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# A STRATEGIC OVERVIEW

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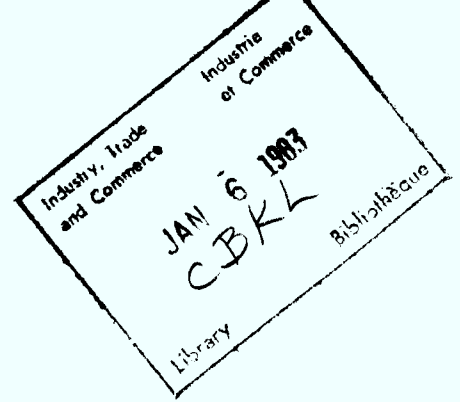


Government  
of Canada

Gouvernement  
du Canada

Industry, Trade  
and Commerce

Industrie  
et Commerce



*Canada.*  
**THE DEPARTMENT OF INDUSTRY,  
TRADE AND COMMERCE,**

**A STRATEGIC OVERVIEW**

**(May 1981)**

## A STRATEGIC OVERVIEW

### DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

This is the second year the department has prepared an overview reflecting its activities and programs at a particular point in time.

During the past year priority was given to economic development including consideration of diversification and growth based on regional resources and advantages.

Additional resources were made available to the economic development envelope for this purpose but there was also a clear indication of the continuing need for expenditure restraint. Emphasis was to be given to expenditures directed toward productive investment rather than subsidies.

Internationally, priority was given to the expansion of foreign trade and this was reflected in the assignment of foreign service officers and the establishment of new posts. It was also directed that consideration be given to identifying other efforts to emphasize this priority.

This department has two principal objectives: to facilitate innovation and other improvements in productivity to increase the output of Canadian goods and services on an internationally competitive basis; and, to enlarge the market for these goods and services.

Although ITC's activities can be categorized in a variety of ways, the market is the starting point for the department to fulfill its objectives. It is worth the reminder that the real incomes of Canadians can grow only by their ability to provide an increasing and/or cheaper supply of goods and services for which someone else in Canada or abroad is prepared to pay.

For business it is market conditions that provide the main signals for change. These signals are various. Some may indicate immediate opportunities and problems. Others may suggest longer term trends to which a less immediate but ultimately more profound response could be required (e.g. low cost products from the newly industrialized countries.) In order to provide appropriate and effective support for business activity the department must constantly assess forces and conditions in the market.

Departmental activity is focused on measures to develop the domestic and export markets and on policies and programs to enhance the capacity of Canadian industry to supply these markets. Although later sections of this overview are organized around themes such as industrial

adjustment, innovation, and energy developments, underlying them all are the twin factors of developing markets and enhancing the capacity to supply them.

#### CONSTRAINTS AND OPPORTUNITIES

The main economic constraints bearing upon the goals and objectives of the department have had their influence. They will continue to have a powerful impact on the achievement of the department's goals throughout the planning period to 1985/86. The factors are:

- (a) slower rates of economic growth, part of a secular trend but exacerbated by recent economic conditions;
- (b) fiercer competition in international markets and greater pressure from imports on the domestic market; a result of expected slower rates of domestic economic growth and efforts by most industrialized countries to offset balance of payments problems created by petroleum imports;
- (c) the rapid industrial development of newly industrialized states and their resulting high degree of competitiveness in most areas of standard technology;
- (d) the possibility of impairment of the post-war international trading system as a result of revived protectionist tendencies;
- (e) the growing costs and risks associated with the development of high-technology products, their relatively short product cycle and the impact of special measures of foreign government support to competitors;
- (f) uncertainty about rates of return occasioned by higher energy prices, volatile commodity prices generally, shifting exchange rates, persistently high rates of inflation and instabilities in the international trading environment;
- (g) a continuing backlog of unresolved adjustment problems in traditional industries and the difficulty of implementing adjustment programs in a low-growth environment.

Against this general background, there are several prospective courses of Canadian economic development which should be highlighted. These are:

- (1) The market opportunities represented by resource development in general and energy development in particular;

- (2) the dangers of disruptions in the multilateral trade system;
- (3) the growing importance - within a strong multilateral system - of special bilateral relationships with selected countries and for the marketing of certain products;
- (4) regional economic development.

In order to meet these and the other market forces described above there will be a particular need to:

- (5) renew capital plant and equipment;
- (6) increase product and process innovation in response to rapidly developing markets;
- (7) facilitate industrial adjustment.

The energy situation will have a profound impact on the Canadian economy until at least well into the next decade. In the period immediately ahead, energy exploration, development, and transmission projects will provide one source of sustained growth in the domestic economy, at least over the next half decade. These projects offer the possibility of generally reducing disparities and of providing a basis for economic diversification.

