FORESTRY SECTOR : QUESTION #2

Which sectors are likely to benefit the most from NAFTA? Which sectors are likely be most challenged?

Background:

Benefit-

The increase in real income will result in a significant shift in market demand in terms of quality of product in Mexico. This is where the significant gains may be achieved by Canadian exporters. The shift to higher quality is the result of rising real incomes, and the removal of price controls on printed matter. The reasoning is that price controls on printed matter prevented the publisher from being able to pass on the cost of more expensive paper to the consumers, thus opting for lower quality paper products.

The primary advantages that the Canadian forestry industry possesses in the context of NAFTA are the following: i) a large supply of lumber due to differential in annual cut allowance and actual harvest particularly in the hardwood sector, ii) a high quality pulp fibres due to natural endowment of slower growth rates, iii) the relatively low cost of energy relative to the United States.

The primary areas of market exploitation in Mexico for Canadian producers will be in areas formerly services by countries other than the United States, which now will be subject to tariffs from which NAFTA members are exempt.

Challenges-

The declining Canadian share in Mexican forest product markets does not bode well for the future of Canadian exports. On a cost basis, the softwood lumber industry is in a better position than the pulp and paper industry, even with projected demand increases as real income in Mexico.

The greater transportation cost realized due to geographic location is an implicit barrier to trade. The relative closeness to the Mexican market, especially the Maquiladora industries, provides the American producers with a distinct cost advantage over Canadian exporters.

The United States market niche in Mexico is also a disadvantage for Canadian exporters. The long standing relationship that the US has had with Mexico and also the consumer preferences that has been established in Mexico, will make market penetration more difficult.