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Follow-through for Prosperity

## CANADA AND THE FOREST INDUSTRIES

One of a series of Government of Canada responses  
to sectoral participants in the Prosperity Initiative

Industry, Science and Technology Canada  
Forestry Canada

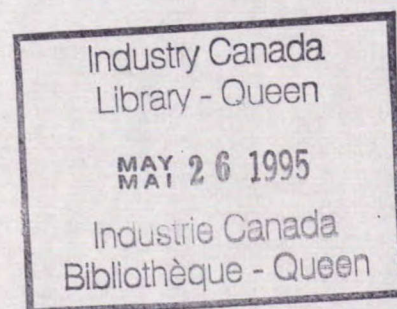
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## I. THE FOREST INDUSTRIES ROUTE TO PROSPERITY

The Government of Canada's Prosperity Initiative got under way in earnest in October 1991 when a group of accomplished Canadians answered the government's call to review our country's ability to compete in the global economy and draw up a concrete plan to improve our performance. As part of the Initiative, federal ministers asked sector-based groups of industries to undertake a similar analysis of their own industries.

The sectoral groups were encouraged to involve management, workers, customers, suppliers, governments, and others holding a stake in the prosperity of the sector. They produced a series of action plans, which assisted the national Steering Group on Prosperity to prepare its final report, *Inventing Our Future*.

The federal government is responding to the recommendations in both *Inventing Our Future* and the sectoral reports. This paper summarizes the response to the analysis presented by the Forest Sector Advisory Council (FSAC) in its action plan, *Canada's Forest Industry: A Strategy for Growth*.

Nationwide, the Prosperity Consultations showed that Canadians are eager to tackle the problems of becoming more competitive. They realize that new jobs come from competitive industries that rely on the latest technology and continually seek new markets. These are the industries that can pay top dollar for the most productive employees. They generate the economic strength on which our social programs depend.

The Government of Canada looks forward to pursuing partnerships both at the national level and with the forest industries and other sectors of the economy. *A Strategy for Growth* sets out a plan for the forest industries that can be a strong foundation for joint commitments by the sectoral partners to achieve progress in all areas.

## II. HONING THE COMPETITIVE EDGE

The Government of Canada saw the sectoral consultations as a challenge for both the private sector and governments themselves. For the private sector, the challenge was to find consensus among the many interests that have a say in such critical areas as training, technology, marketing, environmental management, and workplace organization. The challenge to governments was to find ways to support the implementation of the private-sector consensus without straining scarce public resources.

The challenge to both the private and public sectors together was to set up a process for frank exchange of views and ideas about what each individually, and both working together, can do to hone Canada's competitive edge.

The sectoral consultations brought together all who must cooperate to make an industry more competitive: management, workers, educators, consumers, suppliers and governments. For some industrial sectors, this represented the continuation of an established pattern. For others, it represented a new way of looking at their sector. In either case, the goal was to build sectoral partnerships with joint commitments by the partners to do what needs to be done to make the sector more competitive.

Through this extensive process of inquiry, consultation, and reporting, the Prosperity Initiative brought competitiveness to the forefront of the public agenda. It must stay there.

The economic success of an individual, a firm, an industry, and ultimately the country depend on a host of small improvements made every day. Most often these result from innovations in the private sector spurred on by the need of a particular firm to remain competitive with rivals at home or abroad. Firms must be open to innovation to be competitive. It is a way of thinking and working every day, not a one-time event.

Since the sectoral reports covered many topics broader than the sector, this paper begins with a section on the federal government's response on the broad issues raised in both the national and sectoral reports emerging from the Prosperity Initiative. The paper then develops, in section IV, some general ideas on how the sectoral partnerships can be made effective. Finally, section V deals with partnership in the particular industry addressed in this paper.

### III. A NATIONAL FRAMEWORK FOR PARTNERSHIP

The federal government has taken several economy-wide actions that relate to policies and programs proposed in the national and sectoral action plans of the Prosperity Initiative. Many of these federal measures date from earlier years but are now being enhanced to take into account the recommendations in *Inventing Our Future* or the broader-than-sectoral concerns of the sectoral industry groups.

Clearly, governments have an important role in creating an economic climate that encourages growth and high living standards. On the macroeconomic side, while we have achieved the low-inflation targets, more needs to be done to curb the high federal and provincial deficits and growing public debt. Such deficits discourage productive investment, keep real interest rates (after inflation) high, and increase the cost of funds to the private sector.

