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Canada

**STRATEGIC OVERVIEW FOR THE
DEPARTMENT OF REGIONAL
INDUSTRIAL EXPANSION
1984/85 TO 1987/88**



Government
of Canada

Industry, Trade
and Commerce

and Regional
Economic Expansion

Gouvernement
du Canada

Industrie
et Commerce

et Expansion
économique régionale

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STRATEGIC OVERVIEW

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FOREWORD

This is the second Strategic Overview prepared for the Department of Regional Industrial Expansion. In last year's Strategic Overview the future direction of DRIE was set out in response to Canada's national economic development priorities. Since the preparation of that Strategic Overview a year has elapsed and much experience has been gained in the realization of these priorities. A new administration and management structure have been put in place and a new program framework has been developed.

A strategic planning process has also been instituted to serve as the basis for defining the strategic program of action for the department. Integral to this planning process is the development of a series of planning documents, culminating in the preparation of the department's Strategic Overview. Among the key documents are the Regional Industrial Development Frameworks (RIDFs) prepared for each province and the territories, a National Departmental Strategic Framework which is a summary and compilation of the findings of the RIDFs, material prepared in connection with the "operational planning" process and inputs from sector branches and other functional areas of the Department.

This year's DRIE Strategic Overview has been tailored along the lines suggested by MSERD. A comparison of the economic development opportunities identified in MSERD's Economic Development Perspectives and the opportunities identified by the work in support of the preparation of this Strategic Overview indicates a high degree of consistency, with only the degree of emphasis attached to the various factors underpinning the likelihood of these opportunities being realized varying somewhat.

DRIE STRATEGIC OVERVIEW
FOR 1984/85 TO 1987/88

I OUTLOOK

The severity and duration of the recession in 1982 were more pronounced than many forecasters had anticipated. Only recently a fairly rosy picture was being painted for Canada's economic prospects in the 1980s based on resource and energy developments. The recession, however, and more recently the downward adjustment in world oil prices, have delayed the realization of a resource-led development scenario by at least a few years and have resulted in a rethinking of Canada's medium-term prospects.

National

The current view is that Canada will realize only moderate real growth through to 1987-1988 (in the 3 per cent per annum range with growth in the early stages of the recovery below this average and above it in the latter stages). This real growth will be combined with lower levels of inflation but relatively high unemployment rates. A major factor that will likely moderate the strength of the recovery is expected high real interest rates in both Canada and the United States associated with the large U.S. government deficit. This represents a slightly more pessimistic view of the world than that recently presented by the Department of Finance. The Department of Finance forecast assumes real interest rates following 1983 in the 2.5 to 3 per cent range, more in keeping with historical norms.

Low levels of capacity utilization, weak balance sheets, and high real interest rates will dampen business investment, at least for the first half of the decade. While residential construction should show strength in the early stages of the recovery, in the latter stages it will likely settle down to more moderate levels associated with lower rates of population growth and household formation. Purchases of durable goods will lead consumer expenditures over the medium-term as demand is realized which was pent-up by depressed real incomes, uncertainty regarding job security, high savings rates and high financing charges. Consumer expenditures in general will likely benefit from recent declines in oil prices. As has been the case in past recoveries, exports will provide an added stimulus to growth. Over the medium-term, however, export growth may not match advances in imports. Recent record surpluses in Canada's merchandise account owe more to the depressing effects of the relatively more severe recession in Canada on imports

than to superior export performance. At the same time, Canada's exports have held up better during the recession than those of many other industrialized countries.

Canada's trade prospects will depend in large measure on the pace of recovery in OECD countries, especially the U.S., and on Canadian industry's ability to penetrate the faster growing markets of the Middle East and the middle income countries of the Pacific Rim. With slower overall growth rates expected in all countries, however, competition will be fierce, and penetrating these markets may prove difficult. A potential area of opportunity for industrialized countries such as Canada is the exploitation of new, capital-intensive, high-technology production processes which will reduce the relative cost advantages of low-wage developing countries in the production of various manufactured goods and the development of new, high-technology products. Many of these products will be the capital goods required for the high-technology production processes. Selectivity should be the watch word, however, in that all industrialized countries are looking to this area as a potential source of growth. In realizing these opportunities Canadian industry will have to build on its comparative strengths. As well, Canada will have to be sensitive to the new waves of protectionism that will be reinforced by structural adjustment problems and high levels of unemployment in developed countries (including the U.S.) which account for some 85 per cent of Canada's trade.

