advantage. Furthermore, the larger financial resources available to production units of larger size mean greater market impact in terms of market promotion, distribution and service.

It should be noted that the more competitive Canadian companies make a determined effort to penetrate certain market niches in foreign markets, primarily in the U.S. They sell on the basis of product quality plus service as well as price. As a result, exports have shown a strong upward growth trend since the late 1970's with the devaluation of the Canadian dollar to a level of approximately $350 million. This can be expected to continue give a continued positive stance relative to tariffs, the exchange rate, improving cost factors in the sector and expanding niche opportunities in foreign markets.

(c) __Technological Factors__

Technology and innovation are critical elements in the future health and vitality of the Canadian converted wood products sector. Historically, in this sector, much of the research and development in manufacturing and new product development, which are a significant competitive factor in the market place, have been done in-house, often using ideas from foreign competitors, foreign visits, new product literature and experience of production and marketing management. Since successful marketing is vital to these sectors, products must be constantly improved and developed to respond to consumer requirements. Examples include energy conservation which has substantially changed the nature of windows, doors and manufactured houses and European style kitchen cabinets which are currently in increasing demand in Canada. Research and development related to new machinery and equipment is primarily done by the equipment suppliers and adapted to the specific needs of the companies. Since the major suppliers of the new state-of-the-art machinery and equipment have been from either Germany, Italy, Britian or the U.S., Canadian capability in this area, historically has and is expected to continue to be limited.

With the exception of the large foreign automated plants, the application of technology in Canadian companies is nearly on a par with foreign competition. While new technology is readily available from a number of sources, constraints to implement include lack of capital, management expertise, and the labour intensive characteristics of many of the smaller companies. In some sectors, there may be a trend to reduced employment because of the potential for increased levels of automation.

(d) __Other Factors__

As indicated earlier, the sector must be considered extremely vulnerable to any unfavourable major shift in the exchange rate relationship relative to the major trading currencies. Evidence to this effect has been the recent strengthening of the Canadian dollar relative to the European currencies, already mentioned earlier in the paper, which has reduced the competitive position of a number of Canadian companies which have already penetrated the Western European market in a number of product lines as for example kitchen cabinet doors being sold in Europe.

With the Canadian dollar remaining in a relatively weak position with respect to the U.S. dollar, a strong export potential to this country can reasonably be expected to persist. The critical relationship of raw material prices is an important consideration in respect to a number of product lines such as kitchen cabinets, window and doors, solid wood panelling, manufactured housing and a wide range of miscellaneous products due to the fact that a significant portion of raw materials are purchased from the U.S., including oak and ponderosa pine lumber. Any major upward movement on prices or availability has a significant impact on the competitive positions of the Canadian company selling in the U.S. market.