

significant shift in the underlying demand factors affecting the sector as well as an emphasis on product improvement and innovation to develop products to penetrate these new markets.

Many companies throughout the industry have had to adjust to seriously declining markets which has affected product lines, seriously altered marketing and distribution policies, reinforced the trend to consolidation and rationalization and in extreme cases has caused plant closure and bankruptcy. The most seriously affected sector in this regard has been manufactured housing which currently is operating at a level less than half its 1970's volume.

Finally, over the last five years, there have been inroads made by alternative materials such as plastic and metals, particularly aluminum and other substrate materials in some sectors. But to date, there have been no significant challenges to wood primary materials in converted wood products.

(b) International Trade Related Factors

International trade considerations are undoubtedly an important key element in the future outlook of the sector. From all indications, numerous export opportunities in select product lines exist for leading companies in the sector, primarily in the U.S., Western Europe and Japan in the longer term. The successful exploitation of these "niche" opportunities depends, however, on a number of critical factors; namely, the attitude and aggressiveness of Canadian companies in pursuing them; the ability of companies in the sector to develop adequate resources and scale of production to achieve successful penetration, a situation which has been somewhat eroded since 1980; the ability of companies to fund the high costs of successful market promotion; the ability of the sector to compete in these select market "niches"; and the ability of the companies to innovate and adapt their products to the demands of these markets and last but not least the currency exchange situation. The importance of the last factor is illustrated by recent adverse movements vis-à-vis the European currencies which has rendered many products uncompetitive in these markets and hence has increased the threat of import competition from these countries.

In comparison to a number of economic and cost factors, foreign tariffs are not a major constraint to the current and future export opportunities of the sector. The Canadian tariff levels are generally higher than those in the prime market areas of the U.S., Western Europe and Japan averaging some 10 percent currently against an average of 6 percent in the U.S., 6.5 percent in Europe and 5.5 percent in Japan. Non-tariff barriers, however, while not a general problem, do in some instances have an effect in these markets. Buy America clauses in certain states in the U.S., codes and product specifications in the U.S., Europe and Japan are examples.

While the Canadian industry does possess a number of distinct market advantages, in these key market areas in certain select product lines, such as high quality image, technically advanced product, reliable delivery, competitive cost and unique product styling, the industry as a whole suffers from a number of important disadvantages relative to foreign competitors.

These companies, because of their lower levels of capital intensity and smaller plant size in international terms are better able to manufacture to small order and custom requirements in a significant niche in export markets. However, because of the many very small companies in Canada, i.e., 75% of companies have sales less than \$1 million, costs per unit of product are higher as for example in the kitchen cabinet and window and door sectors where competing companies from Europe and the U.S. are three to five times larger than the largest Canadian companies. This size advantage translates into lower costs of production, higher degrees of plant automation, lower labour input per units, lower material costs due to large scale purchasing, and lower per unit transportation costs which result in a clear market