Regional

With regard to growth prospects (as distinct from average per capita output levels where the Atlantic provinces, Quebec and Manitoba still lag behind the rest of Canada), the same comments that apply to Canada as a whole, apply to each of its regions. The one exception may be the Atlantic region. While growth in the Atlantic provinces will continue to be driven in large measure by the more traditional pursuits of tourism, forestry, fishing and other resource related activities, offshore energy developments could result in above average economic growth for the remainder of the decade. Nova Scotia, in particular, and Newfoundland stand to gain from these developments. For these prospects to be realized, however, it is critical that the commercial development of the Hibernia and Venture Fields proceed during the next few years. Should U.S. natural gas policy or the current instability in world oil prices delay either project, growth prospects for both provinces would be severely affected. In view of their size and complexity, the gestation period of these projects will at minimum be several years. New Brunswick could also experience above-average growth with mining and gas distribution being the main areas of strength. Once again, however, energy prices put these prospects at risk. Prospects for Prince Edward Island, the only province in the region that is not well positioned to benefit from energy developments, are for output growth at about the national average despite an above-average performance during the recession.

Over the medium-term Quebec is forecast to realize the poorest performance. It is the province that has been most affected by the recession and that has the weakest growth prospects for the recovery

period. One thing that Quebec has which may lead to additional industrial development is abundant hydro-electric power. If the recovery does result in an increased demand for energy-intensive products, Quebec would be well positioned to benefit from such a development. The possibility of increased activity in the machinery and aerospace sectors may also spur additional growth. Compared to Quebec the outlook for Ontario is somewhat better. At the same time, both Ontario and Quebec face major adjustment problems. The possibility of lower oil prices over the medium-term would tend to benefit net consuming provinces such as Ontario and Quebec.

While Manitoba's large service sector and, to a lesser extent, its agricultural sector, softened the recession's impact, these same two sectors will also moderate Manitoba's medium-term growth prospects, holding it to something less than the forecast national average, in spite of strong growth rates being forecast for a number of manufacturing industries. In Saskatchewan, the agricultural sector also cushioned the impact of the recession and it will have a moderating influence on the province's growth prospects for the medium-term. However, growth is forecast to be somewhat more robust in Saskatchewan and should run at about the national average rate. While the manufacturing and primary resource sectors in Saskatchewan suffered as a result of the recession, strong growth rates are now forecast for a number of manufacturing industries, construction and certain resource sectors. The medium-term prospects for Alberta and British Columbia are for above-average growth. In Alberta, the development of a natural gas based petrochemical industry is a key factor that may well be delayed in a world of falling oil prices. The failure to bring shut-in natural gas reserves on stream could also have a dampening effect on the Alberta economy. In British Columbia the recovery will depend to a large extent on a rebounding U.S. housing market, which will be tied closely to the level of real interest rates, and a resurgence in mining activity and in tourism.

While better than for Quebec and Ontario, growth prospects for the Yukon and the Northwest Territories are below the national average. The overall level of economic activity in the Yukon will be very sensitive to demand for metals. Growth prospects for the Northwest Territories, with its somewhat more diversified economic base, will be less sensitive to fluctuations in metal demand, but oil and gas development will play a more important role. However, the stabilizing influence of oil and gas development on the Northwest Territories economy will depend largely on world oil price levels that are supportive of frontier activity.

II ISSUES, PRIORITIES AND INITIATIVES

The activities of DRIE, during the planning period under review, will be driven to a large extent by the economic realities just described. DRIE's mandate is to increase the economic prosperity of Canadians by promoting productive investments to achieve industrial development and renewal in all regions, recognizing of course the diverse nature of provincial and the territories economies. The overall priority of DRIE will be to create viable, long-term employment opportunities. In last year's DRIE Strategic Overview it was noted that, if the unemployment

rate was to be reduced to the 6 per cent range by 1986, 1.7 million jobs would have had to be created between 1981 and 1986. The absolute decline in employment in 1982 means that this target is now closer to 2 million jobs. For this target to be met over 250 000 jobs will have to be created in both the manufacturing and the retail and wholesale service sectors. The types of jobs created will require a different mix of skills as a result of the technological changes taking place on both the shop floor and in the front office. In addition, the further development of Canada's tourism industry will have to be counted on to generate additional employment opportunities, especially for the lesser skilled members of the labour force.

DRIE activity therefore will focus on: stimulating innovation and productivity improvement; encouraging the establishment, modernization, and expansion of production facilities; promoting the development of domestic sourcing to realize Canadian and international market opportunities; supporting industrial renewal; realizing industrial benefits from major projects; and fostering a supportive climate for innovation, job creation and entrepreneurship. These goals will be pursued not only through funded program activity, but also through ongoing information, intelligence, consultation and policy activities and in concert with other federal government departments and agencies. Together, DRIE and the FBDB will be the government's principal instruments of direct assistance to manufacturers, processors, the service industries, small business and tourism, which together account for about 90 per cent of total business activity.

Strategic Approach

To realize these goals and objectives DRIE will employ a strategic approach incorporating a number of operating imperatives. A first order of priority will be to establish a positive climate conducive to entrepreneurship and the revitalization of Canadian industry. This will involve work at the general and structural policy levels to ensure a stable and positive investment climate conducive to business activity. DRIE will work to ensure that the policies and programs of other federal government departments and agencies are also supportive of a positive business climate. Intelligence activity, both within Canada and abroad, and consultation with private industry will be pursued to achieve a better understanding of the future prospects of Canadian industry and to advance policy objectives to better realize these opportunities.