In these circumstances, the highest priority must be given to capturing the maximum economic and industrial development benefits from these projects, both for the Canadian economy in general and for the regions in which the projects will be carried out. While significant short-term benefits to local economies arising out of the construction of these projects can be expected, overall benefits will be less certain unless action is taken to strengthen the capacity of Canadian industry to supply these projects and to bid on them on an equal basis with foreign suppliers.

With respect to natural resource development, there are indications that market growth over the next half decade could be slow, at least for some metals, minerals and forest products. On the other hand the high cost of energy may assist Canada to persuade other countries to import certain products from Canada in more processed form.

This could provide a major stimulus to investment, particularly in regions outside of Central Canada. Market forces will be the most significant influence on when and where investments take place but

providing secure, and where possible, improved access to foreign markets could also be important.

In international markets generally, a great danger for Canada is the possible impairment of the multilateral trading system. Not having a large domestic market or belonging to a large trading bloc, it is of utmost importance to Canada that an open system be maintained. There is evidence that slow economic growth and balance of payments difficulties will demand a major effort to offset protectionist forces. This could be particularly important in the case of the EEC and the U.S. where there is already evidence of strong protectionist sentiments.

It is clear that whatever the state of the multilateral trading environment, special bilateral arrangements will grow in importance and could pose a danger to the multilateral system. They could also act as a complement to it by responding to problems and opportunities not readily accommodated by the global system. An example might be an arrangement with the United States to improve access for Canadian manufacturers to their urban mass transit market. Such new arrangements, coupled with improvements in existing ones in the automotive and defence products sectors, could account for a growing volume of trade during the 1980s and will require priority attention to maximize export performance.

Maintaining an open multilateral trading system will require prudence by Canada in the implementation of protective actions or other trade distorting measures. Moreover, in the current uncertain economic environment, it is likely that our principal trading partners, in particular the U.S. will be more aggressive in protecting their trade and economic interests in world markets.

There are several steps which Canadian industry will have to take to find success in domestic and foreign markets. For example, the high cost of energy, together with technological developments (micro-processors, robotics, computer-aided design-and-manufacturing) will quickly out-date much of Canada's capital equipment. Industry, and business in general, must become more aware of the new technology and the need to introduce it at least as quickly as their competitors. The Canadian capacity to develop and supply the production equipment and end products based on this new technology must be encouraged.

These new production processes will play an important role in industrial adjustment, but even with their wide-scale introduction there is little question that industrial adjustment will remain the economy's most intractable problem. For a variety of reasons, including potential pressure on the Canadian dollar from resource development; rapid industrialization of low cost exporters; the introduction by other countries of the new production technologies; and slower rates of growth generally, industrial adjustment is likely to be even more a preoccupation during the next decade than it was during the last. Pressures are now such that time may be running out to achieve adjustment

within the traditional framework of "temporary" protection allied with production subsidies, or in limited cases, modest capital assistance grants. Priority must be given to finding new ways to address this adjustment issue.

In pursuing the goals of market and industrial development, it will be important to give recognition to the strong desires for economic diversification by the regions of Canada. They now have better prospects for achieving the goal of strengthening their industrial base than they have had for some time and care will have to be exercised to ensure that support for industrial development projects is based upon clear market demands and regional strengths.

#### INITIATIVES AND INSTRUMENTS

As an aid to the consideration of initiatives, they have been organized into the following themes:

##### Market Development

- i) Opportunities from Resource and Energy Developments
- ii) Domestic Sourcing
- iii) Trade Relations and Export Promotion

##### Supplying the Market

- iv) Industrial Adjustment
- v) Technological Innovation
- vi) Tourism
- vii) MNE Performance
- viii) Small Business

With the exception of tourism, all of the themes are organized on a horizontal, or cross-sectoral basis, denoting broad thrusts the department is taking or proposing with respect to markets and industries generally. Underlying this horizontal approach lie the individual needs of specific industrial sectors and a departmental mechanism of policy and program delivery organized to a significant extent on a sector-by-sector basis. The nine Industry Sector Branches (ISBs) of the department provide the sector-specific knowledge necessary to develop realistic and effective general themes as well as delivery mechanisms that can ensure implementation sensitive to the particular needs of individual sectors. Industry sector development is therefore an important, though implicit, objective underlying the initiatives described.

##### i) Opportunities from Resource and Energy Developments

It is agreed that energy and resource developments will generate significant opportunities for Canadian industry over the coming decade. Many of these opportunities will follow directly from increased

activity to develop Canada's energy sources while others will derive from the impact of higher energy prices on energy-related products and the need to develop more energy-efficient production processes. (Adjustment pressures stemming in part from higher energy prices will be dealt with in the following section). Still other opportunities will result from growing world demand for resources and resource products. Many of these opportunities will arise in the east and west of Canada. Accordingly, measures to ensure that industry responds to these opportunities could strongly contribute to the achievement of regional diversification objectives.

