

The overwhelming factor in determining competitiveness, however, is feedstock pricing. With the kind of energy policy that existed while most of the present industry was committed or built, the industry would be internationally competitive and would grow. Present energy policy has allowed Canadian oil prices to become market responsive. This will result in no growth and a possible decline with shutdowns in the oil-based sector. Most of the gas-based sector already enjoys feedstock pricing that is below world levels, but not by enough to overcome the freight and tariff penalties incurred by shipping to distant export markets. Implementation of market sensitive pricing for natural gas (by November 1, 1985), under the terms of the Western Accord, may improve the situation but little or no growth is expected in Canada unless and until there is real growth in world energy pricing.

Energy rich developing nations such as Saudi Arabia entering the petrochemical field do not have Canada's well developed industrial base and highly educated, skilled workforce.

Our relatively small population, spread across thousands of miles results in transportation cost penalties and a relatively higher export component of the output from world scale plants than our major competition on the U.S. Gulf Coast.

Initial capital and operating costs are higher in Canada than on the U.S. Gulf Coast because of our severe winter climate.

b) International Trade Related

Most of the new capacity with which Canada will have to compete in export markets will be in developing countries having GSP status in target markets. Canadian products will face significant tariff barriers in entering these same markets.

Trade liberalization with the U.S. on petrochemicals was a recommendation of the 1983/84 Petrochemical Industry Task Force. The options for achieving significant liberalization of trade with the U.S. are under review.

c) Technological Factors

A strength of the industry is that it has modern plants which are world competitive in scale and technology. More than two-thirds of the industry's investments in Canada are less than six years old. In addition additions in the order of \$250 million per year are continuing to be made to petrochemical facilities to add improved technology.

d) Governmental Factors

Federal:

Much of the existing petrochemical investment was made in an environment in which Federal energy policy was aimed at keeping Canadian energy prices below world levels to provide an advantage to Canadian industry. This situation prevailed from 1973 onwards and was reaffirmed