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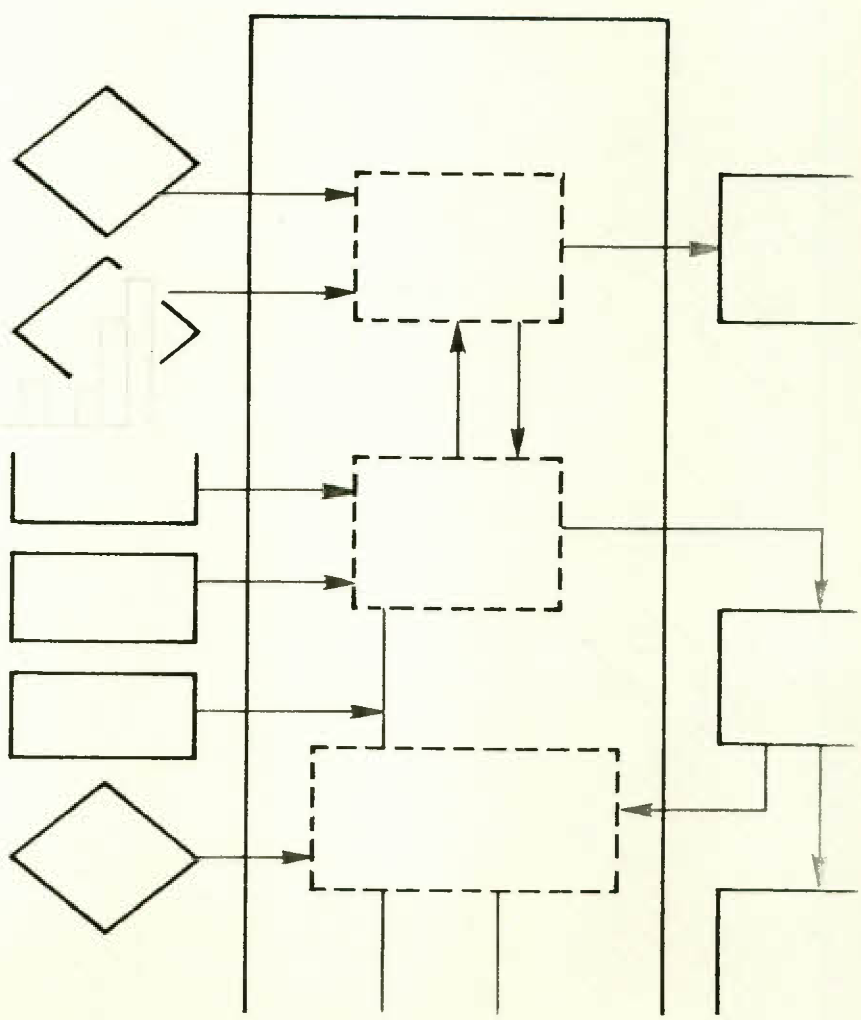
DISCUSSION PAPER NO. 3

Provincial Economic Policies
Industrial and Commercial Development

(1973)

by C. J. Wenaas



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Preliminary

CONTENTS

CHAPTER 1

ECONOMIC BACKGROUND AND POLICY FRAMEWORK

The Range of Developmental Policies

Of the range of provincial government programs and activities, it is not always easy to establish which should be regarded as industrial and commercial development policies. The programs of departments of industry and commerce are most clearly identified with such policies. But the construction and operation Of economic and social infrastructure such as roads, communication facilities, schools and hospitals, have distinct implications for industrial and commercial development. Systems of law and jurisprudence, standards of weights, measures and other technical characteristics, the nature of the taxation system, play a significant part too in determining the responsiveness and effectiveness of a modern industrial society. Even programs or institutions that might be considered wholly social in nature such as welfare programs, or cultural in nature such as libraries or concert halls, have some effect on the industrial and commercial sectors. The truth is that there is little that governments do that does not relate in some way, even if only remotely, to industrial and commercial activities.

The question then is to select government programs which are <u>of their essence</u> developmental in respect to the industrial and commercial sectors of the economy and which are not primarily oriented to other objectives. Such a selection is in part an exercise in judgment; everyone will not make the same choice. This report concentrates on manufacturing and tourist development policies.

Before proceeding to consider in detail these manufacturing and tourist development policies, hereinafter also referred to as industrial and commercial development policies, it is useful to place them in context with other developmental policies, those directed to goods-producing industries, to transportation and to energy sources. It will be seen that the common characteristic of these policies, the characteristic that classifies them as developmental is that a significant part of each of these industries is "export-type".[1/]

Each of the primary resource industries has its unique characteristics and unique policies have been formulated for each industry. All primary resource products are transferred to other locations for consumption or processing. In fact, today, almost all resource products receive some degree of processing before final consumption, that is, they must become an input into the manufacturing sector. Primary resource development policies always have some implications for manufacturing industries and vice versa.

The development implications of activities of provincial governments in the transportation and energy-producing industries might also be briefly commented on. Transportation is of fundamental importance in a vast country like Canada. Measures to promote effective transportation systems are basic to any economic development policy. Even for manufacturing and tourism alone, decisions in the transportation sector are of overriding importance. The nature of rail and ocean freight rate schedules and the location of transportation facilities shape the location and growth of manufacturing industries. Air transport has a similar effect on tourism. The highway and road networks meet many needs; buses and private automobiles play a vital role in tourist travel; trucks are major carriers of manufactured goods and so roads also are increasingly important in industrial development.

1/ See page 16 for a more complete discussion of this point.

The modern industrial economy is a prodigious consumer of energy in its many forms. Measures to discover, exploit, develop and safeguard sources of energy are necessary features of any industrial development policy. Since minerals such as uranium, coal, petroleum and natural gas are sources of energy, energy policies and mining policies are closely linked. Policies in respect to another major source of energy, electric-power, may be pursued more independently even though an increasing proportion of electricity is generated from the fuels produced in the mining industry. Electric power generation is primarily dependent on massive inputs of capital.

The tourist industry is unique as an object of development policy in that it promotes the economic growth of a region not by directly exchanging goods and services for external income through exports, but by inducing people to enter the region in a form of temporary immigration[1/] so that the visitors may there consume the products of the region but pay for them with income generated outside the region. Again, policies for development of tourism are linked with other development policies. Tourism is an alternative use for certain forms of natural resources, for instance, resources which might be used for agriculture, forestry, fishing or mining.

In general, the development policies considered in this report are the responsibility of provincial industrial loan agencies and of provincial departments of industry and commerce or of departments with similar names and similar responsibilities. Thus, particular attention has been paid to the changes over time in such administrative structures and to the relationship of such agencies to the government as a whole. Growth and change in industrial development policies has been largely viewed in terms of the activities of these agencies or of certain related institutions.

1/ In certain regions, a major source of growth may be the entry of permanent residents in retirement whose income also is therefore generated outside the region.

Throughout much of the period under review these agencies and departments have largely concentrated their attention on the promotion of manufacturing and tourism industries. This, in part, reflected the fact that departments of government established earlier had responsibility for agriculture, forestry, fishing and mining policies. But since manufacturing and tourism have close linkages with the resource industries, departments and other agencies of industrial and commercial development have also involved themselves to some extent in resource development.

Provincial departments of industry and commerce have also been involved in provincial transportation policies but this has been only to a very limited extent. The major transportation mode for which provincial governments are responsible, roads, is under the administration of a separate department with its major orientation being the serving of provincial residents. Other major transportation sectors such as the railways, airlines, shipping, and interprovincial pipelines are predominantly within the jurisdiction of the federal government.

Similarly, provincial energy policies are largely oriented to the provision of an effective province-wide energy infrastructure, necessary for economic development in general but generally with no strong industrial development thrust. There are of course, examples of major electric power generating projects undertaken primarily to sell electrical energy to export markets for extended periods of time.[1/]

In the consideration of manufacturing and tourism development policies, reference will be made to examples of primary resource policy or transportation policy or other policies that relate indirectly to manufacturing or tourism development. Such references must, however, be limited. In addition, when industrial or tourist loan agencies provide loans to firms other than manufacturing or tourist enterprises, such facts will be noted.

1/ Obvious examples are British Columbia and its simultaneous development of the Peace River and Columbia River power projects, Newfoundland and the Churchill Falls power project, and Quebec and the James Bay power project.

It may seem that manufacturing and tourism development and promotion policies would be in conflict. It is conceded that the development environments for manufacturing and tourism differ significantly and sometimes conflict. Different types of natural and human resources are required. The two industries respond to different development techniques. Tourism expansion, for example, is much more dependent on publicity and promotion than is manufacturing. Yet it is a fact that at some time in the past twenty years in nearly all provinces a single department of government has been responsible for both manufacturing and tourism development. Also, the same provincial government loan agency has generally provided financial assistance to both industries. Thus, in spite of the differences, there is merit in a joint examination of the two policy areas. In the long run, development policies for manufacturing and tourism must be compatible.

Outline of Report

This report first examines the general features of the economic background and the policy framework within which industrial and commercial development policies have been formulated.[1] It then proceeds in Chapter 2 to explore in some detail the various types of administrative structures which have been erected.

Chapters 3 to 7 are concerned with those development programs that have a major financial orientation. Policies of making or guaranteeing loans to private industrial concerns are considered in Chapters 3 and 4. Chapter 5 deals with instances in which provincial governments own industrial facilities and lease them to industry. Chapter 6 describes a further stage in provincial government participation in industry; it concerns the

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[1] In the remainder of this report, the terms "industrial development policies" and "manufacturing development policies" are used interchangeably except where the context otherwise requires.

cases where provincial governments not only own, but also operate, industrial concerns. Chapter 7 deals with the use of tax concessions, subsidies and grants as instruments of industrial development.

In the next four chapters, consideration is given to other means by which industrial development has been encouraged by provincial governments. Chapter 8 covers the policies pursued in the attempt to secure a greater degree of processing within the province of provincial raw materials. In Chapter 9, the wide range of consulting and advisory services provided to industry by government is examined. Then, in Chapter 10, two aspects of industrial sales promotion are considered; policies for export assistance and import replacement policies. In Chapter 11, the role of provincial research councils in industrial development is examined.

Tourist industry promotion policies are considered in a segmented way in some of the earlier chapters but are given comprehensive attention in Chapter 12.

An important aspect of provincial industrial policies is that concerned with the problems of certain regions within the province. Policies to promote industrial development in such regions are considered in Chapter 13.

Chapter 14 provides a perspective of federal and provincial industrial development programs. Various federal government industrial development programs have been briefly examined and compared to similar provincial ones. Some idea of the relative magnitude has been given.

The material in this report deals primarily with the decade of the 1960's although some of the earlier history of the formation of such policies has been reviewed. The greatest detail is provided for policies and programs currently in effect.

Economic Background

Economic development policies are powerfully influenced even if not entirely determined by the economic background. The attention given at any particular time to manufacturing or tourism development will depend in part on the role of such industries in the total economy, on their magnitudes and on the prospects for future growth. The change in the nature of the Canadian economy has had something to do with the increasing attention being given to manufacturing and tourism development policies. The differences in provincial economies have induced different degrees of emphasis on such policies in the several provinces.

Manufacturing and Its Relative Position

The major change in Canadian economic structure in the first half of this century was the displacement of agriculture by manufacturing as the largest single industry. Agriculture had been the dominant industry in Canada for many decades both before and after Confederation. Even as late as 1941, about a quarter of the nation's employment was in agriculture. By 1961, this had dropped sharply to 10 per cent (see Table 1-1). At June 1971, less than 7 per cent of Canada's working force was employed directly in agriculture.[1/] Agricultural employment has, indeed, declined not only relatively, but absolutely from about 1,100,000 in 1941 to 820,000 in 1951, 640,000 in 1961 and about 540,000 in 1971.[2/]

Manufacturing employment, on the other hand, has increased from about 900,000 in 1941 to 1,300,000 in 1951, 1,400,000 in 1961 and about 1,700,000 in 1971.[3/] Manufacturing, from being the second largest employer in 1941, rose to first position about the middle of the forties and continued in this rank throughout much of the sixties. Nevertheless, it must be recognized that in the last three

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1/ It is not suggested that the importance of an industry should be assessed only in terms of its direct employment. The role of agriculture in the Canadian economy is considerably more important than the present low employment ratios suggest. The direct employment data are used because they provide a convenient comparison. In any event, provincial economic development policies are much affected by the direct employment creating potential of an industry.

2/ Estimates for June 1971 and Census of Canada data for earlier years.

3/ Estimates for June 1971 and Census of Canada data for earlier years decades, only from 1941 to 1951 did manufacturing employment grow faster than total employment. From 1941 to 1951, manufacturing employment increased from 21.6 per cent of the total to 24.7 per cent (see Table 1-1). From 1951 to 1961, employment in manufacturing declined relatively to 21.7 per cent of total employment and since then has continued to show a slight relative decline to about 20.5 per cent in 1971. One may expect this slight secular decline in the role of manufacturing to continue for some time in the future.

Table 1-1

EMPLOYMENT BY INDUSTRIAL DIVISION, AS PERCENTAGE OF TOTAL, CANADA, 1941, 1951, 1961

	1941	1951	1961
Goods-Producing Industries			
Agriculture	25.7	15.6	9.9
Forestry	2.2	2.5	1.7
Fishing and trapping	1.2	2.0	0.5
Mines, etc.	2.2	2.0	1.9
Manufacturing	21.6	24.7	21.7
Construction	5.3	6.0	6.7
Total	58.3	51.7	42.4
Service-Producing Industries			
Transportation, communication and other utilities	7.5	9.5	9.3
Trade	11.9	14.1	15.3
Finance, insurance, and real estate	2.1	2.7	3.5
Community, business, and personal service	16.4	15.0	19.5
Public administration and defence	2.8	5.7	7.4
Total	40.6	47.0	55.1
Unspecified	1.1	1.3	2.4
GRAND TOTAL	100.0	100.0	100.0

Source: Statistics Canada, *Census of Canada, 1961, Labour Force, Occupation and Industry Trends*, Bulletin SL-1.

There is another way of looking at the relative role of manufacturing employment and that is in relation to the total employment in the goods-producing sector. The importance of this will be explained a little later. Manufacturing employment has risen from 37 per cent of total employment in goods production in 1951 to 48 per cent in 1951 and 51 per cent in 1961. It is suggested that this is one of the reasons for the increasing attention being given to the development and encouragement of manufacturing at this time, even though the role of manufacturing in the total economy has been diminishing slightly.

Tourism

While data on employment in, and the output of, manufacturing industries are available directly from company records, no such data are available for the tourist industry. Indeed, the tourist industry[1] is not an industry in the ordinary sense, that is, in terms of the International Standard Industrial Classification adopted by the United Nations or the modified version of this classification system employed in Canada. It consists of portions of other industries, hotels and restaurants which are classified to the community, business and personal services industrial group, service stations and stores which are classified to the trade industrial group, air lines and parts of railway and shipping firms which are classified to transportation industries, etc. These industries provide goods or services to the "tourist" but also to the "nontourist". (The question of what constitutes a tourist is explored more fully in Chapter 12.)

The first comprehensive survey of the revenue of the tourist industry in Canada was undertaken as recently as 1971. This was made on the basis of questionnaires completed by a sample of travellers in Canada. For 1971, it was estimated that total tourism receipts amounted to $3.8 billion. This was only a fraction of the value of factory shipments of manufacturing estimated in 1971 at $49.2 billion.[2]

1/ Sometimes also referred to as the "travel industry".

2/ A more appropriate comparison would be in terms of net value added. Although such estimates have been made for manufacturing no such estimates have been made for tourism. The net value added in manufacturing in Canada is typically somewhat over 40 per cent of the value of factory shipments. One might hazard a guess that the value added in tourism would be a somewhat higher percentage of tourism revenues. Even if this were to prove to be the case, it would not change the picture very much.

Yet an important feature of tourism is its rate of growth. Recent indications are that, in contrast to manufacturing, tourism has been growing more rapidly in the last two decades than the total economy. As increasing real income has provided consumers with a more-than-proportional increase in discretionary income, the expenditures on travel and associated recreation have also increased more than proportionately. It seems assured that this trend will continue, reducing the large gap between manufacturing and tourism.

Differences in Provincial Economics

In a study of provincial economic policies, a relevant factor is the different nature of the economic structure in different provinces. This includes the natural, capital and human resources available, their nature, the current pattern of resource utilization, the location of the province and many other factors. The extent to which the economic structure seems to be favourable to manufacturing or tourism will have some bearing on the type of provincial development and promotion policies which may be followed.

The role of manufacturing

Data on employment provide a summary comment. Without proceeding into an intensive analysis, it will be assumed that a high proportion of manufacturing employment reflects a combination of economic factors that has been favourable to manufacturing. Two provinces, Ontario and Québec, employed over 26 per cent of their labour force in 1961 in manufacturing. A third, British Columbia, approached 20 per cent (see Table 1-2). That these provinces, together with Alberta, [1/] should also have been the only provinces with net in-migration in the preceding decade would appear significant. It will be noted later that the provinces whose governments have been most persistent in promoting manufacturing have been those where manufacturing employed 15 per cent or less of the total labour force, and which thus seemed to display factors which at least in the past have not been favourable for major manufacturing growth.

1/ Alberta's rapid rate of growth has been, of course, due to the rapid expansion of the petroleum industry in that province. British Columbia's growth also reflects the expansion of resource-based industries, particularly forestry.

Table 1-2

EMPLOYMENT, GOODS-PRODUCING INDUSTRIES AS PERCENTAGE OF TOTAL EMPLOYMENT, CANADA, BY PROVINCE, 1961

	Agriculture	Forestry	Fishing[1]	Mining	Manufacturing	Construction	Goods-Producing Industries
Newfoundland	1.5	6.1	7.5	3.8	10.8	8.5	38.2
Prince Edward Island	26.9	0.4	6.1	--[2]	8.8	6.5	48.7
Nova Scotia	5.1	1.8	3.2	4.3	14.4	6.6	35.3
New Brunswick	7.0	5.9	2.0	0.9	16.0	6.1	38.0
Quebec	7.4	2.4	0.2	1.5	26.4	7.1	45.0
Ontario	7.1	0.7	0.1	1.8	26.9	6.4	43.0
Manitoba	17.3	0.4	0.4	1.6	13.6	6.1	39.4
Saskatchewan	36.6	0.3	0.3	1.2	4.7	5.3	48.5
Alberta	21.2	0.6	0.2	3.5	8.6	7.6	41.7
British Columbia	4.0	3.6	0.8	1.4	19.6	6.3	35.7
CANADA	9.9	1.7	0.5	1.9	21.7	6.7	42.4

(1) Includes hunting and trapping.

(2) Less than 0.05 per cent.

Source: Statistics Canada, *Census of Canada, 1961, General Review, The Canadian Labour Force*, Bulletin 7.1-12.

Table 1-2 also illustrates the striking differences among the provinces in the distribution of commodity production between the two major industries of agriculture and manufacturing. In 1961, the range was from Saskatchewan with 36.6 per cent of its employment in agriculture and 4.7 per cent in manufacturing, to Ontario with 7.1 per cent in agriculture and 26.9 per cent in manufacturing. There was also a wide variation in the provincial distribution of the other primary resource industries. While at the national level, the other primary industries had less than half the employment of agriculture, they were jointly more important then agriculture in four provinces.

The analysis may be extended somewhat by eliminating construction employment (which shows a remarkably similar level in all provinces). One may then classify the provinces into three groups in terms of their distribution of employment in the commodity-producing industries in 1961. The first is made up of provinces already mentioned, i.e., Ontario, Quebec and British Columbia where the employment in manufacturing was relatively large and substantially exceeded that in the primary resource industries of agriculture, forestry, fishing and mining. The second comprises the provinces where employment in manufacturing was roughly on the same level as that in the primary resource industries. These were Nova Scotia and New Brunswick. The third group consists of those provinces where employment in primary resource industries was 50 per cent or more higher than that in manufacturing. This group included Newfoundland, Prince Edward Island, Saskatchewan and Alberta. While employment in primary resource industries in Manitoba was substantially higher than that in manufacturing, it seems to belong to the second category rather than the third.

Those provinces with substantial primary resource employment also show a large component of resource-processing industries in the manufacturing sector. Provinces like Nova Scotia, Newfoundland and Prince Edward Island, with important fishery resources, show some concentration of their manufacturing industries in fish processing. Newfoundland and New Brunswick, with higher than average employment in the primary forest industry, also show a greater-than-average concentration in forest product processing within the manufacturing sector. The Prairie Provinces, with their important agricultural base, record a higher percentage of their manufacturing industries in agricultural product processing. British Columbia, with its major forestry resource, also possesses a major forest resource processing industry.

Another factor to point out is the remarkable stability in the ranking of provinces in terms of the proportion of the total labour force employed in manufacturing (see Table 1-3). Throughout the period from 1941 to 1961, while there has been a slight tendency for the manufacturing employment proportion to fall or remain constant in the three most highly industrialized provinces (Ontario, Quebec and British Columbia) and to rise in the lesser-industrialized provinces, it has not been enough to modify the standandings to any significant extent.

Table 1-3

EMPLOYMENT IN MANUFACTURING AS PERCENTAGE OF TOTAL, CANADA BY PROVINCE, 1941, 1951, 1961

	1941	1951	1961
Newfoundland	n.a.	13.1	10.8
Prince Edward Island	3.8	8.9	8.8
Nova Scotia	13.8	15.8	14.4
New Brunswick	13.1	17.4	16.0
Quebec	26.3	29.5	26.4
Ontario	29.5	32.1	26.9
Manitoba	11.3	15.0	13.6
Saskatchewan	3.2	4.2	4.7
Alberta	6.0	8.2	8.6
British Columbia	19.7	22.1	19.6
CANADA	21.6	24.7	21.7

Source: Statistics Canada, *Census of Canada, 1961, Labour Force, Occupation and Industry Trends*, Bulletin SL-1.

The Role of Tourism

Since data on employment in the tourist industry are not available, it is not possible to discuss the provincial differences in the role of tourism within the same frame of reference as was employed for manufacturing. Nevertheless, estimates of tourism receipts by province provide some insights (see Table 1-4). There is clearly more provincial uniformity than is true of manufacturing. Three provinces diverge most substantially from the national average in terms of tourism receipts per capita, Prince Edward Island (more than twice the national average), British Columbia (nearly 50 per cent above the national average). The other provinces cluster within a fairly narrow band.

Table 1-4

TOURISM RECEIPTS, CANADA, BY PROVINCE, 1971

	Tourism Receipts	
	Total (Millions of dollars)	Per Capita (Dollars)
Newfoundland	67.0	128
Prince Edward Island	43.4	388
Nova Scotia	127.8	162
New Brunswick	93.6	147
Quebec	860.6	143
Ontario	1,381.6	179
Manitoba	191.8	194
Saskatchewan	178.9	193
Alberta	301.2	185
British Columbia	557.7	255
CANADA	3,807.1	177

Source: Department of Industry, Trade and Commerce, Canadian Travel Survey, 1971.

Policy Implications and Policy Alternatives

The differing economic structures of the various provinces will affect the degree to which provincial governments find it necessary to try to modify market forces in order to achieve a desired level of economic growth. They also have substantial implications for the policy alternatives that may be appropriate. Where a province or region has had an above-average concentration of employment in an industry in a state of technological displacement, i.e., a slow-growth or declining industry such as agriculture, governments are likely to seek to stimulate alternative sources of economic growth, with manufacturing being one of the more obvious alternatives. Such has been a factor in the agriculturally oriented Prairie provinces and Prince Edward Island. Employment declines in the fishing industry or in the coal mining areas in the Atlantic region have brought similar responses.

It is not proposed to discuss the question of whether such employment opportunities should be generated within the province or outside of the province. It is a fact, however, that the governments of provinces where out-migration of labour is high have been those most seriously examining the possibilities of stimulating greater internal growth.

Once government intervention has been decided upon, the policies adopted will depend upon a view of the nature of regional economic growth. Incentive policies will generally be directed to those industries determined to be of an "export" type.[1] In other words, they will be designed to encourage the growth of industries which will export goods or services outside of the region or to produce goods or services which are presently being provided from outside of the region. Incentive policies will not be provided for "residentiary-type" industries which can only serve the needs of households or industries where the industries are located. One does not find, for example, provincial government incentives to encourage the establishment within a province of more barber shops or retail stores.

Currently there seems little doubt that in a country like Canada, the provincial distribution of employment in commodity production is the major determinant of the distribution of employment as a whole. There is no desire to minimize the role of the service sector in modifying this distributional pattern. Nor should one overlook the complexities of the relationships in the total economy that induce and perpetuate a particular geographic pattern of production in any of the commodity industries. Yet the exchanges of economic output among the provinces are, by an overwhelming margin, goods rather than services indicating that service industry employment must be distributed in large part in response to the commodity sector. It is for this reason among others that provincial governments have devoted considerable attention to the stimulation of goods-producing industries and why currently the increasing role of manufacturing in goods production has led to an enhancement of manufacturing development policies.

1/ Economic policies will also be concerned with a reorganization of industries which are in a state of technological displacement.

It has been noted earlier in this chapter that there are substantial differences among the provinces in the distribution of employment among the several industries in the commodity sector. Relatively high proportions of employment in the primary resource industries will not only induce greater interest in manufacturing incentive policies but will have some effect on the most effective strategy to be followed. Where the primary resource industries play an important part in a provincial economy, the stimulation of manufacturing industries may be achieved as much through policies stimulating the resource industries as by incentives offered directly to the manufacturing industries themselves. In fact, in some provinces, manufacturing development policies and resource development policies are inextricably intertwined.

The increasing growth of tourism promotion reflects the fact that it also is an export-type industry. With faster modes of transportation, higher incomes, longer holidays, the potential tourist market of any particular location has been considerably increased.

There is a wide range of policies for the promotion and development of manufacturing and tourism. The degree to which a particular policy will be effective will depend on the nature of the industry, the extent to which it is resource-related, or market-related, or capital-intensive, or dependent on special services such as large supplies of electricity or water, or highly skilled scientists or technicians. To the extent that the economy varies from province to province, one would expect the selection of different policy alternatives. That is an important theme of this report.

CHAPTER 2

THE PATTERNS OF POLICY CHANGE

The increasing activity of provincial governments in manufacturing and tourism development and promotion has been one of the features of the period after the Second World War. This has been reflected in a number of ways, the establishment of new departments of government, the formation of government lending agencies, the associated expansion of a wide range of programs, and a considerable increase in direct government investment in industry. While some industrial development policies may be traced back several decades, the recent period has witnessed their dramatic intensification and extension.

There are several reasons for the fact that until recently such provincial policies were of minor importance. First, the early predominance of the primary resource industries in Canada brought resource matters to the forefront of policy considerations. Canada was a land of rich natural resources and it was seen to be the primary function of government to provide the institutional and physical infrastructure for their development. Economic policy was concerned largely with the conditions under which resources held by the state were transferred to, or utilized by, private individuals or companies and with the provision of transportation facilities. Ownership of natural resources was largely in the hands of the provinces, with the exception of the three Prairie Provinces until 1930, and so this type of economic policy was a major preoccupation of provincial governments. It is, of course, true that the major development of new resources in the first quarter of the twentieth century was precisely in the prairie region where the federal government had the administrative responsibility. The federal government played the major role in respect to transportation.

A second factor accounting for the early limited role of provincial governments in industrial development was the fact that the tariff was for many years the major accepted instrument of commercial and industrial development policy. Tariff policy was necessarily the responsibility of the federal government. Although it has been an instrument used to important effect ever since Confederation, the recent decline in tariff levels has increased the importance of other industrial development policy alternatives.

A third factor was the reluctance on the part of governments, either federal of provincial, to intervene actively in certain private business affairs. The involvement of the state in economic development in Canada has always been large but has generally been within certain circumscribed channels. Assistance to private industry had generally been in the guise of tariff policies, resource allocation policies, or the provision of infrastructure. Outside of such policies, free market forces were largely permitted to hold sway. A readiness of government to intervene more directly in economic life was stimulated by the two world wars and the depression of the 1930s. The recent growth of both federal and provincial government industrial development activities is part of an overall increase in government activities in general.

Industrial development programs at the provincial level before the First World War were confined to industries with special problems or were left to local governments. For instance, measures to promote shipbuilding in Nova Scotia date back to before the beginning of this century and incorporated features of current practices such as tax exemptions, subsidies, authorization to lend money and the authorization of government agencies to operate plants for the manufacturing of ships. Early attention was also given to the encouragement of greater resource processing within a province by restricting the export of raw materials.

Widespread early industrial promotion activity did take place at the municipal level. The payment of "bonuses" to encourage manufacturers to establish a plant in a given community was a common practice. Such bonuses might consist of grants of money, loans, guarantees of bonds, gifts of land or tax exemptions. Gradually, these municipal options were restricted by provincial legislation, particularly in the last two decades, so that today, except in two provinces, a special act of the provincial legislature is required before any municipal tax exemptions may be offered. Other forms of industrial promotion at the municipal level have also been restricted by provincial legislation.

Chronology of Changing Administrative Structures

Changes in administrative structures obviously reflect changes in policies. Therefore, the patterns of administrative changes in respect to industrial development will be regarded as rough approximations of the patterns of policy change.

The period before 1940

The economic problems that developed immediately after the First World War brought the establishment of the first provincial government department specifically concerned with industrial development. This occurred in British Columbia and involved the establishment in 1919 of a Department of Industries. This department was given statutory responsibility for a broad measure of economic planning, resource development and industrial development. Its industrial development activities included support for industrial research and financial assistance to industries. An Industrial Development Fund was established at the same time. From this fund, the Minister of Industries was authorized upon the recommendation of an Advisory Council (representative of financial, commercial, industrial, manufacturing and labour interests) and, with the approval of the Lieutenant-Governor in Council, to grant loans and make financial guarantees to companies.

In the 1920s and early 1930s, in addition to the British Columbia program, there were a number of special cases of financial assistance by provincial governments. Some of these have been referred to in Chapter 3.

The 1920s also marked the beginning of the activities of provincial government research councils.[1/] These largely represented an attempt to stimulate industrial development through scientific research. The Research Council of Alberta was established in 1921, the Ontario Research Foundation in 1928.

Provincial tourist agencies also began to be established in the 1920s particularly towards the latter part of the decade. These were agencies separate from existing departments, generally reporting directly to the provincial premiers. The agencies were

1/ The National Research Council had been created in 1916.

small, sometimes one- or two-man offices engaged largely in promotion activities.

The economic depression of the 1930s brought the establishment of industrial development departments in three additional provinces. The Department of Trade and Industry was established in Alberta in 1934. A Trade and Commerce section was added in 1935 to the Department of Municipal Affairs in Quebec to form the Department of Municipal Affairs, Trade and Commerce. The Department of Industry was created in Nova Scotia in 1939.[1] In 1937, the Department of Industries already existing in British Columbia became the Department of Trade and Industry. As the name suggests, the mandate of the department had been somewhat narrowed. The activities of these departments of industrial development were much affected by the economic problems of the time and could not be said to be like the departments of today. In some cases, they were concerned with the mere economic survival of businesses or directed their attention to measures designed to ameliorate the effects of the depression.

Perhaps the most pointed example was the Department of Trade and Industry in Alberta. This department, influenced by the New Deal in the United States, was particularly oriented towards a large-scale intervention by government in the economy. The Act establishing the department was primarily for the purpose of enabling the formation of trade codes regarding minimum[2] prices and wages to eliminate destructive competition. The Act gave authority to the Lieutenant-Governor in Council to register and license all persons engaged in carrying on "any trade business or industry".[3]

In 1936 a more pronounced industrial development emphasis was given by the Provincial Industries Development Act, which gave the Minister of Trade and Industry the duty of "encouraging and assisting the establishment of industries for the processing or manufacture of any natural product of the province and for the

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1/ Legislation was also passed in Manitoba in 1932, creating a Department of Industry and Commerce but it was not proclaimed until 1941.

2/ Authority to fix the maximum price as well was provided two years later under legislation passed in 1936 (Statutes of Alberta, 1936, c. 66).

3/ Statutes of Alberta, 1934, c. 33, s. 2.

purpose of the extension of any such industry".[1] A formal industrial development program in Alberta dates more from this legislation than from the earlier statute.

The Quebec department had a similar preoccupation with trade, but from the viewpoint of trade promotion. This was made apparent in the original legislation which described the purposes of the Trade and Commerce part of the new Department of Municipal Affairs, Trade and Commerce as:

> "favouring, by all the methods and means which he [the Minister] may deem adequate, the advancement and the development of the trade and commerce of the province;
>
> cooperating with the Government of Canada to facilitate the carrying out in the province of the Acts of the Parliament of Canada relating to trade and commerce so that the trade and commerce of the province benefit thereby;
>
> suggesting practical measures for the rational sale and utilization of the trade and commerce products of the province, both in this country and abroad."[2]

The Nova Scotia Department of Industry did not have the opportunity to function before the coming of the Second World War directed its activities largely to defense production. Its operations as an agent of national defense production authorities were atypical.

The concern of governments about economic problems resulted in another form of policy initiative in the 1930s, the formation of economic advisory bodies. These have some relevance to an examination of industrial development policies because some of the studies they undertook related directly to manufacturing and tourism. Three provincial economic councils or similar bodies were established in the 1930s: the British Columbia Economic Council in 1934; the Nova Scotia Economic Council in 1935; and an Advisory Board for Economic and Industrial Development in New Brunswick in 1938. These economic councils functioned for only a few years. The British Columbia Economic Council was abolished in 1937. The New Brunswick Advisory Board continued in existence until 1944. The Nova Scotia Economic Council is still

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1/ <u>Statutes of Alberta, 1936</u>, c. 71, s. 3.

2/ <u>Statutes of Quebec, 1935</u>, c. 45 s. 3.

formally in existence in that the legislation establishing it is still on the statute books, but it has not been operative since the early 1940s.

The 1930s did not see the establishment of any new industrial loan agencies. Indeed, the sole existing one, that in British Columbia, was terminated in 1937. In Alberta, however, two new financial agencies were created, the Alberta Treasury Branches in 1938 and the Alberta Marketing Board in 1939. Neither of these bodies were specifically designed as industrial loan agencies, although the former is now a major financial institution in Alberta.

There was little experimentation by provincial governments regarding industrial Crown corporations. Perhaps the most significant, and it was a modest project, was the establishment of a beet sugar refinery in 1936 by the Quebec government.

The wartime period

It was the government planning during the early 1940's to deal with postwar economic reconstruction that played the decisive part in making formal industrial development agencies the rule rather than the exception. In most provinces one can trace the roots of current industrial development policies back to broad economic studies undertaken, and to agencies established, in this period or shortly after the conclusion of the Second World War.

The studies concerning postwar economic development largely began at the federal level on the subject of the rehabilitation of members of the armed forces. A special committee of the federal Cabinet was established to consider this question as early as December 1939. But steadily the studies widened in scope as it became apparent they could not be confined to veterans only. They came to include the problems of economic development in general. In September 1941, a federal Advisory Committee on Reconstruction was appointed. In January 1943, the federal Advisory Committee on Economic Policy (originally appointed in September 1939) was explicitly charged with the duties of planning and organizing the investigation and study of postwar problems. Ultimately, it was recognized that these two committees overlapped, and the functions of the two committees were combined.

This is not the place to report on the broad economic policy recommendations that flowed from the work of these committees. Our interest is in the fact that several federal government industrial development agencies were established and primarily that a considerable impetus was given to the creation of provincial development departments and agencies.

At the federal level was established the Industrial Development Bank, the Export Credits Insurance Corporation, the Department of Reconstruction, and the Industrial Development Division of the Department of Trade and Commerce.[1] In every province, committees and councils concerned with economic reconstruction in a broad sense were formed.[2] In February 1942, a Post-War Rehabilitation Council, made up of members of the provincial legislature, was established in British Columbia. Later in the year, in June, a Cabinet Committee on Rehabilitation was established in Nova Scotia. In 1943, the remaining provinces created similar bodies: Committees on Reconstruction in Prince Edward Island and New Brunswick; an Economic Advisory Council in Quebec; a Social Security and Rehabilitation Committee in Ontario; a cabinet subcommittee and a committee of deputy ministers concerned with reconstruction in Manitoba; a Reconstruction Council in Saskatchewan;[3] and a Post-War Reconstruction Committee in Alberta. Additional committees were created in most cases and a wide range of studies undertaken in most provinces, some of which had preceded the formation of the reconstruction committees. This was followed by the establishment of provincial reconstruction departments in the four provinces that did not already have industrial development departments. (Manitoba's Department of Industry and Commerce came formally into existence in 1941.)

1/ In Chapter 14 on "A Federal-Provincial Perspective", federal industrial development programs are given some attention.

2/ It should be recognized that various types of broad economic development programs had been considered at various times even earlier, but this period marked the most consistent and comprehensive economic planning effort.

3/ Previously the Industrial Development Board existed from 1939 to 1943 when it was superseded by the Reconstruction Council.

All the new departments of reconstruction were established in 1944. There was the Department of Reconstruction in Prince Edward Island, the Department of Industry and Reconstruction in New Brunswick, the Department of Planning and Development in Ontario, and the Department of Reconstruction and Rehabilitation in Saskatchewan. In Saskatchewan, the Department of Natural Resources was in the same year given an Industrial Development Branch and became the Department of Natural Resources and Industrial Development.

The postwar period

Thus, before the end of the war, the departmental structure in which industrial development policies would be formulated was largely in place. The reconstruction departments, except in Saskatchewan, included industrial development units which were subsequently to develop into full-fledged departments. The industrial development departments in other provinces began gradually in ensuing years to assume their present form. Only in Saskatchewan was a different pattern followed. Industrial development policies in that province were transferred from the Department of Natural Resources to the Industrial Development Office of the Executive Council in 1950. Industrial development did not again become a departmental responsibility until 1960.

The years from 1945 to the present have been marked by two particularly innovative periods in terms of industrial development -- the years immediately after the war when many new agencies were established, and the period from about 1962 to the present, one of intense activity in establishing new agencies and modifying old ones and with a major expansion of lending.

New non-departmental agencies to 1960

In the immediate postwar period, industrial finance agencies were established in no less than five provinces. These were the Alberta Industrial Corporation in 1946, the Saskatchewan Industrial Development Fund in 1947, the Nova Scotia Industrial Assistance Fund in 1948,[1] the Prince Edward Island Industrial

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[1] This was preceded by legislation to establish a number of small funds which are referred to at page 50 .

Corporation in 1949, and the Newfoundland Industrial Development Loan Board in 1949, shortly after that province became a part of Confederation. Three additional research councils were established: the British Columbia Research Council in 1944, the Nova Scotia Research Foundation in 1946, and the Saskatchewan Research Council in 1947. A readiness on the part of the provincial government to stimulate industrial development through Crown corporations was indicated in Saskatchewan, Prince Edward Island, and Newfoundland.

In the 1950s, two additional provinces joined the ranks of those with industrial loan agencies. The New Brunswick Industrial Development Board was established in 1956 and the Manitoba Development Fund in 1958. Also, the Industrial Establishments Promotions Act was passed in Prince Edward Island in 1954. On the other hand, one of the existing loan agencies became inoperative. The Alberta Industrial Corporation did not make any further loans after 1951.

New industrial finance agencies were established in Nova Scotia and New Brunswick in the 1950's. The Nova Scotia Industrial Assistance Fund became the Industrial Loan Fund in 1952. An additional fund, the Industrial Expansion Fund, was established at the same time. Nova Scotia's Industrial Estates Ltd. was formed in 1957, and the New Brunswick Development Corporation in 1959. Of these, Industrial Estates Ltd. and the New Brunswick Development Corporation represented the most important policy developments. They placed considerable emphasis on the creation of industrial estates and leasing of industrial property to private industry, a policy innovation.

Nevertheless, in spite of all this activity, there were no operative industrial loan agencies in 1960 in Ontario, Quebec, Alberta and British Columbia, the four fastest growing provinces which made up about three-quarters of Canada's population. Provincial research councils did not exist in five of the provinces. But industrial development departments or branches had become fully activated in all provinces.

New non-departmental agencies after 1960

Very quickly in the 1960s provincial industrial loan agencies were extended to all but one province and research councils were established in three additional provinces.

Formal Ontario provincial financial assistance to industry began with the passage of the Economic Development Loans Guarantee Act in 1962. The Ontario Development Corporation, with lending authority, was established in 1966. Three agencies with somewhat different purposes were established in Quebec: the General Investment Corporation of Quebec in 1962; the Quebec Deposit and Investment Fund in 1965; and the Industrial Credit Bureau in 1967. The Quebec Deposit and Investment Fund was not established primarily for industrial development (it is the repository of funds generated by the Quebec Pension Plan, for instance), but it does invest part of its funds in private industry. The Alberta Commercial Corporation was established in 1964, marking a reactivation of that province's industrial lending program. At the end of the 1960s, only British Columbia was without a provincial industrial loan agency. In 1972, the British Columbia government has indicated its intentions to enter the field of industrial lending.

Since 1960, there have been other significant changes. Industrial loan agencies with specific regional or program responsibilities have been established in several provinces. These include the federal-provincial Cape Breton Development Corporation established in Nova Scotia in 1967, the Grand Lake Development Corporation established in New Brunswick in 1969, and four agencies established in 1971. These latter were the Northern Ontario Development Corporation, the Communities Economic Development Fund in Manitoba, the Industrial Incentives Board in Alberta,[1] and the Quebec Industrial Development Corporation. A joint federal-provincial loan agency, the Newfoundland and Labrador Development Corporation was established in 1972.

Four new research councils were established: the New Brunswick Research and Productivity Council of New Brunswick in 1962; the Manitoba Research Council in 1963; and two institutions in Quebec in 1969, Le Centre de recherche industrielle du Québec and l'Institut national de la recherche scientifique. The former will be more nearly equivalent to the research councils and research foundations in other provinces.

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[1] The Industrial Incentives Board was abolished in 1972.

Another round of advisory agencies came in the 1960s. A new Quebec Economic Advisory Council was created in 1961[1/] followed by the Ontario Economic Council in 1962, the Manitoba Economic Consultative Board in 1963, and the Voluntary Planning Board in Nova Scotia in the same year. An Economic Advisory Council was formed in Alberta under the terms of the Voluntary Societies Act.

New initiatives had been taken in respect to government ownership of industry, particularly by the Nova Scotia, Quebec, and Manitoba governments. Both the Nova Scotia and Quebec governments now own and operate steel mills. The Quebec government, through the General Investment Corporation, has a partial ownership interest in several other industrial enterprises. The Manitoba government, through the Manitoba Development Corporation, has recently assumed complete or partial ownership of more than a dozen industries.

<u>Changes and substitutions in non-departmental agencies</u>

In addition to the new agencies, there have been changes in, or substitutions for, old agencies. These will be referred to in summary form here. Further comments on changes in administrative practices of loan agencies may be found in Chapters 3 and 4.

Since 1960, there have been a number of changes in industrial loan agencies. The Saskatchewan Economic Development Corporation replaced the Industrial Development Fund in 1963. The Alberta Commercial Corporation was established in 1964, replacing the Alberta Marketing Board but having broader loan responsibilities. The Alberta Commercial Corporation was replaced by the Alberta Opportunity Company in 1972. Industrial Enterprises Incorporated was established in Prince Edward Island in 1965 to take over the activities of the P.E.I. Industrial Corporation. A Guarantee Board was established in New Brunswick in 1966 for the purpose of guaranteeing bonds and debentures. The New Brunswick Industrial Development Board was replaced by the New Brunswick Industrial Finance Board in 1967. The Newfoundland Industrial Development Cor-

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1/ Replacing the earlier Economic Advisory Council formed in 1943 but which had become inoperative.

poration was established in 1967, with the Newfoundland Industrial Loan Board continuing in existence. The Prince Edward Island Lending Authority was established in 1969 to replace various other lending programs. The Manitoba Development Fund became the Manitoba Development Corporation in 1970. The Quebec Industrial Credit Bureau was replaced by the Quebec Industrial Development Corporation in 1971. In Nova Scotia, the Resources Development Board was established in 1971 to take over the activities of the Industrial Expansion Fund, the Industrial Loan Fund and certain other resource industry loan funds

Changes have also taken place in the advisory and consultative agencies, most notably in Quebec. The staff of the Quebec Economic Advisory Council was transferred to a central government planning agency, the Quebec Planning and Development Bureau. An advisory body, the Quebec Planning and Development Council, continues in existence. The Manitoba Economic Consultative Board has been replaced by the Manitoba Economic Development Advisory Board.

Change in departmental structures

Obviously, extensive changes were necessary in provincial industrial development departments over the years as provincial industrial development activity grew. While no attempt will be made to indicate these in detail, the present industrial development departments will be identified and some of their background will be indicated (see Table 2-1).

Table 2-1

PRESENT DEPARTMENTS OF INDUSTRIAL DEVELOPMENT, CANADA, BY PROVINCE
(Predecessors in brackets)

Province	Name	Date of Establishment
Newfoundland	Department of Economic Development	1950
Prince Edward Island	Department of Industry and Commerce	1971
	(Department of Industry and Natural Resources)	1947-70
	(Department of Labour, Industry and Commerce)	1970-71
Nova Scotia	Department of Development	1971
	(Department of Industry)	1939-41
	(Department of Industry and Publicity)	1941-48
	(Department of Trade and Industry)	1948-71
New Brunswick	Department of Economic Growth	1968
	(Department of Industry and Reconstruction)	1944-50
	(Department of Industry and Development)	1950-63
	(Department of Finance and Industry)	1963-68

Table 2-1 (Cont'd.)

Province	Name	Date of Establishment
Quebec	Department of Industry and Commerce	1941
	(Department of Municipal Affairs,	
	(Trade and Commerce)	1935-41
Ontario	Ministry of Industry and Tourism	1972
	(Department of Planning and Development)	1944-61
	(Department of Commerce and Development)	1961-62
	(Department of Economics and Development)	1962-68
	(Department of Trade and Development)	1968-72
Manitoba	Department of Industry and Commerce	1941
Saskatchewan	Department of Industry and Commerce	1965
	(Department of Natural Resources and Industrial Development)	1944-50
	(Industrial Development Office)	1950-60
	(Department of Industry and Information)	1960-65
Alberta	Department of Industry and Commerce	1972
	(Department of Trade and Industry)	1934-45
	(Department of Economic Affairs)	1945-59
	(Department of Industry and Development)	1959-68
	(Department of Industry and Tourism)	1968-72
British Columbia	Department of Industrial Development, Trade and Commerce	1957
	(Department of Industries)	1919-37
	(Department of Trade and Industry)	1937-57

The present departments of industrial development divide neatly into two groups, those which date their establishment under their present name to fifteen years or more ago and those which have been established in their present form for seven years or less. While one may raise the question of "What's in a name?", a change of name or the absence of a change of name seems to be meaningful. The four departments of long-standing nomenclature, those in Newfoundland, Quebec, Manitoba and British Columbia, have had little change in mission since their establishment although their internal administrative structure is much more elaborate today than it was in the beginning. In the case of the two earliest departments, those in Quebec and Manitoba, the most significant expansion of the department occurred in the latter part of the 1950s and the early part of the 1960s, coincident with the establishment of provincial industrial loan agencies.

Of the provinces where changes have come more recently, Saskatchewan followed a unique administrative approach for many years. Industrial development policies were administered by a central agency -- essentially a cabinet committee, the Industrial

Development Office -- formed in 1950. The purpose was in part to integrate industrial development policies into an overall fiscal and economic policy framework. It was not until 1960 that industrial development became a departmental responsibility when the Department of Industry and Information was established. In 1965, it became the Department of Industry and Commerce when informational functions were dispersed among other agencies.

Attempts to integrate, within a single department, the administration of industrial development policies with overall fiscal and economic policies were made in the 1960s in New Brunswick and Ontario. Industrial development activities formed part of the Department of Finance and Industry in New Brunswick from 1963 to 1968 and in Ontario of the Department of Economics and Development from 1962 to 1968.

In Ontario, while industrial development had been a major purpose of the Department of Planning and Development and its successors (see Table 2-1), it was not until 1968 that a department with its attention focused only on industrial development was established. This seems to reflect the comparatively recent establishment of a provincial industrial loan agency. It might be noted, however, that the Trade and Industry Branch was one of the first units formed in the original Department of Planning and Development, dating back to 1944.

A similar, although more complex, picture is revealed in Alberta reflecting the on-again, off-again nature of its industrial lending activity. For much of the post-war period, industrial development activities were divided among more than one department or lodged in departments with major licensing and supervisory functions. For instance, the Department of Economic Affairs established in 1945 only gradually assumed industrial development and promotion functions from the original Department of Trade and Industry. In turn, when the Industry and Development Department was established in 1959, it only gradually acquired the broader responsibilities which it fully assumed under the name of Industry and Tourism in 1968.

In Prince Edward Island, the combinations of industrial development responsibilities with other programs reflects the small population of the province and the correspondingly small administrative structure.

Since this report is concerned with both industrial and tourism development policies, it is relevant to note the extent to which such policies have been formulated within a single department. In all but New Brunswick and Prince Edward Island, industrial development and tourism development agencies have, in fact, been housed in the same department for at least some period of time in the last three decades. Today only three provinces operate these programs under a single minister of government. In the last 15 years, responsibilities for tourism were transferred <u>from</u> the industrial development department in British Columbia (1957), Quebec (1963), Manitoba (1966), Nova Scotia (1971) and Alberta (1972). Tourism responsibilities were transferred <u>to</u> the industrial development department in Ontario in 1972. In Newfoundland and Saskatchewan, tourism promotion and industrial development have been administered by the one department since the industrial development departments were established in 1950 and 1960 respectively. (Further detail on the administration of tourism development is given in Chapter 12.)

<u>Growth and Change in Financial Commitments</u>

The changing patterns and magnitudes of government financial commitments to industrial and commercial development provide a quantitative measurement of the thrust and direction of government policies. These financial commitments have been in two basic forms, continuing expenditures <u>on current account</u> for the salaries and other costs of government industrial development agencies and financial assistance <u>on capital account</u> to industrial enterprises.

The increases in current account expenditures reflect the growth of industrial and tourist development programs, the expansion of government industrial advisory and informational services, the costs of administering loan programs,[1/] tourism promotion programs

[1/] In those cases where the costs of provincial lending programs are not fully met by interest payments.

and so on. Such expenditures may also include subsidies to individual companies. The assistance on capital account includes government loans to industrial enterprises, government guarantees of loans by private lenders to industrial enterprises and direct investment by government in government-owned industrial enterprises. The two categories of provincial government financial commitments have been examined separately.

Current expenditures on industrial and tourism development

Expenditures for industrial development are only a small part of the total budget of provincial governments being only 7/10 of 1 per cent of gross general expenditures in 1969-70. Nevertheless, there has been a substantial rise in this proportion since the beginning of the 1960s. Expenditures on the category "trade and industrial development" [1/] have risen nearly twice as rapidly during the decade as total provincial government expenditures.

Provincial government expenditures on trade and industrial development amounted to about $89 million in the fiscal year 1969-70 compared to about $15 million in 1960-61, nearly a six-fold increase (see Table 2-2). This increase has been far from uniform, ranging from large increases of 1850 per cent for Newfoundland and 1140 per cent for Prince Edward Island to a mere 50 per cent increase for Saskatchewan.

[1/] Which includes expenditures on tourist promotion.

Table 2-2

GROSS GENERAL EXPENDITURES ON
INDUSTRIAL AND TOURISM DEVELOPMENT, CANADA
BY PROVINCE, FISCAL YEAR 1969-70

	1960-61		1969-70	
	Trade and Industrial Development	Parks, Beaches and Other Recreational Areas	Trade and Industrial Development	Parks, Beaches and Other Recreational Areas
	(Thousands of dollars)			
Newfoundland	430	184	8,397	956
Prince Edward Island	125	71	1,542	708
Nova Scotia	921	183	8,879	264
New Brunswick	827	208	3,986	825
Quebec	4,796	1,135	24,819	13,679
Ontario	3,964	7,734	22,842	30,156
Manitoba	1,022	1,004	3,597	3,436
Saskatchewan	1,463	778	2,283	3,717
Alberta	670	2,313	5,878	4,099
British Columbia	1,015	2,373	5,076	4,571
Canada	15,248	16,032	88,945	62,564

Source: Statistics Canada, Provincial government finance, Revenue and expenditure, 1969 (and preceding publications for 1960).

Expenditures on parks, beaches and other recreational areas have also increased during the period, although not as sharply, rising from $16 million in 1960-61 to $63 million in 1969-70. Here again the provincial pattern has varied substantially, with Quebec and Prince Edward Island showing by far the most rapid rate of increase.

Financial commitments to industrial and tourist enterprises

Categories and definitions

Table 2-3 gives data on the capital investment by provincial governments in enterprises, that is, establishments such as factories, hotels and restaurants which operate on a business basis. It includes the investment in government-owned industrial and tourist enterprises. It excludes such provincial government investments in tourism as those in provincial parks which are not operated as businesses.[1/] These investments may, or may not, be subsequently fully recovered.

1/ It is true that charges are levied for entry into many provincial parks but this does not significantly modify their non-commercial character.

The financial commitments recorded in the table are largely, but not entirely, to manufacturing and tourist enterprises. In general, the total lending activities of the provincial industrial loan agencies have been included regardless of the fact that some loans have gone to non-manufacturing or non-tourist enterprises. The amount recorded for investments does not include such major provincial government investments as those in provincial Crown corporations which operate electric power utilities and transportation systems.

Three main categories of provincial financial commitments to industrial and tourist enterprises are shown, namely, loans and advances directly by governments and government agencies to private industrial and tourist enterprises, guarantees by governments of loans made by private lenders to private industrial and tourist enterprises and investments by government in industrial and tourist enterprises. The category of investments in enterprises includes government holdings of stock and debentures in private enterprises, government advances to government-owned enterprises and the cost of physical facilities such as industrial property leased, or available for sale or lease to industrial and tourist enterprises.

There are some difficulties in determining the category of government financial commitments. The principal problem lies in the fact that a particular financial commitment may change in form over time. For instance, a guarantee of a loan if implemented becomes a direct loan. A loan to a privately owned enterprise may become a loan to a government-owned enterprise (and therefore an investment according to our classification) if the government becomes the owner of the enterprise.

For the most part, the attempt has been made in this table to show the original form in which the commitment was made. For instance, even though a provincial government may now own a particular enterprise, any financial commitments to it have been classified in the form in which they were made at the time when the enterprise was privately owned. However, when a guarantee has been transformed into a direct loan, it is shown in this table as a direct loan.

Another problem of classification arises because of the intermediary role of provincial government loan agencies. Provincial governments make financial advances to such agencies; these agencies in turn may make loans, acquire stock in private enterprises, form wholly-owned subsidiaries to operate industrial enterprises or directly own property. In general, government financial commitments have been classified in the form in which they are expressed at the level of the industrial or tourist enterprise. In the case of provincial government loan agencies, this means in the form in which the agencies have made their financial commitments to enterprises. These financial commitments by a loan agency will never quite match the financial commitments to the loan agency made by the provincial treasury department.

For the most part, the data in Table 2-3 understate the total unrecovered provincial government financial commitment to industrial and tourist enterprises. As would be expected, there have been formal reductions in recorded assets in respect of bad loans or investments in unsuccessful enterprises. To date, these do not appear to have been significant except in the case of Prince Edward Island. Nevertheless, there may be some effect on the year-to-year changes in individual provinces since the date at which such formal write-offs are recorded in the financial accounts is the result of a more or less arbitrary decision.

The involvement of provincial governments in industrial and tourist enterprises is also understated in Table 2-3 in respect to provincial government commitments to provincial Crown corporations. Rather than recording the cost less accrued depreciation of the capital assets of such Crown corporations, we have shown the total provincial government advances (in the form of loans or purchases of shares) to such corporations together with the liabilities of the Crown corporations in respect of loans from other governments or private lenders. The latter total will generally be less than the net capital assets of the Crown corporation.

Growth from 1950 to 1970

Financial commitments by provincial governments to industrial and tourist enterprises have increased markedly in the past two decades, rising from $35 million at March 31, 1950 to $903 million at March 31, 1970 (see Table 2-3). Nearly all of this increase (to be precise, 94 per cent) has taken place since 1960. Total financial commitments at March 31, 1960 amounted to only $84 million. During the 1960-70 period, the most rapid rate of growth has been shown in the amounts outstanding of loans and advances, an increase of about 13-fold. Next has been guarantees with an increase of about 11-fold and investments with an increase of about 5-fold.

Financial commitments in 1950

Of the financial commitments shown as outstanding at March 31, 1950, a large part dated back to commitments of the 1920's and 1930's. More than half of the loans outstanding, for instance, was accounted for by a loan made by the Quebec government to a bank a quarter-century before. Only about $2.5 million of the balance of $13.2 million of loans was related to the postwar period. The other types of financial commitments were similarly concentrated in a single province. More than half of the guarantees, for instance, were made by the Newfoundland government. Most of the investments in fixed assets were made by the government of Saskatchewan. This illustrates the scattered nature of industrial development activity by provincial governments prior to this period.

Table 2-3

FINANCIAL COMMITMENTS TO INDUSTRIAL AND TOURIST ENTERPRISES BY PROVINCIAL GOVERNMENTS, BY CATEGORY, BALANCE OUTSTANDING, CANADA, BY PROVINCE, 1950, 1960, 1970

(As at March 31 of each year)

	1950	1960	1970
	(Thousands of dollars)		
Newfoundland			
Loans and advances	542	20,048 (1)	64,058 (2)
Guarantees	4,926	4,500 (1)	110,198 (2)
Investments (shares and fixed assets)	--	11,652	41,457
Total	5,468	36,200	215,713
Prince Edward Island			
Loans and advances	n.a.	n.a.	13,997
Guarantees	n.a.	--	1,380
Investments (shares and fixed assets)	n.a.	n.a.	--
Total	n.a.	n.a.	15,377
Nova Scotia			
Loans and advances	792 (3)	7,306	189,023
Guarantees	330 (3)	--	5,048
Investments (shares and fixed assets)	-- (3)	200	43,026
Total	1,122 (3)	7,506	237,097
New Brunswick			
Loans and advances	--	--	22,451
Guarantees	1,296	3,193	88,906
Investments (shares and fixed assets)	--	--	--
Total	1,296	3,193	113,357
Quebec			
Loans and advances	7,424 (4)	2,659 (4)	20,398
Guarantees	--	--	5,150
Investments (shares and fixed assets)	2,908	2,908	41,280
Total	11,332	5,567	66,828
Ontario			
Loans and advances	223	213	32,452 (5)
Guarantees	2,499	5,650	619 (5)
Investments (shares and fixed assets)	--	--	3,816 (5)
Total	2,722	5,863	36,887 (5)
Manitoba			
Loans and advances	--	1,655	120,597 (6)
Guarantees	--	220	8,603 (6)
Investments (shares and fixed assets)	145	103	103
Total	145	2,008	129,313

Table 2-3 (Cont'd.)

