by 500,000 tons over a two-year period and were promised $250 million in loans for modernizing its industry. Participants in the agreement insisted the arrangement was not a cartel but was a two-year memorandum of understanding between companies that operated independently. [100]

As part of the Jan. 28, 1994 agreement, the voluntary cartel members promised to provide technological and environmental control assistance to the Russian aluminum producers. In an unwritten agreement, the members also agreed to cut production on their own if the Russians cut production. A number of aluminum producing nations did not attend the conference. [101] In the Jan. 28 memorandum of understanding, the members recognized that the global aluminum industry was facing a grave, exceptional and unforeseen situation caused by an excess supply of primary aluminum. The memorandum stated that the best response would be based on action by individual companies on the basis of fair competition, and that assistance would be provided to the Russian Federation to modernize its aluminum plants. In March, a follow-up meeting took place in Canada where it was decided to set up a Working Group of Experts to help promote a free and competitive world aluminum market. [102] By June, three months after the pact was put into action, there were signs it wasn't working perfectly. For one thing, Moscow was not sending monthly production data, and some analysts believed Moscow was having trouble controlling its own smelters. In the West, some nations were unhappy about the low level of cuts taken by Canadian and Norwegian aluminum producers. [103]

While U.S. aluminum companies supported the Brussels efforts, support was not unanimous in Congress. On Jan. 28, 1994, the same day the Brussels agreement was signed, the U.S. Senate defeated a measure proposed by Sen. Arlen Specter of Pennsylvania that would have interfered with the efforts by the international

conference of aluminum producers to control the dumping of cheap aluminum by Russia. Specter's proposal called for helping Russia by allowing the new nation to use aluminum and other commodities as collateral on loans from the U.S. Sen. Baucus and Sen. John Kerry of Massachusetts spoke against the measure and it was defeated by a vote of 60 to 33. Baucus warned that Specter's measure "would encourage Russia to pursue a policy of dumping in almost every industry" and would destroy the Brussels pact, which he called "the American aluminum industry's guarantee of survival." [104] CFAC spokesman Lee Smith credited Baucus with helping to get the U.S. to sign the memorandum of understanding. Both Montana Sens. Baucus and Conrad Burns fought Specter's amendment, which would have required Russia to set aside primary commodities reserves, such as aluminum, as collateral for loans. Such a deal would have encouraged Russia to continue producing as much aluminum as possible, opponents to the amendment said. Instead, Russia agreed to cut aluminum production by a rate of 300,000 tons per year by April 30 and another 200,000 tons per year by July 31. [105] The U.S. Justice Department followed up by investigating the Brussels memorandum of understanding from 1994 through 1997. The department reported finding no evidence of cartels or other anticompetitive behavior. [106]

BPA offers power

By Nov. 1, 1994, with aluminum selling at 84 cents per pound, the historical average, the BPA offered to sell enough power to CFAC to bring the aluminum smelter back to 100% capacity – but at a higher cost. The plant had been running under a 25% curtailment since January 1993, according to Allen Barkley, CFAC's vice president of external affairs, but because of the enormous expense attached to restarting idled potlines, the decision to accept the BPA offer had to be carefully thought out. CFAC managers estimated that it would cost about $2.5 million to restart the 150 idled reduction pots, and the company wasn't sure if the BPA could guarantee continuance of the added power supply. [107] The BPA's offer came in response to a letter from Direct Service Industries Inc., which reminded the BPA of its contractual obligations to Pacific Northwest aluminum producers. The letter said the BPA should either provide the additional power to restore smelters to 100% capacity or allow the smelters to seek alternative power sources from the open market. The BPA offered to restore the power at the same variable rate the plant was already paying, but the additional power the agency offered was interruptible. CFAC considered that a risk considering the $2.5 million start-up costs for re-energizing its idled pots. The BPA also offered uninterruptible power at a higher rate of $28 per megawatt-hour. [108]

CFAC turned down the BPA's offer on the Nov. 4 deadline date. The BPA had offered 250 megawatts of surplus power to direct-service industries across the Pacific Northwest.