Perhaps the most significant opportunities available to Canadian industry are those associated with the construction of mega-projects in the energy sector. Estimates suggest that the total value of this activity over the coming decade will reach \$300 billion. In addition to the benefits associated with this direct investment, indirect benefits in the form of opportunities to develop new technologies and skills as a basis of future exports will also emerge. From a market development point of view, a concern is to ensure that these benefits do not slip from Canada through a lack of knowledge of Canadian supply capabilities or the established procurement practices of multinational developers/owners. A concerted effort will be required to ensure that adequate programs of funded assistance and other supportive measures are in place to develop and strengthen the Canadian supply capacity on an internationally competitive basis.

Provisions in the proposed Oil and Gas Act, now before Parliament, respond to the concern that Canadian firms have an opportunity to supply resource projects. These provisions govern only those projects undertaken on Canada Lands and reflect the powers of the federal government with respect to these lands. A policy priority in the department is to design and implement measures that will ensure full benefit to Canada from major energy and resource projects undertaken anywhere in the country, with due recognition of provincial rights and concerns and Canada's international obligations. These measures include the establishment of an Office of Industrial and Regional Benefits in the department to identify the potential requirements of major projects, review the procurement plans of firms in meeting these requirements, and identify specific products which have the potential to be sourced from existing or new capabilities in Canada.

Aside from generating opportunities related to energy development, rising energy prices have had in some cases profound effects on energy-related products and production processes. These impacts will receive particular departmental attention in the coming months. Co-operative efforts with Energy, Mines and Resources, to stimulate research and development of more energy efficient production processes are underway. The department is examining the electrical equipment industry and its market prospects in light of high and rapidly rising oil prices and the need for dependable energy supplies.



There has been a long-standing view that significant opportunities exist to further process many of Canada's renewable and non-renewable resources and that further efforts need to be made to reduce impediments to such developments. The department is currently undertaking studies in the minerals, metals, forest products, agricultural and fish products sectors in co-operation with resource departments and in respect of provincial jurisdiction. The common elements of this work will be drawn together to develop a program to encourage the further processing of the resources.

Energy costs and the impact of the electronics revolution will combine to mean that much of the capital equipment in place in the transportation and communications sectors will be replaced in the course of the decade. In addition, the application of the microprocessor to both manufacturing processes and the office of the future will open huge new markets. In each of these areas - urban transit, rail transportation, aerospace, automotive, telecommunications, computer technology, machine tools and equipment - Canada has significant, and in certain cases, world leadership in its technology production. It is important to register the high priority of the department's efforts in support of these sectors because of their contributions to energy efficiency, the existence of a demonstrated domestic capability and the very large world markets that will develop for their products. Capturing the benefits of these opportunities will require strategically directed and sustained efforts by both Canadian industry and government. Examples could be: ITC's co-management with the Department of Communications of the Office of the Future and Telidon projects.

ii) Domestic Sourcing

Although developments in the energy and natural resources sectors will provide opportunities for the development of specific portions of the Canadian market, in the tougher global competitive conditions facing Canadian industry in the 1980s emphasis will have to be given to the development of all aspects of the market. While ITC has always considered marketing to be a major component of its work program, attention has been focused almost exclusively on developing foreign markets. Recently, heightened awareness has focused greater attention on the importance of the domestic market as a base for the development of innovation intensive and high-technology goods and services.

If one aspect of marketing is information flow and awareness, it is not surprising that in a country as large and diverse as Canada there will be situations where those wishing to purchase goods will turn to foreign suppliers in ignorance of the availability of a domestic supply capability. Suppliers too, may not pursue domestic sales because of a similar lack of knowledge.

The consequences of these missed opportunities are several: they represent foregone production, employment and income; they may represent missed opportunities for Canadian firms to capture economies-of-scale or to fund product innovation and development that could contribute significantly to their competitive strength in domestic and international markets; and to the extent that trading links among the various parts of the country are weakened, the integrity of the Canadian common market itself is threatened. There is already evidence of some balkanization of the various regions of Canada. To the degree that potential trading links are not exploited this situation will be exacerbated.