	1950	1960	1970
	(Thousands of dollars)		
Saskatchewan			
Loans and advances	2,100	2,552	24,051
Guarantees	19	10,213	51,590
Investments (shares and fixed assets)	7,783	8,955	7,200
Total	9,902	21,720	82,841
Alberta			
Loans and advances	1,871	1,133	6,306 (5) (7)
Guarantees	--	--	-- (5) (7)
Investments (shares and fixed assets)	1,162	583	1,105 (5) (7)
Total	3,033	1,716	7,411 (5) (7)
British Columbia			
Loans and advances	270	--	--
Guarantees	--	--	--
Investments (shares and fixed assets)	--	--	--
Total	270	--	--
All Provinces			
Loans and advances	13,222	35,566	493,333
Guarantees	9,070	23,776	271,494
Investments (shares and fixed assets)	11,998	24,401	137,987
Total	35,290	83,743	902,814

Note: The above data are the result of a preliminary classification of accounts. A more detailed study and consultation with provincial officials will permit a more precise distribution particularly between "loans and advances" and "investments".

(1) Estimate.

(2) Includes a contingent liability of $55,000,000 to Javelin Paper Corporation.

(3) As at November 30, 1949.

(4) Amount outstanding on agreement with La Banque Canadienne Nationale.

(5) As at March 31, 1971.

(6) Source: Annual Report of Manitoba Development Fund.

(7) Financial commitments of the Alberta Commercial Corporation as at December 31, 1970.

Source: Public Accounts of each province.

Financial commitments in 1960

By 1960, financial commitments had more than doubled, but again there was a marked concentration in one or two provinces. For instance, over half of the loans and advances of $35.6 million had been made by the Newfoundland government. Saskatchewan had entered into substantial guarantee arrangements and made up nearly half of the guarantees entered into by all provincial governments. Substantial investments in shares or fixed assets were to be found only in Saskatchewan and Newfoundland.

Financial commitments in 1970

As indicated, nearly all the increase in these provincial government financial commitments took place in the 1960s.

Of the total of $903 million in 1970, about $493 million was made up of loans and advances, $271 million of guarantees of loans, and $138 million investments in shares and fixed assets. This total does not include the lending or investment activities of provincial agencies such as the Alberta Treasury Branches and the Quebec Deposit and Investment Fund, which utilize deposited funds. If one adds the approximately $70,000,000 in commercial and industrial loans of the Alberta Treasury Branches and the $156,000,000 in company common and preferred shares held by the Quebec Deposit and Investment Fund, as at December 31, 1969, the total exceeds $1,100,000,000. Moreover, only that part of the operation of the General Investment Corporation of Quebec supported by provincial government funds has been included.

Of the total financial commitments in 1970, Nova Scotia and Newfoundland made up almost exactly half, with each of them being well over $200,000,000. Manitoba and New Brunswick had total commitments of $129,000,000 and $113,000,000 respectively. Saskatchewan stood at $83,000,000 with Quebec at $67,000,000. The four Atlantic Provinces plus Manitoba and Saskatchewan made up almost 90 per cent of the total. Ontario's financial commitments were just a little more than twice those of Prince Edward Island.

Marked differences in the distribution of these financial commitments by type were to be found. In Prince Edward Island, Nova Scotia, Ontario, Manitoba and Alberta, loans made up the largest part of the financial commitment. In Newfoundland, New Brunswick and Saskatchewan, there was a considerable concentration in guarantees. In Quebec, the major commitment was to investments in fixed assets. However, investments in fixed assets were also important in Newfoundland and Nova Scotia.

By 1970, in spite of the concentration that has already been noted in Newfoundland and Nova Scotia, the pattern of financial commitments was considerably more diverse than in the earlier years. Loans by Nova Scotia and Manitoba had surpassed those made by Newfoundland. The level of guarantees made by each of Newfoundland, New Brunswick and Saskatchewan, had exceeded the $50 million mark. Investments in industrial enterprises were notably high in three of the provinces, namely, Newfoundland, Nova Scotia and Quebec.

Chapter 3

GROWTH OF LENDING AND GUARANTEE PROGRAMS

In Chapter 2 a summary of the growth and change of provincial industrial and commercial development programs was given. In this chapter and in Chapter 4, particular attention is given to one of these programs, the provision of investment capital to industry through direct lending or by guarantee of loans and debentures. This chapter examines the various industrial lending agencies established in each province, the changes in them and the dimensions of the various lending programs.[1/] In Chapter 4, the administrative practices of provincial lending agencies are considered in some detail.

The first section of this chapter presents a somewhat cursory review of the early financial incentives to industry in the 1920s and 1930s up to the beginning of the Second World War.

The second section covers the twenty years from 1939 to the end of 1959. At the beginning of this period, with the increasing involvement of Canadian industry in defence production, there was no need for provincial industrial incentives. The decade of the 1950s and the latter part of the 1940s is of interest largely because it marked the formation of agencies and the crystallization of policies that were to be applied in a major way in the following decade.

The third section deals with the changes from the beginning of 1960 to the present. This has been the period in which the greatest expansion of industrial lending and guarantee activity by provincial governments has occurred.

1/ Lending and guarantee programs by agencies created solely to assist tourist enterprises are considered in Chapter 12.

The final section gives some of the details regarding guarantees extended by provincial governments on loans made to enterprises by private lending agencies. It also refers to those instances in which company bonds and debentures have been guaranteed by provincial governments.

Early Financial Incentives and Activities

Provincial government loans and guarantees for industrial development in the 1920s and 1930s were generally of an ad hoc nature. They responded to unique economic circumstances and dealt with special problems. More often than not, they took the form of a guarantee of a bank loan or of debentures rather than of a direct loan from the provincial treasury. This was simpler administratively and perhaps more acceptable from a political point of view. This also had a direct historical parallel with the extensive financial assistance to railway companies that had been provided by the federal and provincial governments which similarly nearly always took the form of a guarantee rather than a direct loan from government.

An exception in the 1920s, as has been noted, was British Columbia which from 1919 until it was discontinued in 1937 was the only province with a formal industrial loan agency. Today, in 1973, British Columbia is again an exception, being the only province <u>without</u> an industrial loan agency. (However, the possibility of an industrial loan agency is currently under review in that province.)

Two cases of financial assistance by provincial governments in the 1920s are of special interest. Although not directly for industrial development purposes, they have parallels with current industrial development policies. The first was the agreement in 1923 by the Quebec government to lend the Banque Canadienne Nationale the sum of $15,000,000 with repayment over a thirty year period. The second was a loan by the Ontario government to the Home Bank, which was encountering financial difficulties and eventually went bankrupt anyway.

The Quebec example reflected an interest in establishing a regionally controlled financial agency to provide funds to regional industrial and commercial enterprises. This motive has underlain the establishment of most provincial government lending agencies of today, leading to the formation of such disparate institutions as the General Investment Corporation of Quebec and the Quebec Deposit and Investment Fund, the Alberta Treasury Branches and Nova Scotia's Industrial Estates Ltd., to cite only a few. This also accounts for the interest of the British Columbia government at one stage in buying shares in the Bank of British Columbia. The Ontario loan to the Home Bank was an early example of the readiness of provincial governments to come to the assistance of business enterprises in distress, an example which has been repeated many times when industrial enterprises deemed to be significant to a provincial economy have seemed to be in danger of foundering.

The response to the economic conditions of the 1930s took a number of different forms. In British Columbia, the previously existing industrial lending program was terminated in 1937. But in New Brunswick and Alberta general legislation was passed providing for financial assistance to industry. In the other provinces, such assistance could still only be provided in individual cases by special legislation. Some provincial government assistance to depressed industries was achieved informally in the central provinces of Ontario and Quebec but there were several examples of formal legislation for special cases in the Maritime and Prairie provinces. Two or three instances in Saskatchewan seem particularly significant and have been enumerated.

In New Brunswick, two statutes were passed to give authority to the provincial government to grant financial assistance to industry. The first of these measures was an amendment to the Provincial Loans Act passed in 1934. It provided that the Lieutenant-Governor-in-Council may "grant financial assistance to any private industry, by way of loan, guarantee or otherwise, as may seem expedient, for the purpose of aiding the unemployed in the province".[1/]

1/ Statutes of New Brunswick, 1934, c. 23, s. 27(b). The financial assistance thus provided to private industry and to municipalities was not to exceed $500,000 in any one fiscal year. The Act also ratified earlier orders-in-council granting assistance to municipalities or private industries.

The second, the Assistance to Industry Act passed in 1936, also provided broad powers for industrial incentive purposes to the provincial government although it was largely primary-industry oriented. It authorized the Lieutenant-Governor-in-Council to "carry on such schemes and take such measures as may be deemed necessary or advisable, whether alone or in co-operation with the Dominion of Canada, for the purposes aforesaid"[1/] (of assisting agriculture, etc., or "any other industry"). A number of loan guarantees were made on the authority of this Act.

In Alberta, there were three notable responses. The first was legislative authority to the provincial government to guarantee the securities of resource or resource-processing companies; the second was the establishment of the Alberta Treasury Branches; the third was the establishment of the Alberta Marketing Board.

The first is of interest largely because it marked the first example of a provincial policy limited to guarantees. The provincial government was authorized in 1936 under the Provincial Industries Development Act to guarantee the securities and obligations of a company which "has for its object the development of any natural resource of the province or the processing of any product of the province or the manufacture of any commodity in the manufacture of whereof a substantial use is made of any natural product of the province".[2/] It was a cautious step subject to many restrictions such as: that the authorized capital of the company would not exceed $100,000, that the company should have cash or liquid assets of not less than 60 per cent of its issued capital, that the guaranteed securities would not exceed 40 per cent of the issued capital of the company and other restrictions. The total guarantees could not exceed $250,000 at any one time. The restrictions seem to have been so stringent that no guarantees were in fact made.

The Treasury Branches are unique institutions, established in 1938 after provincial legislation providing for various forms of

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1/ Statutes of New Brunswick, 1936, c. 46, s. 1.

2/ Statutes of Alberta, 1936, c. 71, s. 4.

control over the chartered banks in Alberta had been disallowed by the federal government. As the name suggests, they are branches of the Alberta Treasury Department, with offices throughout the province which accept deposits and make loans in a manner similar to banks. They were not established primarily for industrial development objectives, but cannot be ignored since by March 31, 1971, total assets had grown to $261,000,000, and industrial and commercial loans outstanding amounted to more than $60,000,000. Their operations are considered in greater detail in Chapter 4.

The third action was the establishment of the Alberta Marketing Board in 1939, with a board of directors appointed by the Lieutenant-Governor in Council. As the name suggests, it was primarily for the purpose of "providing producers, manufacturers, distributors and consumers in the province with a means of buying and selling goods, wares, merchandise and natural products at a price which is fair and equitable".1/ But it had wide powers beyond that to provide financial assistance to industry and to own and operate industries.

In the Prairie Provinces, the agricultural background of the region was reflected in the decisions of all three governments to financially assist the establishment of co-operatively owned grain elevator systems. It may be questioned whether this is properly described as an industrial or commercial promotion policy since the motive was largely to strengthen the marketing position of the agricultural producer. Yet, for Saskatchewan, in particular, where the assistance was the largest, it had the ultimate effect of establishing within the province the head offices of a large wholesale trade industry, an industry which is even today one of the larger employers in the province. The peak of provincial government loans and advances to the Saskatchewan Wheat Pool and Saskatchewan Pool Elevators Limited was reached in April 30, 1933, when they totalled $14,282,000.2/ The Manitoba government lent

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1/ Statutes of Alberta, 1939, c. 3.

2/ The commitment began as a guarantee of bank loans which the government was obliged to honour.

$2,100,000 to Manitoba Wheat Pool Elevators and the Alberta government similarly extended financial assistance, although in smaller amounts.

In Saskatchewan this form of assistance to a co-operative wholesale enterprise was extended to co-operative manufacturing enterprises. For instance, a loan was provided to a co-operative dairy[1/] and a loan guarantee was extended to a co-operative oil refinery which was established in the province in the 1930s. Subsequently in the 1950s, there was the unique instance of the three prairie governments jointly lending money to a co-operative farm machinery manufacturing company, Canadian Co-operative Implements Limited.

The examples cited are perhaps the most notable of the various responses of provincial governments to the financial crises confronted by business in general and manufacturing in particular during the depression of the 1930s. Even without specific industrial development legislation, all provinces from time to time assisted individual companies to remain in operation. That the assistance was not larger reflected the financial difficulties of the provincial government themselves.

The Agencies of the Forties and the Fifties

Thus, at the beginning of the 1940s, the Alberta Treasury Branches and the Alberta Marketing Board were the only provincial agencies in Canada with independent powers of providing financial assistance to industry although they were not primarily industrial loan agencies. During the war the Alberta Marketing Board did provide some minor financial assistance to a couple of industries. But the Board concentrated its activities on a form of inventory financing.

During the Second World War, the need for provincial industrial incentive policies disappeared as industrial facilities

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1/ At April 30, 1933, the total commitment either in direct loans or guarantees on behalf of Saskatchewan Co-operative Creameries was $2,570,000.

in all parts of the country came to be used to capacity. It was in the postwar period, under the impetus of the plans to deal with postwar reconstruction, that industrial financial incentive programs began to develop more systematically.

As already noted, in the immediate post war period, industrial loan agencies were established in five provinces -- in Alberta, Saskatchewan, Nova Scotia, Newfoundland and Prince Edward Island. They varied considerably in structure, in functions and in activities.

The Alberta Industrial Corporation was established in 1946[1/] as the first of the new group of industrial loan agencies, and anticipated the form that is most common today. It was created by statute as a body corporate with a board of directors appointed by the Lieutenant-Governor-in-Council and with powers to "lend money to any person, firm or corporation carrying on or proposing to carry on in the province of Alberta, any manufacturing, processing or industrial business of any nature whatever".[2/] Each loan required the approval of the Lieutenant-Governor-in-Council.

The composition of the board of directors was unlike that most common today. The board consisted nearly completely of civil servants while the typical loan agency board of directors today is made up largely of businessmen and other private citizens.

The Alberta Industrial Corporation was established at a time of considerable out-migration of population from the province. With the coming of the oil boom and an associated large net inflow of population, this agency became inoperative. Its total loans outstanding reached a peak of $2,415,000 at December 31, 1951, and the corporation did not make any further loans after that date. In order to administer the assets of a delinquent borrower, a coal mining company, it remained formally in existence until 1972.

1/ Statutes of Alberta, 1946, c. 7.

2/ Ibid., c. 7, s. 5(a).

The next province to establish a formal industrial loan agency was Saskatchewan. The Saskatchewan Industrial Development Fund was established in 1947 under the terms of the Crown Corporation Act[1/]

> "...to encourage the establishment and development of industrial plants and projects and financial and commercial enterprises and undertakings in Saskatchewan, by co-operative associations and other bodies of a co-operative nature, private persons, firms, corporations and municipalities".[2/]

The Fund was administered by the Government Finance Office which had power:

> "...subject to the approval of the Lieutenant Governor in Council, to lend money to any co-operative association or other body of a co-operative nature, person, firm, corporation or municipality carrying on or proposing to carry on in the province, any manufacturing, processing, industrial, financial or commercial business or undertaking of any nature whatsoever or any business or undertaking connected with or incidental thereto ...."[3/]

The Government Finance Office could also, upon the recommendation of the Provincial Treasurer and with the approval of the Lieutenant-Governor-in-Council, guarantee the repayment of loans.

The Government Finance Office was almost entirely composed of cabinet ministers although the initial recommendations regarding loans were made by a committee of civil servants.

The establishment of the Industrial Development Fund in Saskatchewan had been preceded in 1945 by legislative authority to the Lieutenant-Governor in Council to guarantee repayment of a loan made for any purpose of reconstruction or rehabilitation. Also, in 1945, the Minister of Reconstruction and Rehabilitation was authorized to make loans from the Reconstruction and Rehabilitation Fund established in 1944. Such loans would be for reconstruction or rehabilitation programs approved by the Lieutenant-Governor in Council. This legislative authority was not extensively used for industrial development purposes but was used for certain government housing enterprises.

The next step occurred in Nova Scotia the year following the creation of the Saskatchewan Industrial Development Fund.

1/ Statutes of Saskatchewan, 1947, c. 13.

2/ Ibid., c. 13, s. 30(1).

3/ Ibid., c. 13, s. 33(a).

In 1948, an Industrial Assistance Fund was established.[1/] From this fund, the Minister of Trade and Industry was authorized, with the approval of the Governor in Council, to make loans to any industry designated by the Governor-in-Council. The legislation provided for an Industrial Assistance Advisory Board to examine loan and guarantee applications and to make recommendations to the Minister.

Here again this fund had been preceded by other smaller loan funds. A loan fund of $80,000 had been created in Nova Scotia in 1944, to provide for assistance to smaller industries in the purchase of plant and equipment. This fund was enlarged in 1945 by an additional $200,000. It was followed in 1946 by a loan fund of $250,000 for assistance to hotels and a loan fund of $500,000 in 1947 for construction of hotels or for purchase of stock in hotels.

When Newfoundland came into Confederation, an industrial loan board was also established in that province. The Newfoundland Industrial Development Loan Board was created in 1949[2/] as a body corporate with a board of directors appointed by the Lieutenant-Governor in Council. As such, it was similar to the Alberta Industrial Corporation and like that agency was not to be very active. Indeed, it began with a fund limited to $200,000, an amount which has not been increased. The Board was authorized to make loans to "any person", etc. "engaged in producing such product or in processing, manufacturing, refrigerating or otherwise dealing with such raw materials.[3/] ("product" referred to a product "derived directly from the resources of Newfoundland or any industry established in Newfoundland and based primarily on raw materials which are the product of Newfoundland"). But the Board could with the approval of the Lieutenant-Governor in Council make loans to any other industry.[4/] The Board could also guarantee bank loans to industries.

1/ Statutes of Nova Scotia, 1948, c. 3.

2/ Statutes of Newfoundland, 1949, No. 71.

3/ Revised Statutes of Newfoundland, 1952, No. 245, 7(1). These were the terms after an amendment to the Act in 1951 which did not substantially change the terms of reference.

4/ Ibid., No. 245, 7(2).

Much more significant in Newfoundland's industrial lending activity were the loans and guarantees provided under the terms of Loan and Guarantee Acts, the first one of which was passed in 1950. These authorised a Cabinet Minister, designated by the Lieutenant-Governor in Council[1/] to make loans or guarantee repayment of loans to a list of companies identified in a schedule to the Act. The maximum amount of the loan or guarantee that might be made to each company was stated. The procedure since has generally been simply to amend the schedule and add new names of companies and new amounts.[2/]

Another common device in Newfoundland, beginning in the 1950s, has been the passage of special legislation to confirm an agreement between the provincial government and an individual company. Such an agreement set out the terms, including provincial government loans and guarantees, under which a particular industrial project would proceed.

An agency in Newfoundland with some powers for making loans to fish processing plants was the Fisheries Loan Board. While this Board, in existence since before 1952,[3/] was established primarily to make loans to fishermen it may also make loans "to companies for assisting in the construction of plants and the purchase of plant equipment generally, and other types of capital expenditure which, in the opinion of the Board, are proper expenditures for which loans should be made by it".[4/] In practice, with two or three small exceptions, it has confined its loans to fishermen.

In the same year as the Newfoundland Industrial Development Loan Board was formed came the Prince Edward Island Industrial Corporation. This body was established in 1949 for the purpose of "assisting in the development of industry in the province".[5/]

1/ The designated minister has been the Minister of Economic Development an office which was occupied by the Premier in most of the ensuing period.

2/ Loans and guarantees were also made available to school boards and other public institutions under the terms of this Act. New schedules to the Loan and Guarantee Act have been passed every year since 1950.

3/ See Revised Statutes of Newfoundland, 1952, c. 212.

4/ Ibid., c. 212, s. 8(b)(i).

5/ Laws of Prince Edward Island, 1949, c. 21, s. 4.

While originally conceived as an agent to build factories for subsequent leasing to private firms or for direct operation by government, it ultimately provided major assistance in the form of loans. It is therefore considered in this chapter.

The Prince Edward Island Industrial Corporation was created as a body corporate with a board of directors appointed by the Lieutenant-Governor in Council. That it was intended to be closely linked to the government is indicated by the fact that initially the board of directors consisted entirely of deputy ministers. Later it was provided in 1962 that at least three of the directors would be cabinet ministers.

The next change took place in Nova Scotia in 1952 when an additional industrial loan agency was established in that province. Under legislation passed in 1951 but not proclaimed until 1952, the Industrial Loan Fund[1/] replaced the Industrial Assistance Fund (established in 1948) and a new fund, the Industrial Expansion Fund[2/] was established. Loans from the Industrial Loan Fund and guarantees of loans could be made by the Governor-in-Council on the recommendation of the Industrial Loan Board. The Industrial Loan Board was the successor of the Industrial Assistance Advisory Board. The larger role of the new board was indicated by the fact that the loans were now to be made by the cabinet as a whole rather than by an individual minister. This implied greater delegation of responsibility to the board.

The powers of the Minister of Trade and Industry to make loans continued but applied to the new fund, the Industrial Expansion Fund. Loans from the Industrial Expansion Fund were intended to be developmental in terms of an industry or community rather than in terms of a particular firm's credit needs and commercial feasibility. This action still required the approval of the Governor in Council. Guarantees of loans could also be made. But the powers of the Minister were greatly extended to include the purchase or acquiring of industrial property and its subsequent operation, lease or sale. There was statutory provision for an advisory Industrial Development Board but it was not established. In practice most of the loans handled under this Act were referred to the Industrial Loan Board for recommendation.

1/ Statutes of Nova Scotia, 1951, c. 6.

2/ Statutes of Nova Scotia, 1951, c. 7.

In 1954, the Industrial Establishment Promotion Act[1] was passed in Prince Edward Island authorizing the Lieutenant-Governor in Council to grant financial assistance "toward the establishment of industrial plants within the province for the purpose of processing agricultural, horticultural and fisheries products".[2] By regulation, the Lieutenant-Governor in Council appointed a committee of businessmen to receive the applications for assistance and make recommendations. In 1960, the Lieutenant-Governor in Council was authorized also to assist "other industrial enterprises which might improve or maintain the economy of any area within the province."[3]

Also, in 1954, an additional agency was created in Newfoundland to develop the fisheries and among other things to provide financial assistance to the fish processing industries, i.e., manufacturing rather than to the primary industry. This was the New-Foundland Fisheries Development Authority established in 1954[4] with powers to "assist persons, directly or indirectly, with financial aid or otherwise in the establishment of processing plants and in the acquisition of vessels, equipment and installations that will contribute to the development of the fisheries".[5]

In 1956, the New Brunswick Industrial Development Board was established marking the first formal industrial lending agency in that province although, as already noted, the Lieutenant-Governor-in-Council had had the powers since 1936 to make loans or guarantee loans to industry. The preceding legislation, the 1936 Assistance to Industry Act, was repealed.[7] The New Brunswick Industrial Development Board had a board of directors appointed by the Lieutenant-Governor in Council and could, with the approval of the Lieutenant-Governor in Council, make loans or guarantee loans to industry.

1/ Laws of Prince Edward Island, 1954, c. 18.

2/ Ibid., c. 18, s. 2(1).

3/ Laws of Prince Edward Island, 1960, c. 21.

4/ Statutes of Newfoundland, 1954, No. 33.

5/ Ibid., No. 33, s. 14(b).

6/ Statutes of New Brunswick, 1956, c. 10.

7/ The Lieutenant-Governor in Council had earlier lost the authority to make direct loans to industry under an amendment in 1953.

In 1957, came the introduction of a new form of industrial development agency, designed to emphasize a separateness from government. This was Industrial Estates Limited in Nova Scotia. It was not established by statute but was incorporated under the Companies Act just as a private company would be. However, the owner of nearly all the shares[1/] was the Nova Scotia government in the name of the Minister of Trade and Industry. The method of operation of the new company was then set out in the Principal Agreement between the provincial government and Industrial Estates as follows:

> "...it is proposed that the Company shall borrow money from the Province on the terms hereinafter set out for the purpose of buying and developing lands and erecting buildings or factories thereon to be occupied by Industrial Tenants and to generally carry on the business of an Industrial and Trading Estates Corporation, and in addition to erect buildings for occupation by industries apart from such estates."[2/]

A measure of its intended greater autonomy was that it was the first of the industrial loan agencies to employ its own staff with only formal government approval being required. The earlier agencies had utilized the staff of provincial departments, mainly the department of industrial development.

As the name of the company suggests, Industrial Estates Ltd. was intended to be primarily a lessor of industrial property (as, for instance, the Prince Edward Island Industrial Corporation was also intended to be) but, in fact, it has become the major provincial government loan agency for secondary manufacturing. Industrial Estates has wide powers legally and may engage in any business except such things as banking and insurance.

1/ The exceptions were shares held by the directors of the company.

2/ Principal Agreement, etc. (mimeo.), pp. 2-3.

In 1958, the Development Fund was established in Manitoba.[1] Despite its name, it was a body corporate with a board of directors appointed by the Lieutenant-Governor in Council. Unusual precautions were taken in the legislation to emphasize its distinctness from government. The legislation prohibited cabinet ministers (or other M.L.A's) from being members of the board of directors and allowed only one civil servant to be appointed to the board. This was in contrast to other provincial loan agencies. Indeed, even Industrial Estates habitually has had the Minister of Trade and Industry (now the Minister of Development) on its board of directors. Like Industrial Estates Ltd., the Manitoba Development Fund was soon given statutory powers to lend to any industry.[2] Also like the Nova Scotia agency, cabinet approval was not required before it could grant loans.

This move in Manitoba had been preceded by some minor industrial financial assistance in the 1950s. The provincial government had made a small loan to a seed cleaning plant[3] and guaranteed two or three small loans to food processors.

In 1959, was established the third of the more autonomous loan agencies. This was the New Brunswick Development Corporation created by statute[4] with a board of directors appointed by the Lieutenant-Governor in Council. It also could under the statute provide financial assistance to any industry and could do so without the necessity of formal cabinet approval. It has functioned separately from the department of industrial development but typically has had at least one cabinet minister on its board of directors.

Another piece of legislation in New Brunswick in 1959 was the Assistance to Chemical Industry Act authorizing the Lieutenant-Governor in Council to enter into agreements "with any municipality

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[1] Statutes of Manitoba, 1958, (2nd Sess.), c. 3

[2] Although initially it could lend only to manufacturing industries

[3] Indeed, there was legislation providing for loans to seed cleaning plants.

[4] Statutes of New Brunswick, 1959, c. 9

or other body corporate for the purpose of assisting in the establishment of a chemical industry in the province".[1/]

Greater detail on the activity of provincial governments and agencies in guaranteeing loans to industrial firms is given in the section on "Guarantee of Bank Loans and Debentures" beginning at page 3-31.

The Change of the Sixties and to the Present

At the beginning of the 1960s, provincial industrial loan agencies were functioning in six provinces. The two central provinces of Quebec and Ontario and the western province of British Columbia were without such agencies. The Alberta Industrial Corporation was inoperative.

In the preceding pages, the establishment of new agencies and changes in existing ones have been discussed in chronological order. Because of the complexity of the changes in the 1960s and because the decade of the 1960s marked a sharp increase in lending, it is deemed advisable to proceed on a province-by-province examination of the major structural changes in industrial loan agencies from the beginning of 1960 to the present.[2/] The relative role in each province of each agency in the major expansion of industrial lending activity will be indicated.

Perhaps, the most significant events in terms of policy since 1960 were the establishment of industrial loan agencies in Quebec and Ontario and the re-activation of industrial lending activity in Alberta. But significant administrative changes occurred in other provinces. A major financial involvement of provincial government in direct industrial lending[3/] was by the end of the decade a notable feature in Newfoundland, Prince Edward Island, Nova Scotia and Manitoba.

A summary of the provincial agencies with some responsibility for industrial lending that existed for part or all of the period from 1960 to the present is given in Table 3-1.

1/ Statutes of New Brunswick, 1959, c. 3.

2/ Changes up to December 31, 1972, have been considered.

3/ Making a distinction between direct lending by provincial government agencies and provincial government guarantees of loans made to industry by private lenders.

Table 3-1

PROVINCIAL INDUSTRIAL LOAN AGENCIES,[1] 1960-72

Province	Date of Establishment	Comment
Newfoundland		
Industrial Development loan Board	1950	Inoperative
Fisheries Development Authority	1954	Fish processing
Harmon Corporation 2/	1967	Primarily operator of an industrial estates.
Industrial Development Corporation	1967	
Newfoundland and Labrador Development Corporation	1972	Federal-provincial agency
Prince Edward Island		
Industrial Corporation	1949	Discontinued in 1969
Industrial Establishment Promotions Act	1954	Discontinued in 1969
Industrial Enterprises Limited	1965	
Lending Authority	1969	Industrial lending not major activity
Nova Scotia		
Industrial Loan Fund	1952	
Industrial Expansion Fund	1952	
Industrial Estates Limited	1957	
Cape Breton Development Corporation 2/		Federal-provincial agency
Resources Development Board	1971	Loans to resource processing industries, major activity -- lending to primary industries
New Brunswick		
Industrial Development Board	1956	Name changed in 1967
Development Corporation	1959	
Industrial Finance Board	1967	Successor to New Brunswick Industrial Development Board
Grand Lake Development Corporation 2/	1969	Primarily to administer F.R.E.D. program

1/ Including agencies whose major responsibilities are not industrial lending but which have made some industrial loans.

2/ A regional agency. See Chapter 13.

Table 3-1 (Cont'd.)

Province	Date of Establishment	Comment
Quebec		
General Investment Corporation	1962	
Deposit and Investment Fund	1965	Primarily for purpose of investing pension funds
Industrial Credit Bureau	1967	Name changed in 1971
Industrial Development Corporation	1971	Successor to Industrial Credit Bureau
Ontario		
Development Corporation	1966	After 1971, largely corfined to lending in Southern Ontario
Northern Ontario Development Corporation 1/	1971	Lending in Northern Ontario only
Manitoba		
Development Fund	1958	Name changed in 1970
Development Corporation	1970	Successor to Development Fund
Communities Economic Development Fund 1/	1971	For remote and isolated communities
Saskatchewan		
Industrial Loan Fund	1947	Discontinued in 1966
Economic Development Corporation	1963	Successor to Industrial Loan Fund
Alberta		
Treasury Branches	1938	Primarily as a provincial banking system
Marketing Board	1939	Discontinued in 1964
Industrial Corporation	1946	Inoperative since 1952, discontinued in 1972
Commercial Corporation	1964	Name changed in 1972
Industrial Incentives Board 1/	1971	To make forgivable loans; discontinued in 1972
Opportunity Company	1972	Successor to Commercial Corporation

1/ A regional agency. See Chapter 13.

There now follows a description of the lending activities of most of the agencies identified in Table 3-1 together with any direct loans by provincial governments (the regional agencies are considered in Chapter 13).

Newfoundland

Up to 1960, direct loans by the provincial government under the terms of Loan and Guarantee Acts or special Acts of the legislature comprised the main form of lending. Total industrial loans outstanding at March 31, 1960, amounted to $28,695,000 and of this $25,673,000 had been made directly by the government. Industrial loans by the Fisheries Development Authority amounted to $2,176,000 and government advances to the Economic Development Loan Board amounted to only $161,000.

Since 1960, three additional agencies with the powers to make loans to industry have been established. Harmon Corporation in 1967 (which is primarily a manager of an industrial estate and is therefore considered in Chapter 5), the Newfoundland Industrial Development Corporation in 1967 and Newfoundland and Labrador Development Corporation Limited in 1972. The Newfoundland Industrial Development Corporation has essentially the same purpose and structure as the Newfoundland Industrial Development Loan Board. It was established by statute[1/] as a body corporate with a board of directors appointed by the Lieutenant-Governor-in-Council. It had broader terms of reference and was not limited by statute in the amount it could lend (The Industrial Development Loan Board had a statutory limit, as already indicated, of $200,000).

Newfoundland and Labrador Development Corporation Limited established in 1972, for a five year trial period is another innovation. It is a federal-provincial agency like the Cape Breton Development Corporation (see Chapter 13) but it has a province-wide responsibility instead of being confined to a region within a province. It was created under the Companies Act of Newfoundland carrying out the terms of a federal-provincial agreement.

1/ Statutes of Newfoundland, 1966-67, No. 65.

Three-fifths of the board of directors are to be appointed by the provincial government and the remainder by the federal government.

It will have a major responsibility in respect to the financing of small and medium-sized businesses but will also provide industrial intelligence, management advisory services and project information. It is intended to engage in financing in both loan and equity forms. A revolving loan fund is to be supplied by the federal government up to a maximum of $20,000,000 and the Newfoundland government is to provide the Corporation with a revolving equity financing fund of up to $2,000,000 initially. The operating costs of the Corporation are to be shared equally.

By March 31, 1970, total industrial loans and advances in Newfoundland had increased to $64,058,000. (As is noted later in this chapter, guarantees amounted to almost twice this amount.) The major increase had come in loans by the Newfoundland Industrial Development Corporation which amounted to $28,058,000 while nearly all of the remainder was in the form of loans made directly by the provincial government.1/

Prince Edward Island

At the beginning of 1960, financial assistance to industry was available through the Prince Edward Island Industrial Corporation and the Industrial Establishments Promotion Act. Initially, smaller projects were to be granted loans under the Industrial Establishments Promotion Act, while industries requiring capital in excess of $250,000 were to be dealt with by the Industrial Corporation. As already noted, it was not the purpose of the Industrial Corporation to make loans -- it was to finance new and equipped plants under lease-purchase agreements with the corporation holding title. But in fact a major part of its financial assistance came to be provided in the form of loans.

1/ The distinction between loans made by the Newfoundland Industrial Development Corporation and those made directly by the provincial government is not always clear.

The major industrial lending activity of the P.E.I. provincial government took place after 1960. While loans outstanding at March 31, 1960 are not recorded in the Public Accounts, they are known to have been small in total.

The industrial financing activity of the P.E.I. Industrial Corporation had by the middle of the 1960s reached significant proportions considering the population of the island province. The peak of government financial commitments to the Industrial Corporation was reached at March 31, 1968 when the amount stood at $9,440,000[1/] although some of the Corporation's accounts had already been transferred to Industrial Enterprises Limited.[2/] Total government commitments to Industrial Enterprises were $4,234,000 at the same date.[3/] Not all of the government financial commitments to the Industrial Corporation were used for lending purposes. Some were used for the construction of factories which were then leased to private companies.

Industrial Enterprises Incorporated was established in 1965 with a major purpose being to take over the accounts of the Industrial Corporation. Industrial Enterprises is similar in structure to Industrial Estates Ltd. of Nova Scotia in that there is no formal provision for the appointment of its board of directors by the Lieutenant-Governor in Council. Industrial Enterprises was created by statute[4/] but unlike Industrial Estates it was constituted in the form of a company under the Companies Act. Most of its shares are held in the name of a cabinet minister and government control is exercised rather indirectly. Its powers are those of a company and so theoretically it could engage in almost any form of business activity. There was not, until recently, any formal requirement for government approval of loans made by Industrial Enterprises.

1/ Of which $1,361,000 was in the form of a government-guaranteed bank loan to the Industrial Corporation.

2/ The new industrial lending agency described in the next paragraph.

3/ Of which $895,000 was in the form of guaranteed bank credits to the agency.

4/ Laws of Prince Edward Island, 1965, c. 13.

The establishment in 1969 of the Prince Edward Island Lending Authority[1] was originally intended to consolidate in one agency government lending activities to agriculture (except for the purchase of land), fishing, tourism and manufacturing. To this end, the Industrial Establishments Promotion Act and other special fishing and tourist loan legislation were repealed. The operations of Industrial Enterprises were to be discontinued but then there was a change of policy. Before it was decided that Industrial Enterprises would continue, the Lending Authority had assumed responsibility for some loans made under the Industrial Establishments Promotion Act and had made a couple of small manufacturing loans in the 1970-71 fiscal year. Some other manufacturing loans had been guaranteed.

The total financial advances, direct and indirect, by the provincial government to Industrial Enterprises Limited at March 31, 1971, were $10,582,000.[2] An additional $1,896,000 was still recorded for the P.E.I. Industrial Corporation. Loans outstanding under the Industrial Establishments Promotions Act and now administered by the Lending Authority amounted to $458,000. Thus the total advances for industrial purposes at March 31, 1971, amounted to $12,916,000. In addition, there was $2,153,000 outstanding in tourist development loans.

Nova Scotia

At March 31, 1960, total outstanding provincial government advances to manufacturing and tourism amounted to $4,884,000. Of this $717,000 was to cover loans through the Industrial Expansion Fund, $1,284,000 through the Industrial Development Fund and the remainder was largely under the terms of the Industrial Loans Act of 1951. The provincial government had also advanced $2,438,000 to Industrial Estates Limited but this was nearly all for the construction and acquiring of industrial properties for subsequent lease.

The principal event of the 1960s was the transformation of Industrial Estates Limited into the major industrial lending agency

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1/ Laws of Prince Edward Island, 1969, c. 41.

2/ Of which $600,000 was a government-guaranteed bank credit.

of the provincial government. While this agency had wide powers, it had originally been considered that it would lend only for the purchase of manufacturing equipment while factory buildings would be provided for on a lease-purchase basis.[1] This policy was changed because the federal government incentives for industries in designated depressed areas, which began in 1963, were not available to companies leasing the properties they operated. The industrial strategy of Industrial Estates was thus altered. Loans to firms were substituted for lease-purchase agreements so that the companies being assisted could qualify for the federal incentives. It was not until 1965 that Industrial Estates became involved in a major way in industrial lending with the principal client being Deuterium of Canada Limited.[2]

The Deuterium of Canada Act[3] passed in 1966 represented another form of industrial lending, a loan of up to $15,000,000 directly by the provincial government to the company. After 1966, further financing required by the company was provided directly. Ultimately, Industrial Estates Ltd. was relieved completely of this account. At March 31, 1970, the provincial government advances on behalf of this company amounted to about $109,000,000.

A centralized consideration of lending activities by the provincial government began in 1970 with the establishment of the Financial Assistance Advisory Board.[4] Its duties included examining, at the request of the Premier or the Governor-in-Council, applications to government agencies (except Industrial Estates Limited) for financial assistance; making periodic reviews of enterprises that have received financial assistance after examination by the Board and, at the direction of the Governor-in-Council, making periodic review of other enterprises that have received financial assistance. Unless the Governor-in-Council otherwise ordered the Board was not to concern itself with small loans i.e., those of less than $100,000.

1/ This aspect of Industrial Estates operations is considered in detail in Chapter 5.

2/ By 1965, Deuterium of Canada Limited had become a subsidiary of Industrial Estates Limited with I.E.L. holding 25,001 shares of the total issued capital of 50,000 shares.

3/ Statutes of Nova Scotia, 1966, c. 6.

4/ Statutes of Nova Scotia, 1970, c. 5.

This approach was short-lived as the following year, an Act[1/] was passed establishing the Nova Scotia Resources Development Board to formally consolidate all government lending activities other than that of Industrial Estates Limited. This Act was proclaimed early in 1972 and the Board was established at that time. The board of directors appointed by the Governor-in-Council would have power:

> "(a) to aid, assist and promote the development of resource-based industries, businesses and activities within the province and to advance the resource industry;
>
> (b) to assist departments, boards, commissions and agencies of the Province engaged in giving financial and other assistance to resource-based industries and businesses and to co-ordinate the activities of the departments, boards, commissions and agencies with respect to resource industry."[2/]

and to undertake certain other assignments which may be given to it by the Governor-in-Council. The Governor-in-Council has assigned to the Board all of the duties of the Industrial Loan Board, the Industrial Development Board, the Nova Scotia Farm Loan Board, the Timber Loan Board and the Fishermen's Loan Board.

The present basic division of responsibility between the Resources Development Board and Industrial Estates Limited is simple. The Resources Development Board will make loans or guarantee loans to the primary resource industries and to the resource processing sectors of manufacturing such as fish processing plants, vegetable canning and freezing plants, and saw and planing mills. All secondary manufacturing sectors are assigned to Industrial Estates Limited. Tourism loans because of tourism's intrinsic relationship to natural resources are the responsibility of the Resources Development Board.

1/ Statutes of Nova Scotia, 1970-71, c. 16.

2/ Ibid., c. 16, s. 3(1).

New Brunswick

At the beginning of 1960, there were two provincial agencies authorized to make industrial loans, the New Brunswick Industrial Development Board and the New Brunswick Development Corporation. But at March 31, 1960, there were no loans outstanding. The former board had confined its activities since 1956 to the guaranteeing of loans while the latter agency had just been established and had not begun to operate.

Since 1960, there have been three major structural changes affecting lending agencies. The New Brunswick Industrial Development Board became the New Brunswick Industrial Finance Board in 1967.[1/] The Grand Lake Development Corporation was established in 1969 with responsibilities for economic development, including industrial financing, in a part of the province (see Chapter 13). In 1970, the Minister of Economic Growth was given temporary power to directly, with the approval of the Lieutenant-Governor-in-Council, "provide financial assistance in such form and on such terms and conditions as he shall deem necessary to aid and encourage the establishment or expansion of industry in the province".[2/] This power was to last only until March 31, 1971, and the provision was repealed in 1972. Certain other industrial development powers were added which will not be discussed here.

Lending activity by the Industrial Development Board did begin in the early 1960s but total loans outstanding did not exceed $1,000,000 until March 31, 1966, and amounted to $2,712,000 at March 31, 1971.

The New Brunswick Development Corporation did not begin any major activities until the middle of the 1960s. Total provincial advances outstanding to the Corporation totalled $11,964,000 at March 31, 1966, and amounted to $16,265,165 at March 31, 1971. Of the investments by the provincial government in the Development Corporation, a major part has been used by the Corporation for

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1/ Statutes of New Brunswick, 1967, c. 48.

2/ Statutes of New Brunswick, 1970, c. 27, s. 2.

lending purposes with the remainder representing investments in industrial parks and industrial firms (see Chapters 5 and 6). Together, with a purchase by the government of $3,034,000 of bonds of East Coast Smelting and Chemical Company Limited, total loans and advances by the provincial government to industry at March 31,1971, amounted to $22,011,000.

Since guarantees of loans are by far the major form of industrial assistance in New Brunswick, special attention should be paid to the section in this chapter on "Guarantees of Bank Loans and Debentures".

Quebec

The three quite dissimilar financial agencies in Québec involved directly or indirectly in industrial development were established within a space of five years -- the General Investment Corporation of Quebec in 1962; the Quebec Deposit and Investment Fund in 1965; and the Industrial Credit Bureau in 1967. The Industrial Credit Bureau was replaced by the Industrial Development Corporation in 1971. For convenience, all of these will be given a brief description at this point even though only one is what might be described as a full-fledged industrial loan agency.

The General Investment Corporation of Quebec was a unique provincial institution. Established by legislation in 1962,[1/] it was a mixed-ownership corporation of which the provincial government holds only a minority of the shares and appoints a minority of the board of directors.[2/] Its primary strategy involved acquiring partial or complete stock ownership in companies for industrial development purposes. As such, it is considered in greater detail in Chapter 6 "Provincial Ownership of Industry" (see pp. 150 to 152).

While the Quebec Deposit and Investment Fund established in 1965[3/] is not an industrial loan agency per se it has substantial investing authority and large sources of funds. It is the depository for the funds of the Québec Pension Board and for a

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1/ Statutes of Quebec, 1962, c. 54.

2/ Legislation was introduced in the Quebec National Assembly in December, 1972 to provide for the purchase by the Quebec government of all shares in the company.

3/ Statutes of Quebec, 1965, c. 23.

number of other provincial agencies such as the Quebec Agricultural Marketing Board, the Québec Crop Insurance Board and the Quebec Health Insurance Board. As such, the Fund is primarily interested in income security, and the incorporating legislation, with a view to this objective, specified in considerable detail the way in which its funds may be invested. Investment in company shares is subject to a number of restrictions. For this reason most of its assets were invested in government bonds, but at December 31, 1970, investments in company bonds, amounted to $93,000,000. In addition, the Fund held $212,000,000 in company common and preferred shares, and mortgages totalling about $45,000,000. Total assets of the Quebec Deposit and Investment Fund at December 31, 1970, amounted to $1,326,000,000.

The Industrial Credit Bureau established in 1967[1/] most closely resembled the industrial loan agencies of other provinces. The same is true of its successor, the Industrial Development Corporation established in 1971.[2/] Both the Industrial Credit Bureau and its successor had a board of directors appointed by the Lieutenant-Governor-in-Council and were authorized to lend to manufacturing enterprises only. The new corporation has a somewhat different orientation than the former Bureau in that it has responsibilities for certain regional incentives (discussed in Chapter 13) and certain "forgivable" loan features of the new program (see Chapter 7).

At March 31, 1971, the loans outstanding of the Québec Industrial Credit Bureau, together with interest accrued and receivable and some property held in respect of loans amounted to $25,389,000.

1/ Statutes of Quebec, 1966-67, c. 56.

2/ Statutes of Québec, 1971, c. 64.

Ontario

In Ontario, provincial government industrial financial incentives began with a program limited to loan guarantees. Such guarantees, under the Economic Development Loans Guarantee Act[1/] of 1962, were made by the Lieutenant-Governor in Council upon the recommendation of the Minister of Economics and Development. Applications for guarantees were screened by staff of the Ontario Development Agency and also considered by an advisory committee of businessmen and others appointed by the Lieutenant-Governor in Council. (Details are considered later in this chapter).

In 1966, this guarantee program was replaced by a direct lending program. The Ontario Development Agency was replaced by the Ontario Development Corporation, a statutory body much like the other provincial loan agencies. While the Ontario Development Corporation could guarantee loans as well as make loans, its assistance was for some years provided almost entirely in terms of loans.

The latter part of 1967, the provincial government began its program of "forgivable" performance loans to industries in certain designated areas, a program which is administered by the Ontario Development Corporation. In 1971, the Northern Ontario Development Corporation was established with responsibility for lending activities in Northern Ontario. (Both of these programs are considered in greater detail in Chapter 13).

With the beginning of the "forgivable" performance loan program, this was for about three years the major financial activity of the Ontario Development Corporation. In the latter part of 1971 and in 1972 other lending activity came to the fore. At November 30, 1972, the Corporation had 452 "forgivable" performance loans outstanding amounting to approximately $50,000,000 compared to 414 term loans for approximately $42,000,000. In addition, in 1972, there was a revival of loan guarantees. At November 30, 1972, there were 66 guarantees for a total of $18,000,000. The Corporation also has fixed assets of about $3,200,000 consisting mainly of industrial parks. (These are discussed in Chapter 5).

[1/] Statutes of Ontario, 1962-63, c. 40.

Manitoba

Since the Manitoba Development Fund was established only in 1958, the provincial government advances outstanding to the Fund at March 31, 1960, were only $1,655,000.[1/] By March 31, 1965, provincial government advances to the Fund had reached $8,500,000.[2/] By March 31, 1971, government advances and loans to the Manitoba Development Corporation (the successor to the Manitoba Development Fund) amounted to $143,403,000.

There had been relatively few structural changes until near the end of the 1960s. In 1970, the name of the Fund was changed to the Manitoba Development Corporation and the Corporation began to acquire greater holdings of equity capital of its clients. (This is considered in greater detail in Chapter 6). In 1971, the Community Development Fund was established with a separate board of directors to provide financial assistance to industries in remote towns (see Chapter 13).

Saskatchewan

At the beginning of 1960, the Industrial Development Fund was the major provincial government industrial loan agency. The balance of advances to the fund stood at $2,024,000 at March 31, 1960. In addition the $28,000 loan to Canadian Co-operative Implements Limited was still outstanding and an investment of $260,000 in Northern Co-operative Trading Services Limited was shown.

With the establishment of the Saskatchewan Economic Development Corporation in 1963 the pace of lending began to quicken and by March 31, 1965, the government's investment in the two agencies totalled $9,164,000.[3/] Steadily, throughout the latter half of the 1960s the authorized maximum lending of the Corporation

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1/ Loans receivable of the Fund amounted to $1,363,000 at the same date. The difference was largely accounted for by cash holdings of the Fund.

2/ Loans receivable of the Fund were $9,007,000.

3/ The Industrial Development Fund was no longer an active lender after 1963. Its accounts were gradually transferred to the new agency and it was formally abolished in 1966.

was raised. Beginning at $15,000,000 in 1963, this was increased to $40,000,000 in 1965, $55,000,000 in 1970 and $100,000,000 in 1971. At March 31, 1971, provincial government advances to the Corporation amounted to $31,891,000.

However, the total amount of the guarantees of industrial debentures notes was nearly twice this amount at March 31, 1971. (The details are considered later in this chapter).

In 1970, a "forgivable" loan program was established (to be administered by the Department of Industry and Commerce) but the loans made were not substantial amounting to $200,000 at March 31, 1972. In 1972, this was supplemented by additional provisions for loans and forgivable loans to business and industry under the new Industry and Commerce Development Act. A maximum of $2,000,000 was provided for this purpose in the 1972-73 fiscal year.

Alberta

As already noted, the Alberta Industrial Corporation did not make any new loans during the 1960s. At March 31, 1960, provincial government advances to the Corporation amounted to $1,105,000. There was also a government advance of $500,000 to Marketing Services Limited,[1/] which carried on the trading activities of the Provincial Marketing Board. Other government loans included $83,000 to Prairie Woollen Mills Limited and $28,000 to Canadian Co-operative Implements Limited.

With the establishment of the Alberta Commercial Corporation in 1964 (which replaced the Provincial Marketing Board but with a considerably wider mandate), industrial lending was resumed. The Commercial Corporation continued with the program of inventory financing which had featured the operations of Marketing Services Limited but gradually other forms of lending have become more significant. At March 31, 1971, provincial government advances to the Alberta Commercial Corporation amounted to $6,300,000. In addition, there were two surviving accounts from

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1/ The assets of Marketing Services Limited were actually $808,000 at December 31, 1959, and included the assets of a small plant for producing rock wool insulation.

the early post-war period, the advance to the Alberta Industrial Corporation standing at $991,000 and the small loans of $83,000 to Prairie Woollen Mills Limited.

In 1971, the Industrial Incentives Board was established to administer Alberta's regional "forgivable" loans program but this body was abolished in 1972. Forgivable loans of $2,219,000 had been granted by the termination of the program at June 30, 1972 (see Chapter 13).

In 1972, the Alberta Commercial Corporation was replaced by a new body, the Alberta Opportunity Company. The Alberta Opportunity Company also took over the administrative responsibilities for those forgivable loans which had been authorized by the Industrial Incentives Board. It is anticipated that the regular form of lending activity will be considerably expanded.

British Columbia

Throughout the 1960s, no action was taken to establish an industrial loan agency, although this is now under consideration. In the early part of the decade, the provincial government did display its interest in the establishment of a regional financial agency by playing some part in promoting a provincial bank in which it would initially have held up to 25 per cent of the shares. The original announcement by the B.C. premier was in January 1964. Some time later, the government indicated that its share would be lowered to 10 per cent. The federal government subsequently introduced legislation to prevent provincial governments from directly owning any shares in chartered banks. The provincial government responded by passing legislation giving government pension funds the right to buy shares. In 1971, the civil service pension fund held 36,174 shares (at a cost of $700,000) in the Bank of British Columbia.

Guarantees of Bank Loans and Debentures

As was indicated earlier in this Chapter, guarantees by the provincial government of loans to industry made by private lenders have frequently been a substitute for direct loans by a provincial government agency. Indeed, in three provinces, New Brunswick, Newfoundland and Saskatchewan, this has been the principal form in which industrial financial assistance has been provided. At March 31, 1970, government guarantees by these three provinces made up 90 per cent of the total of such guarantees provided by all provincial governments.

For the most part, such guarantees have been provided directly by the provincial government rather than by the provincial industrial lending agencies This has been true even though such provincial industrial lending agencies are authorized to guarantee loans as well as make loans. Most guarantees, particularly the large ones, have been authorized by special legislation.

During the 1960s, there have been two examples, Ontario and New Brunswick, of programs or agencies confined by statute to the guaranteeing of industrial loans. In a third province, Prince Edward Island, a loan agency was established which was originally to give guarantees priority over loans.

In Quebec and Alberta, and, of course, British Columbia no guarantees have been made in at the least the last quarter-century. In Ontario, after the period in which guarantees were the only form of industrial financial assistance available, there were a few years in which guarantees were rarely made by the Ontario Development Corporation. Guarantees were renewed in Ontario in 1972. Until recently, guarantees were an infinitesimal part of the financial assistance programs in Manitoba.

Newfoundland

The guaranteeing of bank loans to industry of industrial debentures has in recent years become the major form of industrial financial assistance in Newfoundland. At March 31, 1960, guarantees amounted to only about $4,500,000 but by ten years later had risen to about $110,000,000. Most of this, however, was in respect of one company, Javelin Paper Corporation Limited, a guarantee of about $74,000,000. The provincial government assumed ownership of this company in 1972. Another major guarantee was for debentures amounting to $13,900,000 issued by Electric Reduction Company of Canada Limited.

Prince Edward Island

At the beginning of 1960, there was one guarantee to industry outstanding, a guarantee made in 1954 of debentures of Amalgamated Dairies Ltd. An amount of $150,000 was outstanding of the original guarantee of $200,000.

There were scattered guarantees of small bank loans made by the provincial government during the 1960s of which one might mention Amalgamated Dairies Ltd. ($90,000 in 1961-62), Island Packers Ltd. ($225,000 in 1963-64 and another $130,000 in 1964-65), and Alberton Industries Ltd ($50,000 in 1963-64).

With the establishment of the Prince Edward Island Lending Authority in 1969, it had originally been intended to give priority to guarantees rather than to the direct lending which was the major form of financial assistance provided in the 1960s. To this end, the statute creating the Lending Authority provided for a specific procedure which was to be followed in all cases. The Authority would grant a credit approval certificate to a loan applicant which constituted a guarantee by the Authority of the indebtedness up to a specified amount and following specified conditions. Only if a private lender would not grant credit under these terms would the Authority consider making a loan from its own funds.

While some industrial loan guarantees were made on this basis (industrial loan guarantees outstanding at March 31, 1970 amounted to $1,380,000), there has been a cessation of industrial loan guarantees. There has been a return to industrial direct lending under the aegis of Industrial Enterprises.

Nova Scotia

In Nova Scotia, up to March 31, 1970 guarantees have not been a significant part of the industrial financial incentive program, amounting at that time to only about $5,000,000 or 2 per cent of the total.

New Brunswick

Guarantees of debentures or of loans to industry by private lenders has consistently been the major form of financial assistance in New Brunswick. Starting at about $3,200,000 at March 31, 1960, they had risen to about $84,100,000 at March 31, 1971.

These guarantees had been made under the terms of various statutes. The New Brunswick Industrial Finance Board provides its financial assistance to industry entirely in the form of guarantees but some guarantees have also been made under the New Brunswick Development Corporation Act. Some small guarantees have also been made under the Provincial Loans Act and the Grand Lake Development Corporation Act, but the major guarantees have been made under the Guarantee Act (a total of $33,650,000 outstanding at March 31, 1971 of which $27,800,000 was to Ste. Anne Nackawic Pulp and Paper Company Ltd.) and by special legislation under which $35,000,000 of the bonds of East Coast Smelting and Chemical Co. Ltd. was guaranteed. These major guarantees were guarantees of bonds and debentures while most of the others were guarantees of bank loans.

In fact, the Guarantee Act established a special Guarantee Board for the purpose of guaranteeing payment "of the principal amount of and interest on bonds, debentures, notes or other securities issued by any corporation". 1/ The Board consisted of the Minister of Finance and Industry and such other persons as determined by the Lieutenant-Governor in Council. The Board was to examine and consider all applications made to it and recommend to the Lieutenant-Governor in Council those applications it approved. The actual guarantee would be made by the Minister of Finance and Industry subject to the authorization of the Lieutenant-Governor in Council.

1/ Statutes of New Brunswick, 1966, c. 149.

The original Act was to expire March 31, 1967. In 1967 and in each of the subsequent years, one-year extensions of the Act were provided for. In 1972 (by Bill 61), the responsibilities performed by the Guarantee Board were transferred to the New Brunswick Industrial Finance Board. The amendment extended the period for guarantees to March 31, 1973.

Another major guarantee was envisaged in 1965 when the provincial government was authorized by statute[1/] to guarantee up to $50,000,000 of the bonds and debentures of the Bay Steel Corporation which was proposing to carry on a steel and chemical industry. This was subject to the condition that the company would, before December 31, 1966, commence and actively carry on the development of such an industry. In fact, this project was not proceeded with so that the legislative authority has lapsed and the guarantee was not made.

Quebec

In Quebec, up to March 31, 1971, there have been no guarantees of loans to manufacturing enterprises. One should, however, note that there is a program to guarantee loans to promote the development and modernization of regional dairies. At March 31, 1971, guarantees outstanding under this program amounted to $4,161,000. This program and other similar programs in other provinces primarily oriented to agriculture have not been considered in this report.

Ontario

Earlier in this chapter it was indicated that Ontario's industrial financial assistance program began with a program of guarantees for bank loans in 1962. The total guarantees outstanding reached a peak of $1,599,000 in 1964. In 1966, the Ontario Development Corporation was established and direct lending largely replaced the guarantee program. By March 31, 1971, guarantees outstanding had declined to $619,000. Since then, there has been a sharp reversal of practice and guarantees of loans to industry amounted to about $18,000,000 at November 30, 1972.

[1/] Statutes of New Brunswick, 1965, c. 54

Manitoba

The Manitoba Development Corporation did not (until recently) engage in the practice of guaranteeing loans to industry. At March 31, 1970 they amounted to $8,603,000.

