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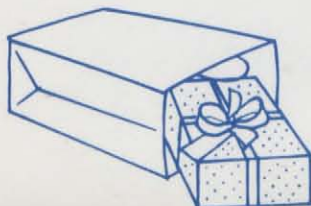
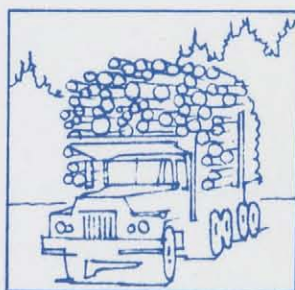
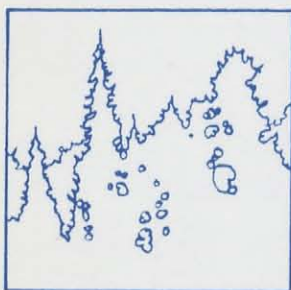
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Canada

Review of the Canadian Converted Paper Products Industry



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Regional Industrial
Expansion

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Expansion industrielle
régionale

REVISED

I am pleased to be able to provide this review of the converted paper products sector to members of the industry. It is one of several reports which have been prepared on the major sectors of the converted wood and paper products industry in Canada. The others include wood windows and doors, manufactured housing, kitchen cabinets, and the paperboard packaging industry. These reports were prepared by the Converted Wood and Paper Products and the Pulp and Paper Divisions of the Department of Regional Industrial Expansion.

The Subcommittee on Converted Wood and Paper Products, under the aegis of the Forest Sector Advisory Council (FSAC), has reviewed and advised on the reports. The FSAC, comprising executives of forest industry companies and labour unions along with some university representation, was established to provide the Minister of State for Forestry and myself with advice on the full range of resources, industrial and trade issues affecting Canada's forest industry.

These reviews are, I believe, the most comprehensive descriptions of the industry available. They also identify a number of key issues currently affecting their well-being, as well as a number that are looming on the horizon. As you know resources become increasingly scarce on both the domestic and international fronts and unemployment continues as a major concern, the potential contribution of these value-added sectors to regional development and employment will become more significant.

REVIEW OF THE CANADIAN CONVERTED PAPER PRODUCTS INDUSTRY

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The primary intent of this review is to encourage companies and industry associations to focus on the issues that are most important to their success in their respective markets. It is hoped that this review will stimulate discussion on continuing improvement in productivity and marketing. The key objective, one that has been a major preoccupation of the Subcommittee, is the improvement of international competitiveness which is required not only to maintain Canada's market position but also to ensure that the competitive position of the domestic industry will be particularly important if further trade liberalization takes place.

The Department would be pleased to hear the views of the industry and associations. Comments should be sent to the following address:

Converted Wood and Paper Products Division

Forest Products Directorate

Resource Processing Industries Branch

Department of Regional Industrial Expansion

Published September 1986

Michel Côté

FOREWORD

I am pleased to be able to provide this review of the converted paper products sector to members of the industry. It is one of several reports which have been prepared on the major sectors of the converted wood and paper products industry in Canada. The others include wood windows and doors, manufactured housing, kitchen cabinets, and the paperboard packaging industry. These reports were prepared by the Converted Wood and Paper Products and the Pulp and Paper Divisions of the Department of Regional Industrial Expansion.

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These reviews are, I believe, the most comprehensive descriptions and analyses of the sectors published to date. In addition to providing a detailed examination of the characteristics of each sector, they also identify a number of key issues currently affecting their well-being, as well as a number that are looming on the horizon. As wood fibre resources become increasingly scarce on both the domestic and international fronts and unemployment continues as a major concern, the potential contribution of these value-added sectors to regional development and employment will become more significant.

The primary intent of the reviews is to encourage companies and industry associations to focus on the pertinent issues, be they company-specific or industry-wide. It is my hope that the reviews will stimulate companies to assess their performance and future opportunities and focus their attention on continuing improvement to productivity and marketing. The key objective, one that has been emphasized by the advisory Subcommittee, is the improvement in international cost competitiveness which is required not only to maintain domestic market share, but also to expand exports. The competitive position of the Canadian industry will be particularly important if further trade liberalization takes place.

The Department would be pleased to hear the views of the industries and associations concerned. I believe it is essential that we have strong communication links between management, labour and government to address industrial issues whether they be productivity improvement, adjustment to changing economic forces, export market development or questions of trade access.

In summary, I welcome an open dialogue on all matters affecting the future performance and viability of the converted paper products sector.



Minister of Regional Industrial Expansion

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INTRODUCTION

The converted paper products industry is defined as the population of companies whose prime raw material input is paper, even though end products often contain many other materials such as plastics, adhesives, paraffins and foils in the final makeup. Products where printing is the prime component of value added are not included in this analysis. It is recognized, nonetheless, that the manufacturers of these products are in fact major consumers of paper. The products produced by the printing and publishing, graphics arts, stationery and business form manufacturers have been excluded.

Because of the diversity in the industry and the myriad products under review, the sector has been divided into five major subsectors to assist in the analysis of the industry and to identify some of the areas that are common across the industry as well as highlighting the differences which exist. While this division into subsectors is far from perfect, it represents an attempt to dissect the industry into major components based primarily on the end use of the products involved. What follows is a brief description of the five subsectors under review and a representative list of the products assigned to each of those subsectors.

1. Consumer Disposable Products

The consumer disposable products subsector specializes in products for the consumer, used either at home or in an institutional setting, and generally of a single-use or disposable nature. The products in this sub-sector include such items as napkins, baby diapers, facial and toilet tissue and other tissue products, feminine hygiene products, products for incontinence (usually used by geriatric patients), paper towels and towelling in roll form, single-use gowns, bibs and sheets.

2. Speciality Institutional Paper Products

This subsector comprises manufacturers producing products used primarily by the service industries such as hotels, restaurants, fast food chains, institutions and similar organizations. Products in this category include place mats, paper doilies, waxed interleaving paper, cupcake cups, tray covers, disposable slippers, floor mats, coasters, filters, paper hats, shelf paper, drinking cups, paper plates and trays, take-out food wraps and bags, table napkins and towelettes.

3. Speciality Commercial Paper Products

This subsector is composed of companies that manufacture products generally for use in the office or in a commercial setting. Products classified under this subsector include telex and teletype rolls, adding machine rolls, paper pads, computer tapes, medical equipment tapes, instrument charts, masking tape, carbon and carbonless paper, cigarette tipping paper, photocopy paper, drawing and diazo papers, pressure sensitive label base stock and envelopes.

4. Wallpaper

This subsector is made up of those companies that produce wallpaper, primarily for the do-it-yourself home improvement market. The product

involved is strictly wallpaper. However, wallpaper does come in several different varieties. Canadian manufacturers produce primarily what is known as dry-strippable, pre-pasted product. Products can be in paper only or it can be vinyl coated with either PVC or PVA, or can consist of a vinyl sheet with a paper backing and, on occasion, textile materials with a paper backing. The product is then pre-pasted for ease of hanging by the consumer.

