CONFIDENTIAL

COMPETITIVENESS PROFILE

NEWSPRINT SECTOR

A. Sector Status

- The newsprint sector comprises 43 mills with shipments valued well over $4.0 billion annually.

- Total capacity of the sector is nearly 10 million tonnes with 45 per cent located in Quebec, 21 per cent in Ontario, 18 per cent in B.C. and 16 per cent in the Atlantic provinces.

- In 1984 total newsprint production was 9.0 million tonnes. Of this, 10 per cent were consumed domestically, 74 per cent were exported to the U.S. and 16 per cent to various offshore markets.

- The total direct employment of the sector is 34,000.

- It is estimated that the sector is 63 per cent Canadian owned.

- The five largest newsprint producers are:

  1. Abitibi Price Inc.
  2. CIP Inc.
  3. Consolidated Bathurst Inc.
  4. MacMillan Bloedel Limited
  5. Ontario Paper Co., Ltd.

B. Markets

- Worldwide import requirements for newsprint are about 11 million tonnes or 40 per cent of global newsprint consumption. The U.S. and EEC account for about 9 million tonnes of this demand.

- The United States, Canada's most important market, consumes over 10 million tonnes of newsprint annually, of which over 6 million tonnes are imported from Canada. In addition the U.S. imports 1.3 million tonnes of Canadian groundwood printing paper.

- The EEC consumes about 4 million tonnes of newsprint annually of which 3 million tonnes are imported, mostly from Scandinavia. In the past Canada supplied between 600,000 and 700,000 tonnes, however, in 1984, partly because of the access reducing quota and mainly due to the relative high dollar value, only 537,400 tonnes could be sold.

- Access to the EEC market for Canadian newsprint will continue to be restricted. In spite of a favourable GATT-panel ruling after the EEC unilaterally reduced the newsprint quota the final settlement was only 650,000 tonnes. Since there is little growth in this market and virtually no opportunity to compete for a greater market share the Canadian industry may gradually loose interest in this market.

- Groundwood specialties are not shipped offshore to any extent because most consuming areas are self-sufficient.

C. Investment and Competitive Position

- Because the industry failed to make sufficient investments compared to the U.S. and Scandinavian competition during the 1970s, it now faces serious competitive disadvantages. The situation is aggravated by a worldwide overcapacity which largely disappears during times of high demand but becomes very noticeable when demand drops causing slowdowns and increasing the risk of closures among the less competitive mills.

- Large investments for modernization are urgently required to make Canadian newsprint more price competitive and increase profitability for the producers.

- Profitability is very low in spite of relatively high demand and it is unlikely that companies can generate sufficient capital, either from earnings, equity or additional debt, to bring the industry up to world