DECLASSIFIED = DÉCLASSÉ
EXTERNAL AFFAIRS = AFFAIRES EXTÉRIEURES

CONFIDENTIAL

5. Competitiveness Assessment

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Exempt
15(1)

- labour strife interruptions of production continues to pose a threat to the "supply reputation" of western mills.
- high labour and material cost ratios, a shrinking market and external influences on domestic market prices provide little incentive to eastern mills to modernize production facilities.
- poor corporate financial structures compound the lack of financial means
- western mills are becoming increasingly cost disadvantaged in material and labour elements despite the relatively modern facilities.
- in the major European market, the transportation cost to the market compound the difficulties of western mills.
- western mills cannot participate in the major domestic market - eastern Canada - by reason of high transportation charges.
- thus there is no meaningful offsetting market within Canada so the mills must remain dedicated to export shipments for the major volume of production.
- the North American market for sack/bag kraft, to all intents and purposes liberalized by 1 January 1987, is a diminishing one where mill operating rates, in general, are being sustained by capacity withdrawals in both Canada and the U.S.
- increasingly, the eastern Canadian mills are becoming less and less able to maintain their competitive position.
- capital investment in this market is more and more financially risky.
- eastern producers are understandably cautious about major investment in the kraft grades, particularly in the light of their poor financial health and the high risk attached to achieving a satisfactory return on that investment.
- the low-yield pulping process is inconsistent with the best use of an increasingly scarce fibre resource.
- the low-value nature of the product, particularly within the domestic market, does not maximize the return from the allocation of a scarce resource.
- the interests of Canada and the provinces might be better served if the fibre supply were switched to a high yield, higher value product.