It is critical that domestic market opportunities be pursued vigorously and ITC will launch initiatives aimed at strengthening awareness of the Canadian common market. Steps have already been taken in conjunction with Revenue Canada, to obtain a much greater degree of detail at the customs point with respect to imported goods. On the basis of these, studies of Canadian imports will be undertaken to enable Canadian firms to identify potential opportunities to supply from Canadian sources. Other measures under way include improvements to the Business Opportunities Sourcing System in co-operation with the provinces, and increased domestic trade show activity bringing together Canadian suppliers of equipment and services with industries that use them. As a result of a joint ITC, B.C. Government and industry initiative, the mining industry in B.C. has made available details of the equipment and its investment intentions over the next three years. Such supplier/user domestic trade shows will be an ongoing activity of the department.

Enhanced domestic sourcing will also be pursued through a federal/provincial working group on procurement who will undertake detailed studies in a number of specific product areas. A Source Development Fund will be used to promote long-term industrial development benefits through government procurement.

### iii) Trade Relations and Export Promotion

A number of factors are combining to alter the international trading environment and therefore Canada's foreign trade prospects. The international trading system will be under severe strain over the forecast period. Built up over the post-war period this system is based on relatively open markets, the principle of multilateral non-discrimination and a complex of reciprocal rights and obligations based principally on the provisions of the General Agreement on Tariffs and Trade (GATT). The prospect of slow economic growth, intense international competition and continuing severe balance of payment problems can be expected to give rise to pressures for protectionist measures throughout the industrial world which could alter the post-war trading system.

Other changes which have occurred include the emergence of newly industrialized and developing countries as alternative suppliers in a number of product areas in which Canada has been historically strong. Newly industrialized countries are competing ever more effectively with Canadian industries in standard technology products and some developing countries are challenging Canadian suppliers of resource commodities and labour-intensive goods. In some cases, Canada's position in markets traditionally held by its suppliers has diminished. In other areas dramatic new opportunities have been presented, in part because of the sharp decline in the value of the Canadian dollar. This has given Canadian suppliers a real price advantage which has enabled many of them to penetrate new markets. It will be important during this period of price advantage to consolidate Canada's position as an established supplier so that Canadian producers will be able to compete on more than a price basis should this advantage be lost.

In response to these challenges, ITC is considering the adoption of a multi-faceted approach to trade relations and export promotion, including the development of a trade policy strategy for the 1980s to set the context for Canada's international trade relations; a number of direct trade policy thrusts; review of the financing provisions of the Export Development Corporation; and, the implementation of an export strategy to maintain and expand Canadian exports abroad.

Trade policy strategy would touch on, among others, questions related to the adequacy of existing trade policy thrusts in light of the changing international environment, the basic principles governing Canada's trade relations with other countries, and the institutional aspects both nationally and internationally of Canadian trade policy in development and implementation terms. More specific initiatives could include review of Canada-U.S. trade relations, in conjunction with a review of overall Canada-U.S. relations spearheaded by External Affairs. A similar review of Canada's trade and economic relations with the EEC was initiated in 1980 and, resulted in a number of issues being identified.

Japan has indicated their interest in Canadian resource development in the 1980s and a government-level Canada-Japan Working Group on Resource Processing has been established. This group is examining factors that influence investment in new processing facilities and, in light of this, determining what opportunities might exist for such facilities to be located in Canada to serve the Japanese and other markets. Given that most of the resource products exported to Japan originate in Western Canada, these talks hold promise for the further development of manufacturing activity there.

Other direct trade policy thrusts include continued negotiations with Australia and New Zealand regarding a new trade arrangement, negotiations in connection with renewal of the Multifibre

Agreement, and preparation in anticipation of a Chinese request for accession to the GATT.

In the fall of 1980, the government approved a limited number of high priority markets for special attention. For each of these markets, development plans would be put in place which would bring together available federal government programs and policies which impact on exports. ITC has been working to perfect a methodology for the development of "country strategies."

Country strategies represent a new thrust in ITC marketing initiatives abroad but they are by no means the only new initiatives which will be taken to promote Canadian exports. Concurrently, a more effective working relationship with MNEs will be established to promote increased export freedom, world product mandates, and industrial co-operation. The exporting community will be consulted in the development of export plans and marketing objectives through the mechanism of the Export Trade Development Board. More emphasis will be placed on the services of the Regional Offices in implementing export programs aimed at small and medium-sized businesses and departmental resources will be augmented abroad to promote new export opportunities.

In this connection, and as a result of an evaluation of the Program for Export Market Development (PEMD), additional funds were obtained to expand the program in 1980/81 and subsequent fiscal years. The enlarged program will be an important element of the department's export marketing activities throughout the planning period.

#### Supplying the Market

To assist Canadian industry to respond to the forces in the marketplace, there are a variety of initiatives which the department proposes to take. As indicated these measures are considered in the context of four themes; industrial adjustment, technological innovation, tourism, and MNE performance.