5. Packaging

The packaging subsector is the largest subsector in the converted paper field and the most difficult to quantify as many companies in this area convert many base materials including papers, boxboards, corrugated, metal foils, paraffins, vacuum metalized materials and various types of plastics. The emphasis in this report will be on those products that are paper-based. The subsector, because of its size and complexity, can readily be classed as an industry in itself. The products in this subsector include such items as multi-wall industrial bags, multi-wall consumer bags (cookie, flour and sugar), grocery bags, check stand bags, coated, waxed or laminated paper for a variety of uses in flexible packaging and in food bags, molded pulp products, wrappers, composite cans, sugar pouch and popsicle wrap stock, tubes, cones and cores.

INDUSTRY OVERVIEW

The converted paper products industry in Canada, because of its diversity of products, companies, markets and economic performance, can be classified as a scale model of Canadian industry. Like Canadian industry in general, it has areas of dynamic growth potential, international cost competitiveness and marketing capability, state-of-the-art facilities, rapid technological change and industrial development opportunities, both nationally and regionally. However, it also has areas of product or market maturity, overcapacity, total domestic orientation behind a protective tariff wall, import competition and decline due to substitute products.

The paper converting industry, described in this sector report, generates annual shipments estimated at \$1.76 billion and provides direct employment exceeding 22 000 jobs. Export sales approach 10 per cent of industry shipments with imports approximating nine per cent of domestic consumption. Table I below provides a current and historical review of key industry statistics covering a major portion of the industry classed as miscellaneous paper converters under SIC code 274.

TABLE I

Miscellaneous Paper Converters (SIC 274), 10-Year Review

Year	Establishments	Employees	Salaries \$	Salary/ Employee \$	% Change	Shipments \$	Shipments/ Employee \$	% Change
1972	231	16 177	123 950	7 662	-	453 020	28 004	-
1977	207	14 553	187 172	12 861	67.8	792 819	54 478	94.5
1980	272	16 602	277 975	16 743	30.2	1 350 972	81 374	49.4
1982	274	15 601	332 768	21 330	27.4	1 583 540	101 502	24.7

The converted paper products industry supplies products to virtually every other sector of the Canadian economy. For example, every manufacturing sector in the economy utilizes some form of paper packaging. The food and beverage sector alone accounts for approximately 46 per cent of the total. In addition, the vast majority of products ultimately end up in the hands of the consumer. As a result, the overall performance and prospects of the industry very closely parallel the performance of the economy as a whole, with a time lag of approximately six to eight months. The recent worldwide and Canadian recession was felt throughout the industry. The packaging subsector and wallpaper sector were most directly affected by curtailed consumer spending during the period, as they are involved in consumer products that are vying for the discretionary spending of the consumer. The consumer disposable and institutional subsectors were less affected. The consumer disposable field, in fact, continued to perform well and company projects to increase capacity, modernize equipment and introduce new products were in evidence during this period. A large portion of the institutional market output is consumed by the food services industry, which continued to enjoy sales increases throughout the recessionary period. As business activity was generally much lower during that period, the commercial market likewise declined.

In addition to the diversity of products produced by the industry, the type and scale of company involved in the industry ranges from the small, single-plant, family-owned company right through to the large, multi-plant, fully-integrated, multi-national corporation. The consumer disposable subsector, for example, is dominated by large corporations. The institutional, commercial and wallpaper subsectors, by contrast, both comprise large numbers of companies that form part of the small-business community in Canada. The packaging subsector is characterized by a full range of company types. In fact, one characteristic of the packaging subsector is that the raw material supplier is also the major competitor.

Overall, the paper converting industry can be classified as a domestic industry which has developed behind a wall of protective tariffs to serve primarily the Canadian market. Although this statement is generally true, it

does not apply to all subsectors, nor to all companies in the industry. For example, the wallpaper subsector is extremely export-oriented, with more than 50 per cent of its annual production being sold in export markets. All companies in the subsector are involved in the export market, at least to the United States, and several companies market their products to several international markets. The consumer disposable subsector on the other hand, because of the influence of multi-nationals with corporate headquarters outside Canada, has been largely a domestic supplier. Even in this subsector, however, the smaller independent companies and the occasional larger producer not prevented from exporting by corporate policy have been active and successful in the export market. In the other subsectors of the converting industry, exporting plays a role. The extent of export activity varies considerably from product to product and company to company. For example, in the packaging field, exports of bags, including multi-wall, are virtually nil, amounting to only \$2 300 000 in 1982. On the other hand, some producers of flexible packaging materials, waxed and polyethylene-coated papers have been very active and successful selling outside Canada, as have some producers of molded pulp products.

The United States represents the major present and potential market for Canadian converted products. There are no major "product vacuums" in the U.S. market waiting to be filled, but opportunities for niche marketing do exist, as they do in other parts of the world. The degree to which individual companies have been involved and/or successful in export markets is by and large a reflection of their capability and willingness, and of those of their respective managements, to become involved, to devote resources to export development and to commit the financial and production resources required on an ongoing basis to sustain an export marketing thrust.

Until recently, the Canadian domestic market had traditionally been sufficient to provide a reasonable profit level and sustain a satisfactory annual growth rate for many of the companies in the converted paper industry. As a result, the level of interest in exporting was not high, and the level of activity correlated with the level of sales in the domestic market. Some companies tended to enter and withdraw from foreign markets as the level of domestic demand changed. As a result, like Canadian industry in general, converted paper industry firms earned a reputation for being inconsistent international suppliers. The levelling off of growth in the Canadian economy in recent years has resulted in increased emphasis by the industry on exporting. A reduction in the number of "in and out" exporters is also evident. Many smaller companies still lack the human resources and/or management expertise to take the step from mature domestic supplier to dedicated international supplier.

The paper converting industry for the most part is using modern, state-of-the-art equipment. The methods used to remain current and up-to-date vary widely from company to company and range from a continued program of equipment replacement by purchasing the latest stock converting equipment to developing and building specialized equipment and machinery in-house. Because of market conditions, a notable exception to this trend has occurred in the bag making segment of the packaging subsector where present rates of return

and limited export potential have tended to limit expenditures on upgrading of equipment. New capital in most cases has been devoted to diversifying the companies' product line and moving into other products, notably plastics.

The resources devoted to research and development by the industry vary widely from subsector to subsector. To a large extent, however, research and development in the industry has been confined to product improvement and process modifications. In the area of consumer disposables, and to a lesser degree packaging, new technology has been acquired either from foreign parents or through licensing agreements with foreign companies. Notable exceptions do exist in the packaging field, however, where Canadian companies have been world leaders in developing new packaging for consumer products. In the institutional and commercial subsectors, product innovation and development, rather than being "driven", has occurred because of customer "pull". Companies in these subsectors have developed new products or variations of existing products only in response to customer demands. The wallpaper subsector, by exception, is constantly involved in product innovation. The bulk of the developments, however, have been in design or pattern changes versus basic substrate product development. Developments have occurred through adaptation by the subsector of new materials originally developed for other uses. Adhesive suppliers have also contributed to product improvements for the subsector.