Direct-service industry companies who decided to take the power included Intalco in Ferndale at 28.5 megawatts, Northwest Aluminum in The Dalles at 28 megawatts, Columbia Aluminum in Goldendale at 48 megawatts and the Port Townsend Paper Corp. pulp mill at 1 to 2 megawatts. [109] Barkley explained that unstable international aluminum prices did not support locking CFAC into a deal for more power. If other aluminum plants in the Pacific Northwest opted to purchase more BPA power and produce more aluminum, the aluminum price might drop even further, he noted. [110] Then on Feb. 16, 1995, CFAC officials learned that the BPA might increase power rates by 5.4%, potentially causing electrical costs at the aluminum smelter to increase by $2.5 million. The proposed rate increase needed to go to the Federal Energy Regulatory Commission for approval before going into effect on Jan. 1, 1996. Barkley said CFAC was considering going to the open market in 1996 for 25% of its power needs. Randy Hardy said the rate hike was necessary to account for drought, salmon recovery and increasing debt service for existing generation. The BPA also hoped to reduce costs by $1.9 billion by 2002. [111]

Metal analysts began to issue grim forecasts for the U.S. aluminum industry. In a Feb. 1, 1995 report for the Engineering and Mining Journal, James V. Thompson predicted that primary aluminum smelting would shift away from the U.S. to other areas of the world. “The long-term trend for the United States and perhaps Europe and Japan is for the aluminum smelting industry to become established off shore in countries that have both bauxite and power,” he said. “Some countries with large reserves of petroleum and natural gas in the Middle East have gone into aluminum smelting with imported alumina. The United States and Europe with high labor costs, environmental harassment, high energy costs and no bauxite may soon be relegated to aluminum fabrication only. It is doubtful that anyone has any plans to start a new alumina plant and aluminum smelter in the United States anytime soon.” [112]

Meanwhile, aluminum production was stepping back up in the former Soviet Union. On March 6, 1995, the Russian aluminum industry trade organization, Concern Aluminii, announced that 140,000 tons per year of smelter capacity idled by the Brussels agreement had been put back in operation. There were fears that aluminum plants around the world might follow the Russian lead, causing prices to tumble at the London Metal Exchange. Other analysts pointed out that the increase in production by the Russians would be offset by declines in aluminum inventories, and that the market was over-reacting to the news. [113] In the last week of August 1995, base-metal prices plunged in what was called a “bloodbath” by insiders after several large commodity and hedge funds decided to liquidate their holdings. The affected metals included aluminum, copper, tin, lead and zinc. There was some uncertainty about how the 1994 pact between aluminum producing nations was holding up as more and more idled

potlines were being re-energized. One analyst believed that in the long run, the aluminum market would continue to grow at 3% per year. [114] It had become clear by 1995 that aluminum was a commodity heavily influenced by speculative trading companies and an emerging marketplace of new competing nations. Gone were the days of large vertically-integrated companies holding sway in an oligopoly of six dominant companies.

CFAC management underwent another unexpected change after John Cook, CFAC's general manager, was found dead in his home in Kalispell on March 22, 1995. The sheriff announced that an autopsy would be conducted. A co-worker found his body after Cook failed to show up at the plant for work. Cook's wife, Connie, had reportedly just left for a trip to Spain. Cook came to CFAC in 1993 when the company was in turmoil. CFAC's owners, Brack Duker and Jerome Broussard, had just stepped down and Richard Humphrey, the company's new president, had resigned after only two months on the job. The company was laying off workers as it faced power shortages, higher power rates and historically low metal prices. [115] It was later reported that Cook had died of an apparent heart attack. His obituary in the March 26 Daily Inter Lake noted that he "was instrumental in implementing several belt-tightening measures at the plant to see the operation through tough times." [116] Four days later, CFAC announced that Lee Smith would come out of retirement to serve as interim plant manager. [117]