The consultations emphasized the essential role of government in maintaining competitive taxation, framework and regulatory policies, a sound financial sector regime, and highly developed public infrastructures. All contribute importantly to industrial competitiveness.

Action by the federal government to spur economic performance has been apparent in six areas:

- developing competitive market infrastructure and regulation;
- paying more attention to innovation and new technologies;
- promoting a more skilled, adaptable workforce;
- improving small business access to financing at more competitive costs;
- introducing tax incentives for investment in business growth; and
- strengthening the international orientation of Canadian industries.

Let us look at the measures adopted in each category and their contribution to economic efficiency and growth.

#### 1. Market infrastructure and regulation

- **The North American Free Trade Agreement** NAFTA signals the high priority the federal government attaches to opening trade doors for Canadian firms. Once

ratified, NAFTA will create a free trade area of more than 370 million potential consumers for Canadian goods and services.

- **Controlling the deficit and tax burden through government spending cuts** The 1991 and 1992 federal budgets, and the December 1992 Economic Statement continued the federal government's approach of encouraging private sector investment and productive activity through the judicious use of tax incentives and reduced public spending to maintain its fiscal position. The December Economic Statement announced \$8 billion in federal spending cuts over the next two-and-a-half years by freezing the salaries of elected officials and civil servants, reducing government operating budgets, and cutting grants and subsidies to most organizations and interest groups.
- **Reducing regulatory requirements** In response to recommendations from industry groups, 19 federal government departments and six agencies were to review their regulations by April 1993 to eliminate over-regulation. The review includes all costs associated with regulations, including their impact on industry competitiveness. Earlier regulatory reviews in three departments resulted in modification or cancellation of more than 125 of the 245 regulations studied.
- **Improving infrastructure** The Prosperity Action Plan and the sector consultations make clear that prudent infrastructure spending is an investment in Canada's future. The government has followed through by assisting an immediate start on priority highway projects in New Brunswick and Nova Scotia, as announced in the December Economic Statement. The government is in the process of determining the environmental soundness and financial viability of the specific design favoured for a fixed link between Prince Edward Island and the mainland. The government is contributing to upgrading federal bridges in Montreal and roads in western national parks. It is making investments to improve the efficiency and safety of Canada's air and rail transport systems.
- **Creating 21st century infrastructure** Following through on the national and sectoral recommendations of the Prosperity Initiative, the government is supporting a project led by the private sector to create a high-speed, broad-band electronic information highway that will greatly benefit both its builders and users. The first stage will be the Canadian Network for the Advancement of Research, Industry and Education (CANARIE). At the same time, the government extended for five years the program of Networks of Centres of Excellence, which brings together 15 research groups or alliances, including companies and institutions, to conduct research leading to advances in technology. The effectiveness of the Centres of Excellence will be bolstered by CANARIE.
- **Lowering tariffs on key inputs** Tariff rates on textiles that are key inputs for other manufacturing were reduced January 1, 1993. In February 1992, customs

duties were removed from some 25 categories of consumer products that are not made in Canada, representing about \$1 billion in annual imports; this was at the request of Canadian retailers to encourage shopping in Canada. Further analysis is under way to ensure that our tariff schedule reflects the competitive interests of Canadian industry.

- **Making Canadian export financing more competitive** The government is revising the Export Development Act in response to industry recommendations. Changes will provide more flexible, timely and responsive service to Canadian exporters.
- **Negotiating to eliminate internal barriers to trade** Federal, provincial and territorial ministers of trade agreed at a meeting in Montreal, March 18, 1993, to launch comprehensive negotiations by July 1 to eliminate barriers to the free movement of goods, services, people and capital within Canada. They decided to try to reach agreement by June 30, 1994. The goals of the negotiations include a practical, effective, and efficient mechanism to settle disputes. The chief negotiators were to hold their first meeting early in May.

## 2. Innovation

- **Improving the Scientific Research and Experimental Development (SR&ED) tax credits** After extensive consultation with industry, the federal government responded to their recommendations to revise the rules governing this credit so that companies will have readier access to it. The February 1992 budget allowed for an additional \$230 million over five years for credits to Canadian companies undertaking research and development.
- **Introducing tax incentives to encourage technology upgrading and business growth** The December Economic Statement set aside an additional \$400 million in tax incentives to help Canadian firms adopt new technologies and make other productive investments to adapt and grow. The government will consult industry on improved tax treatment for equipment made obsolete by rapid technological change, investments in research and development, and the use of patents and industrial processes.
- **Expanding the Industrial Research Assistance Program (IRAP)** Sector consultations confirmed that IRAP effectively stimulates R&D in small and medium-sized businesses. In response to industry support, funding has been increased to expand this successful program; coordination of IRAP with other federal activities will be strengthened.



