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Forest Industries

Canada's International Business Strategy

1996-1997

Team Canada • Équipe Canada

Canada's International Business Strategy

*is made up of an **Overview** highlighting Canada's international business development priorities, and a series of **Industry Sector Strategies**, which include lists of planned international activities. The following documents are available:*

Overview

1. Advanced Manufacturing Technologies
2. Aerospace and Defence
3. Agriculture, Food and Beverages
4. Arts and Cultural Industries
5. Automotive
6. Bio-Industries
7. Business, Professional and Educational Services
8. Chemicals, Plastics and Advanced Materials
9. Construction Products and Services
10. Consumer Products
    - *Apparel*
    - *Textiles*
    - *Footwear*
    - *Sporting Goods*
    - *Pleasure Boats and Equipment*
    - *Tools, Hardware and Housewares*
    - *Residential Furniture*
    - *Business and Institutional Furniture*
    - *Giftware and Crafts*
11. Electrical Power Equipment and Services
12. Environmental Industry
13. Fish and Seafood Products
14. Forest Industries
15. Information Technologies and Telecommunications
    - *Overview*
    - *Telecommunications Equipment and Services*
    - *Software Products, Computer Services and New Media*
    - *Geomatics*
    - *Computers, Peripherals and Instrumentation*
    - *Electronic Components*
16. Medical and Health-care Products and Services
    - *Medical Devices*
    - *Pharmaceuticals*
    - *Health-care Services*
17. Metals, Minerals and Related Equipment, Services and Technology
18. Oil and Gas Products and Energy Equipment
19. Resource Equipment and Technology
    - *Agricultural Technology, Machinery and Equipment*
    - *Ocean and Marine Shipboard Technology*
20. Space
21. Tourism
22. Urban Transit and Rail Equipment

For information on how to receive the Overview, or additional Industry Sector Strategies, please call: 1-800-267-8376.

All monetary figures in this document are expressed in Canadian dollars unless otherwise indicated.

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Aussi disponible en français sous le titre Industrie forestière.

The Canadian forest products sector operates in all regions of the country. It is composed of two major industry groups: paper and allied industries and wood industries.

The paper and allied industries group is made up of two distinct segments: pulp and paper, which includes market pulp, newsprint and fine papers; and converted paper products such as coated papers, tissue products, specialty papers and packaging.

The wood industries group consists of three distinct segments: primary products, semi-finished products and finished products. This industry sector is a complex network of large and small, integrated and independent manufacturers.

The Canadian forest industry is heavily oriented to the production of primary products, (e.g. market pulp, newsprint, other printing and writing paper, softwood lumber, and wood-based panel products), which account for about 80 percent of total exports.

Canadian Position

The forest products industry is largely Canadian-owned and is spread across the country. In 1994, the industry, which includes more than 4000 establishments, generated $48 billion in shipments, including $32 billion in exports. With $5 billion in imports, the trade surplus of $27 billion makes the forest industries sector the single-largest net contributor to Canada's balance of trade.

The industry is a major economic force in all regions of the country, accounting for 14 percent of manufacturing gross domestic product (GDP). It represents about 49 percent of manufacturing in British Columbia, 24 percent in Atlantic Canada, 16 percent in Quebec, 12 percent in the Prairie provinces and 6 percent in Ontario. The industry is the major or sole employer in more than 350 rural communities.

Canada is the world's largest exporter of forest products with a relatively small domestic market and large-scale production capacity. Exports have been and will continue to be a vital factor in the health of the industry. In 1994, paper and allied industries group exports were valued at $18 billion (37.5 percent of total forest products shipments). Wood industries group exports were valued at some $14 billion (29 percent of total shipments).

Priority markets for the industry continue to be the United States, the European Union (EU) and the Asia-Pacific region. Japan continues to be the major focus of Canadian producers in Asia-Pacific but other markets such as Korea, Taiwan, Hong Kong and the People's Republic of China (PRC) are growing in importance.

The U.S. is Canada's single most important export market and in 1994 accounted for some 70 percent of export shipments. Market potential is linked directly to Canada's competitiveness vis-à-vis U.S. domestic producers and continued market access.

Japan and the EU follow as primary offshore markets, accounting for about 12 percent and 9.5 percent respectively of total exports.

Japan continues as the world's largest net importer of solid wood products and is Canada's second-largest single market for forest products, after the United States. There is scope for significant growth for Canadian exports during the remainder of the 1990s and into the next century. The potential will be increased once Japan and Canada complete negotiations on mutual recognition of testing agencies for wood products. Potential Japanese investment in the Canadian forest industry is expected to grow in response to Japan's increasing need to secure long-term sources of pulp and paper and wood products.