CONTRIBUTION TO THE ECONOMY

The paper converting industry contributes to the economy in all regions of Canada by providing employment, adding value to raw materials, participating in Canada's export performance, satisfying Canadian consumer demand for quality products and by being a major customer of the primary paper producers.

A significant contribution is made by the industry in the areas of value added and employment creation. For example, the 274 establishments classified by Statistics Canada as miscellaneous paper converters consumed 389 159 metric tonnes of paper and an additional 118 923 metric tonnes of waste paper for a total consumption of 508 082 tonnes in 1982. The 274 establishments created a total of 15 601, jobs resulting in a job creation factor of 30.7 jobs per 1 000 tonnes of paper consumed. By contrast, the primary paper producers employed 4.3 persons per 1 000 tonnes of product they manufactured.

Two specific examples will serve to indicate the significance of value added or upgrading of the resource by the converting industry. The 1982 statistics indicate that table napkin base stock sold at an average selling price of \$1 047 per tonne. After conversion, industrial grade napkins sold for \$1 806 per tonne and napkins for household use sold at \$2 124 per tonne. The average selling price of all napkins was \$1 916 per tonne, an 83 per cent increase in value after conversion. Wallpaper manufacturers in Canada estimate that the average price of wallpaper hanging stock is in the vicinity of \$1 000 per tonne. In 1982 the average price of the wallpaper exported from Canada was \$5 216 per tonne at the manufacturing level.

The primary paper industry in Canada tends to locate its production facilities close to the source of its raw material. By contrast, the converting industry, largely because of transportation cost criteria, generally locates production plants close to the customer or end user. As a general rule, the regional distribution of paper converting plants approximately parallels the regional distribution of Canada's population. The larger facilities and resulting volume of shipments, however, tend to be heavily concentrated in the industrial regions of Quebec and Ontario. To illustrate this fact, the 1982 statistics for miscellaneous paper converters (SIC 274), which represent a major portion of the converted paper industry, show that 65 per cent of the shipments emanated from Ontario. The distribution varies considerably between the various subsectors in the industry. For example, the wallpaper subsector, despite national and international sales, is highly concentrated, 85 per cent of the subsector being located in metropolitan Toronto and the remaining production capability concentrated in Sherbrooke, Quebec. By contrast, multi-wall bag production facilities can be found in all regions of Canada. In addition, a significant portion of consumer disposables production is concentrated in Montreal and the surrounding area. The rest of production takes place in several Ontario centers and in the metropolitan Vancouver area with only an occasional small facility located elsewhere.

The table below, which covers a major portion of the industry, provides an indication of the regional distribution of the industry and indicates that over 75 per cent of the establishments are located in Quebec and Ontario.

TABLE II
Regional Distribution of the Paper Converting Industry

1982

Region	Misc. Paper Converters	Bag Manufacturers	Total Establishments	% of Establishments
Atlantic Canada	7	7	14	3.5
Quebec	82	38	120	30.2
Ontario	135	47	182	45.7
Manitoba	12	7	19	4.8
Saskatchewan	4	2	6	1.5
Alberta	10	11	21	5.3
British Columbia Yukon and NWT	24	12	36	9.0

Source: Statistics Canada.

The paper converting industry provides direct employment to more than 22 000 persons across Canada and indirect employment especially in distribution and sales. Many of the products produced by the industry are sold through national or regional distributors. In general, the industry is not a major contributor to employment in the sparsely-populated portions of the country or in isolated communities. The production facilities of the industry tend to be located in or around urban centres across Canada. There are exceptions to this general statement, as some plants are located in small rural communities. In most cases, however, these small communities are within easy driving distance of an urban centre. In the other cases, the facilities are usually very small and designed to serve a local, specialized market.

The industry is, however, very much a part of the small-business community in Canada. Approximately 70 per cent of establishments employ fewer than 50 persons per establishment, and more than 80 per cent employ fewer than 100. In addition, it is estimated that 30 per cent of the industry's employment is generated by establishments employing fewer than 50 persons, and that 55 per cent is provided by establishments employing fewer than 100.

Canada is one of the leading per capita consumers of paper products in the world. This is in part a reflection of the availability of the resource in Canada, but also an indication of the ability of the Canadian converting industry to produce quality products designed to meet the needs of consumers. The paper converting industry, while not generally in the forefront of new product and technology development, does keep pace with and acquire the latest technology available. The industry produces products which are described as being "as good as anybody's, and better than most". For example, performance tests on Canadian manufactured wallpapers have indicated that the product is equal to or better than products from other countries on a value-per-dollar-expended basis. Consumer disposable products on the Canadian market are likewise of excellent quality and represent the latest in manufacturing know-how, often superior to products available in most other countries.

The paper converting industry is not a highly visible export performer compared to the primary industry. Individual product statistics in comparison are modest, but the aggregate total of all products represents a significant contribution to Canada's export performance. It is estimated that exports of converted paper products for the year 1983 total in excess of \$150 million.

Although exports vary considerably from subsector to subsector, each exports to a certain degree. Even within subsectors, the level of activity varies considerably from product line to product line. For example, in the commercial paper product subsector, specialty tapes and charts, reinforced papers and rolls for business machines are exported to many world markets. By contrast, envelope manufacturers are virtually domestic suppliers only.

The same scenario prevails in the packaging subsector where exports play a prominent role, especially in the area of flexible packaging. Bag producers, however, rely almost exclusively on the domestic market. Additionally, the

contribution made by the packaging subsector to Canada's export performance is traditionally overlooked and underestimated. On average, packaging constitutes four per cent of the cost of production of manufactured or consumer products. However, the selling price statistics of the packaging materials used in all export shipments of manufactured or consumer goods from Canada are, in fact, included in the statistics of the particular product involved. To illustrate, approximately 46 per cent of Canada's paper packaging materials are consumed by the food and beverage industry. In addition, Canada is an active exporter of processed food products. However, all packaging used for exported food products ultimately appears in the statistics as an export of food, not packaging.

In the consumer disposable subsector, exports are very significant to selected companies, but modest in total primarily because a number of the major industry players are multi-national corporations in which Canadian operations were established to serve the Canadian domestic market and therefore have no mandate to export. These companies in fact often introduce a new or improved product to the Canadian market by importing the product from the parent company until Canadian sales justify the establishment of domestic production. This type of activity increases the level of imports of converted paper products and offsetting exports rarely result.

The role of exports in the institutional subsector also varies between product lines and individual companies. Exports of certain products are occurring not only to the U.S., but to markets as distant as Australia and the Far East. All of the companies in the wallpaper sector, by contrast, are dedicated exporters selling to the U.S. market. Several companies are also active in other markets such as Australia, South Africa and the Middle East. The subsector exports over 50 per cent of its production.

