
The adjustment challenge facing the converted wood and paper producers is considerably greater. Most producers in these sectors have small-scale facilities and serve local or regional markets. Both U.S. and Canadian industries tend to locate close to major urban markets for reasons of service, transportation, labour, and product availability. Canadian producers do not have the economies of scale nor the degree of integration relative to their U.S. counterparts. The degree of integration is important for certain converted paper products but is less important to determining the competitiveness in converted wood products. Production is highly labour-intensive and the low barriers to entry have resulted in the establishment of a large number of relatively small firms and over-capacity in many product sectors as a whole. Some industry rationalization into larger firms and increased scale of production can be expected as the industry strives to match the competitive position of U.S. producers.

The Canada-U.S. Free Trade Agreement will provide more secure and better access to the U.S. market. However, benefits of such access will not negate the need to become and remain cost competitive and provide effective customer service.

Recent Performance

As with all resource-based industries selling into world markets, the Canadian forest products industry has been subject to large swings in world supply and demand over the last two decades and consequently in product pricing and industry profitability. In addition, the wide swings in foreign currency values have virtually opened and closed markets overnight creating new uncertainties for long-term planning.

The forest industry, particularly the wood products sector, was hit hard during the 1981-82 recession. Production, employment, and profits declined considerably and most forest companies adopted a survival mode. Productivity improved considerably during this period as firms cut costs and modernized plant facilities. These productivity advances provide a solid foundation for the industry's long-term competitive position.

This recessionary period, which was felt by forest product producers throughout the world, gave new impetus to protectionist sentiments in the United States. Canadian resource-pricing policies came under attack and this resulted in two countervail investigations against Canadian lumber. High tariffs were imposed on Canadian red cedar shingles and shakes by the United States as a temporary measure to protect the U.S. industry. Other forest product sectors, including pulp and paper, feared similar attacks against their continued access to the U.S. market. It was against this background that Canada and the United States negotiated a settlement to the lumber dispute. These problems emphasized the need for a more effective means of resolving trade disputes in an expeditious and equitable manner.

The 15 per cent export charge on softwood lumber imposed as a result of the resolution of the lumber trade dispute has been offset to a large extent by increased lumber prices in the United States. The slight decline in the volume of exports of softwood lumber to the United States in 1987 was more than offset by increased exports to Europe, Japan, and other offshore areas. Similarly, U.S. prices of shingles and shakes increased considerably in response to the new tariffs and Canadian production levels have not declined as much as had been expected.