Before considering these themes, mention should be made of a special study now underway which touches directly on the first three. The Small Business Financing Review is scheduled for completion in early summer. The financing needs of business, particularly of smaller businesses, and the availability of funds to satisfy those needs are central to any efforts to enhance the capacity of Canadian industry to meet market challenges. The Review promises to be among the more comprehensive studies of this question to have been carried out. It will be the first study to consider in depth the demand for funds by small business as previous studies have normally considered only the supply of funds. In these circumstances, the Review will provide a particularly rich analytical base for a thorough assessment of government programs which are designed to meet the financing needs of small business.

Although treated separately in the material following, there is a close relationship between the themes of industrial adjustment and technological innovation. Frequently industrial adjustment is seen only in the narrow context of providing support to industries in "trouble". In reality, adjustment is as much or more a matter of supporting growth opportunities. Thus while an analytical distinction has been made for the sake of clarity between "downside" and "upside" adjustment, a complete picture of the department's efforts to facilitate adjustment must include not only the initiatives described in the next section but in the section on technological innovation as well.

#### iv) Industrial Adjustment

The economic outlook for the 1980s suggests that Canadian industry will be facing increasingly difficult competitive conditions in international and domestic markets. At home, Canadian growth will likely remain sluggish in the medium term in spite of significant energy and resource developments. Competitive pressures will mount on an ever-widening range of traditional and standard technology industries as newly industrialized countries, state trading countries, and less developed countries continue their drive to industrialize and improve standards of living.

In addition, manufacturing techniques will have to change to respond to higher energy prices and new technology. A significant investment will be directed to replacing existing capacity rather than to adding new capacity contributing to reduced growth rates.

Much of this adjustment will take place as part of an ongoing process, the necessary path to a more healthy and productive economy. The speed with which Canada's manufacturing and processing industries adopt the radical departures in process and production technologies represented by computer-aided design and manufacturing will clearly decide the extent to which current industrial activity remains internationally competitive. As market forces work themselves out resources will be adjusted within industries, in some cases among industries and, in others among different regions of the country. ITC's ongoing programs provide support for these positive adjustments towards greater international competitiveness.

There will be certain situations which pose difficult choices for governments and for management and labour directly involved. Situations of potential "downside" adjustment will continue to pose a particularly difficult dilemma in the presence of modest growth rates.

New approaches to adjustment will need to be explored. These include a larger role for the private sector in absorbing the costs of adjustment (e.g. the negotiation by failing firms of new terms and conditions with bankers, suppliers and unions), removal of barriers that inhibit intersectoral reallocation of productive resources and corporate responsibility for intersectoral shifts of human as well as capital

resources. The department has pioneered some of these approaches in its negotiations with Chrysler and Massey Ferguson and intends to further develop these approaches as resources permit. It is evident from our current experience that the public expects government to ensure that adjustments take place in a way that is fair to all concerned groups: corporations, unions, regions and local communities.

An important new activity of the department is the implementation of the industry portion of a \$350-million fund to assist industries and workers in communities particularly hard hit by adjustment pressures. The purpose of this program is to fund "upside" adjustment opportunities in communities facing "downside" adjustment pressures. Available assistance includes up to 50 per cent funding of capital acquisition and 75 per cent funding of pre-production costs on a repayable basis.

The program is highly selective. Only severely affected communities will be designated for assistance under this special program. The criteria for designation include a statistical trigger (the layoffs from an industry within a community and the percentage it constitutes of local employment) as well as a number of qualitative criteria relating to the nature and duration of the dislocations. To date, four communities have been designated for assistance (Windsor, Ontario; Tracy/Sorel, Quebec; Sept Iles/Port Cartier, Quebec; and Sydney, Nova Scotia).

Over the fiscal years 81/82 through 84/85 \$125 million is to be spent on the industrial adjustment elements of the package. An equal amount is to be disbursed for the labour adjustment components administered by Employment and Immigration. Another \$100 million remains to be allocated for adjustment purposes.

An ongoing program of work will continue throughout 1981 and into 1982 to deal with the problems of the textiles, clothing, footwear and shipbuilding industries. A major portion of this work will focus on the problem of restructuring these industries and identifying alternative employment opportunities in regions where industries are concentrated. An important sub-component of the work is trade related, namely the renegotiation of the Multifibre Agreement and trade restraints with low-cost suppliers of apparel products.

#### v) Technological Innovation

Technological innovation on the one hand, is important for the introduction of new products and therefore, to capturing new markets. Examples of these products from high technological industries like electronics, aerospace and telecommunications are numerous and well known. It is not surprising, therefore, that it is from this perspective that technological innovation is most frequently viewed. Potentially more important to the economy is the second aspect of technological innovation - innovation in production processes.