In 1994, exports to the EU, valued at $3.1 billion, rebounded to 1992 levels after a sharp decline in 1993, but the ongoing major technical trade barrier of plant health restrictions continues to impede Canadian shippers of softwood lumber from returning to traditional levels of market share.

Export opportunities for forest products are also developing in other countries, including Korea, Hong Kong, Taiwan, the PRC, India, Singapore, Mexico, South Africa, Iran and Saudi Arabia. Demand fluctuates from country to country as local economies develop and others rebuild following recent wars. To realize opportunities in emerging markets, there is a requirement to monitor and respond to market access issues such as tariffs, codes and standards.

International Environment

Canada is the world's largest exporter of manufactured forest products. In 1990, its share of the world market was 18 percent, followed by the U.S. at 13 percent, Sweden at 10 percent and Finland at 9 percent. Major objectives are to increase existing offshore markets, increase global market share, reduce dependence on the U.S. market, and enhance the value of all primary forest products through the development of specialty products and niche markets.

Environmental factors pertaining to manufacturing processes, product design, raw material content and forest management practices have an important effect on the competitive position of the industry internationally. Factors include effluent and emissions technology, land use policies, forest management practices, eco-taxes, eco-labelling, packaging requirements and U.S. recycled paper content.

Growing competition can also be expected from new competitors in non-traditional producing areas. Developing pulp and paper capacity in Indonesia and Malaysia and forest product exports from New Zealand and Chile will increase competition in many export markets. Additional competition in the pulp and paper sector can be expected in traditional European markets as local production, based on recycled materials, increases.

Eastern European countries, Mexico and South Africa offer new market opportunities. Eastern Europe, however, may create added competition in Europe. The former Soviet Union (FSU) with 50 percent of the world's coniferous fibre supply, could make major inroads in the EU and Japanese markets.

The North American Free Trade Agreement (NAFTA) is expected to open new market opportunities, particularly in Mexico. Although the preferential entry for construction lumber will not be realized until the timber frame construction building system for housing becomes better known and more widely accepted, other important general construction uses for wood will develop.

Main Challenges

The goal of the Canadian forest products industry is complete free and unfettered trade in all forest products. While working toward this key objective, a number of important challenges remain, including:

- focussing on market access issues in export markets, including environmental concerns for both primary and value-added forest products;
- addressing the need for enhanced training and preparation for export readiness, particularly in small and medium-sized enterprises (SMEs);
- building and managing an interface between trade and environmental policies — trade flows may be affected by certain multilateral environmental agreements, and uncertainties exist between these agreements and the existing dispute mechanism systems;
- maximizing the use of available fibre by adding value through the manufacture of products that command premium prices;
- encouraging manufacturers, both SMEs and large integrated companies, to produce a wide range of value-added, cut-to-size components to finished wood and paper products; and
- continuing to focus on priority and selected new emerging markets for value-added products.

The application of advanced technology is a prerequisite if the industry is to continue to be globally competitive. Challenges include increasing investment in research and development (R&D) to develop advanced processes and new products, and to produce economically and socially acceptable solutions to environmental and sustainable development issues.

Strategic Direction

The future growth and economic health of the Canadian industry will depend to a large degree on maintaining existing access and capitalizing on emerging opportunities for additional trade in all markets. To achieve the overall objective of free and unfettered trade in forest products, Canada will:

- develop a forest products National Sector Team (NST) made up of industry and government players. The NST will develop preformance measurements to evaluate the success of activities (Industry Canada [IC], Department of Foreign Affairs and International Trade [DFAIT]);
- strive for the worldwide elimination of all tariffs and non-tariff barriers facing Canadian forest exports (DFAIT);
- make use of existing dispute settlement mechanisms of the NAFTA and the World Trade Organization (WTO) or bilaterally through other forums to settle various trade-related disputes (DFAIT);
- support the deployment of industry sector experts in key locations to further Canada's trade interests (DFAIT, IC);
- encourage Canadian industry to take advantage of deregulation of foreign building codes, existing testing certification agreements and mutual recognition proposals for product standards and certification procedures (DFAIT, IC);
- encourage industry to develop and provide educational data for full acceptance of Canadian forest products in priority markets (Human Resources Development Canada [HRDC], IC);
- pursue opportunities for accelerated tariff elimination in all international trade agreements (DFAIT, IC); and
- support the continuing trade development and market access work of the forest industry through federal-, provincial- and industry-funded program activities (IC, DFAIT).

