

5. Competitiveness Assessment

- In general, the Canadian softwood lumber industry is considered to be competitive in North American but is very dependent on the U.S. market and is highly specialized to serve the cyclical housing sector with standard structural lumber sizes. While the competitive position of Canadian exports is enhanced by the favourable relative dollar exchange rate, lumber prices in both the U.S. and Canada have become depressed due to oversupply in an intensely competitive environment.
- In offshore markets, the competitive position of Canadian lumber has been seriously weakened due to the high relative value of the dollar. In addition, Scandinavian and European competitors have achieved a higher yield performance with good productivity. In order to improve its competitiveness, the Canadian industry will need to modernize to improve lumber yield, product value and productivity.
- The B.C. coastal industry faces high wood and labour costs and is generally not competitive in North American markets for construction (commodity) grades of lumber. Investment is needed for a structural shift in this sector to adapt to higher value added processing to improve profitability.
- A review of corporate investment in the wood industries shows that capital investment fell by nearly 29 per cent from 1981 to 1982 and by an additional 31 per cent in 1983. Expenditures on repairs in 1982 were only about 38 per cent of normal, indicative of the extremely serious financial difficulties of sector companies. While the results of a capital intentions survey in 1984 indicate that repair expenditures will return to near normal, capital expenditures will likely remain at least 22 per cent below normal levels.
- Under current market conditions characterized by low prices coupled with an outlook for limited growth in demand, there is little to attract investment in the softwood lumber industry. Faced with a tenuous financial situation, many Canadian mills have little option but to continue to operate in order to maintain cash flow. While investment in technically advanced equipment and processes is necessary, the industry is generally not in a financial position to do so.
- The industry will require substantial capital investment in modernization, improved yield, restructuring and product up-grading in order to maintain competitiveness. The capital requirements for the period 1985 to 1990, have been estimated to be in the order of \$1.5 billion.
- The impact on employment resulting from modernization and rationalization is expected to be less in regions which have modern mills with a low labour content. In eastern Canada where there is a proliferation of smaller sawmills and labour content is much higher, modernization and rationalization will have a significant impact on employment. While it is estimated that some 3,500 jobs will be displaced by 1990 the impact of modernization on employment may be offset to a degree by diversification from commodity to upgraded lumber products which entail a higher labour content.
- In view of current industry high debt/equity ratios, a resumption in capital investment programs cannot be expected for at least 2 to 3 years, until balance sheets return to a more healthy position.
- The development and expansion of offshore markets is a key objective for the industry. In this regard activities under the Cooperative Overseas Market Development Program in B.C. and the offshore market development project in Quebec, which are jointly funded by government and industry, will be important.
- The industry in several regions of Canada is operating at the upper limit of economic wood supply. This will require long term solutions in the area of forest management.