It is recognized that the private sector response to market forces must be the main engine of economic growth and regional development and that government can play only a facilitating role. DRIE activities will be supportive of private sector initiatives taking into account regional industrial development priorities. The DRIE approach will be based on a recognition of substantial inter-regional differences. Policy and program activity will be designed to facilitate industrial development and renewal in accordance with identified needs in all regions, but particular attention will be focussed on the Atlantic provinces, Quebec, and Manitoba so as to improve regional economic balance. Much of this work will be carried out by staff in the field who will be sensitive to local concerns and aspirations. Support will be provided for

initiatives in each region where government involvement is likely to have the greatest impact and yield the maximum return on resources, aimed at industries and activities in accordance with strategic objectives, within funding envelopes assigned by region and recognizing the industry mix and stage of corporate and product development. Sector branches within the DRIE organization will be responsible for ensuring on the one hand that the business community fully understands government policy priorities and objectives, and on the other that government decisions are taken in full awareness of their impact on the corporate sector.

Major Priorities and Initiatives

The following priority areas, taken together, will constitute a comprehensive industrial and regional development and renewal thrust for DRIE. DRIE will address each of these priorities by undertaking specific policy and program initiatives to stimulate demand through ensuring market access and to enhance the supply capabilities of Canadian industry.

Consultative Activities. As a general basis for decision-making, the department's operations will be characterized by timely and substantive consultation with provincial governments and business and labour leadership in each region and nationally. The Minister of DRIE and departmental officials will consult with interested groups including regional ministers, business and labour, and provincial governments. Timely private sector consultations will help anticipate market developments and provide a measure of market discipline. The government will single out certain sectors for priority attention. Sectoral policy consultative committees with business and labour involvement will help formulate and review sector policies for subsequent consideration by economic development ministers. To date committees have been established for the aerospace, automotive, forest products and petrochemicals sectors.

Innovation and Productivity Improvement. Increased investment in productivity improvement and innovative products, production processes, and services including tourism, will be required to meet intensifying competition from developing and industrialized countries. Many companies, and in particular smaller firms, will require government assistance to make the necessary investments, given relatively high interest rates and weak financial positions. To a large extent, the rate of productivity improvement and technological advance will be the key determinants of the ability of the economy to create and sustain quality employment in the medium to longer-term.

The benefits to be realized from new technological developments will have to be linked to Canada's natural, geographical and human resource endowment in each region. There will be opportunities for many of these developments throughout Canada. Opportunities for the application of CAD/CAM processes, for example, will be available in virtually every region of the country. There will be opportunities for innovation and productivity improvements in tourism and the service sector in every province and the territories. Other areas offering scope for new

applications of advanced technology and innovation and productivity improvement include biotechnology and microelectronics and the field that has come to be known as the information economy.

But while these development opportunities may be more broadly based across the country, other developments may be more likely to take place in particular regions. In the Atlantic provinces, for example, energy and ocean industries will be a source of growth and will help to reduce the dependence of local industries such as metal fabricating, shipbuilding and rail equipment on more traditional areas of production. The application of new technologies in the harvesting and processing of the region's forestry resource will also offer opportunities for industrial development. In Quebec, possible opportunities for innovation are in the areas of urban transit, aerospace and office technology. Resource machinery, telecommunications, office equipment, urban transit and advances in materials, particularly with respect to auto parts, are at the forefront of innovative developments in Ontario. Many of the technological initiatives in Quebec and Ontario also represent significant development opportunities for Manitoba's diverse manufacturing sector. In addition, veterinary technology, food products technology, oil exploration equipment processes, electronics and communication equipment, and fibre optics have generated new opportunities in the Prairie provinces. Advanced applications of technology in the harvesting and processing of forest products, and new developments in fishing and ocean industries hold out prospects for enhancing productivity in British Columbia in addition to developments in tourism, mining, urban transit, oil and gas exploration equipment processes, resource machinery, shipbuilding, maintenance and repair and food processing. But while there is a diversity of opportunities across the country, trade-offs will be required and difficult choices may have to be made.

In response to these opportunities, the financial programs of DRIE will be rigorously promoted to encourage innovation and productivity improvement. DRIE will assist in the operation and establishment of centres and institutes which provide specialized services to innovating firms including industrial research institutes, centres of advanced technology and microelectronics centres. The work of the Aerospace Task Force and the Forest Industry Advisory Committee will be heavily focussed on R&D and innovation and a high priority will be placed on this activity by all of DRIE's sector branches. A major component of sector branch activity will be to facilitate the innovation process in its various aspects including the identification of market opportunities, promoting the development or transfer of technology, facilitating manufacturing start-up and marketing.