- **Establishing a National Quality Institute** The federal government has agreed to play its part in effecting the steering group's recommendation for a National Quality Institute, a project led by the private sector, as a strategic investment in institutional infrastructure. The Minister of Industry, Science and Technology and Minister for International Trade has also proposed the establishment of a Canadian Network for Total Quality (CNTQ) in partnership with labour, business and the academic community to promote a commitment to quality in Canada. The CNTQ would include a National Quality Initiative to:
  - establish a clearing house for "best practices",
  - develop a national quality strategy, and
  - provide training and guidance to industry and other organizations.

### 3. A more skilled and adaptable workforce

- **Upgrading the skills of unemployed Canadians** The December 1992 Economic Statement increased 1993 funding for active labour force development by \$300 million to \$2.2 billion. The increase will provide special services to upgrade skills for workers who lose their jobs after long-term employment. This \$2.2 billion — up from \$500 million in 1990 — is a substantial federal commitment to developing employee skills. When combined with the Canadian job strategy, the total commitment in this area is \$3.8 billion.
- **Increasing the quality and amount of workforce training** Canada, while lacking the deep-rooted training culture of competitors like Japan and Germany, is not starting from scratch. Here at home the Western Wood Products Forum and the Canadian Automotive Repair and Service (CARS) council deal with issues of training, competitiveness and productivity. To encourage and extend these best practices, the federal government will spend \$250 million over five years to help create 60 sectoral training councils. Each council, involving both labour and management, will examine the training needs of workers in its field of responsibility and develop private-sector training strategies in partnership with stakeholders. The government will also examine tax incentives to help employers defray the cost of training to meet occupational standards.

### 4. Cost and availability of capital for small businesses

- Small businesses are big job-creators and innovators in Canada, but they have traditionally had more difficulty than large businesses in obtaining financing at

competitive rates. The December Economic Statement took significant steps to lessen this problem by:

- extending the Small Business Financing Program to the end of 1994;
- simplifying and expanding the provision for investment in small business through RRSPs and labour-sponsored venture capital funds; and
- introducing measures to help junior oil and gas companies raise capital to finance new exploration.

To further increase the availability of financing to small business, the government introduced amendments to the Small Business Loans Act that came into effect April 1, 1993. They will:

- increase the maximum loan from \$100,000 to \$250,000, and the maximum annual revenue for eligibility from \$2 million to \$5 million;
- provide a more flexible pricing structure by introducing fixed, as well as floating, interest rates; and
- free working capital for borrowers by introducing: (1) refinancing of fixed assets purchased up to 180 days previously, (2) 100-percent financing of asset purchases, instead of 80-90 percent, and (3) a limitation on personal guarantees of 25 percent of the loan amount, instead of no limit previously.

## **5. Tax incentives for business growth and investment**

The December Economic statement added to the tax incentives in the February 1992 federal budget, which included increases in rates of capital cost allowance, reduction in manufacturing tax rates, and expansion of the R&D tax credit. The December measures included significant new tax incentives to encourage small business growth, comprising:

- a new 10-per-cent tax credit for investment by small businesses in machinery and equipment;
- a one-year holiday from paying unemployment insurance premiums for small businesses hiring new employees; and
- the extension of the Home Buyers' Plan for an additional year, enabling first-time home buyers to use funds from their RRSPs to purchase homes.