By far the largest measure of output produced by Canadian manufacturers is from industries which make medium to low technology products. While they may not produce high technology products, if these industries are to continue to compete effectively they will have to employ the most up-to-date production processes and these processes are now increasingly based upon a high degree of technological innovation. Technological innovation is, therefore, a matter of fundamental importance to all industry and not just to the so-called high-technology industries.

This suggests that government support for technological innovation, at least as it applies to industrial development, must be broad enough to cover both new product development and the introduction of new production processes. This should include: support for basic research; support for the application of research and development to new product development (provided this is closely related to market demand); support for the development of new production processes where Canada has or could develop a cost competitive capability; and support to create a greater awareness in industry of the need to introduce new production processes. The government's science policy framework aims, within available resources, to stimulate basic research both in private sector and government institutions. The department's policies and programs are directed at the other three aspects of technological innovation.

The department's principal instruments to encourage technological innovation have been the Enterprise Development Program (EDP) and the Defence Industries Productivity Program (DIPP). The EDP was designed principally for small and medium-sized firms. The DIPP reserves its support for defence-related products and, in effect, is the government's vehicle for support to the aerospace and avionics industries. Both of these have essentially operated in a responsive mode with a set of criteria which, if met, generally resulted in support forthcoming.

The department will significantly modify the approach it takes to support industrial innovation. The responsible approach will continue for the small and medium-sized firm via the EDP while procedural changes to improve the delivery efficiency of the program will be introduced.

Existing programs do not permit significant support for projects that are strategically important for the development of a world-scale Canadian capability in growth sectors. With the high foreign ownership in high technology industries, projects of this type are often carried out in the home country of the firms in question rather than Canada. A new instrument will be required. It would build on the example of the DIPP program in its focus on support for innovation, source establishment and market development but would be more flexible regarding the conditions upon which aid is provided and the forms that assistance might take. A basic concern will be to negotiate assistance to meet particular circumstances and to secure maximum returns for

available program dollars. Pursuit of these objectives would involve active client-government negotiation and ranking of projects by industrial benefits achieved. This greater use of negotiation and ranking of projects is currently being applied to the administration of the DIPP.

In terms of production or work processes, it is clear that microelectronics and microprocessors will play a critical role in the years ahead. Their influence will be particularly strongly felt in computer-aided design and manufacturing, information processing, management and transmission within the office and in telecommunications generally.

In view of this, the department has established a Special Electronics Fund (SEF) with two major sub-elements: a major projects portion which addresses structural changes in the electronics industry proper and which is fully committed to projects at Mitel Ltd. and Sentrol Ltd; and, a microelectronics portion which aims, through support for Centres of Advanced Technology and an Awareness Program, at having microelectronics products and production processes used in all sectors of industry. The Special Electronics Fund is a three-year program with one year left to run. The opportunities it addresses will obviously extend beyond this and additional support for projects of this kind will be required.

#### vi) Tourism

An initiative of the department is the development of a strategy for tourism that addresses the private sector concerns and issues raised in the 1978 Tourism Industry Consultative Task Force exercise.

In particular, four priority items of the Task Force deliberations are highlighted. They are: the need for a National Tourism Plan; definition of roles among respective levels of government and the private sector; improved mechanisms for continuing consultation and co-ordination among government and industry; and a better tourism data base. Government framework policies such as taxation, wage, transportation and development regulations are addressed in the context of the strategy and in ongoing interdepartmental negotiations.

Different thrusts are proposed for each of Canada's major markets. Against the domestic market, the prime source of tourism revenue for Canada, the main issue is to develop an untapped potential by diverting Canadians who possess a high propensity for foreign travel to travel in Canada. Development of weekend tours, more packaged vacations and promotion of off-season travel is envisaged.

In the U.S. market, the largest single source of tourism's foreign exchange, the main issue is to reverse the decline in long-term visitors to Canada that has taken place since 1974. Initiatives include



development of multiple short vacations, experiential travel, increased use of energy efficient mass travel modes and the pursuit of selective key groups such as senior citizens and working women.

Related to offshore markets, continuing growth of these markets, occasioned on the one hand by high inflationary costs and prices in originating countries, and on the other by the depreciated Canadian dollar, presents a positive environment to promote the merits of Canadian tourism destinations. Trade Commissioner Service/Canadian Government Office of Tourism integration will also provide opportunities for developing untapped potential world markets such as South America and Middle East.

High potential special markets such as international meetings, conventions and incentive travel have been identified. These markets relate well to current federal initiatives in the funding of convention centres. The need for Canada to build a reputation as quickly as possible as a destination with world class meeting and convention facilities is seen as essential with respect to the special markets area.