In addition, DRIE will develop and implement "A Strategic Approach to Innovation and Productivity Improvement". A first priority will be a proactive identification of innovation opportunities based on better regional/sectoral intelligence to be followed by a more efficient and more focussed use of financial support programs to realize these opportunities. Another objective of the strategy will be to develop better links between the producers of advanced technology goods and

those industries which will be potential users including the more traditional industries and the service sector. Based on its regional industrial analysis and information activities in all regions, DRIE is well positioned to initiate and co-ordinate activities in the area of R&D and technological innovation directly related to the commercial exploitation of market opportunities. Major efforts in this area will include building more effective links with the activities and programs of R&D and science-oriented departments, provincial governments and universities, development of co-operative approaches between labour and management through the creation of a National Centre for Productivity and Employment Growth as detailed in the budget, and enhancement of public awareness of the innovation process through a number of measures including a National Productivity Conference in November 1983.

Market Development. Regardless of its quality or how technically exacting it is, unless a product can be successfully marketed, its development and production will not result in economic gain. Considerable attention has been and will continue to be focussed by government on marketing Canadian products both at home and abroad. With the recession and stiffer trade competition, and in some cases mounting protectionist tendencies, it is becoming more and more difficult for Canadian firms to break into foreign markets. With record high levels of unemployment in Canada, it is therefore more critical than ever that government does everything it can to help Canadian firms expand export sales and develop new markets at home. During the planning period under review DRIE will focus particular attention on export market development in close association with the Department of External Affairs, and on domestic marketing, using its leverage wherever possible to influence the purchasing policies of industries, institutions and individual consumers. Industrial co-operation activities will focus on technology transfer from abroad to meet Canadian production gaps, and on facilitating co-operation between Canadian companies to better serve the Canadian market.

Domestic and export market development will embrace almost the entire array of departmental activity, a major facet being the ongoing intelligence and analysis activities of the industry sector branches and the regional offices. DRIE activity will be directed at aiding the private sector to market products where Canada has a competitive advantage. DRIE will be coming forward with proposals to substantially enhance its domestic marketing including strengthening its import analysis activities and further developing the Business Opportunities Sourcing System. DRIE will examine the feasibility of bilateral arrangements with the United States aimed at facilitating trade on a sectoral basis and at increasing exports to third countries in co-operation with the U.S. Work will also be initiated to explore the feasibility of a program of financial assistance for domestic marketing. With regard to government and institutional markets, DRIE will work with DSS, other federal departments and provincial governments in the formulation of procurement policies and programs to further regional industrial development and the domestic sourcing of goods and services. With respect to major projects, the Office of Industrial and Regional Benefits will work to provide Canadian suppliers with long-range information on the projected requirements of major resource and

development projects, and to ensure that Canadian firms get fair and competitive access as suppliers to these projects.

In the area of tourism, DRIE's goal will be to enhance Canada's market share in each of its principal markets. This will be accomplished through a number of initiatives including: improved data and analysis; improved productivity of tourism operations; improved quality, quantity and variety of facilities and services; and improved market intelligence and targetting. Tourism subsidiary agreements are being proposed for a number of provinces including Newfoundland, Ontario and Manitoba.

Small Business. Small business represents a significant force in the Canadian economy accounting for 42 per cent of business employment. The service industries and tourism in particular are dominated by small businesses. They play a particularly important role in generating economic activity outside of the manufacturing belt of central Canada. In recognition of this special role, DRIE will bring forward a new planning framework for the small business sector in Canada. This "Small Business Strategy" will outline medium-term objectives to be addressed by the federal government and will seek to enrich the contribution of small firms in the development of the Canadian economy. It will address the management, information and financing needs of small companies. These measures will build on the enhanced regional capability of the department and will complement other initiatives such as the recently announced future role of the Federal Business Development Bank.

Industrial Renewal. A continuing priority will be the need to promote adjustment and renewal. In a market economy such as Canada's it is critical for growth and development that productive resources be allocated to their most efficient use. In response to changing tastes and production technologies this means that there must be a constant movement of resources from lower to higher productivity applications. This re-allocation of resources usually takes place in the normal course of business with a minimum of disruption. In some cases, however, the impact of adjustment may be very sudden or pervasive, or be borne inequitably by certain groups in society, resulting in an outcome that is unacceptable. In these situations government intervention is necessary to smooth the adjustment process.

The most pervasive adjustment problem continues to be in the province of Quebec. Opportunities for shifting resources into more competitive applications will be frustrated by the poor prospects for economic growth in Quebec as detailed in the first section of this Overview. At the same time, Quebec has a highly skilled and highly trained work force. DRIE will continue to provide ongoing support to help firms in Quebec to adjust. Currently, many firms in Ontario southwest of Toronto appear to be experiencing structural difficulties. These firms are concentrated in a number of industries including motor vehicles and parts, electrical appliances, agricultural machinery and petrochemicals. DRIE will examine the need for special measures to help firms in these industries to adjust. Consideration will be given to an Industrial Renewal Sub-Agreement for the province of Ontario.

