

- historically the product in Eastern Canada has been little better than a commodity with relatively low value despite high production cost.
- the resultant low margins have not justified modernization investment and the small domestic market with its negative growth has compounded the problem.
- by contrast B.C. producers have traditionally sold in the export market where price levels have been higher than in the domestic market.
- cost advantaged over eastern mills, and more modern by reason of more recent construction, the western mills have enjoyed satisfactory margins and the ability to up date progressively the technology in use.

#### d) Other Factors

- the pricing of eastern producers is sensitive to exchange rate fluctuations.
- eastern pricing for sack/bag kraft is largely determined by the U.S. delivered price and the exchange rate is an integral part of that price.
- the heavy export orientation of western mills makes them particularly sensitive to changes in international demand and pricing in offshore markets.
- the kraft sack high demand growth in the 60's and 70's was due to the desirable properties of the material: extensibility and capability.
- plastics offer these properties and do so competitively.
- sack/bag kraft is probably the most cyclical major grade category of kraft papers.
- this reflects the high cyclicity of its end-use markets and is often accompanied by wide inventory swings at the converter level.

### 3. Federal and Provincial Programs and Policies

- IRDP use is minimal at this time and seems likely to remain so with no further modernization justifiable by the market prospects in eastern Canada for sack/bag kraft.

### 4. Evolving Environment

- the downward trend overall in demand will continue in the face of market losses to plastics and bulk handling systems.
- eastern mill operating rates will remain relatively high, reflecting the shift of capacity out of the market, in the period to 1990 before commencing a slow decline in the longer term.
- the declining importance of the U.S. market will persist as U.S. consumption continues its steady downward trend.
- the long term trend for offshore exports will continue down.
- modest mill efficiency improvements will only partially offset the MTN tariff reductions over the long term, but year to year effect will be small.
- Sweden will continue to be the leader in world markets particularly in Europe and the Mid East.
- Gradually squeezed out of the European market, western Canadian producers will place emphasis on the Pacific Rim area.