ten years ago, Canada's newsprint makers were at a crossroads. Unfortunately, little has changed over the past decade. With falling prices, the industry depended on a low dollar to stay competitive. It hasn't worked.

Weak newsprint makers a metaphor for Canada

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in 1991, newsprint was one of Canada's leading export indus- tries, with shipments of $2.2 billion in 1989 and a world export share of 62%. The Canadian industry consisted of seven large companies (Canadian Pacific Forest Products, Abitibi-Price, Fletcher Challenge Canada, Stone Consolidated, Quebec and Outokumpu) and two smaller companies (MacMillan Bloedel) who controlled 65% of Canadian capacity. Newsprint exports are important to the Canadian pulp and paper industry exports.

It was an industry with important but narrow strategic choices and vulnerabilities for the future. Canada's pri- mary strengths were low wood fibre cost and low energy costs. In that respect, Canada enjoyed proximity to the largest market in the world, which lowered transportation costs for newsprint and paper and reduced customer service. How- ever, Canada's advantage in wood fibre cost is diminishing as a result of the development of thermomechanical pulping (TMP), which allows the effi- cient use of wood residue, primarily for southeastern United States and Latin America. Also, the increasing use of recycled paper is making environmental issues more critical in the United States, reducing the advantage provided by inexpensive Canadian newsprint.

In addition, the industry had weaknesses in its microeconomic context. Although there were a number of ri- vals, this oligopoly structure produced pro- duction and upgrading. As with most parts of the Canadian forest products sector, Canada was lagging behind the United States in the early 1990s in terms of technology, production and marketing. The lack of local related and supporting industries, such as equipment suppliers, made the industry less able to take advantage of international competition in the pulp and paper sector, and made it difficult to upgrade production. Historically low tax rates were another disincentive to not prepared Canadian firms for the attractiveness of environment concerns within the country.

Overall, the industry personified the crossroads faced by the economy as a whole, struggling to produce at a rate of growth that had left the Canadian firms with smaller machines, lower labour productivity, and lower capacity to compete with the global competition on the current market. With governments, especially in British Columbia, putting upward pressure on wood fibre costs through higher stumpage fees, the 1990s promised to be more challenging than the previous decades.

The question was: Would Canadian firms move forward to higher productivity and more distinctive strategies, or would their fundamental competi- tiveness erode? Unfortunately, this was a little easier to answer in 1991 than in the last decade with respect to the Canadian newspaper industry and its approach to competition, and Canada's position in the industry has eroded.

Characteristics of many commodities, prices, and markets forces that have their long-term drift downward at a real rate of approximately 1%-per-year. Newsprint makers, however, have long-term changes. They are declining and between 1989 and 1999. Increases have come in the production of value-added grades of paper and paperboard.

In this environment of falling prices and growing competition, world exports of newsprint have fallen from 62% in 1991 to 53% in 1997, a significant reduction. Continued growth in the use of TMP and recovered paper has weakened Canada's ba- sic wood fibre advantage. With a weakening competitive position, the Canadian industry has been forced to respond to the company's competition. The dollar stood at approximately US$8.61 at the end of January 1991 and US$8.65 on December 30, 1991.

CANADA'S SHARE OF THE GLOBAL NEWSPRINT INDUSTRY FELL
FROM 62% IN 1991 TO 53% IN 1997

Canadian mills and the Canadian in- dustry are doing better than the world average, with cash costs almost $100/tonne higher. In this way, a de- crease in productivity has been a competitiveness problem, rather than indicating true competitiveness. Even with a falling currency, the Canadian paper and forest industry has not performed well. In 2000, the Canadian industry had a return on capital employed of 4%, well below the average return for Europe (5.9%) and the United States (6%). Finland was a particularly impressive performer with a return of 7%.

Perhaps the most substantial change in the newsprint industry is increased globalization. Some major firms began to acquire competitors in other countries in order to establish a more global presence.

The leaders in this new wave were the Scandinavian firms, who invested heavily to upgrade during the 1980s. At home, they worked together through industry associations and linkages with universities to promote innova- tion. The average worker in the Scandi- navian industry has a related university degree and a high level of technological literacy. Abroad, firms invested heavily in North American assets. British/Swedish/Finish firm Stora Enso ac- quired U.S. fine paper producer Con- solidated Papers, and Finland's UPM-Kymmene acquired Canadian fine paper producer Repap Canada. Norway's Norske Skog, Canada's largest newspaper player Fletcher Challenge Canada, and recently made a bid for Pacific Papers, a company that has been sold, the newsprint assets of MacMil- lan Bloedel were spun off. In addition, Bowater, a U.S. newspaper making com- pany, acquired Avenor, successor to Cana- dian Pacific Forest Products.

The Canadian newsprint industry has participated passively in the glob- alization of the industry with the ac- quisition of three of the seven major Canadian companies by foreign com- panies. Abitibi has focused on consoli- dation in the industry within Canada, having bought or otherwise consolidated, Consolidated, Quebec and Ontario Pa- per Company, and Donahue into Cana- dian Pacific Forest Products.

In contrast, Abitibi-Consolidat- ed has made only very minor forays in- to the global arena. Finally, a joint venture in Asia and no presence in Eu- rope or Latin America.

Finally, Abitibi-Consolidated and other Canadian competitors, which have invested more heavily in upgrading at home, expanded in the fast-growing, high-growth, high-return sector, and acquired to create global reach, the Canadian pulp and paper sector, which relies on export markets, has focused primarily on domestic consolidation rather than on upgrading and innovation.

These trends were evident in 1991. The Canadian industry had a choice to upgrade its capability in newsprint, migrate its production to lower-cost plants and establish a more robust global po- sition or to continue the status quo. In large part, the Canadian industry chose the latter, while more often countries' newspaper industries chose the former. When the same industry retains an important Canadian industry, and one with leading global export share, it is likely that it will lower its position to decay slowly rather than invest in upgrading and innovation. When the same industry retains an important Canadian industry for years to come, but is unlikely to be able to contribute to its upgrading and innovation, it is likely that the current position of the current position on the current path. It will continue to lose share in a business whose output is growing at about 8% per year.

The newspaper industry is a metaphor for the Canadian economy. Its trajectory, as well as the overall evi- dence, suggests that Canada has fol- lowed an unfortunate path. Substan- tial progress has been made in the macroeconomic context, and there are some microeconomic improvements. However, the progress has not been sufficient to move Canada ahead in rel- ative terms against other highly devel- oped countries. The relative position has on average not reacted to these changes in their competitive environ- ment. The newsprint industry has failed to upgrade their strategies and opera- tions. As a consequence, Canada is now experiencing negative growth across a number of measures from GDP per capita, to productivity, to In-

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