In tourism development, the main issue is to develop high growth opportunity areas regardless of where they are situated. The principal federal government funding vehicle is through DREE, whose mandate is to address regional economic disparities. Federal tourism development expenditures will be directed to national effort to complement DREE initiatives.

Related to financing, the major issue is the accessibility to debt capital for developers and entrepreneurs in the tourism sector. The preponderance of small businesses in tourism, the seasonal aspects in the industry, and the image of tourism as an investment in the eyes of lenders appear to present barriers to capital inflow. The Small Business Financing Review currently underway in the department will assist in ascertaining appropriate policy responses.

Taxation of the tourism industry by all levels of government has been identified by the Tourism Industry Consultative Task Force as a principal concern with the industry perceiving itself as not being treated on an equal footing with manufacturing/processing industries in terms of incentives.

Manpower difficulties experienced in the tourism sector include high job vacancies (sometimes experienced even in those areas with high unemployment); high turnover rates, particularly in rural areas; inadequate training levels of employees and managers; and labour legislation matters related to minimum wage and overtime payments.

Energy pricing and availability will have considerable impact on current and future development, resulting in changing travel patterns, reinforcing trends to single-stop vacations in preference to multi-stop

vacations. This highlights the importance of strategic development for tourism.

Also to be addressed are government regulations which affect tourism both in terms of travel and in facilities development. These include regulations related to transportation, national park development, consumer protection legislation, and development regulations at federal, provincial and municipal levels.

vii) MNE Performance

The performance of large multinational firms has a major impact on the economies of all industrialized countries. In most cases, governments have frequent and continuing contact with these firms as a knowledge and understanding of them is a high priority.

In this connection the department proposes to improve its knowledge of large firms in general and of certain large firms in particular. The proposal could study MNE behaviour and draw on a number of sources, including work underway at leading universities in Canada and the United States. A second initiative which has commenced is a series of special meetings with senior officers of selected large firms and senior officers of the department. Both sides exchange information and views on issues of common concern in order that departmental programs and policies are better informed and in order that large firms have a better understanding of government priorities. Meetings of this kind can go some distance toward a mutual understanding of how large firms' efforts can be consistent with and supportive of Canada's industrial development objectives.

viii) Small Business

All the programs and services of the department are available to and used by small businesses. Nonetheless, the department has recognized that it may not be as easy for small business to avail itself of departmental programs and services as it is for large firms. It is also recognized that small businesses may have special problems that larger firms do not.

There are a number of measures which the department has taken to strengthen its support for small business. Program delivery has been decentralized by establishing and enlarging offices in each of the provinces. In recognition of special problems the department established a Small Business Secretariat to act as a focal point. The Secretariat carries out studies of the special problems confronting small business and acts as an advocate both within the department and government at large to ensure that the impact of government actions on small business is considered.

Special mention is made of efforts to encourage large firms to source in Canada. Collectively, large firms operating in Canada represent a very significant market which is often supplied by traditional suppliers from abroad. Opening this market will provide substantial benefits to smaller Canadian firms. There will be regular meetings with large firms to discuss sources of supply in Canada and to encourage them to use them. As well, an Office of Industrial and Regional Benefits will be established which through contact with managers of large projects and their principal suppliers, will seek to have them direct their purchasing to smaller firms in Canada. It will also seek, where practical, to enhance the capacity of these firms to become cost competitive suppliers.

#### REGIONAL INITIATIVES AND IMPACT

Many ITC activities significantly influence, directly and indirectly, regional economic development and industrial diversification. Some of the most significant departmental activities from a regional perspective do not necessarily involve any direct funding. Examples are export marketing assistance and trade policy initiatives which enhance the capacity of the region to exploit fully the opportunities existing on world markets to develop efficient and internationally competitive industries.

It is worth emphasizing that ITC support for industrial development depends in large part on the existing industrial base, just as the support provided to agriculture and fisheries by the Departments of Fisheries and Oceans, and Agriculture Canada depends upon the location of their activities. Firms in Ontario and Quebec, which have more than 70 per cent of manufacturing enterprises in Canada, receive more than 50 per cent of the value of ITC support for industry. For certain industrial development programs, which by their nature have a very restricted clientele, the share going to firms in these provinces can be much higher. It should be noted however, that these statistics reflect an allocation of project values on the basis of prime contractors' locations. Frequently, portions of these projects are sub-contracted to companies outside the two largest provinces.

