

PETROCHEMICALSEXECUTIVE SUMMARY: PETROCHEMICALSINDUSTRY DESCRIPTION

The petrochemical industry makes up over 60% of the chemical manufacturing industry in Canada. Petrochemical capacity is located in 4 provinces: Alberta, Ontario, Quebec, and British Columbia. The additional capacity in Alberta associated with the 1984 start up of Alberta Gas Ethylene's second world scale unit has resulted in Alberta's dominance. The industry's raw materials are presently derived mainly from crude oil in the east and from natural gas in the west. The companies that are involved in the sector are for the most part large multinationals, the majority being foreign controlled. (Polymer is a large Canadian owned multinational.)

The petrochemical sector is one of the most technologically advanced and highly capital intensive sectors of Canadian manufacturing industry. It has been characterized in the past by high growth rates. Responding to energy policy in the 1970's that was aimed at providing Canadian industry with oil and gas prices below those of their international competitors, the industry invested in world scale facilities and this led to a positive balance of trade for the first time in 1979.

Generally the companies within the sector are financially stable and usually able to weather the periodic economic downturns. The depth and duration of the recent recession seriously affected all companies in the sector and in addition they are experiencing competitive difficulty, particularly in the east, due to the loss of the feedstock cost advantages that they had enjoyed prior to 1982. The situation in the east was so serious that, divided equally between the federal and provincial governments, \$80 million of government assistance was provided to Pétromont in Quebec in the two-year period ending March 31, 1985. The gas based sector suffered substantial losses in 1982, 1983 and 1984 and still has not returned to acceptable profitability.

The petrochemical industry produces a wide range of products that are further upgraded by other industries in Canada into an array of essential industrial and consumer products. These downstream industries employ in excess of 300,000 workers. In addition to domestic requirements there is great potential for primary petrochemicals in export markets. The U.S. is Canada's most important petrochemical market but Japan is also important for western producers. Other Pacific Rim countries, South America and to some extent Europe also have potential for Canadian exports.

INDUSTRY STRENGTHS AND WEAKNESSESa) Structural

Canada has a real advantage in terms of its energy resource position, relative to virtually all other industrialized nations, particularly in natural gas.