There is a significant need to both increase international recognition of Canada's capability and expertise in forest management and to ensure customers of Canada's commitment to supply forest products harvested from sustainably managed forests. The federal government will:

- co-ordinate provincial and industry efforts to accurately promote Canadian forest management practices, systems and expertise (National Resources Canada [NRCan], DFAIT, IC);
- support foreign-based industry association offices, Canadian embassies and officers abroad to heighten the awareness of Canadian forest industry environmental performance in forest management, raw material utilization and product processing (DFAIT, NRCan, IC);
- support the development of national and international standards for an independent certification system for sustainable forest management practices and promote the acceptance of these standards by the International Organization for Standardization (NRCan, IC, DFAIT);
- participate in the work of the Committee on Trade and Environment of the WTO, focussing on technical barriers to trade, eco-labelling and Processes and Production Methods (PPMs) (DFAIT, NRCan, IC); and
- initiate the efficacy of undertaking mutual recognition agreements (MRAs) with targeted countries identified as priorities in terms of market access; continue to focus on the development of positions through the WTO Trade and Environment Committee, which is supportive of tariff and non-tariff barriers (DFAIT, NRCan, IC, Environment Canada [EC]).

To stay up-to-date on technical and scientific developments, Canada must be well informed and knowledgeable. To achieve these objectives, the federal government will:

- facilitate the international exchange of scientific and technology information relating to the forest industries (IC, National Research Council [NRC], DFAIT);
- use existing expertise in Canadian embassies to increase the exchange of technology (DFAIT, IC); and
- organize outgoing and incoming technical missions, speaking tours and scientific exchanges to Europe, Asia-Pacific, Scandinavia and the United States (DFAIT, NRC, IC).

In recognition of the need to conserve decreasing financial resources, the federal government will improve co-ordination among the various industry associations and will:

- strengthen co-ordination between industry associations and government programs and explore the potential of including other related industries (IC, DFAIT, provinces);

- emphasize the need for industry associations to disseminate market intelligence, product information and to expand export-readiness training (IC, DFAIT, HRDC); and
- encourage industry associations to develop and implement long-term export marketing strategies and activities and to strengthen their trade development activities (IC, DFAIT, provinces).

Generic market development activities have proven an effective means of expanding the exports of Canadian forest products. While these activities will be reduced as budgets are curtailed, the federal government will:

- co-ordinate and assess government funding for international market development activities by associations in this sector through the Forest Industries Marketing Strategy (FIMS) group (DFAIT, IC, other federal agencies, provincial governments);
- establish tripartite market development efforts for value-added wood products to off-shore markets where market opportunities exist (IC, DFAIT);
- continue to support existing market development agreements (IC, DFAIT); and
- pursue opportunities arising from international trade agreements by encouraging industry promotional activities in developing Asian and Mexican markets (DFAIT, IC).

To provide greater wealth creation and employment opportunities, particularly in small and medium-sized, value-added manufacturers in Canada, the federal government will:

- support promotional program activities initiated from Canadian missions abroad in priority and selected markets targeted on valued-added forest products (DFAIT, IC);
- focus existing market intelligence and trade development activities on key priority markets (DFAIT, IC);
- build upon the technical advantages of Canadian residential building systems, particularly in earthquake-prone market areas (IC, DFAIT);
- improve federal-provincial co-operation in international market development, information transfer and investment sourcing by increasing the use of existing consultative committees (IC, DFAIT);
- promote strategic alliances between foreign investors and Canadian companies interested in joint-venturing opportunities in Canada (IC, DFAIT);
- promote forestry technology and equipment in key market areas (NRCan, IC); and
- investigate the possibility of increasing the number of forest-sector specialists in key overseas embassies to work closely with industry organizations to support trade policy and development objectives (DFAIT, IC, NRCan).