The total contribution to the economy by the paper converting industry under review in this profile is very difficult to determine precisely, as the detail level of the statistical base available is inadequate. Miscellaneous NES categories represent major portions of the data. The large product list of the industry also results in statistics being reported under several SIC codes. In addition, products similar in nature but not necessarily paper-based are often included in the same category in the published statistics. Despite these limitations, it is estimated that the 1982 factory shipments of the converted paper product industry totalled \$1 760 million. The table below shows shipments of some products in each subsector of the industry.

TABLE III

Shipments of Selected Converted Paper Products

1982

<u>Consumer Disposables</u>	<u>Shipments (\$000)</u>
Napkins and Paper for household use	19 449
Paper Towels packaged for household use	89 952
Toilet Tissue packaged for household use	102 045
Facial Tissue	91 515
<u>Speciality Institutional</u>	
Paper Plates	5 437
Paper Cups	54 332
Specialty Waxed Papers	17 654
Special Bags of Glassine, Waxed and Greaseproof Paper	3 738
<u>Specialty Commercial</u>	
Adding Machine and Cash Register Rolls	14 727
Ticker Tape	5 930
Gummed Tape (Kraft)	4 947
Envelopes	141 848
Blueprint and Other Reproduction Paper	11 906
<u>Wallpaper</u>	75 042
<u>Packaging</u>	
Polyethylene Coated Paper	70 785
Waxed Paper - Meat and Poultry	5 870
Foil Laminated with Paper and Board	117 995
Molded Pulp Products	31 661
Check Stand Bags	47 187
Grocery Bags	48 430
Multi-wall Shipping Sacks	76 892

COMPETITIVE ENVIRONMENT

As in other aspects of the converted paper products industry, the competitive environment varies from subsector to subsector and, in many instances, varies between product lines within subsectors. Overall competition within the industry may be described as keen among domestic manufacturers. Industry imports, while not monumental, are an ever present concern, representing less than 10 per cent of the Canadian market. This tips the balance of trade for the sector only marginally in favour of exports. Although a large percentage of imports compete directly with domestically produced products, instances of

imports occurring to satisfy product needs not fulfilled by Canadian production do exist. On occasion, imports have also resulted from large tender purchases by large institutional buyers where a single Canadian supplier with sufficient capacity to supply the tender as a single order did not exist.

Institutional Market

Competition is strong within the institutional subsector and is, for the most part, domestically oriented. Import competition, when it has occurred, has usually been caused by international fast-food chains "piggy backing" Canadian requirements to U.S. requirements by supplying Canadian locations from their traditional U.S. suppliers, a trend that is on the decline. The intense competition in the Canadian market, however, is found more at the distributor level than at the manufacturing level. An estimated 85 per cent of sales by this subsector are handled through distributors, the balance being direct sales to national accounts by manufacturers. There are two major national distributors in addition to smaller regional distributors that specialize in a smaller territory or a specific end user market. In addition, there are a number of "bit players", often operating from a residential location, who tend to be in and out of the market hoping to pick up that one large order. The bit players tend to disrupt the market and the prices in that market. At the manufacturing level, no company is without competitors. However, several companies have unique product lines not duplicated by any other company in the subsector.

Commercial Market

The degree of competition in the commercial paper products subsector varies from product line to product line and ranges from normal to excessive.

As is the case for institutional products, distributors play a prominent role in the subsector. It is estimated that between 60 and 70 per cent of sales by the subsector are made through paper merchants, many of whom are subsidiaries of the primary paper producers.

The balance between supply and demand for roll products and other business machine supplies can be described as normal, with only minimal import competition. Coincidentally, selected firms in the subsector are very active in export markets, many selling worldwide.

By contrast, the envelope industry can be described as totally domestic and fiercely competitive, as overcapacity is very much in evidence. The market is mature and its growth will not exceed increases in overall economic activity. In fact, trends toward electronic mailing and other computer-based data transmission will tend to counteract economic activity growth potential. As a result, some rationalization of the industry is predicted in the medium term. Companies in the industry are reviewing their situation to determine whether they can diversify into new products or new markets to maintain viability.

Wallpaper Market

Wallpaper manufacturers must compete not only with each other in the Canadian market, but with imports from many countries as well. Wallpaper is a fashion item. Colour, design and texture are important considerations for the consumer faced with a buying decision. Retail prices range from five dollars per single roll for a standard product, up to \$250 per single roll for an exotic product. Price is therefore a factor to most consumers as well. Import competition has traditionally been at the very low and the very high end of the price spectrum, while Canadian manufacturers have specialized in the moderate to medium-high priced product. The recent strength of the Canadian dollar relative to other world currencies except the U.S. dollar has made Canada an attractive market for overseas producers, especially those in the U.K. and continental Europe. This strength has increased competition in the Canadian manufacturers' traditional market segment, a trend reinforced by the recent establishment of some retail specialty chains with considerable buying power. One such chain has been retailing only products imported from the European Economic Community, not simply for reasons of price, quality or design.

The degree of competition prevailing in the wallpaper industry at the retail level can be seen by the current level of consumer advertising and discounting. Wallpaper retailers have traditionally had one, possibly two, sales promotions each year to clear slow-moving patterns and designs. Clearance sales and special promotions are currently an ongoing event throughout the year. Recent economic conditions have increased this phenomenon as the product, not being a necessity, must vie for the consumer's discretionary spending.

Consumer Disposables Market

In the consumer disposables and packaging subsectors, the competitive environment varies from product line to product line. For example, competition in traditional products such as toilet and facial tissue, towels and napkins is strong, especially in eastern Canada, as evidenced by the degree of price-cutting and special offers at the retail level. The entry of an additional supplier, who aims his product primarily at the lower end of the market, has intensified this competition. In other products, such as disposable diapers, competition was until very recently less of a factor. Only one manufacturer had a branded product on the market and enjoyed an 85 per cent market share. Competition came primarily from smaller producers supplying only generic or private-label products. New branded products are now beginning to appear on the market, as recent television advertising will attest. The major companies in this market traditionally compete using product promotion and consumer advertising more than price.

Market growth in disposables for the incontinent has been rapid and is projected to continue. To date, marketing efforts have been directed almost exclusively at the institutional market, leaving the large and growing home care market virtually untapped. The major competition in this product line

has come from imports. The proposed entry of new manufacturers in Canada should offset the potential growth of imports.

Packaging Market

In paper packaging, the competition, although differing between product lines, has come largely from the rapid growth of plastics and the introduction of new packaging films. For example, the grocery and check stand paper bag market, which is under pressure from plastic substitutes, has been even further eroded by the introduction of improved films such as high density polyethylene and linear, low-density polyethylene. To respond to this trend, almost all paper bag manufacturers have diversified their plants into plastic bag production. In the multi-wall industrial bag market, imports have not been a major threat primarily because of working relationships between Canadian and foreign manufacturers. Inroads into the market have instead been made by the plastic bag and by major traditional users such as cement and fertilizer switching to bulk shipments. While the dollar value of multi-wall shipping sacks has been increasing, the number of units shipped by manufacturers has in fact decreased. The paper bag industry in total has shown no real growth in recent years. In fact, between 1981 and 1982 sales in constant dollars actually declined by 4.3 per cent. This decline is projected to continue, although at a diminishing rate.