In the Atlantic provinces special attention will have to be focussed on the fish processing industry and on the steel industry in Cape Breton, on the pulp and paper industry and shipbuilding. While the question of adjustment and renewal is not nearly as pressing in Western Canada, specific situations may arise which will require attention. Several single industry communities relying on mineral or forestry-based activities may find themselves in difficulty and will require DRIE support.

During the upcoming planning period DRIE will initiate a critical review of the industrial adjustment experience of the last few years, including but not limited to CIRB and ILAP. Building on this evaluation and taking into account both regional and sectoral circumstances, DRIE will formulate policy priorities and directions for subsequent adjustment/renewal initiatives.

Program Initiatives

Stimulating investment to enhance productivity and the international competitiveness of Canadian industry will be critical to generating employment and achieving sustained recovery from the current recession. DRIE financial programs will make a significant contribution towards this objective. To achieve even a modest economic recovery, it is forecast that the level of annual investment will have to increase at a rate of 4-6 per cent in real terms between 1984 and 1990, which is significantly above current projected rates of increase.

Industrial and Regional Development Program. To enhance the flexibility, effectiveness and regional sensitivity of programs, most of the major programs of DREE/ITC will be replaced with the new Industrial and Regional Development Program (IRDP). This program will respond to economic development priorities established by the government without creating additional new programs or perpetuating less relevant ones. The IRDP will provide support to viable projects at various stages of the innovation/development process according to business needs, from inception of an idea through to innovation, plant establishment, modernization, productivity improvement, expansion, marketing and industrial renewal. Where appropriate, support will also be available under the program for infrastructure including industrial parks, business or technology institutes, and planning studies.

The IRDP will be a national program in line with industrial development priorities and industrial adjustment requirements across Canada, serving the needs of business in all regions. Certain elements of program assistance, plant establishment for example, will be restricted to harder pressed regions of the country, identified by means of a development index based on certain measures of economic disparity. In addition, higher levels of assistance across the range of program elements will be available in these regions.

In addition to regional designation, the IRDP will be different from existing programs in several other aspects. It will be based on a philosophy of selectivity and "value for money" to reduce the tendency of some sectors and companies to develop a dependence on program

assistance. Projects will be subject to prioritization and negotiation. A targetted and proactive approach is envisaged, linked to the strategic planning process of the department and government. Flexibility will be built into program criteria with control through strategic planning, budgeting and clear lines of accountability. The program therefore will be responsive to changing government priorities.

Other DRIE Programs. Due to their unique nature, not all DREE/ITC programs will be subsumed by IRDP. The Small Businesses Loans Act, Credit Reinsurance Program and various duty remission programs are most effectively delivered as separate programs. Special ARDA serves a separate clientele with distinct needs and, as such, it will remain a separate program. While consideration was given to subsuming the Defence Industry Productivity Program (DIPP) into IRDP, the close linkages to the Defence Production and Development Sharing Arrangements with Canada's NATO allies, and the milieu of competitive international subsidies to the defence and defence-related industries dictate that DIPP remain as a separate program.

In addition, DRIE will co-ordinate its programs with projects made possible through the \$345 million Native Economic Development Fund (intended largely to support viable commercial projects for people of native ancestry) and will avail itself of the \$75 million Transportation Industrial Development Program (intended to provide assistance to industries in Western Canada to adjust to new opportunities and circumstances resulting from changes in the Crow's Nest Pass freight rates). DRIE will also continue to manage a number of existing subsidiary agreements and will propose additional agreements to realize specific industrial development objectives. Tourism and small business will likely be candidates for such treatment in several provinces. In addition, sub-agreements are being contemplated for ocean industries development and shipyard modernization, fisheries and pulp and paper modernization, in support of a number of specific industrial initiatives (aerospace, petrochemicals) and of various marketing thrusts.

Revised Role for FBDB. While not formally a part of DRIE, the Federal Business Development Bank is part of the larger ministry and in its own right plays an important industrial development role, especially as pertains to small business. As a result of a recent cabinet decision on its future role and financing, the FBDB will be continuing its traditional supplemental term lending role with particular emphasis on servicing businesses in non-metropolitan and rural areas. In addition, it will carry out an expanded and improved management services role, including management training and a new client services function which will provide financial and planning advice to small businesses. The bank will also progressively develop an investment banking operation to more adequately address the equity and related requirements of small and medium-sized businesses in Canada.

