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Perspective 86

Alberta



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ALBERTA

ECONOMIC DEVELOPMENT PERSPECTIVE

1986

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(All statistics and conclusions are contingent upon data available
as of March, 1986.)

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1. SUMMARY

The economy of Alberta showed some signs of recovery in 1985, but due to plunging oil prices over the first quarter of 1986 the medium-term outlook for the province cannot reasonably be assessed.

In 1985, Alberta's real growth in gross domestic product (GDP) of 4.8 percent showed significant improvement over the 5.1 and 0.1 percent declines experienced during 1983 and 1984. Growth in 1985 can be attributed to the general upturn in the Canadian and world economies, to favourable policy changes in the oil and gas sector, to increased consumer confidence and to lower nominal interest rates.

In early 1986, any optimism for continued strong economic growth in the Alberta economy quickly diminished as oil and gas prices fell dramatically. The spot price of oil fell by about 60 percent to just under US\$12 per barrel from a 1985 high of US\$30. Gas prices also have fallen, in some cases as much as 20 percent. Some industry leaders are expressing concern about a return to the recession of the early 1980s.

Although it is too early to quantify the impact of the current situation, the decline in oil and gas prices already has resulted in some investment projects being put on hold, as well as in cancellation of orders for supplies and machinery and, in some cases, staff reductions. If prices remain at the current level or fall lower for any extended period of time, there could be significant increases in the number of business failures and the number of unemployed. Investment in new capital may be deferred until more favourable conditions prevail.

In addition to the problems associated with the energy sector, Alberta also has been faced with major constraints in agriculture: low and falling agricultural commodity prices, rising international competition, shrinking markets, land degradation and unfavourable geoclimatic conditions. Even if there is a return to normal growing conditions, it is not expected that agriculture will recover over the medium term.

Tourism also plays a significant role in Alberta's economy. In 1983, tourism contributed approximately \$2 billion in gross receipts and employed about 80 000 people. Continued growth in this sector is expected over the medium term.

The four major economic development issues confronting Alberta over the short term are investment, trade, transportation and economic diversification.

Major investment in the energy sector appears doubtful in 1986 due to falling energy prices. There remains, however, some interest in the heavy oil upgrader at Lloydminster. Production from this facility would not come on stream until the early 1990s and, therefore, the decision to proceed with

its development is less dependent upon short-term fluctuations in oil prices. High real interest rates and continued low commodity prices are likely to render other major investments uncertain. Additional major investment in agriculture is problematic because of the industry's prevailing circumstances.

The Alberta government continues to be strongly supportive of Canada-U.S. trade liberalization. The principal benefits from this initiative for Alberta are expected to be a reduction of interprovincial trade barriers (broadly defined), more secure markets and a reduction of the threat of U.S. retaliatory measures.

As a landlocked province far from its main markets, the third issue facing Alberta is the need to develop a more cost-effective, efficient and competitively based transport system.

Owing to the province's reliance upon exported natural resource products, the prices of which are generally determined in world markets, economic diversification continues to be a major objective in Alberta. A broader industrial base -- in both the manufacturing and service sectors -- would likely temper the "boom-bust" nature of Alberta's economy because of the resulting decline in the influence of global market forces.

Both the federal and provincial governments have recently announced measures to address the issues identified in this Perspective (e.g. farm financing and input costs, employment), and further announcements may be expected. However, it is too early to adequately assess their impact, other than to say it will be significant.

2. ALBERTA IN PROFILE

i) Introduction

The Alberta land area of 638 000 square kilometres represents 6.9 percent of the Canadian total. Its population of 2.35 million represents 9.3 percent of the Canadian total. Over two-thirds of Alberta's population lives in the Calgary-Edmonton corridor.

Alberta possesses some of the most varied geography of any Canadian province and includes portions of the Canadian Shield in the extreme northeast, the Rocky Mountains cordillera, the central plains and the northern parklands.

Alberta's main industries include mining (primarily energy-related), agriculture and tourism. Together, these industries directly account for almost one-half of all investment in the province and more than three-quarters of all international trade. It is this reliance upon primary and export-oriented industries which has been in large part responsible for Alberta's traditional pattern of economic boom and bust (see Table 1, page 20).

ii) Labour Force

July to September 1985 saw the third consecutive quarterly increase in population growth in Alberta (Graph 1, page 21). Although there are still more people moving out of the province than moving in, the level of outmigration has decreased significantly from 1984. In that year, the net outmigration was 35 600, compared to a preliminary 1985 estimate of only 10 000.

