Rising wood costs and physical resource constraints dictate the need for improved utilization of the timber harvested and allocation of different parts of the log to their most economic end-uses. For example, the pulp chips generated as a by-product of lumber production have become a major source of revenue for sawmills and an important raw material source for pulp production. Lower-grade wood residues are used for the production of particleboard or energy. The waferboard industry is based on utilizing former "weed species" such as poplar. Higher grades of logs are used for the production of plywood and veneer.

The degree of horizontal and vertical integration both within individual corporate structures and between independent companies has become increasingly important from both a production and marketing perspective.

With a few notable exceptions, most paper production in Canada is produced in integrated operations whereby the conversion of pulp to paper products is at the same site. The economies of integration are much more significant for mechanical pulp-based papers, such as newsprint and groundwood specialties, than for other grades of paper which require a more diversified blend of different types of pulp and other material inputs.

Integration between primary and secondary manufacturing is largely confined to the pulp and paper sector as most converted wood product producers and lumber re-manufacturers are small, independent companies who buy their raw material inputs from other primary producers. Production of converted wood products is highly labour-intensive and barriers to entry are low. In the pulp and paper sector, many non-integrated converted paper producers must compete with several large pulp and paper companies that supply primary paper and board inputs as well as produce the final converted products.

Relative to North America, primary forest product producers, particularly those involved in newsprint and pulp, are relatively large in terms of corporate size. In lumber, firm size is generally large in Western Canada and varies in the East ranging from a number of large producers through intermediate to many very small firms. In intermediate forest products, corporate size varies from a few medium-sized companies to many small producers. In converted wood and paper products, companies are all small in comparison to the United States.

Foreign ownership in the sector constitutes some 25% of Canadian production. This is substantially lower than levels of a decade ago.

Table 3.1 outlines principal statistics for the different product sectors for 1985. This is the latest year for which comprehensive data are available.

Regional Dimensions

The forest industry is an important source of income, employment and export revenue in all ten provinces. On a national basis, the industry accounts, directly and indirectly, for about nine per cent of national income.