Saskatchewan

In Saskatchewan, guarantees of company debentures have been the major form of financial assistance to industry and all of them have been done under special acts. Total guarantees outstanding at March 31, 1960 had stood at $10,200,000 but had risen to $51,500,000 at March 31, 1971.

In 1953, under the Consumers' Co-operative Refineries Guarantee Act,[1/] the Lieutenant-Governor in Council was authorized to enter into an agreement with Consumers' Co-operative Refineries Limited to guarantee, up to $3,000,000, the repayment of moneys advanced for the purpose of expanding its refinery.

Under a 1956 statute, [2/] the Lieutenant-Governor in Council was authorized to purchase first mortgage bonds of Saskatchewan Cement Corporation Ltd. up to $5,500,000 to assist the company in establishing a cement manufacturing plant in the province and, if deemed advisable, to guarantee the repayment of such bonds.

Under a 1959 statute, [3/] the Lieutenant-Governor in Council was authorized to guarantee bonds of Interprovincial Steel Corporation Ltd. up to $10,000,000 and to purchase up to 180,000 common shares of the Corporation at a price not exceeding 60 cents per share. In 1966, [4/] the guarantee to the successor corporation, Interprovincial Steel and Pipe Corporation Ltd., was confirmed as still in effect ($5,750,000 total outstanding) and the Lieutenant-Governor in Council was authorized to acquire or purchase up to 515,000 common shares of the new company at a price of not more that $5 per share.

1/ Statutes of Saskatchewan, 1953, c. 82

2/ Statutes of Saskatchewan, 1956, c. 75

3/ Statutes of Saskatchewan, 1959, c. 17

4/ Statutes of Saskatchewan, 1966, c. 54

In 1966, the Prince Albert Pulp Company Ltd. Assistance Act was passed [1/] ratifying certain agreements that the provincial government had entered into with the company and authorizing the Lieutenant-Governor in Council to guarantee the payment of the principal and interest of notes of the company up to US $46,500,000, and to purchase shares in the capital stock of the company in addition to those provided for in the Shareholder's Agreement.

The Athabasca Forest Industries Ltd. Assistance Act, passed in 1971, [2/] authorized the Lieutenant-Governor in Council to guarantee the payment of the principal and interest on securities of Athabasca Forest Industries Ltd. up to an amount of $107,000,000, and also to purchase shares in the capital stock of the company. The Provincial Treasurer, with the approval of the Lieutenant-Governor in Council, was authorized to make grants for road construction purposes up to $3,000,000. The government was authorized to enter into other agreements relating to the construction, erection, and operation by the company of a pulp mill. With a change of government, the project was not proceeded with so that the guarantee was not entered into.

The guarantees outstanding at March 31, 1971, applied to only two companies, Interprovincial Steel Corporation ($5,000,000) and Prince Albert Pulp Company Ltd. ($46,500,000).

Alberta and British Columbia

As previously indicated, no loan guarantees to industrial firms are outstanding in Alberta and British Columbia.

1/ Ibid., c. 62

2/ Statutes of Saskatchewan, 1970 (2nd session) and 1971, c. 1

CHAPTER 4

ADMINISTRATIVE PRACTICES OF LENDING AGENCIES

The present provincial industrial loan agencies are the culmination of three stages in the elaboration of provincial government lending policies. The first stage was for the provincial cabinet to make loans directly to industrial enterprises, with authorization being required in each case by an Act of the legislatures.

The second stage was to give general legislative authority to the provincial government to make industrial loans. This was, in most cases, accompanied by the formal establishment of a special industrial loan fund. An advisory committee was generally appointed to make recommendations on loan applications.

The third stage was the establishment by statute of a formal lending agency, generally as a body corporate, with a board of directors and with authority to make industrial loans. The legislation provided for varying degrees of provincial government control over the decisions of the lending agency.

Industrial development lending has not proceeded through all three stages in all provinces. In those provinces in which governments began industrial lending activity most recently, there has been a tendency to proceed directly to the third stage.

Separate industrial loan agencies have been now created in all provinces where government industrial loans are made, that is, in all but British Columbia. Some loans are still being made directly by provincial governments, that is, without the formal intervention of an established industrial loan agency.

One of the provincial industrial loan agencies, the Quebec Industrial Development Corporation, does not in fact make loans directly to industrial enterprises. It considers loan applications and makes recommendations for loans but the loan itself is made by the Lieutenant-Governor in Council. Thus, technically speaking, it does not fulfil all the requirements of the third stage. Too much should not be made of this since there is perhaps only a marginal difference between an agency that may make a loan but only with the approval of the Lieutenant-Governor in Council and an agency that may only recommend the making of a loan with the Lieutenant-Governor in Council formally taking the action.

This chapter considers various aspects of the operations of provincial industrial loan agencies, the third stage in the elaboration of industrial lending policies. In addition, the operations of three provincial industrial lending programs which, properly speaking, belong to the second level have been examined. These are the lending programs under the Prince Edward Island Industrial Establishments Promotions Act, the Nova Scotia Industrial Expansion Fund and the Nova Scotia Industrial Loan Fund.

In order to provide complete coverage, three additional agencies, the Quebec Deposit and Investment Fund, the General Investment Corporation of Quebec, and the Alberta Treasury Branches have been included in this chapter. While not primarily industrial lending agencies, they either make industrial loans as noted in Chapter 3 or have a potential to do so.

An attempt has been made to proceed methodically from the provisions of the statute creating the agency to regulations by the provincial government to the operating practices of the agencies. Factors which have been considered in this chapter include the degree of autonomy of their operations, the types of industries eligible for loans, the maximum size of loan, the purposes for which loans may be extended, and the conditions, such as interest rates, attached to such loans. The chapter concludes with an examination of other administrative responsibilities of the loan agencies. Loan agencies in existence at any time since 1960 have been examined even if they are not currently in operation.

Loan agencies with responsibility for making loans only in a part of a province are not considered in this chapter. They are considered in Chapter 13 on "Industrial Development in Provincial Regions.

Autonomy of Operations

Three aspects of the degree of autonomy of the provincial lending agencies will be considered, the method of appointment of the board of directors of each lending agency, the resulting composition of the boards and the degree of control which that board of directors exercises over lending operations.

Method of Appointment

The general practice is for all or most of the members of the board of directors of a provincial lending agency to be appointed by the Lieutenant-Governor in Council. Those agencies in existence at December 31, 1972 which were governed by boards of directors are shown in Table 4-1.

Table 4-1

PROVINCIAL INDUSTRIAL LOAN AGENCIES (1) IN EXISTENCE DECEMBER 31, 1972. NUMBER OF MEMBERS OF BOARDS OF DIRECTORS APPOINTED BY LIEUTENANT-GOVERNOR IN COUNCIL

Agency	All Directors	Majority of Directors	Minority of Directors	None
Newfoundland Industrial Development Board	x			
Newfoundland Fisheries Development Authority	x			
Newfoundland Industrial Development Corporation	x			
Newfoundland and Labrador Development Corporation		x		
Prince Edward Island Industrial Enterprises Limited				x
Prince Edward Island Lending Authority			x	
Nova Scotia Industrial Estates Limited				x
Nova Scotia Resources Development Board	x			
New Brunswick Development Corporation		x		
New Brunswick Industrial Finance Board	x			
Quebec General Investment Corporation			x	
Quebec Deposit Investment Fund	x			
Quebec Industrial Development Fund	x			
Ontario Development Corporation	x			

Table 4-1 (Cont'd.)

Agency	All Directors	Majority of Directors	Minority of Directors	None
Manitoba Development Corporation	x			
Saskatchewan Economic Development Corporation	x			
Alberta Opportunity Company	x			

(1) As noted earlier in this chapter, regional provincial lending agencies are examined in Chapter 13 so they are not included in this table.

Of the two agencies with only a majority of directors appointed by the Lieutenant-Governor in Council, one, the Newfoundland and Labrador Development Corporation, is a joint federal-provincial body and the remainder of the directors is appointed by the federal cabinet. In the case of the other, the New Brunswick Development Corporation, it is specified in the legislation that the Minister of Economic Growth shall be ex-officio a member of the board.

Of the 11 provincial agencies of which all the directors are appointed by the Lieutenant-Governor in Council, restrictions are placed on who may be appointed in three cases. Perhaps the most restrictive legislation is that incorporating the Manitoba Development Corporation. This provides that only one member of the Manitoba civil service may be on the board and that no member of the Manitoba Legislative Assembly may be appointed, thus excluding provincial cabinet ministers from the board of the Corporation. Incidentally, it may be noted that members of the Senate and House of Commons of Canada, and civil servants from other provinces or from the federal government are also excluded. These provisions date back to 1958 when the Manitoba Development Fund was first established.

In a sense, an opposite kind of restriction exists in the case of the Quebec Industrial Development Corporation. Here it is specified that at least three of the 11 members of the board of directors must be from among the staff of the Department of Industry and Commerce. (For the Quebec Industrial Credit

Bureau, which had preceded the Quebec Industrial Development Corporation, the provision had been that at least three of the eight members of the board of directors, in addition to the general manager, would be appointed from among the officers of the government or a provincial government agency.)

In the third case, the Quebec Deposit and Investment Fund, it was provided that two members of the board of directors "shall be chosen from among the officers of the government or the directors of the General Investment Corporation of Quebec or of an agent of the Crown and another shall be chosen from among the representatives of associations of employees".[1] The latter provision reflects the fact that the Quebec Deposit and Investment Fund is a repository for pension funds of government employees' associations.

In Table 4-1, two lending agencies have been noted where formally none of the members of the board of directors are appointed by the Lieutenant-Governor in Council. These are Industrial Enterprises Incorporated of Prince Edward Island and Industrial Estates Limited of Nova Scotia. Both of these agencies closely follow the private corporation form in that the directors are elected at a general meeting of shareholders. Since in each case, the majority shareholder is a provincial cabinet minister, this means that the directors are in fact government appointees although not appointees of the Lieutenant-Governor in Council.

Then there are two provincial agencies where only a minority of the boards of directors is appointed by the Lieutenant-Governor in Council. The first is the General Investment Corporation where the majority of the board of directors was appointed by non-governmental bodies.[2] The second is the Prince Edward Island Lending Authority where only one member of the Authority, the General Manager, is appointed directly by the Lieutenant-Governor in Council. The others are appointed in various ways although all are appointed by public agencies. The General Manager of the Prince Edward Island

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1/ Statutes of Quebec, 1965, c. 23, s. 5.

2/ It should be noted that with new legislation introduced in 1972 this will shortly be modified and all directors will become government appointees.

Land Development Corporation is on the Board. There is a representative of each of the Departments of Development, Agriculture, Tourist Development, and Fisheries appointed by their respective ministers. Then there is one member from each of the fishing, tourist and agricultural industries appointed by the Board itself,[1/] although with the approval of the Lieutenant-Governor in Council. This fairly elaborate structure was set forth because of the range of lending activities in which the Lending Authority was to engage.

In addition to the agencies identified in Table 4-1, there are three provincial industrial lending programs that do not have an operating board of directors. The first is the Alberta Treasury Branches. As the name suggests, these are legally branches of the provincial Treasury Department and the Provincial Treasurer is the official administrative authority. The other two are the Industrial Loan Fund and the Industrial Expansion Fund, both of Nova Scotia. In both cases, there was statutory provision for an advisory board to be appointed by the Lieutenant-Governor in Council. Only the advisory board for the Industrial Loan Fund was established but most of the loans from the Industrial Expansion Fund were referred to the Industrial Loan Board.

For the lending agencies no longer in existence, reference may be made to Chapter 3.

Composition of the boards of directors

Different practices have developed in different provinces regarding the nature of appointments to the boards of the lending agencies. The most common practice currently (about two-thirds of the agencies) is for the large majority of the board of directors to be made up of private citizens, i.e., part-time members who have employment in the non-government sector. Of the private citizens, typically most are from the ranks of employers in business and industry.

There are six exceptions where a majority of the board of directors is made up of employees of the government. These are the first three Newfoundland agencies (i.e., excluding the Newfoundland

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1/ In the original Act, the General Manager was to appoint these three members. This was changed in a 1970 amendment.

and Labrador Development Corporation), the Prince Edward Island Lending Authority and the Quebec Deposit and Investment Fund.

However, on the boards of directors made up largely of private citizens, it is not uncommon for a cabinet minister or other representative of the industrial development department to be included. There is the statutory requirement that the Minister of Economic Growth be a member of the board of directors of the New Brunswick Development Corporation. But even without statutory requirements, it has been common practice for the Minister of Development (formerly the Minister of Industry and Tourism) to be on the board of directors of Industrial Estates Ltd. of Nova Scotia. The Minister of Industry and Commerce has always been the chairman of the Saskatchewan Economic Development Corporation. In recent years, a senior official of the industrial development department has typically been included in the boards of directors of the Manitoba Development Corporation, the Saskatchewan Economic Development Corporation, and the Alberta Opportunity Company.

Approval of Individual Loans

Presumably the best measure of autonomy is the extent to which a lending agency may make loans on its own authority, that is, without formal approval by the Lieutenant-Governor in Council.[1/] It is of course recognized that, since the funds of nearly all the agencies come from the provincial treasury, there is abundant scope for provincial government control over lending activity even without provision for formal government approval.

There is a mixed pattern. Six agencies do not require formal government approval for their lending activities; eight agencies are required to obtain such approval for all loans; three agencies require approval by Lieutenant-Governor in Council only for loans over a certain amount. At the end of 1972, those that did not require formal government approval for loans were the Newfoundland and Labrador Development Corporation, the Prince Edward

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[1/] In some cases, a maximum has also been set on the size of loan that may be made. These maxima are considered later in this chapter.

Island Lending Authority, Nova Scotia Industrial Estates Limited, the Quebec General Investment Corporation, the Quebec Deposit and Investment Fund, and the Manitoba Development Corporation. Agencies that required approval by Lieutenant-Governor in Council for all loans were the three other Newfoundland agencies, Prince Edward Island Industrial Enterprises Limited, the Nova Scotia Resources Development Board,[1/] the two New Brunswick agencies, and the Quebec Industrial Development Corporation. Then there are the three remaining agencies. Without approval by the Lieutenant-Governor in Council, the Ontario Development Corporation may make loans of up to $100,000, the Saskatchewan Economic Development Corporation up to $1,500,000 and the Alberta Opportunity Company up to $500,000. For each of these three agencies, approval by Lieutenant-Governor in Council is required for each individual loan of more than the specified amount.

It may be noted that a few significant changes took place in 1972. The policies in respect to both the Prince Edward Island Industrial Enterprises Limited and the Alberta Opportunity Company were introduced during the year. Previously, no formal cabinet approval had been required for loans by Industrial Enterprises Limited. The same was true of the Alberta Commercial Corporation which preceded the Alberta Opportunity Company. The provisions in respect to the Ontario Development Corporation are also new; previously all its loans required cabinet approval.

Some amplification is required in the case of the General Investment Corporation of Quebec. Legislation passed in 1971 provided that the use of additional funds made available to the Corporation by the provincial government would, in fact, be subject to cabinet approval.

Finally, some reference must be made to the Alberta Treasury Branches. Loans from the Treasury Branches would be ultimately subject to approval by the Provincial Treasurer but a strong conventional practice has developed giving the Superintendent of the Treasury Branches final lending authority.

1/ For industrial lending, the Nova Scotia Resources Development Board has the same authority as that given under the statutes establishing the Industrial Loan Fund and the Industrial Expansion Fund.

Industries Eligible for Loans

Typically, the lending agencies are given broad lending authority by statute and could on that basis lend to nearly any industry. But subsequent regulations by the Lieutenant-Governor in Council or the agencies' own operating practices have restricted the activities of most of them largely to manufacturing industries, and to tourism. Only two agencies are restricted by statute to manufacturing, the Quebec Industrial Development Corporation (which was also true of its predecessor, the Quebec Industrial Credit Bureau) and the Newfoundland Fisheries Development Authority which is even more narrowly restricted to the financing of fishing boat construction and fish processing plants.

The situation varies from province to province and is described in detail below. All province-wide industrial lending agencies in operation since January 1960 have been considered.

Newfoundland

The Industrial Development Loan Board of Newfoundland was largely confined to loans "for the purpose of developing and improving any industry devoted chiefly to the production in Newfoundland of a product derived directly from the resources of Newfoundland or any industry established in Newfoundland and based primarily on raw materials which are the product of Newfoundland and in particular, but without restricting the generality of the foregoing, may make loans to any person, partnership, association or company engaged in producing such product or in processing, manufacturing, refrigerating or otherwise dealing with such raw materials".[1/] However, the Board could, with the approval of the Lieutenant-Governor in Council, make loans to any other industry. No regulations have been passed under the Act but in practice loans have been confined to manufacturing.

The Newfoundland Fisheries Development Authority was authorized to provide financial aid for the "establishment of processing plants and in the acquisition of vessels, equipment and installations that will contribute to the development of the fisheries".[2/]

1/ Revised Statutes of Newfoundland, 1952, c. 245, s. 7(1).

2/ Statutes of Newfoundland, 1966-67, No. 65, s. 7(1)(a).

The Newfoundland Industrial Development Corporation was authorized to "lend money to any person or persons carrying on or proposing to carry on in the province any business whatsoever, if the business is one approved for the purpose by the Lieutenant-Governor in Council".1/ In practice, it also has made loans only to manufacturing industries.

The new federal-provincial Newfoundland and Labrador Development Corporation will be able to provide loan or equity capital to small and medium-sized businesses in any industry. While policy has not been spelled out in full detail, manufacturing and some of the service industries such as wholesale and retail trade, personal services and recreation services will be given major attention.

Prince Edward Island

The operations of the Prince Edward Island Industrial Corporation were not statutorily restricted as to the industries it might assist. It was established for the purpose of "assisting in the development of industry within the province".2/ It has already been noted that this agency was not established primarily for the purpose of making loans but rather to "construct, acquire, extend or improve capital works".3/ Nevertheless, its principal investments were in the form of loans and were made for agricultural and fish processing plants.

Under the Industrial Establishment Promotion Act of 1954, the Lieutenant-Governor in Council was originally authorized only to provide financial assistance "towards the establishment of industrial plants within the province for the purpose of processing agricultural, horticultural and fisheries products."4/ However, in 1960, the Industrial Establishment Promotion Act was extended to cover "other industrial enterprises which might improve or maintain the economy of any area within the province."5/ In spite of the change in the statute, loans were confined to manufacturing enterprises.

1/ Statutes of Newfoundland, 1954, No. 33, s. 14(b).

2/ Laws of Prince Edward Island, 1949, c. 21, s. 4.

3/ Ibid., c. 21, s. 15.

4/ Laws of Prince Edward Island, 1954, c. 18, s. 2(1).

5/ Laws of Prince Edward Island, 1960, c. 21.

Industrial Enterprises Incorporated was given a broad statutory mandate and was authorized to carry on all types of business activities except that of a banking, loan trust or insurance company and could lend to any kind of business. In practice, in the past it largely confined its loans to manufacturing and some agricultural enterprises. Under regulations passed in 1972, Industrial Enterprises is to be formally restricted to manufacturing and processing industries, and industries providing commercial storage, freezing, curing, processing and packing of fish or agricultural products. It may also make loans in respect of certain industrial facilities for these industries mentioned above.

When the Prince Edward Island Lending Authority was originally established it had a broad mandate to provide credit to "persons engaged in the farming, fishing, manufacturing, processing and tourist industries in the province".[1/] In the role of providing loans to manufacturing and processing industries, it was intended to replace Industrial Enterprises. The latter agency is continuing to operate, so although the Lending Authority made a couple of small industrial loans in the 1970-71 fiscal year (and guaranteed some others) it will not be making further loans to manufacturing industries.

Nova Scotia

Loans from the Nova Scotia Industrial Expansion Fund could be given to "industrial enterprises"[2/] and were not restricted by regulation. In practice, the loans were nearly exclusively for manufacturing enterprises with some concentration on resource processing industries.

In the case of the Nova Scotia Industrial Loan Fund, loans had been confined by regulation since 1966 to manufacturing and tourist enterprises with some exceptions. Loans may not be made to such manufacturing industries as sawmilling and certain agricultural processing industries, e.g., pasteurizing and butter and cheese-making. Loans may, however, be made to fish-processing plants. Nonmanufacturing, nontourist enterprises to which loans may be made are greenhouses, fur-bearing animal ranches, peat moss industries,

1/ Laws of Prince Edward Island, 1969, c. 41, s. 4.

2/ Statutes of Nova Scotia, 1951, c. 7, s. 3.

and marinas. Tourist enterprises for which loans may be made include hotels, motels, cottages, cabins, camping and trailer sites, picnic grounds, and restaurant facilities. Loans to restaurant facilities may, however, only be made "in areas of the province, which in the opinion of the [Industrial Loan] Board are in need of such facilities to meet the needs of the public".[1] In recent years, loans had been divided almost equally between manufacturing and tourist enterprises.

Industrial Estates Limited has very wide formal authority to lend to any industry or business. While there have been no government regulations to restrict its activities, in practice it has confined itself almost entirely to manufacturing industries. Currently, its role is to be more narrowly defined as secondary manufacturing since the government intends that the new Resources Development Board will make loans to resource-processing industries.

The role of the Resources Development Board will be to lend to the resource industries such as agriculture, forestry and fishing and also to tourist establishments. But it has taken over the lending authority of the Industrial Loan Fund and the Industrial Expansion Fund and will lend to resource-processing industries as well as to the primary sectors.

New Brunswick

The New Brunswick Industrial Development Board was authorized by statute to make loans to: "any manufacturing, processing or industrial business of any nature or any business connected with or incidental to any such business, and includes agriculture, lumbering, fishing, mining and the tourist industry".[2] However, under regulations passed before 1963, the Board was restricted to industries described as follows: "the conversion of a raw material or raw materials into substantially altered products [and] a service or activity essential to [such] a development [and] any other activity essential to [such] a development [and] any other activity which will process a natural resource or natural resources of the province"[3] [but with many exceptions]. These exceptions included logging, sawmilling, fish

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1/ Statutes of Nova Scotia, 1966, Rules and Regulations, p. 679.

2/ Statutes of New Brunswick, 1956, c. 10, s. 1(b).

3/ Statutory Orders and Regulations, 1963, N.B. Reg., Regulation 82.

packing, processing and curing, pasteurizing, butter-making. If the Board found any of the excluded industries would be of benefit to a particular area, loans or guarantees of loans could be made in spite of the apparent exclusion.

The New Brunswick Development Corporation may lend money "for the promotion, development and conduct of all kinds of business of a commercial, industrial or agricultural nature".1/ There have been no regulations by the Lieutenant-Governor in Council to restrict the industries to which the Corporation may make loans. In practice, the Corporation has made loans only to manufacturing industries.

Quebec

The General Investment Corporation of Quebec is authorized by statute to acquire shares in any undertaking. While its attention has been concentrated on manufacturing industries, it has acquired a stock interest in such enterprises as book wholesaling and retailing. The Quebec Deposit and Investment Fund may acquire the bonds or stocks of companies in any industry but is subject to certain restrictions as to the earnings records of the companies and subject to restrictions as to the total amount of the Fund that may be invested in such purposes.

The Quebec Industrial Credit Bureau was authorized by statute to lend to manufacturing enterprises only. The Lieutenant-Governor in Council could make regulations to determine the categories of enterprises to which priority must be given by the Bureau in granting financial assistance. The same provisions apply to the normal lending of the new Quebec Industrial Development Corporation.

Ontario

Under the incorporating statute, the Ontario Development Corporation is authorized to make loans to any industry. "Industry" is defined to include "any trade or other business undertaking of any kind".2/

1/ Statutes of New Brunswick, 1959, c. 9, s. 3(2).

2/ Statutes of Ontario, 1966, c. 100, s. 1.

While there have been no regulations under the Act restricting the corporation, in practice loans go primarily to manufacturing and tourist enterprises. The two main exceptions are the "Venture Capital for Canadians" Fund and pollution control equipment loans. The Venture Capital Fund will provide financial assistance to small Canadian-owned businesses to introduce new technology in the industrial field that will help diversify the economy of Ontario and establish or increase markets abroad. This would be available to all industries, although manufacturing would obviously be the predominant industry. Loans for pollution control equipment are similarly available to any industry although again manufacturing industries would be the most important.

Loans to manufacturing industries are in two categories, term financing through mortgages and debentures (but restricted in practice to manufacturing industries in Ontario's smaller centres of population), and loans to small businesses (this small business program is also considered later under the heading "Small Business Loans"). Small business loans are available to businesses engaged in manufacturing or in service industries closely allied to manufacturing.

Tourist industry loans are available to resort operators located in areas where tourism is of prime importance to the local economy.

In addition, forgivable loans are available to secondary manufacturing companies and to companies developing major tourist attractions that will retain tourists in resort areas in the off-season. In magnitude, forgivable loans have been more important than the other types of loans. These forgivable loans are a regional development device, being confined to certain parts of the province, and are considered at greater length in Chapter 13, "Regional Development Policies".

Manitoba

By statute, the Manitoba Development Corporation may make loans to industrial enterprises or to community development corporations. "Industrial enterprise" is defined as "an enterprise in which is carried on any industry, trade business or other undertaking of any kind whatsoever".[1/] This broad definition dates back to 1966.

[1/] Statutes of Manitoba, 1970, c. D60.

Prior to 1966, its predecessor, the Manitoba Development Fund was limited to manufacturing enterprises and persons engaged in the business of providing tourist accommodation or tourist recreation facilities in addition to community development corporations. However, the board of the Fund could, subject to the approval of the Lieutenant-Governor in Council, provide financial assistance to any other businesses.

With the change of the legislation in 1966, broadening the statutory lending powers of the Fund, regulations were passed preventing the Fund (now the Corporation) from making loans to such industries as:

> "(i) industrial enterprises whose principal business is retailing, wholesaling or distribution of goods;
> (ii) accommodation and entertainment establishments in areas where conventional financing is generally available including and without limiting the foregoing, hotels, restaurants, motels, motor hotels, boarding houses, cinemas, concert halls and such like;
> (iii) radio, television broadcasting, newspaper or magazine publications;
> (iv) financial, leasing and insurance institutions;
> (v) construction and repair of housing, apartments and summer homes; building contractors and subcontractors engaged in the construction industry;....."[1]

However, the Fund [now the Corporation] was authorized to make loans to any person, firm, etc. "engaged in shipment, trading or marketing of Manitoba products for export outside the province".[2]

The purposes for which loans may be made to community development corporations are discussed in Chapter 12.

The practice has been to provide financing almost entirely to new and existing manufacturing industries. In the last couple of years, a few loans have been extended to nonmanufacturing enterprises but they have not been significant in total.

Saskatchewan

In Saskatchewan, the Government Finance Office administering the Industrial Development Fund was authorized to make loans to any person, etc. "carrying on or proposing to carry on in the province, any manufacturing, processing, industrial, financial or commercial business or undertaking of any nature whatsoever or any business or undertaking connected with or incidental thereto".[3]

1/ Manitoba Regulation 87/66, s. 3.

2/ Ibid., s. 5.

3/ Statutes of Saskatchewan, 1947, c. 13, s. 33(a).

These broad powers were essentially to cover operations of the Government Finance Office other than those involving the Industrial Development Fund. In practice, the Industrial Development Fund lent money almost entirely to manufacturing enterprises.

The Saskatchewan Economic Development Corporation was authorized by statute in 1963 to make loans to "industrial" companies with the meaning of "industrial" to be defined in the regulations. In 1965, the Corporation was also authorized to:

> "make loans to farmers and other persons for expenditure in connection with buildings, machinery, apparatus, equipment and vehicles used or intended to be used for specialized live stock enterprises, specialized agricultural operations or specialized horticultural operations ...." [1/]

These specialized agricultural operations were defined as enterprises with a majority of their investment in fixed assets, exclusive of land, consisting of buildings, machinery, apparatus, equipment and vehicles.

Regulations were adopted in 1966, defining "industrial" as:

> "(a) processing of natural or mineral resources;
>
> (b) manufacturing, including the processing of agricultural products;
>
> (c) an economic activity having as its primary purpose
> (i) the provision of service to the economic activities mentioned in sub-paragraphs (a) and (b); or
> (ii) the provision of a service to agriculture;
>
> (d) an economic activity concerned with specialized agricultural or specialized horticultural operations or specialized livestock enterprises;
>
> (e) an economic activity which, in the opinion of the corporation, will provide significant benefits to the province by increasing employment, replacing imports or stimulating exports; ..." [2/]

In 1969, the definition of "industrial" was extended to include:

> "accommodation establishments including, without limiting the generality of the foregoing, motels, hotels and motor hotels in areas in which in the opinion of the corporation conventional financing is not generally available and which will likely provide a significant benefit, direct or indirect, to the province, or any part or area of the province as regards the expansion and development of tourism." [3/]

1/ Statutes of Saskatchewan, 1965, c. 72, s. 9.

2/ Province of Saskatchewan, O.C. 2494/66, December 23, 1966.

3/ Province of Saskatchewan, O.C. 1850/69, December 5, 1969.

Regulations largely determined the lending practice of the Corporation. Loans for specialized agricultural operations were limited to:

"(a) the growing of certain crops under artificial conditions, and

(b) the raising of livestock, including cattle, hogs and poultry on an intensive basis."1/

It could be said that the lending activities of the Corporation were confined to manufacturing, specialized agricultural operations and accomodation industries in remote areas.

In August 1972, new regulations were passed by the Lieutenant-Governor in Council greatly extending the scope of the Corporation. The Corporation was authorized to make loans to "all economic enterprises of a commercial nature excepting those whose principal objectives or operations are any of the following.

(a) extractive and exploratory

(b) farming and fishing

(c) charitable

(d) residential real estate

(e) commercial real estate

(f) financial real estate.2/

The effect was to make loans available to most of the commercial service industries.

Alberta

Legislation gave as the object of the Alberta Commercial Corporation "to provide assistance to producers and to the operators of manufacturing plants that are established or that by means of such assistance will be established in the province".3/ Under the Act, it appears, however, that the Corporation could make loans to any business. In practice, financial assistance was largely restricted to manufacturing firms. In March 1971, coverage was extended to tourist facilities which could include but would not necessarily be limited to motels, trailer parks, camp sites and related facilities and services.

1/ Saskatchewan Economic Development Corporation, Financing Saskatchewan Business (brochure), p. 6.

2/ Regulations under the Industrial Development Act (mimeo.) s. 4.

3/ Statutes of Alberta, 1964, c. 12, s. 8.

The Alberta Treasury Branches may formally make loans to any person. At March 31, 1971, about 56 per cent of its loans and advances were described as "commercial and industrial".[1]

The Alberta Opportunity Company was authorized by statute to make loans or guarantee loans to commercial enterprises. "Commercial enterprise" was defined to include "manufacturing, processing and service industries, assembly and prefabricating plants, recreational facilities and any other business which in the judgment of the Board [of the Company] has an opportunity to become a successful part of Alberta's economic structure ...."[2] Regulations by the Lieutenant-Governor in Council preclude the Company from making or guaranteeing loans to mining and quarrying, oil and gas production, logging, farming and ranching, public utility operations, finance companies or suppliers of residential accomodation other than tourist factilities. Two exceptions were provided for, however. The Company, despite these exclusions could make or guarantee loans to "(K) new industries of any kind being unique and valuable additions to the province, and (L) any industry which demonstrates, to the Company's satisfaction, that it faces a state of emergency which, without aid from the Company, will seriously impair the economy of the province".[3]

The Alberta Opportunity Company is also authorized under the regulations[4] to make loans or guarantee loans to local development organizations formed for the purposes of stimulating industrial development and expansion within their communities. These local development organizations are referred to in Chapter 13. The Company is also authorized under regulations[5] to make small loans to student business enterprises.

1/ Province of Alberta, Treasury Branches, Annual Report 1970-71, p. 6.

2/ Statutes of Alberta, 1972, c. 11, s. 1(1)(c).

3/ Alberta Opportunity Fund Regulations, s. 1(f)(i).

4/ Ibid., s. 9.

5/ Ibid., s. 8.

Purposes of Loans

Loans are generally restricted to capital purposes, i.e., for the purchase of land, machinery and equipment, and for the purchase or construction of buildings. Some lending agencies make loans for working capital, others do not. Most are precluded from making loans for the purpose of consolidation of debt, but loans of this kind have been made by some agencies.

Newfoundland

Loans by the Industrial Development Loan Board of Newfoundland were to be for "assisting in the construction of plants and the purchase of plant equipment generally and other types of capital expenditure".[1/] Regulations made by the Board, subject to the approval of the Lieutenant-Governor in Council, could further specify the purposes of the loans. In practice, loans have been made only for the purchase or construction of capital assets.

The purposes for which loans may be made by the Newfoundland Fisheries Development Authority, and the Newfoundland Industrial Development Corporation are not restricted by statute. In practice, the Newfoundland Fisheries Development Authority makes loans only for capital purposes such as the building of fish plants and the purchase of plant equipment and boats. It does not provide working capital. The Authority may, however, guarantee a bank loan for working capital in addition to that normally obtainable from the banks. Loans are not available for the retirement of existing debt. The Newfoundland Industrial Development Corporation has followed practices similar to that of the Fisheries Development Authority in that loans are made almost exclusively for capital purposes. Loans from the federal-provincial Newfoundland and Labrador Development Corporation Ltd. are to be for the establishment, expansion or modernization of business enterprises which would seem to preclude loans for working capital.

Prince Edward Island

In Prince Edward Island, legislation provided initially that the loans under the Industrial Establishment Promotion Act could

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1/ Revised Statutes of Newfoundland, 1952, c. 245, s. 7(1).

be only for "the erection or extension of plant facilities".1/ In 1967, assistance was extended to cover the "financing"2/ of industrial enterprises.

The lending activities of Industrial Enterprises Incorporated were by statute "toward the purchase of real estate, factory machinery and/or equipment or any machinery or equipment used or useful for industries".3/ This would seem to suggest that working capital could not be provided. Regulations issued in 1972 made it clearer that Industrial Enterprises could not make loans primarily for working capital, refinancing or consolidating indebtedness.

The P.E.I. Lending Authority however was authorized by statute to lend money either for working capital or for the acquisition of land, buildings, machinery and equipment. In a brochure issued by the Lending Authority, working capital was taken to include "operating funds required to meet day to day expenses, such as redecorating, replenishment of supplies such as dishes and linens, initial food supplies, etc. [operators of tourist establishments] -- operating funds required to meet day to day expenses, such as raw materials, etc. [manufacturing and process industries]."4/

Nova Scotia

In Nova Scotia, there were no statutory or regulatory restrictions on the purposes for which the Industrial Expansion Fund may be used or on the financial assistance extended by Industrial Estates Limited.

It was specified in the legislation that the Nova Scotia Industrial Loan Fund could lend money for the purchase and improvement of land, construction or expansion of buildings and purchase of machinery, equipment and furnishing. Regulations under the legislation also specified that loans could be used "to pay off existing obligations which, in the opinion of the Board, will improve the security taken or to be taken by the province [and] to replenish working capital

1/ Laws of Prince Edward Island, 1954, c. 18, s. 2(1)(c).

2/ Laws of Prince Edward Island, 1967, c. 25.

3/ Laws of Prince Edward Island, 1965, c. 13, s. 14.

4/ A New Way of Financing for Farmers, Fishermen and Those in Tourism and Industrial Development, The Prince Edward Island Development Authority (brochure).

funds used within the immediately preceding three years to purchase or expand land, buildings, machinery, equipment and other chattels where, in the discretion of the Board, such action seems advisable".[1/]

Industrial Estates Limited is not restricted by legislation or regulations as to the purposes for which it may make loans. In practice, however, it has confined itself to loans only for the purposes of acquiring or constructing plant and equipment.

The Nova Scotia Resources Development Board would have the statutory authority to make loans in accordance with the legislation and regulations under which the Industrial Expansion Fund and the Industrial Loan Fund operated.[2/] It is too early to state definitely what the operating practice of the Board will be.

New Brunswick

The purposes for which loans may be made to companies by the New Brunswick Industrial Development Board and the New Brunswick Development Corporation are not restricted by statute. By regulations, however, the New Brunswick Industrial Development Board was restricted to loans for the purpose of: "establishing a new industry or the expansion of an existing industry and for working capital to finance inventory of raw material or finished products but not for other operating expenditures".[3/]

Quebec

While there are a variety of statutory restrictions on the loans made by the Quebec Deposit and Investment Fund, none of them refer to the purposes for which the money borrowed by a company is to be used. In the case of the General Investment Corporation of Quebec, there is no specific reference made in the statute to loans by the Corporation. The advance of moneys, equivalent to a loan, would have to be to acquire "shares, debentures or other securities of any undertaking".[4/]

1/ Statutes of Nova Scotia, 1966, Rules and Regulations, p. 680.

2/ As well as under the legislation and terms of the previously existing natural resource loan agencies.

3/ Statutory Orders and Regulations, 1963, N.B. Reg., Regulation 82, s. 11.

4/ Statutes of Quebec, 1962, c. 54, s. 5.

The Quebec Industrial Credit Bureau could make loans for the purpose of:

> "(a) the purchase, construction, improvement or enlargement of workshops or manufactories and the purchase of the land required for operating such workshops or manufactories;
>
> (b) the purchase and installation of machinery, tools and equipment for operating workshops or manufactories;
>
> (c) the improvement or consolidation of the financial structure of a manufacturing enterprise."[1/]

The Quebec Industrial Development Corporation is authorized to make loans for the same purposes as could the Quebec Industrial Credit Bureau with the addition of "the acquisition or use of patents".[2/]

Ontario

The Ontario Development Corporation is not restricted by statute nor by regulations as to the purposes for which it may make loans. It has, however, established a number of loan programs for particular purposes. Under the Venture Capital Fund, loans will be made to cover the development costs of new technology. Pollution control equipment loans go, as the name suggests, for the purchase and installation of pollution control equipment which has been approved by appropriate pollution control authorities. The two manufacturing loan programs are for the construction of new buildings, the extension of existing buildings or the purchase of new equipment that "will substantially add to employment". Tourist industry loans may be made to winterize, renovate or generally upgrade and improve facilities or to carry out approved anti-pollution measures.

The forgivable loan programs for manufacturing cover the same purposes as the regular loans.

Manitoba

The Manitoba Development Corporation may by statute provide loans to business for both fixed and working capital. Its loans to community development corporations are restricted as noted in Chapter 13. By regulations, the Corporation is precluded from

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1/ Statutes of Quebec, 1966-67, c. 56, s. 16.

2/ National Assembly of Quebec, Second Session, Twenty-Ninth Legislature, 1971, Bill 20, Quebec Industrial Development Assistance Act, s. 4(c).

making a loan which is "primarily for the purpose of providing refinancing, or consolidating indebtedness".1/

The practice of the Corporation has been to provide medium- and long-term financing for capital purposes to industrial and tourist enterprises. Under a special small loan program, short- and medium-term financing will be provided and this will include working capital. Loans will not be made if it would be used only for financial readjustment or to purchase an existing facility.

Saskatchewan

The purposes for which the Saskatchewan Economic Development Corporation may make loans are not specified in detail in the statute, but the Lieutenant-Governor in Council is given authority to pass regulations regarding this.

In practice, loans are made only for capital funds but it is indicated that assistance may be granted for the purchase of raw material inventories or for the financing of finished products.

Alberta

The loans from the Alberta Treasury Branches are not statutorily restricted. The Provincial Treasurer or his authorized agents "may loan any deposits received in the branches of the treasury under the provisions of this Act to persons, firms or corporations upon such terms as may be agreed upon...."2/

Legislation provided that loans from the Alberta Commercial Corporation may be for either fixed or working capital or both. Loans for working capital were provided only in the form of inventory financing.

The Alberta Opportunity Company is authorized by statute to make loans for both fixed and working capital and also to finance, for manufacturers only, "raw or finished inventory by way of short-term inventory contracts which are subject to the payment of interest".3/

1/ Manitoba Regulation 87/66, s. 6(ii).

2/ Revised Statutes of Alberta, 1942, c. 29, s. 6.

3/ Statutes of Alberta, 1972, c. 11, s. 11(1)(c).

In addition, the Company may make small research and development loans for projects "designed to achieve improved economic performance through encouragement of the adoption of modern management techniques and technological improvements to products and production facilities and the development of new markets".[1]

Maximum Size of Loan

Generally, the maximum size of loan that a lending agency may make is not set forth either in the statutes or the regulations. Where the size of the fund available for lending is determined by the statute, it follows that this determines at any given time what the maximum size of loan may be. In point of fact, this statutory limit has been freely raised in most provinces so it cannot be regarded as a real limit. There has been only one agency, the Industrial Development Loan Board of Newfoundland, where the original statutory loan fund limit has remained unchanged and as a result curtailed lending activity.

A formal limit on size of loan has been set by regulation for two agencies. For the Prince Edward Island Lending Authority regulations were passed at March 1970, by the Lieutenant-Governor in Council, setting the maximum limit of an individual loan or guarantee at $50,000 in the manufacturing sector and $25,000 for other loans.[2] In New Brunswick, a limit of $100,000, also set by regulation has existed for several years on individual loans or guarantees made by the New Brunswick Development Board.[3]

The maximum size of loan of another agency is limited by an intergovernmental agreement. The Newfoundland and Labrador Development Corporation Ltd. is prohibited from financing "any project the estimated capital cost of which, excluding working capital, exceeds one million dollars".[4]

1/ Ibid., c. 11, s. 13(1).

2/ The Royal Gazette, April 4, 1970 (Charlottetown, P.E.I.), p. 193.

3/ Statutory Orders and Regulations, 1963, N.B. Reg., Regulation 82.

4/ Canada, Department of Regional Economic Expansion, Agreement between the Government of Canada and the Government of the Province of Newfoundland Dated July 17, 1972 -- Newfoundland and Labrador Development Corporation Limited, s. 14(2).

There is another case of a statutory limit on the size of loans that may be made but it relates only to two minor categories of loans. The limit exists in the case of the Alberta Opportunity Company where loans to student business enterprises are not to exceed $2,000 with only one loan per student in any 12-month period. Similarly, research and development loans are restricted to 50 per cent of the cost of a project or $10,000, whichever is the lesser, for any one project or for any one business in any 12-month period.[1]

Undoubtedly most agencies have working practices governing the size of loan that they will consider but these are not generally set forth in a formal document. An exception is the Ontario Development Corporation where at the end of 1971, the upper limit of an individual loan under the various loans programs were: Venture Capital Fund -- $100,000; pollution control equipment loans -- $250,000; manufacturing loans -- normally $500,000; small business loans -- $50,000; tourist industry loans -- $75,000; forgivable loans -- $500,000 in Northern and Eastern Ontario, $100,000 in the rest of the province.

Conditions of Loans

Three types of conditions will be examined here. The first relates to the type of security required for the loan, the second, related in part to the first, indicates whether there are any formal restrictions regarding the percentage of the cost of a capital good that may be covered by a provincial loan; the third relates to the period of time for which a loan may be granted.

These conditions and that of the applicable interest rate are in most cases the factors that distinguish the provincial industrial lending agencies from the conventional lenders. In listing these conditions it is not possible to go very far below the surface. While the general policy in respect to loan conditions set by two agencies may seem to be identical, the valuations set by each agency on a given property available as security for a loan may differ, the assessment of the prospects of the enterprise may also vary and thus quite different decisions might be taken by two agencies on a hypothetical loan application.

1/ Statutes of Alberta, 1972, c. 11, s. 13(1).

It would appear that in many cases the conditions under which a loan is granted by a provincial government lending agency are not more favourable than those attached to similar loans made by a private lender. The main distinction may have been merely that the government agency had given a favourable response to a loan application while private lenders had given a negative response. That this decision of the government agency was justified in most cases is indicated by the low loss ratio of most of the industrial loan agencies. Nevertheless, there clearly have been loans, and some have been very large loans indeed, where events have revealed a loan agency or a government to have gone beyond the bounds of a reasonable risk and where it has turned out that the funds invested were not any better secured than those invested in Atlantic Acceptance Corporation a few years ago by some private financial institutions.

The general practice of the provincial industrial loan agencies is, in fact, similar to that of the chartered banks for similar types of loans. A loan will be secured by a mortgage on real property. A loan will cover only a certain proportion of the total capital investment required, i.e., the entrepreneur will be expected to provide some capital funds of his own. The exceptions to this general practice are what make the provincial industrial loan agencies distinctive.

In the following section, the legal restrictions in the form of statutes or regulations by orders-in-council on each provincial lending agency have been identified. Then, information is given about the practice of the agency.

<u>Newfoundland</u>

According to the legislation, the conditions affecting loans by the Industrial Development Loan Board of Newfoundland were to be determined by regulations of the Board subject to the approval of the Lieutenant-Governor in Council. Since this Board has been inoperative for many years, its practices have not been described.

The Newfoundland Industrial Development Corporation may, according to the statute, "take for money loaned any security or securities of any nature whatsoever that the board may consider advisable and take further security or securities of such nature as the board may consider advisable".[1] In practice, a mortgage on fixed assets or a chattel mortgage on equipmemt has been the standard condition. There had been no policy in the past regarding the proportion of the costs of capital assets that would be financed by the provincial loan agencies nor any requirement about the extent of investment by the borrower. Thus loans have in some cases covered up to 100 per cent of the cost of capital assets.

Loans from the new federal-provincial Newfoundland and Labrador Development Corporation Ltd. are to be restricted by the amount of equity capital. A loan by the Corporation may not exceed 300 per cent of the equity capital provided.

Prince Edward Island

There is little legal restriction on the conditions of loans extended by Industrial Enterprises Incorporated. The practice has been to obtain a first mortgage on fixed assets. Regulations under the Lending Authority Act specified that the minimum security of the Lending Authority was the personal guarantee of the borrower or the officers of a borrowing corporation plus a lien on assets of the borrower.[2]

For most industrial lending programs in Prince Edward Island, nothing was indicated in the statutes or in the regulations restricting a loan to a given percentage of the cost of capital goods. The single exception was the Industrial Establishment Promotion Act which provided that the maximum of financial assistance was 50 per cent of the cost of new plant facilities or any extension.

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[1] Statutes of Newfoundland, 1966-67, no. 65, s. 7(1)(c).

[2] The Royal Gazette, April 4, 1970 (Charlottetown, P.E.I.), p. 193.

Industrial Enterprises Incorporated has confined its realty loans to a term of not more than 15 or 20 years with chattel loans generally not for more than 10 years. The P.E.I. Lending Authority is restricted by statute to a term of not more than five years for loans for working capital, a term of not more than 30 years for loans to manufacturing and processing industries and 15 years to the farming, fishing or tourist industries.

Nova Scotia

The Governor in Council is authorized to make regulations limiting the amounts of loans, prescribing the amount and nature of the security to be required, and prescribing the terms and conditions upon which loans are made from the Industrial Loan Fund and the Industrial Expansion Fund. These regulations have since 1966 limited any loan from the Industrial Loan Fund to "75 per cent of the current appraised value of land, buildings, machinery, equipment, furnishings and other chattels".1/

There are no statutory or regulatory requirements regarding the terms and conditions under which Industrial Estates may make loans. Industrial Estates Limited will lend up to 100 per cent of the cost of land and buildings for a term of up to 20 years and up to 60 per cent of the installed costs of new equipment for a term of up to 10 years.

As far as security for a loan is concerned, the practice of Industrial Estates and the two funds has been to obtain a first mortgage on real property and a first chattel mortgage on other assets.

New Brunswick

No statutory requirements for security are specified in the case of the New Brunswick agencies but regulations specify that every loan made by the New Brunswick Industrial Finance Board shall be secured by a first mortgage on land, buildings, equipment, goods and chattels. Second mortgage security could be accepted when other governments assisted in the establishment of the industry.

1/ Statutes of Nova Scotia, 1966, Rules and Regulations, p. 680.

There are no regulations restricting the type of security the New Brunswick Development Corporation may accept but the general practice has been to obtain a first mortgage.

Quebec

The Industrial Credit Bureau was authorized by statute to grant loans "secured by hypothec, mortgage or pledge upon real property or machinery, or in any other manner deemed appropriate".[1] The Lieutenant-Governor in Council was authorized by regulation to specify in greater detail what conditions would apply. The same conditions apply to the Quebec Industrial Development Corporation, the successor of the Industrial Credit Bureau. In fact, while the Corporation is not narrowly restricted by regulations, the security obtained is nearly always a first mortgage.

There are no formal restrictions as to the proportion of the value of a property that may be covered by a loan.

Ontario

There are no provisions of statute or regulations specifying what type of security the Ontario Development Corporation must take. In general, a first mortgage will be taken. In the case of the Venture Capital Fund a debenture is normally acceptable as security, but other forms of security may be taken when circumstances warrant.

It is the policy of the Corporation to limit the term of loan as follows: pollution control equipment loans -- 10 years; manufacturing loans -- 20 years; small business loans -- 10 years; and tourist industry loans -- 15 years.

For conditions respecting forgivable loans, reference may be made to Chapter 13.

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[1] Statutes of Quebec, 1966-67, c. 56, s. 16.

Manitoba

The terms and conditions under which loans may be granted are determined by a by-law of the Board of Directors of the Manitoba Development Corporation subject to approval by the Lieutenant-Governor in Council. Currently, "usually loans are secured by charges on fixed assets in the form of real estate mortgages, chattel mortgages or mortgage bonds secured by a trust deed. Under certain circumstances, M.D.C. may take a second mortgage. In addition, lease options can be arranged."1/

The average maturity of a loan is between two and ten years but it may be negotiated for any period of time up to 20 years.

Saskatchewan

The terms and conditions under which loans may be granted by the Saskatchewan Economic Development Corporation are not limited in the statutes but the Lieutenant-Governor in Council is authorized to pass such regulations.

Loans from the Saskatchewan Economic Development Corporation are normally mortgage loans secured by a pledge of the fixed assets of the borrower, repayable over a specific term. However, it is indicated that, in appropriate circumstances, other forms of financing may be arranged. Although no limit is set in the legislation or in the regulations, the Saskatchewan Economic Development Corporation "prefers to limit the assistance provided to an amount not exceeding 50 per cent of the value of the assets to be pledged."2/ Moreover, the investment by the owners of the business in the form of cash or existing assets "should approximate the amount of financial assistance requested."3/

Alberta

In connection with the loans from Treasury Branches, the Provincial Treasurer may "take such negotiable instruments and securities as he may from time to time direct."4/

1/ Manitoba Development Corporation, Manitoba Development Corporation, Winnipeg, Manitoba (brochure).

2/ Saskatchewan Economic Development Corporation, Financing Saskatchewan Business (brochure), p. 5.

3/ Ibid.

4/ Revised Statutes of Alberta, 1942, c. 29, s. 6.

The terms and conditions under which loans by the Alberta Commercial Corporation could be made were not narrowly restricted in the statutes. The operating practice was that loans were made in two forms -- for working capital, and for fixed capital. The working capital was provided under a unique form of inventory financing. The Corporation bought inventory at 100 per cent of the cost, obtaining from the company 25 per cent as a cash security deposit. The Corporation retained title to the inventory,and for storing the inventory may sub-lease part of the client's property. Inventory contracts were usually for a year. Interest was calculated on the net balance. The Corporation has accepted collateral security such as personal guarantees and chattel mortgages.

Loans for fixed capital have been for buildings and equipment. These were secured by a first mortgage. Generally, the term has been up to 10 to 12 years for equipment, 10 to 12 to 15 years for buildings. The usual practice was that loans were made up to only about 60 per cent of the cost of equipment or plant.

The terms and conditions under which the Alberta Opportunity Company may make loans are specified in some detail in the statutes. Loans for the capital may not exceed 80 per cent of the approved capital cost of the proposed facilities. Similarly, the financing for inventory may not exceed 80 per cent of the value of such inventory. Research and development loans which the Company may make are restricted to "50 per cent of the cost of projects or $10,000, whichever is the lesser, for any one project or for any one business in any twelve-month period".[1/]

Provisions as to the security for a loan are determined by the Company within fairly broad limits. The regulations specify that "security taken shall be in such form as the Company may deem appropriate in the individual circumstances to provide reasonable protection for any loans made to a borrower and may include fixed and floating charges, personal guarantees and assignments of insurance".[2/] The Company proposes to follow the practice of the Alberta Commercial Corporation in this respect.

1/ Statutes of Alberta, 1972, c. 11.

2/ Alberta Opportunity Fund Regulations, s. 3(b).

Interest Rates

In general, the board of directors of the industrial loan agency determines the interest rate charged on loans on the basis of certain criteria established either by regulation or by order-in-council. Typically, a minimum rate is set by order-in-council. The minimum rate is generally the long-term borrowing rate of the province plus a small mark-up to cover administrative costs.

Data on the interest rate charged on individual loans are generally not available. One agency, the Manitoba Development Corporation, has published the interest rates and some other details on each loan granted since July 1970. Some other agencies are prepared to reveal the interest rate charged in a given period.

Newfoundland

In Newfoundland, the maximum interest rate on loans by the Industrial Development Loan Board is 5 per cent. This is a statutory provision unchanged since the Board was established in 1949. As has already been indicated no loans have been made by this Board for many years.

The Lieutenant-Governor in Council may make regulations prescribing the rate of interest to be charged on loans given by the Newfoundland Industrial Development Corporation. No such regulations had been formally passed. In practice a flexible policy had been followed with very low interest rates being granted in some cases. Currently the policy of both the Fisheries Development Authority and the Newfoundland Industrial Development Corporation is to charge 1 to 1½ per cent over the provincial government's long-term borrowing rate.

Loans from the federal-provincial Newfoundland and Labrador Development Corporation Ltd. are to exceed the federal Department of Finance's Crown Corporation lending rate by at least 1 per cent.

Prince Edward Island

Maximum interest rates were not specified in the legislation establishing any of the industrial lending programs. The operating practice of Industrial Enterprises had been to charge ½ of 1 per cent over the cost of funds which it borrows from the provincial government. This was formalized by regulations in 1972 which specified that the rate of interest must exceed the government long-term borrowing rate.

While no formal regulations have been passed regarding the interest rates to be charged by the Prince Edward Island Lending Authority, it is indicated that the interest rate to be charged by a bank or credit union will be "the normal rate applicable to the type of loan made"[1] and that where the approved credit is for a longer time than provided by banks or credit unions, direct loans from the Authority will be made at interest rates to be determined. At the beginning of operations of the Authority in April 1970, the interest rate was set at 9½ per cent, was reduced to 9 per cent, and was 8 3/4 per cent in April 1971.

Nova Scotia

In Nova Scotia, the statutory limit on the interest rate on loans from the Industrial Loan Fund has varied. From 1955 to January 1957, a maximum rate of 4½ per cent was in effect. From January 1957 to September 1957 loans were to bear interest at a rate determined by the Lieutenant-Governor in Council. After that, until 1966, the statutory rate varied between 5 per cent and 6½ per cent. After 1966, legislation provided that the rate of interest was to be determined by the Lieutenant-Governor in Council. Interest rates on loans from the Industrial Expansion Fund were also set by the Lieutenant-Governor in Council.

There is evidence that in the past some loans were granted at extremely low rates. For instance, it was indicated[2] that over one-quarter of the loans outstanding at March 31, 1968 of the Industrial Loan Fund and the Industrial Expansion Fund were noninterest bearing. A smaller proportion of interest rates of 2 and 3 per cent. At the present time, however, commercial rates are usually charged.

The current policy of Industrial Estates has been to set loan interest rates at about 1 per cent above the rate which the provincial government must pay for long-term borrowing. The provincial government gives a commitment at the beginning of the fiscal year regarding the rate it will charge on debentures it issues to Industrial Estates, and Industrial Estates sets it lending rate accordingly.[3]

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[1] Prince Edward Island Lending Authority, A New Way of Financing for Farmers, Fishermen and Those in Tourism and Industrial Development (brochure).

[2] Province of Nova Scotia, Department of Trade and Industry, Annual Report, 1968.

[3] The annual report for the year 1969-70 indicates that the debentures issued to the Province of Nova Scotia bore interest at rates varying from 5.3 per cent to 7.3 per cent.

For 1970, Industrial Estates Limited's lending rate was 10½ per cent including an administrative charge, and it was anticipated that the rate in 1971 would probably be about 9½ per cent.

New Brunswick

In New Brunswick, the maximum interest rate on loans from the New Brunswick Industrial Development Board was set by regulations at 5½ per cent for many years until 1966-67 when this formal limit was removed. No formal limit on interest rates by loans from the New Brunswick Development Corporation has been prescribed. At the present time, interest rates are generally somewhat above the provincial government's long-term borrowing rate.

Quebec

The minimum rate which the Quebec Industrial Credit Bureau could charge on loans was to be set by regulations of the Lieutenant-Governor in Council. Under regulations issued in January 1968, the Quebec Industrial Credit Bureau was required to charge interest at least equal to the going government borrowing rate with administrative and legal charges extra.

The Quebec Industrial Development Corporation is, for its usual loans, required to charge "the interest rate current on the day when the loan is granted."[1/] The Lieutenant-Governor in Council was by regulation to determine the methods by which to calculate the current rate. However, lower rates than this could be charged for two categories of manufacturing industries. The first is industries which invest at least $250,000 and use advanced technology to manufacture newly conceived products, products not yet manufactured in Quebec or manufactured in quantities too small in relation to the demand of large and expanding markets. The second group consists of industries which regroup their operations through amalgamation or otherwise, while adapting them to modern production techniques. Such lower rates were to be determined by the Lieutenant-Governor in Council.

Ontario

There are no statutory restrictions on the interest rate which the Ontario Development Corporation charges. In general, the interest rate is somewhat above the provincial government's long-term borrowing rate. The forgivable loans are interest-free.

1/ National Assembly of Quebec, 1971, Bill 20, Quebec Industrial Development Assistance Act, s. 6.

Manitoba

Throughout the history of the Manitoba Development Corporation and its predecessors, the Manitoba Development Fund, the interest rate charged has been, if not determined, at least affected by statute.

Initially when the Manitoba Development Fund was established in 1958, the rate of interest was set statutorily at 6 per cent except that the board of the Fund could vary this rate by a regulation which became effective upon publication in The Manitoba Gazette.