In other parts of the paper packaging industry, competition is strong and is based on providing improved products and, more importantly, on providing users with full service, not only on delivery but as well from the perspective of packaging design, graphics and systems to meet the users' total requirements. New and improved packaging materials are being developed and introduced on a regular basis. Often these are laminations or combinations of other materials with paper. For example, vacuum-metalized papers are a relatively new material, currently enjoying greater acceptance as both a packaging and labelling material. Some import competition is in evidence in the packaging field and, to some extent, has been caused by Canadian subsidiaries importing products from the U.S. or other foreign parents to complement their Canadian made products.

Competitive Environment - Recap

Overall, the competitive environment in the paper converting industry is once again a microcosm of Canadian industry in general. The sector by and large has survived without difficulty through the recent economic downturn. Although some companies have had severe difficulties with occasional insolvency, others have enjoyed record years and have introduced projects to expand and/or modernize their facilities. The ability to maintain market share by responding to changing product needs and shifting emphasis to newly developed materials, however, continues to be critical throughout most of the industry. Industry management in recent years has tended toward operating with leaner organizations, as Table I on page four suggests. Statistics covering SIC code 274 (miscellaneous paper converters) indicates that between 1972 and 1982 the number of establishments increased from 231 to 274, while employment actually decreased from 16 177 to 15 601. In addition, the

industry has developed more sophisticated products and responded to changes in technology developed here and abroad. A review of the list of companies in the 1966 survey of industry demonstrates this development. For example, Aeroxon Fly-catcher Company and Purity Milk Cap Company Limited were both part of the miscellaneous paper converting sector of that period.

The wide range of products, companies' sizes and market conditions, and the lack of sector-specific statistics make specific cost comparisons of the domestic industry and international competition difficult to quantify. However, a review of selected company information and results of industry executive interviews suggests that raw materials (primarily paper) account for approximately 50 per cent of the cost of production and that direct labour costs amount to about 8.0 to 10 per cent of that cost. As a result, paper supply and paper costs are critical to the international competitiveness of the industry. The cost of paper in Canada as compared to that in the U.S. is, in particular, a constant concern of this industry. Traditionally, paper prices in Canada have been higher than those in the U.S. In addition, as is typical of Canadian industry in general, economies of scale and changeover costs associated with short production runs present a problem to Canadian companies when comparing their costs to those of firms in other countries. For example, flexible packaging companies in Canada utilizing gravure printing methods accept orders of 200 000 to 250 000 impressions, whereas most U.S. producers frequently operate with minimum order sizes of one million impressions or more. Also, while Canadian plants, due to market conditions, have diverse product lines and tend to be "all things to all people", U.S. plants in comparison are much more focussed and specialized.

Canadian companies have more outstanding debt than those in other countries. The utilization of operating lines of credit coupled with pledging of accounts receivable and inventories as security for working capital loans is a much more prevalent practice in Canada. The table below provides some of the key business ratios for the Canadian industry. A review of this information suggests that no major changes have occurred over the last 10 years with the exception of the level of debt. The deterioration in the debt to net worth ratio is noteworthy in the paper box and bag group. This trend is consistent with the market decline in the paper bag industry as well as the action taken by many progressive companies in the sector to diversify into other products requiring major capital investment and the contracting of additional long-term debt.

TABLE IV

KEY BUSINESS RATIOS

CANADA-CORPORATIONS

LINE OF BUSINESS (and number of concerns reporting)	Year	Cost of Goods Sold	Gross Margin	Current Assets to Current Debt	Profits on Sales	Profits on Tangible Net Worth	Sales to Tangible Net Worth
		%	%	Times	%	%	Times
Paper, Boxes & Bags (44)	1972	79.2	20.8	1.75	3.17	10.74	2.91
	1982	79.7	20.3	1.52	3.65	13.09	3.59
	1983	82.2	17.8	1.5	4.8	19.9	4.1
Paper Products, Other (201)	1972	74.5	25.5	1.66	3.87	9.25	2.39
	1982	77.2	22.8	1.93	2.68	5.26	1.96
	1983	76.1	23.9	1.9	4.2	9.0	2.2

KEY BUSINESS RATIOS

CANADA-CORPORATIONS

LINE OF BUSINESS	Year	Collec- tion Period	Sales to Inven- tory	Fixed Assets to Tangible Net Worth	Current Debt to Tangible Net Worth	Total Debt to Tangible Net Worth
		Days	Times	%	%	%
Paper, Boxes & Bags	1972	47	6.9	70.1	61.8	78.4
	1982	52	6.6	88.3	92.5	185.8
	1983	48	7.2	86.9	98.9	182.3
Paper Products, Other	1972	50	6.4	55.7	50.6	56.5
	1982	51	5.4	69.7	38.7	52.2
	1983	49	6.0	69.1	40.1	56.7

MEDIUM-TERM OUTLOOK

The medium-term outlook for the paper converting industry is once again mixed, and there are variations between subsectors and product lines. Overall, growth is expected to parallel growth in the economy closely. Two subsectors, however, are expected to perform above this level. Consumer disposables should exceed the industry norm because of product substitution potential and a growing untapped market for a specific product line. The wallpaper sector, as well, is predicted to experience increased growth, due largely to its dedication to and past performance in export markets. The sector overall has the potential to improve these growth projections through improved international competitiveness and increased participation in exporting. Table V below provides a statistical review of the medium-term outlook. This is followed by an analysis of the factors used to arrive at these projections.

TABLE V

Medium-Term Projections (Annual Rates)

Converted Paper Sector

1981-1996

(Constant 1982 Dollars)

Product Category ¹	Annual Projected Growth Rate ²	Projected Factory Shipments			
		Estimated 1981	1986	1991	1996
		\$000 000	\$000 000	\$000 000	\$000 000
Consumer Disposables	+ 3.0	653	757	878	1 017
Specialty Institutional	+ 2.7	120	137	157	179
Specialty Commercial	+ 2.3	264	296	332	372
Wallpaper	+ 5.0	75	91	116	148
Packaging	+ 2.5	588	665	754	852
Total	+ 2.8	1 700	1 946	2 227	2 568

1) See key growth factors utilized.

2) See rationale section which highlights basis for these projections.

Key Growth Factors

- (a) Consumer Disposable Products - average annual production growth
 - birth rates
 - family formation
 - demographic changes
 - product substitution

- (b) Specialty Institutional Products - disposable income growth
 - trends in recreation
 - population growth

- (c) Specialty Commercial Products - industrial growth trends
 - product substitution

- (d) Wallpaper - new house construction
 - renovation and do-it-yourself (DIY) growth
 - export growth potential
 - import pressures
 - discretionary income

- (e) Packaging - industrial growth
 - business activity level
 - disposable income
 - general economic activity
 - exports

Rationale

In the consumer disposable sector, the trend in factory shipments will be affected by four key market factors: average annual growth rate in total population, birth rates, new family formation and changes in the age distribution of the total population. In projections by CMHC, total population is forecast to grow by 0.8 per cent annually, in spite of an annual decline in live births after 1985 of 1.3 per cent due to the falling Canadian fertility rate. In addition, net new family formation is projected to decline at some 3.5 per cent annually and the age group over 65 to increase from 9.0 per cent to 12 per cent of total population by 1996. On balance, these trends suggest an expanding market for consumer disposables as Canada's total population continues to expand through the 1980s and 1990s and smaller families and more non-family households create increased demand for smaller units of consumption in packaged goods and single-use convenience products. The rise in the number of elderly people will increase the demand for facilities, health care and recreation.