One of the shared industrial development objectives of the provinces is that manufacturing should have an important place in their provincial economies. This has been a difficult goal to achieve but there are several factors which suggest that manufacturing growth in the regions is now more promising than in the past. Over the next decade the pace of resource development will provide a powerful stimulus to growth. The general buoyancy of the regional economies could act as a spur to economic activity of all kinds including manufacturing. Moreover, the nature of many of the resource development projects is such that there is a strong possibility they could provide a catalyst to the development of a local manufacturing capability in order to supply them. ITC will facilitate this process through the identification and analysis

of specific opportunities by the Industry Sector Branches and the new Office of Industrial and Regional Benefits, promotion of these opportunities by the Regional Offices, and eventually provision of support through the provincial and central EDP boards.

As noted, another factor working in favour of the growth of secondary industry in the eastern and western regions is the growing cost and scarcity of energy. With higher energy costs other countries may more readily agree that Canadian resources should be further processed and upgraded before export. Should this occur, the regions could be major beneficiaries and have the opportunity to diversify their industrial base by investing in new processing facilities.

With at least moderately strong growth in the regions, there is potential for the development of new manufacturing and processing enterprises and for the expansion of existing firms. The department has taken steps to have a better awareness of, and sensitivity to, regional opportunities. The department has already undertaken a large-scale decentralization of its program delivery and export counselling activities through the expansion of regional offices in the field. In Ottawa, an Office of Regional Affairs has been established to, among other things:

- . advise on the range of regional concerns of significance to the effective discharge of the department's responsibilities and mandate;
- . further assess the regional impact and implications of departmental policies, programs and activities;
- . co-ordinate ongoing work or projects having an important bearing on regional development and industrial diversification goals.

Regional offices will be strengthened further to improve their support for provincial industrial development opportunities and their reporting on the industrial development objectives, priorities and concerns of provincial governments.

One of the more important departmental initiatives for the eastern and western regions is the previously mentioned Office of Industrial and Regional Benefits from major capital projects.

Sectoral strengths in the Atlantic region include ocean industries, energy support, forest products, fisheries and tourism. Policy initiatives underway in the department for these sectors include Industrial Benefits, the Small Business Intern Program, and Tourism Development. There will be continued support for traditional areas of strength including forest products and the fisheries; the promotion of

world-scale plants in emerging new areas related to energy; and, encouragement of specialization in certain other high technology and energy equipment supply manufacturing sectors.

Given the relative decline of the Montreal economy and the extent to which manufacturing activity in Quebec is concentrated in textiles and clothing, the overall objective for this region will be continued diversification of the manufacturing base, adjustment and modernization assistance for traditional industries and the development of high technology expertise. Sectors of departmental policy focus in Quebec include: consulting engineering, ground transportation, aerospace, electronics, electrical products, forest industries, leather, textiles, knitting and clothing, and shipbuilding. Policy initiatives will include enhanced growth of high technology products, in particular aerospace and electronics, export assistance and domestic sourcing; modernization assistance for electrical products and forest products and adjustment assistance for leather, textiles, knitting, clothing and shipbuilding.

In Ontario automotive parts and assembly, aerospace, electronics, machinery, heavy electrical equipment and the traditional industries will continue to be the focus of departmental policy development. Policy initiatives for automotive parts and assembly will include innovation assistance and community based industrial adjustments. For aerospace and electronics traditional funding is available. Policy initiatives for machinery and heavy electrical equipment will include modernization assistance. Attention will be given to the application of computer assisted design and manufacturing to increase productivity across a number of industrial sectors. Adjustment assistance will be the focus for the traditional sectors. As with Quebec, the objective will be to further diversify Ontario's manufacturing base. At the same time however, an important goal will be to improve the automobile parts and assembly industries' competitive position. Another goal is more autonomy for Canadian subsidiaries.

Sectors of departmental policy focus in Western Canada include energy support, engineering consulting and construction services, fibre optics, transportation equipment and resource industries including petrochemicals. Policy instruments under development that will impact on these sectors include industrial benefits initiatives, measures underway in conjunction with the National Energy Program, and initiatives directed at further processing. The overall objectives for Western Canada are the strengthening of manufacturing activities based on energy and resource sectors and the establishment of high technology industries such as fibre optics.

### Conclusion

The new initiatives that have been described in the foregoing sections of the overview aggregate to major changes for the Department of

Industry, Trade and Commerce. Many of the initiatives will require new resources, others redeployment of existing resources. The department has been successful in having new funds allocated in the economic development envelope, and is requesting a significant number of new person years from Treasury Board. However ITC is unlikely to get all of the resources it is requesting because of the government's commitment to restrain the growth of the Public Service. The combination of a large number of worthwhile new initiatives to implement and resource constraints presents an exciting challenge for ITC's employees and management team. Meeting the challenge will involve the management team in getting more out of the resources available and each employee contributing his or her best.

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