This provision was amended the next year, in 1959, to remove the 6 per cent provision and authorize the Board of Directors to fix or vary the interest rates or to delegate that authority to the Executive Committee. This was subject to the limitation that any loan must exceed by 1/2 of 1 per cent or more "the rate of interest at which the government could, at the time such loan is made by the corporation, borrow moneys on the security of its debentures."[1/]

In 1966, new legislation stated that the long-term borrowing rate of the provincial government was set as the maximum rate which the Fund could charge on loans to business.[2/] It was also specified that any by-law by the board of directors of the Fund setting the interest rate must be approved by the Lieutenant-Governor.[3/] The regulations, also passed 1966, interestingly enough stated that the approval of the Lieutenent-Governor in Council was given to all by-laws of the board which related to the interest rate provided "such interest rate exceeds the rate of interest at which the Government could, at the time the loan is made by the fund, borrow monies on the security of its long-term debentures as estimated monthly by the Provincial Treasurer".[4/] This is obviously a contradiction. There is

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1/ Statutes of Manitoba, 1959, c. 7, s. 1.

2/ See Statutes of Manitoba, 1966, c. 17, s. 8(5).

3/ Indeed, this applied to any by-law.

4/ Manitoba Regulation 87/66, s. 8.

the possibility of a typographical error in the Statute or the regulations.

In 1970, the legislation reverted to the earlier policy when it specified that "the rate of interest payable on any loan by the corporation shall exceed the rate of interest at which the government could, at the time when the loan is approved by the corporations, borrow monies on the security of its long-term debentures as estimated monthly by the Minister of Finance".[1/]

The large majority of loans by the Manitoba Development Corporation in the period April 1, 1971 to December 31, 1971 bore an interest rate of 10 per cent. There was, however, one loan at an interest rate of 7 per cent while at the other extreme one loan at the rate of 11½ per cent was made.

Saskatchewan

The Saskatchewan Economic Development Corporation is not limited by statute regarding the interest rate it may charge. This, however, may be set by the Lieutenant-Governor in Council. In practice, interest rates have been set by the Board of Directors at a rate slightly above the provincial government's long-term borrowing rate.

Alberta

In Alberta, the interest rates on financial advances by the Alberta Commercial Corporation were set by the Board of Directors. Although the Lieutenant-Governor in Council also could make regulations "as to the manner and extent to which the corporation is to transact any business or exercise any power that by this Act it is authorized to transact or exercise",[2/] it did not pass regulations regarding the interest rate. In 1970, the interest rate charged was 9 per cent. At January 1, 1971, it was 8 per cent.

The interest rate charged by the Alberta Opportunity Company is, according to regulations, to be established by the Company with the approval of the Minister of Industry and Commerce. In determining the rate, the Company "shall take into account the

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1/ Statutes of Manitoba, 1970, c. D60, s. 7(5).

2/ Statutes of Alberta, 1964, c. 12.

cost of borrowing on the part of the Government of Alberta and have regard for interest rates charged by other lenders in similar circumstances".[1/]

Lenders of Last Resort?

In general, the provincial loan agencies have been established to meet what was felt to be a credit need not being adequately met by alternative private loan facilities such as the chartered banks. Therefore, in most cases, legislation or government regulations have specified that the loan agency should not provide credit to companies which can obtain credit from other sources. In other words, they must be lenders of last resort.

This stricture is generally qualified by such terms as "not available elsewhere on reasonable terms and reasonable rates"[2/] or, as specified on Nova Scotia regulations, "without serious detriment". This has been taken to mean either that credit is not available at all or that it is only available at rates above the usual market rate. Or credit may be available only at onerous terms, which the owners or managers of the company find impossible to accept.

The interpretation of these terms is obviously a matter of judgment. Indeed, the decision by private lenders to grant or not to grant a loan also involves a considerable measure of judgment in which perhaps the private lender may be inclined to lean somewhat more to the side of caution than might be the case with the provincial loan agency. To fulfil the condition of being a lender of last resort, the would-be borrower would first have had his application for a loan turned down by a number of other lenders. The restrictions are generally not this rigorously imposed in that it will often be regarded as sufficient by the provincial loan agency if the usual lending source of the would-be borrower has rejected the particular application under consideration.

1/ Alberta Opportunity Fund Regulations, s. 3(d).

2/ Statutes of Ontario, 1966, c. 100, s. 8.

The administration of this provision is complicated somewhat by the existence of the federal Industrial Development Bank. This agency also provides credit "not available elsewhere on reasonable terms", meaning from private lenders. Many provincial loan agencies will insist that a loan applicant apply to the Industrial Development Bank as well as to private lenders before they will consider the application. Because the Industrial Development Bank generally confines its activities to rather small loans, a few provincial agencies have shifted the smaller loans as much as possible to the federal agency and directed their attention to the larger loans.

There is no effective mechanism to determine whether the provincial loan agencies are in fact lenders of last resort. Bearing in mind the small proportion of total industrial credit that they supply, this is probably true in most cases.

Other Financial Activities of Provincial Loan and Investment Agencies

It is appropriate to make brief reference here to certain other activities of the provincial loans and investment agencies, activities which will be given more detailed attention in other chapters of this report.

All of these agencies are authorized to acquire shares of their client companies, but in most cases this is largely a precautionary device to enable the provincial agency to take over operation of a company which has defaulted on its loan or other financial obligation. In a few cases, most notably in Manitoba, shares in a client company have been acquired as additional security for a loan. Indeed, the Manitoba Development Corporation has recently on occasion purchased shares in a company as an alternative to a loan. The Quebec Industrial Development Corporation is also specifically authorized by regulations to provide financial assistance in the form of purchase of shares. The General Investment Corporation, on the other hand, provides its financial assistance almost exclusively by the purchase of shares. These activities are discussed in greater detail in Chapter 6, "Provincial Ownership of Industry".

These provincial agencies are, in general, authorized to operate industrial establishments directly and have done so. Again, with the major exception of the General Investment Corporation of Quebec, this has generally occurred due to the default of a client company. These activities are also discussed in greater detail in Chapter 6.

The leasing of industrial facilities to private industry is a feature of the operations of a number of provincial agencies. This is examined in Chapter 5.

Finally, most of the provincial lending and investment agencies provide management and consultative services to business. Although such services are also provided by provincial departments of industrial development, it is perhaps natural that the lending agencies should be involved in this activity. They require staff capable of properly analysing the prospects of particular businesses and who in the process become able to advise the company on what might be done to improve their efficiency. As lenders of last resort, these agencies will find themselves with clients who often require managerial advice in addition to financial assistance. Sometimes the provincial agency itself will insist on a role in the management of the company.

Such management and consultative services provided directly by these provincial lending agencies will typically be provided to client companies only -- i.e., companies that have borrowed money or on behalf of which financial commitments have been made. In a few cases such as the Ontario Development Corporation, such services are provided to non-client companies. Such services are considered in the context of the total business advisory program in Chapter 9.

The loan agencies are involved in the administration of some of the grant or forgivable loan programs. For instance, the Quebec Industrial Development Corporation is the investigating and recommending agency for the grant programs envisaged under the Quebec Industrial Development Assistance Act of 1971.

The Saskatchewan Economic Development Corporation administered the provincial government's industrial grant program, which is now inoperative. The forgivable loans program in Ontario is administered by the Ontario Development Corporation, but in Alberta a separate agency was established. In Saskatchewan, the forgivable loans program is administered by the Minister of Industry and Commerce, subject to the approval of the Lieutenant-Governor in Council.

CHAPTER 5

LEASING OF INDUSTRIAL LAND AND BUILDINGS

Another form of industrial development practice is the acquiring by government agencies of industrial land and buildings and their subsequent leasing to private firms. While the government agency will hold title to the land and buildings, the industrial firm will purchase and install its own machinery and equipment. The lease contract will typically include an option to purchase. While this activity is relatively new for governments, it has been for long a common feature of the business world, particularly in respect to commercial facilities.

Provincial government activity in developing and leasing industrial facilities to private companies has taken two forms, the acquiring and leasing of industrial property in "industrial parks" or industrial estates and the acquiring and leasing of individual industrial properties. While there is perhaps no essential difference in principle between the two approaches, there are implicit differences in administrative practices. The development and leasing of industrial property in an industrial park requires a continuing role on the part of a provincial agency in administering common service facilities, which is not present when individual properties are developed and leased.

The provincial government has also had an indirect role insofar as it permits, and sets conditions for, municipal governments to establish industrial parks.

Industrial Parks

The term "industrial park" requires some clarification. There are two main types of industrial park or at least two main types of facilities to which the term is applied. The first, and the most common type of industrial park, consists of an area reserved for industrial purposes in which a number of industrial firms may acquire property by purchase. This may be described as a type-A industrial park. Type-A industrial parks are principally developed by private organization but this is the type with which municipal governments are generally involved when they do undertake such projects. The assembly and development of industrial land for sale has long been an activity of many municipal governments. Because of their zoning powers over land within their boundaries, municipal governments may designate certain areas for industrial development and acquire land for subsequent resale well in advance of probable requirements. The land in such areas may also be privately owned. In any case, once the land is sold the responsibility of the municipal government extends only to the provision of the usual municipal services such as sewers and streets. The term "industrial park" merely indicates that there are a number of industrial properties in one place.

The second form of industrial park is the one with which this chapter largely deals. In this form, industrial property is acquired by a single administrative authority and leased to industrial firms. This might be described as a type-B industrial park. Several provincial governments now operate such industrial parks.

An intermediate form, which will be described as a type-AB industrial park, is one in which a single authority has responsibility for a given area of industrial land which it sells to private industry but to which it continues to provide a range of common services including those normally provided by municipal governments, but not necessarily confined to such services.

In the type-A industrial park, the sale transaction between owner and purchaser will generally involve land only, or land and associated service facilities. Only rarely will a building be erected and form part of the sale transaction. On the other hand, in the type-B industrial park, the lease will generally involve both land and buildings. In the type-AB industrial park, again the sale transaction will almost always involve land only. Just to complicate matters further, some property in a type-B industrial park may be sold rather than leased.

It has been municipal governments that typically have been involved in type-A industrial parks. The principal provincial government involvement in regard to such municipal industrial parks has been one of restriction--restrictions to prevent municipalities from selling industrial land at less than cost and thus subsidizing industrial firms.[1] In most provinces, municipal governments are precluded from erecting industrial buildings for subsequent lease or sale and there are no special financial arrangements for municipal governments acquiring land for subsequent resale. However, in Quebec in 1961, financial assistance from the provincial government was made available to municipal governments for the purpose of establishing industrial funds which could be used to establish industrial parks or to give loans to industry or to sell or lease individual industrial sites. In addition in some provinces, most notably Nova Scotia, Manitoba and Saskatchewan, development corporations could be set up by municipalities for the purpose, among others, of establishing industrial parks (see pages 271-275 for details).

With one exception, provincial governments have not established any type-A industrial parks. The exception is British Columbia where two provincial Crown corporations, British Columbia Power and Hydro Authority and B.C. Railways own industrial property which has been developed as a series of industrial parks in which land is available for sale. In the B.C. Power and Hydro Authority's industrial parks, land is also available for lease but to date no land has in fact been leased.

Provincial type-B industrial parks have been established in most provinces. Perhaps the original prototype was Nova Scotia's Industrial Estates Limited, which was modeled on certain industrial estates in the United Kingdom. Industrial parks have also been

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[1] This need not eliminate the possibility of subsidy since municipalities could still sell their industrial land at less than its current market value if there had been a substantial capital appreciation in the interval since the land was originally acquired.

established in Newfoundland (Harmon Corporation, established in 1967), New Brunswick (under the New Brunswick Development Corporation, beginning in the early 1960s), Québec (the Central Québec Industrial Park Corporation, established in 1969), Ontario (under the Ontario Development Corporation, beginning in the latter 1960s), Manitoba (through a departmental authority) since 1971, and Saskatchewan (under the Saskatchewan Economic Development Corporation, beginning in the middle 1960s). A type-AB industrial park is operated by a provincial department in Nova Scotia.

Several of the provincial government industrial parks that have been established make use of former airport and hangar facilities of the federal Department of National Defence. Such facilities are almost without exception to be found in areas somewhat removed from major urban centres. This has given much of the provincial industrial parks program a regional development orientation.[1] The facilities available for leasing have served to attract industries to areas of slow economic growth within the province. Additional reference has been made in Chapter 13 to such activities.

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[1] It would appear, for instance, that industrial parks were, at least in some instances, acquired to employ civilians displaced by the shutdown of the Department of National Defence bases.

Leasing of Individual Properties

For several provincial governments, the leasing of individual isolated industrial properties has been more significant in volume than the leasing of properties located in industrial parks. The leasing of individual properties has been a principal feature of the Newfoundland, Prince Edward Island, and Nova Scotia programs but has also been a part of the Saskatchewan program. In Nova Scotia, these individual plants were developed and leased by Industrial Estates Limited. In Newfoundland, individual plants have been built by separately incorporated building companies and then leased to private industry. The development and leasing of individual properties to industry was a major part of the program of the Prince Edward Island Industrial Corporation. In Saskatchewan, properties are available in various parts of the province for leasing from the Saskatchewan Economic Development Corporation.

Some of the acquiring and leasing of individual industrial properties has occurred because of the default of borrowers from the provincial industrial development funds.

No significant provincial government leasing of individual industrial properties to private firms has occurred in New Brunswick, Québec, Ontario, Manitoba, Alberta, and British Columbia. In these provinces, leasing of industrial properties is almost entirely confined to the industrial parks.

Provincial Programs

A province-by-province examination of the leasing of industrial facilities by provincial agencies will now be proceeded with. Municipal industrial parks, of whatever kind, will not be examined except where provincial financial assistance is available.

Newfoundland

Until recently, practically the only industrial leasing activity in Newfoundland arose from the leasing of the property of various crown corporations. Most of these crown corporations were established by statute precisely for the purpose of constructing a given factory and then leasing it to a specified company. For convenience, these have been described in detail in Chapter 6.

A major new thrust in industrial leasing in the province has come with the establishment of an industrial park at the site of a former United States Air Force base, known as the Harmon base. The assets of the base were transferred to the federal government and then, in turn, transferred to the government of Newfoundland. In 1967, Harmon Corporation, a provincial Crown corporation, was established by statute to manage and control these assets. The assets of the base are shown at a large sum (over $94,000,000 according to the 1970-71 Newfoundland Public Accounts), assets which had been assumed by the provincial government for a nominal sum.

The assets of the Harmon Corporation include many types of buildings including apartments so that a major source of income comes from the rent of apartments. In the past year, industrial leasing has increased and there are now 10 to 12 industries at the industrial park including a pulp mill, an electronic components manufacturer, a brewery and wire-pulling plant.

Prince Edward Island

In Prince Edward Island, the development and leasing of industrial property has taken place under the aegis of two provincial agencies, the Prince Edward Island Industrial Corporation and its successor, Industrial Enterprises Incorporated. Originally, the Industrial Corporation was to confine its activities to the construction of industrial enterprises for subsequent leasing to private industry or operation by the Corporation. Under either of these arrangements, title to the industrial property would have remained with the Corporation. In at least one major instance, however, a loan and mortgage contract was entered into. After default on the loan, the provincial government acquired ownership.

When Industrial Enterprises was incorporated, it assumed control of the major assets of the Industrial Corporation and thus continued some of the lease arrangements of its predecessor. It had, in fact, originally been envisaged as playing a role similar to that followed by Industrial Estates, i.e., as a lessor of industrial property. With the coming into effect of the federal regional industrial incentive grant program, Industrial Enterprises has, like Industrial Estates Ltd., confined its new business to loans. There is, however, some possibility that new leasing arrangements will be made in the future.

In addition, in 1966, local area industrial commisssions were authorized under legislation to acquire and lease property to industry, but no property has been leased.

Nova Scotia

In Nova Scotia, two provincial government agencies operate industrial parks or industrial properties for lease. The more well-known is Industrial Estates Limited which owns a type-B industrial park and also many individual properties. The other is the Department of Development which operates the Point Tupper Industrial Park, classified as a type-AB industrial park.

Industrial Estates Limited

It has already been indicated that when Industrial Estates Limited was established it was with the intention of being a manager and lessor of industrial property but that its major role has since become industrial lending. However, it is still the largest provincial government lessor of industrial property in Canada.

Although Industrial Estates Limited acquired land in 1960 for an industrial park (Woodside Industrial Park in the city of Dartmouth), its initial, and, indeed, its major leasing activity has been outside this industrial park and in the form of individual properties. Industrial Estates owns and leases properties throughout the province, including some property in municipal industrial parks.

The major activity of Industrial Estates Limited in leasing industrial properties took place in the first half of the 1960s. By March 31, 1965, the total expenditures on projects had slightly exceeded $19,000,000. Expenditures on industrial properties for the succeeding five years amounted to only about

$5,000,000 as I.E.L. shifted its emphasis to industrial lending activity. Indeed, beginning in the fiscal year 1965-66, industrial assistance in the form of loans has been much greater than that provided through leased properties. At March 31, 1970, accumulated expenditures on leased plants and industrial real estate amounted to about $23,900,000.

The change to the lending pattern was in response to the federal government's program of regional industrial incentives which were available only to companies that held title to the properties they were operating. Thus companies leasing properties from Industrial Estates would not be eligible. The shift to loan-mortgage agreements was not difficult. Leasing agreements, in any event, had a buy-back provision under which the lessee could purchase its leased property for the original cost less that portion of the rent which had been applied to reduce the original cost.

The operations of Springhill Development Corporation Ltd., which was until 1968, a wholly-owned subsidizary of Industrial Estates Ltd., are considered in Chapter 13.

Point Tupper Industrial Park

The Point Tupper Industrial Park is situated on the harbour created by the building of the Strait of Canso causeway linking Cape Breton Island with the mainland. It is operated directly by the Department of Development with an advisory interdepartmental committee.

This project illustrates the economies inherent in an industrial park development when a number of related enterprises locate on one site. The major industrial complex consists of three integrated plants: a heavy water plant owned by Canadian General Electric, a power plant owned by the Nova Scotia Power Commission (a provincial Crown corporation), and a petroleum refinery owned by Gulf Oil. The power plant takes some energy from high pressure steam and supplies the resulting lower-pressure steam and power to the distillation unit of the heavy water plant. The power plant uses residual fuel from the petroleum refinery operation. Obviously, a key role is played by the Nova Scotia Power Commission.

Property in the Point Tupper Industrial Park is sold to client companies at a substantial mark-up from original costs to compensate for development costs and costs of holding the land (property originally acquired in the mid-1950s). The provincial government designed the park and retains ownership over the rights of way for roads, pipeways, water pipe lines, power lines, and rail corridors.[1/]

New Brunswick

There are three provincial industrial parks in New Brunswick all of them developed and administered by the New Brunswick Development Corporation. Each of these is set up as a separate company with a president, treasurer, and two directors, all members of the board of directors of the Development Corporation.

These parks are situated in different parts of the province and each has had a different pattern of development. The Greater Moncton Industrial Park, about 17 miles from Moncton, was originally an airfield owned by the Department of National Defence. Several hangars and other buildings have been converted for the use of a variety of industries. The Champlain Industrial Park, near St. Andrews in Charlotte County, presently serves only one industry, a fish processing industry. The Westmorland Chemical Park, situated at Dorchester in the south east part of the province, was designed as a chemical industry complex producing fertilizers and explosives, but there is also a corrugated metal products manufacturer located in the park.

At March 31, 1971, the investment by the New Brunswick Development Corporation in industrial parks including land, services, buildings, and equipment was $4,088,000.

1/ Other features of the industrial park are of interest. Other government agencies are involved. The Nova Scotia Water Resources Commission (a provincial agency) built dams to create a reservoir from which it sells water to companies at their gates. A wharf required in the transshipment operations of the Gulf Oil refinery was built by the federal Department of Public Works. Of the cost of the wharf(approximately $17.5 million), $5.0 million was covered by a grant from the Cape Breton Development Corporation (of which half came from the province), $8.4 million was covered by a loan from the Department of Public Works which is being repaid by Gulf Oil, and $4.1 milliom paid directly by Gulf Oil.
Provincial legislation has been passed entitling Canadian General Electric and Gulf Oil to fixed tax rates.

Quebec

Two programs are discussed here: the provincial industrial park, and the provision of assistance to municipal industrial estates.

Provincial Industrial Park

The Central Quebec Industrial Park Corporation was established in January 1969 "to promote the economic progress of central Quebec" by establishing an industrial park in the town of Bécancour. The Corporation, a corporation within the meaning of the Civil Code, was to be made up of seven members appointed by the Lieutenant-Governor in Council.

The Corporation was authorized, subject in every case to the approval of the Lieutenant-Governor in Council, to acquire immoveables or other real right within the territory described in a schedule to the Act or in the municipality of Bécancour, to prepare a development plan for the territory, and to lease, exchange or sell or otherwise alienate any immoveable or real right belonging to it.

There was provision in the Act for possible agreements between the Corporation and the town of Bécancour and school boards fixing the municipal and school taxes on its immoveable property. Such taxes, however, must be not less than that which would be paid if the immoveables were all lands under cultivation. Such agreements, however, must be submitted to the appropriate ministers and be approved by the Lieutenant-Governor in Council.

The practice of the industrial park authority has been to offer land for sale (rather than lease) at a low price (indicated as 3¢ per square feet). Currently,[1/] a small metal fabricating plant has begun operation but construction had begun on two other larger plants. While such construction is halted at the moment, it is indicated that both projects will be proceeded with in the future. Other companies have taken options to purchase property in the industrial park.

1/ September 15, 1972.

Municipal Industrial Estates in Quebec

Under the Industrial Funds Act[1] passed in May 1961, cities and towns were authorized to establish industrial funds from which they might draw to purchase land or buildings for industrial purposes or from which they might lend money to private industrial enterprises. In 1962, this power was extended to all municipalities. The lending activity has been considered in Chapter 4. The establishment of municipal industrial estates will be considered here.

Once an industrial fund is established by a municipality, after meeting all the normal conditions relating to major financing operations by municipalities plus some additional ones, it may proceed to purchase land to set up an industrial estate. Again, approval by the Department of Industry and Commerce is required. The municipality may proceed to sell or lease the land thus acquired but again subject to provincial government approval.

This power was subject to the usual procedures for approval of municipal loan by-laws plus the provision that the amount of the industrial fund would be determined by the Minister of Municipal Affairs

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1/ Statutes of Quebec, 1961, c. 83.

with the assent of the Minister of Industry and Commerce. The council of the municipality would then proceed by by-law, with the approval of the Minister of Industry and Commerce, the Minister of Municipal Affairs, and the Quebec Municipal Commission, to "effect one or more loans the total of which shall not exceed the amount of the industrial fund, to acquire by agreement or expropriation, or to erect immoveables for industrial purposes".[1/]

Originally, the industrial estates could be for industrial purposes only, but the Act was amended in 1963 so as to enable municipalities to sell land for commercial purposes provided the sale was for cash. Manufacturing firms are able to purchase land in an industrial estate on a deferred-payment basis.

When the Act was originally passed, the municipalities were authorized "to purchase existing industrial properties for resale or lease, with or without improvements (and) to erect industrial buildings in order to establish new industries or to enlarge already existing ones".[2/] In the case of new construction, up to 80 per cent of the cost of the land and buildings could be financed out of the industrial fund. Up to 80 per cent of the market value of existing buildings and land could also be financed. These properties could be sold to industry under a term contract or could be leased with the requirement that the sale price must cover original cost plus interest or that the rent under the lease shall "cover all the annual expenses respecting such immoveable, for amortization and interest on the purchase price, insurance, maintenance, and municipal and school taxes".[3/] Sales or rentals were made subject in 1963 to the approval of the Minister of Municipal Affairs and the Minister of Industry and Commerce.

This program has been substantially modified in recent years as such agencies as the Industrial Credit Corporation were established. In 1967, the legislation was amended[4/] to prevent the use of the industrial funds for the purchase or erection of buildings.

1/ Statutes of Quebec, 1961, c. 83. In this quotation the context suggests that the word "loans" should be "borrowings". The French text is "faire un ou plusieurs emprunts".

2/ Quebec, Department of Industry and Commerce, Explanatory Notes on the Industrial Funds Act (mimeo.), November 1964, p. 3 (as quoted by Forget).

3/ Statutes of Quebec, 1961, c. 83, s. 4.

4/ Statutes of Quebec, 1966-67, c. 56.

Ontario

The Ontario Development Corporation operates two industrial parks on former federal Department of National Defence property -- a former air field and hangars at Centralia, and a former ordinance depot in the town of Cobourg. In these industrial parks, property is leased to individual companies. In addition, a few lease-backs have been approved in lieu of loans in which the Ontario Development Corporation holds title to a factory and leases to a company, with the company holding an option to purchase.

At March 31, 1971, the investment by the Ontario Development Corporation in industrial parks amounted to \$3,200,000 after provision for depreciation. Some of the property it had acquired was for a purely nominal sum so the total value of the industrial parks is probably larger than the accounts indicate.

Manitoba

The Manitoba government has operated an industrial park since September 1971. The facility for this is the former Gimli air base which was transferred from the federal Department of National Defence. Title to the property is officially in the name of the provincial Department of Public Works but operations are conducted by an interdepartmental advisory committee, the Gimli Industrial Park Authority. Currently about 10 industries are operating on the site.

In addition, the Manitoba Development Corporation has entered into two or three lease-back arrangements in lieu of loans. These, however, have been entered into the Corporation's financial statements as loans.

Saskatchewan

A program of leasing industrial facilities to private companies began in Saskatchewan with the establishment of the Saskatchewan Economic Development Corporation. The value of assets held exceeded \$1,000,000 by the end of 1966 and was around \$2,260,000 by the end of 1970. A number of properties and/or buildings located in various parts of the province are owned by the Corporation and include a major industrial complex being developed at Regina, an industrial park at Meadow Lake, a major industrial site at Moose Jaw (a gift), and airport properties at North Battleford, Weyburn and Saskatoon. Revenue from rentals of these properties was $269,000 in 1970, up sharply from the previous year when rentals amounted to $169,000.

Alberta

The Alberta Commercial Corporation did not enter into any leases of industrial property. At the present time, it is not anticipated that the newly established Alberta Opportunity Company will enter into this sphere of activity either.

British Columbia

In British Columbia, several industrial parks are operated by the provincially owned British Columbia Power and Hydro Authority and by B.C. Railways. The B.C. Power industrial parks had been part of the operations of the privately owned B.C. Electric which was acquired by the provincial government in the 1960s. Generally, properties are sold in these industrial parks but they are available for leasing.

Conclusion

It is useful to emphasize again the extent to which an industrial leasing program is interchangeable with an industrial lending program. A lease agreement may be converted into a loan agreement and vice versa by a mere stroke of the pen. The legal nature of the government's involvement in the enterprise is changed but the total financial commitment may remain unchanged. Typically a lease agreement will include an option to purchase at some predetermined price. This is often original cost less the amount by which payments under the lease have served to recover capital costs after meeting the costs of interest on the government investment in the plant. The company could conceivably exercise its option to purchase by borrowing from the government agency the amount of the purchase price. What had been previously treated as a direct investment by the government would become a loan.

Nevertheless, the distinction between the two approaches is worth retaining. Obviously, under the lease arrangement the involvement of the government agency is not only more direct but more continuous.

CHAPTER 6

PROVINCIAL OWNERSHIP OF INDUSTRY

The devices by which provincial governments may be directly involved in the ownership and management of industry have ranged all the way from Crown corporations to the holding of a minority share interest in a private company. Historically, the establishment of a Crown corporation was regarded as the only alternative to complete private ownership. The emergence of the mixed-ownership corporation and the purchase by governments of a minority interest of stock in a private corporation is a modern phenomenon.

Five categories of provincial government ownership are described: (1) full ownership where the enterprise is owned and operated by the provincial government, generally as a Crown corporation; (2) full ownership where all the capital assets of an enterprise are owned by the provincial government but are leased to, or managed by, a private company for operating purposes; (3) partial ownership of an enterprise where land and buildings are owned by the government but are leased to a private company which owns the machinery and equipment used in the enterprise; (4) partial stock ownership where the provincial government holds only a part of the shares of a company, shares which it has acquired on the market or by agreement with the company; and (5) mixed-ownership, a form of partial ownership where an enterprise is formally established by statute as a company in which both the provincial government and the non-government sector are assured of a given proportion of stock or of a given membership on the board of directors.

It is necessary to maintain a distinction between the second and third categories where, although both types of properties are leased to private firms, in the former case all the capital assets required by the enterprise are owned by the government agency while in the latter case the government owns only a part of the capital assets required for the operation. This latter category has been the one examined in detail in Chapter 5.

There are, as might be expected, significant differences in the extent to which any form of government ownership of manufacturing enterprises is employed in the various provinces. There are also substantial differences in the extent to which one form or another dominates. In Alberta, there is currently no form of government ownership of manufacturing industries. In Ontario and British Columbia, only one form of government ownership is employed, the third category, the ownership of industrial lands and buildings for lease to private companies. In British Columbia, only industrial land is involved.

In the remaining seven provinces, a variety of approaches have been adopted. The mixed-ownership form has been confined to Quebec where a mixed-ownership corporation has played an important role in the province's industrial development program.[1/] The acquiring of partial stock ownership has been an important part of industrial development in Newfoundland, Quebec,[2/] Manitoba and Saskatchewan, but there have also been major temporary instances in Nova Scotia. The ownership of industrial facilities for leasing purposes has, as already noted, been a feature of provincial government programs in all provinces except Alberta. Full ownership and operation of manufacturing industries is a feature of the programs of all of the Atlantic Provinces and in Quebec, Manitoba, and Saskatchewan -- in fact in all but the three provinces mentioned in the preceding paragraph.

Provincial ownership of tourist business facilities is rather more limited, apart from facilities operated within provincial parks. This is considered at greater length in Chapter 12 but a brief comment will be made on some of these in the provincial reports which follow.

Full Provincial Ownership and Operation

While provincial government ownership of manufacturing enterprises has been rare until recently, provincial government ownership of other types of business enterprises has been far from uncommon. Electrical generating and distribution utilities, for

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1/ But will under the terms of legislation introduced in the Quebec National Assembly in December, 1972, become a fully-owned Crown corporation.

2/ As noted later, there is some problem in deciding whether the purchases of stock by the Quebec Deposit and Investment Fund should be regarded as industrial developmental in nature. Yet they are so large, they cannot be ignored.

example, are owned by provincial governments in nearly every province. Telephone companies are owned by provincial governments in several provinces. Railway companies are operated by provincial governments in some provinces. The assets of these provincial Crown corporations far exceed the assets of the manufacturing Crown corporations now owned by provincial governments.

A few early examples of provincial ownership of manufacturing enterprises might be given. A brick plant was operated by the Saskatchewan government for a few years in the 1930s; a woollen mill was operated by the Alberta government in the 1940s; a beet sugar refinery was begun in 1936 by the Quebec government (and is still in operation). Some small industrial properties were repossessed in the 1920s, 1930s and 1940s by the British Columbia government because of defaults on loans from the Industrial Development Fund in that province. There may have been other instances but no exhaustive efforts have been made to uncover them.

The first industrial development program in which Crown corporations were expected to play a major role was that in Saskatchewan, beginning in 1944. This was followed shortly by Prince Edward Island in 1949, although in that province the provincial government-owned enterprises were expected to be leased. When Newfoundland entered Confederation in 1949, it also showed an early predisposition to utilize provincial Crown corporations in the manufacturing sector although the ownership and management patterns were perhaps unique.

The major expansion of provincial ownership of manufacturing enterprises has taken place in the last decade, particularly since the middle of the 1960s. Provincial governments now own and operate major manufacturing enterprises, for example, steel mills -- Nova Scotia and Quebec; pulp mills -- Newfoundland, Manitoba (currently operated as a receivership); and an oil refinery -- Newfoundland (upon completion). In addition, a number of small- and medium-sized manufacturing enterprises are owned by provincial governments. A few provincial government-owned manufacturing enterprises are currently not operating, of which the largest is a heavy-water manufacturing plant in Nova Scotia.

Newfoundland

In Newfoundland, the pattern of industrial ownership is particularly complex and it is therefore difficult to identify the precise nature of the industrial ownership policies that have been followed. Several Crown corporations have been established to own industrial properties, with the contractual obligation to lease to a particular private company, with the private company ultimately becoming the owner. Obviously, such Crown corporations are not Crown corporations in the ordinary sense, but they are considered in this section.

One example will be given in some detail to illustrate a reasonably common industrial development device utilized in the province. This involves a salt fish processing plant located at St. John's. The Salt Fish Plant (Building) Act[1/] of 1965 authorized the incorporation of three companies under the Companies Act -- a Building Company (Fish Buildings Ltd.), an Operating Company (Ross Steers Fisheries Ltd.), and a Holding Company (Fish Holdings Ltd.). The Building Company was to construct, equip, and hold title to a salt fish plant; the Operating Company was authorized to purchase, process and sell salt fish and other products of the sea while the Holding Company, in addition to being authorized to process and sell, possessed the powers of acquiring and holding the shares of other corporations. The provincial government was to hold all the shares of the Building Company and the Holding Company. The Holding Company in turn was to own the shares of the Operating Company.

It was then provided (a) that the Building Company would build a salt fish plant at a cost not exceeding $950,000 with funds provided by a loan guaranteed by the provincial government; (b) that Steers Limited (a private company -- not to be confused with Ross Steers Fisheries Ltd. which is a Crown corporation) would manage the Operating Company and would lend to the Operating Company necessary working capital not to exceed $475,000; (c) that the Operating Company would pay in instalments to the Building Company the amount necessary to amortize the cost of the plant plus interest and other expenses; (d) that when these amounts were paid, the Building Company would transfer all

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1/ Statutes of Newfoundland, 1965, no. 58.

its assets to the Operating Company; and (e) that when these amounts were paid, Steers Limited would be sold all the issued shares of the Holding Company. In other words, Steers Ltd. would become the owner of all the assets of the fish plant.

A few of the Crown enterprises established in this or similar forms have been listed in Table 5-1. The Feed Mill Building Co. Ltd. was established under legislation passed in 1962 to construct an animal and poultry feed mill which was subsequently leased to Robin Hood Flour Mills Ltd.[1/] The Mooring Cove Building Co. Ltd. built a fish plant which was then leased. Marystown Shipyard Construction Ltd. owns a shipyard which was operated by Newfoundland Marine Works Limited (a private company) in accordance with an agreement in 1966-67. Hotel Buildings Ltd. owns hotels in St. John's, Clarenceville, Gander, Port aux Basques, Corner Brook, and a tavern at Churchill Falls. The hotels are managed by Atlific (Nfld.) Limited, a private company under a 25-year option-to-purchase contract.

Table 5-1

PROVINCE OF NEWFOUNDLAND, ASSETS OF SELECTED INDUSTRIAL CROWN CORPORATIONS

(As at March 31)

	1969	1970
	(Thousands of dollars)	
Property, plant and equipment at cost		
Feed Mill Building Co. Ltd.(1)	879	879
Fish Buildings Ltd.	3,325	3,332
Hotel Buildings Ltd.	16,604	17,039
Marystown Shipyard Construction Ltd.	13,454	13,462
Mooring Cove Building Co. Ltd.	9,300	9,465

(1) Plant rented to Fortress Formula Feed Co. Ltd.

Source: Public Accounts of Newfoundland.

Another provincial government agency, the Newfoundland Fisheries Development Authority, operates a number of fish plants including a major development at Lascie with an original cost of $3,028,000. Fixed assets at cost of the Authority amounted to $4,278,000 at March 31, 1970. The Newfoundland Fisheries Development Authority is also a lending agency and has been considered in Chapters 3 and 4.

1/ And recently sold to Robin Hood.

A major industrial enterprise has been added to the list of Newfoundland Crown corporations with the formation, in May 1972, of Labrador Linerboard Ltd. to operate a linerboard mill at Stephenville being acquired from Canadian Javelin Ltd. This mill, with assets of about $132 million, is expected to come into operation in October 1972. Ownership is being assumed under terms of a trust agreement covering provincial financial guarantees to the project and following payment for Canadian Javelin's equity in the mill.

Another major industrial enterprise which will be provincially owned but will be managed by a private company, Shaheen Natural Resources Co., is an oil refinery at Come-By-Chance. This project, with a total investment of about $155 million, is still under construction and is being built by Provincial Building Co., a provincial Crown corporation. It will be owned and operated by Provincial Refinery Co., another provincial Crown corporation. The refinery is to be managed by Newfoundland Refinery Company Ltd., a wholly-owned subsidiary of Shaheen Natural Resources Company, which will apparently ultimately become the owner.

In addition to these major enterprises, the provincial government owns a birch plant with assets at March 31, 1970 of $1,887,000. The Newfoundland Farm Products Corporation operates an abattoir, cold storage plant, egg grading station and a poultry processing plant.

Prince Edward Island

In Prince Edward Island, the major involvement of the provincial government in the ownership of industry came about through the financing activities of the Prince Edward Island Industrial Corporation in the early 1960s. The Corporation financed a fish processing plant, Gulf Garden Foods Ltd. and ultimately became the owner. This plant has now been sold to a private company. An associated enterprise, originally called Bathurst Marine Ltd. was financed for the purpose of building fishing trawlers for Gulf Garden Foods Ltd. It is now named Georgetown Shipyards and is owned by the P.E.I. Lending Authority. Industrial Enterprises Limited currently has operating control of Hypro Sea Foods Ltd. a fish processing plant with assets of about $1,500,000 and owns Seabrook Limited, a vegetable processing plant, which is leased to a private company. It had at one stage also owned the shares of Jenkins Brothers Ltd., a meat canner, but these have now been sold.

Nova Scotia

In Nova Scotia, three major and one minor manufacturing enterprises may be described as provincial Crown corporations. Of these, two are presently inoperative. The principal company in operation is the Sydney Steel Corporation. This was established by legislation[1/] in 1967 to own and operate the Sydney steel mill which formerly had belonged to the Dominion Steel and Coal Corporation. The board of directors of the Corporation is appointed by the Governor in Council.

The Sydney Steel Corporation had assets at March 31, 1971 of $74,108,000[2/] and is currently engaged in a major expansion program.

The major investment of the provincial government in an industrial enterprise is in Deuterium of Canada Limited, a heavy water manufacturing plant which is in the process of being rebuilt. The investment of the provincial government amounted to about $109,000,000 at March 31, 1970. Presently, this company is wholly owned by the Province of Nova Scotia but it had been a partially owned subsidiary of Industrial Estates Ltd. for about four years until the provincial government directly acquired the company.

The provincial government had also acquired Chairtone Sound Corporation Limited, presently inoperative, from Industrial Estates Ltd. (Reference may be made to the section "Stock Ownership in Industrial Enterprises" for further details.)

Paceships (1962) Limited is another example of a government-owned company. It was a wholly owned subsidiary of Industrial Estates Limited from 1965-66 to 1968-69, being acquired because of default in the payment of interest and sinking fund instalments.

New Brunswick

The New Brunswick Development Corporation owns a fertilizer plant, Westmorland Fertilizer Ltd., as a wholly-owned subsidiary. Total assets of this plant were shown at $4,348,000 (before depreciation) at

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1/ Statutes of Nova Scotia, 1967-68, c. 1.

2/ This is after depreciation of fixed assets.

March 31, 1970. This plant is not now operating and was acquired some years ago when the company was unable to meet its financial obligations to the New Brunswick Development Corporation.

The provincial government directly owns the Fredericton Hotel Company, owner of a major hotel in Fredericton, which is leased to a private operator. The provincial government had guaranteed debentures of this company in the immediate postwar period.

Quebec

Two manufacturing enterprises in Quebec are operated as fully-owned provincial government corporations, a sugar refinery and a steel mill. The sugar refinery (established in 1936) had fixed assets at March 31, 1971 amounted to $1,590,000 ($6,029,000 original cost less accumulated depreciation of $4,439,000). Sidbec at the same date had fixed assets of $70,444,000 ($110,849,000 original cost less accumulated depreciation of $40,405,000).

Sidbec was incorporated on November 18, 1964 under Part I of the Quebec Companies Act. While established as a private company, the Minister of Finance holds the shares of the Company and maintains effective control of its operations.

The financing of the Company's operations is of interest because it is unique to wholly-owned government corporations. A major portion of the Company's funds have been provided through the purchase of deferred-dividend shares by the provincial government. At the formation of Sidbec in 1964, the authorized capital stock of the company consisted of 11,000,000 common shares of no par value and 4,000,000 deferred-dividend shares of no par value of which only 70 common shares had been issued and paid for. In 1968,[1] the capital stock of the company was revised to provide for 10,000,000 common shares of a par value of $10 each and 10,000,000 deferred-dividend shares of a par value of $10 each. Of these, 6,000,000 deferred-dividend shares were allotted to the provincial government to be paid for in annual payments of $12,000,000, each year for five years (and the 70 already issued shares were converted into 35 deferred-dividend shares). A 1970 statute[2]

1/ Statutes of Quebec, 1968, c. 77.

2/ Statutes of Quebec, 1970, c. 20.

increased the allotment of preferred-dividend shares to the provincial government to 9,600,000 to be paid for over a period of eight years.

An interesting illustration of the role of the Quebec Deposit and Investment Fund in industrial development is given by the same statute. It authorized the Lieutenant-Governor in Council to guarantee the payment of principal and interest of any loan made to Sidbec by the Quebec Deposit and Investment Fund. This guarantee was limited to a total principal of $30,000,000.

Ontario

No manufacturing enterprises are operated as Crown corporations in Ontario.

Manitoba

Nearly all the provincial government ownership of manufacturing or other industrial and commercial enterprises has been the result of recent operations of the Manitoba Development Corporation. The single exception is the Mackenzie Seed Company, a bequest about 20 years ago from the former owners to the provincial government with the condition that the net income would go to Brandon University. Mackenzie Seed Company is a producer, wholesaler and retailer of garden seeds.

Of a different nature is a new series of wholly owned subsidiaries of the Manitoba Development Corporation. At April 1, 1972 these were Venture Manitoba Tours Ltd. (which acquired the ship formerly operated by Lord Selkirk Ltd. and provides passenger boat service on Lake Winnipeg), Phoenix Data Ltd. (which operates a computer service), Morden Fine Foods Ltd. (which operates a canning factory formerly owned by Canadian Canners), and Leaf Rapids Corporation (which is building a town site in northern Manitoba and will operate some, or all, of the commercial enterprises there).

In addition, the Manitoba Development Corporation holds a controlling interest in three enterprises and minority holdings in some others. These are discussed later in this chapter in the section on "Stock Ownership of Industrial Enterprises".

There is a possibility of the provincial government acquiring direct ownership of Churchill Forest Products and several companies associated with the same project. The Manitoba Development Corporation was the major source of capital funds for these companies. They are presently being operated by a receiver on behalf of the Manitoba Development Corporation.

Saskatchewan

In Saskatchewan, in a brief period after 1944, a number of small industrial Crown corporations were established. This was done largely under the authority of the Minister of the new Department of Natural Resources and Industrial Development who had been given broad powers to establish and operate manufacturing industries based upon natural resources of the province. In 1945, more general authority was given under the Crown Corporations Act to establish Crown corporations to operate industrial and commercial enterprises. In 1947, consolidated control of provincial Crown corporations was placed in the hands of a central Government Finance Office. Two of these original manufacturing Crown corporations survived for an extensive period -- a sodium sulphate processing plant; Saskatchewan Minerals; and a brick manufacturing plant, Saskatchewan Clay Products. The latter was transformed in 1966 into a company operated under the Companies Act but owned by the provincial government and was sold in 1969. Saskatchewan Minerals continues in operation.

Alberta

Formal government ownership of manufacturing enterprises is a matter of the past in Alberta. It was largely a product of the activities of the Provincial Marketing Board in the 1940s. The Provincial Marketing Board is described in greater detail in Chapter 2. Under Part III of the Alberta Marketing Act, the Provincial Marketing Board was authorized in 1942 to establish wholly owned subsidiaries to operate various enterprises. One case was Prairie Woollen Mills Ltd. which was created in 1949 to operate a woollen mill to which the Provincial Marketing Board had made financial advances. The Provincial Marketing Board had earlier in the 1940s operated the same plant directly. Another small project was a rock wool plant held by Marketing Services Ltd., another wholly owned subsidiary of the Provincial Marketing Board, during part of the 1950s and 1960s. Both enterprises ultimately closed down.

The Provincial Marketing Board also constructed and operated an oil separation and refining plant under terms of an agreement[1/] between the provincial government and Oil Sands Limited. This was an experimental plant for the purpose of demonstrating ways of refining the petroleum contained in the tar sands of northern Alberta. This direct involvement by government was terminated when private capital became responsible for the development.

The Alberta Industrial Corporation appointed a receiver in 1955 for the operation of a coal mine (Brazeau Collieries Ltd.) to which it had earlier made financial advances. This was still true at December 31, 1970.

British Columbia

No manufacturing enterprises are operated as Crown corporations in British Columbia.

Full Provincial Ownership -- Private Operation

The second category of provincial government ownership is represented by those cases where the government owns all the capital assets of an enterprise but, instead of operating it, leases the property for management purposes to a private firm. Typically, the provincial government has acquired full ownership because of default on loans it had made to the original owner of the enterprise but is not inclined to accept a direct operational role. Leasing the property to a private firm is generally a transitional stage to disposing of the enterprise to a new private owner.

A few instances of such enterprises have been identified in the previous section. It is not proposed to extend these references by a complete inventory of those occasions when the provincial government has leased any wholly-owned enterprises to private companies for operational purposes.

Partial Stock Ownership

Provincial lending agencies or provincial governments directly have acquired stock in industrial companies either to provide additional security for a loan, to enable the agencies to play a larger role in

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[1/] Ratified by Statutes of Alberta, 1945, c. 11.

the management of the company, or to enable the loan agencies to participate in any financial success of the borrowing company. Sometimes the stock has been acquired for a nominal sum in return for a provincial guarantee of company debentures or a guarantee of a loan from a conventional lender. There have been occasions when the purchase of stock at market or underwriter prices has been the only form of government financial assistance provided to the company.

Company stock may also be purchased for purposes other than industrial development. The major purchases of stock in Canada by a provincial government agency is the Quebec Deposit and Investment Fund whose purchases are largely for income security.

All the provincial loan agencies have the statutory authority to acquire the stock of private companies or at least to hold title to it. Most of the loan agencies have exercised this authority but generally this power has been exercised sparingly and reluctantly. This had typically been done only when the enterprise was in default on its loan to the provincial agency and full and complete ownership of the company had to be acquired.

The situation in each province is as follows:

Newfoundland

The provincial government of Newfoundland holds shares in a number of private manufacturing companies, nearly all of which it acquired as part of overall development agreements with the companies Table 6-2 lists investments as at March 31, 1970 and compared to March 31, 1969.

The holdings of the provincial government in most of these companies were acquired within a short period from 1959 to 1963. The major exception is Churchill Falls (Labrador) Corporation Limited which is an electric power generating company.

A unique new approach is that being taken by the federal-provincial Newfoundland and Labrador Development Corporation Ltd. A revolving fund of an initial amount of not over $2,000,000 is to be established with the money provided by the provincial government. From this fund, the Corporation will provide part of the equity capital of business enterprises.

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Table 6-2

PROVINCE OF NEWFOUNDLAND, INVESTMENTS IN SHARES

(Not including Crown corporations)

Company	March 31, 1969 No. of Shares	March 31, 1969 Book Value ($)	March 31, 1970 No. of Shares	March 31, 1970 Book Value ($)
Atlantic Gypsum Ltd.				
Preferred shares	43,143	4,314,300	42,656	4,265,600
Common shares (1)	1,000	100,000	1,000	100,000
Canadian Javelin Ltd.				
Common shares (at nominal value)	80,000	1	80,000	1
Churchill Falls (Labrador) Corporation Ltd.				
Common shares	775,998	10,186,775	775,998	10,186,775
Jubilee Iron Corporation				
Common shares	200,000	200,000	200,000	200,000
McNamara Industries Ltd.				
Preferred shares	16,400	1,640,000	15,201	1,520,100
Common shares (2)	25,000	90,000	25,000	90,000
Newfoundland Asbestos Ltd.				
Preferred shares (3)	750	75,000	750	1
Newfoundland Fibrply Ltd.				
Preferred shares	10,947	1,094,700	10,136	1,013,600
Common shares (4)	1,000	1	1,000	100,000
North Star Cement Ltd.				
Preferred shares	30,680	3,068,000	30,680	3,068,000
Common shares (5)	2,000	160,000	2,000	160,000
United Cotton Mills Ltd.				
Preferred shares	8,093	809,300	7,998	799,800
Common shares (6)	1,331	1	1,331	100,000
TOTAL		21,738,078		21,603,877

(1) See Statutes of Newfoundland, 1960, Act No. 80.

(2) See Statutes of Newfoundland, 1959, Act No. 58.

(3) Write-down of shares authorized by Treasury Board Minute.

(4) See Statutes of Newfoundland, 1963, Act No. 37.

(5) See Statutes of Newfoundland, 1959, Act No. 54.

(6) See Statutes of Newfoundland, 1962, Act No. 31.

Source: Public Accounts of the Province of Newfoundland, Year Ended 21 March, 1970, pp. 12-15.

Prince Edward Island

There are no instances in which Prince Edward Island industrial development agencies have acquired only a minority interest in an industrial enterprise.

Nova Scotia

The purchase of shares in industrial enterprises by the Government of Nova Scotia has occurred in only a few cases, but generally they have involved major investments. Prior to 1964, Industrial Estates Ltd. had decided as a matter of policy not to acquire shares or securities of companies. Its change of policy was coincidental with a major loan.

Industrial Estates Limited has in the course of its operations acquired a partial-ownership position in four client companies. It acquired control of Deuterium of Canada Limited in 1964-65 (25,001 shares at a cost of $25,001 of a total issued capital of 50,000 shares). In 1966-67, Industrial Estates Ltd. paid $3,000,000 for 300,000, 6¾ per cent preference shares with 50,000 warrants of Clairtone Sound Corporation Limited. In 1967-68, Industrial Estates Ltd. acquired voting control of Clairtone by the conversion of the 300,000 perference shares into 3,000,000 voting preference shares and acquired 15 other shares. It then held 3,000,015 common shares of a total issue of 3,592,800. In 1967-68, Industrial Estates invested $14,400 in the shares of a client company (Pyro Minerals) and in 1969-70, $750 was invested in the shares of another client company.

Industrial Estates disposed of its interests in Deuterium and Clairtone to the provincial government. The provincial government also holds shares in another manufacturing enterprise, the Nova Scotia Abattoir Limited as part of a total financial arrangement including a direct loan and a loan guarantee. These shares, originally costing $200,000, have been held for over two decades. The provincial government has now made an offer to acquire all shares of the company (30,000 shares at $25 a share). The plant was closed in September, 1972.

New Brunswick

The New Brunswick Development Corporation owned, at March 31, 1970, $748,000 in value of shares of a client company, an unnamed national enterprise. These shares have since been disposed of. Earlier holdings of capital stock no longer shown in the 1969-70 annual report were in the Fredericton Hotel Company ($16,250) and Fundy Chemical Corporation Limited ($600).

Quebec

Any shares held in private companies by the Quebec General Investment Corporation are considered as part of the operations of that Corporation (see p. 145).

The stock investments of the Quebec Deposit and Investment Fund are large although they make up only about 15 per cent of its total assets. At December 31, 1970, the Fund's holdings of common stock amounted to $212,000,000. These holdings, however, are of a different nature than those of other agencies in that they have been purchased on the stock market and are largely for investment purposes.

Ontario

The Ontario Development Corporation has indicated that it is not its general policy to acquire any stock holdings in companies to which it has lent money. Stock has been acquired in connection with two or three small loans.

Manitoba

As at April 1, 1972, the Manitoba Development Corporation held a controlling interest in three companies: Myers Industries, Western Flyer Coach (1964) Limited, and Saunders Aircraft Corporation Limited. It holds a minority interest, about 10 to 15 per cent of the shares, in several other companies as part of its loan agreements.

The variety of share purchase arrangements that have been entered into by the Manitoba Development Corporation in the period July 22, 1970 to December 31, 1971 are indicated below:

(a) William Clare (Manitoba) Ltd. -- option to purchase 24 per cent of common shares for total consideration of $1.00 and with option until December 31, 1971 to convert $50,000 of the loan into $50,000 non-cumulative redeemable 9 per cent preferred shares at $1.00 per share.

(b) Cowl Limited -- convertible debentures convertible on or before March 31, 1974 for up to 200,000 common shares at $1.50 per share and thereafter and before maturity or redemption at $1.70 per share.

(c) Macey Foods Limited -- authorized advance under option agreement by which the Manitoba Development Corporation acquired shares from the company and the company has the option to repurchase them.

(d) Saunders Aircraft Corporation Ltd. -- option until December 31, 1973 to purchase 400,000 common shares at $1.00 per share.

(e) Morden Fine Foods Ltd. -- purchase of 100 per cent of issued shares -- 5 common shares for $5.

(f) Omnitheatre Ltd.

(i) option to purchase 24 per cent of issued shares -- 240 units at 10¢ per unit.

(ii) later -- purchase of 50 common shares at 10¢ each; purchase of 380 common shares at $1.00 each.

(g) Western Flyer Coach (1964) Limited -- purchase of 1,800,000 non-voting, 5 per cent redeemable preferred shares at $1 each plus purchase of 172,912 common shares for a total of $1.

(h) Applied Photogrammetric Sciences Ltd. -- option to purchase 10 per cent of all issued shares for a total consideration of $1 if the company offers its shares to the public during the term of the loan (seven years).

(i) P.E. Gould Manufacturing Ltd. -- option to purchase 25 per cent of capital stock for $1.

(j) Saunders Aircraft Corporation Limited -- purchase of 1,418,413 common shares at 50¢ each.

(k) Electro-Knit Fabrics (Canada) Ltd. -- purchase of 10,000 common shares at $6.25 each with option until April 12, 1972 to purchase 40,000 additional shares at $6.875 each or to sell the 10,000 shares at cost.

(l) Mathews Mechanical Ltd. -- option to purchase 20 per cent of the issued and paid common shares at a price of $1 each during the term of the loan (10 years).

(m) Micro-Com Electronics Ltd. -- acquisition of 25 per cent of common and preferred shares issued and outstanding at no cost.

In 1972, the Manitoba Development Corporation also acquired a 25 per cent equity in Tantalum Mining Corporation, a mining and mineral processing company. The terms under which this was acquired are also indicative of the new policies the Corporation has adopted.

A 15 per cent equity in the company was acquired for a cash payment of $1,500,000, while an additional 10 per cent equity was in return for guaranteeing a $2,000,000 debenture.

Saskatchewan

The purchase of partial stock ownership in a private company has not been a frequent practice in Saskatchewan but each occasion when it has occurred has marked a substantial purchase of stocks. Each such purchase has formed part of an over-all agreement for financial assistance including the guarantee by the provincial government of company debentures. Sometimes the stock has been obtained by the provincial government for a purely nominal sum.

The first such purchase was made in 1959 when the provincial government purchased shares in Interprovincial Steel Corporation Ltd. It was also authorized to purchase shares in its successors, i.e., Interprovincial Steel and Pipe Corporation in 1966.

As part of overall financial assistance agreements, the provincial government was also authorized to purchase stock in Prince Albert Pulp Company Ltd. and in Athabasca Forest Industries Ltd. The first two companies, Interprovincial Steel Corporation Ltd. and Prince Albert Pulp Company Ltd., a steel plant and a pulp mill respectively, are now operational. The project involving Athabasca Forest Industries Ltd. is not being proceeded with.

At March 31, 1971, the Saskatchewan government is recorded as holding common shares of Interprovincial Steel and Pipe Corporation Ltd. at an original cost of $677,000 and shares in Prince Albert Pulp Company Ltd. at an original cost of $3,000,000.

The Saskatchewan Economic Development Corporation, and the Industrial Development Loan Fund before it, is authorized to purchase shares in companies but it does not appear to have done so except possibly in an isolated instance or two.

Alberta

Neither the Alberta Commercial Corporation nor the Alberta Treasury Branches have stock in private companies.

British Columbia

No stock is held by the provincial government in manufacturing nor tourist enterprises.

Mixed-Ownership Corporations

The distinction has been made earlier in this chapter between a mixed-ownership corporation established formally by statute and the situation where the provincial government or a provincial government agency owns some of the shares in a private company.

General Investment Corporation of Quebec

The only operating example in Canada of the mixed-corporation has been in Quebec. The General Investment Corporation of Quebec is partly owned by the provincial government and partly owned by non-government enterprises or private individuals. (In December 1972, the Minister of Industry and Commerce introduced legislation in the National Assembly to acquire all the shares of the General Investment Corporation.)

The General Investment Corporation was established as a joint-stock company in 1961. About one-third of the initial equity capital was contributed by the provincial government in the form of $5,000,000 in deferred-dividend shares; the other two-thirds came from the proceeds of a public offering of common shares.[1/]

The object of the Corporation was described as, among other things:

> "to stimulate and promote the formation and development of industrial undertakings and, accessorily, of commercial undertakings, in the province, so as to broaden the basis of its economic structure, accelerate the growth thereof and contribute to full employment."[2/]

To this end, it was authorized "to acquire by subscription or otherwise shares, debentures or other securities of any undertaking".[3/]

1/ In the 1966-67 session the government was authorized to purchase another $5,000,000 in deferred-dividend shares and, in 1969, another $10,000,000. In 1971, another $10,000,000 was authorized for purchase.

2/ Statutes of Quebec, 1962, c. 54, s. 4(a).

3/ Ibid., c. 54, s. 5(a).

It was expected that Quebec credit unions would provide a major part of the non-government capital. Each credit union was authorized to subscribe for common shares up to one-quarter of its own assets. It was also provided that insurance companies could invest in the General Investment Corporation up to 2 per cent of its assets in addition to any other investment they were legally authorized to make. In addition securities convertible into common shares could be sold to individuals only with a limit for each individual of $10,000 (raised in 1966-67 to $50,000).

Considerable care was taken to safeguard the mixed composition of the Board of Directors of the Corporation. While the initial Board of Directors was appointed by the Lieutenant-Governor in Council, it was provided that subsequently not more than one-quarter of the directors could be appointed by the provincial government.[1] Moreover, it was also provided that not more than one-quarter of the directors could be appointed by the credit unions.[2] Thus, at least, one-half of the directors would be elected by the non-government, non-credit union shareholders since neither the government nor the credit unions could vote for the remaining directors.

Under an amendment in 1971,[3] the additional $10,000,000 made available before the end of 1972 to the General Investment Corporation was to be restricted to purposes approved by the Lieutenant-Governor in Council.

