

represent major portions of the data. Current industry shipments are estimated at \$1.76 billion compared to \$1.50 billion in 1973. Based on the estimates of industry shipments, the average annual real growth rate for the period 1973 to 1977 was 4.2% and 5.7% for the period 1978 to 1982 with a 10 year average of 5.0%. Employment is currently estimated at 22,000 direct jobs compared to 23,000 in 1973. Despite an increase in the number of establishments and growth in the industry, employment levels have decreased as plants have been modernized and as managers have learned to operate more efficiently with fewer people. The recent economic recession accelerated this process. The sector does, however, in addition to direct employment create a significant number of indirect jobs especially in the area of distribution. Distributors play a large role in the sale of converted paper products especially in the institutional, commercial and wallpaper markets. The industry makes a significant contribution in the area of job creation as estimates reveal that 30.7 jobs are created per thousand tonnes of paper consumed, versus the primary industry which employs 4.3 people per thousand tonnes of product produced.

Although many of the sectors products are traditional, the industry is constantly developing modified products and new products often in response to customer needs, new substrate developments and new technology. This is particularly true in the consumer disposable, wallpaper and packaging subsectors. Although it varies considerably between subsectors, between product lines and between companies, the overall financial picture of the paper converting industry can be described as healthy. Continually rising raw material and labour costs have put pressure on profit levels. The industry, despite this, has remained profitable with gross profits up to 25 per cent and net profits averaging approximately 5 per cent of sales. Other key business ratios of the paper converting industry would suggest that the industry is fairly liquid, and at the same time is conservative in its financial management. For example, the current ratio statistics for the industry show a current asset to current debt ratio of 1.8 to 1. The industry is also well managed financially as the debt to equity ratio is in the range of 60 cents of debt per dollar of tangible net worth. The one area where this differs is in the paper bag business facing a declining market due to plastic substitution and to the trend toward bulk shipments. This has caused most paper bag companies to diversify into plastic bag manufacturing, resulting in the acquisition of new machinery and as a result the contracting of additional long term debt when profit levels were down. In this product line the debt equity ratio is 1.8 to 1.

As is the case with the financial performance, the investment level varies considerably across the industry. The following examples may serve to indicate the level of investment required in the converting industry, which is much less than that required in the primary industry. The replacement cost of a packaging plant, including inventory, with annual sales exceeding \$7 million is estimated at \$12 million. A converting plant in the consumer disposable field capable of generating sales of approximately \$30 million annually is projected to require an investment of \$18 million. Additionally, a small plant producing institutional products with sales totaling \$1.5 million annually would need an investment of \$1 million.

The investment climate in the industry reflects the diversity of companies within the industry. The larger integrated or multi-national operations are well financed and capital spending requirements for modernization and/or expansion are readily available. Smaller companies, which represent a sizable percentage of the industry often suffer from typical small business problems such as the availability of funds to finance modernization or new product development as well as the time and the talent to manage in today's complex business environment.

## 2. Strengths and Weaknesses

Overall, the converted paper products industry in Canada is operating with state-of-the-art equipment and as well utilizes the latest developments in technology and raw material. By and large, the technology is imported from other countries, as is the majority of the equipment. Nonetheless Canadian converters keep abreast of the latest developments in their industry internationally. Additionally, the industry has a reputation of