By March 1995, with CFAC still operating at 75% capacity, the international price of aluminum had climbed from a low of 45 cents per pound in 1993 and 1994 to around $1 by the beginning of 1995 and 84 cents in March. Power shortages continued to plague efforts by the company to take advantage of the higher metal prices. CFAC's power bill for 1994 was $50 million with only 75% of its pots in operation, and the BPA was proposing a rate increase of 5.4% beginning October 1995, which would add from $3.5 million to $4.5 million to the plant's annual power bill. Allen Barkley noted that the proposed rate increase did not take into account the growing costs of salmon recovery efforts in the Columbia River system. Fish mediation efforts cost $350 million in 1994, and Barkley believed those costs might rise by $150 million to $250 million annually. A big question was whether the BPA would pass on fish recovery costs to customers in the Pacific Northwest, or whether Congress would distribute the costs to the nation as a whole, as argued by Pacific Northwest congressional delegations. Although CFAC was looking for other power sources, Barkley explained, for all practical purposes the company was stuck with the BPA. "It is not likely that we will abandon them," Barkley explained. "Our contract with BPA doesn't readily let us get out of the system." That situation could change under a proposed tiered-rate system being considered by the BPA for Pacific Northwest aluminum power contracts beginning in 1996. Aluminum

producers wanted the option to purchase 25% of their power from outside the BPA system. [118]

Circumstances changed in April 1995 when the BPA offered CFAC a special incentive offer to help the company finally restore production from 75% to 100% capacity. The company had postponed making a decision about returning to full production for about two years because of depressed aluminum prices in the world market. [119] On April 14, CFAC President Tom Hodson announced that after two years of curtailed production the aluminum plant would be returning to full capacity. Barkley said the company would begin firing up idled pots on April 17. The restart was made possible when the BPA committed to restoring full power to the plant through July 31, but Barkley and Hodson said they weren't completely sure what would happen after that. The BPA had offered to restore full power to the plant several times in the past 27 months, but CFAC had declined to accept the offers because of poor metal prices and lack of assurances from the BPA about how long the power would be available. In the new offer, the BPA added a special incentive rate that would help pay for the high cost of restarting the pots, which was expected to be about $2 million for CFAC's 150 idled pots. Barkley said that three pots on average would come on line each day, and the plant was expected to be back to full capacity by June 1995. Rehiring would also be done gradually. The plant was down to 525 employees from a normal workforce of 700, and many laid-off employees had left the area or found other work. [120]

By May 7, 1995, CFAC had hired 31 new employees as the plant continued to bring its 150 idled pots back on line. Only six of the new employees were former CFAC employees. Meanwhile CFAC continued to look for a new general manger to replace John Cook. [121] By the first week of June, CFAC was operating at 100% capacity for the first time in two years. Plant workers had successfully completed a $2 million six-week long restarting program for the smelter's 150 idled reduction pots. A total of 51 new workers had been hired, including five who were laid off two years earlier. [122] In July, CFAC announced that Larry Tate was hired to be the company's new vice-president and general manager and to replace Smith and Cook. [123] A graduate of Willamette University in Oregon, Tate had a master's in business administration from the University of Portland. He joined Alcoa in 1967 as a staff industrial engineer and later served as a smelting production manager at Alcoa plants in New York, North Carolina and Brazil before serving four years as manager of the Badin plant in North Carolina. Tate would begin his new post at CFAC on Aug. 1. [124] CFAC was in the midst of arranging long-term labor, power and tolling contracts at the time. All three contracts were secured after Tate arrived, although not without a lot of effort. "I didn't come here to make a mark," Tate said. "I came here to do the job of keeping CFAC focused on making aluminum." [125] CFAC also announced a new compensation package for salaried employees that

increased pay and improved other benefits to bring CFAC's salaried employees in line with other aluminum plants, Hodson said. [126]

Open market power

In July 1995, the BPA announced a plan to reduce power rates for public utilities and aluminum producers while cutting a subsidy that was being enjoyed by three major private utilities serving residential customers. The three utilities – Portland General Electric, Puget Power and Pacific Power – would pay higher rates as a result. The plan was intended to make the BPA more competitive in the open market and was subject to public hearings beginning Sept. 14. [127] By September, however, CFAC announced that it would be buying most of its electrical power from private power companies rather than the BPA. The announcement caught the BPA by surprise at a time when it was proposing cutting rates in order to prevent the loss of important clients. By 1995, the BPA had lost four aluminum plant customers to private power companies, representing $240 million in sales. [128]