The investments by the General Investment Corporation itself have ranged from a 100 per cent ownership of other enterprises to lending. By far its most important type of investment has consisted of majority equity holdings in a number of firms. Such

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1/ To appoint this proportion of the Board of Directors, the provincial government would have to hold deferred-dividend shares not fewer in number than one-third of the outstanding common shares.

2/ For a period of at least 10 years, all the common shares subscribed by the credit unions would be held by a trustee chosen by the credit unions who would exercise the right to appoint the given number of directors.

3/ National Assembly of Quebec, 1971, Bill 292, An Act to amend the Charter of the General Investment Corporation of Quebec.

investments have been in two main groups of companies, each group centering around a company in which the General Investment Corporation had a majority interest, which company in turn owned other companies. The first group concerns the companies associated with Marine Industries, the second group is in woods and wood-products industries of which Sogefor is the principal company.

Other examples of investments by the General Investment Corporation are its purchases of an interest in Société de Montage Automobile, an automobile assembly plant, and in a chain of book-stores in the province.

The Alberta Investment Fund

Another attempt to harness via a government agency private funds for industrial development purposes was made in Alberta with the establishment in 1964 of the Alberta Investment Fund. While not a mixed-ownership corporation it is appropriate to consider it here.

The Alberta Investment Fund was established to "provide a means of attracting the savings of residents of Alberta, and others, into a fund to supply capital for investment to promote industrial and commercial development in Alberta".[1] A corporation was established with a board of directors consisting of the Provincial Treasurer as president, the Deputy Provincial Treasurer as vice-president and not more than five other persons appointed by the Lieutenant-Governor in Council.

The Fund was authorized to issue two types of certificates, savings certificates and investment certificates in return for deposits of money from any person. Savings certificates would be issued in any amount, investment certificates in denominations of $100 or multiples thereof. Savings certificates would bear interest payable at the rates and at the times fixed by the Lieutenant-Governor in Council and would be redeemable at the expiration of five years from the date of issue or sooner if otherwise specified or on demand of the owner. Investment certificates would receive dividends specified by the Fund and apparently would have no time limit. The provincial government guaranteed the principal and

[1] Statutes of Alberta, 1964, c. 38, s. 2.

interest of the savings deposits and the payment of a minimum dividend of 3½ per cent on the face value of the investment certificates. The estimated value of each investment certificate in a denomination of $100 would be determined by the Provincial Auditor twice a year.

The sales of these certificates would create two funds, one fund made up of sales of investment certificates and the other from savings certificates. The money received from sales of investment certificates could be invested:

> "(a) in bonds, debentures and other securities issued or guaranteed by the Government of Canada or any province in Canada;
>
> (b) in shares, bonds, debentures and other securities of established companies carrying on business in the province;
>
> (c) in first mortgages on industrial, commercial and residential properties in the province."1/

The money received from the sale of savings certificates could be invested for the same purposes as that obtained from the sale of investment certificates except that the purchases of business securities were limited to industrial or commercial enterprises. In addition, securities of municipalities and other local authorities could be purchased.

It was provided that not more than 40 per cent of money obtained from the sales of savings certificates could be invested in private securities or in first mortgages. The only statutory limitation on the investments of the other fund was that no mortgage could be purchased for more than 60 per cent of the appraised value of the mortgaged property. However, the Lieutenant-Governor in Council was authorized to make regulations providing for various kinds of limitations.

The next year the 1964 Act was repealed and replaced by the Alberta Investment Fund Act, 1965 2/ which came into force on July 1, 1965. This Act made a number of changes.

1/ Ibid., c. 38, s. 7.

2/ Statutes of Alberta, 1965, c. 42.

First of all, as to the composition of the board of directors of the Fund it dropped the provision that the Provincial Treasurer and Deputy Provincial Treasurer would be president and vice-president respectively. Second, the provision for savings certificates was deleted. Third, the guarantee regarding the investment certificates was extended to cover the face value of the investment certificate after 10 years from issue. Fourth, investments from the fund could be made basically for the purposes previously specified for savings certificates with the addition of "shares, bonds, debentures or other securities issued by industrial or commercial enterprises for the purpose of expanding or developing the economic growth of the province".[1] Fifth, the limitation on purchases of mortgages was raised to 75 per cent of the appraised value of the mortgaged property.

Sales of investment and savings certificates did not exceed $2,000,000 and the attempt has been abandoned.

A similar approach was considered in Nova Scotia. Legislation was passed but the statute was not proclaimed and so did not become effective.

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[1] Ibid., c. 42, s. 5(e).

Chapter 7

TAX CONCESSIONS, SUBSIDIES AND GRANTS

This chapter considers a number of financial incentives to industry which reduce the capital and operating costs of a particular business enterprise or of business enterprises in a particular industrial group.[1] They are described as financial incentives in that they implicitly, and generally explicitly, involve a determinable financial transfer from the government sector to a business enterprise. They have been considered in three categories, tax concessions, subsidies and grants.

There are other government programs, such as the provision of management services or the provision of physical services such as roads, which also reduce the costs of a business enterprise. The financial implications are generally not readily determinable, in part because the services may be provided in a form or of a magnitude different from those which the business enterprise would provide for itself. These programs may be regarded as subsidies in kind and have not been examined in this chapter. One set of these programs, the provision of management, information and advisory services, is considered in Chapter 9. Provincial government activities to provide physical infrastructure to particular business enterprises have been referred to only incidentally in this report. Chapter 5 provides some information on such activities.

In this chapter, an attempt has been made to make a clear distinction between tax concessions, subsidies and grants. Yet, their financial impact on an enterprise may be very similar and one may be readily substituted for another. Different legislative and administrative processes are involved, however, so that separate consideration is justified.

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[1] This means that any incentives which apply to business enterprises as a whole are not examined.

In this report, a tax concession is considered to be the partial or complete exemption of a single enterprise or class of enterprises from a tax that would be otherwise levied upon it if generally accepted taxation principles, such as uniformity of treatment, were followed. A tax concession is thus generally defined by the nature of the tax structure within the jurisdiction of a given taxing authority. Nevertheless, one cannot completely ignore the tax structure in other jurisdictions.

The distinction between a grant and a subsidy may be considered in two distinct senses, first in terms of time, the other in terms of the way in which the payment relates to the operation of the firm. First, in terms of time, the total amount of a grant paid to a firm will be the product of a single decision at a given point in time with the grant subsequently paid in a lump sum or instalments. In the case of a subsidy, on the other hand, there will be a continuing payment with no specific advance commitment as to the precise sum to be paid to an individual firm.

The second distinction between a grant and a subsidy is that a grant will be for a specific project. This flows from the fact that the total amount of a grant is predetermined. It may be thus designed to cover part of the cost of a specific research project or part of the cost of a specific capital investment. A subsidy, on the other hand, will not be project-related but will be expressed in terms of the continuing operations of a firm. A subsidy may be expressed as some percentage of the total value of output or in terms of so much per unit of output, or it may be in terms of units of input, e.g., units of electricity consumed.

However, as has already been noted, each of these devices is, in some respect, interchangeable. A grant for a capital project by reducing the amount of capital a firm needs to borrow could be equivalent to a subsidy on the interest payments on debt. A tax concession may operate like a subsidy in that it may reduce operating costs over an extended period of time. On the other hand, it may be a substitute for a grant if it bears some specific relationship to a capital investment.

Indeed, in a few industrial incentive programs, this substitutability has been explicitly recognized. The most notable example of this was the federal Area Development Agency program where the initial income tax incentives were replaced by grants designed to have approximately the same effect.

Tax Concessions

A distinction will be made between an individual tax concession and a general tax concession. An individual tax concession will be regarded as a concession made available to an individual firm on the basis of a separate decision in each case. A general tax concession will be one made available to a category of firms or enterprises, or which will apply to a particular type of income or economic factor. An example may be useful. If there is, say, a sales tax levied on gasoline, but companies A and B have been specifically excluded from paying such a tax that would be an individual tax exemption. If gasoline used by manufacturing companies is exempt from the sales tax, that would be a general tax concession.

Individual tax concessions are readily identified, since by definition a specific company or individual must be named. General tax concessions are subject to interpretation, since their definition rests upon a view of (1) what would constitute uniformity of treatment under generally accepted taxation principles and (2) whether a specific tax proposal represents a departure from those principles.

In examining tax concessions in different provinces, it must be recognized that while in one province a specific tax may be subject to individual tax exemptions, in other provinces that tax may be subject to a general tax concession. A further complication is that a form of tax to which a concession applies in one province may not exist at all in another province. In the latter province, this situation could, in some senses be interpreted as a general tax concession, but it may instead be the result of a different tax philosophy or more adequate revenues from other forms of taxes or lower government expenditure levels. One may indeed find that even with numerous tax concessions, the burden of taxation on a firm in one province may be greater than on a similar firm in another province where no tax concessions have been identified. This is a matter that must be kept constantly in mind throughout this chapter.

It does appear that the choice of the type of tax concession employed reflects the adequacy of the overall tax base. The yield of a given rate of tax of a given form of tax is generally directly related to the income level of the province.[1/] The lower-income region typically requires a higher rate of tax to generate the same per capita yield as a higher-income region. Or the lower-income region may have to impose types of taxes not levied in the higher-income regions in order to obtain adequate revenues. The strategy in some of the lower-income provinces has been to impose such additional or higher taxes with exemptions to individual companies which might otherwise be deterred from locating in the province. In the higher-income provinces, a general tax incentive may, in effect, be provided by the fact that a particular form of tax is not levied.

Individual tax concessions are now largely confined to the Atlantic Provinces; general tax concessions are more largely a feature of Ontario by reason of favourable tax yields, of Alberta by reason of its high level of natural resource revenues, and of Quebec for special industrial incentives. Individual tax concessions are confined to the property tax except in the case of Newfoundland, where individual exemptions from other types of taxes are given. General tax concessions may apply to provincial taxes such as the income tax or the sales tax but also apply to the municipal property tax.

Individual Property Tax Concessions

Since the property tax is largely a municipal tax, individual property tax concessions nearly always depend in the first instance on the initiative of a municipal authority.

1/ See, for example, statistical tables in Appendix B of J. H. Lynn, Comparing Provincial Revenue Yields, Canadian Tax Foundation, Canadian Tax Papers, No. 47 (Toronto, March 1968).

But since the municipal authorities are the legal creatures of the provincial governments, whether such concessions are granted will also depend on the policies of the provincial government. Individual municipal property tax concessions to industry were common in the first few decades after Confederation, but in most provinces they are less used than formerly partly because of changing attitudes of municipal governments and partly because of more restrictive provincial legislation.

In fact, by the beginning of the 1950s, general provincial legislation prohibited municipal councils from granting tax concessions to manufacturing industries in Quebec, Saskatchewan, and British Columbia.[1/] In Saskatchewan, however, there was a provision in the provincial Rural Municipality Act, the Cities Act and the Town Act by which the council was authorized to exempt any property or business from taxation in the current year only. There has been no indication that this provision has been used for industrial incentive purposes.

In the other provinces, in 1950, municipal councils could grant tax concessions to manufacturing industries but subject in most cases to various restrictions. Approval by the Lieutenant-Governor in Council was required in Newfoundland (outside of the City of St. John's). The approval of the Minister of Municipal Affairs was required in Alberta. A time limit was imposed in Newfoundland for the City of St. John's (ten years), Prince Edward Island (for the City of Charlottetown -- five years for industries, fifteen years for new hotels; for the Town of Summerside -- ten years for new industries), Nova Scotia (ten years), Ontario (ten years), Manitoba (ten years),[2/] and Alberta (twenty years). Approval by a vote of the ratepayers was required in towns and cities in Nova Scotia (assent by three-quarters of ratepayers voting), Ontario (assent by two-thirds of ratepayers voting), Manitoba (assent by three-fifths

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1/ Legislation passed in British Columbia in 1947.

2/ A somewhat longer period could apply for industries in the cities of Winnipeg and St. Boniface.

of ratepayers voting), and Alberta (two-thirds of the voting electors qualified to vote on money by-laws). An unusual majority of the council was required in a number of provinces, for instance, Newfoundland (other than the City of St. John's-- a unanimous vote), Prince Edward Island (the Town of Summerside -- a two-thirds vote), Nova Scotia (a three-quarters vote of the members of council), Ontario (a three-quarters vote of the members of council) and Alberta (a three-quarters vote of the members of council). Other restrictions prevailed in some cases.

In New Brunswick, the situation existing in 1950 is not easily established. Under the Rates and Taxes Act,[1/] municipal councils were not authorized to grant tax concessions to industries except if awarded by special acts of the legislature. However, this legislation was only applicable "except so far as special provisions inconsistent herewith may exist, or may be made, in reference to the assessing and levying of rates and taxes in any of such parishes, cities or towns".[2/] A great many special charters for municipalities existed in New Brunswick at that time, so that the Rates and Taxes Act had little effect. In 1955, when the Municipal Tax Act[3/] was passed, the council of a county or parish, city, town or incorporated village was specifically permitted to grant a property tax concession for a period of not more than five years, but the approval of the Lieutenant-Governor in Council was required. Again, this was only applicable insofar as it was not inconsistent with special charter provisions.[4/]

New moves on the part of provincial governments to prohibit the granting by municipal councils of industrial tax concessions began after the middle of the decade of the 1950s.[5/] The authority of municipal councils to grant such concessions was

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1/ Revised Statutes of New Brunswick, 1952, c. 191.

2/ Ibid., c. 191, s. 2 CD.

3/ New Brunswick Statutes, 1955, c. 14.

4/ According to Report of the New Brunswick Royal Commission on Finance and Municipal Taxation (Fredericton, N.B., November 1963), p. 209, "Each city and most of the towns in the province have their own varying act and other special acts ...."

5/ It is, of course, always an option of the provincial legislature to pass a bill providing for an individual municipal tax concession. As will be indicated later, this has been rather frequently done.

eliminated in Alberta in 1957, in Ontario in 1961, in New Brunswick in 1966, in Manitoba in 1970, and in Prince Edward Island in 1971.[1] This leaves only Newfoundland and Nova Scotia municipal councils with authority to grant industrial tax concessions.[2] In Nova Scotia, as will presently be noted, this authority was closely circumscribed.

In practice, the passage of provincial legislation prohibiting municipal councils from granting tax concessions did not eliminate the practice. Special acts of the legislature have been repeatedly passed in many of the provinces authorizing a particular municipality to grant a tax concession to a particular company. In Quebec, for instance, even though prohibited by general legislation, municipal tax concessions were repeatedly authorized by special acts in the 1950s. In Saskatchewan, similarly, two municipal tax concessions were authorized by statute in the 1960s, one in 1965 and the other in 1966.

In Nova Scotia, until several years ago, most tax concessions have been granted by special acts of the legislature rather than by means of the Bonus Act. Such special acts have not always referred to individual companies. Indeed, under the terms of a special act passed in 1965 in Nova Scotia, the County of Halifax was authorized to grant certain specified tax concessions to any new industry. However, in recent years preference has been shown for the Bonus Act.

In New Brunswick, the terms of the Municipal Tax Act were rarely used for municipal tax concessions to industry. Nearly all of the many concessions granted around the beginning of the 1960s were on the basis of special acts. Since 1966, no new municipal tax concessions of any kind have been granted in New Brunswick.

In Newfoundland, many property tax concessions (or at least restrictions) to industry have been granted by provincial legislation. The most common form has been a specification that

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1/ Under the Provincial Real Property Tax Act which came into force July 1, 1972 and the related assessment act, the provincial authorities in Price Edward Island determine all real property assessments leaving no opportunity for municipal councils to grant special and individual exemptions.

2/ The provision in Saskatchewan authorizing exemptions for a single year remains in effect under the consolidated Urban Municipality Act of 1970.

the municipal tax on the specified corporation, together with the tax levied by the same municipality on all other industrial establishments, shall not exceed 40 per cent of the total taxes levied by such municipality.[1/] This condition formed a part of the agreements with more than a score of industries.

The practice of granting property tax concessions by special acts is also generally being discouraged. Apart from the two Acts passed in Saskatchewan and two in Manitoba, there have been no such acts passed in the last ten years outside of the Atlantic region. In the Atlantic region, the practice continues only in Newfoundland and Nova Scotia.

The legislative changes and the present legislation in three provinces (Newfoundland, Nova Scotia and Quebec) will be examined in greater detail. With the minor exception of Saskatchewan noted in footnote (2) on page 7-7, Newfoundland and Nova Scotia are the only two provinces where municipal councils still have authority to grant tax concessions. Quebec was one of the first provinces to prohibit such action. These three provinces are illustrative of provincial practices in general.

Provincial legislation in Newfoundland

Provincial legislation in Newfoundland has changed little since 1950. The council of the City of St. John's may exempt from taxation existing or projected business enterprises for a period of up to ten years. The council of the City of Corner Brook (established in 1955) may by unanimous vote grant tax exemptions to any person. For other local governments in the province, the Local Government Act[2/] provides that a council may, by unanimous vote and with the consent of the Minister of Municipal Affairs and Supply (now Municipal Affairs and Housing), grant a tax exemption to anyone.[3/]

1/ No attempt has been made to establish whether this is, in fact, a concession in all cases. It would obviously depend on the relationship between the assessment of industrial establishments and that of other real property in the municipality.

2/ Statutes of Newfoundland, 1966, No. 31, s. 97.

3/ The same provision applies to community councils.

Provincial legislation in Nova Scotia

General authority for municipal councils to grant tax concessions to industry is found under two statutes in Nova Scotia, the Bonus Act[1] and the Industrial Estates Limited Act.[2]

The Bonus Act has operated in three distinct periods: 1912 to 1945; from 1945 to 1966; and from 1966 to the present. The 1912 legislation which remained in effect until 1945 authorized municipal councils under restricted conditions to provide various forms of "bonuses". A "bonus" was defined as including in addition to tax exemptions and fixed assessments

> "(a) any grant of money as a gift or loan, either conditionally or unconditionally;
>
> (b) the guaranty of the payment of any bonds or of any interest therein;
>
> (c) a gift of any lands or the leasing of any lands at a rental below the amount fairly obtainable therefor;
>
> (d) the free supply of water, electricity or gas, or the supply thereof at rates below those charged others under the same circumstances". [3]

Before a bonus could be provided, however, the approval of a majority of the ratepayers of the municipality was required. The approval of the Governor-in-Council was also required. Moreover, a bonus to secure the moving of an industry already established in the province could not be provided.

In 1945, a much more restrictive Bonus Act[4] was introduced authorizing municipal councils to provide for fixed assessments only. This Act authorized the granting by by-law, by a council of a city, town, or municipality, of such a fixed assessment on the property of any business, undertaking, or enterprise. This could not be for more than ten years and could not be renewed and could not affect any tax on the land apart from the value of the improvement thereon. Moreover, the fixed assessment could not be less than 25 per cent of the actual value of the improvements and would have to be annually increased by not less than 10 per

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1/ Revised Statutes of Nova Scotia, 1967, c. 26 and as amended.

2/ Revised Statutes of Nova Scotia, 1967, c. 139 and as amended.

3/ Statutes of Nova Scotia, 1912, c. 8. The term "bonus" was to be found in the legislation of other provinces as well.

4/ Statutes of Nova Scotia, 1945, c. 16.

cent of the fixed assessment until it reached the level at which it would usually be assessed. No fixed assessment could be offered for industry established elsewhere in the province. The approval of three-quarters of the members of council was required and, in the case of cities or towns, the assent of three-quarters of the ratepayers voting was also required.

In 1966, the Bonus Act was extended somewhat. The Act was amended[1/] to provide that municipalities could, by by-law, authorize an agreement limiting the rates or taxes payable by a business, undertaking, or enterprise. Again it was provided that this could only be for a period of not over ten years and could not be for less than 1 per cent of the value of the property to which the agreement referred. Such an agreement for fixed rates or taxes or fixed assessments could not apply to residential property nor to water rates, sewer rates, improvement charges or rates or taxes other than the annual rates for general municipal purposes. This is the legislation currently in effect.

The other avenue by which municipalities might extend tax concessions to industry was offered in 1958 to industries assisted by Industrial Estates. Under the terms of the Industrial Estates Limited Act, it was provided that:

> "any city, town or municipality may enter into and carry out an agreement or agreements with the Crown Corporation (Industrial Estates) or a tenant of the Crown Corporation granting a fixed assessment or special rates of, or exemptions from, taxes on properties owned or occupied by the Crown Corporation or on which buildings, structures or other improvements have been constructed or made out of, directly or indirectly, the proceeds of financing furnished by the Crown Corporation." 2/

Such agreements were to be limited to twenty years for Industrial Estates itself and to ten years for its tenants. In 1964, it was provided that longer-term agreements could be authorized by the Governor in Council. In 1965, to reflect the change in operating practices of I.E.L., such agreements would cover all industries assisted by it rather than just its tenants.

1/ Statutes of Nova Scotia, 1966, c. 4.

2/ Statutes of Nova Scotia, 1958, c. 5, s. 10(1).

Provincial legislation in Quebec

Legislation in Quebec dating back at least to 1870 authorized various kinds of financial assistance by municipalities to industries. Municipalities could grant tax exemptions and provide other kinds of financial assistance to manufacturers for the purpose of encouraging the establishment of new plants. However, such exemptions were restricted to a period of not more than ten years and could not be applied to flour mills, gas works, or distilleries.

Gradually, these tax concessions and bonuses were restricted even further. In 1899, a municipality was prohibited from granting bonuses to a manufacturer of a nature similar to one already established in the municipality (and which had not received a bonus), nor could a municipality use a bonus to attract an industrial establishment already located in the province. Then, in 1919, the authority of municipalities to grant bonuses was rescinded and in 1921 the authority to grant tax exemptions was also rescinded.

In the following year the authority of municipalities to grant property tax concessions was partly restored but it was closely circumscribed. A municipality could by by-law approved by vote of the property owners, and with the concurrence of the Lieutenant-Governor in Council, commute taxes of any industrial or commercial enterprise. This was limited to a period of ten years. In 1926, the commutation was limited to 75 per cent of taxes payable. Since 1937, the municipalities have been prohibited from making tax concessions.

The Municipal Aid Prohibition Act currently specifies that no municipality is permitted to "directly or indirectly, assist any industrial or commercial establishment, otherwise than in the manner provided in the Industrial Funds Act ... and without in any way limiting the generality of the foregoing words, grant assistance, more particularly in any of the following ways, to wit:

(1) By taking or subscribing shares in any company created for such object;

(2) By giving or lending money or other security, or in giving the use or ownership of any immoveable ;

(3) By guaranteeing, by endorsement or otherwise, any sum of money borrowed;

(4) By granting any exemption from taxation to any industrial or commercial establishment." 1/

It should be noted that there is provision in the legislation 2/ establishing the Central Quebec Industrial Park Corporation for agreements between the corporation and local authorities for limitations on the municipal and school taxes on its immovable property. The Corporation is, of course, a provincial agency, but such tax limitations may be presumed to benefit any industrial clients who lease its property. Such taxes must be at least equal to that which would be paid if the property was land under cultivation. Before any such agreements can become effective, they must be submitted to the appropriate provincial cabinet ministers and be approved by the Lieutenant-Governor in Council.

Other Individual Tax Concessions

Individual tax concessions from sales taxes or gasoline taxes are made available to an industrial firm in Newfoundland. Under provincial legislation, the Lieutenant-Governor in Council is authorized to exempt a company from payment of sales tax on building materials or from the gasoline and fuel oil tax. In fact, exemptions from these taxes have also been provided by special acts to many industrial companies. The exemptions from the sales tax have generally covered "the purchase, consumption or use of machinery, equipment, structures, plant, materials, goods, articles and things used in the original installation or expansion of works, buildings and facilities required". 3/

Certain tax concessions designed to promote processing of raw materials in a province are available in some provinces. These are considered in detail in Chapter 8.

1/ Revised Statutes of Quebec, 1964, c. 176.

2/ Statutes of Quebec, 1968, c. 60.

3/ As an example, this quotation is from Statutes of Newfoundland, 1959, No. 32.

General Tax Concessions

Some of the taxes for which individual exemptions have been made available in some provinces are not levied in other provinces. The provincial and municipal tax structures and the rates of taxation imposed on industrial enterprises vary from province to province. Exemptions from a given tax also differ from province to province. Some of these exemptions would appear to be in the nature of a general tax concession but it is impossible to so state in a definitive way.

It would be an extensive study, indeed, to examine the various tax systems in each of the provinces to ascertain the differences in the tax treatment of industrial enterprises.[1/] Reference will be made only to the treatment of manufacturing machinery and equipment for the purposes of the property tax and for the purposes of the provincial sales tax. These are cited only as examples. The range of difference is very substantial.

There are four exceptions to the practice of assessing manufacturing machinery and equipment for the purpose of real property and business or personal property taxes. These are Ontario, Saskatchewan, Alberta and British Columbia. In Ontario, while machinery and equipment is generally assessed and taxable, machinery and equipment used for manufacturing purposes is not subject to the municipal property tax.[2/] In Saskatchewan, manufacturing machinery and equipment in contrast to some other industrial machinery is not assessed for real property tax. In Alberta, there is an exemption from business or in manufacturing or processing or for the production of natural resources or for the transmission of natural resources"[3/] which has been subject to a property tax. In British Columbia, all removable machinery and equipment is exempt for general taxation

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1/ An example is the municipal property taxation on business. Comprehensive consideration of this has been given in F.M. Finnis, Property Assessment in Canada, Canadian Tax Foundation, Canadian Tax Papers, No. 50 (Toronto, March, 1970) and Canadian Tax Foundation, Local Finance, March, 1960. These indicate the incredible complexity of the subject.

2/ Machinery and equipment used for farming purposes or for obtaining minerals from the ground are similarly exempt. See Revised Statutes of Ontario, 1970, c. 32, s. 3.

3/ Revised Statutes of Alberta, 1970, c. 251, s. 80(2).

purposes but is taxed for school, local improvement and all regional district purposes in the rural areas and for school and regional hospital purposes in municipalities.[1/]

Differences also exist in regard to the application of the provincial sales taxes on machinery, equipment and materials used in manufacturing. In 1971, an exemption from the general sales tax for machinery, equipment and materials used in manufacturing prevailed in Prince Edward Island, Nova Scotia, New Brunswick, and Manitoba. In Saskatchewan, materials used in manufacturing which become a component part of finished products are exempted from the sales tax. In Ontario, production machinery had been exempt from the general sales tax until April 1, 1969. Since June 1, 1970, an exemption is provided only for certain items used in the manufacturing process such as particular tools and fine bricks and retorts. The 1972 provincial budgets brought two major changes. In Manitoba, a sales tax on manufacturing machinery and equipment was imposed; the opposite occurred in Quebec.

General Tax Concessions for Incentive Purposes

The preceding section referred to certain differences in tax structures that are generally not specifically identified by governments as industrial incentives. There are, however, other general tax concessions designed for industrial development purposes. The most fully developed program of this nature is found in Quebec.

To stimulate an acceleration of manufacturing investment, the provincial Corporation Tax Act in Quebec was amended in 1968 to provide for special tax treatment of investments made by manufacturing or processing businesses in the period April 1, 1968, to March 31, 1971. The provision was that such companies would be permitted to deduct from net revenue 30 per cent of the investment over $50,000 made in the period for the construction or extension of works or manufacturers or the purchase of new machinery, tools and equipment. A maximum limit on the permissible deduction for any one year was set at one-half of net revenue. However, the deduction could be

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1/ See Revised Statutes of British Columbia, 1960, c. 255 and amendments. Removable machinery and equipment may be taxed for other regional district purposes within municipal areas at the option of each district under the letters patent.

taken in subsequent financial years. There was also a limit on the tax reduction available, i.e.:

> "The tax reduction obtained under this section shall not exceed twelve per cent of the amount which may be so deducted in computing the net revenue." 1/

In 1971,[2/] this program was extended to March 31, 1974 but in a very much modified form. It was restricted to advanced technology manufacturing or processing companies, i.e., which

> "invest at least $250,000 in the province of Quebec in making use of advanced technology to manufacture a newly-conceived product, a product not yet manufactured in the province of Quebec or a product whose production on a competitive basis in the province of Quebec is insufficient in relation to domestic or international markets which offer prospects of continuous, significant growth." 3/

The new program was given a regional development orientation in that the deductions from net revenue would vary according to region, ranging from 30 per cent to 100 per cent. An upper limit of $10,000,000 was set on the investment to which such deductions might apply. Further details may be found in Chapter 13.

Also in Quebec, by virtue of Orders in Council 379, 528 and 2209, a sales tax rebate is provided to manufacturing companies exporting in excess of one-third of their sales. This sales tax rebate of up to the full tax is payable on 30 per cent of the invoice cost of new buildings and up to 66 2/3 per cent for assets used or consumed in export activity.

Grants

The distinction between grants and subsidies has already been made in this chapter (see p.156). The major provincial grant programs are regional programs in that they are available to industries in part of the province only. Such regional grant programs in Quebec, Ontario, Saskatchewan and Alberta are examined in Chapter 13 .

1/ Statutes of Quebec, 1968, c. 28, s. 2.

2/ Statutes of Quebec, 1971, c. 23.

3/ Statutes of Quebec, 1971, c. 64, s. 2(a).

But there are also provincial grants programs available to manufacturing industries throughout a province. These have been designed to encourage special types of industries such as high-technology industries in Quebec, to stimulate exports as in Ontario and Manitoba or to stimulate increased research (additional mention is made of some of these grant programs in other relevant chapters of this report such as Chapters 9 and 10). In Nova Scotia and New Brunswick, a few grants have been awarded in exceptional cases largely for locational purposes. We now proceed to a province-by-province examination of these programs.

Nova Scotia

Grants to manufacturing enterprises have been only rarely employed in Nova Scotia. In the 1970-71 fiscal year, grants of $1,153,805 were made by Industrial Estates Limited. Such grants have been designed to help defray certain additional capital costs associated with establishing in the province and also to defray additional training costs.

New Brunswick

Similarly, industrial grants have been rarely made in New Brunswick and it is now declared government policy not to award any more. However, in the 1969-70 and 1970-71 fiscal years, industrial incentive grants were paid to two companies, a total of $3,000,000 to Fundy Forest Industries and $900,000 to McCain Foods Limited.[1/]

Quebec

The Quebec program began in 1971 under the terms of the Quebec Industrial Development Assistance Act.[2/] It is designed to encourage certain key industries and businesses. For this purpose, the "forgivable" loan device is used. The loan would be advanced by the Industrial Development Corporation on the authorization of the Lieutenant-Governor in Council. Exemption from repayment of part of the loan would be subject to the condition that "since

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1/ Source: Public Accounts of the Province of New Brunswick, Fiscal Years ended March 31, 1970 and March 31, 1971.

2/ Statutes of Quebec, 1971, c. 64.

the date of the loan its performance has improved to the extent determined by the regulations, and that by means of financial assistance it has created or will create numerous jobs in accordance with the criteria prescribed by the regulations".1/

Two categories of industries and businesses are eligible for these "forgivable" loans. One category is high-technology industries, investing at least $250,000 in manufacturing newly conceived products as yet sold in very small quantities in Quebec. The other category is businesses which regroup their means of production through amalgamation or otherwise while adapting them to modern production techniques.

These industries may also receive loans at a rate of interest lower than the market rate or have part of the costs of the loan assumed by the Quebec Industrial Development Corporation. The advanced technology companies are also eligible for the special income tax incentives previously described in this chapter.

Manitoba

A variety of industrial development grants are in existence in Manitoba. All of them involve relatively small payments to manufacturing firms. In the fiscal year 1970-71, they totalled $325,076 made up as follows (with the number of grants given in brackets): technical assistance grants (57) -- $149,105; design improvement grants (42) -- $68,339; research and development grants (9) -- $13,527; manpower development incentives (19) -- $35,598; export incentives (22) -- $31,778 and feasibility study payments (16) -- $30,729.2/

Saskatchewan

Two grant programs have been in existence in Saskatchewan. The first began in 1965 and was largely inoperative by 1966. The second began in 1972.

The earlier program was authorized by legislation in 1963 enabling the newly established Saskatchewan Economic Development Corporation to give grants (with the approval of the Minister

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1/ Ibid., c. 64, s. 8(b).

2/ Source: Manitoba Department of Industry and Commerce, Annual Report for the year ending March 31, 1971.

of Industry and Information) for various purposes. Three types of grants were made available to manufacturing companies: (1) grants to assist companies to acquire machinery, apparatus and equipment; (2) grants to assist in meeting the cost of feasibility studies, research and the development of new products; and (3) grants to improve the technical skills of employees where these skills were not available in the province and the necessary training could not be obtained under existing provincial training programs.

Grants for research were to be limited to one-third of the cost of approved projects while grants for machinery, apparatus and equipment were restricted to companies locating a new establishment in Saskatchewan or expanding the productive capacity of an existing establishment and could not exceed 10 per cent of eligible expenditures in excess of $10,000. An individual grant could not exceed $100,000.

The grants program had been largely discontinued, however, by the end of 1965. The grants program for machinery, apparatus, and equipment had been repealed by legislation in 1965. These had, in fact, been the major part of the program amounting to a total of $433,000. Grants in respect of research were gradually dispensed with as the federal government's Program for the Advancement of Industrial Technology was launched. Requests for assistance for technical training were after a short period dealt with by the Department of Education. There have been no grants approved since 1968. Total grant disbursements amounted to $562,000.

The new grant program began with the passage of the Industry and Commerce Development Act, 1972.[1/] This authorized the Minister of Industry and Commerce to make grants or forgivable loans for such purposes as:

"(i) to assist in, or to provide for, the continuation of a business enterprise where its continued operation is threatened and its loss would disrupt the social and economic

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[1/] Statutes of Saskatchewan, 1972, c. .

base of the community in which the enterprise is situated;

(ii) for modernization, refurbishing or expansion of small businesses;

(iii) to assist in the establishment of new businesses in areas of the province of slow economic growth;

(iv) for the promotion or development of the tourist industry or tourism in Saskatchewan;"[1/]

It is too early to comment on the magnitude of this program. However, it may be noted that the Province of Saskatchewan Estimates provided the amount of $100,000 for the 1972-73 fiscal year for the payment of grants under this statute.

Subsidies

Subsidies to industry may be "open" or "hidden". The "open" subsidy will be publicly announced, likely will be the subject of legislation, or involve the approval of a financial item in the expenditure estimates. They are thus easy to identify. A "hidden" subsidy, on the other hand, may occur when an electric power utility sells power to a company at an unremunerative rate. Since, in line with standard operating practice, such special rates will generally not be divulged, one will generally be unaware of their existence.

By definition, it will not be possible to proceed much further with a discussion of hidden subsidies. The fact that provincial governments own electrical power utilities in several provinces raises the possibility that provincial industrial incentive policies have some effect on the power rates offered to industry. The practice of offering special incentives rates is, of course, not unique to government-owned utilities. Large new users also negotiate their rates with privately owned utilities. Whether a special rate could be said to involve a subsidy would depend on a variety of technological and cost factors and even on judgement. The estimation of the production costs of part of a utility's output is not an exact science.

1/ Ibid., c. , s. 4(a).

There are a number of examples of open subsidies to industry by provincial governments although this is not a major instrument of policy. Two of these relate to electric power rates. In a province or two a subsidy is employed to encourage more processing of minerals. Perhaps the most general form of subsidy is implicit in the operations of provincial loan agencies.

Two instances of subsidies on electric power rates have occurred, in Newfoundland and in Nova Scotia. The Newfoundland case involves an identifiable sum which is presumed to represent the amount of the subsidy. The Nova Scotia case merely allows municipal public utilities to enter into special agreements with manufacturing clients.

In Newfoundland, under the Industrial Development (Incentives) Act, 1968 the Lieutenant-Governor in Council was authorized to designate as an "incentive consumer any company or partnership which is or will, in the opinion of the Lieutenant-Governor in Council become a large user of electric power and energy by virtue of the establishment or expansion by it of an industrial plant in the province".[1/] The government was authorized to enter into agreements to provide that the government would pay to such incentive consumer the difference between the incentive rate and the estimated cost rate, or alternatively the government may pay to the Newfoundland and Labrador Power Commission the difference between the incentive rate and the estimated cost rate. The payments under this provision have been relatively large -- $6,502,000 in the 1970-71 fiscal year.

In Nova Scotia, legislation was passed in 1970[2/] authorizing public utilities to enter into special agreements regarding the rates for electric energy supplied to newly established or expanding industries. "Industry" was defined as one being "operated principally for the purpose of processing materials or manufacturing or assembling products".[3/] These agreements could not be for a term of more than ten years and certain minimum demand and employment requirements were provided

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1/ Statutes of Newfoundland, 1968, No. 12, s. 3.

2/ Statutes of Nova Scotia, 1970, c. 3.

3/ Ibid, c. 3, 3. 1(c).

for. It was also provided that the rates could not be lower than any limits set from time to time by the Governor in Council either generally or with respect to any industry or class of industries. It was also provided that the rates would not be below the estimated incremental costs to the utility.

Another form of provincial subsidy to industry is involved in the bonuses to encourage more processing of minerals. These are discussed in greater detail in Chapter 8, "Stimulation of Resource Processing".

A subsidy also may be involved in the interest rate on industrial loans made by provincial loan agencies. The interest rates charged have been considered in Chapter 4 (see particularly pp. 109 to 114). It is obvious that in some cases the interest rates charged have been lower than those which the government itself must pay on borrowed funds, so that the rate has not been remunerative and clearly involves a subsidy. In other cases, although the interest rate charged to borrowers has been above the rate at which the government itself may borrow, it may still have been below the rate at which funds could be obtained from private lenders.[1/] The ensuing benefit to the borrower may not in all cases be properly described as a subsidy. In still other cases, the interest rate charged by a provincial government loan agency may be roughly equivalent to, or even above, the rates in the private capital market. No attempt has been made in this study to determine the amount of any interest rate subsidy by provincial government loan agencies.

1/ Recognizing that the government borrowing rate is lower than that of private industry.

Chapter 8

STIMULATION OF RESOURCE PROCESSING

In this chapter will be examined four types of provincial legislation designed to encourage greater processing within the province of a provinces's natural resources. These are (1) the complete or partial prohibition of the export of unprocessed resources, (2) the imposition of special punitive taxes when unprocessed resources are exported, (3) the payment of bounties or tax remissions when resources are processed in the province, and (4) special tax provisions to encourage the processing of resources. All four types of policies may be simultaneously employed in a single province. They relate particularly to forestry and mineral development policies, so this chapter will be confined to those sectors.

It will be understood that there are other ways by which resource processing may be stimulated. The activity of provincial loan agencies in lending to resource processing industries is one. Programs such as industrial lending which are not directed primarily to the stimulation of resource processing are considered in other chapters in this report.

Prohibition of Export of Natural Resources

(In this section have been identified explicit provisions in provincial legislation and government regulations prohibiting or controlling the export of unprocessed forest and mineral resources. There may be other instances where provincial governments before granting forest cutting permits or mining permits have sought formal or informal commitments from the applicant companies to process the resources within the province. No effort has been made to identify such cases.)

All provincial governments control to some degree the shipment out of the province of forest and mineral resources, particularly those from Crown lands. There are differences in the legislative form under which control is exercised and differences in the flexibility of such controls.

In many cases, provincial legislation prohibits the shipment out of the province of unprocessed resources from Crown lands unless the Lieutenant-Governor in Council gives an exemption. In other cases, a similar type of control is provided for by regulations. In at least two instances, the legislative prohibition of export is such that no exemptions or only very limited exemptions may be granted by the Lieutenant-Governor in Council.

Some degree of prohibition of the export of unprocessed timber resources (except by specific approval of the Lieutenant-Governor in Council) is to be found in all but two provinces, Prince Edward Island and Nova Scotia. This is done by legislation in Newfoundland, New Brunswick, Quebec, Ontario, Alberta, and British Columbia; by regulations in Manitoba and Saskatchewan. The legislation or regulation applies to shipments out of the province in Newfoundland, Quebec, Manitoba, Saskatchewan, Alberta and British Columbia; in New Brunswick and Ontario the prohibition applies only to exports out of Canada. As noted, in nearly all cases, approval for shipment out of the province may be granted by the Lieutenant-Governor in Council. In Quebec, however, the prohibition of the export to other countries of unprocessed wood from the public domain is absolute. In Alberta, any exemption is limited to a period of a year.

Formal prohibition of the export of unprocessed ore is not so common. Export of unprocessed ore is prohibited except by specific approval of the Lieutenant-Governor in Council in Ontario, Manitoba, Saskatchewan and British Columbia. This is provided for by legislation in Ontario, Manitoba and British Columbia; by regulation in Saskatchewan. The Ontario and Manitoba legislation applies only to exports outside of Canada; the Saskatchewan regulations and the British Columbia legislation apply to any shipments out of the province. The British Columbia legislation is limited to a stated proportion of unprocessed ore produced in the province.

In the case of petroleum and natural gas resources, an examination has been undertaken of export policies in only the three largest producing provinces namely Alberta, Saskatchewan, and

British Columbia. In Alberta and Saskatchewan, shipments of natural gas out of the province are prohibited unless a permit has been obtained. There is no formal legislative prohibition of export of natural gas from British Columbia. There is no legislative prohibition of the export of petroleum in the three provinces although restrictions on export are achieved indirectly. For instance, in Alberta, the Oil and Gas Conservation Board (appointed by the Lieutenant-Governor in Council) has the power to restrict the amount of oil, gas, crude bitumen or synthetic crude oil produced in the province.[1/] A similar power is exercised by the Minister of Mines and Petroleum Resources in British Columbia.[2/] This is coupled with the exercise of extensive powers of regulation over the production of individual wells and fields.

A description of the legislation in each province follows:

Newfoundland

Under the Crown Lands Act[3/] no person may export from Newfoundland lumber or unmanufactured products of timber from Crown lands except with the permission of the Lieutenant-Governor in Council.[4/] A similar provision (except that the Minister of Resources may grant export permission in place of the Lieutenant-Governor in Council) applies to unmanufactured timber "from any freehold land or from land under a licence to cut timber under this Act or any former Act, or from any land under demise from the Crown"[5/] except that it does not apply to "trees or timber cut into cordwood, pulpwood, pitprops, or other lengths whether barked or not".[6/] Until recently, the drain on the forest resource has been less than the allowable annual cut and export of

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1/ See sections 34,35 and 44 of Revised Statutes of Alberta, 1970, c.267. The approval of the Lieutenant-Governor in Council for the action of the Board is required in regard to oil and gas produced from gas fields and in regard to crude bitumen or synthetic crude oil.

2/ See section 15 of Statutes of British Columbia, 1965, c.33.

3/ Revised Statutes of Newfoundland, 1952, c.174.

4/ See ibid, c. 174, s. 88.

5/ Ibid c. 174, s.90(1).

6/ Ibid., c. 174, s.90(3).

In many cases, provincial legislation prohibits the shipment out of the province of unprocessed resources from Crown lands unless the Lieutenant-Governor in Council gives an exemption. In other cases, a similar type of control is provided for by regulations. In at least two instances, the legislative prohibition of export is such that no exemptions or only very limited exemptions may be granted by the Lieutenant-Governor in Council.

Some degree of prohibition of the export of unprocessed timber resources (except by specific approval of the Lieutenant-Governor in Council) is to be found in all but two provinces, Prince Edward Island and Nova Scotia. This is done by legislation in Newfoundland, New Brunswick, Quebec, Ontario, Alberta, and British Columbia; by regulations in Manitoba and Saskatchewan. The legislation or regulation applies to shipments out of the province in Newfoundland, Quebec, Manitoba, Saskatchewan, Alberta and British Columbia; in New Brunswick and Ontario the prohibition applies only to exports out of Canada. As noted, in nearly all cases, approval for shipment out of the province may be granted by the Lieutenant-Governor in Council. In Quebec, however, the prohibition of the export to other countries of unprocessed wood from the public domain is absolute. In Alberta, any exemption is limited to a period of a year.

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3/ Revised Statutes of Newfoundland, 1952, c.174.

4/ See ibid, c. 174, s. 88.

5/ Ibid c. 174, s.90(1).

6/ Ibid., c. 174, s.90(3).

unmanufactured products has probably not been seriously discouraged.

There is no legislative provision in Newfoundland barring export of unprocessed minerals.

New Brunswick

Legislation prohibiting export from Canada of unprocessed resources prevails in respect to forest resources from Crown land in New Brunswick. This provision dates back to 1911.[1] Under the Crown Lands Act[2] it is specified that:

> "Every timber licence or permit conferring authority to cut timber, on the ungranted lands of the Crown, shall contain and be subject to the condition that all such timber ... shall be manufactured in Canada into merchantable pulp or paper, or into sawn lumber, woodenware utensils, or other articles of commerce or merchandise ...."[3]

However, the Lieutenant-Governor in Council is authorized to exempt licensees from this provision. (It would appear that until 1919 the Lieutenant-Governor in Council did not have the power to grant exemptions from this provision.)[4]

It should be emphasized that the legislation refers to export from Canada. There are no restrictions on wood going to other provinces. At the present time, two orders authorizing the export of unmanufactured products are in effect, but one has not been applied for several years.

There is no legislative provision restricting the export of unprocessed mineral resources.

Quebec

There is no provision barring export of unprocessed minerals but, beginning in 1956, legislation provided that all wood derived from the public domain of the province must be "completely processed"[5] in the province. This provision could

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1/ New Brunswick Statutes, 1911, c.10 as amended by New Brunswick Statutes, 1918, c.20.

2/ Revised Statutes of New Brunswick, 1952, c.53 as amended.

3/ Ibid., c.53, Schedule A, s.1. Until 1958, poplar was exempted from this provision.

4/ See New Brunswick Statutes, 1919, c.27.

5/ "Completely processed" is defined as: "... when it has undergone all the treatments and processes of manufacture and has passed through all the phases of transformation necessary to render it suitable for the use to which it is intended finally to be put, in such a manner that the products thereof have acquired the definitive form in which the merchandise is to be delivered to the consumer". Revised Statutes of Quebec, 1964, c.93, s.2.

be waived by the Lieutenant-Governor in Council in respect of shipments to another province (but not for shipments outside of Canada) "whenever he deems it in the interest of the province or of a region thereof by reason of particular industrial, economic or social conditions".1/

An earlier provision dating back to 1931 stated that all timber cut under certain special permits "must be manufactured or utilized within the province of Quebec".2/ Also there was provision dating back to 1926 for financial penalties for "every person who exports timber cut upon Crown Lands contrary to law or the regulations...."3/

Ontario

In Ontario, legislation prohibiting export of unprocessed forestry and mineral resources is of long-standing but again with the provision that the Lieutenant-Governor in Council could allow export of unprocessed materials. The legislation would require processing in Canada; shipment of unprocessed resources to other provinces was not affected.

The requirement that Ontario mineral resources, subject to exemption by the Lieutenant-Governor in Council, were to be treated and refined in Canada dates back to 1917.4/ Originally it applies only to land severed from the Crown by either patent or lease after the date of the legislation. Iron ore was subject to the processing requirement from 1917 to 1924 but was exempted after 1924.5/ Beginning January 1, 1970 under amendments passed in 19696/ all minerals, regardless of when the land from which ore was obtained was severed from the Crown, were subject to the processing requirement, but with the Lieutenant-Governor in Council retaining the

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1/ Revised Statutes of Quebec, 1964, c.93, s.2.

2/ Revised Statutes of Quebec, 1941, c.93, s.99 relating back to Statutes of Quebec, 1930-31, c.33.

3/ Revised Statutes of Quebec, 1941, c.93, s.104 relating back to Statutes of Quebec, 1926, c.23.

4/ Statutes of Ontario, 1917, c.11.

5/ By Statutes of Ontario, 1924, c.19.

6/ Statutes of Ontario, 1968-69, c.68.

power to give exemptions. A committee was established by the Minister of Mines to study applications for these exemptions with the terms of reference including whether suitable processing facilities were available in Canada.

The prohibition of the export from Canada of unprocessed Ontario forest resources from Crown lands has a similarly long history. Since well before 1927, it has been provided in legislation that unprocessed timber resources owned by the provincial government could not be exported to other countries, although exports to other provinces would not be prohibited. Again, the Lieutenant-Governor in Council could make exemptions to this provision. The legislation now in effect provides that all timber on public lands, or timber that is the property of the Crown under management of the Minister of Lands and Forests on lands other than public lands, shall be manufactured in Canada into "ties, poles, pit props, lumber, veneer or such like products or into pulp",[1/] unless the Lieutenant-Governor in Council suspends the provision. The Lieutenant-Governor in Council could suspend the operation of this provision "as to any kind or class of timber that he designates and as to any area that he defines and for such period and upon such other terms and conditions as he considers proper".[2/]

Another form of prohibition in Ontario developed when land was granted in the early years as a subsidy to a railway or other company. It was a feature of many of such Acts of the legislature that the exportation from such lands of spruce pulpwood in an unmanufactured condition was prohibited. The Spruce Pulpwood Exportation Act passed in 1940[3/] permitted the Lieutenant-Governor in Council to authorize the exportation of spruce pulpwood from such lands.

Manitoba

While there is no formal legislative prohibition of the export of unprocessed timber resources from Manitoba, the Lieutenant-Governor in Council, under the Forest Act[4/] may make regulations

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1/ Revised Statutes of Ontario, 1970, c.102, s. 14(1).

2/ Statutes of Ontario, 1968, c. 24, s. 2.

3/ Statutes of Ontario, 1940, c. 27.

4/ Revised Statutes of Manitoba, 1970, c. F150.

"respecting the cutting, classifying, measuring, manufacturing, marking, branding, inspecting and clearing for export, of trees, timber, and products of the forest [emphasis mine]".1/ In fact regulations specify that "no person shall export from Manitoba unmanufactured timber unless he first obtains an export certificate issued by the director [of the Forestry Branch]".2/ In practice, this has applied only to shipments to foreign countries.

Under the Mines Act, "all permits or leases shall be subject to the provision that all ores or minerals mined from locations described in those permits or leases shall be treated and refined within Canada ...."3/ Exemption from this provision may be granted by the Lieutenant-Governor in Council. This provision dates back to 1930.4/

Saskatchewan

The only formal legislative prohibition of the export of unprocessed timber or mineral resources from Saskatchewan applies to natural gas. Regulations requiring government approval before shipment out of the province may be permitted apply to unprocessed timber and mineral resources.

Under the Oil and Gas Conservation Act, "The export from the province of gas is prohibited unless a permit authorizing the export is granted by the Minister [of Natural Resources]".5/

Under the Mineral Resources Act,6/ regulations have been passed providing that "All minerals, mineral ores and mineral-bearing substances extracted from a disposition area shall be treated and refined in Saskatchewan unless otherwise authorized by the Minister [of Mineral Resources]".7/ Similarly, under regulations affecting quarrying, also passed under the terms of

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1/ Ibid., c.F150, s. 43(o).

2/ Province of Manitoba, The Forest Regulations, 1965, s.58.

3/ Revised Statutes of Manitoba, 1970, c.M.160, s.9(1).

4/ Statutes of Manitoba, 1930, c. 27.

5/ Statutes of Saskatchewan, 1952, c. 88, s.56.

6/ Statutes of Saskatchewan, 1959, c. 84.

7/ Province of Saskatchewan, The Mineral Disposition Regulations, 1961, s.86.

the Mineral Resources Act, it was provided that "no lessee shall except as may otherwise be permitted in writing by the Minister [of Mineral Resources] ship, export or caused to be shipped or exported from Saskatchewan in its natural or unprocessed state any quarriable substance obtained from the lands covered by his lease ...."1/ Also, regulations passed by virtue of the Forest Act provide that: "... no green timber [from Crown Lands] shall be exported without the authority of the Minister [of Natural Resources]".2/ It was also provided that:

> "Except with the permission of the Minister [of Natural Resources], no forest products cut by or for the Company on the forest management area shall be exported, sold or otherwise disposed of in their natural form".3/

Alberta

In Alberta, restriction on the export of natural gas from the province is achieved by levying a fine on

> "A person who removes gas or propane produced in the province to a place elsewhere than within the province ... unless a subsisting permit has been granted authorizing the removal of such gas or propane from the province."4/

Such a permit may be granted by the Oil and Gas Conservation Board, a body appointed by the Lieutenant-Governor in Council, after a public hearing. The permit must however be approved by the Lieutenant-Governor in Council. The Board may require the extraction of various substances from the natural gas before it is transported out of the province.

Under legislation passed in 1971, there is a prohibition on the export of most unprocessed timber resources. Under an amendment to the Forest Act, it was stated that "No person shall transport logs, trees or wood-chips except dry pulpwood or Christmas trees to any destination outside Alberta from any forest lands".5/ The Minister of Lands and Forests was authorized to exempt any logs, trees or wood-chips from this provision for a period of not more than one year. In addition, logs, trees or

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1/ Province of Saskatchewan, O.C. 1504/59.

2/ Saskatchewan Regulation 240/67, s. 5.

3/ Ibid., s. 48.

4/ Statutes of Alberta, 1970, c. 157, s. 21. This provision dates back to 1949.

5/ Statutes of Alberta, 1971, c. 37, s. 29(1).

wood-chips could be transported outside the province for research or experimental purposes.

The prohibition of the export of unmanufactured timber dates back to 1949.[1/] At that time the only exemption was dry pulpwood. Later, Christmas trees were also exempted. There was no provision for the Lieutenant-Governor in Council to authorize export until an amendment in 1961.[2/] Such authorization to export originally had no time-limit but since 1971 is restricted to one year.

While there is no prohibition of the export of unprocessed metallic minerals from the province, this is probably due to the fact that there are no metallic mines in Alberta.

British Columbia

There are legislative provisions prohibiting the export of both forest and mineral resources from British Columbia, subject to exemptions by the Lieutenant-Governor in Council.

In respect to forest resources, it was provided that "All timber cut on Crown Lands, or on lands granted after the twelfth day of March 1906, or on lands held under pre-emption record, shall be used in the province, or be manufactured in the province into boards, deal, joists, laths, shingles, or other sawn lumber, or into wood-pulp or paper, except as hereinafter provided ...."[3/] As at 1960, the Lieutenant-Governor in Council could permit the export of unmanufactured timber: (1) if they were such items as piles, poles, railway ties, crib timber, wood-chips and other minor forest products; (2) "from areas adjacent to the boundary of the province in cases where it is proved to his satisfaction that such timber cannot, owing to topographical reasons, be profitably manufactured within the province";[4/] and (3) any type of unmanufactured timber until June 30, 1963.

1/ Statutes of Alberta, 1949, c. 43, s. 52.

2/ Statutes of Alberta, 1961, c. 32, s. 13.

3/ Revised Statutes of British Columbia, 1960, c. 153, s. 92.

4/ Ibid., c. 153, s. 96.

These provisions are of long standing, dating back to 1923.[1/] The only major change in the legislation since that time has been the periodic extension of the time-limit on the general powers of the Lieutenant-Governor in Council to authorize the export of unmanufactured timber. In 1964,[2/] this time-limit was removed entirely.

In deciding whether timber or wood-chips may be exported, the Minister of Forests is guided by two export advisory committees, one for each group of product. While the procedures vary, the basic principle followed is that export will not be recommended if a provincial user desires to purchase the timber or wood-chips.

A provision restricting the export of unprocessed mineral resources was not introduced until 1970. Under the Mineral Processing Act of that year, it was provided that "all minerals produced in the province shall be processed, smelted and refined in the province subject to the availability of processing, smelting and refining facilities within the province and the further provisions of this Act".[3/] The Act gave the Minister of Mines and Petroleum Resources authority to "direct the owner or manager of a producing mine within the province to deliver a maximum of 50 per cent of the minerals produced by that mining operation to a processing plant, smelter or refinery in the province designated by the minister capable of and equipped to further process, smelt, or refine the ore, concentrates or semi-processed metals".[4/] Concurrent authority required the smelter or refinery to accept such ores. Such a directive from the Minister could be changed by a Board of Arbitration appointed by the Lieutenant-Governor in Council but the Lieutenant-Governor could reverse or vary the decisions of this board. In 1970, an Order-in-Council[5/] provided that a producing copper mine would be obliged upon notice from the minister to deliver 12½ per cent of its production to a British Columbia copper smelter. No regulations have been passed affecting other minerals.

1/ Statutes of British Columbia, 1923, c. 17.

2/ Statutes of British Columbia, 1964, c. 21.

3/ Statutes of British Columbia, 1970, c. 26, s. 3.

4/ Ibid., c. 26, s. 4(1).

5/ Province of British Columbia Order-in-Council number 1376, approved April 23, 1970.

It should be emphasized that the Mineral Processing Act does not require a permit to export concentrates but states that the Minister may direct the processing within the province. Recently, most major exporters of copper and molybdenum concentrates have obtained the permission of the Minister to export, but some have not. For lead, zinc and iron, the provisions of the Act have not been applied because of smelter arrangements.

Higher Taxes on Exported Unprocessed Materials

A tax on exported unprocessed resources higher than on those used or processed in the province is provided for in New Brunswick and Quebec and was in effect for natural gas in Ontario until 1971.

New Brunswick

In New Brunswick, under the Mining Tax Act passed in 1954,[1] it was provided that if ore mined in New Brunswick is treated outside the province, the Lieutenant-Governor in Council may order that the amount of mining taxes payable by the mine be increased up to three times the level otherwise due. This provision has not as yet been used. Companies have requested and have been granted exemption from this section.

Quebec

In Quebec, ore mined in Quebec and removed outside of the province for treating may be subject to a tripling of the duties on mining profits. This provision is subject to the decision of the Lieutenant-Governor in Council. Beginning in 1920,[2] this originally applied only to mines in the counties of Abitibi and Temiscamingue. In 1930,[3] this provision was extended to mines in the whole of the province.

Ontario

The Ontario provision related to natural gas produced in the province From 1948 to 1971 there had been a tax of 2 cents per

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1/ New Brunswick Statutes, 1954, c. 10, s. 5(5).

2/ Reference to 15 Geo. V, c. 37, s. 2.