## **6. Strengthening the international orientation of Canadian industries**

- **Exploiting NAFTA** The federal government is committed to implementing NAFTA and helping Canadian firms exploit the market opportunities it presents to increase sales and create jobs.
- **Accessing the North American market** The federal government has launched the Access North America program to help Canadians take advantage of trade and investment opportunities arising out of NAFTA. The project includes support for a Canadian business centre in Mexico City that will provide a wide range of services to Canadian firms doing business in Mexico, a New Exporters to Mexico (NEWMEX) program, an expanded fairs and missions program, an extensive market information and export education component, and programs to capture investment opportunities. Access North America will cost \$27 million over four years.
- **Creating a Forum for International Trade Training (FITT)** NAFTA and international trade liberalization create only the potential for export market development. To realize the gains, more Canadians need the skills and know-how to be global traders. FITT, led by the private-sector, is a partnership of government representatives and such stakeholders as the Chamber of Commerce, the Canadian Federation of Labour, and the Canadian Exporters Association. In December 1992, FITT announced a program to bolster international trade education in Canada, with special emphasis on small and medium businesses and young people. The partners are committed to ensuring that graduates of the program have the skills Canadian business needs to exploit emerging markets.



#### IV. REAPING BENEFITS FROM A SECTORAL APPROACH

##### Teamwork is paying off

The potential for improving industrial competitiveness by focusing attention on sectors of similar industries is a key lesson of the sectoral Prosperity Consultations.

The consultations required that companies in each sector get together with their workers, customers, suppliers, educational institutions and all level of government to produce their sector-based reports. The team efforts produced a strong sentiment that this was the way to resolve problems and implement improvements. Competitiveness cannot be achieved or maintained through partial measures by individual firms. Problem-solving requires the partnership of wider groups of interests than may have been the case in the past.

A sector-based approach means looking at a segment of the economy in the broadest terms and bringing together those who can influence its performance with a view to making needed changes. Different interests will not always agree, but this approach does hold promise for making real progress on the competitiveness of Canadian industry. Participants in an industrial sector cannot afford to act alone, often at cross purposes with each other.

The federal government, for its part, is willing to develop the partnerships necessary with a variety of groups in each sector to make the process positive and productive. The foundation of these relationships must be realistic expectations about what other parties can do and a willingness to participate in a frank dialogue and the ability to turn consensus into action.

In the case of government, it has become clear to most Canadians that the fiscal capacity for providing direct assistance or tax breaks has been exhausted. This does not mean that the federal government will cease to be a participant in economic development matters, but any future interventions will be more modest and more targeted than efforts of the past.

Governments' impact on business is much broader than the provision of direct or indirect assistance, in any case, and much can be done in partnership with industry to increase competitiveness at low cost to the taxpayer. For example, removing interprovincial trade barriers could add several billion dollars to Canada's GDP. The focus will be on efficiency in the delivery of services and programs, greater coordination with provinces and other level of governments, and using information as a source of competitive advantage. The latter item will require the federal government to spend more time and attention on working with others to develop information about

Canadian competitive performance and then ensuring that this information is put in the hands of those who need it.

There are also constraints on the ability of other players in the sectoral approach. Indeed, competitiveness itself is not an absolute goal. There will be tradeoffs between the quest for competitiveness and other vital interests, such as the environment. The point of the sectoral approach is to make choices and tradeoffs in a way that is transparent to others who also have a stake in the development of the same part of the economy.

### **The knowledge quotient**

The sectoral approach discussed here lends itself to government partnership based on the kind of knowledge products, services, and programs increasingly needed in today's economy.

The sectoral approach emphasizes customized products and services that respond to the particular pressures in the industry. In sectors where small businesses predominate, for example, products and services provided by governments might include strategic business planning and financing information, export services, management improvement services, and similar instruments.

The short shelf-life of knowledge products and services means that they have to be developed and delivered quickly, and kept updated and adapted. The private sector wants governments to simplify, rationalize and consolidate their product lines and get closer to the customers.

The sectoral approach brings together all the tools of government to address issues of sectoral concern, from tax incentives and communications infrastructure to patent policy, education and people skills. That is, it involves a one-window concept that pulls together relevant federal, provincial, perhaps even municipal, services and makes them available in one place. This will respond to the complaint, often-heard in the consultations, that governments have a confusion of uncoordinated, opaque and overlapping programs and services that are hard to understand and use.

### **Elements of the sectoral approach**

Effective sectoral partnerships with economic stakeholders will require governments to act in four ways:

- Broad framework policies must be set only after a full assessment of their impacts on the major sectors of the economy.

- General economic measures must be framed in ways that promote competition and sectoral competitiveness.
- Sectoral industrial policies must reinforce economy-wide policies and provide information and intelligence, and knowledge-based products, programs, and services to help industries meet the competitiveness challenges they face in the new world economy.
- Governments must encourage the development and maintenance of active sectoral partnerships.