Annual growth in the sector, based on these factors, alone would be about 1.5 per cent. However, market conditions in two product lines suggest a higher growth rate. Trends toward disposables versus reusable product in one case and an untapped home care market in the second product line support the projection of a growth rate of three per cent. The specialty institutional sector is affected by the same factors. In addition, anticipated annual

growth of 2.4 per cent in disposable income plus the increase in fast food consumption over the period will have an additional positive effect in this sector, resulting in a projected growth rate of 2.7 per cent.

Growth in both the specialty commercial and packaging sectors is expected to be positive over the forecast period and generally in keeping with the expected real growth in Canada's GNP. Over this period, the fastest growing sectors of the economy are forecast to be utilities at some six to seven per cent annually, mining at four per cent, manufacturing at four per cent, transportation, agriculture and finance at 3.5 per cent, trade and forestry at three per cent. Slower annual growth of from two to 2.5 per cent is expected in construction, personal service, public administration and fishing. On balance, GNP can be expected to increase at a conservative annual rate of about 2.5 per cent annually. The growth in shipments in these two sectors has been forecast to approximate the annual growth rate in GNP. Factors of a product line nature within the subsectors account for the small deviations between GNP growth and the actual rates used.

The wallpaper sector will be affected to a degree by the trend in new housing construction which is expected to decrease over the period at an annual rate of 0.9 per cent. This drop primarily reflects the adverse population and net new family formation trends forecast by CMHC to 1996. In contrast, however, the strong growth in renovation and DIY (currently more than 10 per cent annually) is expected to far outweigh the decline in new housing demand. This growth, coupled with strong performance in export markets and future potential for increased exports by the sector, suggests an annual growth rate of five per cent. This rate has been utilized in the forecast.

Overall growth for the sector is projected at 2.8 per cent, slightly greater than the expected growth rate of GNP over the period, based on the current performance of the sector. Exports currently represent 10 per cent of the industry's sales. If companies, with government encouragement, make a concerted and aggressive effort to continue growth of export sales, industry growth rates can be improved. An increase in exports to 15 per cent of total shipments over the next decade would result in an annual growth rate of 3.1 per cent. A doubling of exports to 20 per cent would result in a growth rate of 3.6 per cent. These growth rates would result in projected shipments of \$2 666 million and \$2 792 million respectively by 1996.

MAJOR ISSUES

The issues in the converted paper products industry vary from subsector to subsector. However, three are generally recognized as being of particular concern for the entire industry.

Raw Material Supply

Paper is a critical production input for the industry. The adequate supply of the many different grades required at internationally competitive prices is the issue most often raised by industry executives. The question of paper supply and its cost is complicated by many factors, some of which are:

- upward pressure placed on primary paper mills' costs by the same economies of scale and short production run problems affecting converters;
- limited buying power of many converters due to their corporate size and, consequently, their order sizes;
- the anomaly of the raw material supplier that is often a competitor as well;
- the desire of converters to source raw materials in Canada, rather than utilize foreign suppliers which tend to treat the Canadian market as a market in which to sell incremental production and which often withdraw from the Canadian market as their domestic demand reaches capacity;
- the cyclical nature of primary paper markets which causes fluctuations in price and, more importantly, continuity of supply. For example, envelope manufacturers have over a matter of months experienced a swing in the availability of envelope kraft from a seemingly unlimited supply to allocation from the paper mills. This trend has forced them to increase their individual order sizes and carry much higher paper inventories than they would in normal times, putting added pressure on costs.

Relations between individual converters and suppliers can be described as good. There is, however, room for improved communications and increased co-operation between the two industry groups, namely the primary paper producing industry and the paper converting industry. This is particularly true in the area of international competitiveness and export market development. The degree of co-operation between these two groups in other world competitor countries appears considerably higher than is the case in Canada. Progress in this area is somewhat hampered by the diversity of the Canadian converting industry and the fact that an industry association or suitable alternative organization capable of speaking on behalf of the whole converting industry has not existed in the past. Improved co-operation between the two industry groups could well improve the ratio of raw material to high value-added finished product exports from Canada, and also could assist both groups in maintaining a high level of technological advancement.

Labour/Management Relations

The second major issue of concern to the industry is labour-management relations, particularly with regard to wage levels, productivity and international competitiveness. Labour rates in Canada have traditionally exceeded 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 phenomenon. Higher Canadian industry wage settlements in general have played a role. Generous wage increases in the primary industry, caused by a desire to achieve "parity" and by the presence of integrated producers in most subsectors, have also put pressure on wage rates in the converting industry. Higher paper prices usually associated with increased costs in the

primary industry, in addition to the fact that this is a more labour-intensive industry, have resulted in greater upward pressure on costs in the converting industry. This trend has at times prevented the industry from 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 industry's ability to export and would increase import pressure from the U.S. as well.

Labour-management relations in the sector can be described as generally good. The quality of labour-management relations varies greatly from company to company. In many firms, in-plant committees or worker representatives work closely with management and share in decision-making. Likewise, many companies have incentive plans and profit-sharing arrangements for all employees.

At the same time, there do exist examples of labour-management strife and confrontational negotiations that lead to lockouts and strikes. Improved co-operation and communications between labour and management and a clear understanding on both sides of company and employee goals is required. This is particularly true in the current market situation. Forecasts suggest a greater emphasis on exports and exporting as an activity for companies in the industry will be required in the future, not only to sustain growth but to prevent decline.

The paper converting industry provides excellent potential for the development of people. The industry requires all types of workers from the semi-skilled to the highly skilled, technically competent operators utilizing modern sophisticated machinery and processes. In addition, the industry is labour-intensive compared to the primary paper industry and should offer opportunities for upgrading skills. Some paper converting plants have been established and have absorbed highly-skilled workers previously employed in declining industries such as textiles.

Transportation

The third main area of concern, again affecting international competitiveness, is transportation costs, both domestic and international. Many products such as consumer disposables and, to a lesser extent, packaging, have a very high volume-to-weight ratio. Consequently, freight rates play an important part in pricing strategy and, in turn, competitiveness. This is especially true in selling to export markets. For example, the cost of freight for molded pulp products can represent as much as 50 per cent of the selling price of the product.

Tissue-based products are similar in this respect. Consequently, freight costs are a critical component in the costing of these products as well. Indications are that freight rates in Canada and to international destinations are higher than those of most of Canada's major competitors. Higher international freight rates are in part a reflection of the lower level of shipments from Canada to specific foreign destinations resulting in reduced competition for ocean freight, which leads to higher rates.