3/ Statutes of Quebec, 1930, c. 41, s. 6.

thousand cubic feet if exported from Canada, and ½ cent a thousand cubic feet if consumed in Canada. The tax on natural gas consumed in Canada could also be remitted up to an amount of $250. Previous to 1948, and dating back to before 1927,[1] a tax of 2 cents per thousand cubic feet had been levied on all natural gas but a remission of a percentage of the tax would be provided if the natural gas was consumed in Canada. This remission was 90 per cent to 1932, 50 per cent in 1932, and 75 per cent from 1933 until the legislation was changed in 1948 when the remission principle was abandoned and replaced by its equivalent. Obviously this provision is no longer important since Ontario gas wells provide only a minute fraction of the total Ontario natural gas requirements. It is of interest only because of the principle involved and was repealed in 1971.

Bounties and Tax Remissions

A bounty system to encourage mineral processing has long been employed in British Columbia. A tax remission system has been used for a similar purpose in Ontario. Both policies were originally applied only to iron ore but were extended to copper in British Columbia in 1961. A tax deduction has been available for all minerals in Ontario since 1969 if they are processed to the smelter stage in Canada.

Ontario

Special tax provisions when ore was smelted in Canada have had a long history in Ontario. Since before 1927 the Minister of Mines has been authorized to remit the whole of the mining tax levied on the mining of iron ore "where he is satisfied that the iron ore has been smelted in Canada or delivered to a blast furnace therein for the purpose of being smelted".[2] The only recent important change in the legislation has been that since 1969 the authorization of the Lieutenant-Governor in Council has been required instead of only the Minister before such remission may be granted.

A tax deduction was extended to all ore by an amendment to the Mining Tax Act passed in 1969.[3] The amendment

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1/ See Revised Statutes of Ontario, 1927, c. 28, s. 26.

2/ Revised Statutes of Ontario, 1960, c. 242, s. 14.

3/ Statutes of Ontario, 1968-69, c. 69.

permitted a deduction from mining profits [1] of 10 per cent per annum of the capitalized cost of developing the mine provided that "the ore taken from the mine is beneficiated, at least to the smelter stage, in Canada".[2] This applied only to mines that came into production after January 1, 1965. It was also subject to the condition that "it is assumed that 10 per cent of the cost of such development has been written off for each taxation year of production prior to the first taxation year in which the ore or part thereof is or has been treated to at least the smelter stage in Canada or prior to the taxation year ending in the year 1969, whichever is the later ...."[3]

It is important to note that the Lieutenant-Governor in Council can permit this deduction to be made available to mining companies even if the ore is not smelted in Canada. The Lieutenant-Governor in Council can also suspend the other requirement referred to at the end of the preceding paragraph.

British Columbia

An Iron Bounties Act[4] was first passed in British Columbia in 1918. It provided for a payment of a bounty on pig iron manufactured in British Columbia. If manufactured from ore mined in the province, the bounty was not to exceed $3 per ton, otherwise it was not to exceed $1.50 per ton. In 1923, this was amended to provide that no agreement under the Act would last more than five years and the total bounties were not to exceed $2,000,000.

In 1929, a bounty not to exceed $1 per ton was also provided in respect of "steel shapes of commercial utility manufactured in the province",[5] with total bounties not to exceed $20,000 in any one year or $100,000 in the aggregate.

1/ The formula for calculating the mining profits which would be subject to a mining tax (currently 15 per cent) is given in the Mining Tax Act.

2/ Ibid., c. 69, s. 2(3)(n).

3/ Ibid., c. 69, s. 2(3)(n).

4/ Statutes of British Columbia, 1918, c. 11.

5/ Statutes of British Columbia, 1929, c. 7, s. 2(c).

Subsequently, in 1942, the allowable term of agreements was extended to ten years and some minor changes were made regarding total allowable bounties.

A new Iron Bounty Act[1] was passed in 1957 and remains in effect today. This legislation provides for a bounty on each ton of pig iron, or sponge iron, or fluid iron, charged directly to a steel furnace from ore smelted within the province. The payment of the bounty is subject to an agreement with the Minister of Mines and the approval of the Lieutenant-Governor in Council. Any agreement made under the Act is limited to a term of ten years, and no bounty is payable on more than 100,000 tons of iron in any one year or on more than 1,000,000tons of iron in the aggregate. This bounty could also be paid whether or not the ore was mined in the province. The bounty for iron smelted from ore mined outside the province was to be $2 per ton compared to $5 per ton on iron from ore mined within the province.

The bounty principle was extended to copper in 1961 when the Copper Bounty Act was passed.[2] It provided for a bounty of 1 cent per pound on blister copper and refined copper produced from ore or concentrates mined and smelted or mined and refined in the province. Again, this was subject to an agreement with the Minister of Mines and Petroleum Resources and the approval of the Lieutenant-Governor in Council. Such agreements are limited to a term of ten years. The bounty payable under each agreement is not to exceed $250,000 in any one year or a total of $2,500,000. No payments have been made as yet since no British Columbia smelting of local copper ores is taking place.

Other Tax Provisions to Encourage Processing

It would appear that in some cases provincial mining tax legislation is applied in such a way as to provide an incentive to mineral processing within the province. The mining tax legislation is intended to apply only to profits derived from mining

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1/ Statutes of British Columbia, 1957, c. 9.

2/ Statutes of British Columbia, 1961, c. 11.

operations; the tax is viewed as a reimbursement to the province for the utilization of its natural resources. But in most cases, a single company is involved in both mining and processing and it is difficult to estimate mining income. The formula employed to determine what part of total profits is to be credited to the mining operation and therefore taxable may provide an incentive to processing.

Only two provinces, Alberta and Prince Edward Island, do not have mining taxes. Of the others, all, except Nova Scotia, provide for a processing allowance that may in certain circumstances be a tax incentive for processing.

The processing allowance is a deduction from the total profits of the company, i.e., it is an exemption from the mining tax. In general, the processing allowance is 8 per cent of the original cost[1/] of capital employed in processing mineral ores but at a minimum of 15 per cent of company profits and a maximum of 65 per cent. If this processing allowance is higher than, or in addition to, ordinary depreciation, it would constitute a processing incentive. In no province is the total processing allowance over a period of years limited to the capital cost of the assets used in processing. This suggests that in all cases there is a potential processing incentive it which is probably not significant.

A more significant incentive arises when the processing allowance is set at a different level if the processing facilities are located outside of the province than if the processing facilities are within the province. Such a provision is a feature in Ontario. It is an important incentive device for the further treatment of Ontario ores in Canada.

If a company owns processing assets outside of Canada, and uses them for the treatment of Ontario ores, the processing allowance is calculated at 8 per cent of the capital cost of these assets. This is the same percentage that may be applied by the company to its capital investment in Canada in a concentrator (or mill). However,

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1/ In British Columbia, the processing allowance is applied to the original cost net of depreciation.

if the concentrates are treated at a smelter in Canada owned by the operator of the mine, the processing allowance is increased to 16 per cent of the cost of both the concentrator (or mill) and the smelter. Moreover, if the smelter product is treated at a refinery operated by the company which owns the ore, the processing allowance is further increased to 20 per cent of the cost of the concentrator (or mill), smelter and refinery. The minimum and maximum of 15 per cent and 65 per cent of the total profit still applies. The allowance is reduced if only a part of the product of the concentrator is smelted or refined in Canada.

CHAPTER 9

INDUSTRIAL INFORMATION AND ADVISORY SERVICES

The provincial industrial development departments exist in large part to provide industrial promotion, information and advisory services although they also provide a substantial measure of general economic information both to the public and to government itself. It is not always possible to draw a line between general economic information services and the type of industrial information services designed to promote and develop manufacturing industries. In fact, information in regard to the general economic environment and prospects is an essential part of an industrial development program. It is in part for this reason that provincial statistical bureaus generally are closely associated with, or form a division of, the industrial development departments.

In this chapter, an attempt is made to focus on those services specifically oriented to industrial development, although a representative list of publications given subsequently in this chapter include some that provide general economic information. Industrial development services are considered under three headings: (1) those designed to secure the establishment of a new firm in a province; (2) those designed to assist the expansion of an existing firm; and (3) those designed to improve productivity of a firm. The improvement of productivity may also, of course, lead to the expansion of an existing firm. Information and advisory services regarding such matters as health and safety standards, environmental conditions, and other similar sorts of technical information have been omitted. Such services are not primarily oriented to the achievement of an industrial growth goal even though they may be of considerable importance.

Certain industrial information and advisory services will be considered later in other chapters. In Chapter 10, specific attention will be given to export promotion services. In Chapter 11, the industrial development services of the provincial research councils will be examined. In Chapter 12, information and advisory services of particular relevance to tourist enterprises will be considered at greater length.

Administrative Approaches

In all provinces, with the exception of Newfoundland, industrial information and advisory services are provided largely by the staff of departments of industrial development. In Newfoundland, the major activities of this nature are provided by consultants on a continuing contract basis. In other provinces, the activities of departmental staff are also usually supplemented by the services of consultants.

In addition, as was noted in Chapter 4, provincial industrial lending agencies perform an information and advisory service in the process of considering loan applications and in monitoring the progress of the client company in meeting its loan obligations. When client companies encounter financial difficulties, the assistance in the form of management advisory services may become substantial.

Several of the industrial lending agencies also play a distinct promotional role, in other words, seeking out potential borrowers rather than waiting for applications. To this end, such agencies will also provide industrial information services of various kinds. This includes such agencies as Nova Scotia's Industrial Estates Limited, the New Brunswick Development Corporation and the Manitoba Development Corporation.

Also, lending agencies may provide a significant measure of management advisory services even to nonborrowers. The most significant example of this is the Ontario Development Corporation but two or three others also provide such services on a regular basis.

The role of provincial research councils in these services has been referred to. There are other provincial government or government-promoted services which provide management advisory services. These include Management Engineering Services in Nova Scotia and the Manitoba Institute of Management.

Finally, industrial information and advisory services may be provided by the major provincial government-owned electric power and gas utilities. These have not been surveyed. The services are likely to be similar to those provided by their privately owned counterparts who have a similar interest in promoting industrial development within their market areas.

Classification of Services

The nature of the service required is determined by the objective. To establish a new firm in a province will involve different techniques than those required for the expansion of an existing firm or for the improvement of productivity. Thus, industrial information and advisory services may be classified in respect to the objectives they seek to attain.

A second and subordinate classification is in terms of the degree of specificity of the services provided. The degree of specificity will range from services designed for an individual firm, those for a manufacturing sector such as oil refining to those for manufacturing industries in total.

A third and somewhat parallel classification has to do with the level of sophistication or the level of detail of the services provided. In general, the level of sophistication will tend to be associated with the degree of specificity of the services provided.

In the material that follows, little attempt has been made to distinguish the services provided in one province from those in another. Rather, an overall view has been presented.

Services to Secure New Industries

Information and advisory services designed to secure the establishment of new industries range from general promotional advertising to detailed engineering studies for a specific factory.

Promotional services

Out-of-province industrial promotion activities are performed in various ways, ranging from advertising in the communications media to personal contacts with industrial executives and investors by provincial civil servants, cabinet ministers, and even by provincial premiers. Private consulting agencies may play a major role in this promotional activity as has been the case in Newfoundland and

Prince Edward Island. There may be considerable emphasis on the activities of the provincial premier as has been the case in Newfoundland and British Columbia. There may be industrial missions to a foreign country made up of provincial industrialists and businessmen headed by the premier or the minister of industrial development. Such missions may have a number of objectives, only one of which will be the encouragement of new industries to locate in the province. There has been a noticeable trend towards personal contact at a high level of both management and government.

Promotional services within a province have two objectives, one, to create an internal mood of optimism about the industrial prospects of a given region which may be transmitted to prospective investors from outside the province and, two, to encourage provincial industries or investors to expand in their present field of endeavours or even to enter new types of production.

A major promotional device employed in several provinces outside of the two major industrialized provinces is a quarterly or monthly bulletin giving news of business and industrial developments in the province. This manages simultaneously to be promotional both within a province and outside of it.

Another method of promotion is the sponsoring of conferences within the province to which a number of out-of-province industrialists are invited as well as provincial industrialists and businessmen. This again is intended to provide a means by which the provincial resident might directly become an instrument of industrial promotion. An example of an institution by which, among other things, provincial industrialists are committed into effective longer-term promotion is the Council of Industry in Quebec.

General Information Services

Effective industrial promotion is dependent on an adequate general information base. General information services will include the publication of general economic reviews, economic profiles of a province or region, directories of manufacturing, directories of local markets, etc. They will also include more specific information services such as information on freight rates, tariffs and trade regulations, lists of available industrial sites, and available industrial and warehousing buildings.

All of these general information services have developed in the 1950s and 1960s. Nearly all of them are provided in one way or another in every province. All of such services are provided without charge. A selection of such informational publications directed largely to manufacturing industries is given in the following table for a typical recent year.

A list of recent publications which generally fall into the category of general information services follows:

Prince Edward Island (Fiscal year 1970-71)

"An Economic Profile of Prince Edward Island, 1970"

Nova Scotia -- Department of Trade and Industry (Fiscal year 1969-70)

Nova Scotia Newsletter (monthly)

Nova Scotia Magazine (two issues)

"Ologies and Isms" (film) Nova Scotia's research and scientific facilities

"Parade" (film) -- Nova Scotia's industrial development

"Nova Scotia -- An Economic Profile" (occasional -- sixth edition)

"Nova Scotia Directory of Manufacturing, 1970-71" (occasional)

New Brunswick (Fiscal year 1970-71)

"Export Assistance Programs for New Brunswick Manufacturers"

"New Brunswick Economic Statistics" (quarterly)

"The New Brunswick Economy, 1971, A report to the Legislative Assembly"

Quebec -- Ministère de l'Industrie et du Commerce (rapport annuel 1970-71)

Commission de développement de la région de Montréal --

Structure industrielle des sous-régions nord de Montréal.

Dossier économique:

Agglomération de Baie Comeau-Hauterne -- occasionel -- 1969-70.

Agglomération du Québec métropolitain -- occasionel -- 1969-70.

Agglomération de Sept-Iles -- Port-Cartier -- occasionel -- 1969-70.

Agglomération de Trois-Rivières -- occasionel -- 1969-70.

Guide pour le chef d'entreprise

Mission d'étude en France et en Grande-Bretagne -- Plastiques -- juin-juillet 1965

Montréal a l'avant-garde -- 1970.

Port de Québec -- facteur de localisation industrielle -- 1970.

Québec, terme d'entreprise

Rapport de la mission technique des fabricants de meubles rembourrés du Québec avec Etats-Unis.

Répertoire des établissements manufacturiers.

<u>Ontario -- Department of Trade and Development</u> (Calendar Year 1968)

"Ontario Trade and Industry Services"

"Three Roads to Profit"

"Our Man from Ontario"

"Ontario Industrial Review" (annual)

"Exporter's Guide"

"Municipal Industrial Development Guide"

"Statistics for Profit"

"Ontario Engineering Services Abroad"

"Hotels for Export"

"Sheridan Park Research Community"

"The People Hunters" -- re recruiting of skilled or professional personnel throughout provincial Immigration Branch.

"Ontario -- Workshop of Canada"

"Ontario Today" (film)

"Design for Tomorrow" (film) re design in fashion and furniture industries

"Big Deal" (film) dealing with expansion of domestic and export markets

"The Scientific Century" (film) re Sheridan Park Research Community

"Our Man from Ontario" (film) re government-organized sales mission

<u>Manitoba</u> -- (Fiscal year 1970-71)

"This is Manitoba" (film)

"Industrial Fact Book" (revision of occasional publication)

"Manitoba Business Handbook" (revision of occasional publication)

"Investment Opportunity Portfolio" (revision of occasional publication)

"This is Manitoba"

"Manitoba", a monthly bulletin of news of business and industrial developments

Saskatchewan -- Department of Industry and Commerce, (Fiscal year, 1970-71)

"Potash Package" -- a summary of potash company offices and managers

Saskatchewan Air Facilities Map -- 1971 edition -- in conjunction with Department of Natural Resources and the federal department of Energy, Mines and Resources

Export newsletters (five)

"Saskatchewan -- The Growth Province" (periodical -- six issues)

"Index of Saskatchewan Manufacturers, 1971 edition (to replace 1967 edition)

"Prairie Implement Buyers Guide"

"Saskatchewan Farm Implement Manufacturers Directory" 1969-70

Community Data Sheets

"Saskatchewan Cattle for World Markets" (1969-70)

"Saskatchewan, The Resource Frontier"

Alberta, Department of Industry and Tourism (Fiscal year 1970-71)

"Alberta Industry and Resources, 1970 Edition" (annual)

"Alberta Business Opportunities Bulletin" (several annually)

"Alberta Industrial Facts" (occasional)

Studies by Alberta Economic Research Branch

"The Hosiery Industry, January, 1971"

"Executive Report, 1971"

Reports (Charts) showing "Destination of Products in U.S.A. by Region of Lading in Canada"

Tables showing "Destination of Shipments of Alberta Manufacturers by Province-Origin by Province of Canada Manufacturer Shipments Sold in Alberta".

Report on Clothing Industries Development Opportunities

Reports on Manufacturing Industry Raw Material Inputs and Products -- Quantities and Values -- Year 1969

Alberta Market Data Summaries (updated)

Study of the Market for Flakeboard -- A Manufacturing Opportunity

Survey to Determine Clothes Hanger Sales -- Alberta and Western Canada

Executive Report -- 1971

The Hosiery Industry

Manufacturing Opportunities -- Trailer Components

Manufacturing Opportunities in the Prairies -- A brief critique

A Summary of "Opportunities for Manufacturing Prairie Region to 1981"

British Columbia (Calendar year 1971)

"British Columbia News Letter" (monthly)

"Bulletin of Business Activity" (monthly)

"Summary of Economic Activity" (annual)

"British Columbia Business Outlook" (annual)

"Industrial Expansion in British Columbia" (quarterly)

"British Columbia Facts and Statistics" (annual)

"British Columbia Trade Directory, 1971" (occasional) -- a consolidation of "British Columbia Manufacturer's Directory" and the "British Columbia Wholesale Directory"

"British Columbia Manual of Resources and Development" (occasional)

"Metal Forming, a British Columbia Industry Study"

"Welding Rod and Wire, a British Columbia Industry Study"

"Mobile Homes in British Columbia, a Socio-Economic Study"

"Confectionary Industry, a British Columbia Industry Study"

"Growth Trends in the Japanese Economy"

"Trade in the 1970s"

"The Role of Exports in the Economy of British Columbia"

"Selected Manufacturing Opportunities in British Columbia"

"British Columbia Fabricated Forest Product Exports, 1970"

"The Okanagan-Shuswap Region, a British Columbia Economic Study"

"The California Market"

"Handicraft Directory" (occasional)

"Directory of Industrial Parks and Sites"(occasional)

"Regional Investment Opportunities Study" (occasional)

"Trade and Industry Bulletin" (monthly)

"Setting up an Export-Import Business" (revision)

It will be noted that the three provinces of Newfoundland, Prince Edward Island and New Brunswick had few publications in the selected year but that the other seven provinces had a wide range of printed material. For these, considerable consistency was shown. For example, nearly every province had published a directory of manufacturing and an extensive economic profile or fact book. Obviously, these have come to be regarded as essential.

Market Studies

Market studies move beyond general economic information to examine the market for a specific product or group of products available in the province, and the present sources of supply. A few of these studies have also been indicated in the preceding section.

Typically, provincial industrial development departments prepare market studies to identify and to give particular attention to industries believed to have considerable prospects for development. Such studies are generally made available without charge to interested firms and form a useful adjunct to the other promotional material.

Feasibility Studies

A feasibility study moves beyond the general market study. It is really a more detailed and specific marketing study, with an examination of the supply and demand factors associated with a particular industrial location or locations together with an examination of cost factors, likely income flows, and possible profitability of a new industry operating at a given scale. It is rare for such studies to be undertaken entirely at government expense. They are more expensive than the marketing study and more specific to the needs of a given firm. The prospective industrial company will, to protect its own investment, be intimately involved in such studies. It is common, however, for staff of the provincial department or lending agency to be associated with such studies.

Engineering Studies

This is the final stage before construction of a new plant begins. An engineering study recommends the precise nature of the structures required, their costs, production characteristics, etc. These are the responsibility of the firm considering the investment decision, although provincial government staff may sometimes be involved on an <u>ad hoc</u> basis. These studies are in fact highly specific to a particular project.

Summary

As the degree of specificity of these studies increases, the costs tend to rise. This induces an increasing degree of selectivity on the part of provincial industrial development agencies as to those studies they will financially support. The degree of this selectivity at any level of study is determined by the financial resources available for this purpose, meaning that generally in the smaller provinces a narrower range of such studies is prepared.

This has certain implications for the orientation of the industrial development strategy of a province. It makes it necessary to concentrate major attention on a very few manufacturing sectors. Such a concentration exists for most of the smaller provinces, being one on resource-related enterprises.

Services to Expand Existing Industries

Services to encourage the expansion of existing industries vary somewhat from those applicable to new industries. A local industry will have more complete knowledge of local economic and marketing conditions than will an outside firm. It will not require as urgently general informational publications nor even market studies although they will be helpful. For this reason, provincial departments place emphasis on two types of services for already-established industries, measures to improve productivity (considered in the next section), and measures to increase sales (considered in Chapter 10).

Measures to Improve Productivity

Measures to improve productivity are difficult to classify neatly since productivity responds to many factors, some of them somewhat nebulous. In this section, attention will be directed to those programs where direct contact is made between provincial government officials and industrial managers or where financial assistance is provided by governments to engage the services of consultants. As indicated in Chapter 2, no attempt will be made to consider manpower upgrading programs or education policy in general in spite of the important implications for productivity.

Three basic types of advisory services to industries may be delineated, those concerned with management, those concerned with production and those concerned with marketing. These functions are not performed in water-tight compartments within an enterprise but they represent different types of skills and expertise.

An agency which attempts to improve all three functions jointly is Management Engineering Services, a provincial government agency in Nova Scotia. This agency has consultant teams, each comprising three specialists covering the areas of marketing, engineering, and finance and administration. The first approach is a meeting of manufacturers in a certain area to whom the program is explained. The companies which wish to participate complete a lengthy questionnaire which is initially analysed by one of the consultant teams. Then a visit by the three consultants takes place to the plant in question and after further study, a final confidential report is prepared outlining the difficulties in the enterprise and making recommendations. Follow-up sessions by the consultants with the firm then take place to assist in the implementation of the recommendations.

The advisory services provided by the provincial research councils relate more directly to production problems involving matters of chemistry, physics and engineering. Engineering-oriented services are also provided by branches or divisions of many provincial industrial development departments, for instance, the Business Management Advisory Service in Nova Scotia; the Engineering Division of the Industrial Services Branch in New Brunswick; the Industrial Organization Service in Quebec; the Technology Section of the Industrial Development Branch in Ontario; the Product and Process Development and Productivity and Manpower Development branches in Manitoba; and the Industrial and Trade Office in British Columbia.

Apparently more largely involved in the provision of management advisory services are the Newfoundland and Labrador Development Corporation Ltd., Industrial Enterprises Incorporated in Prince Edward Island, the Management Engineering Service in New Brunswick, the Consultative Services Branch of the Ontario Development Corporation, and the new Business Services Branch of the Department of Industry and Commerce in Saskatchewan.

An example of an autonomous agency assisting in the development of management capability is the Manitoba Institute of Management. While it is a private non-profit corporation, it was at its inception substantially subsidized by the Manitoba government. Current programs operating on a fee basis include executive seminars, senior management courses, supervisory management courses, work study practitioner courses, method studies, and work measurement courses.

A unique approach to the improvement of management is the Executive Internship program in New Brunswick. Under this program, the provincial government pays 70 per cent of the salaries of a specified number of university students (provincial residents attending a provincial university) who are employed by a New Brunswick industry in a management position and who are given an approved assignment. These students will be in their next-to-final year, will have an initial trial period in the summer period before beginning the final year of university, and will participate in a 12-month program with the industry after graduation.

Improvement of design is related both to production and marketing. A Design Institute was established in Manitoba in 1963 and a program of grants was instituted to assist companies to retain private consulting firms to advise on design improvement. A Design Council has been established in New Brunswick and a design awards program instituted. Similarly, there is a design awards program in Ontario.

A technique used in most provinces in respect to all three types of advisory services but primarily for the improvement of management techniques is the holding of seminars and clinics. This approach obviously achieves considerable economies in the utilization of a limited staff.

The type and extent of industrial advisory services required from government agencies depends on the average size of firm and the extent of private consulting services available. Where the average size of industrial firms is small, such as in the Atlantic and Prairie regions, private consulting services are underdeveloped since a small firm is unable to afford the necessary fees. Under such circumstances, the government services are likely to be an important supplement to those available in the private sector. In the central industrialized provinces of Ontario and Quebec, the larger manufacturing companies are able to finance consulting services but this still leaves small- and medium-sized enterprises as clients of government consulting services. An attempt to build up a larger core of private consulting services has been made in Manitoba for several years by paying grants to manufacturing firms to assist with the cost of retaining private consulting and advisory services for improving productivity, technical competence or organizational control and efficiency.

CHAPTER 10

PROMOTION OF INDUSTRIAL SALES

One of the most important services being provided to manufacturers by provincial government departments is the promotion of industrial sales. Entire divisions of the industrial development departments in some provinces are charged with marketing in general and export promotion in particular. In the two central provinces of Ontario and Quebec more than a score of offices for each province are maintained abroad largely for the purpose of increasing exports of domestic producers.

In addition to the promotion of exports, various instruments are used in connection with an import replacement strategy which will also have the effect of increasing the sales of provincial manufacturers.

Programs of Export Assistance

Programs of export assistance may be considered under four headings: (1) the establishment of trade commissioner services; (2) participation in exhibitions, fairs, and trade missions; (3) programs of financial assistance; and (4) establishment of specialized export promotion agencies.

Trade Commissioner Services

The establishment of the equivalent of the federal trade commissioner services in other countries has been a feature particularly of Ontario and Quebec programs, although British Columbia also has such representatives in two foreign countries. Such services supplement those of the federal government of Industry, Trade and Commerce.

Participation in Exhibitions, Fairs and Trade Missions

Participation in exhibitions and fairs, either in foreign countries or in those Canadian fairs designed particularly to attract foreign purchasing agents, is another device for export assistance. The British Columbia government has, for a number of years, sponsored a periodic Pacific Exhibition in Vancouver partly for this purpose, although this also brings foreign products to the attention of domestic consumers. A more recent development has been the participation of the Ontario government in the permanent furniture exhibit at a point in North Carolina. In this case, the Department of Trade and Development has leased a building which it has in turn leased to exhibitors. In Ontario itself, the provincial Department of Trade and Development has begun to operate a Trade Centre where Ontario manufacturers will be able to meet with foreign buyers (as well as domestic buyers).

The organization of trade missions or participation in federally sponsored trade missions has been a more general feature of provincial government programs. Provincial departments of industrial development organize trips by groups of industrialists, together with provincial government staff, to prospective market areas. In general, the assistance of provincial governments to industrialists is nominal, involving, in the case of Ontario for instance, the cost of transportation only. Such trips have been supported by nearly all provincial governments on a regular basis.

Programs of Financial Assistance

There are few provincial programs of financial assistance designed specifically for manufacturing firms exporting to foreign countries. In general, such firms would qualify for loans or grants only in the same measure as firms oriented to domestic sales. Sales tax fundsare available in Quebec to manufacturing enterprises which export a given proportion of their sales (see Chapter 7). Small operating grants to assist in export are also available in Manitoba through the Manitoba Export Corporation and a new program has recently been launched in Ontario. The latter will be given more detailed attention in this section.

Export financing program in Ontario

The Ontario program, effective since January 1, 1972 is designed to supplement the activities of the federal Export Development Corporation. As the Ontario Minister of Trade and Development at that time said:

> "Although certain aid to major exporters is available from the federal government, there are areas where assistance is not provided, especially with respect to small- and medium-sized businesses. It is in these areas that the Export Support Program is intended to fill a need...."[1]

The Ontario program provides short- and medium-term financing to manufacturers in respect of goods for shipment where such credit is not available from financial institutions on reasonable terms and conditions. The Ontario program has an upper limit of $1 million.

The purpose of the program is, once specific orders have been obtained, to finance the production of goods or goods held in warehouse or, at date of shipment, to provide for the financing of goods until payment from the sales is received. This type of financing is readily available from the conventional lenders for domestic sales but difficulties in obtaining such credit for foreign sales are encountered because of the greater uncertainties.

To finance the production of goods or to finance goods held in warehouse, up to 75 per cent of the value of the order may be advanced. For goods at the point of shipment to export markets, up to 90 per cent of the value of the shipment will normally be advanced for consumer goods. In the case of capital goods, the purchaser must make a down payment of at least 10 per cent and the Ontario Development Corporation may advance up to 95 per cent of the balance.

Medium-term financing of up to five years may be provided for capital goods at the date of shipment. The other financing is short-term, normally 180 days for consumer goods shipped to foreign countries or the normal line of credit in the case of goods under production or storage. Export credit insurance is normally a precondition for the financing of goods on the point of shipment to export markets. The interest rate on loans has been set at one-half of 1 per cent above the rate at which the Ontario government borrows funds for medium term. Currently (at December 15, 1972), the

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[1] Ontario Development Corporation, News Release, "Export Support Program", Toronto, Ontario, December 30, 1971, p. 1.

interest rate charged is 6½ per cent compared to the going rate of 8 per cent for other loans by the Ontario Development Corporation.

To qualify for a loan, the firm must be based in Ontario and the goods for export must have a significant Canadian content.

While data for the first full year's operations have not yet been published, total financing made available has been well over the revolving fund of $5 million made available for the first three-month period.

Establishment of Export Promotion Agencies

Unique export promotion agencies have been established in two provinces, the Manitoba Export Corporation and the Market Development Centre in Prince Edward Island.

The Manitoba Export Corporation was created by statute in 1963 to "encourage, develop and increase the export of Manitoba products".1/ The Corporation is made up of not more than 12 persons appointed by the Lieutenant-Governor in Council. Staff is provided by order of the Minister of Industry and Commerce.

The Corporation may, among other things:

"(a) assist in exporting Manitoba products either directly or through agents;
(b) plan and implement programs and displays designed to acquaint, inform and familiarize importers with Manitoba products;
(c) establish offices, or appoint or employ brokers or agents, in or out of Canada for the purpose of carrying out the intent of this Act...."2/

In 1972, the Prince Edward Island Market Development Corporation was established.3/ Among its objects are the following:

"(a) to collect, organize, analyze and distribute, data and documentation on Marketing Research operations, planning and product development, in all activities related to marketing, and those activities involved in the marketing of Prince Edward Island natural and manufactured products;
(b) to make available a technical and personnel capability to other persons and groups with an interest in marketing;
(c) to initiate and carry out projects for trial, pilot level or other experimentation in marketing;
(d) to co-ordinate the planning and implementation of marketing projects sponsored by the Province of Prince Edward Island;
....
(f) to promote and encourage the objects and activities of the Prince Edward Island Marketing Board;
....

1/ Statutes of Manitoba, 1963, c. 27, s. 4.

2/ Ibid., c. 27.

3/ Prince Edward Island, Legislative Assembly, 1972 Session, Bill 46.

(i) to advertise and promote the marketing of Prince Edward Island natural and manufactured products, both within and without the Province, and for that purpose may act as a temporary or permanent agent for the marketing of such products;

....

(o) to carry on any other business which may seem to the Directors of the Corporation capable of being conveniently carried on in conjunction with the attainment of the objects of the Corporation or calculated directly or indirectly to enhance the value of or render profitable any of the Corporation's property or rights, and to co-operate in, aid in, subscribe to or subsidize any proceedings or undertakings which may seem to the Directors calculated directly or indirectly to benefit the Corporation."1/

The Corporation was to have a board of directors of seven persons appointed by the Lieutenant-Governor in Council with one representative from each of the Department of Agriculture, the Department of Fisheries, the Department of Industry and Commerce, and the Prince Edward Island Marketing Board, and three persons as representatives of private enterprise not being provincial government employees.

The Corporation was to be a body corporate and responsible to and subject to the direction and control of a Minister of the Crown designated by the Lieutenant-Governor in Council.

Import Replacement Programs

It must be conceded that a substantial number of the new industries stimulated by provincial loan agencies and by the industrial information and advisory services provided by provincial government departments have been import replacement in character. It is, in fact, a frequent, natural and indeed, acceptable phenomenon for a new industrial firm or an industrial development department to ask "What is the local market for product X and who is supplying it now?" Not inconsiderable resources are devoted by provincial governments to answering this kind of question through market studies or even more complete and elaborate studies of provincial exports and imports placed in an input-output matrix. For many manufacturing establishments, a significant share of the market in the vicinity of a proposed plant may be an essential condition for the success of the operation.

A variety of devices have been employed to provide new or already established provincial industries with a greater share of the provincial market. These may be ranked according to the degrees of persuasiveness employed.

1/ *Ibid.*, s. 6.

First is the making available of information of what manufactured products are produced in the province. It is now a common activity of provincial departments of industrial development to prepare directories of manufactured products and of the provincial firms who make them. Such directories are now available in nearly all provinces.

A second program has been concerned with general promotion to "buy-provincial". Such campaigns have been organized in the past in several provinces although this approach has not been much emphasized of late except perhaps in regard to tourists. Such campaigns may involve the establishment of formal continuing committees to promote the purchase of local products. There may be efforts to encourage the use of special labels for provincial products.

A third approach is to provide some publicity for what is not manufactured in the province. This is the essence of a recent program in Ontario. This involves an exhibit of the actual items which Ontario manufacturers presently import, enabling engineers and managers of other Ontario companies to readily identify opportunities for manufacturing. Such exhibits have been temporary so far but a permanent exhibit of this sort is being contemplated. Another project of the Ontario government is the construction and operation of a Trade Centre where space will be available for Ontario manufacturers to display their products and where buyers will be able to meet with representatives of Ontario industry. This building will be operated by the Department of Trade and Development. It is expected to be used for other types of displays as well.

A fourth approach is through a government purchasing policy by which goods (or services) manufactured in the province are given some artificial preference over goods manufactured outside of the province.

Government purchasing policies may be of importance in import replacement policies as an instrument of industrial development. They may relate to the purchases of government departments but may also relate to provincial government Crown corporations or other agencies. It should be recognized that there are only a limited range of products for which purchases of provincial government departments form a significant proportion of total sales and may thus be expected to play a pivotal role in affecting the location of the industry. Moreover, some of the commodities purchased such as automobiles are manufactured in such large scale that for most Canadian provinces government purchasing preferences could not have any effect. It does appear, however, that the purchasing policies of some of the provincial Crown corporations, particularly steel mills and electrical generating utilities, could have a more substantial impact.

A fifth approach similar to this is to insert some provision in contracts between a provincial government agency and a private business, requiring or encouraging that business to make purchases within the province.

For instance, import replacement policies may have effect through the terms of loans to business made by provincial lending agencies. It was noted that as one of the conditions of loans by the Saskatchewan Economic Development Corporation, "The business will also be required to use Saskatchewan labour, material and services, where prices and quality are competitive".[1/] This condition exists in at least one other province, Newfoundland, and may well be a common feature of loan agreements.

1/ Saskatchewan Economic Development Corporation, Financing Saskatchewan Business (brochure), p. 10.

CHAPTER 11

PROVINCIAL RESEARCH COUNCILS AND INDUSTRIAL DEVELOPMENT

"Research" and "development" are two closely-linked activities fully accepted today as important in industrial development. The provincial research councils play a significant role in research and development. Therefore, any study of provincial industrial development programs cannot ignore the activities of provincial research councils. This chapter considers the variety of agencies loosely grouped together under the heading of "provincial research councils".

There are two or three references to the National Research Council which, established in 1916, predated all of the provincial bodies. No attempt has been made to discuss the interrelated roles of the federal and provincial agencies.

Research councils have been established in eight of the ten provinces. The earliest of these was the Research Council of Alberta in 1921, followed by the Ontario Research Foundation in 1928. In the 1940's, three additional research councils were created: the British Columbia Research Council in 1944, the Nova Scotia Research Foundation in 1946 and the Saskatchewan Research Council in 1947. In the 1960's, three more research councils were established: the New Brunswick Research and Productivity Council in 1962, the Manitoba Research Council in 1963 and the Centre de Recherches Industrielle du Québec in 1969. In Newfoundland, a Research Council Act was passed in 1961 but has not been implemented.

Because of the nature of their responsibilities, the research councils generally function with considerable autonomy. Separate agencies were established to facilitate a dynamic interrelationship with both the scientific and business communities. The autonomy of the research councils is limited by a number of devices which serve to integrate their research and development activities into an overall industrial development program.

Such devices may include the appointment by the provincial government of cabinet ministers or civil servants to the board of directors, statutory provisions requiring the approval by the provincial government of certain activities of the council and government budgetary controls since in most cases a significant proportion of council income comes from provincial government grants. These provisions vary from council to council.

Statutory Roles

All but one of the provincial research councils were created by provincial statutes with provision that their boards of directors be appointed by the Lieutenant-Governor in Council.[1/] But from this point, the composition of the boards of directors varies significantly. A provincial cabinet minister is chairman of the board of three of the councils, those in Saskatchewan (the Minister of Education), Alberta (the Minister of Industry and Commerce), and British Columbia (the Minister of Industry, Trade and Development). In fact, three out of the ten members of the Research Council of Alberta are cabinet ministers. In the other five councils, there are no cabinet ministers on the boards of directors. Deputy ministers or other representatives of provincial departments are on the board of the research councils in New Brunswick, Manitoba, Saskatchewan and British Columbia. A common characteristic is the representation on the boards of directors from provincial universities, often including university presidents. Representation from business and industry is found on the boards of all councils.

The statutory terms of reference of each research council are indicated below.

Nova Scotia Research Foundation

The Nova Scotia Research Foundation was established by statute in 1946 as a body corporate with a Board of Governors appointed by the Lieutenant-Governor in Council. The broad responsibilities of the Foundation were described as follows:

1/ The exception is the British Columbia Research Council which was established under the Societies Act. At the end of 1971, only four out of the 18 members of the Board represented, or were appointed by the provincial government.

> "The Foundation shall have charge of all matters affecting scientific and industrial research within the province which may be assigned to it by the Governor in Council and shall advise the Governor in Council on questions of scientific and technological methods affecting the utilization of the natural resources or the expansion or development of industry in the province ...."1/

This included, in addition to scientific and technical studies, "investigations to improve the conditions of agriculture, fisheries, lumbering and mining or for the economic betterment, welfare and progress of the province".2/

The Governor in Council may make regulations under the Act. In addition, approval by the Governor in Council is required for such things as the disposition or use of patents by other persons, assignments of special work or additional work and the appointment of committees.

New Brunswick Research and Productivity Council

The New Brunswick Research and Productivity Council was established by statute3/ in 1962 as a body corporate. The council "chosen from the fields of industry and commerce, organized labour, government and higher education"4/ was appointed by the Lieutenant-Governor in Council.

Its broad object was described as "to promote, stimulate and expedite continuing improvement in productive efficiency and expansion in the various sectors of the New Brunswick economy...."5/ This was to involve research and investigations in the field of industrial and scientific technology, particularly that involving natural resources and co-operation with the then-existing National Productivity Council to develop such things as improved production and distribution methods, improved management techniques and training and retraining programs in industry.

1/ Statutes of Nova Scotia, 1946, c. 9, s. 7. There have been no amendments.

2/ Ibid., c. 9, s. 7(3)(i).

3/ Statutes of New Brunswick, 1961-62, c. 46. There have been no amendments

4/ Ibid., c. 46, s. 3.

5/ Ibid., c. 46, s. 10.

Formal approval by the Lieutenant-Governor in Council was required in respect to the by-laws the Council might make "regulating its proceedings and generally for the conduct of its activities" 1/ but otherwise the Council could acquire any real or personal property, including securities, and expend any monies received by it.

Centre de recherche industrielle du Québec

The Centre de recherche industrielle du Québec was established by statute in December 1969. The Centre is a corporation within the meaning of the Civil Code, consisting of a general manager and 14 other members appointed by the Lieutenant-Governor in Council "after consultation with the most representative bodies in the fields of science and industry. Except in the case of the first appointments, the members shall also be consulted". 2/

The objects of the Centre were described as:

"(a) research in applied science carried out either in its own laboratories or in those of other research centres,

(b) the perfecting of industrial or scientific products, processes and equipment,

(c) the gathering and diffusion of technological and industrial information and data." 3/

There are some restrictions on its method of operations. Approval of the Lieutenant-Governor in Council is required before the Centre can do certain things such as make an agreement with any government or governmental body, enter into a contract to participate in research, enter into any other contract which would bind it for more than two years, dispose of or permit any patents to be used, or acquire shares of any corporation. The Centre was precluded by statute from acquiring a majority interest in the shares of any other corporation or from carrying on commercial undertakings.

1/ *Ibid*., c. 46, s. 11.

2/ Statutes of Quebec, 1969, c. 62.

3/ *Ibid*., c. 62, s. 17.

Ontario Research Foundation

The Ontario Research Foundation was established by statute[1] in 1928 with the members of the Foundation appointed by the Lieutenant-Governor in Council. (Subsequently the Chairman and Vice-Chairman of the Foundation were also chosen by the Lieutenant-Governor in Council.) Perhaps the most distinctive feature of this body was its initial financing. The provincial government was authorized only to match private subscriptions.

In 1944, a new statute[2] was introduced, repealing the 1928 Act and providing for substantial changes in structure. The statute has remained essentially unchanged since. The provision for provincial contributions to match private subscriptions was dropped. The Board of Governors of the Foundation was to be appointed by the Lieutenant-Governor in Council but the original practice of the Board electing its own Chairman and two Vice-Chairmen was reinstated.

The objects of the Foundation cover a wide range. They are "the carrying on of research, studies and investigations, particularly those having for their objects,

(a) the conservation, development and utilization of the natural resources of the province;

(b) the development and utilization of the by-products of any processes involving the treating or using of the mineral, timber or other resources of the province;

(c) the development and improvement of methods in the agricultural industry and the betterment, welfare and progress of farm life;

(d) the mitigation and abolition of disease in animal or vegetable life and the control and destruction of insect or parasitic pests; and

(e) the improvement and development of industrial materials, products and techniques,"[3] These are essentially the same as the objects of the 1928 institution.

1/ Statutes of Ontario, 1928, c. 57.

2/ Statutes of Ontario, 1944, c. 53.

3/ Ibid., c. 53, s. 2.

The present Research Foundation is considerably more autonomous in its operations. In the original legislation the Lieutenant-Governor in Council was authorized to make regulations under the Act prescribing the powers and duties of the Foundation and specifying certain instances where approval of the Lieutenant-Governor in Council was required. The Foundation now may generally exercise its powers without such approval. For instance, it may hold or dispose of patents and "may carry on research, investigations, studies and operations for other persons upon such terms and conditions as the Executive Committee may determine, subject to any direction of the Board".[1/]

Manitoba Research Council

The Manitoba Research Council was established by statute[2/] in 1963. The members of the Council are appointed by the Lieutenant-Governor in Council. Its objects were described as:

> "(a) to promote and carry on or cause to be promoted or carried on research and scientific enquiries respecting agriculture, natural resources, industry or other segments of the economy of the province; and
>
> (b) to help to secure for Manitoba the benefits of research and scientific enquiries carried on elsewhere."[3/]

Its powers are extensive although the Lieutenant-Governor in Council has the general authority under the Act to make regulations, and his approval is required before any patent held by the Council may be licensed or sold. The principal limitation on its operations is that it does not have authority to have its own staff. Its staff was to be made up of "such officers and employees of the Department of Industry and Commerce as the Minister may designate, or of any other department or agency of the Government of Manitoba as the Lieutenant-Governor in Council may designate for the purpose".[4/]

1/ Statutes of Ontario, 1944, c. 53, s. 12.

2/ Statutes of Manitoba, 1963, c. 72.

3/ Ibid., c. 72, s. 4.

4/ Ibid., c. 72, s. 12.

Saskatchewan Research Council

The Saskatchewan Research Council was established as a body corporate by statute[1/] in 1947, but its present structure and powers dates from 1954 when the original statute was repealed and replaced by new legislation.[2/] Under both statutes, the Council was to be appointed by the Lieutenant-Governor in Council with at least three members to be members of the faculties of science and engineering of the University of Saskatchewan. The major difference is that under the new Act, the Council was authorized to appoint its own staff.

The duties of the Council, remaining unchanged were to:

> "take under consideration matters pertaining to research and investigation in the fields of the physical sciences, pure and applied, as they affect the economy of the province of Saskatchewan, and such particular matters as may be brought to its attention by the Lieutenant-Governor in Council."[3/]

Under the 1954 legislation, the Council was to be responsible to the Minister of Education, but under a 1961 amendment this was changed to "the member of the Executive Council designated by the Lieutenant-Governor in Council".[4/]

The Council is authorized, subject to regulations by the Lieutenant-Governor in Council, to purchase land and facilities; make arrangements with other bodies for the performance of research projects; carry out research for other persons; hold and dispose of patents, etc.

1/ Statutes of Saskatchewan, 1947, c. 114.

2/ Statutes of Saskatchewan, 1954, c. 90.

3/ Ibid., c. 90, s.

4/ Statutes of Saskatchewan, 1961, c. 45.

Research Council of Alberta

In Alberta, the Scientific and Industrial Research Council was established in 1921 by order in council (Order in Council 30/21). In 1930, this body was reconstituted by statute as the Research Council of Alberta. It was established as a body corporate with the members of the Council appointed by the Lieutenant-Governor in Council. The Council of not more than 10 members[1/] was to include the President of the University of Alberta and two members of the Executive Council of Alberta. The Chairman of the Council was required to be a member of the Executive Council of Alberta.

The Council was to have "charge of all matters affecting scientific and industrial research in Alberta which may be assigned to it by the Lieutenant-Governor in Council, and shall also have the duties of advising the Executive Council of Alberta on questions of scientific and technological methods affecting the expansion of the industries, or the utilization of the natural resources of Alberta".[2/]

In 1943, the Act was amended to provide that "not less than" two members of the provincial cabinet would be on the Council. In an amendment, the Director of Research, who is the chief executive officer, was to be appointed by the Lieutenant-Governor in Council.

From 1930 to the current period, the Lieutenant-Governor in Council has had certain powers under the legislation. Appointments of staff and the prescribing of their duties are subject to the approval of the Lieutenant-Governor in Council as is any purchase or lease of lands and buildings or any erection of buildings. The terms under which discoveries and improvements made by Research Council staff are made available to the public is also subject to such approval.

1/ Increased to 15 members by a 1972 statutory amendment.

2/ Statutes of Alberta, 1930, c. 37, s. 5.

The Council may engage in a wide range of activities as is suggested by the fact that it may:

> "promote in such way as is deemed advisable
>
> (i) the utilization of the natural resources of Alberta,
>
> (ii) researches with the object of investigating or improving the technical process and methods that are or might be used in the industries of the province,
>
> (iii) researches with a view to utilizing the waste products of the industries of the province,
>
> (iv) the investigation, at the request of any of the industries of Alberta, of the materials that are or might be used in, or of the products of, the industries making such request, and
>
> (v) researches the objects of which are the betterment, welfare and progress of the urban or rural life in the province."1/

British Columbia Research Council

The British Columbia Research Council is an independent nonprofit society established under the Societies Act in British Columbia. Under its constitution, there is a Board of Management of not more than 21 members with the provincial Minister of Trade and Industry as chairman, three members appointed by the Lieutenant-Governor in Council, three representatives from universities and other post secondary educational institutions, two members appointed by the federal government from members of its research services, a representative or organized labour, nine representatives of industry and a member of the National Research Council of Canada resident in British Columbia. The university representatives are appointed by the Board of Governors of the institutions on the recommendation of the B. C. Research Council Board of Management. The Board of Management itself appoints the representatives from organized labour, industry and the National Research Council.

1/ Revised Statutes of Alberta, 1970, c. 321, s. 11(c).

Among the objects of the Council are:

"(a) The co-ordination of the work of existing and prospective research units.

(b) The initiation of new industrial and scientific research work into any field of particular interest to the province of British Columbia.

(c) The acquisition and operation of laboratories and other necessary buildings and facilities.

(d) The application of the results of research to the establishment of new industries: trade extension programs and the co-ordination of the work of laboratories and field units with industrial and market extension of the province ...."[1/]

The Research Council conducts research, development and other technical work through its technical arm, B. C. Research. It also operates a fully-owned development company, Techurst Enterprises Ltd., set up to commercially exploit research products arising from the work of B. C. Research. There is no formal control by the provincial government over the operations of the Research Council or its subsidiaries except that exercised directly by its appointees on the Council.

Research Council Activities

General Review

It is not the intention to discuss in this report the full range of research council activities. The Science Council of Canada published a report on provincial research councils in 1971.[2/] Reference may be made to that report for more detailed information. Nevertheless, a brief overall review is appropriate at this point.

1/ Declaration (made May 29th, 1944, under Sections 6 and 37 of the Societies Act) (mimeo) p. 1.

2/ Andrew M. Wilson, Research Councils in the Provinces: A Canadian Resource, Background Study for the Science Council of Canada, Special Study No. 19 (Information Canada, Ottawa, 1971).

The research programs of these agencies vary significantly from province to province, responding to the different research and development needs imposed by different economic environments. In the resource-oriented provinces, notably in the Western and Atlantic provinces, major attention is given by the councils to the questions of discovering and assessing additional resources, of developing uses for resource materials or of improving primary resource production methods. On the other hand, in Ontario and Québec the resolution of manufacturing problems plays a more prominent part in total activities. A shift to more emphasis on manufacturing has been noted in one or two of the resource-oriented provinces.

The activities of the research councils reflect differences in the organization of research in government programs. Certain forms of research undertaken by the research council in some provinces are performed within government departments in other provinces. In Alberta, for instance, engineering studies of highway construction methods and materials are performed by the Alberta Research Council, but are generally done within the Department of Highways in other provinces. The total size of governments has some effect on this. In the larger provinces, the scale of government activities is such that more research, particularly for the resource industries, may be effectively performed within individual government departments.

Excluding Québec and Manitoba, the extent to which the research councils perform functions directly related to the activities of other provincial government departments is roughly indicated by the proportion of their total income that comes from provincial grants.[1/] In the 1971-72 fiscal year, provincial grants

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1/ In Québec, since operations just began in 1970, it was not possible to generate much contract income before the end of the 1971-72 fiscal year. In Manitoba, there is no full-time staff for the Research Council and no contract work is engaged in. All expendituresfor the part-time staff of the Manitoba Council are met directly from the appropriation of the Department of Industry and Commerce.

as a percentage of total operating revenue for the six remaining provinces ranged from a high of 77 per cent in Alberta to a low of 16 per cent in British Columbia (see Table 11-1).

Nearly all of the remaining income of the provincial research councils comes from contracts. It is apparent that the British Columbia and Ontario councils are the most strongly oriented to contract work. A small portion of income comes from the National Research Council to cover the cost of its Technical Information Service and Industrial Engineering Services which are operated in conjunction with most of the provincial research councils. The contract income of the research councils also comes in part from provincial governments (and federal government departments) but most comes from private business. In turn, most of the private contract income is from manufacturing firms and can be taken as a measure of the service provided directly to industrial development. Income from patents makes up 5 per cent of the the income of the B.C. Research Council.

The provincial grant covers the cost of some activities in industrial development in addition to the cost of services provided directly to government departments.1/ Although the pattern varies from council to council, provincial grants may meet the costs of four kinds of activities which are relevant to industrial development: (1) basic research of long-term consequence to industrial development; (2) in-house applied research; (3) a subsidy for services provided on a contract basis; and (4) management advisory services provided without charge or for only a nominal fee. The provincial grants may also cover the cost of new capital equipment.

1/ Some of the services provided directly to government departments are also for industrial development purposes.

Table 11-1

OPERATING REVENUES OF PROVINCIAL RESEARCH COUNCILS, 1970-71, 1971-72

	Total Operating Revenues[1]		Provincial Grant as Percentage of Total Operating Revenues	
	1970-71	1971-72	1970-71	1971-72
	(thousands of dollars)		(per cent)	
Nova Scotia Research Foundation	868	942	69	67
New Brunswick Research and Productivity Council	1,026	1,052	58	57
Centre de recherche industrielle du Québec	[2]	[2]		
Ontario Research Foundation	4,500[3]	4,854[4]	28	31
Manitoba Research Council		[5]		
Saskatchewan Research Council	1,618	1,875	64	58
Research Council of Alberta	3,435	4,348	90	77
British Columbia Research Council	1,715[3]	2,051[4]	19	16

1/ For fiscal year ending March 31 unless otherwise indicated

2/ The annual reports are not as yet available but the provincial government paid $1,500,000 to the Centre in the 1970-71 fiscal year and $3,500,000 in the 1971-72 fiscal year. This made up nearly all of the Centre's revenues during the two years.

3/ Calendar year 1970

4/ Calendar year 1971

5/ There are no separate financial accounts for the Manitoba Research Council.

The organizational structure of the various research councils gives a quick birds-eye view of the nature of their activities. This was as follows (excluding administrative units responsible for the library, general administration, or policy formation):

Nova Scotia Research Foundation (Fiscal Year 1970-71)

Technical Services Division
Operational Research Division
Applied Biology Division
Chemistry Division
Geophysics Division
Engineering Physics Division

New Brunswick Research and Productivity Council (Fiscal Year 1971-1972)

Engineering Department
Chemistry and Food Science Department
Management Services Department
Minerals/and Materials Department

Centre de Recherche Industrielle du Québec (Fiscal Year 1971-72)

Since the CRIQ has only recently come into existence, its organizational structure is not fully developed. Before the end of the 1971-72 fiscal year, research groups had been set up in the following three fields:

Systems
Materials
Mechanical Engineering

Ontario Research Foundation (Calendar Year 1971)

Engineering Department
Field Services Department
Materials Chemistry Department
Metallurgy Department
Organic Chemistry Department
Physical Chemistry Department
Physics Department
Textiles Department

Saskatchewan Research Council (Calendar Year 1971)

Chemistry Division
Engineering Division
Geology Division
Industrial Services Division
Physics Division

Research Council of Alberta (Calendar Year 1971)

Physical Sciences Branch (formerly Fuels Branch)
- Chemistry Division
- Fuel Sciences Division
- Engineering Division
- Special Projects and Microbiology Division
- Gasoline and Oil Testing Laboratory

Product Research and Development Division

Earth Sciences Branch
Soils Division
Geology Division
Groundwater Division

Cloud Physics and Hail Project
Highway and River Engineering Division
Industrial and Engineering Services Division

British Columbia Research Council (Calendar Year 1971)

Applied Biology
Applied Chemistry
Applied Physics
Engineering
Management Services

Activities Related to Industrial Development

The general orientation of the provincial research councils to industrial development has been indicated by the statutory references given earlier in this chapter. The examination of current activities of the councils bears out this premise. There is little that is done by the councils that does not have some future potential for economic growth or industrial development in a broad sense.1/ Now it is proposed to focus attention more narrowly on those activities directed to the development of specific manufacturing industries.

Provincial research council activities in respect to this narrower definition of industrial development may be classified in terms of the categories of industrial information and advisory services proposed in Chapter 9. For the most part, their activities fall into two categories: (1) measures to improve the productivity of existing firms in the province; and (2) services designed to secure new industries or which are preliminary to the expansion of existing ones, e.g., market studies and feasibility studies. A third category is new products and product development. In some cases, these roles are performed directly; in other cases, provincial council staff may serve as a means of communication between local industry and federal government agencies.

1/ This is not to say that a provincial council confines itself to activity within the province. The B.C. Research Council reports, for instance, that in 1971, 49 per cent of its contract income was from agencies or companies outside British Columbia. Other provincial research councils have entered into research contracts for out-of-province clients although not to the same extent.

Measures to improve the productivity of existing firms may be considered under two broad headings, the provision of information services and the provision of industrial management services. Information services are provided in part by the technical and scientific libraries of all of the provincial research councils, and are available for use by industrial firms as well as others. Information is also supplied by the mailing out, to an established mailing list, of information relating to the areas of interest of particular firms. As well, information is provided in response to inquiries from firms. These information services are generally provided free and in close co-operation with the National Research Council. The National Research Council has entered into agreements with the research councils in Nova Scotia, New Brunswick, Ontario, Saskatchewan, Alberta, and British Columbia to assist with the costs of technical inquiry services.[1] The staff of these research councils act as agents of the National Research Council in dealing with requests for such information and, where necessary, bring industrial clients into contact with the main NRC offices.

In at least one province the research council publishes a journal to provide information to industry. The Saskatchewan Research Council has published two monthly journals, The Catalyst to keep "industry aware of changes in the industrial environment"[2] and Industrial Management Systems. In Québec, the Centre de Recherche Industrielle has placed a major initial emphasis on a Technological Information Analysis Service to assist in solving the documentation and technological information problems of industry.

1/ In Manitoba, such services are provided directly by staff of the National Research Council.

2/ Saskatchewan Research Council, Annual Report, 1970, p. 47.

Industrial management services involve a more direct participation by staff of the research councils in industrial problem-solving. Typically the services may be classified according to the amount of time required to deal with the problem. The smaller problems may be considered without charge by the staff of a Field Services department[1/] or an Industrial Services division.[2/] Visits are made to the company plant, with most assistance being provided for such procedures as plant layout, production scheduling, cost controls, materials handling and job evaluation. In Nova Scotia, New Brunswick, Saskatchewan, Alberta, and British Columbia, these activities are jointly financed with the National Research Council. In Ontario, both the Ontario Research Foundation and the National Research Council provide such services.

Industrial problems requiring more extensive investigation are typically performed on a paid contract basis and by the staff of council divisions other than the Field Services or Technical Services divisions. Many of such contracts involve product research and development and usually require laboratory facilities and qualified technical staff which the client company does not possess. As an example of a way in which a research council may supply this need, one may refer to the Product Research and Development Division of the Research Council of Alberta. This division provides the services of laboratories and pilot plant to serve industry in the areas of analytical and applied chemistry, physical testing, and process engineering. These services are provided in three different forms: (1) leasing of pilot plant space to clients who provide their own staff and equipment; (2) making equipment available to industry at a nominal charge; and (3) undertaking of projects on a contractual basis, involving the work of professionals and technicians in the Research Council laboratories and pilot plant.

1/ The name employed by the Ontario Research Foundation.

2/ The name employed by the New Brunswick Research and Productivity Council and the Saskatchewan Research Council. Comparable divisions are the Technical Services Division of the Nova Scotia Research Foundation, the Industrial and Engineering Services Division of the Research Council of Alberta, and the Management Services Division of the B.C. Research Council.