CFAC made the surprise announcement on Sept. 12, 1995. The company had historically relied on the BPA for its power, but for 2 1/2 years the plant was forced to run at 75% capacity because of BPA curtailments. Furthermore, CFAC didn't consider the latest power price offered by the BPA to be competitive. Beginning April 1, 1996, CFAC would purchase at least 70% of its power from PacificCorp, the parent of Pacific Power, and Enron, a Houston-based natural gas and energy company. CFAC set up a corporate entity called Hinson Power as an independent power wholesaler to purchase power on the open market and then direct the power to the Columbia Falls smelter without a markup. Flathead Electric Cooperative would deliver the power to the plant for a fee. CFAC had been purchasing 345 megawatts of power from the BPA at a cost of $60 million to $70 million annually. [129]

The BPA reacted to news that CFAC would be purchasing 70% of its power from private sources by sending out new contract proposals the very next day. The existing power contract between CFAC and the BPA was set to expire on Sept. 30. BPA spokesman Perry Gruber said the agency was caught by surprise by CFAC's decision and was concerned. According to Steve Waddington, deputy director of Direct Service Industries Inc., the Sept. 13 rates offered by the BPA were competitive with other suppliers and much better than previous offers, but he expected DSI consumers would still shop around. Kaiser had announced in June it would purchase some of its power from Washington Water Power Co. of Spokane. Northwest Aluminum signed an agreement with Washington Water Power in May. Alcoa's smelter in Wenatchee signed an agreement to buy some of its power from a Texas-based company. [130]

On Sept. 28, six direct-service industry customers signed agreements with the BPA amounting to 1,500 megawatts. By Nov. 6, three more companies had signed agreements, and the total reached 2,100 megawatts, worth $495 million in annual revenues to the BPA. The Department of Energy imposed a threshold on direct-service industry customers requiring them to put at least 80% of their current firm power load on the BPA for the next five years to qualify for a special five-year block sale. This special sale exempted the direct-service industry customers from "stranded investment cost recovery charges," charges that would protect the BPA if too many customers left the system for cheaper power in the recently deregulated power market. The new agreements provided power at a fixed rate of $22.60 per megawatt-hour. Direct-service industry customers signing BPA contracts in September included CFAC, Intalco, Northwest Aluminum and Reynolds. DSI customers signing contracts in October and November included CFAC and Kaiser. [131] The stranded investment exemption would come back to haunt the BPA during the West Coast Energy Crisis.

With plans to purchase 100 of the 345 megawatts needed by the plant from PacifiCorp and Enron, CFAC signed a five-year contract with the BPA in September for the remainder of the plant's needs as firm power. Hodson explained that CFAC and other direct-service industries had been trying to diversify their power sources to avoid over dependence on the BPA, and the result was that the BPA was becoming more responsive to their needs. [132] In mid-October, however, CFAC agreed to purchase 80% of its power from the BPA for five years effective Oct. 1, 1996. The new contract had an additional change. Instead of a contract with variable power rates tied to aluminum prices, rising as high as $26.90 per megawatt-hour, CFAC would pay a fixed price of $22.60 per megawatt-hour. [133]

Then on Nov. 14, 1995, the BPA announced that power generated by the Hungry Horse Dam was being made available to the public after CFAC terminated its 1981 power sales contract and entered into a new five-year contract with the BPA. The Hungry Horse Dam Act specified a geographical preference for a portion of the dam's power to be sold in the state of Montana. [134] It was an historical break for CFAC, since the aluminum plant's origins were tied to the Hungry Horse Dam. By January 1998, the BPA announced it had signed 10-year contracts with eight Montana utilities totaling 170 megawatts for the Hungry Horse Dam power. [135] On Oct. 1, 1996, as CFAC's five-year BPA contract began, the BPA was charging about $23 per megawatt-hour while prices in the open market were about $16 to $17. Some direct-service industries, including aluminum smelters such as CFAC, left the BPA to buy power on the open market. [136] De-regulation, open power markets and the Pacific Northwest-Pacific Southwest Intertie established the conditions leading to the West Coast Energy Crisis in 2000-2001.