In the concluding section of this paper we turn to the business of putting these principles into practice in the sector to which the paper is addressed.



## V. PARTNERSHIP IN THE FOREST INDUSTRIES SECTOR

### The challenge

The forest industries, with more than \$22 billion in annual exports, make a bigger contribution than any other sector to Canada's balance of trade.

The sector's dependence on trade is illustrated by the fact that those exports constitute some 61 percent of the forest industries' \$36 billion in industrial shipments in 1992.

Although the solid wood industry has improved markedly in recent months, total forest industries' sales fell by 17 percent from 1989 to 1991. Losses amounted to \$2.5 billion in 1991; losses in 1992 will again be measured in the billions. The largest forest products company in Canada used to be among the largest 15 in the world; still Canada's largest, it is now the world's 27th.

This challenge makes obvious the importance of the sector's proposals for redressing the situation, contained in its action plan emerging from the prosperity consultations. The Forestry Sector Advisory Council (FSAC) organized and conducted a comprehensive review and delivered a report of which Hon. Michael Wilson, Minister of Industry, Science and Technology and Minister for International Trade, said: "Nowhere has the process of building consensus yielded better results than in *Canada's Forest Industry: A Strategy For Growth*".

A long-standing advisory council on forest issues, FSAC reports to the Minister of Forestry and to the Minister of Industry, Science and Technology. It is comprised of industry executives, labour leaders, academics and representatives of the forest industries' suppliers and customers.

### Industry assessment and commitments

The forest industries will have to accelerate their response to rapidly altered business patterns and more demanding public expectations. For example, traditional levels of research and development sufficient to maintain the industry's position as a world class supplier of commodity products proved inadequate for a world of product and market niches. These are much less susceptible to cyclical swings but generate more added value and profit.

The industry has also had to invest heavily in environmental improvements. Industrial and consumer driven demands will be certain to require further efforts to develop products and processes that are easier on the environment.

The Forest Sector Advisory Council has acknowledged that enterprises need to undertake substantial activities to improve competitiveness. Key recommendations for private sector actions include:

- **Double annual investment, primarily in environmental equipment and processes:** This is crucial to advance the industry's ability to gain ground in productivity and technological gaps with competing countries. These gaps were caused in part because Canadian capital expenditures over the past 20 years were focused on rebuilding existing facilities while competitors made capital expenditures primarily in new and larger mill production units.
- **Substantially increase commitment to R&D and training:** This is essential for the industry to be able to compete and prosper in the new global environment. Current Canadian forest industry R&D spending is about 0.6 percent of industry sales, while U.S. levels exceed 1 percent.
- **Restructure inefficient operations in an orderly and considerate way:** The current restructuring process is likely to continue as some inefficient facilities must close, and companies may have to merge, consolidate and enter into partnership agreements in order to rationalize and compete in a global market. The industry believes that restructuring must proceed with minimum disruption.
- **Promote the sector's image in domestic and priority export markets:** An effective communications strategy is a critically important objective for an informed public and more effective public policy decisions in controversial areas. Internationally, it should help ensure an informed client base, which will lead to more dialogues on the future of the forest sector.

Plans for increasing the forest industries' competitiveness also call for labour to participate in restructuring and work with industry in examining labour-force adjustment policies and training.

#### **Federal commitments to the forest industries partnership**

The government has prepared a response to each recommendation in the sectoral plan, as it undertook to do last July. Here, we will briefly outline the partnership commitments of the Government of Canada, representing the public stake in the forest industries at the federal level.

- **Forest Industries Research and Development Innovation program** The federal government, through ISTC, will invest about \$45 million in partnership with research institutes in the private sector, provincial governments, and other government departments to promote the development of innovative products and processes in the forest industry. The private sector is expected to participate by accelerating its investments in environmental research and products and processes to increase competitiveness. The FSAC report stressed the importance of increased R&D funding and continued government investment in the Forest Industries R&D/Innovation Program.

The federal initiative endorses FSAC's position that the key to prosperity is in alliances between industries, and between industries and research institutes, to develop innovative products and processes. A further \$5 million will be directed to R&D initiatives in the solid wood sector, through organizations such as Forintek and Feri. These investments will be directed at new technologies to increase the industry's share of export markets.

In partnership with industry and universities, the government will establish a centres-of-excellence network in wood products to lever more research and development funds, and focus efforts on the wood products markets of the future.