The provision of product research and development services specialized for a particular sector of manufacturing is a feature of the activities of the Ontario Research Foundation. The Textiles Department of the Foundation, for instance, maintains a general textile laboratory to provide a wide range of testing and other technical services to both manufacturers and users of textiles. An applied research program has as its objective "the improvement of those properties in which textile fibres are deficient, and to thereby enhance their marketability".1/

The research councils in Nova Scotia, New Brunswick, Ontario, Saskatchewan, Alberta, and British Columbia operate their own laboratory buildings. The Centre de Recherche Industrielle du Québec has leased laboratory facilities in three cities in the province. Pilot plants of different kinds are operated in New Brunswick, Ontario and Alberta. In all cases these facilities may be used for product research and development of many kinds.

Still other types of management services have been provided on a contractual basis. For instance, the Nova Scotia Research Foundation has an Operations Research Division which applies the technique of operations research to the solving of industrial problems. B.C. Research also enters into contracts employing operations research techniques. The New Brunswick Research and Productivity Council has a Management Services Department and places considerable emphasis on this part of its program. It has also contracted to directly manage at least two out-of-province manufacturing establishments. The staff of the Ontario Research Foundation has supervised the construction of a manufacturing plant.

We turn now to consider that other aspect of research council activities in the field of industrial development, market and feasibility studies. These typically involve a study of both economic and technical factors -- what the Ontario Research Foundation refers to as "Technomics". Such studies have been carried out particularly frequently by the New Brunswick Research and Productivity Council, the Ontario Research Foundation and the British Columbia Research Council. Market studies have also been undertaken from time to time by other research councils.

1/ Ontario Research Foundation, 1970 Annual Report, p. 27

The activities of the Manitoba Research Council vary significantly from those of the other councils. The Council is largely an advisory body since it has no full-time staff and no laboratory facilities. For some years indeed, it had no staff at all and its activities largely lapsed. Late in 1970, the Council was reorganized and a new executive director appointed (who is also director of the Research and Technology Branch of the Department of Industry and Commerce). It is stated that "The immediate intention of the Council is to establish programs that will make maximum use of the research facilities and personnel available in Manitoba and to carry out significant research and development that could lead to industrial growth."[1/] The Research and Technology Branch of the Department of Industry and Commerce has the responsibility of implementing the programs and recommendations of the Council.

As at March 1971, the Council was responsible for two rather similar technical research incentive programs, a cost-shared (50 per cent) Innovation Assistance program to foster "the creation of new industrial enterprises based on technical innovation and economic feasibility"[2/] and an Industrial Enterprise Fellowship "to solicit proposals from university and community college staff for research projects which could lead to new products or processes for Manitoba industry, or to the setting up of new industrial enterprises by the research team".[3/]

Additional mention might also be made of the Centre de Recherche Industrielle du Québec. Since it was only recently established, its major growth in personnel is currently underway and its final arrangements regarding physical facilities have not as yet been made. It is therefore difficult to compare its operations with long-established councils in other provinces. Nevertheless, it is apparent that its operations are to be heavily manufacturing-oriented and in this not surprisingly it would resemble the Ontario Research Foundation. Moreover its scale of operations is likely to be about the same as the Ontario agency.

1/ Manitoba, Department of Industry and Commerce, 1970-71 Annual Report, p. 70.

2/ Ibid., p. 32

3/ Ibid., p. 71

CHAPTER 12

TOURIST INDUSTRY DEVELOPMENT POLICIES

Introduction

"Today, tourism is the most competitive business in the world. Almost every country, every state, province and city is seeking tourists from around the globe."[1/] This quotation indicates a prominent feature of tourist industry promotion today, the basic change in the tourist industry potential in all regions. Increasing real income, decreasing costs of travel (whether in absolute or in relative terms), increasing vacation time and increasing speed of travel, have all greatly extended the range of recreation opportunities and widened the choice of recreational areas available to an individual tourist.

This has substantially increased the potential magnitude of the tourist market in any given region, both because of the increased total expenditures by tourists and because of the opportunity (whether realized or not) of a particular region to obtain an increased share of these expenditures. The reward to the successful tourist promoter is substantially higher than before and the efforts likely to be put forward in promotion and development are correspondingly increased.

This examination of tourist industry development policies begins with a discussion of what a "tourist" is. Definitions of tourists vary somewhat but perhaps the most useful one for our purposes is one proposed by a technical subcommittee of the Travel Research Planning Committee of the Federal-Provincial Conference on Tourism. This defines a tourist as "a person who travels for business, pleasure or personal reasons for at least 25 miles one-way from the boundary of his community and stops overnight but is not arriving to take up an occupation, establish a residence or attend school". This broad definition is in parallel with generally accepted definitions of an international tourist. Often, a tourist is thought

[1/] Government of British Columbia, Department of Travel Industry, Annual Report, 1969-70, p. 17.

of more narrowly as a person who travels for pleasure or recreational purposes only. The major thrust of tourist promotion activity appears to be to that group.

The requirements of the tourist determine the constituent elements of the tourism industry and similarly determine the nature of tourist industry development policies. By definition, the tourist requires transportation and transportation-related services, sleeping accomodation and food and beverages. If the tourist is visiting friends or relatives, sleeping accomodation and food will be provided in a home rather than by commercial establishments such as hotels and restaurants. This would also be largely true if the tourist is a visitor to his summer cottage, is on a camping trip or is using a trailer.

If the tourist has not come to visit friends or relatives he will have come for other purposes. He may have come on business or to attend a convention. If he has come for recreational purposes, he has come to see and do things which he believes will be pleasing.

Things to see and do -- to provide these (or to make people aware of them) is the essence of much of government tourism development policies in spite of the fact that the transportation, accomodation and restaurant industries receive the bulk of tourists' expenditures. The development of accommodation and restaurant services is largely left to market forces and government action in this sector occupies a distinctively secondary position.

Much of what is attractive to tourists is also attractive to residents. It is not always possible to distinguish between recreation development policy, which is presumed to be primarily for residents, and those policies which are primarily for tourists. An effort has been made to avoid those aspects of recreation development which are primarily for local residents.

The consideration of tourist industry development policies in this chapter will proceed under four headings, (1) administrative structures, (2) development of tourist recreational facilities, (3) development of tourist accomodation and other services, and (4) tourism publicity programs. In general, apart from the discussion of administrative structures and tourist industry lending agencies, little attempt will be made to compare the tourism development programs in different provinces.

While the major attention is given to provincial government programs some mention will also be made of federal government tourism programs.

Administrative Structures

Provincial tourist bureaus have been in operation on a small scale in most provinces since the late 1920s but the formation of tourism development departments began only in the latter 1940s and has largely taken place in the 1960s. At the federal government level, the Canadian Government Travel Bureau was established in 1934 and now forms one of three components of the federal Office of Tourism established at the beginning of 1968. The Office of Tourism is a part of the Department of Industry, Trade and Commerce.

A great many government agencies have been, and are, involved in tourism. It will not be possible to consider their role in any detail although specific reference will be made later to the development of parks, perhaps the earliest major expenditures for tourism purposes and still the largest.

Tourism promotion, after its initial period under the aegis of separate bureaus, had an extensive period of involvement with industrial development departments. As time went on, gradually one by one separate departments of tourism were established in most provinces. Currently separate tourism departments exist in Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Manitoba, Alberta and British Columbia.

Tourist promotion continues as a responsibility of the industrial development departments in Newfoundland and Saskatchewan. In Ontario, after nearly a quarter of a century of separate existence, the tourism development department was consolidated with the industrial development department in 1971.

The establishment of separate tourist development departments is a recent phenomenon in New Brunswick, Nova Scotia and Alberta,[1/] having taken place since the beginning of 1970.

A brief province-by-province outline of the development of these administrative structures follows.

Newfoundland

In Newfoundland, a Tourist Development Division was established as part of the Department of Economic Development upon the creation of that department immediately after Newfoundland came into Confederation in 1949. A tourist promotion agency had existed prior to this under the Commission form of government. There has been no change in the formal structure of the division since 1949.

Prince Edward Island

A Department of Tourist Development was established in Prince Edward Island in 1960, but prior to that a Tourist and Information Branch was part of the Department of the Provincial Secretary for some years. A Tourist Promotion Branch was part of the Department of the Provincial Treasurer in 1950.

Currently, responsibility for environmental improvement and land use has been combined with that for tourism under a Department of the Environment and Tourism.

1/ In Alberta, technically, a formal separate department has not been established. The tourist promotion agencies report to a minister without portfolio.

Nova Scotia

The Department of Tourism in Nova Scotia was established in 1971. From 1961 to 1971, tourism development programs were the prime responsibility of two divisions in the Department of Trade and Industry, the Accomodations and Facilities Division, and the Nova Scotia Travel Bureau. In addition, some tourism promotion was undertaken by the Nova Scotia Information Service. The Accomodations and Facilities Division was responsible for the development and improvement of accomodation, food service and other tourist facilities. The Nova Scotia Travel Bureau prepared and distributed travel literature and information kits, and among other matters maintained tourist information bureaus within the province and information offices in other parts of Canada and in the United States.

Prior to 1961, the Nova Scotia Information Service was part of the Nova Scotia Travel Bureau but the Bureau was still a part of the Department of Trade and Industry.

New Brunswick

In New Brunswick, a provincial agency charged with promoting tourism dates back at least to 1926-27 when a Bureau of Information and Tourist Travel was in existence. This ultimately became the New Brunswick Travel Bureau in 1952-53 (in conjunction also with the Public Accomodation Board established in the immediate postwar period). After transfers to two or three departments, it had grown by the fiscal year 1969-70, into the Travel Bureau and Tourist Promotion Branch of the Department of Natural Resources. In 1971, when the new Department of Tourism was formed, this made up much of the new department.

Quebec

The Quebec Department of Tourism, Fish and Game was established in 1963 for the following purposes:

"(a) To promote the development of tourism in the province;

(b) To organize and maintain tourist information offices;

(c) To attend to the carrying out of the laws relating to hotels;

(d) To participate in exhibitions in the province or elsewhere;

(e) To encourage the development of handicrafts;

(f) To promote the establishment of parks, belvederes and camping or picnic grounds;

(g) To supervise and manage everything relating to hunting and fishing, except maritime fisheries;

(h) To administer the provincial parks, fish and game reserves and bird sanctuaries."1/

At the same time a Tourist Council was created, consisting of the Minister of Tourism, Fish and Game or his representative and six other persons appointed by the Lieutenant-Governor in Council. The Council was to "study the best means of solving the problems of tourism in the province, recommend suitable measures to ensure the co-ordination of tourist activities and report its findings to the Minister".2/

In 1968,3/ the Tourist Council was enlarged by adding six more persons appointed by the Lieutenant-Governor in Council. It was provided that the Lieutenant-Governor in Council would designate the chairman and vice-chairman.

Formal structures concerned with tourism promotion in the province have existed as far back as 1933 when the Minister of Roads was authorized by statute4/ to establish a Tourist Traffic Bureau in his department, and when a Tourist Traffic Council also was authorized. The original Tourist Traffic Council consisted, however,

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1/ Statutes of Quebec, 1963, c. 39, s. 2.

2/ Ibid., c. 39, s. 16.

3/ Statutes of Quebec, 1968, c. 58.

4/ Statutes of Quebec, 1933, c. 36.

of officers of the various departments of government and was to act in part as a co-ordinating body. The statute also provided for "initiatory syndicates" or corporations constituted with the object of developing tourist traffic in a region, a district or a locality of the province.

Ontario

A Department of Travel and Publicity was established in Ontario in 1946,[1/] the first such department. Its purpose was:

> "to develop the tourist industry in Ontario by encouraging and promoting improvement in the standards of accomodation, facilities and services offered to tourists and to undertake the publicizing of the tourist industry and of the resources, attractions and advantages of Ontario."[2/]

In 1964, the department became the Department of Tourism and Information.[3/] Two years later, it was given the additional objective of "to preserve and develop tourist and recreational attractions".[4/] In 1972, the department was combined with the Department of Trade and Development to form the Ministry of Industry and Tourism.

Tourism promotion activities, of course, preceded the establishment of the Department of Travel and Publicity. A Travel and Publicity Bureau (or its predecessor, the Publicity and Information Bureau) had existed for many years at an earlier stage, attached to the Office of the Prime Minister and later in the Department of the Provincial Treasurer.

Manitoba

In Manitoba, a Department of Tourism and Recreation was established in 1966. The Act provided that the minister of the department was to administer "the matters related to: (a) parks; (b) public recreation and recreation facilities; (c) the tourist industry in the province; (d) physical fitness

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1/ Statutes of Ontario, 1946, c. 23.

2/ Ibid., c. 23, s. 3.

3/ Statutes of Ontario, 1964, c. 23.

4/ Statutes of Ontario, 1966, c. 44.

and sports other than hunting and fishing; (e) public information services of the government."[1/]

The Act also provided for policies regarding transient accommodation facilities.[2/] First of all, with the exception of facilities licensed to serve liquor, a license was to be required for the operation or enlargement of transient accomodation facilities and a permit was to be required from the Minister of Tourism and Recreation before construction of facilities. The minister was authorized to classify transient accommodation facilities.

In 1971, the Department of Tourism and Recreation and the Department of Cultural Affairs were combined to form the Department of Tourism, Recreation and Cultural Affairs.

Saskatchewan

A department with primary responsibility for tourism was established in Saskatchewan in 1957. The Department of Travel and Information was created with the responsibility of

> "promoting the development of the tourist industry and the use of provincial parks and recreation areas of the province and for providing such informational services and materials as may be deemed requisite for the purpose of publicizing and illustrating the various services provided by any agency or for the purpose of promoting the social, cultural and economic development of the province." [3/]

The Act provided for a tourist branch and a parks branch of the department as well as such other branches as might be established.

In 1960, the functions of the Department of Travel and Information and of the Industrial Development Office were largely combined into a new Department of Industry and Information. Tourism promotion continued as the responsibility of the Tourist Branch in the new department, but the responsibility for parks administration returned to the Department of Natural Resources. The Tourist Branch continues as part of the Department of Industry and Commerce.

1/ Statutes of Manitoba, 1966, c. 68, s. 5.

2/ These policies originated a decade or more earlier.

3/ Statutes of Saskatchewan, 1957, c. 11, s. 6.

Alberta

A Publicity and Travel Bureau was first established in the Alberta government service in 1940. It initially formed part of the Trade and Industry Department but was transferred to the Economic Affairs Department when that department was established. In 1949, the Bureau was divided into two agencies, the Publicity Bureau and the Alberta Travel Bureau. In 1959, upon the dissolution of the Economic Affairs Department, these two agencies went to separate departments. The following year they were together in the Provincial Secretary's Department. In 1961, they were both transferred to the Industry and Development Department.

Tourism was given formal recognition when the department's name was changed in 1968 to Industry and Tourism. In 1971, the tourism promotion branches such as the Publicity Bureau, the Film and Photographic Branch, and the Alberta Government Travel Bureau were separated from the department and became responsible to a minister without portfolio.

British Columbia

In British Columbia, a Bureau of Industrial and Tourist Development was formed as part of the Department of Trade and Industry established in 1937. The duties of the latter bureau were:

> "(a) To stimulate and aid the tourist traffic; and
>
> (b) To secure information and to advise as to the establishment of new industries in the Province, where it appears that such industries can profitably be carried on."1/

1/ Statutes of British Columbia, 1937, s. 21.

The following year (1938) the function of industrial development was removed from the agency and the Bureau of Industrial and Tourist Development became the British Columbia Government Travel Bureau. In 1957, in an extensive reorganization, the British Columbia Travel Bureau became part of a new Department of Recreation and Conservation. In 1967, the Department of Travel Industry was established. It has responsibility for the B.C. Travel Bureau as well as provincial parks.

Framework of Tourism Promotion and Development

The promotion and development of the tourist industry may involve the full range of services and goods which the tourist is expected to utilize. Any one of these services may be the critical factor in determining the travel decision of the tourist. Since the structure of each of the industries providing these services may vary, different approaches may be utilized in relation to each industry in influencing that travel decision.

In general, government tourist development programs have concentrated on development and encouragement of a wide variety of recreational facilities (broadly defined) and on the publicity for such recreational facilities. However, governments also have provided, financed, promoted or publicized transportation, accommodation and other services of interest to tourists.

Tourism development and promotion programs will be considered under four broad headings: (1) the development of recreational facilities; (2) the development of business tourist facilities; (3) the development of transportation, accommodation and ancillary tourist services and; (4) publicity programs.

Recreational Facilities

Tourist recreational facilities range from natural resources largely untouched by man to those where the essential element is a specialized human resource such as a symphony orchestra or opera company. Four aspects of recreational facilities will be considered, natural environment, historic attractions, cultural attractions, and event "generation". The role of governments in respect to these may range from measures to keep a natural resource in a wilderness state to the subsidization of an opera company.

Natural environment

Obviously, the natural environment, the environment of nature, is an important factor in making a particular location attractive, or unattractive, to tourists. But government programs relating to development of natural resources (land, water, air or living things) for tourist purposes may, in some cases, be only an incidental part of government resource conservation or development programs. Government programs may range from regulations prohibiting certain kinds of uses of these resources, or imposing restrictions as to time or amount of use or, on the other hand, they may provide for direct government management of the resource. Hunting and fishing regulations are a particular example. They are directly related both to tourism and to natural resource conservation policies.

More directly related to tourism policies are programs of complete government management of natural resources for the purpose of making them available in an organized way for public use. This is the particular feature of parks. Provincial parks began to be developed almost simultaneously with the first national parks in the 1880's although the major development of provincial parks has occurred in the last decade. Most of the park area, both provincial and federal, reserves natural wilderness for recreational purposes. Increasingly, provincial parks adjacent to larger cities require substantial modifications to the existing natural environment.

It is worth noting that at 1969 an area of about 137,000 square miles was reserved for parks, of which 108,000 was provincial parks. Three-quarters of the latter was in the province of Quebec.

As already noted, natural resource use outside of the provincial and national park system is a very relevant aspect of tourism policy. Regulations in regard to hunting and fishing will affect the tourist industry since a considerable number of tourists come precisely to hunt and fish. Regulations in regard to land use and land ownership are becoming more important with the increasing scarcity of recreational land within convenient range. A clear trend that is apparent in all provinces is a move away from private reservation of land to a greater commitment to community use.

Historic attractions

Another type of recreational facility is an historic attraction. Historic attractions may include something maintained or restored purely because of the interest of the public in them; they may be also functioning entities such as the legislative or parliament buildings in all capital cities. Museums may also be regarded as, in part, historic attractions; whole cities or sections of cities may be similarly described.

The high degree of interest in historic attractions in Canada is largely a feature of the last quarter century although one may note a gradually rising level of interest for the past 50 years.

The major non-operating historic attractions have been developed by the federal government. Sometimes, as in the case of the former French fortress at Louisbourg in Nova Scotia, an expensive reconstruction has been required. Such major attractions are typically not self-supporting financially and are developed as much for reasons of national prestige and national identity as for tourist purposes. Yet they are undoubtedly of considerable importance in the sum total of tourist attractions of a region.

As the development of major national historic sites has neared completion (with a high proportion of fortresses among them), provincial governments have played an increasing role in the development of attractions recapturing other and less spectacular aspects of the past.

An example is Upper Canada Village in Ontario where a variety of 18th and 19th century buildings were moved to a common assembly point to simulate a village setting. It illustrates the potency of nostalgia, the attraction of the evocation of life of a century or more ago. It has fundamentally altered the pattern of tourist traffic within its vicinity.

Of a similar nature are such projects as the restoration of a section of old Quebec City and redevelopments in Victoria and Halifax. Obviously the older a centre the more favourable its prospects of development for such purposes.

Cultural attractions

Cultural attractions make up still another type of recreational facility, although the distinction between historical attractions or cultural attractions may not always be clear. Cultural attractions may include music, art, theatre and sports institutions. Government programs may include the provision of physical facilities such as museums, art galleries, concert halls, theatres and sports facilities; the coverage of part or all of operating expenditures of such facilities; the provision of grants or loans for specific cultural programs,or the continuing employment of government staff to assist in, or stimulate the development of, such cultural attractions. Most of such cultural attractions are of primary benefit to residents.

Assistance to various events associated with the arts and culture also has implications for tourism. An example here is the establishment of the Opera Company of Quebec, a formal Quebec government company, whose operations are subsidized to a significant extent by the provincial government. Another example is the assistance given to the Charlottetown Festival by both the federal and Prince Edward Island governments. But perhaps the best example of a cultural attraction of major interest to tourists, and with a significant economic impact upon a community, is the Stratford Festival in Stratford, Ontario. This however is not a provincial government project.

Perhaps not completely a cultural attraction, but owned and operated by a provincial government corporation, is Ontario Place. First opened in 1971, it combines a number of recreational, and cultural features. Similar in a number of ways is Man and His World in Montreal which arose out of Expo 67 and which has continued to operate every summer since. The provincial government meets a part of its operating deficit.

Event "generation"

A fourth type of recreational facility may be described as an "event". It may incorporate features of natural resources, historic attractions and cultural attractions, but an event will be distinguished by its limitation to a particular period. The production or generation of events has become a major feature of the tourism development programs of communities, but events of a scale sufficient to justify federal and provincial government involvement are becoming increasingly frequent.

The best example of an event in Canada was Expo 67 in which all levels of government participated financially with the federal government paying the largest share. It was by all odds the major tourist attraction of that or any other decade. Its impact is not likely to be exceeded except by another similar world fair.

Events as large as Expo 67 can be held only infrequently but there are many city events which are annual and have become important tourist attractions. One might identify the Calgary Stampede and the Quebec City Carnaval. These are cited merely as examples because neither federal nor provincial governments are involved in a significant way.

There are events, however, in which provincial governments are closely involved. Centenaries or other anniversaries of the formation of provinces which are deemed appropriate to commemorate seem to be coming with increasing frequency. All of them are important for tourist travel. Perhaps a unique example of a province-wide event with a completely arbitrary date was Saskatchewan's Homecoming '71 designed to invite back all former residents of the province.

Another type of event which is becoming increasingly frequent is major sports events. They go now from the Olympic games, both summer and winter, the Commonwealth games, the Pan-American games, the Canada games, the Quebec games, etc. The international games in particular, are important tourist attractions which explains the competition among various cities to become the sponsoring locale.

Other events of lesser magnitude and smaller impact have been fishing derbys organized in Nova Scotia and Newfoundland to give only an example or two.

Business Tourist Facilities

The convention is one of the principal beneficiaries of rapid air travel; attendance at conventions is now one of the important components of business tourist travel. Providing facilities for these conventions has become a major element in hotel business. This has led to the development of new types of structures, convention centres,which are designed to meet the specialized requirements of large conventions. Hotels continue as the major supplier of convention services.

It is apparent from a cursory view that the involvement of public authorities in the promotion of convention centres and other business tourist facilities is considerable. But this has been almost entirely at the local government level. One example of the financial involvement of a provincial government is the convention centre in Winnipeg. This is being financed jointly by the City of Winnipeg and the provincial government.

Transportation, Accomodation and Other Tourist Services

There is a wide range of activities by provincial and federal governments in connection with transportation, accomodation and other tourist services. Only a brief description will be undertaken.

Transportation Services

The largest government involvement in transportation services is in the provision of highways. The construction of highways to, and within, parks or other tourist attractions is quite simply an investment in tourism. Most arterial highways are also largely for tourist travel (employing the broad definition of the tourist given at the beginning of this chapter). If one was to conduct a careful study and allocate to tourist travel an appropriate proportion of the total provincial expenditures on roads and highways, it would be a very large amount indeed. This would demonstrate the major role of provincial departments of highways in tourism development. The federal government also spends substantial resources on highways but the amounts are far less than those of the provincial governments.

There is little merit in such an examination for the purpose of this chapter. The importance of highways to tourist travel in this age of the automobile is well-known and there is little distinction in highway financing practice among the provinces. There are two exceptions, Quebec and British Columbia, where a small proportion of the provincial highway system is financed by tolls.

There is little involvement by provincial governments in other forms of passenger transportation. The provincial government in Saskatchewan owns a bus company. Passenger services, but diminishing in importance, are provided on railways owned by provincial Crown corporations in Ontario and British Columbia. A ferry service is owned by the British Columbia government. The Newfoundland government has guaranteed loans to an airline.

By contrast, the role of the federal government in commercial passenger transportation is a major one in both a regulatory and a proprietory sense. It has almost exclusive jurisdiction over rail and air transportation, the latter being now the largest single commercial supplier of tourist travel needs and through Crown corporations owns a major national railway system and the major national airline.

Government Ownership of Accomodation Facilities

Governments own and operate two types of tourist accomodation facilities -- hotels, largely in cities, and camp sites and cottages in parks or along highways. The federal government, through Canadian National, is the owner of a major national hotel chain with hotels in the larger urban centres and also two or three in park areas. On the other hand, only in the Atlantic region do the provincial governments own hotels. The Newfoundland government owns a chain of hotels in four centres in the province which has been leased to Holiday Inn Incorporated. The Nova Scotia government operates two summer resort hotels. The New Brunswick government owns the major hotel in Fredericton (acquiring the hotel as a result of the financial failure of the original owners to whom the provincial government had provided financial guarantees). The Prince Edward Island government operates a summer resort hotel.

In other provinces, cottage and dormitory facilities are sometimes operated in provincial parks. For instance, in Saskatchewan, cabins and dormitories in the provincial parks are operated by the Department of Natural Resources. In others, accomodation facilities in provincial parks are more usually operated privately on the basis of concessions. Camping facilities are operated directly by provincial governments in all provinces and by the federal government in national parks.

Financial Assistance to Tourist Enterprises

Another measure of assistance to tourism is financial assistance to commercial tourist establishments. This has largely been in the form of loans which have been made to owners and operators of tourist cabins, motels, hotels and restaurants. In a few cases, tax concessions to hotels have been granted, notably in Prince Edward Island and Nova Scotia.

The largest single government source of funds to the tourist industry is the federal Industrial Development Bank. In the fiscal year 1970-71 (year ending September 30) loan approvals to the tourist industry totalled $44,600,000. The federal government may also guarantee loans to the tourist industry under the Small Business Loans Act or under the Regional Development Incentives Act (see Chapter 14) but activity has been minimal.

In seven provinces, lending to tourist enterprises is now a part of the activities of the provincial industrial loan agencies. In three provinces, New Brunswick, Quebec and British Columbia, there is no provincial lending to the tourist industry. Of the seven other provinces, separate tourism lending agencies exist or have recently existed in Newfoundland and Prince Edward Island.

The tourism lending agencies in Newfoundland and Prince Edward Island will now be reviewed briefly. For the tourism lending activities of the provincial industrial loan agencies, one may refer to Chapters 3 and 4.

Newfoundland

In 1953,[1] the Tourist Development Loan Board was established with a board appointed by the Lieutenant-Governor in Council. The Board was authorized to make loans, to guarantee bank loans or to enter into agreements for the purpose of improving and developing the tourist industry in Newfoundland. The Lieutenant-Governor in Council could make regulations, among other things

> "(a) prescribing the enterprises or types of enterprises or types of enterprises in the tourist industry in respect of which loans or guarantees may be made;
>
> . . . .
>
> (c) prescribing the terms and conditions on which loans or guarantees may be made;
>
> . . . .
>
> (e) prescribing or limiting the amount of any loan or guarantee;
>
> . . . .
>
> (g) fixing the rate of interest on loans...."[2]

In 1956, an amendment to the Act was passed,[3] providing that the Minister of Finance was deemed to have the power to directly guarantee loans made to about 30 people listed in a schedule to the amendment.

The Tourist Development Loan Board could only provide loans or loans guarantees to tourist enterprises unable to obtain assistance on reasonable terms elsewhere. These loans could be for the purpose of building new tourist establishments or the renovation of former ones. Borrowers had to provide 50 per cent of the cost of improvements. The interest rate was the prevailing rate. The maximum term of loan was 10 years with the security of a first mortgage. The program was terminated in 1965. Up to that point, about $990,000 in loans had been made.

Prince Edward Island

A formal provincial government lending program for tourism began in 1954 in Prince Edward Island with the passage of the Tourist Accomodation Loans Act.[4] This Act authorized the Lieutenant-Governor in Council to loan money for the purpose of "assisting in the establishment and improvement of suitable tourist accomodation".[5]

1/ Statutes of Newfoundland, 1953, no. 18.

2/ Ibid., no. 18. s. 11(1).

3/ Statutes of Newfoundland, 1956, no. 37.

4/ Laws of Prince Edward Island, 1954, c. 36.

5/ Ibid., c. 36, s. 3.

A Tourist Loan Committee of three members (changed in 1961 to not less than three and not more than five members) appointed by the Lieutenant-Governor in Council was charged with the general supervisionof the loan fund and would receive applications for and approve loans to be made (subject to the regulations). It was specified that a member of the cabinet was to be chairman of the committee. Beginning in 1965, this was the Minister of Tourist Development.

The aggregate limit of loans was set at $300,000 in 1954 but was raised to $450,000 in 1959 and to $2,000,000 in 1960. By March 31, 1970, tourist accomodation loans outstanding had reached $2,147,000. Shortly after, the P.E.I. Lending Authority assumed responsibility for tourism loans. At March 31, 1971, the tourism loans outstanding stood at $2,153,000.

The limit on an individual loan was set at $40,000 (raised to $60,000 in 1967) with the total of loans outstanding to be limited to $300,000 (increased to $450,000 in 1959, to $2,000,000 in 1960). A loan could not cover more than 50 per cent of the cost of the proposed accomodation, the term of a loan was limited to 15 years and, at the beginning, the rate of interest could not be less than 4½ per cent. In 1966, the interest rate on loans was set at 6½ per cent[1/] and in 1968 at 7 per cent.[2/]

At the beginning, coverage was confined to tourist accomodation but in 1962 by statutory amendment[3/] this was extended to loans for the purchase of equipment for boats used for tourists (maximum loan $500). In 1963, it was further provided[4/] that loans could be made for the repair or restoration of private buildings of historic interest.

With the passage of the <u>Prince Edward Island Lending Authority Act</u>, the <u>Tourist Accomodation Loans Act</u> and its amendments were repealed. Under the new act, the Lending Authority was

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1/ <u>Royal Gazette, Prince Edward Island, 1966</u>, p. 493. Approved by Lieutenant-Governor in Council, November 30, 1966.

2/ <u>Royal Gazette, Prince Edward Island, 1968</u>, p. 452. This regulation was approved by the Lieutenant-Governor in Council on August 14, 1968.

3/ <u>Laws of Prince Edward Island, 1962</u>, c. 35.

4/ <u>Laws of Prince Edward Island, 1963</u>, c. 30.

authorized to guarantee credit or to lend to persons engaged in the "tourist industry", a broad definition. However, the new Authority was to follow quite a different procedure than had previously been the case. A strong preference was to be given to the government guarantee of loans from other sources over direct loans by the government agency. Another change under the regulations was to reduce the maximum size of loan from $60,000, as it had been since 1967, to $25,000.

Regulation of tourist facilities

A system of inspection of hotel and motel accommodation is standard in all provinces or nearly all provinces to try to avoid as far as possible unsatisfactory service. A system of licensing operates in nearly all provinces to enforce the system of inspection in effect. Some supervision is provided by the province over other commercial facilties designed largely for tourists. A grading of hotel and restaurant facilities is in effect in the province of Quebec.

Programs of Publicity

Government tourist publicity takes many forms although roughly it may be divided into two groups, publicity for which the total cost is paid directly by governments and that for which little or none of the cost is paid. The first category may again be divided into two categories, paid publicity appearing in various media of mass communication such as newspapers and magazines, radio and television, and paid publicity in the form of brochures, guides and leaflets of various kinds as well as advertisements on billboards.

The second kind of publicity is that obtained in news-stories and articles in newspapers and magazines or in the publicity of travel agencies, transportation companies, etc. This kind of publicity may not be free to governments although the cost will generally be far less than the cost of an equivalent amount of advertising material. To obtain it may involve meeting the expenses of travel writers, news editors or travel agents, or it may involve the writing of material for distribution to agencies of mass communication.

Promotion per se was the almost exclusive function of the provincial tourist bureaus organized as early as the 1920's in most provinces and is still a major part of government tourism programs. Promotion is a matter of informing the public about the favourable features of a province.

There are a number of ways in which this is done. The first stage has been to make an initial contact with members of the public before a trip is planned. Advertisements in the media of public communication, newspapers, radio and television are devices that all provinces use at least in part. Television, because of its high cost, has been used only by some of the larger provinces.

But perhaps more effective than direct advertising are stories or articles appearing in the press, on the radio and television. Some of these stories are "encouraged" by the organization of tours of groups of sports writers, for instance -- a regular feature of the tourist promotion program in British Columbia. But they are stimulated by the presence of departmental staff who are able to assist individual writers who came to the province.

These initial contacts with potential tourists invite a follow-up in the form of brochures and other publications. These may be distributed through the mails in response to requests or to mailing lists of past visitors or past enquiries or they may be distributed in tourist information booths, hotels, travel agencies, all of these either abroad or in Canada.

Promotional brochures will supplement the promotional message already communicated. These are generally evocative of pleasure showing happy people in forest, lake, prairie, mountain. ocean, snow, ice, water, sun, city, country settings. The range of activities available to a tourist may be described in general or in reasonably specific terms.

Informational publications will go beyond this to greater specifics. Some provinces publish directories of hotels or cottages or camp sites, giving details regarding types of accommodation and prices. Some provinces publish ratings for hotels. The most formal is that of the Province of Quebec. Highway maps are standard tourist material and have been for many years, having begun as quite utilitarian documents published by departments of highways. Other informational booklets may include information about hunting and fishing laws.

Expenditures on tourist promotion are of about the same order at the federal and provincial levels. The expenditures of the federal Office of Tourism amounted to about $11,200,000 in the 1970-71 fiscal year. Excluding the Quebec government grant of $5,500,000 to Man and His World, provincial government tourism promotion expenditures also were about $11,200,000 in the same year.[1/] The primary provincial tourism promotion expenditures are for advertising, $5,530,00 in the 1970-71 fiscal year with publications requiring about $3,180,000. Clearly, the sums are not large when compared to the estimated tourist expenditures in 1971 of $3,800,000,000.

[1/] According to a compilation made by the Travel Industry Association of Canada. This does not include the salaries and expenses of the staff of provincial tourism promotion agencies and departments.

CHAPTER 13

INDUSTRIAL DEVELOPMENT IN PROVINCIAL REGIONS

The promotion of a better regional balance within a province has been an important aim of provincial industrial development programs. While originally this was achieved somewhat indirectly and implicitly, it has been formulated more and more in explicit terms and regional development agencies have been established.

This chapter considers four types of regionally-oriented programs which form a part of provincial industrial development activity. These are: (1) grants and other financial incentives to industries in designated regions; (2) the establishment of special area agencies (particularly loan agencies); (3) the establishment of regional divisions within provincial government departments; and (4) provincial government encouragement for the establishment of local industrial development or tourist development agencies. The latter two programs are, of course, closely related.

Grants and Other Incentives to Industries in Designated Regions

Provincial programs of financial incentives to industries in designated regions within a province are of recent origin. Taking their cue from the federal government's regional industrial incentive programs, they have involved grants or tax incentives or various kinds. Such programs have been established in five provinces: Newfoundland, Quebec, Ontario, Saskatchewan and Alberta. In all but Newfoundland grants have been available in the form of "forgivable" loans. In Quebec, other forms of assistance are also available.

In Quebec (at first), Saskatchewan and Alberta, these programs were specifically designed to provide financial assistance to industries in parts of the provinces not covered by federal regional incentives. The Ontario and Quebec programs began in 1968, followed by Saskatchewan in 1970 and Alberta in 1971. Major changes in the Quebec regional program took place in 1971. In Newfoundland, special tax incentives have been available to two districts in the province but this is not a major part of Newfoundland's industrial promotion.

Ontario

Ontario's regional incentives program, known as the Equalization of Industrial Opportunity Program, provides for "forgivable" loans to enterprises locating in designated municipalities. Designation is made by the Minister of Trade and Development with the approval of the Lieutenant-Governor in Council of "any area in Ontario that is considered to require assistance to attract industrial development".[1] The Minister has indicated that:

> "We have designated those that appear to be at a disadvantage compared with other municipalities in the province, having regard to such factors as unemployment, loss or gain of industry, imbalance of tax structure, and all other factors that relate to a factual assessment of the situation."[2]

By January 1, 1972, virtually all of Northern Ontario (with the exception of the major cities such as Sudbury, Thunder Bay and Timmins) and of Eastern Ontario (with the exception of Ottawa and suburbs) had been designated. In Southern Ontario, designation was more spotty but included such cities as Brantford, Goderich, Kingston, Orillia, Owen Sound, Paris, and Trenton, as well as many smaller municipalities. The exclusion of the larger cities in Southern Ontario is also quite apparent. In the cases of some designated centres such as Brockville, Lindsay, and Port Hope, further applications for E.I.O. loans had been temporarily suspended as at January 1, 1972. Since municipalities only qualify upon formal application by municipal councils, it is not certain that the current list includes all municipalities that the government would be prepared to designate.

The forgivable loans were made available through the Ontario Development Corporation. While there was no statutory restriction on the industries to which they could be made,[3] in practice, they have been restricted to:

> "secondary manufacturing companies establishing new manufacturing facilities, or making substantial additions to existing manufacturing facilities -- companies developing major tourist attractions that will retain tourists in resort areas in the off-season, thereby benefitting a substantial number of tourist resort operators."[4]

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[1] Statutes of Ontario, 1968, c. 30, s. 5(1).

[2] Legislature of Ontario, Debates, June 1968, p. 4422.

[3] "Industry" was defined as "any trade or other business undertaking of any kind", Statutes of Ontario, 1968, c. 81, s. 1.

[4] Programs for Prosperity, Ontario Development Corporation (Ontario Development Corporation), Toronto, Ontario.

The forgivable loan was, in effect, to be forgiven in stages. First of all, it was to be interest-free. Then, at the end of each of the first five years, one-tenth of the loan was to be cancelled. At the end of the sixth year, the balance of the loan was to be cancelled if the performance of the company was "satisfactory".

The forgivable loan was originally restricted to one-third of the first $250,000 of the cost of the new project and one-quarter of the balance. Approved capital costs are for new buildings and new machinery only. Expansions of existing facilities are eligible for forgivable loans provided they meet certain criteria. The maximum of each forgivable loan specified in the legislation was to be $500,000 but in practice this maximum has applied only in Northern and Eastern Ontario. In the rest of the province, the maximum has been set at $100,000.

In 1971, new legislation was introduced providing that Canadian-owned corporations were to be eligible for a forgivable loan of up to 50 per cent of the approved capital cost of new buildings and new machinery. The formula for calculating forgivable loans was to continue unchanged for foreign-owned corporations. The maximum limit for loans was to continue unchanged and at the same level for both Canadian-owned and non-Canadian corporations. Beginning May 1972, forgivable loans have been available only to Canadian-controlled corporations except for applications in process before that date.

At November 30, 1972, the balance of "forgivable" loans outstanding stood at about $50,000,000 with a small part having been forgiven since the inception of the program.

Quebec

The regional industrial incentive program in Quebec may be considered in three phases; the first from 1968 to 1971 under the Regional Industrial Development Assistance Act which provided grants to firms establishing outside of the Montreal region, the second announced in 1969 to make available grants to the Montreal area and that portion of Western Quebec not covered by the new federal Department of Regional Economic Expansion incentive programs, and the third, beginning in 1971, a program of assistance to selected industries which varies according to region. Grants under the Regional Industrial Development Assistance Act were limited to $500,000 per firm. Grants under the other programs could be much higher.

Regional Industrial Development Assistance Act

In 1968, the Regional Industrial Development Assistance Act[1] was passed providing for premiums to manufacturing or processing businesses which varied according to region. The premiums would be granted by the Minister of Industry and Commerce, with the authorization of the Lieutenant-Governor in Council. The program was to apply for a limited period only. The investments for which a premium could be granted must not have been formally committed before April 1, 1968, and the regular operation from the investments must have begun before April 1, 1972. The grants could be paid up to April 1, 1971. In 1971, the Act was amended to provide that the premiums could be paid after April 1, 1971 if they had been applied for before that date.

The investments by the business were to be for the purpose of:

> "(a) the construction or extension of works or manufactories; (b) the purchase of machinery, tools or equipment for operating works or manufactories."[2]

If the investment included a purchase of used machinery, tools or equipment, a premium could be granted only if the used machinery, tools or equipment made up less than 25 per cent of the total investment in machinery, tools or equipment.

The province, for the purpose of the Act, was divided into three zones: (1) Zone I for which the premium was to be 25 per cent of the investment but was not to exceed $500,000; (2) Zone II for which the premium was to be 40 per cent of the first $250,000 investment, 30 per cent of the next $750,000 investment, 25 per cent of any additional investment but with the premium not to exceed $500,000, and (3) the remainder of the province (basically the Montreal area) to which the premiums were not available. The municipalities in Zones I and II were set out in a schedule to the Act but the Lieutenant-

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[1] Statutes of Quebec, 1968, c. 27.

[2] Ibid., c. 27, s. 3.

Governor in Council could include in Zone I any portion of the province not already covered and could transfer to Zone II any portion of the rest of the province.

No premium was to be granted for an investment of less than $50,000 or, in the case of an existing business, for an investment of less than 25 per cent of the depreciated value of the existing works, machinery, tools and equipment of the business. A premium could be granted to a company which had received a similar subsidy or premium under another plan but only to the extent to which the premium under the new legislation was higher.

Up to the end of December 1969, the Department of Industry and Commerce had approved $18,318,000 in premiums for 132 projects involving a total investment of $135,783,000. Because of the provision that the premiums begin to be paid only when regular industry operations begin, the actual payments up to March 31, 1970 were $2,137,000. In the 1970-71 fiscal year, an additional $5,811,000 in expenditures were made under the terms of the Regional Industrial Development Assistance Act.

The distribution of the expected investment and the premiums approved up to the end of December 1969 was as follows:

Administrative Region	Investment	Premiums Approved
	(Thousands of dollars)	
Cantons de l'Est	13,875	3,277
Côte-Nord	49,956	764
Gaspésie - Bas St. Laurent	3,993	861
Québec	19,605	4,645
Nord-Ouest	6,210	1,839
Outaouais	4,700	933
Saguenay - Lac St.Jean	16,992	1,100
Trois-Rivières	20,453	4,899
Montréal	--	--
Nouveau Québec	--	--
Total	135,783	18,318

Special grants to Montreal area

When the federal Department of Regional Economic Expansion announced the regions to which its incentive program would apply, it included all of Quebec except the Montreal area and a portion of Western Quebec. The provincial government immediately afterwards announced a program of grants for these excluded areas.

The terms of this grant program were, however, more restricted than the federal program. First of all, the minimum investment was $5,000,000. Secondly, it had an important feature designed to encourage technological advance and industrial research. A firm benefiting under the program must undertake to spend on research in Quebec during the 10 years following the opening of the plant an amount at least equal to the grant. Another condition was that the company must agree to employ, within three years of application, graduates of Quebec universities at the rate of one graduate for every $50,000 of grant.

The amount of the grant was 20 per cent of the first $10,000,000 of investment plus 10 per cent of the remainder with an overall maximum of $5,000,000. The grant would thus be similar to the maximum that might have been available under the federal program except that the federal grant program did not contain the conditions regarding expenditures on research.

Net expenditures by the Department of Industry and Commerce for grants other than those under the Regional Industrial Development Assistance Act amounted to $4,282,000 in the 1970-71 fiscal year.

Assistance to Selected Industries

Another regional industrial development program, established in 1971, and building upon a program begun earlier, provides special corporation income tax deductions for advanced-technology manufacturing companies. These companies, which are also eligible for refunds of parts of any loans[1/] advanced by the Quebec Industrial Development Corporation, as well as lower interest rates on such loans, are described more fully in Chapter 7 at pages 7-14 to 7-15. These companies may deduct from their taxable income certain proportions of their annual investment in works or manufactories or in new machinery, tools or equipment.

The province is divided into three zones for this purpose. In Zone I, which includes metropolitan Montreal, 30 per cent of such annual investments may be deducted from taxable income. In Zone II (Zone I under the Regional Industrial Development Assistance Act),

1/ A "forgivable" loan feature.

the proportion rises to 50 per cent and in Zone III (Zone II under the Regional Industrial Development Assistance Act), it stands at 100 per cent.

Such deductions apply to the period from April 1, 1971 to March 31, 1974 and are limited to the investment of $10,000,000 by a single company in the period. This program, which is also a grant program, is discussed in greater detail in Chapter 6.

Saskatchewan

The Saskatchewan regional incentives program incorporated the "forgivable" loans feature of the Ontario program and was to apply to those portions of the province not eligible for grants under the program of the federal Department of Regional Economic Expansion.

The Saskatchewan program was introduced in 1970 under the Industry Incentives Act,[1] The legislation authorized the Minister of Industry and Commerce to make a forgivable loan to an applicant:

> "(a) proposing to establish in a city having less than 35,000 inhabitants or in a town or village a new manufacturing facility in respect of which the applicant does not qualify for or has not received or is not receiving financial assistance under the Regional Development Incentives Act (Canada) or Part IV of the Government Organization Act, 1969, (Canada) for the purpose of establishing the industry;
>
> "(b) proposing to substantially expand or modernize an established manufacturing facility in respect of which the applicant does not qualify for or has not received or is not receiving financial assistance under the Regional Development Incentives Act (Canada) or Part IV of the Government Organization Act, 1969, (Canada) for the purpose of expanding or moderniz- ing the industry;"[2]

The Minister was authorized by the legislation, subject to approval of the Lieutenant-Governor in Council, to make forgivable loans under certain conditions to municipalities other than those specified in the sections of the Act quoted above.[3] Under the

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[1] Statutes of Saskatchewan, 1970, c.33.

[2] Ibid., c. 33, s. 3.

[3] This was stated as follows:
"Where the operational requirements of a new industry do not permit the establishment of the industry in a municipality mentioned in clause (a) of section 3 or necessitate the estab- lishment of part of the facility of the industry in a municipality other than a municipality mentioned in clause (a) of section 3, the Lieutenant Governor in Council may authorize the minister to make a loan, subject to this Act and the regulations, to an applicant, therefor proposing to establish such as industry."
Ibid., c. 33, s. 8.

regulations, it was provided that "no provincial incentive loan will be made in those areas eligible to receive federal government incentive grants".[1]

Nearly all manufacturing operations were covered by the program. "Manufacturing operations" was defined in the regulations as:

> "an operation whereby any goods, products, commodities or wares are created, fabricated, refined or made more marketable, but does not include:
>
> (i) the growing, catching, harvesting or cutting of any natural or cultivated product of nature,
>
> (ii) the extracting of minerals from original ore-bodies by any method,
>
> (iii) construction work,
>
> (iv) any mobile manufacturing or processing operation,
>
> (v) repairing as distinct from rebuilding,
>
> (vi) the rendering of consumer services,
>
> (vii) publishing and printing."[2]

The legislation provided for a limit on a loan of $5,000 per job created directly in the operation of the facility or 20 per cent of the capital cost (excluding land and some other items) of the new establishment or expansion but with an overall limit of $300,000. It was provided in the regulations that no loan was to be authorized "where the equity contributed towards the capital costs by the applicant is less than approximately 30 per cent of the fixed assets of the facility, i.e., land, buildings and equipment".[3]

It was also provided in the regulations that no loans would be authorized for very small projects, i.e., where the approved new facility, including land, was less than $50,000 or where in case of an expansion or modernization the approved costs were less than $10,000.[4]

1/ Saskatchewan Regulation 149/70 (June 11, 1970), s. 5.

2/ Ibid., s. 2(c).

3/ Ibid., s. 5(4).

4/ Later in the year by Saskatchewan Regulation 11/71 (December 24, 1970), forgivable loans could be made for smaller amounts if the Minister of Industry and Commerce ruled that the facility would make a significant contribution to economic development within the community. Obviously, this would apply to villages and small towns.

The staging of the forgiveness of the loan was the same as that in Ontario. The loans were to be interest-free with one-tenth forgiven at the end of each year up to the end of the fifth year. The balance of the loan would be forgiven in the sixth year "provided the company has stayed in the locality in which the loan was given and has performed satisfactorily".1/

Up to March 31, 1972, forgivable loans amounting to $200,000 had been granted but it was envisaged that further forgivable loans would be made during the 1972-73 fiscal year.

Alberta

The forgivable loan program, introduced in Alberta in 1971 and rescinded the following year, took a somewhat different administrative form in that it was to be under the control of a separate board, the Alberta Industrial Incentives Board. This board was to consist of the Director of the Industrial Development Branch of the Department of Industry and Tourism, the Director of the Alberta Commercial Corporation, and not more than three other members appointed by the Lieutenant-Governor in Council. An Industrial Development Incentives Fund, not to exceed $10,000,000, was established. However, it was provided in the legislation that the approval of the Lieutenant-Governor in Council was required before repayment of any loan in whole or in part could be forgiven.

Like the Saskatchewan program, no loan could be made where the establishment would qualify for federal regional development incentives. It was also to be restricted to smaller centres. More specifically, the legislation stated that no loan may be made if:

> "(b) the facility is situated or is proposed to be situated
>
> (i) in a city with a population in excess of 40,000 persons, or
>
> (ii) in any other area immediately adjoining a city with a population in excess of 40,000 persons, or
>
> (c) the establishment, expansion or modernization would qualify for financial assistance under the Regional Development Incentives Act (Canada) or Part IV of the Government Organization Act, 1969 (Canada)."2/

Since the federal regional incentives were restricted to southern Alberta, the forgivable loan program was thus made available to the rest of the province with the exception of Edmonton, Calgary, and immediately adjoining areas.

1/ Ibid., s. 5(9).

2/ Statutes of Alberta, 1971, c.52 , s. 14.

The forgivable loans would be made available to secondary manufacturing industries. This was stated somewhat ambiguously in the legislation as "a secondary manufacturing industry engaged in manufacturing a product or converting a material to a form different than its natural state but does not include resource-based industries".[1] The legislation then goes on to specifically exclude: "(i) oil and gas production or refining, (ii) mining, (iii) logging, (iv) fishing, (v) agriculture, (vi) utility generation or distribution, and (vii) service industries".[2]

The forgivable loan was not to exceed one-third of the capital cost of establishing, expanding or modernizing the facility, but an overall limit of $500,000 per loan was indicated. The eligible capital cost would include buildings, structures, machinery and equipment.

The principal feature distinguishing this program from those in Ontario and Saskatchewan was that the Alberta loans need not be interest-free. (The interest rate was to be set by regulation of the Alberta Industrial Incentives Board.) Up to the termination of the program at June 30, 1972, forgivable loans of $2,219,000 had been made.

Establishment of Agencies for Special Areas

In this section, attention will be given to provincial agencies or joint federal-provincial agencies that have responsibilities for industrial development of a region in a province. These industrial development responsibilities are sometimes associated with other wider economic development responsibilities. Attention is focused on those agencies authorized to make loans to manufacturing industries.

There are a number of special area agencies not considered here. Each of the several development agreements under the Fund for Rural Economic Development has provision for management by a single provincial agency. Reference has been made to only one of these agencies, the Community Improvement Corporation in New Brunswick, which has responsibility for the Northeast New Brunswick development plan.

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[1] Ibid., c.52 , s. 1(e).

[2] Ibid., c. 52 , s. 1(e).

Except for Harmon Corporation in Newfoundland, only a brief reference will be made to provincial industrial parks even though it is apparent that most of them have been established for regional, as opposed to provincial, development purposes. Harmon Corporation is included because it is authorized to make industrial loans.

Agencies with the power to make industrial loans only within a specific geographic area within a province have been established in Newfoundland, Nova Scotia, New Brunswick, Ontario, Manitoba, and Alberta. Other regional agencies with other types of industrial development implications have been established in Nova Scotia and New Brunswick.

Harmon Corporation

The Harmon Corporation was established in Newfoundland in 1967.[1/] This Corporation was given authority to manage and control lands associated with the former Ernest Harmon Air Force Base and such other lands as the Lieutenant-Governor in Council may direct to become a part of the Harmon Corporation area. While primarily responsible for operating an industrial park, it was authorized to make loans, which is the reason for including it here.

The Corporation was to be made up of the Mayor of the town of Stephenville plus four other members appointed by the Lieutenant-Govenor in Council. The Corporation was authorized to "purchase, lease or otherwise acquire (and "to sell or otherwise dispose of") any property real or personal of every nature and kind, or interest therein..."[2/] It could also, among other things, lend money for the "purchase, construction or improvement of buildings of any kind or description whatsoever..."[3/] It was to encourage the development of new industries in the Harmon Corporation area by these and other means.

Cape Breton Development Corporation

The Cape Breton Development Corporation was created in 1967. Although established under a federal statute, the Province of Nova Scotia has a minority interest. Two members of the seven-man board of directors are appointed on the recommendation of the Nova Scotia

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1/ Statutes of Newfoundland, 1966-67, No. 25.

2/ Ibid., No. 25, s. 18.

3/ Ibid., No. 25, s. 20.

Lieutenant-Governor in Council. The Nova Scotia government is also consulted regarding the appointment of the chairman and the president of the Corporation. One third of the funds for industrial development are provided by the provincial government.

The Cape Breton Development Corporation actually has a dual responsibility -- first, the reorganization and rehabilitation of the Cape Breton coal industry (with complete abandonment of the industry being envisaged at one stage) and, second, industrial development. It is the latter program that most concerns us in this study. The purpose of the Industrial Development Division of the Corporation was described in the legislation as:

> "to promote and assist the financing and development of industry on the Island of Cape Breton to provide employment outside the coal producing industry and to broaden the base of the economy of the Island."1/

The Corporation is organized into two divisions, the Coal Division and the Industrial Development Division, of which only the latter will be considered in this chapter. Under an agreement dated June 13, 1967, the federal government and the Nova Scotia government agreed to make available to the Corporation for industrial development purposes amounts of $20 million and $10 million respectively. The Province of Nova Scotia shares to the extent of one-third of the expenditures on capital assets and the operating expenses.

For the purposes of diversifying the economy of Cape Breton Island, the Corporation was authorized to make loans with or without security and with or without interest. It could also make grants or could purchase equity capital in the prospective industry.

The activities of the Industrial Development Division of the Cape Breton Development Corporation have been varied. It has made loans, guaranteed loans, acquired stock in a company, established an industrial park and has an industrial promotion staff. At December 31, 1971, industrial loans and loan interest outstanding amounted to $6,291,000. The Corporation had also guaranteed a bank loan of $30,000,000. It owned all the stock of Darr (Cape Breton) Limited to which it had loaned $4,997,000. Darr (Cape Breton) Limited owns a hotel which has now been leased to a private company (Commonwealth

1/ Statutes of Canada, 1967-68, c. 6, s. 22.

Holiday Inns of Canada Limited). Industrial park capital assets were shown at $114,000. Since December 1, 1969, the Cape Breton Development Corporation has been administering facilities at Point Edward previously operated by the federal Department of Transport.

Grand Lake Development Corporation

The Grand Lake Development Corporation in New Brunswick was established in 1969 1/ with development responsibilities, as the name suggests, in the Grand Lake area in the south-central part of the province. The Corporation has a board of directors appointed by the Leiutenant-Governor in Council.

It is rather similar in concept to the Cape Breton Development Corporation in Nova Scotia in that while its major responsibility concerns the operation and reorganization of coal mining operations, it also was to encourage the development of alternative employment and to provide financial and other assistance for the retraining, grading, and re-establishment of residents of a designated area. It is, however, unlike the Cape Breton Development Corporation, entirely a provincial agency.

The Corporation was to prepare and submit (within three months after the appointment of the president) to the Minister of Natural Resources, a Management Plan setting forth:

> "(a) an overall plan for the conduct of coal mining and related operations by the Corporation;
>
> (b) the method to be used to provide employment, increase industrial activity, and broaden the base of the economy of the designated area; and
>
> (c) proposals concerning the economic development of the designated area."2/

This Management Plan was subject to approval of the Lieutenant-Governor in Council.

In the carrying out of such a Management Plan, the Corporation was authorized (in addition to its powers respecting mining) to do such things as:

1/ Statutes of New Brunswick, 1969, c. 8.

2/ Ibid., c. 8, s. 7(4).

"(a) to provide financial assistance to a person to enable that person to industrially develop and improve the economic conditions of the designated area;... (e) to provide financial assistance by way of loans or grants to any person or municipality to enable that person or municipality to improve the standard of living or to carry on a business or enterprise that in the opinion of the corporation is likely to make a substantial contribution to the industrial or economic development of the designated area."[1/]

The Corporation could also engage in various industrial promotion activities.

Northern Ontario Development Corporation

This was established by statute in 1971 to perform in Northern Ontario the functions of the Ontario Development Corporation such as making loans and granting forgivable loans. The principal distinction between the Northern Ontario Development Corporation and the Ontario Development Corporation is that the board of directors of the former is composed almost entirely of residents of Northern Ontario. The general manager of the ODC is also general manager of the northern agency. Although the northern agency maintains two offices in Northern Ontario (Timmins[2/] and Thunder Bay), most of the staff services are performed by the staff of the ODC.

Communities Economic Development Fund

In Manitoba, the Communities Economic Development Fund was established by statute[3/] in 1971 as a body corporate with a board of directors appointed by the Lieutenant-Governor in Council. Its object was to "encourage the optimum economic development of remote and isolated communities within the province..."[4/] To that end, it could provide financial or other assistance to existing economic enterprises or to economic enterprises to be established and also to community development corporations.

1/ Ibid., c. 8, s. 6.

2/ Subject to change.

3/ Statutes of Manitoba, 1971, c. 84.

4/ Ibid., c. 84, s. 3.

The term "remote and isolated communities" would be defined either by by-law of the board of the Fund or by order of the Lieutenant-Governor in Council. The Fund was to emphasize "the expansion and strengthening of small to medium-sized economic enterprises which are locally owned and operated...."[1/] "Economic enterprise" includes "any industry, trade, business or other undertaking of any kind whatsoever".[2/]

The Communities Economic Development Fund has in most respects similar powers to that of the Manitoba Development Corporation. It may acquire and hold shares in companies, establish and operate subsidiary corporations (with the approval of the Lieutenant-Governor in Council), and may provide financial assistance for both fixed and working capital to community development corporations to finance the construction or extension of buildings or the improvement of land. However, unlike the Development Corporation, it was not authorized to acquire, manage, or rent industrial sites, buildings or machinery nor to provide financial assistance to community development corporations for these purposes.