Major Investment Initiatives

To help speed the realization of major private investment projects with special national, regional or sectoral importance, a \$300 million Special Recovery Investment Fund was announced in the budget on April 19. This fund, to be administered by DRIE, will allow the minister to deploy financial resources across the full range of the department's programs. It will facilitate government financing of larger projects which has sometimes been difficult from a cash management point of view. The department will also be delivering a number of initiatives under the Special Recovery Capital Projects Fund announced in the budget. Two of these are the Pulp and Paper Research Institute of Canada's new facilities in British Columbia and the refurbishing of their Quebec facilities and the Fluid Bed Minerals Research facility in Chatham, New Brunswick. These special projects reflect efforts to achieve innovation through research and development in two areas of traditional strength in resources.

While the Special Recovery Investment Fund has yet to be deployed, there are a number of areas which could benefit from additional government support. A number of opportunities for major investment initiatives have been identified in the aerospace field. Building on the industry's specialized capabilities for research, development, production, marketing and repair and overhaul of aircraft and aero-engines, major projects could include: the establishment of a helicopter manufacturing capability; participation in a 150-seat passenger aircraft development; transport aircraft development employing de Havilland's Augmentor Wing technology; and Canadair reconnaissance drone systems - the CL289 and the CL227. The Minister's Advisory Group on Aerospace has been asked to recommend priorities and evaluation criteria for projects to further develop the aerospace industry. Major programs and opportunities will be viewed against these recommendations, which are due to be submitted in the near future. As well, the Petrochemicals Advisory Committee may put forward recommendations which may entail a major restructuring of the Canadian industry.

In the electronics area, projects in high-speed integrated circuits and mission avionics systems are under investigation. The pursuit of opportunities related to machinery and electrical equipment will include development of advance hydraulic turbines, the establishment of new manufacturing capability in gas turbines and generators, as well as initiatives supporting further rationalization and modernization in the farm machinery and material handling sectors. The need to rationalize and diversify the shipbuilding industry could result in a series of investment initiatives being brought forward, including covered dry docks, heavier weight crange, and the expansion or relocation of present facilities.

III MANAGING THE PROCESS

DRIE Organization and Management

The reorganization of economic departments announced by the Prime Minister on January 12, 1982, has provided an opportunity for significant economies and efficiencies to be realized in the development of industrial policy and the delivery of government regional industrial programs. A major concern in establishing the new Department of Regional Industrial Expansion has been to ensure as efficient an organization and program structure as possible while realizing the government goals of national economic growth and reduced regional disparities. With this end in mind particular attention has been devoted to improving the efficiency with which program support for smaller projects is delivered and to improving the effectiveness of larger support packages, all the while keeping in mind the need to improve service to the public.

A deconcentrated department will implement national policies and programs on a regional basis under ministerial direction, prioritization and control. A broader range of policy and program activities will be carried out in the regional offices to ensure sensitivity to regional issues and effective delivery. To speed program delivery, approval authority for many smaller projects will be delegated to regional executive directors. The new Industrial and Regional Development Program will reduce the duplication and overlap that exist under current programming, and will fill program gaps that have been identified (in the area of innovation and productivity improvement and marketing assistance).

With regard to human resources DRIE has undertaken to reduce its staff utilization by some 155 person years by the end of 1983-84, net of the PFRA and Grains Group, and the resources transferred to External Affairs and to other federal departments associated with sectoral subsidiary agreements. To reflect the deconcentrated nature of DRIE, the headquarters staff will be smaller than that of the combined predecessor departments.

For fiscal 1983-84, the budgets of DREE/ITC will exceed \$1.4 billion. These monies will be spent delivering a multiplicity of programs. The resources to be allocated to DRIE in the future should provide a framework for long-term planning and permit the initiation, negotiation and administration of multi-year projects. This needed stability in program funding is accentuated by the reductions from DREE's budgetary allocations, previously dedicated to sub-agreement programming, of monies to finance the Regional Fund. The realization of the government's commitment to regional industrial development will depend, in part, on adequate funding. Otherwise, attractive investment

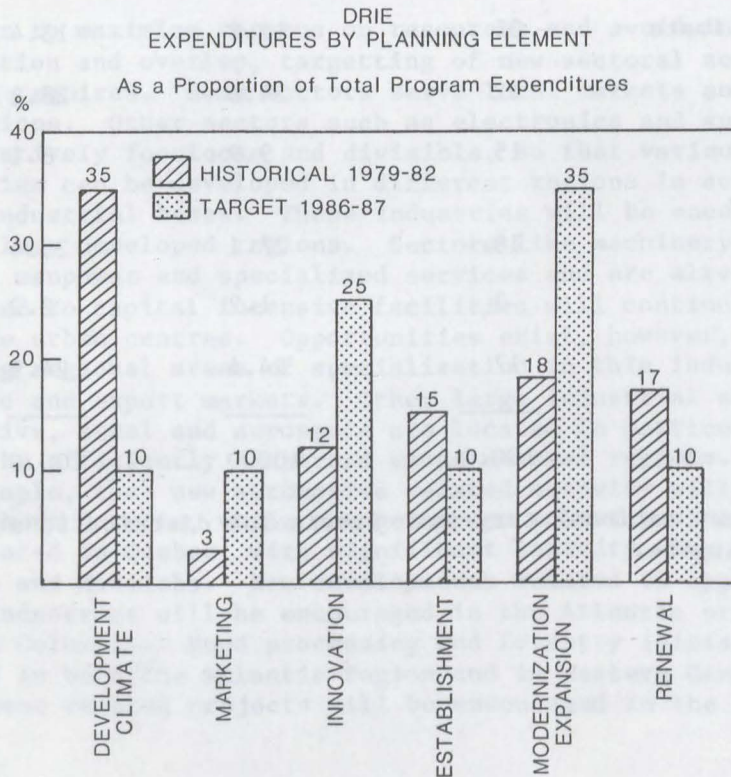
opportunities will be foregone. Proposed reference levels for DRIE for the next three fiscal years are as follows:

1983-84	\$1.4 billion
1984-85	\$1.6 billion
1985-86	\$1.4 billion

Industrial Development Targets

A "portfolio management" approach will be used to target and control departmental initiatives and, in particular, program expenditures against departmental objectives and priorities. National budgets have been established for each province by planning element, the latter corresponding to different categories of program assistance. These portfolio targets are regionally sensitive and consistent with the department's overall priorities and objectives. The planning elements represent the various phases of the corporate development process. An objective is to provide a reasonable balance between the various initiatives which can be supported under each component of the development process.

DRIE has recently completed the initial round of its operational planning process, with national targets for program expenditures having been established for program elements to 1986-87 as set out in the following chart:



The portfolio targets reflect the department's intention, in accordance with government regional industrial development priorities, to shift program expenditures away from general infrastructure development and more in the direction of market development, innovation, expansion and modernization. Because of current low levels of capacity utilization, it is expected that expenditures on plant establishment will likely be lower than historical norms would suggest. It is also expected that, as the economy recovers, expenditures on industrial renewal will be proportionately lower.

In the context of work undertaken in connection with the preparation of this Strategic Overview these industrial development targets have been re-examined and advanced one year (to 1987-88). Generally, the direction of the targets is seen to be appropriate. However, a number of modest adjustments to the targets may be called for, as set out in the following table:

**PROGRAM EXPENDITURES
BY PLANNING ELEMENT**

<u>Planning Element</u>	<u>Average 79/82 Cash Flow</u>	<u>83/84 Distribution</u>	<u>84/85 Distribution</u>	<u>87/88 Target</u>
- percentage distribution* -				
1. Development Climate	35	12.8	13.4	10
2. Innovation	12	24.6	28.2	30
3. Establishment	15	9.9	8.1	10
4. Modernization/ Expansion	18	27.1	23.4	30
5. Marketing	3	1.2	2.0	10
6. Renewal	17	24.4	24.9	10
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	100.0	100.0	100.0	100.0

* Figures represent national targets. Provincial distributions may vary around these targets.

As corporate balance sheets and capacity utilization rates improve, a higher proportion of corporate funds will be devoted to R&D, innovation and new capital facilities and relatively less funds will be allocated to expansion and upgrading of plant and equipment and corporate rescues. This will require a corresponding adjustment in the amount of funding devoted in support of these activities.

While the target for the renewal planning element remains unchanged relative to 1986/87, it may be difficult for the department to reduce renewal expenditures to 10 per cent of the budget by 1987/88 as one quarter of the department's budget is tentatively allocated to renewal for 1983/84 and 1984/85. Renewal expenditures will decrease, of course, as the economic recovery takes place. There is a danger, however, that the large expenditures under this category may become institutionalized. Therefore, the 10 per cent target remains unchanged from 1986/87 in light of the objective to reallocate expenditures to more productive areas as the need for corporate adjustment subsidies.

During the planning period under review DRIE will be placing top priority on domestic market development. Much of this activity will be of a non-financial program nature, including intelligence and the provision of information, the work of the Office of Industrial and Regional Benefits and import analysis. Given that currently there is no domestic marketing financial support program, the expenditure target of 10 per cent for this planning element may therefore be difficult to realize.

In order to maximize returns on resources and avoid inefficient duplication and overlap, targetting of new sectoral activity by region will be required. Some sectors serve local markets and are located in all regions. Other sectors such as electronics and specialized services are relatively footloose and divisible, so that various segments of such industries can be developed in different regions in accordance with local industrial bases. These industries will be encouraged to locate in the less developed regions. Sectors like machinery which require skilled manpower and specialized services and are already heavily committed to capital intensive facilities will continue to locate mainly in large urban centres. Opportunities exist, however, to build on existing regional areas of specialization in this industry to serve both domestic and export markets. Other large industrial sectors such as automotive, steel and aerospace are located in particular regions and cannot be efficiently dispersed among several regions. It is likely, for example, that new automotive related activity will remain focussed in southern Ontario, while new aerospace activity will be most strongly represented in Quebec, with significant activity also occurring in Ontario and Manitoba. New developments related to opportunities in ocean industries will be encouraged in the Atlantic provinces and in British Columbia. Food processing and forestry initiatives will be pursued in both the Atlantic region and in Western Canada. Crow adjustment related projects will be encouraged in the Prairie provinces.