OTHER INDUSTRY ISSUES

Currency Values and Tariff Rates

The current Canada-U.S. dollar exchange rate is assisting the paper converting industry to be more competitive in the U.S. market. It has also served to insulate Canadian manufacturers from U.S. import competition by offsetting other higher production and selling costs in Canada. A return to Canada-U.S. dollar parity would be disastrous to many converters and place the existence of many firms in jeopardy.

Changes in the Canada-U.S. exchange rate would have a greater impact than further reductions in Canadian tariff rates, which currently range from seven to 12 per cent. However, reductions in tariff rates or in the differential between Canadian and U.S. rates would have serious implications for a wide spectrum of companies in the converted paper products industry. This is especially true where Canadian facilities are branch plants of U.S. producers. Some industry executives feel that substantial tariff changes may result in Canadian plants being converted to warehouses for distribution of imported products from the parent company.

The recent strength of the North American currencies relative to other international currencies is having a detrimental effect on the industry, both by increasing the selling price of Canadian products in offshore markets (i.e., exports) and, conversely, by making Canada a more attractive market for offshore suppliers (i.e., imports). The wallpaper and, more recently, the commercial subsectors in particular have been experiencing increasing pressure from European and Pacific Rim shipments to Canada.

Capacity Utilization

The rate of capacity utilization varies across the paper converting industry between subsectors and often between product lines. The majority of the plants in the industry could, however, manufacture additional product if the demand existed or new markets were opened. With few exceptions, only companies operating continuous-process manufacturing plants are operating three shifts per day, seven days a week. On the other hand, many plants are operating two shifts per day, five days a week, with the occasional extra shift or weekend operation. The overall industry average for capacity utilization has been estimated at 75 per cent, when a three-shift operation is defined as full capacity. Many companies in the industry, however, classify themselves as operating at full capacity when their plants operate two shifts, five days a week. On balance, utilization is relatively stable and not subject to the wide swings or cycles experienced in other sectors of the forest industry.

The lowest rates of capacity utilization are found among multi-wall shipping sack producers and paper bag manufacturers. Most companies involved in these product lines have diversified into other forms of packaging or are utilizing other materials such as plastic films to offset the downward trend in their traditional products. It is anticipated that some rationalization will occur

in these two product lines in the coming years. On the other hand, capacity utilization in some product lines of consumer disposables and institutional products is approaching full capacity with plant expansions either underway or being forecast. The commercial products subsector situation is mixed and companies producing traditional roll products are experiencing a high rate of capacity utilization, while envelope manufacturers are in an overcapacity situation. Most wallpaper plants are operating on at least a two-shift/five-day basis.

Modernization

The paper converting industry overall is utilizing state-of-the-art equipment, although computerized process controls and/or robotics are not very much in evidence. Many companies in the industry have maintained up-to-date equipment largely by upgrading existing machines through modification, rather than investing in new equipment. The basic machinery to produce traditional products has changed little over the years. Machine modifications have tended to be limited to machine speed-ups, the dedication of equipment to single products or single sizes, or cost and labour saving devices. Materials handling equipment either at the raw material input stage or in the finished goods packaging and handling stages of the manufacturing process represent the most frequent modifications. Notable exceptions exist in the wallpaper and particularly the packaging subsectors where new materials or new processing techniques have been developed. The modernization needs of the industry are significant. Industry reviews and interviews suggest that companies expend approximately three per cent of sales on modernization annually. With industry sales currently at \$1.7 billion per year, annual capital expenditures on modernization would amount to \$51 million.

In isolated product lines, modernization expenditures will occur as a result of product diversification related to shifts in market demand for traditional products.

As the industry is labour-intensive, no doubt future modernization plans of many companies will include electronic process control equipment and robotics to offset pressure from rising costs.

Research and Development

In a similar vein, the industry's position vis-à-vis technology can, as a general rule, be described as on par with that of other international competitors. However, like Canadian industry in general, the paper converting industry has for the most part responded to technological developments elsewhere. Instances of truly new technology being developed in Canada are few. Likewise, R&D in the industry has been limited largely to product or process improvements rather than basic research. Innovation in future will most likely be aimed at similar developments, often in response to customer needs, changing consumer tastes or new developments outside the country. Typical innovation projects by companies in the industry relate to process improvement or efforts to amalgamate multi-pass operations on different equipment into single pass, "in-line" production runs.

Investment Climate

The paper converting industry is characterized by a mix of multi-nationals, intergrated producers and owner-manager entrepreneurial organizations. With the notable exception of the consumer disposables subsector, which is dominated by multi-national corporations with household names, the industry can be classified as being Canadian-owned and very much a part of the small-business community. Hence the investment climate reflects the diversity of organizational structure. In general, however, industry executives from both large and sma^l companies indicate that capital is available for expansions, mergers, leveraged buy-outs, etc. The funds are available if the company has a clear business plan, is realistic about its future potential and knows the correct sources to approach for the funds required.

The investment required in a converting plant varies considerably from subsector to subsector. It is, however, far less than the average investment required in the primary industry to establish a greenfield mill. Some examples will serve to indicate typical investment levels. The replacement cost of a packaging plant, including inventory with annual sales exceeding \$7 million, is estimated at \$12 million. A converting plant in the consumer disposables field capable of generating sales of approximately \$30 million annually is projected to require an investment of \$18 million. In addition, a small plant producing institutional products with sales totalling \$1.5 million annually would need an investment of \$1 million.

The larger integrated or multi-national operations are well financed, and capital spending requirements for modernization and expansion are readily available. These organizations, however, must often compete for these funds with other divisions or companies in the corporate structure. The smaller companies, which represent a sizeable percentage of the industry, often suffer from typical small business problems such as the availability of funds to finance moderization or new product development, as well as time and talent to manage in today's complex economy. Companies in this category often look to government seeking both monetary and non-monetary assistance in the form of financial programs and industry counselling. Export market development advice and financial assistance are the most often requested.

Financial Status

The overall performance of the industry has traditionally followed the performance of the economy as a whole. The current financial situation nonetheless can be described as strong, reflecting conservative financial management on the part of most companies. A review of Table IV (page 20) provides some insight into the current situation. The industry has remained profitable and maintains a positive working capital ratio. In most subsectors, the debt/equity ratio (an average of 0.56 to 1) is very favourable compared to other industry sectors. The notable exception is in the area of paper bag and box production where the debt/equity ratio is at an uncomfortable average 1.82 to 1. This reflects the problems faced by this segment of the industry, problems of declining market share, overcapacity and

the diversification into other products many companies have undertaken. The diversification has forced companies to make investments in new equipment and marketing efforts at a time when profit levels were under pressure. This in turn has led to increased long-term debt commitments.

While the statistics in Table IV are calculated on a broad-based industry average, information gained from discussions and interviews with company executives suggests that the averages in the table are consistent with the actual performance in the industry. The industry, being so closely tied to the economic performance of Canada in general may, however, face a tougher financial time in future if current projections for the growth of the economy overall hold true. As a result, many of the companies in the industry will have to undergo changes in their style, especially as it relates to their traditional marketing effort, if they hope to remain profitable.

