

EXECUTIVE SUMMARY

Canada is the world's largest exporter of forest products. The EC is Canada's second largest market for forest products after the U.S. In fact over 30 per cent of all Canadian exports to the EC are forest products and in 1989, those were worth more than \$3.3 billion. The principal export products, in order of sales value, were wood pulp, softwood lumber, newsprint, specialty papers and plywood.

Given the size and importance of Canada's forest product exports to the EC, the opportunities and risks posed by the EC's Single Market program, or Europe 1992 as it is often called, are clearly of considerable interest to Canadian producers.

Impact of Europe 1992

On balance, Europe 1992 is expected to have a positive overall impact on Canada's exports of forest products to the EC, although it may trigger some adjustment to production and marketing strategies in parts of the Canadian industry.

One of the key conclusions of this report is that the Single Market program will accelerate growth of the EC economy, and lead to increased demand for all categories of forest products. Moreover, the markets for many forest products in the EC still have considerable room for growth, since they often fall well short of North American levels. Even with aggressive reforestation programs, the EC will continue to be a net importer of forest products in the long term. Consequently, the volume of traditional Canadian forest product exports to the EC is expected to remain steady or to increase. In addition, the EC offers significant scope for market development and diversification.

Nevertheless, some of the Europe 1992 developments give cause for some concern for certain Canadian export products. These are:

The Construction Products Directive and Eurocode 5. The aim of this directive is to establish essential requirements for construction projects and products. It also provides authority for development and implementation of European standards for construction products. Eurocode 5, "Common Unified Rules for Timber Structures," will represent building codes.

Canadian exporters are concerned that the resulting new European standards and grading rules could incorporate European-focused requirements that Canadian shippers might find difficult or uneconomical to meet.

Fire test standards. The newly evolving European fire test standards are another development that may impact on the EC market for wood products.

Testing and certification. It is not yet clear what arrangements the EC would make to grant recognition of Canadian certification and testing of wood products.

Industrial restructuring. The national European paper industries are collectively growing, and the ongoing wave of mergers and acquisitions will continue. Since an assured and long-term supply of market pulp is imperative for their success, EC manufacturers will strive to secure their pulp supply. This is likely to produce increasing pressure from Europe for ownership of, or affiliation with, Canadian