
In summary, the United States will continue to be Canada's most important export market for the foreseeable future, particularly for improving Canadian export performance in more fully processed and higher value-added forest products. Markets in the Pacific Rim, Europe, and other offshore areas also hold potential for Canadian exporters if some of the longstanding trade barriers with these countries against both primary and higher-value products can be reduced through the ongoing Uruguay Round of Multilateral Trade Negotiations under the General Agreement on Tariffs and Trade (GATT).

Competitive Position

Canada has a solid base in natural resources, a skilled labour force, and the technical and marketing knowledge upon which to build and augment the forest industry's internationally competitive position. Given Canada's geographic position relative to the large U.S. market, it is a logical move to build upon and reinforce the industry's competitive position in North America.

As shown in Tables 3.3 and 3.4, the main operating cost items in the manufacture of Kraft pulp and newsprint are wood, chemicals, labour, energy, and transportation. Comparative cost studies³ undertaken by the Forest Sector Advisory Council, a group of senior labour, business and academic representatives advising the Minister of State (Forestry and Mines) and the Minister of Regional Industrial Expansion, have demonstrated that Canada has a clear advantage in energy but has higher transportation

costs due to the longer hauling distances to markets. Differences in labour costs are determined more by productivity since base wage rates and fringe benefits are generally comparable between Canada and the United States. Wood costs are the major cost component for lumber, pulp, newsprint and other primary products (25 to 50 per cent). The lowest wood costs were shown to be in the U.S. South and B.C. Interior followed by Eastern Canada, the B.C. Coast and the U.S. Pacific Northwest.

Primary sectors such as the lumber, pulp, and newsprint industries have developed in an open trading environment and derive certain comparative advantages from location close to the resource. Higher value-added sectors such as fine papers, sanitary tissues, panelboards, boxboard, Kraft papers, and containerboard originally developed to satisfy domestic requirements in Canada. As a general rule, these industries are much smaller than their U.S. counterparts and have traditionally been protected by significant tariffs. Nevertheless, to improve productivity in these sectors, most companies have been and are expected to continue making the necessary investments or to change their market strategies to keep up with the U.S. competition in both Canadian and U.S. markets.