FEDERAL-PROVINCIAL GOVERNMENT CONSIDERATIONS

The products of the paper converting industry are finished products, many of which are sold directly to end users and consumers. Product quality, design, uniqueness and consumer appeal are therefore as important as price to successful selling. Unlike primary pulp and paper, which are traded as commodities, converted products require much more emphasis on and expertise in marketing. This is particularly true in international markets, where much more effort is required to ensure that products meet the needs of consumers and, in fact, are properly distributed, promoted and marketed to the end user. In addition, exports of converted products, because of the high value added and high labour content, provide a superior unit return of economic benefit to Canada. Consequently, the industry is much more suited to export market development and assistance by governments than is the primary industry.

Owing to Canadian economic factors, the paper converting industry tends to locate near its customers and is, therefore, most often found in urban centres. In addition, the industry is concentrated in the provinces of Ontario and Quebec. As a result, the industry is by and large not a candidate for industrial development in isolated communities. The odd exception can be found and usually involves a spin-off. For example, the development of a large food processing operation in a rural community may well lead to a spin-off development in the paper converting field to supply packaging to that new industry.

The industry also includes small organizations which often lack the complete range of managerial talent and financial resources to operate in today's complex business environment. Consequently, financial support and industry counselling by people knowledgeable about the industry and its products, especially in the area of international trade and finance, are critical in this sector. Furthermore, assistance and advice is needed to determine which of the many programs and services available from the various levels of government best suits the company's needs. Many firms, especially smaller ones, also use a central knowledge base concerning the subsectors and current happenings in the national industry when contemplating expansions in existing production capability or diversification into new products. Often this

knowledge base is used as a domestic raw material/service sourcing tool as well.

The paper converting industry has a high labour component per tonne of raw material converted, and as a result the industry is an excellent job creation and/or retention vehicle for industrial development.

Two areas affecting the sector, however, are labour-management relations and high transportation costs. Governments should be aware of these two items in generating policy on transportation issues and labour practices. In addition, governments are able to set the tone and act as catalysts to improve labour-management communications and the knowledge base of the parties and, hence, co-operation between the two groups, and to reduce the incidence of confrontational negotiations.

Purchasing groups within governments and Crown corporations should exercise care in tendering and purchasing, with a view to acquiring products in quantities commensurate with Canadian converting capability. For example, tenders being issued for annual and global requirements could be restructured on a reduced-time or delivery-point basis, thereby permitting Canadian converters to bid on requirements previously beyond their scope as a single order.

While support to new establishments has the potential to create regional employment, it can also contribute to sector fragmentation and have adverse and inequitable effects on existing producers. Consequently, governments should exercise caution in forming policy and implementing industrial development incentives and assistance in this area.

At present, the capacity utilization rate of the paper converting industry is relatively high and the sector, for the most part, is financially stable and healthy. Companies within the industry will nevertheless have to become more internationally competitive, and many will have to develop expertise to become international suppliers rather than look only to the domestic market for future profits and growth. Governments have a role to play in creating an environment and in providing assistance to stimulate this activity.

CONCLUSIONS

The paper converting industry, with its diversity and multiplicity of products, is currently operating at reasonable capacity levels. The financial picture is acceptable, up-to-date equipment by and large prevails, and overcapacity is not a severe threat in most subsectors and product lines. However, the industry has grown as a domestic supplier, often behind a substantial protective tariff wall. Furthermore, it has remained competitive in recent times primarily as a result of the exchange difference between the Canadian and the U.S. dollar, a competitive edge over which neither the companies nor the industry has control. The danger of relying on an exchange difference as the only competitive advantage can be seen by the increased import pressure that has been experienced lately in some subsectors as a

result of much weaker European currencies, making Canada a most attractive export market for these countries.

In addition, the projected growth of the Canadian economy and this industry's correlated performance to that economy will not allow for sufficient future growth to maintain current financial performance in most subsectors, although some potential still exists in very specific product lines. The industry must therefore take steps to position itself to become more internationally competitive by addressing, as far as possible, the areas of raw material supply, labour-management relations and transportation. In addition, the industry will have to keep abreast of or, if possible, take the lead in technological and product developments to respond to ever-changing customer needs and raw material developments. It will also have to continue to invest in modernization, at least to maintain state-of-the-art equipment and to rationalize production in declining products.

To maintain current financial performance and achieve meaningful growth, the industry overall will have to become more aggressive in two areas, namely import replacement and export. Although varying from sector to sector (wallpaper over 50 per cent, consumer disposables under one per cent) exports currently total approximately 10 per cent of industry shipments. Imports account for eight to nine per cent of the domestic market. Given the growing interest of the industry, it is realistic to project that exports could reach a level of 15 per cent by 1995. To hit this target, existing exporters will need to intensify their efforts to develop the export market. The number of actual exporting companies will also have to increase. While it is true that no product vacuums exist in most foreign markets, the experience of many companies in the sector shows that opportunities or niches do exist. Companies prepared to develop or acquire expertise and resources can progress from being strictly domestic suppliers to become international marketing organizations. Import replacement is also feasible, as is an initial target of reducing imports to five per cent. Canadian purchasers need to be made more aware of Canadian manufacturing capability.

Government has a role to play in the movement of the paper converting industry towards the goals of increased competitiveness, decreased imports and increased exports by acting as a catalyst, providing industry counselling, implementing policies and delivering timely and correctly-aimed financial incentives or programs.

APPENDIX

CONVERTED WOOD AND PAPER PRODUCTS DIVISION

FOREST PRODUCTS DIRECTORATE

RESOURCE PROCESSING INDUSTRIES BRANCH

DEPARTMENT OF REGIONAL INDUSTRIAL EXPANSION

MANAGER

C.J. Copeland

OFFICERS AND RESPONSIBILITIES

- | | | |
|-------------|---|---|
| G.D. Bird | - | Special Projects Involving All Product Sectors;
Converted Paper Products: Institutional, Decorative
(Wallpaper), Packaging - Coated, Laminated, Reinforced
or Metallized Paper Packaging Materials and Bags |
| M.S. Hardie | - | Timber Frame Construction, Manufactured Buildings
(Including Houses), Structural Housing Components,
Mobile Homes, Log Homes, Laminated Timbers |
| J.T. Melnyk | - | Kitchen Cabinets, Architectural Millwork,
Remanufactured Products and Specialty Items, Handles,
Brush, Broom, Mop, Charcoal, Fire Logs, Fencing,
Wooden Containers, Wood Flour, Cooperage, Wood
Turnings, Spools, Dowels, Woodenware, Misc. |
| R.J. Aubrey | - | Millwork (Windows, Doors and Mouldings, etc.),
Pallets, Hardwood Flooring, Furniture Components,
Dimension Stock; Converted Paper Products: Consumer
Disposables and Specialty Commercial |