40 years old

By the end of 1995, CFAC was celebrating its 40th anniversary. The smelter at the base of Teakettle Mountain was Montana's largest single industrial building, with about 2 million square feet – more than 40 acres – under one roof. The potlines building measured about a quarter of a mile wide by a third of a mile long. CFAC used 350 pieces of heavy equipment to move materials around the plant, including its own railroad locomotive. The plant was Montana's largest consumer of electrical power, continually using 345 megawatts of power, which was 20% more than the maximum output from Hungry Horse Dam and more than enough to power 200,000 homes, or roughly two-thirds of Montana's residential needs. For the BPA, the smelter in Columbia Falls was a good steady market for hydroelectric power which might otherwise be wasted. Wages at the plant started at $13.50 per hour for the 600 hourly and salaried employees. Eleven different unions represented the hourly workers under the joint representation of the Aluminum Workers Trades Council. The average age of the plant's workers was 43. Jobs at the plant were considered good by local and state standards – when CFAC restarted 150 idled pots, 300 people had applied for the 56 new jobs being offered. [137]

Still many of CFAC's workers were not satisfied with their wages in 1995. Machinists at Boeing in Seattle had settled a 60-day strike for $23 per hour while CFAC machinists earned $16 per hour. Compared to aluminum smelters around the world, CFAC ranked somewhere in the middle in terms of efficiency. Despite its age, the plant was continually being rebuilt. The CFAC payroll was expected to reach $20 million in 1995, and the company was expected to spend $2.3 million with local businesses and pay more than $1.5 million in local taxes and $7 million in state taxes and insurance fees. It was expected that 1995 would be a pivotal year for CFAC in three areas – new long-term tolling contracts with Pechiney and Glencore had been signed, new power contracts had been signed guaranteeing electrical power at competitive rates, and a new labor agreement had been signed ensuring a stable work force. Furthermore, aluminum prices had moved upwards to the 70 to 80 cents per pound range for 1994 through 1995. But the company still faced several important problems – employee profit-sharing lawsuits, stiff international competition, morale problems with the workers stemming from the loss of profit-sharing checks, and the prospect of higher waste disposal costs. [138]

By 1996, global aluminum production had reached an estimated 19.3 million tons per year and total capacity was estimated at 22.2 million tons. According to an analyst at the U.S. Bureau of Mines, the aluminum industry tracked well with the general economy of the world. Some analysts believed that aluminum trends anticipated and predicted the rest of the global economy. The world aluminum industry was expected to handle a growth rate of 2% to 4% per year. Aluminum prices had taken a roller-coaster ride since

the 1980s, largely as a result of the collapse of the Soviet Union and a flood of cheap aluminum into the world market. According to a statistics manager at the Aluminum Association, the former Soviet Union had greatly understated its production capacity. The cyclical nature of the aluminum market had much to do with the reduction process, which involved potlines that were difficult to shut down and the need for long-term electrical contracts, with the result that plants were forced to operate even when prices were depressed. [139]

On Oct. 4, 1996, the Wall Street Journal reported that "major aluminum makers, hammered by sagging prices, were expected to post lower third-quarter earnings." The average price of aluminum had fallen 22% to 65 cents per pound in the first quarter and fallen another 7% in the second quarter. High inventories, especially in foreign markets, were blamed for the decline. CFAC General Manager Larry Tate said he believed that price trends were cyclical and he was confident that demand would soon rise again. A costly repair to the smelter's air pollution control equipment had come at a bad time, but it was "the right thing to do," he said. [140] As the price of aluminum hovered in the 70 cents to 75 cents per pound range, CFAC financial controller Jerry Miller commented on the mixed benefits. "That's good for the entire industry," he said. "If it's too high, competing products come in." [141]

CFAC managers were optimistic about the plant's future in early 1996. According to Bob Bean, the potline superintendent, the plant's structure was old but the operating system was constantly being rebuilt. Lyle Phillips, CFAC's human resources director, noted that the most modern technology was used at CFAC to make the most out of the older Soderberg pots. Pots at newer aluminum plants were sometimes three times larger than those at CFAC, produced purer aluminum, were more energy efficient and had better environmental controls. But the cost of building a new plant capable of producing 200,000 tons per year was $1 billion, he noted. Alumina for the CFAC plant was shipped all the way from Australia to a storage facility in Everett, Wash., which was dedicated for use by CFAC. Alumina was then hauled by rail to Columbia Falls. Only the cheap electrical power from Columbia River hydroelectric dams made the Pacific Northwest a viable aluminum-producing area, CFAC managers agreed. [142]