- **Environmental Image** The environmental image of the sector, domestically and internationally, is a serious concern; FSAC recommended assistance to promote the integrity of the sector's environmental performance. The government will invest about \$1.5 million to share the cost of the Canadian Pulp and Paper Association's office in Brussels, which will deal with environmental issues critical to access to the European Community market.

Communications programs by the industry and ISTC will be complemented by an initiative by Forestry Canada and provincial governments through the Canadian Council of Forest Ministers (CCFM). This partnership has embarked on a three-year, \$4.5-million program to provide additional information to Europeans on the state of forest management in Canada. The effort will safeguard the important contribution of forestry exports to Canada's balance of trade.

Industry and labour must do more to communicate the facts — both in Canada and export markets — on the industry's environmental performance. Forest industry associations should develop more material for the education system on the accomplishments of the industry.

- **Human Resource Development**

Training: The study of human resource requirements in the British Columbia solid wood industry, recently completed by the Western Products Forum, is planned to



be followed by a similar study in eastern Canada. As well, a comprehensive study of human resource issues in the Canadian pulp and paper products sector is under way and expected to be completed this summer. These studies will help solidify the sectoral partnership and provide a basis for developing and implementing human resource development strategies in the forest sector. They are part of the \$250-million, five-year program mentioned in section III of this paper to increase the quality and amount of workforce training in Canada.

The critical requirement will be for industry and labour to put the results of these studies into action, working together to plan and coordinate training efforts within the industry.

Restructuring: Considerate treatment of workers displaced by restructuring is a key concern for the FSAC. As a partner in this concern, the federal government will increase funding for the Developmental Uses Plan under Unemployment Insurance to \$2.21 billion in 1993. As outlined in section III, the total federal commitment in this area is \$3.8 billion. Services to persons who have worked for the last five years or more and face serious difficulties in returning to employment will be strengthened. These will include specialized counselling, guidance on job search skills, placement services, skills training and academic upgrading, and self-employment and mobility assistance. Groups of workers affected by plant closures, sectoral downturns, or lay-offs affecting whole communities will also be assisted through partnership models involving both the federal government and affected workers, such as Industrial Adjustment Service Committees.

#### **Cost structure**

Benchmarking Forestry Canada and ISTC have offered to share the cost of benchmarking studies in partnership with industry, the provinces and other stakeholders. Benchmarking is the continuous comparison of practices and results with the best organizations and jurisdictions in the world: a kind of global competitiveness checkup. FSAC, with the support of ISTC and Forestry Canada, has developed expertise and experience through its annual global cost studies of newsprint and market pulp. They are a solid foundation for the benchmarking studies, which will 'get behind the numbers' and contrast practices in the Canadian forest sector with best practices and performance throughout the world.

Selection of subjects for benchmarking studies will be made easier by FSAC's report, which highlights major competitive gaps and opportunities for improvement. The competitiveness framework initiative referred to later will also assist by quantifying competitive gaps in cost, quality and other factors critical for success.

One-window delivery As part of federal efforts mentioned in section IV of this paper to coordinate government activities and prevent duplication and overlap,

environmental measures will be a subject of one-window delivery of services and information to industry and other stakeholders. Negotiations with the provinces are progressing well and an agreement in principle with New Brunswick is expected soon.

Co-generation Co-generation offers promising opportunities for the forest sector and electrical power utilities to promote low-cost power based on renewable energy resources through co-generation. Successful projects will not only expand the use of renewable energy sources and eliminate waste, but also reduce power costs at the margin for all users. Several initiatives are under way in Quebec. New Brunswick is exploring co-generation opportunities and policy alternatives with FSAC. The federal government is working with industry and the provinces on these projects.

Market and product development and diversification The government will continue to share in the funding of partnerships with the forest industries and provincial governments to develop new markets for value-added and innovative forest products and to increase productivity. The government will broaden its focus to include components and materials related to wood building systems. Funds are earmarked for extension of the successful Cooperative Industrial and Market Development Partnership and new initiatives to develop markets for building products and structural panels. Individual programs will be announced as they are approved.

Forestry resource studies and issues A number of forestry studies requested by FSAC, including a review of the net benefits of forestry research and — through the model forest program — an examination of the costs associated with integrated forest management, will be undertaken. In addition, the Canadian Council of Forestry Ministers has begun working with FSAC on competitiveness issues. Such partnership with the provinces is critical to success of the Prosperity Initiative.