Contacts

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Activity	Date	Location	Dept.	Contact
Asia-Pacific South				
New Zealand: Canadian Consulate Award for Forestry	14-Jun-96	Rotorua	DFAIT	613-996-1052
DEMO '96: Forestry Mission from New Zealand	09-Sep-96	Quebec City	DFAIT	613-996-1052
Pulp and Paper Indonesia '96: National Stand	12-Nov-96	Jakarta	DFAIT	613-992-0959
Japan				
Good Living Show 1996: Mission	01-Oct-96	Tokyo	Alberta	403-427-6394
Japan Home Show	01-Nov-96	Tokyo	Alberta	403-427-6378
Latin America and the Caribbean				
Canadian Paper '96: Mission from Venezuela	01-Apr-96	Vancouver	DFAIT	613-996-5548
Secondary Wood Processing Mission from Chile	01-Sep-96	Quebec/Ontario	DFAIT	613-996-4199
Multiple Markets				
Forest Industry Suppliers' Reverse NEBS: Workshop	01-Oct-96	Alberta	Alberta	403-427-6079
United States				
Pulp and Paper Mill Managers/Superintendants' Mission from the U.S. Pacific Northwest	01-Oct-96	Alberta	Alberta	403-427-9320
Western Europe and the European Union				
SPCI '96: Info Booth	04-Jun-96	Stockholm	DFAIT	613-992-7001
BAU Constuction Materials Show: NEXOS Mission	14-Jan-97	Frankfurt	DFAIT	613-992-7001
Batibouw: Self-Funded Wood Mission	01-Feb-97	Brussels	DFAIT	613-992-7001
Bouwbeurs: Joint Info Booth	16-Feb-97	Utrecht	DFAIT	613-992-7001
Batibouw Construction Products Show: Info Booth	28-Feb-97	Brussels	DFAIT	613-992-7001

Note: Dates and locations are subject to change.

For up-to-date and detailed information on the activities in this document and those contained in other sectors, you may consult the CIBS Compendium. This on-line compilation of activities planned by the federal and provincial governments is continuously revised and is accessible via the Department of Foreign Affairs and International Trade World Wide Web site, at the following address: http://www.dfait-maeci.gc.ca

Acronyms and initialisms used in Canada's International Business Strategy

(This list does not include sector-specific references.)

AAFC	Agricul
ACOA	Atlanti
APEC	Asia-P forum
ASEAN	Associ
BBS	electro
BOOT	build,
BOSS	Busine System
CCC	Canadi
CIBS	Canad Strate
CIDA	Canadi Agency
CIS	Comm
CSA	Canadi
DFAIT	Depart Interna
DFO	Depart
DND	Depart
EC	Enviro
EDC	Export
EU	Europ
FITT	Forum
FORDQ	Federal Office of Regional Development — Quebec
FSU	former Soviet Union
FTA	Canada-U.S. Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
HRDC	Human Resources Development Canada
	International Business Opportunities Centre
	Industry Canada
	International Development Research Centre
	international financial institution
	International Standards Organization
	International Trade Advisory Committee
	International Trade Centre
	Ministry of Agriculture, Fisheries and Food of Quebec
	multilateral development bank
	multinational enterprise
	North American Free Trade Agreement
	North Atlantic Treaty Organization
	National Research Council
	Natural Resources Canada
	Natural Resources Canada — Canadian Forest Service
	National Sector Team
	Organization for Economic Co-operation and Development
	Program for Export Marketing Development
R&D	research and development
S&T	science and technology
SAGIT	Sectoral Advisory Group on International Trade
SME	small and medium-sized enterprise
UNEP	United Nations Environmental Program
WED	Western Economic Diversification
WTO	World Trade Organization

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AAFC	Agriculture and Agri-Food Canada
ACOA	Atlantic Canada Opportunities Agency
APEC	Asia-Pacific Economic Co-operation forum
ASEAN	Association of Southeast Asian Nations
BBS	electronic bulletin board system
BOOT	build, own/operate, transfer
BOSS	Business Opportunities Sourcing System
CCC	Canadian Commercial Corporation
CIBS	Canada's International Business Strategy
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
CSA	Canadian Standards Association
DFAIT	Department of Foreign Affairs and International Trade
DFO	Department of Fisheries and Oceans
DND	Department of National Defence
EC	Environment Canada
EDC	Export Development Corporation
EU	European Union
FITT	Forum for International Trade Training
FORDQ	Federal Office of Regional Development — Quebec
FSU	former Soviet Union
FTA	Canada-U.S. Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
HRDC	Human Resources Development Canada
IBOC	International Business Opportunities Centre
IC	Industry Canada
IDRC	International Development Research Centre
IFI	international financial institution
ISO	International Standards Organization
ITAC	International Trade Advisory Committee
ITC	International Trade Centre
MAPAQ	Ministry of Agriculture, Fisheries and Food of Quebec
MDB	multilateral development bank
MNE	multinational enterprise
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NRC	National Research Council
NRCan	Natural Resources Canada
NRCan-CFS	Natural Resources Canada — Canadian Forest Service
NST	National Sector Team
OECD	Organization for Economic Co-operation and Development
PEMD	Program for Export Marketing Development
R&D	research and development
S&T	science and technology
SAGIT	Sectoral Advisory Group on International Trade
SME	small and medium-sized enterprise
UNEP	United Nations Environmental Program
WED	Western Economic Diversification
WTO	World Trade Organization