

producing quality products that can compete effectively from a quality stand point with products produced by any of their major competitors around the world. Additionally, as much of their products are aimed at the consumer, the Canadian industry tends to keep abreast of changes in consumer tastes, and adjust their products to meet these changes. This is most in evidence in the packaging sector where changes in family size and living styles, have resulted in shifts from large family size packaging to smaller unit packages stressing consumer convenience.

By contrast, there are several major issues and concerns which prevail across the whole sector and have a bearing on the international competitiveness of the industry. Raw material costs (i.e. paper) account for 50 per cent or more of the cost of production for most converted products. As a result paper is a critical production input to the industry and the adequate supply of the many different grades required at internationally competitive prices is an issue of concern most often raised by industry executives. Traditionally, paper prices in Canada have been higher than in the U.S. as the primary industry in Canada often suffers from diseconomies of scale compared to U.S. mills. Additionally, the limited buying power of many converters due to their corporate size results in reduced order sizes and higher prices. In addition to price, there is room for improved communications and increased cooperation between the primary paper producing industry in Canada and the converting industry. This is particularly true in the area of improving international competitiveness and export market development.

The second major issue of concern in the industry is the area which can be broadly defined as labour management relations, particularly as it relates to wage levels, productivity and international costs competitiveness. Traditionally, labour rates in Canada exceed those of our major international competitors in general and U.S. manufacturers in particular. No one factor or group can be held accountable for this phenomena, although higher Canadian industry wage settlements in general have played a role. Additionally, generous wage increases in the primary industry have put pressure on wage rates in the converting industry, both by a desire to achieve parity and by the presence of integrated products in most subsectors of the converting industry.

These two costs items have resulted, at times, in Canadian converters not being cost competitive in international markets. In fact, most industry spokesmen would agree that a return of the Canadian dollar to near parity with the U.S. would severely hamper the ability of many converters to export, and would significantly increase import pressure from the U.S. Additionally, the Canadian paper converting industry overall can be classified as a domestic industry in which many product lines developed behind a tariff wall. The existing Canadian tariff rates for converted paper products ranges between 7 and 15 per cent, while U.S. tariffs are from 2.5% to 10%.

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The third main area of concern, again affecting international competitiveness, is transportation costs both domestically and internationally. Many products have a very high volume to weight ratio. Consequently, freight rates play an important part in pricing strategy and in turn competitiveness. Evidence suggests that freight rates not only within Canada but to international destinations as well are higher for Canadians than for most of Canada's major competitors.

Technology, especially in the area of new product development, is important in the converting industry. The industry does however have access to the latest technological developments, and overall maintains state-of-the-art equipment and manufacturing processes.

A critical area, at present, is the strength of the North American currencies (U.S. and Canadian \$) vis-à-vis the currency of other international competitor countries. This strength makes Canada an attractive market for these countries and places increased import pressure on domestic manufacturers. It also makes Canadian goods more expensive in foreign markets and affects our competitiveness. The wallpaper subsector