- **The National Forest Strategy and the Forest Accord** The national Forest Strategy deals with several of the forest resource issues raised in the FSAC report. It sets out nine strategic directions and 96 commitments to action which will guide the policies and actions of Canada's forest community over the next five years. This commitment was reaffirmed with the signing of the first Canada Forest Accord by the Canadian Council of Forestry Ministers (CCFM), industry, labour, native and environmental groups, and more than 200 other Canadians with an interest in the future of their forests. The accord emphasizes the spirit of cooperation and willingness to become partners by all stakeholders in the next generation of forest management.

The CCFM has agreed to act as trustee of the strategy on behalf of the Canadian forest community and the public. Ministers will develop action plans and review

progress annually, ensure that evaluations are undertaken by an independent third party, and see that the results are published.

The Council has also brought together a National Forest Strategy Coalition to oversee the strategy's implementation. It is composed of all the signatories of the Forest Accord and will provide access to networks at the regional and national levels, creating the partnerships required to make the strategy a reality.

- **Joint sector competitiveness frameworks** FSAC has identified a number of pressing issues in the medium and long terms that warrant a detailed review using the tools of competition analysis. Federal and provincial ministers of internal trade have therefore agreed to develop a framework to analyze the key factors affecting the forest industry's competitive position. These studies will include competition issues involving industry restructuring, cost competitiveness, one-window regulatory administration, the forest resource base, and co-generation. They will be useful in designing benchmarking studies, and establishing a common basis for joint action by the two levels of government.

A key framework objective is to encourage full participation by all stakeholders in the forest industries to make changes necessary for competitiveness. Benefits to the private sector include:

- identification of potential alliances and partnerships;
- more stable policies and programs; and,
- better coordination of different levels of government.

All are areas in which FSAC has called for action.

#### - **Economy-wide prosperity initiatives**

Many of the government's measures for the whole of the economy, detailed earlier in this paper, will be of particular interest to the forest industries: for example, the removal or reduction of regulations. Other new measures that will help the sector include the strengthening of the Industrial Research Assistance Program (IRAP), the creation of consolidated delivery centres for various services, increased R&D tax incentives to promote competitiveness, the coming consultations with industry on tax treatment of various types, and the measures to increase training and adjustment assistance for workers. To these must be added many other policies and programs that have already been detailed in section III, dealing with federal-provincial cooperation, spending reduction, and proposals for a Prosperity Council and a Learning Forum.



The federal government is also reviewing social policy to restructure our income security system and make it more responsive.

In a few areas the federal government disagrees with FSAC. For example, FSAC calls for the interest-rate spread between Canada and the U.S. to be limited to 1 percent and for the Canadian dollar to be pegged to the U.S. dollar, actions that the government believes would not be compatible with Canada's broader economic interests.

### Making it happen

The federal government recognizes that the industry's vision of the future requires significant contributions from all partners. *Canada's Forest Industry: A Strategy for Growth* sets out the joint commitments that should bind the partners together in a common effort.

The report focuses on the need to rationalize. It asks governments to refrain from wasting scarce resources by propping up inefficient operations. In response, the federal Forest Industry Policy avoids assisting projects involving conventional technology and directs assistance to partnerships promoting the development and marketing of innovative products and processes.

A number of important issues remain for consideration by government and industry:

- The Minister of Finance has taken under consideration a number of FSAC recommendations for making the business environment more competitive with the United States and encouraging investment in restructuring over the short and medium terms.
- The industry has still to report on the response to recommendations directed at itself in areas such as R&D, training, environmental image, and communications.
- The ongoing work of the Committee of Ministers of Internal Trade (CMIT) and the Canadian Council of Forest Ministers (CCFM) will provide opportunities to discuss the progress of the provinces in responding to the FSAC recommendations.

The federal government is serious about playing an active role in the sectoral partnership. The Minister of Industry, Science and Technology and Minister for International Trade, Hon. Michael Wilson, and the Minister of Forestry, Hon. Frank Oberle, will look to FSAC for continuing advice during the implementation phase, which will continue to be led by the private sector. Other government departments,

such as Employment and Immigration Canada and Environment Canada, are working within a framework directed by ISTC and Forestry Canada to take up the longer-term issues. With management, labour and the provinces responding in the same way, there is no doubt that the Canadian forest industries can overcome recent setbacks and prosper on the Canadian and global scenes.

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