Sectors singled out for priority attention are generally those facing a situation of intense or sudden transition, whether it be downside adjustment, major potential opportunity, or some combination of the two. In this regard, the automotive, aerospace, petrochemicals and forest products sectors have been identified and consultative committees will be reporting this year. While the "downside" situations tend to identify themselves, the notion of identifying opportunity areas for priority attention remains problematic. Given the intense competition in these areas from other industrialized countries, the key is to identify areas where Canada has some natural advantage due to its resource endowment (physical, capital or human) or geographic features - large distances, cold climate, rugged terrain, long seacoasts, sparse population, etc. Priority candidates are transportation equipment, electronics, telecommunications, Arctic marine and cold weather equipment, resource extraction machinery, biotechnology, and industries related to electrical energy. DRIE is undertaking an extensive program of industrial and corporate analysis to improve its ability to identify such opportunities and influence large corporations in realizing them.

It is recognized that not all of Canada's provinces and regions will be able or should meet the national program targets just defined. Indeed, whatever approach to industrial development in Canada is adopted, it must be sufficiently flexible to address the particular needs of individual regions. For example, the Atlantic provinces, Manitoba, Saskatchewan and the Yukon/NWT will likely continue to give development climate a higher priority than Ontario which has a more sophisticated infrastructure base. On the other hand, the Atlantic provinces, the Yukon/NWT and perhaps Manitoba will not be able to spend one-quarter of their program budgets on R&D/innovation, whereas more than this amount may be spent in Quebec, Ontario, Alberta and British Columbia.

Structural factors in all the regions of Canada will influence the medium-term targets of each region. These structural factors include the heavy resource orientation of the industrial sector in areas away from Central Canada, the relatively mature state of manufacturing capacity in Central and Eastern Canada, and the major role of such sectors as textiles, clothing and footwear in Quebec, Manitoba and Eastern Ontario.

Renewal requirements are unique to certain specific regions of Canada (e.g. Quebec, the area southwest of Toronto in Ontario, Cape Breton in Nova Scotia and single industry communities in the West). Some provinces (e.g. Saskatchewan, Alberta and Prince Edward Island) will likely spend minimal program funds supporting industrial renewal whereas Ontario, Quebec and certain of the Atlantic provinces will focus greater attention on this planning element.

A proactive approach will be required in pursuing viable opportunities in the Atlantic provinces and Manitoba in order for these targets to be realized. In particular, it will be difficult for Newfoundland and P.E.I. to be able to maintain their historical program expenditure levels by supporting industrial projects alone. Greater emphasis on development climate projects supportive of R&D and enhanced productivity will, therefore, be required in the Atlantic provinces.

Ontario's financial assistance needs should subside somewhat after its required restructuring and renewal initiatives are completed over the next few years. New establishment projects will be generally encouraged to locate in the more disparate areas. Ontario and Quebec will continue, however, to realize a high level of R&D initiatives. Manitoba and Saskatchewan should be encouraged to take advantage of food processing opportunities and initiatives related to the Crow Rate adjustment. British Columbia should be assisted in making its primary resource-based industries more productive and competitive, while at the same time encouraging industrial diversification into new manufacturing activities.

A relatively new industrial plant in Manitoba, Saskatchewan and Alberta means that the target of 30 per cent for modernization/expansion will likely not be realized in these provinces.

IV SUMMARY AND CONCLUSION

The major strategic priority of the department for the planning period under review will be to encourage the establishment of viable, long-term employment opportunities. This goal will be pursued through continuing support for new industrial initiatives, especially in disparate areas of the country, and by improving the industrial competitiveness of the Canadian economy through encouraging increased investment in innovation and productivity improvement. The department will help Canadian firms to expand sales both at home and abroad. On a selective basis, corporate adjustment and renewal will be supported in those cases where firms can be profitably restructured to meet new conditions.

A new Industrial and Regional Development Program will subsume most existing ITC and DREE programs. This new program will provide support for viable projects encompassing the various stages of the corporate development process. Enriched support will be provided in the more disparate regions of the country. A portfolio management approach will be used to target and control specific initiatives and program expenditures against specific priorities and objectives which will be both regionally sensitive and consistent with the department's sectoral and industrial priorities. Financial targets for 1987/88 have been established for the different program elements. These targets recognize the need to provide greater support to productivity and innovation and marketing initiatives in all regions of the country. These targets will vary by province in recognition of the unique economic circumstances and needs of each region of Canada.