By-laws regarding the terms and conditions of loans would require the approval of the Lieutenant-Governor in Council as in the case of the Development Corporation. The board of the Fund may fix the interest rate. Unlike the case of the Development Corporation, there is no minimum interest rate.

The Manitoba Communities Economic Development Fund began operations January 1, 1972.and up to March 31, 1972 it had authorized loans (16) of $307,000 and guarantees (4) of loans of $133,000. The loans were small and did not exceed $40,000. Loans bore an interest rate of 8 per cent.

<u>Alberta Industrial Incentives Board</u>

The Alberta Industrial Incentives Board established in 1971 is another agency with a limited geographical jurisdiction within the province. It was authorized to make industrial "forgivable" loans. It has been discussed earlier in this chapter (see pages 13-10 to 13-11).

<u>Other Special Area Agencies</u>

We now refer briefly to five special area agencies with industrial development implications although they do not have authority

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1/ <u>Ibid</u>.

2/ <u>Ibid</u>., c. 84, s. 1.

to provide financial assistance to industry. These are Halcon, a joint provincial-municipal agency administering and developing containerized transport services at Halifax; Multiplex Corporation, a joint federal-provincial agency responsible for promoting and developing an industrial complex in the City of Saint John in New Brunswick; the Community Improvement Corporation responsible for administering one of the FRED development plans in the province; Leaf Rapids Corporation, a subsidiary of the Manitoba Development Corporation and the Northern Alberta Development Council. The Community Improvement Corporation is considered at greater length as an example of the kind of responsibilities assumed by the co-ordinating agencies in FRED areas.

The Community Improvement Corporation in New Brunswick was established by statute in 1964.[1/] Its primary function was to attain the most effective use and economic development of land in any part of the province (in 1969, restricted to area designated by the Lieutenant-Governor in Council). However, within any area of the province designated by the Lieutenant-Governor in Council, it would have authority to do many things involved in regional development and in the co-ordination of orderly economic development. This included, to

> "(vii) encourage private development of manufacturing and industrial operations...
>
> (xi) develop recreational and tourist parks and facilities...."[2/]

The Corporation was essentially an interdepartmental body consisting of the Deputy Minister of Agriculture, the Deputy Minister of Lands and Mines, the Deputy Minister of Municipal Affairs, the General Manager of the New Brunswick Electric Power Commission, the Economic Adviser to the Government, and such other persons as the Lieutenant-Governor in Council appoints.

The Northern Alberta Development Council is an advisory group to the provincial government, having the responsibility of fostering increasing economic and social development in the part of the province

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1/ New Brunswick Statutes, 1965, c. 2.

2/ Ibid., c. 2, s. 5.

north of the 55th parallel. It was established by legislation in 1963 and had a board of directors of five members (increased to eight members in 1972). In 1967, the Chairman was a Minister without Portfolio, and the deputy chairman was an M.L.A. for a northern constituency. The Director of the Industrial Development Branch was also on the board.

Regional aspects of industrial parks

It has already been noted in Chapter 5 that the operations of industrial parks by provincial governments have had distinct regional development implications. Of these, Harmon Corporation of Newfoundland has already been discussed at length in this chapter. The provincial industrial park in Quebec is also operated by an agency with responsibility only for that one area. In other cases, provincial industrial parks are operated by agencies with provincewide responsibilities. This is now true, for instance, of Industrial Estates Ltd. in Nova Scotia, the Ontario Development Corporation, and the Saskatchewan Economic Development Corporation. Only in New Brunswick are the provincial industrial parks operated by separate bodies, although they are wholly owned subsidiaries of the New Brunswick Development Corporation. In Nova Scotia, until recently, Springhill Industrial Estates was operated as a wholly owned subsidiary of Industrial Estates Ltd.

Organization for Regional Development within Provincial Departments

An increasing effort is being exerted to promote more regionalization of provincial industrial development programs. This is being pursued in part through the establishment of regional development branches of provincial industrial development departments or, of other provincial government departments. It has been given concrete form at the subprovincial level by the location of provincial staff at local offices who have sought to create local developments authorities of various kinds.

Regional industrial development or economic development branches now exist in nearly all provinces. One may currently identify as such the Industrial Services Branch of the new Department of Development, formerly with the Department of Trade and Industry in Nova Scotia; the Development Co-ordination Branch of the Department of Economic Growth in New Brunswick; the Industry Branch of the Department of Industry and Commerce in Quebec; the Regional Development Branch of the Department of the Treasury in Ontario; the Regional Development Branch of the Department of Industry and Commerce in Manitoba; the Trade and Area Development Branch of the Department of Industry and Commerce in Saskatchewan; the Industrial Development Branch of the Department of Industry in Alberta; and the Industrial and Trade Office of the Department of Industry, Trade and Development in British Columbia.

The responsibilities and activities of these branches may vary but they share a common theme of paying considerable attention to the factors involved in development at the regional level. This has involved a number of things such as the generation of local community data and the production of regional economic surveys. Local community data sheets are now being produced in all provinces. Regional economic surveys have been published for provinces like Quebec, Ontario, and British Columbia. Such community data sheets and regional economic surveys have covered more than purely industrial information but have generally included data on community services and on the total economic framework as well as material relating to manufacturing industries. The regional economic surveys, in particular, provide the background for a total development perspective for a region. In at least one province, staff of the industrial development department is maintained at various points in the province.

The preparation of a regional development perspective presupposes the existence of a consistently defined set of subprovincial regions. Provincial authorities in several provinces have participated with Statistics Canada in establishing less arbitrary sets of statistical regions than previously existed.

Establishment of Local Development Agencies

In several provinces attempts have been made to set up regional development authorities, representative of local municipal governments or of other local organizations. The structures that have been established have varied from province to province and so they are being considered separately.

Nova Scotia

Under the Industrial Commissions Act passed in Nova Scotia in 1965,[1/] municipalities were authorized, either singly or jointly, to establish area industrial commissions. The purposes of such commissions were described as:

> " (a) to solicit and encourage the establishment and development of new industries in and about its area;
>
> (b) to encourage the expansion of existing industries in and about its area;
>
> (c) to conduct or sponsor campaigns of publicity for the purpose of making known the advantages of its area and nearby districts as a location for industrial expansion;
>
> (d) to prepare and disseminate statistical and other information for the purpose of creating interest in its area as a location for industrial enterprises;
>
> (e) to make recommendations to any municipality or municipal body respecting
>
> (i) zoning for industrial and business purposes;
>
> (ii) the provision of sites suitable for specific industries and the municipal services required therefor;
>
> (iii) the effect of municipal and other taxation systems upon industry;
>
> (iv) any matter relating to the establishment and development of the area as a centre for industrial enterprises upon which a municipality in the area has requested advice;
>
> (v) such other matters as in the opinion of the commission relate to the development of industry and business in or about the area;
>
> (f) to cooperate with any government, agency of government or other body or organization set up for the purpose of promoting industry, business or tourism;
>
> (g) to do any other matter that will benefit or tend to benefit its area. "[2/]

By June 10, 1970, 16-area industrial commissions had been established throughout the province.

1/ Statutes of Nova Scotia, 1965, c. 2.

2/ Ibid., c. 2, s. 10.

Quebec

Economic regions have been designated in the province and co-ordination and planning machinery for economic development in these regions has been established.[1]

Ontario

The formal organization of regional development associations in Ontario began with an amendment to the Municipal Act in 1956.[2] Under this Act, municipalities were given the authority to appoint representatives, and make grants, to regional development associations.

In 1966, nine regional development associations were declared by statute[3] to be regional development councils. The Lieutenant-Governor in Council was authorized to designate any other corporation as a regional development council. The object of each council was to "undertake such informational, educational and promotional programmes and activities as relate to the orderly growth and economic development of the region in which it has jurisdiction".[4] The Minister of Economics and Development (presently it is the Treasurer of Ontario and Minister of Economics) was to designate the region in which each council was to have jurisdiction.

The regional development councils established were for the following regions: Eastern Ontario, Lake Ontario, Georgian Bay, Northeastern Ontario, Northwestern Ontario, Lake Erie, St. Clair, Niagara, and Midwestern Ontario. Later a Central Ontario Regional Development Council was established. In 1968-69, grants of $25,000 each were paid to the 10 councils then in existence.

It was envisaged that the boards of directors of such associations would play an important role in stimulating local industrial initiatives. It was also envisaged that a provincial organization representative of the regional associations would be established.

1/ Additional material on local development agencies in Quebec is being obtained.

2/ Statutes of Ontario, 1956, c. 50, s. 14.

3/ Statutes of Ontario, 1966, c. 135.

4/ Ibid., c. 135, s. 3.

Manitoba

In Manitoba, the Companies Act[1] provides for the creation of community development corporations that could be set up by municipalities acting jointly or separately. It was envisaged that less than 10 of these would be set up to cover the whole of Southern Manitoba with the possible exception of metropolitan Winnipeg. When the Manitoba Development Fund was established in 1958 authority was given to the Fund to provide financial assistance to such community development corporations. The Fund could make loans to, or otherwise financially assist, these corporations for the purpose of:

> "(i) the construction, extension, or improvement, of buildings that are to be used wholly for the purposes of manufacturing and processing industries,
> (ii) the purchase of land on which there is an existing building that is to be used wholly for the purposes of manufacturing and processing industries, or of land upon which such a building is to be constructed, and
> (iii) the provision of facilities such as industrial sites, roads, sewerage systems, water supply systems, electric power and light systems."[2]

It was even provided at that time that the Manitoba Development Fund could acquire stock in such community improvement corporations.

When the Development Fund legislation was thoroughly revised in 1966, the authority of the Fund to lend to community development corporations was retained but authority to acquire stock in such corporations was repealed.

Saskatchewan

In 1960, the Municipal Industrial Development Corporations Act was passed providing that any five or more persons could form a municipal industrial development corporation "for the sole purpose of fostering the economic development of a city or town in Saskatchewan by making accommodation and financial assistance available to industries".[3] This Corporation would be a limited-liability incorporated company to which cities and towns could subscribe by by-law, but subject to the approval of the Local Government Board. These industrial development corporations would have power to construct or acquire buildings and land for sale or lease and to grant loans to manufacturing firms.

1/ See Statutes of Manitoba, 1964 (2nd), c. 3.

2/ Statutes of Manitoba, 1958 (Second Session), c. 3, s. 14(b).

3/ Statutes of Saskatchewan, 1960, c. 54, s. 3.

The Government Finance Office was authorized to lend money out of the Industrial Development Fund to such corporations.

In Saskatchewan in 1970-71, the Area and Trade Development Branch assisted in the organization of the N.E. Saskatchewan Development Corporation. This organization, initiated by the Saskatchewan Chamber of Commerce, and the various Chambers and municipal officials concerned, encompassed the towns of Humboldt, Melfort, Nipawin, Tisdale and Hudson Bay.

Alberta

An effort similar to that of Ontario is being made in Alberta. Beginning in 1970, the establishment of industrial development associations has been encouraged in the several economic regions outside the two major urban centres of Calgary and Edmonton. In conjunction with this program, a member of the staff of the Industrial Development Branch of the Department of Industry is to serve as liaison officer with each of the local associations established.

The Alberta Opportunity Company is authorized to make loans or guarantee loans to local development organizations, although suitable involvement is required on the part of local residents both as to number of residents and amount of capital subscribed.

British Columbia

In British Columbia, regional development associations began to be established in the 1960's in the major economic subregions of the province. The regional economic surveys of the province have formally been sponsored by these regional associations, with 50 per cent of the cost met by the provincial Department of Industrial Development, Trade and Commerce. The operating budgets of these associations are partially subsidized by the provincial government although the total expenditures are not large.

Also, a program of contributing grants from the Department of Travel Industry for regional tourist promotions was begun about 1961. As at June 1, 1970, there were eight regions established. Departmental funds could be paid to one organization only in each region which has satisfied the Director of the B.C. Government Travel Bureau that it is carrying out tourist promotions, as far as possible, on behalf of the entire region within its charge.

The promotional programs were on a shared-cost basis with a 60 per cent provincial share for certain promotional expenses such as brochures, advertising, and salary and travelling expenses of a regional co-ordinator, and a flat monthly grant for such expenses as travel information centres.

Other Municipal Development Activities

In addition to the agencies or associations that have been established under the aegis of the provincial government or as the result of special legislation, many urban municipalities, particularly the larger ones, have for a long time maintained industrial development bureaus or promotion agencies. In most cases, these agencies are part of the regular municipal government structure. In other cases, the municipal authorities have assigned this responsibility to bodies on which municipal officials occupy only a minority position. Despite the probable importance of these structures, they will be given detailed consideration in this report only to the extent that their activities are modified or financially supported by provincial government agencies.

All urban municipalities maintain some type of zoning by-laws determining what areas of the municipality may be available for industrial zones. Many municipalities engage in special programs for the purchase of property and its sale to industrial users. Such property may be purchased well in advance of requirements and then may be sold to industries at a price below the market value at the time of sale. Most provincial governments place restrictions on the price at which such property may be sold. In Ontario, for instance, the price must be not less than the original cost plus the financing charges. There have been suggestions that municipalities do not always follow the provincial government regulations.

Municipalities might also operate industrial estates, i.e., own land or factories and lease them to private industry. Provincial assistance to such activity is a major part of Quebec's regional industrial program. This program is discussed in greater detail in Chapter 5 in connection with the establishment of industrial estates in other provinces.

Conclusion

It is apparent then that there is not a clear distinction in all cases between provincial policies designed to stimulate the industrial development of lagging regions and those designed to encourage local industrial development initiatives in general. This is particularly true in provinces like those in the Atlantic Region which are felt to require an overall development effort. In such provinces, there is some question as to the most effective development strategy, with the choice being either a concentration on "growth centres" or more general assistance to industrial projects whether in large or small centres or wherever located. The choice of a growth-centre approach implies a substantial measure of industrial development assistance to the largest urban centres in the province and some restriction on assistance to the smaller centres.

By contrast, in the provinces with above-average incomes and above-average rates of industrial growth, any provincial regional development policies would be designed to encourage the growth of centres other than the major metropolitan areas. Provincial industrial incentives would go primarily to the slow-growth areas. Essentially, the reverse of the growth-centre approach would be followed.

It would be a mistake to state that a clear choice has been made between one or another regional development strategy. Regional development policies have not been allowed to dominate industrial development policies in general. Thus provincial governments will not permit industrial development in general to be hampered by a rigid adherence to a regional development strategy. They face a difficult dilemma since the question is far from being resolved.

Chapter 14

A FEDERAL-PROVINCIAL PERSPECTIVE

To ignore federal government programs even in a study specifically directed to provincial government industrial and tourism development programs would be to risk giving a distorted view of provincial programs in the total of government industrial development activity. The pre-eminent role of the federal government on tariff and trade policy has already been noted. But for many areas outside of tariff and trade policy the involvement of the federal government is also far larger than that of the provincial governments combined. This is particularly true of the federal industrial grant programs whether for purposes of regional development or to encourage improvements in industrial design and industrial research or to stimulate productivity generally. The involvement of federal government agencies in industrial lending is also substantial and only recently has it been surpassed by provincial government industrial lending agencies.

There is not always a clear distinction between the type of industrial and tourism development program in which the federal government plays an important role and that to which provincial governments give major attention. Obviously there is some overlapping. Moreover, a considerable amount of co-ordination of programs, both formal and informal, is known to exist. Even without recognizable co-ordination, programs at one level of government often can have major effects on the operation of programs at another level.

At several points earlier in this report some attention has already been given to federal government industrial and tourism development programs. The most specific references have been made in Chapter 2 when the general pattern of change in industrial development policies was considered, in Chapter 11 when the role of research councils in industrial development was discussed and in Chapter 12 when tourism development policies were described.

This chapter is devoted to an examination of most of the remaining federal government industrial development programs. The chapter opens with a review of the general federal government role in industrial development. It proceeds to a consideration, program by program, of federal government activities and relates them to similar activities of provincial governments. As far as possible, relevant distinctions between federal and provincial programs are made although it is conceded that there are often greater differences between provincial programs than between a federal government program and that of any particular government.

The General Federal Government Role

It was noted earlier that the original dominant role of the federal government in industrial development reflected the fact that the tariff was the major policy instrument for stimulating manufacturing. The reduction of tariffs in the long-term has reduced the relative importance of this aspect of federal government economic policies and prepared the way for a larger role on the part of provincial governments. Nevertheless, in an economy as open as that of Canada, the activities of the level of government with responsibility for international trade and commerce cannot but continue to be of extreme importance.

Despite their lower levels, tariffs continue to have a substantial impact on trade patterns compared to other industrialized countries Canada's tariffs are still relatively high and may be viewed even now as a major component of a national industrial strategy. But devices other than tariffs for limiting imports are receiving increasing formal attention. The most comprehensive formal step taken in this regard by the

Canadian government was the amendment in 1971 of the Export and Import Permits Acts to authorize the Governor-in-Council to limit the importation of "goods of any kind [which] are being imported or are likely to be imported into Canada at such prices, in such quantities and under such conditions as to cause or threaten serious injury to Canadian producers of like or directly competitive goods".1/ Such action was to follow upon an inquiry made by either the newly established Textile and Clothing Board (with respect to textile and clothing goods). or by the Anti-dumping Tribunal (in respect to other goods). It marked a major extension of the legislative authority of the Canadian government to use quantitative import restrictions as an instrument of national industrial policy.

Yet the major thrust of Canadian trade and industrial policy in the postwar period has not been one of restricting imports. Rather it has been one of expanding exports and, moreover, with some emphasis on the exports of semi-processed, processed and fabricated goods. The major institution established for this purpose was the Export Credits Insurance Corporation which began operations in 1945 and was replaced in 1969 by the Export Development Corporation. Through first one and then the other, an extensive program of insurance, guarantees, loans and other financial assistance has been developed to facilitate export trade. The direct and contingent liabilities acquired by the Export Development Corporation by the end of 1971 exceed that of any other industrial development program on the federal or provincial level.

The most immediately successful single export expansion program was the Canada-United States auto agreement which is a unique example of a conditional tariff suspension (suspension for the manufacturers only) combined with an agreement with the manufacturing companies for a particular pattern of exports and imports. While it seems unlikely that other similar industry agreements will be entered into in the near future, the

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1/ Statutes of Canada, 1970-71, c. 39, s. 26.

persuasion or coercion of companies by governments to make them perform in a particular manner may become an important aspect of trade and industrial policy.

A second major involvement of the federal government in industrial development has proceeded from the federal responsibility for currency and credit. The establishment of the Industrial Development Bank in 1946, and the program for government guarantees of loans to small business in 1961 were designed to remedy deficiencies in the operations of national financial institutions.

A third series of industrial development programs, in part of long-standing, in part of recent origin, has flowed from the federal government's concern to improve science and technology in Canada. The National Research Council has existed since 1916 (and its subsidiary, Canadian Patents and Development Limited since 1948) but its operations have recently been supplemented by such programs as the program for the Advancement of Industrial Technology begun in 1945, the program under the Industrial Research and Development Incentives Act passed in 1967 and the Program to Enhance Productivity.

A fourth program of major consequence to industrial development in Canada has arisen from the federal government's efforts to stimulate the growth of economically-depressed regions. Beginning in 1963 with a program of tax incentives for manufacturing establishments locating in designated regions, continuing with grants for similar purposes under the Area Development Incentives Act of 1965, and its successor the Regional Development Incentives Act of 1969, this has become a significant industrial incentive program in the Atlantic region, Quebec and parts of other provinces. In addition, joint federal-provincial loan agencies have been established or are on the point of establishment in a few regions or sub-regions.

Fifthly, federal government taxation policies particularly in respect to the corporation profits tax have been used extensively for industrial development purposes. An example has already been given of a manufacturing tax incentive. The treatment of capital cost allowances or of certain types of expenditures may provide substantial industrial financial incentives. But changes in capital cost allowances have also been frequently used for countercyclical purposes so it is not always possible to maintain a distinction between their use as industrial incentives and their use as an instrument for economic stability.

Sixthly, there are many federal industrial development programs to deal with special problem areas which, while not particularly significant in themselves, have a substantial total impact. Some of these will be mentioned later.

Federal-Provincial Roles in Specific Programs

This chapter will now consider federal and provincial activities in particular program areas. In general, the system of classification applied to provincial government programs in preceding chapters will be followed. That is, programs will generally be classified according to the policy instrument employed rather than according to the policy objective in view.

Industrial Loan Programs

Magnitude of activities

The two major federal direct lending agencies with a significant impact for industrial development are the Industrial Development Bank and the Export Development Corporation. The Industrial Development Bank makes loans to businesses operating in Canada for capital investment purposes; the Export Development Corporation makes loans to governments or to companies in foreign countries which have entered into contracts to purchase machinery and equipment and associated services from Canadian firms.

Loans outstanding of the Industrial Development Bank amounted to $542,000,000 at September 30, 1971;[1/] notes receivable of the Export Development Corporation amounted to $385,000,000 at December 31, 1971.[2/]

These two programs together substantially exceed the balance outstanding of industrial loans and advances made by provincial governments which amounted to $493,000,000 at March 31, 1970.[3/] The total loans outstanding of the Industrial Development Bank alone were in 1971 at about the same level as industrial loans by the provincial governments. Industrial loans by provincial governments have grown much more rapidly in the past decade than total loans by the Industrial Development Bank. In 1960, provincial government industrial loans outstanding were only about a third as large as Industrial Development Bank loans outstanding. On the other hand, export financing activity by the Export Development Corporation has grown very rapidly in the last two or three years. Indications are that total financial commitments outstanding for this program will shortly exceed those of the provincial industrial loan programs.

The average size of loan of each agency differs substantially from the others. The loans by the Export Development Corporation (or directly by the government under the Export Development Act) are very large. The financing agreements signed in the 1971 calendar year ranged from a high of $100,000,000 to a low of $225,000, the only such agreement under $1,000,000. The average financial agreement approached $13,000,000 and of these a number were with the same company or government agency.

1/ With an amount of $73,000,000 not yet disbursed at year-end on loans authorized.

2/ With undisbursed financing of $356,000,000 on signed financing agreements. This was a sharp increase over the preceding year when notes receivable amounted to $290,000,000 and undisbursed funds amounted to $136,000,000.

3/ The final data for March 31, 1971, are not yet available but the preliminary indications are that the total will be about $500,000,000.

On the other hand, the average I.D.B. loan is small, averaging only $44,000 in the 1970-71 fiscal year. Less than 16 per cent of the total amount of loans approved was for amounts of over $200,000.

By contrast to the federal Industrial Development Bank, the bulk of the provincial government industrial loans outstanding at March 31, 1971, was for a few very large loans of $10,000,000 or more. In two cases, loans of more than $100,000,000 for a single project had been made. It must be emphasized, of course, that the pattern varies from province to province.

Naturally, the lending activity of the Industrial Development Bank is not distributed provincially in the same proportions as that of the provincial agencies. Indeed, British Columbia, without a provincial lending agency was second only to Ontario in I.D.B. loans outstanding at September 30, 1971.[1/] Industrial Development Bank loans outstanding in Alberta were ten times as great as provincial government loans. In Ontario and Quebec, I.D.B. loans were similarly many times greater than provincial government industrial loans. On the other hand, in Newfoundland, Prince Edward Island, Nova Scotia and Manitoba quite the reverse picture is shown. In these provinces, provincial government industrial loans were many times greater than those by the Industrial Development Bank. Only in New Brunswick and Saskatchewan were I.D.B. loans and provincial industrial loans approximately in balance (see Table 14-1).

Two other not insignificant industrial lending programs in which the federal government is involved are loans to manufacturers of automotive products affected by the Canada-United States automotive agreement and loans to manufacturers for defence plant modernization. The first program is administered by the Adjustment Assistance Board and provides for term loans

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1/ By September 30, 1972, British Columbia had attained first position by virtue of the high volume of I.D.B. loans in that province in the last two or three years.

to manufacturers of automotive parts who are unable to find financing from normal credit sources. At March 31, 1971, total loans outstanding amounted to $40,262,000. At the same time, total loans outstanding for defence plant modernization were $20,768,000.

Table 14-1

PROVINCIAL DISTRIBUTION OF LOANS OUTSTANDING
INDUSTRIAL DEVELOPMENT BANK AND
PROVINCIAL GOVERNMENTS, 1971

	Industrial Development Bank, Amounts Outstanding or Committted(1)	Industrial and Tourist Loans by Provincial Governments(2)
	(Thousands of dollars)	
Newfoundland	7,230	64,058
Prince Edward Island	2,862	13,997
Nova Scotia	12,610	189,023
New Brunswick	13,581	22,451
Quebec	131,099	20,398
Ontario	174,464	32,452
Manitoba	28,817	120,597
Saskatchewan	21,666	24,051
Alberta	63,981	6,306
British Columbia	151,134	-
Yukon & North West Territories	9,415	-
Total	614,859	443,333

(1) As at September 30, 1971. Source: Annual Report 1971 Industrial Development Bank.

(2) As at March 31, 1971. Source: Table 2-3

Industrial Orientation

There are significant differences in the degree to which the two federal agencies concentrate their activity on manufacturing. Since the loans by the Export Development Corporation finance the sale of large capital equipment, all of its activities are of direct consequence to the manufacturing sector. It is worth noting that about 45 per cent of the value of financing agreements signed in 1971 was for ships.

On the other hand, less than one-third of the total amount of loans made by the Industrial Development Bank is now for manufacturing. This contrasts with the early period of the Bank when it was empowered to provide financing only for certain specified industries such as manufacturing, air transport, construction and some services. In July, 1961, this definition of eligible enterprises was extended to include "any industry, trade or other business undertaking", thus adding such categories as retail and wholesale trade, the tourist industry, and recreational and professional services.

In 1960 and 1961, before the scope of the Industrial Development Bank was extended, manufacturing loans made up about two-thirds of the total amount of its loans. After the definition of eligible enterprises was extended in 1961, there was a sharp drop in manufacturing's proportion of lending activity levelling out to a plateau of 45 per cent for a few years. After the fiscal year 1965-66, a new decline in the proportion of manufacturing loans began, reaching an all-time low of 28 per cent in the 1970-71 fiscal year. Indeed, even in absolute terms loan approvals for manufacturing were not much higher than at the beginning of the decade, standing at $55.6 million in 1970-71 compared to an average of $36.4 million for the 1959-60 and 1960-61 fiscal years.

This is in marked contrast to the provincial government industrial loan agencies whose lending activities have been throughout the period heavily concentrated in the manufacturing sector and with the level of their loans climbing sharply in the decade of the 1960s.

Supplements to the private sector

All the federal and provincial loan agencies were created to provide services deemed not forthcoming from the private sector. They continue to follow the policy of serving as a supplement to the services of other lenders. It is indicated for instance that "a loan application [to the Industrial Development Bank] can be considered only when the required financing is not available from other lenders on reasonable terms and conditions".[1] Similar provisions govern the operation of the provincial loan agencies; sometimes, this restriction is even set forth in the statute creating an agency. In addition, the provincial lending agencies generally regard themselves as supplements to the services of the Industrial Development Bank. Various formal and informal administrative devices are employed to try to ensure that the provincial agency is in fact the lender of last resort.

The nature of the division of activity between the Industrial Development Bank and the provincial industrial loan agencies has not been explored in depth. But that such a division implicitly does occur is apparent from Table 14-1. Moreover, there is evidence of an explicit sharing of responsibility in some cases. A high level of lending by the federal Industrial Development Bank in a province obviously reduces the pressures for any expansion of provincial government loan agencies. In such cases also, a provincial loan agency may take considerable pains to ensure that a potential borrower has fully explored the possibilities of obtaining a loan from the Industrial

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[1] Canada, Department of Industry, Financing Canadian Industries (Queen's Printer, Ottawa, 1965), p. 21.

Development Bank. The provincial loan agency may effectively withdraw from the area of small loans to which the federal agency has consistently given major attention.

Operating practices

The Export Development Corporation operates in quite a different field than the provincial government loan agencies so the operating practices of this federal agency are not examined in this section.

The Industrial Development Bank and the provincial industrial loan agencies in general follow similar operating practices in respect to the purposes for which loans may be provided and in respect to the type of security ordinarily required. In most cases, interest rates charged are quite similar. The principal distinction in operating practice is that the provincial loan agencies have made loans to somewhat more risky enterprises. This follows from the explicit instructions in some cases and the implicit practice in others that the provincial loan agency will not make a loan if the Industrial Development Bank is prepared to make it. The loss ratio of some of the provincial loan agencies is admittedly higher than that of the federal agency.

Loans provided by the I.D.B. and the provincial agencies are generally for the purposes of purchasing land and buildings, altering or extending existing buildings, constructing new buildings or acquiring machinery and equipment. In general, loans for working capital requirements such as to finance inventories or receivables are not provided.

However, the I.D.B. has in some circumstances extended a loan to complement working capital requirements; some of the provincial agencies also provide loans for working capital. A few provincial agencies also have, although very rarely, provided loans for consolidation of debt. This latter, the Industrial Development Bank has scrupulously avoided.

The type of security required by both the Industrial Development Bank and the provincial agencies is similar in nature. This is generally in the form of a mortgage on fixed assets. The effectiveness of this security depends on the relationship between the size of loan and the total capital cost of the project i.e., on the amount of investment by the owner of the enterprise. No attempt has been made to compare the extent to which the security has protected the lender against loss when loans have been defaulted. Obviously that is the critical point. The income of the Industrial Development Bank, after provision for doubtful accounts, has consistently exceeded expenditures - which has not been the case for all provincial industrial loan agencies. This seems to indicate that some of the provincial agencies have been more liberal in their security provisions than the federal agency.

Currently, it appears that there are only marginal differences between the interest rate policy of the Industrial Development Bank and those of the provincial industrial loan agencies. The rate of interest charged by the Industrial Development Bank is marginally above the long-term borrowing rate of the federal government while the rate of interest charged by provincial loan agencies is generally fractionally above the long-term borrowing rate of the provincial government concerned. However, in the past, there have been very low interest rates charged by a few of the provincial agencies. It is conceded that even today, one or two of the provincial agencies are still prepared to enter into special loan agreements at reduced interest rates.

Loan Guarantees

For the most part, the industrial loan guarantee programs of the federal and provincial governments differ substantially. The major guarantee activity of the federal government is that of the Export Development Corporation, the export credits insurance program. Under this program which began in 1945, the Export Development Corporation may insure Canadian exporters against non-payment when they grant credit to foreign buyers under contracts involving certain classes of both consumer and capital goods as well as certain services.[1/] Associated with the export credits insurance program is a program of guarantees to private lenders which have provided financing for Canadian exporters. The latter program is confined to insurable sales of capital goods or services. In addition, beginning January 1, 1972, the E.D.C. will guarantee bank loans to manufacturers during the pre-shipment production period of capital goods.

A distinctly secondary program in terms of magnitude is the federal Small Businesses Loans program. This program which became effective in January 1961 provides for the federal guarantee of bank loans to small business enterprises engaged in manufacturing, wholesale trade, retail trade and most service industries in the improvement and modernization of equipment and premises.

In addition, there have been federal government guarantee of loans to manufacturers made by lenders under the General Adjustment Assistance Program (to assist companies to adjust which have been injured by the Kennedy Round tariff reduction or which have significant export opportunities made available to them by the Kennedy Round) under the Cape Breton Development Act and under the Regional Development Incentives Act.

The guarantee activity of provincial governments has generally been for special cases of industrial enterprises where particularly large investments have been involved. The substantial differences in the various provinces have already been noted. There is, in fact, no provincial norm to compare to the federal practices.

[1/] Technically, these are not loan guarantees in the usual sense but have an equivalent effect.

The federal and provincial programs considered here are with the exception of the Small Businesses Loans program, largely of assistance to manufacturing. For instance, of the commodities insured under the Export Credits Insurance program in 1971, about three quarters in value was fabricated materials and end products. Of the loans guaranteed under the Small Businesses Loans program in 1971, only about 13 per cent went to manufacturing industries.

There are significant differences among these programs in respect to the size of guarantee. This is particularly notable in the case of the Small Businesses Loans program. This program is restricted to borrowers with an estimated annual gross revenue of not more than $500,000 and a loan may not exceed $25,000. On the other hand, policies under the Exports Credit Insurance program range widely in size. While slightly more than half of the policies in force [1] at December 31, 1971, were of amounts of $100,000 or less, there were still a significant number of over $1,000,000. Provincial government industrial loan guarantees also vary considerably in size. Two of the provincial government guarantees were for amounts in the neighbourhood of $50,000,000 although there were many smaller guarantees.

In total magnitude, the industrial guarantee activity of the federal government has been substantially greater than that of the provincial governments. Again, the major factor accounting for this is the Export Development Corporation. Provincial government loan guarantees to manufacturing enterprises amounted at March 31, 1971, to about $271,000,000 but the aggregate of maximum liabilities of the Export Development Corporation and the Canadian government directly under policies outstanding at December 31, 1971, amounted to $602,000,000. Guarantees of financing provided by private lenders totalled nearly $102,000,000 but most of this was in connection with export credit insurance policies. At March 31, 1971, federal

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1/ Policies under Section 24 of the Export Development Act, that is, insured under the authority of the EDC board of directors. In addition, there are policies insured under Section 27 of the Act at the risk of the Canadian government directly.

government guarantees outstanding of loans made by chartered banks under the Small Business Loans Act amounted to about $24,000,000, guarantees of loans made by lenders under the General Adjustment Assistance Program amounted to $7,000,000, and guarantees of loans made by lenders under the Cape Breton Development Act amounted to $30,000,000. Offers of loan guarantees under the Regional Economic Expansion Act were not initiated until the 1971-72 fiscal year. At March 31, 1972, the total net accepted offers applied to loans of only $1,652,000.

Industrial Grant Programs

There are several substantial federal industrial grant programs, grants under the Regional Development Incentives Act, grants to encourage improvements in industrial technology and productivity generally, and tariff remission or its equivalent to manufacturers under the Canada-United States Automotive Agreement and the Machinery Program.

In contrast to the extensive federal government grant programs, provincial governments have in general not used grants to a major extent as an industrial development device. The principal exceptions have been the regional industrial development programs of four provinces where the forgivable loan device has been used.

Regional development industrial grants

Regional industrial grant programs have been a feature of the 1960s and the 1970s and initially were confined to the federal government. Now, however, some of the provincial governments are engaging in grant programs for particular regions of a province. Nevertheless, as noted, the magnitude of the federal program by far outstrips the total provincial effort.

The federal government regional grant program has grown through three phases. The first phase began in 1963 with the provision of tax incentives to manufacturing industries located in designated areas. These areas were determined on the basis of unemployment and income criteria. The tax incentives took the form of a three-year exemption from federal income tax plus special rates of depreciation on new machinery, equipment and buildings.

The second phase began in 1965 with the Area Development Incentives Act and involved a change from tax incentives to direct grants. A grant was based on a rate of one-third of the first $250,000 of the capital cost of new machinery, equipment and buildings, 25 per cent of the next $750,000 plus 20 per cent of any remaining eligible costs with an upper limit of $5,000,000 per project. The grant did not reduce the amount of capital cost allowances which may be used for tax purposes. For manufacturing industries locating or expanding in the designated areas, the payment of grants was nearly automatic.

The third phase began in 1969 under new legislation, the Regional Development Incentives Act. The principle of the industrial incentive grant was maintained but with substantially changed operational procedures. Greater flexibility was shown in the determinination of the boundaries of the regions to which the grants were applicable. Complete administrative discretion in regard to the payment of grants was to be exercised within the maximum limits set in the legislation.[1/] The legislation introduced the new procedure of calculating the maximum permissible grant in relation to jobs created as well as in relation to capital cost. The details will not be given here. They are complex and vary from region to region. It is sufficient to indicate that the total grant may reach a significant amount. In contrast to the earlier grant program, the grant

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1/ While the maximum permissible grant could vary from project to project and from region to region, it could not in any event exceed the lesser of $30,000 for each job directly created, one-half of the capital employed or $12,000,000.

was made partially recoverable, i.e., the portion of the capital cost covered by a grant was not to be eligible for capital cost allowance under income tax legislation. For corporations with taxable income of over $35,000 this would mean approximately a 50 per cent recovery of the grant.

There are also industrial incentives available under the special area provisions of the Department of Regional Economic Expansion Act which are not subject to the same statutory maxima. However, as a matter of administrative practice, standards applicable under the Regional Development Incentives Act are normally applied where relevant.

The magnitude of the current federal industrial grant program gives some indication of its impact in the regions in which it is applicable. From the beginning of the program in 1969 to March 31, 1972, the total net accepted incentives offered were estimated to be $233,000,000.[1/] The net increase in net accepted incentives offered during the 1971-72 fiscal year amounted to $94,000,000.[2/] The earliest federal regional grant program was in total substantially larger, involving upwards of $500,000,000 in grants and tax holidays from 1963 to the end of 1969 but with an annual rate approximating the current program.

The federal industrial grants have had important consequences for the provincial industrial development programs. The requirements that grants would be available only in respect of new capital owned by the proprietor induced a change in the operation of industrial parks in areas such as the Atlantic region. Industrial Estates Limited, for instance, discontinued any new industrial leasing activity in favour of direct ownership by the industrial enterprises in order that they might qualify for grants.

1/ Source: Canada, Department of Regional Economic Expansion, Report on the Operation of the Regional Development Incentives Act and on "Special Areas" Incentives for the Period March 1 to March 31, 1972.

2/ This reflects revisions in the net accepted incentives offered at March 31, 1971, plus the new net accepted incentives offered in the ensuing twelve-month period.

Also, the federal incentive grant has become the pivotal element in many federal-provincial industrial development packages. There have been several manufacturing enterprises in the designated regions with a federal government incentive grant and a loan from a provincial loan agency. Such development packages are, of course, primarily of importance when it comes to the larger enterprises. A grant is obviously a greater incentive to industry to locate in a specific area than a loan even if a loan is offered under terms more favourable than might be obtained from commercial lenders.

In the regions to which the Regional Development Incentives Act is applicable (the Atlantic region with the exception of Labrador, southern Quebec, northern Ontario, southern Manitoba and portions of Saskatchewan, Alberta and British Columbia) it is a major industrial incentive program if not the major one.

In Chapter 13, the provincial regional industrial grant programs have been described. They will not be discussed again at this point except to note that the programs in Saskatchewan and Alberta applied only to areas not covered by the Regional Development Incentives program. At an initial stage, that of Quebec also applied only to a portion of the province, namely Montreal, not covered by the federal program. Later, the federal program was extended to Montreal and adjoining areas. The Ontario forgivable loans program applied to areas both within and outside the areas covered by the federal program.

Industrial grant programs to improve productivity

The activity of the federal government in industrial grant programs to improve productivity by far exceeds that of the provincial governments. Except for Quebec, provincial grant programs in this policy area have been very limited in magnitude.

Federal grants designed to achieve this policy objective largely began in the 1960s. They have included such programs as the Program for the Advancement of Industrial Technology (PAIT), the Industrial Research and Development Incentives Program (IRDIP), the Defence Industry Productivity Program (DIPP), the General Adjustment Assistance Program (GAAP), the Defence Industry Research Program (DIRP), the Industrial Research Assistance Program (IRAP), the Program to Enchance Productivity (PEP), and the Industrial Design Assistance Program (IDAP).

The largest of these has been the Defence Industry Productivity Program with grants in the 1970-71 fiscal year of $45,187,000. This program is designed "to develop and sustain the technological capability of Canadian defence industry for the purpose of defence export sales or civil export sales arising from that capability."1/ The federal government may share in the costs of selected projects of which the STOL project is an example. Among other things, this program may pay one-half of the cost of new equipment required for plant modernization.

The second largest is the Industrial Research and Development Incentives Program with grants of $30,144,000 in the 1970-71 fiscal year. This program under legislation passed in 1967 assists Canadian industry "to undertake new scientific research and development programs to expand existing ones and to provide well-equipped facilities for such work."2/ Grants equal 25 per cent of capital expenditures for scientific research carried out in Canada and 25 per cent of the increase in eligible current expenditures over the average of such expenditures in a base period consisting of the immediately preceding five years.

1/ Department of Industry, Trade and Commerce, Federal Services for Business (Queen's Printer, Ottawa, 1970), p. 36.

2/ Ibid., p. 36.

The third largest is the Program for the Advancement for Industrial Technology begun in 1965. This program "helps Canadian industry upgrade its technology and expand its innovation activity by helping to underwrite specific development projects which involve a significant advance in technology and which, if successful, offer good prospects for commercial exploitation in civil markets."[1/] Grants under this program amounted to $13,055,000 in the 1970-71 fiscal year. The federal government will share up to 50 per cent of the expenditures on approved development projects.

Other programs for "product innovation"[2/] involved only small expenditures in 1970-71. Taken all together, the grants for such purposes amounted to $88,421,000. By contrast, similar provincial government grants were less than $1,000,000.

These programs, of course, have direct relevance to some of the provincial government activities concerned with the encouragement of industrial research and development. For instance federal government grants to private industry under the Industrial Research and Development Incentives Program facilitated the establishment of provincial industrial research parks such as Sheridan Park in Toronto.

Other industrial grant Programs

Of the other federal grant programs of direct relevance to manufacturing companies, only two are significant, the Canada-United States Automotive Agreement and the Machinery Program of the Department of Industry, Trade and Commerce. Both of these programs involve a remission or suspension of tariffs on certain imported goods ordinarily subject to import duties.

1/ *Ibid.*, p. 36.

2/ As described in *Public Accounts of Canada for the Fiscal Year Ended March 31, 1971*, Volume II (Information Canada, Ottawa, 1971), p. 10-8.

The financial incentive provided to the Canadian automobile industry under the Canada-United States Automotive Agreement is not theoretically a grant. But an incentive exists because, while the Canadian tariff on automobiles and parts remains for ordinary purchases of automobiles, the Canadian automobile manufacturer is permitted tariff-free entry provided certain other conditions in respect to automobile production in Canada are met. The value of this incentive to the Canadian industry can only be estimated hypothetically since the pattern of Canada-United States trade in automobiles is now substantially different than before the agreement. Applied to the pattern of trade in 1971 that would likely have prevailed in the absence of the Automotive Agreement, the tariff-free import provision is estimated to be worth somewhat over $100,000,000 to the industry.

A program associated with the Canada-United States Automotive Agreement is operated by the Automotive Adjustment Assistance Board established in 1965. This includes loans (which have been considered earlier) and tariff remissions to automobile parts manufacturers importing machinery and equipment. As in the Machinery program, to qualify for the tariff remission, the machinery must not be obtainable in Canada.

Under the Machinery Program which came into effect in January 1968, companies may apply for remission of duties on imports of production machinery, together with accessories and controls and a wide variety of machinery for the service industry. This remission may be authorized when the Governor-in Council-considers that it is in the public interest and that the goods are not available from Canadian production. This machinery would otherwise be subject to a Most Favoured Nation tariff of 15 per cent and a British Preferential tariff of 2½ per cent. Approximately $70,000,000 was made available to this program for remissions and related activities in the 1970-71 fiscal year.[1/]

1/ Source: P. E. McQuillan and P. G. Donaldson, Industrial Assistance Programs in Canada, 1972 (CCH Canadian Limited, 1972), pp. 93-4.

The program is also used as a means of identifying machinery manufacturing opportunities in Canada.

Grants for infrastructure

The preceding material includes only those grants made to the industrial enterprises. The federal Department of Regional Economic Expansion also makes extensive grants to assist provincial governments in providing services such as water and sewage facilities, roads, and streets which are necessary for the establishment of proposed new industries. These are not considered further in this report.

Subsidies

In line with the distinction that was made in Chapter 7 between subsidies and grants, certain subsidies will be considered here. Currently the major current subsidy to the manufacturing sector is the federal subsidy to the ship building industry. Practically the only other significant industrial subsidy is a provincial one, that on electric power being paid by the Newfoundland government.

The present program of federal subsidies for ship construction was established in 1961. In 1966, a new schedule of subsidies was established for commercial vessels. Initially, this was set at 25 per cent of approved costs but beginning June 1, 1969 is being progressively reduced by 1/2 per cent every three months until a subsidy level of 17 per cent is reached for vessels completed on and after March 1, 1973. The subsidy for the construction of fishing travelers which was 50 per cent from 1961 to 1967 was reduced to 35 per cent in that year. In the 1970-71 fiscal year, subsidies of $13,711,000 for the construction of commercial and fishing vehicles were paid.

Tax Incentives to Manufacturing

Any extensive systems of tax incentives for manufacturing must differ in a fundamental way at the federal and provincial levels because of the different nature of the tax structures at the two levels. Tax incentives for manufacturing at the federal level have had their principal application in the corporation income tax system. At the provincial level, they have largely related to property taxes or to the sales tax. However, since Ontario and Quebec collect their own provincial corporation income tax, there is the more immediate possibility of provincial industrial tax incentives in those two provinces. We have, indeed, noted this example in the case of Quebec. Were other provinces to begin directly collecting their own provincial corporation tax, a wider possibility for provincial tax incentives would be introduced.

It is difficult to assess the economic consequences, or even the primary motivations, of certain incentive features of the federal corporate income tax structure. It has already been noted that the Area Development Incentives program initially took the form of a three-year exemption from federal income tax and special capital cost allowances. This is a clear example of a tax incentive to manufacturing albeit for regional development purposes. But other occasions when the federal government has introduced short-term changes in capital cost allowance rates or in tax rates have been more for the purpose of inducing short-term changes in the pattern of business activity and thereby achieve certain economic objectives rather than as an industrial incentive _per se._

Of quite a different nature is the accelerated capital cost allowance for machinery and equipment used in manufacturing or processing and the provision for a lower special corporate tax rate for income from manufacturing or processing announced by the federal Minister of Finance in the budget speech of May 8, 1972. This was intended to have long-run developmental consequences for manufacturing. This proposal has not as yet received legislative sanction and at date of writing it remains uncertain due to the lack of a government majority. If approved, this would be the major tax incentive for manufacturing at any level of government.

The question may be raised of whether the regular schedule of capital cost allowances for business income tax purposes amounts to a tax incentive. Whether or not this permits a more rapid recovery of capital investment than would take place under strict accounting practice, they will not be regarded as a specifically manufacturing incentive since they apply equally for a given category of capital goods to all industrial sectors. Of course, some categories of capital goods are more characteristic of manufacturing than of other industries. It is conceivable that a greater margin might exist for such categories between the permitted capital cost allowance and strict accounting depreciation. In that case, even the regular capital cost allowance schedule might be regarded as a manufacturing incentive. It has not been possible to pursue this matter to a conclusion.

Government Ownership of Industry

There has been a substantially different pattern in the involvement of the federal and provincial governments in the ownership of manufacturing industries. Until the establishment of the Canadian Development Corporation in 1971, all federally owned manufacturing enterprises dated back to the Second World War. On the other hand, the bulk of provincially owned manufacturing enterprises are of recent origin. As is evident from Table 14-2, the role of provincial governments in the ownership of manufacturing enterprises has now surpassed that of the federal government. Fixed assets of provincial government manufacturing enterprises at the end of 1969 stood at about $228,000,000 compared to about $105,000,000 for those owned by the federal government. Income from sales of goods and services during the preceding fiscal year was approximately the same for both levels of government at $183,000,000 and $167,000,000 respectively[1/].

1/ The fixed assets of provincial government enterprises include a large investment in a heavy-water manufacturing plant which is not as yet operating.

Table 14-2

GOVERNMENT MANUFACTURING ENTERPRISES, FISCAL YEAR ENDED NEAREST TO DECEMBER 31, 1969.

	Fixed Assets less Accumulated Depreciation at Year-End	Income from Sales of Goods and Services
	(Thousands of dollars)	
Federal Government	104,659	167,134
Provincial Governments	227,854	182,618
Total	232,513	349,152

Source: Federal Government: Public Accounts of Canada for the Fiscal Year Ended March 31, 1971, Volume III, Financial Statements of Crown Corporation; Provincial governments: Statistics Canada, Provincial government enterprise finance, Fiscal years ended nearest to December 31, 1969

The federal government manufacturing enterprises are three in number, Polymer Corporation Ltd. established in 1942 which produces synthetic rubber products, plastics and chemicals; Canadian Arsenals Ltd. established in 1945 to manufacture and develop military equipment, ammunition and components to meet the requirements of the armed forces; and Eldorado Nuclear Ltd. established in 1944 to mine and refine uranium and produce nuclear fuels. Of these Polymer Corporation is by far the largest operation. Similarly the activity of the provincial government manufacturing enterprises are concentrated in a few companies. Nearly all the assets are accounted for by a heavy-water manufacturing plant and two steel plants; nearly all the sales income comes from the two steel plants.

In the 1970s the major expansion of government ownership in manufacturing has occurred at the provincial level particularly in Newfoundland with the acquiring of a large pulp mill and the construction of an oil refinery. The federal government is, however, making a major investment in the previously identified heavy-water manufacturing plant.

To this point, only Crown Corporations have been considered. It has been indicated in Chapter 6 that the variety of forms by which provincial governments hold ownership in manufacturing firms is very extensive, a variety not matched at the federal level. The federal government does not, for example, operate industrial parks in a manner similar to that undertaken by several provincial governments. It has not acquired partial ownership of manufacturing companies.

With the establishment of the federal Canada Development Corporation, it is possible that this may be fundamentally changed. The Canada Development Corporation is intended to be a mixed-ownership corporation in which the federal government holds only a minority of shares. Presently all its shares outstanding are owned by the federal government and probably will be for the immediate future. Its possible long-term implications are immense but it has not been in operation long enough even to speculate on the future dimensions of its role in the manufacturing sector.

Consulting, Advisory and Promotional Services

Both federal and provincial governments are involved in providing consulting, advisory and promotional services to industry. Both the federal and provincial programs are of comparatively long standing. As noted, an Industrial Development Branch of the Department of Trade and Commerce was established in 1946 and provincial governments began their major participation in this area at about the same time. This activity was given considerable impetus with the establishment of the federal Department of Industry in 1963. Upon the merger in 1969 of the Department of Industry, and the Department of Trade and Commerce into the Department of Industry, Trade and Commerce, there has risen perhaps more emphasis on the relationship between industrial development and export promotion. Within the Department of Regional Economic Expansion there is also major industrial promotion and advisory activity.

The principal distinction between the federal and provincial levels in this area arises out of the fact that the federal government expenditures on trade and industrial development are substantially greater than that of all the provincial governments combined. In 1969-70 they amounted to $217,000,000 compared to a total of about $89,000,000 for the provincial governments. Even after eliminating grants and subsidies paid to businesses or to other levels of government the comparable totals were $178,000,000 and $87,000,000 respectively.

Thus, it is possible at the federal level to have specialists in a wide range of manufacturing industries. To some extent the scale of operations in Ontario and Quebec also permits specialization in a considerable number of manufacturing industries, but in the other provinces it is obviously necessary to concentrate on a relatively few industries.

The involvement of the federal government in the gathering of market intelligence is not only more comprehensive but also of a more continuing nature than that of most provincial governments. This also arises from the fact that most of the provincial industrial development departments do not have sufficient staff to maintain a continuing and detailed overview of a wide range of manufacturing industries. They rely more on intermittent market studies by outside consultants or by their own staff. There is also in many cases liaison with the appropriate industrial sector of the federal Department of Industry, Trade and Commerce. Again in the two larger provinces of Ontario and Quebec, a greater parallel with the federal service may be seen.

The promotional and advisory services of the federal government (except those of the Department of Regional Economic Expansion) differ also from those of provincial governments in that they are oriented to the nation as a whole rather than to a particular region. This means that ultimately they become less specific geographically but, in general, compensate for this with a higher degree of industrial specificity. It also means that the emphasis in promotional activity at the federal level is oriented to foreign countries, either in terms of expanding markets or in terms of attracting new industries. Provincial governments will be as much interested in the expansion of the markets of local industries in other provinces as in an expansion into foreign markets. Similarly, a provincial government will be as much interested in promoting the expansion into its province of an industry already located in Canada as in a non-Canadian industry.

Advisory services to improve industrial productivity are provided by both levels of government. Perhaps the major government services of this nature are provided by the research councils, both federal and provincial. The Engineering Services and Technical Services programs of the National Research Council and the interrelationships with the provincial research councils have been noted in Chapter 11. The provincial departments of industrial development and the federal Department of Industry, Trade and Commerce provide additional management services. Some of these provincial services have been referred to in Chapter 9 and no attempt will be made to compare them to federal services.

International Promotion Services

It has already been indicated that the industrial promotional services of the federal government have a pronounced orientation to external markets. For this reason and because of its constitutional responsibilities the federal government has played the pre-eminent role in international promotion. Nevertheless, provincial governments and particularly the two central provinces of Ontario and Quebec have also established a significant presence in a number of foreign countries.

The direct involvement of government personnel in international promotion has taken two principal forms, (1) the establishment of permanent offices in foreign countries and, (2) short-term participation in trade missions and exhibitions abroad. At March 31, 1971, the federal Department of Trade, Industry and Commerce maintained 80 trade mission posts abroad in 54 countries. The two provinces of Ontario and Quebec each maintained upwards of 20 offices abroad. Provincial offices involved in promoting export sales have also been established by other provinces but of these only British Columbia maintained such offices outside of the United Kingdom.

The staff in these trade mission posts do not confine themselves to promoting the export of manufactured products. Generally, they concern themselves with a wide range of Canadian products, a situation that is notably true of the federal trade commissioners. The offices of the two manufacturing-oriented provinces of Ontario and Quebec naturally more largely direct their activities to the manufacturing sector.

The staff in these external offices also fill a liasion role, directing inquiries from potential foreign investors back to the home offices and transmitting information from the Canadian offices to interested foreign businessmen. In fact, it would not be easy to indicate the precise allocation of staff-time among the range of activities in which they engage.

In the class of temporary activities abroad is participation in world exhibitions and trade fairs. Participation in world fairs has a pervasive promotional effect which may be at its most effective when it is least pointed in terms of industrial promotion orientation. One example of such participation will be given. At the World Fair in Japan 1971, in addition to the Canadian pavilion, pavilions were established by Quebec, Ontario, British Columbia, and the three Prairie Provinces jointly.

Participation in trade fairs is more directly industry-oriented. In many trade fairs, particularly since the numbers are growing, Canadian interests are represented by the federal government alone. But many trade fairs in the United States have both federal and provincial representatives. Sometimes small regional trade fairs in the United States have only provincial representatives.

Trade missions are another form of involvement abroad. Here one finds a considerable range in the degree of co-ordination among the federal and provincial governments in respect to particular trade missions. Some trade missions have been organized by the federal government alone but generally there is informal and frequently formal participation by provincial governments in the planning of outgoing trade missions. On the other hand, there are a considerable number of provincial trade missions composed of business people and government officials from a single province and some joint provincial trade missions, say from a particular region like the Atlantic region.

Mechanisms of Federal-Provincial Co-ordination

Some suggestion has already been made that co-ordination of industrial development policies and activities may occur in either a formal or an informal manner. While informal procedures may in fact be the most important they are the most difficult to evaluate. Therefore, in this section reference will be made only to some of the formal structures through which exchanges of views and information and co-ordination of policies has been effected.

There is no formal machinery for co-ordinating industrial and commercial development policy overall at the ministerial and senior official level. While not directly concerned with industrial development policies, the standing federal-provincial committee of Ministers of Finance and the corresponding committee of officials have some implications for such policies. Moreover, it suggests the pattern in which formal industrial development co-ordinative and consultative machinery may develop. There has already occurred a formal federal-provincial meeting to discuss a matter with significant industrial development implications. This was the conference of ministers of industrial development called by the federal Minister of Industry, Trade and Commerce in 1971 to consider the restrictive trade measures proposed by U.S. President Nixon. This was perhaps the first meeting of its kind. However, meetings are frequently held at both the ministerial and official level between the federal government and the government of a particular province to consider specific problem areas. Recent examples with industrial development implications include meetings to consider the problems of the pulp and paper industry in Ontario and Quebec, and the sulphur and potash marketing problems with Alberta and Saskatchewan respectively.

Annual conferences in specific policy areas provide another mechanism for policy co-ordination. There has been for some years an annual conference of provincial ministers of industrial development. The conference includes observers at the official level only from the federal government. An annual federal-provincial conference on tourism has been held since 1948. While such conferences may not directly result in co-ordinated policies, the exchange of information and opinions undoubtedly affects the later decisions of ministers and officials. It also stimulates the increased informal, day-to-day contact among officials that is part of effective co-ordination.

The most formalized federal-provincial machinery relating to industrial development is to be found in those programs now associated with the federal Department of Regional Economic Expansion. This machinery takes various forms but none of it involves more than one provincial government. One type of structure which DREE inherited from already existing programs was established as part of the Fund for Regional Economic Development program. Each FRED agreement, covering part of a province or the whole province in the case of Prince Edward Island, envisaged the establishment of a joint federal-provincial board. In the case of the Prince Edward Island FRED agreement, this Board included the Premier of the province and other ministers and provincial officials together with such officials of the federal government as the Deputy Minister of Finance. Such committees for other FRED areas did not involve such high officials.

Formal federal-provincial committees have also been established for the study and development of those areas eligible for special infrastructure grants. This has included such communities as St. John, Flin Flon, etc.

On occasion, co-ordinated federal-provincial action in respect to a certain development problem involves the statutory creation of a joint body. This has happened in the establishment of the Cape Breton Development Authority (with 2 members of the board chosen by the provincial government of Nova Scotia), and Multiplex Corporation with representatives from the provincial government of New Brunswick and representatives from the city of Saint John.

The more informal co-ordinating activity at the administrative level is too extensive to try to document completely. There is considerable informal contact between the regional staff of the federal Industrial Development Bank and that of the provincial lending corporations. Market studies of the federal Department of Industry, Trade and Commerce are extensively used by their provincial counterparts and vice-versa. There is an exchange of information in respect to possible improvements in technology. Productivity programs have involved joint participation by staff of both levels of government. Federally sponsored trade missions have often involved extensive provincial participation. Provincially sponsored trade missions have generally proceeded after close consultation with federal officials. Even in the case where provincial external offices are maintained, there is a considerable measure of co-ordination of activity with federal government officials.