

DECLASSIFIED ~~CONFIDENTIAL~~ SSÉ  
EXTERNAL AFFAIRS = AFFAIRES EXTERIEURES

- margins are expected to decay further as Canadian tariffs move to zero under the Tokyo Round schedule.
- corporate financial structures particularly for eastern mills in the subsector, have weakened markedly in recent years and this has been magnified by the 1981/82 recession.
- western mills while less cost-disadvantaged than eastern counterparts have experienced loss of market share in Europe to Sweden and Finland.

2. Strengths and Weaknesses

a) Structural

- no world scale (600-800 m.t./day capacity) mill exists in Canada.
- none is likely due to high capital cost, marginal international demand growth, declining domestic demand and tariff elimination.
- Canadian producers would not benefit from economies of scale sufficiently to be competitive.
- the major industrial adjustment within the subsector has occurred with the substantial capacity withdrawals in Eastern Canada in the early 80's.
- real demand growth is stagnant and expected to remain so due to inroads by plastic materials and the growth of bulk and semi-bulk packaging systems.

b) Trade Related Factors

- kraft papers, other than wrapping grades, will reach 4 per cent duty by 1 January 1987 as will the U.S. duty on the grade.
- wrapping grades, including sack/bag kraft, will become duty free in both countries on 1 January 1987.
- in both grades the historical pattern of modest trade activity is expected to continue i.e. "top-up" or convenience tonnage either export or import.
- in terms of capacity dedicated to export, Sweden holds first place and is the leading exporter of the principal traded grade - sack kraft.
- Canada ranks a distant second as an exporter of sack kraft, Finland in third place.
- the U.S. export activity is negligible and is confined to the Canadian market as top-up tonnage for eastern Canadian mills.
- almost all Canadian offshore exports in sack kraft derive from B.C. mills.
- B.C. mills are more competitive in the Pacific Rim than in Europe, particularly since devaluation of the Swedish krona, and seem likely to emphasize the former in future marketing efforts.

c) Technological Factors

- eastern Canada production facilities are comparable to those in the U.S. and neither ranks with western Canada facilities that compare favourably with Sweden's facilities.