On March 4, 1996, Gov. Marc Racicot and running mate Judy Martz traveled through a winter blizzard to announce his Republican re-election campaign during a whistle stop at the CFAC plant. Workers and management applauded Racicot and endorsed his re-election bid. Racicot said he chose Columbia Falls to make his announcement because of the workers' strong commitment to community and hard work. He acknowledged the profit-sharing dispute but noted that otherwise "this has been a success story of good

Montanans." [143] Racicot praised the plant workers and management for avoiding a strike in fall 1995. [144]

Larry Tate described efforts being made to keep the plant competitive and efficient to the media on July 26, 1996. "We are spending more money this year on our equipment and process improvement than any other year since the inception of CFAC," he said. This included a $400,000 repair to the plant's alumina storage facility in Everett, new forklifts for hauling hot metal around the potlines, and increasing the plant's production of sheet ingot from the current 20% level. Looking to the future, CFAC had a five-year power contract with the BPA that provided guaranteed steady rates and a 12% cost reduction, the Aluminum Workers Trades Council had recently signed a four-year labor contract through October 1999, and CFAC had secured two long-term tolling contracts with Pechiney and Glencore that lasted until Dec. 31, 2000. "They are good folks to work with," Tate said. "They are supporting us, and we are fulfilling their needs." One negative factor remained – the profit-sharing lawsuits filed by the workers against CFAC's owners. "I understand that there are feelings surrounding the lawsuits, and I cannot begin to put myself in their shoes," Tate said. "Every individual is going to have to deal with it as they see fit. My challenge is to try to make this plant competitive to enable it to be here providing these people with jobs." [145] Tate talked about how CFAC remained competitive in a changing world. "We are an old plant, no doubt about that," he said, but even with the older technology, CFAC was operating at 100% capacity while other smelters were not. "To protect this plant, we need to decrease the variability in the things we do daily," he said. If Pechiney or Glencore didn't re-sign their tolling contracts in 2000, other companies existed, Tate said. CFAC's power bill had reached $65 million per year. "As long as power is available to us, I see no situation in which we would reduce our capacity," he said. [146]

According to Tom Payne, CFAC's technical and customer service manager, the company ranked among the top aluminum smelters in the world for metal production per employee in 1998. Over the past two years, CFAC had shipped 437,000 ingots with no customer complaints. About a third of the metal went to the transportation industry. The packaging and container industry took about a quarter of the metal. Another 15% went to the building and construction industry. Future plans included taking in more scrap metal for recycling and producing larger 50,000-pound ingot slabs. [147] CFAC employed 620 workers and paid $24.4 million in wages and salaries, excluding benefits. The average wage and salary was $39,620, about 1.8 times the state average. With non-wage benefits added, the average CFAC wage or salary was $47,070 per year, making CFAC employees among the best paid in Montana. [148]

In comparison Stream International, an Internet service-call company that had recently opened up business in a converted shopping mall in Kalispell, offered 200 job positions that paid less than half what CFAC paid. CFAC's jobs included some of the highest-paying salaries in the state. Based on an economic model, CFAC supported 1,980 direct or indirect jobs in Flathead County, or 4.3% of the county's total employment, with personal income totaling about $65.5 million. The plant's economic multiplier ratio implied that 2.4 people were indirectly supported by every one worker at CFAC. The aluminum plant generated $6.2 million in state and local taxes, mostly from personal and corporate property taxes. CFAC and its employees directly contributed $3.2 million in local taxes, which amounted to about 5.3% of the tax base. [149] CFAC's rank among the county's top taxpayers, however, continued to fall. The top five taxpayers in Flathead County in 1998 were CenturyTel at $2.8 million, Plum Creek Timber at $2.4 million, PacifiCorp at $2.3 million, CFAC at $1.4 million and Montana Power Co. at $1.1 million. [150]

As management continued to point out, one problem persisted at Columbia Falls Aluminum Co. that needed to be resolved. It wasn't one of the normal problems facing aluminum companies – raw material and power prices and supply, or environmental regulations. And it wasn't unions that refused to sign contracts or show up at the plant for work. It was company owners who wouldn't honor their commitments to the workers to share profits.

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