In January 1986 the working age population in Alberta was 1 749 000, an increase of 17 000 from January 1985. The seasonally adjusted participation rate in Alberta was 71.6 percent, compared to a national rate of 65.1 percent. Alberta continues to have the highest participation rate of any Canadian province. The resulting labour force of 1 248 000 in December 1985 was 57.5 percent male and 42.5 percent female. (At 60.9 percent, the female participation rate is also the highest in Canada.) As well, the Alberta labour force is generally younger and more educated than the national average.

Alberta's seasonally adjusted unemployment rate has gradually declined from 11.5 percent in February 1985 to 9.4 percent in December 1985, compared to a decline in the national rate from 11 percent to 10 percent over the same period (see Graphs 2 and 3, pages 21 and 22).

The graphs indicate the dramatic shifts in the unemployment rate in Alberta during the period of "boom and bust". During the 1970s and early 1980s, Alberta's unemployment rate was consistently three or four percentage points less than the Canadian average. However, as the recession set in, the unemployment rate in Alberta increased sharply and actually exceeded the national rate in 1984. On a regional basis (Figure 1, page 23), the highest unemployment is in the central portion of the province, particularly in the area of Edmonton. The unemployment rate in the north and south improved faster due to the upswing in the energy sector. In sectoral terms, unemployment in the construction sector remains the highest of all provincial industries at 19.8 percent (December 1985).

Aboriginal people in Alberta, numbering approximately 135 000, account for about eight percent of the total population and about 11 percent of the population of labour force age. It is estimated that one in three entrants to the labour force will be of native ancestry during the 1990s. In some native communities, the unemployment rate exceeds 55 percent and is growing. Low average educational attainment, combined with a high and growing proportion of the native population under the age of 15, is expected to contribute to continuing high unemployment among natives.

iii) Provincial Fiscal Situation

The rise in resource royalties since the early 1970s has had a significant impact in reducing the revenue dependency of the provincial government and in keeping the overall tax burden low relative to other provinces. Taken as a whole, taxes declined as a proportion of total provincial revenues from 35 percent in 1971 to 22.4 percent by 1982. Natural resource revenues, on the other hand, climbed from 22.4 percent in 1971 to 47.5 percent in 1976 before dropping back to a still very substantial level of 41.2 percent in 1982.

Transfers from the federal government declined from 21.6 percent of total revenues to 7.0 percent over the same period. In fact, Alberta has the highest proportion of revenues derived from resources of any Canadian province. This comparatively strong financial position has allowed Alberta to attain a Triple A credit rating with the major New York rating agencies.

Alberta's expenditure on economic development has risen dramatically since 1971 and has been accompanied by a decline in the proportion of total expenditures committed to health and education. For example, expenditures on economic development initiatives, particularly in energy and agriculture, increased from 5.2 percent of total expenditures in 1971 to 22.7 percent by 1982. Over the same period, expenditures in the area of health declined from 25.8 percent of total expenditures to 21.4 percent and, in the case of education, from 30 percent to 15.8 percent.

In financial terms, Alberta remains the healthiest of the Canadian provinces. As of March 31, 1984, Alberta had financial assets of more than \$25 billion, almost 30 percent of the Canadian total. With liabilities of

\$9.3 billion, Alberta had net assets of over \$16 billion, by far the highest of any Canadian province.

This position is buttressed by the existence of the Alberta Heritage Savings Trust Fund, established in 1976 as a reserve for future years. The fund currently has equity totalling some \$14.5 billion. However, care should be taken not to overemphasize the size or importance of the fund. Firstly, the fund has assets equivalent only to about one year's budgetary expenditures in Alberta. Secondly, much of the fund's invested capital is tied up in fixed assets or other low liquidity investments.

The recent dramatic decline in world oil prices can be expected to have a significant impact on provincial government revenues. Some estimates place the provincial revenue loss at \$150 million for every US\$1 drop in the price per barrel of oil.

Declining budgetary revenues, combined with the oil price drop and poor agricultural performance, can be expected to result in increasing demands for draw-downs from the Heritage Savings Trust Fund.

iv) Recent Economic Performance

During the recession of the early 1980s, Alberta experienced negative GDP growth of 3.9, 5.1 and 0.1 percent in the years 1982-84, compared to GDP growth rates in the 7-10 percent range in the late 1970s (see Graph 4, page 22).

Signs of recovery from the recession created some optimism during 1985 for the future of the Alberta economy. Alberta's growth in GDP for 1985 at 4.8 percent was slightly above the national average of 4.4 percent and was greater than that of any other province. This growth can be attributed to the general upturn in the Canadian and world economies, favourable policy changes in the oil and gas sector, increased consumer confidence and lower nominal interest rates.

GROSS DOMESTIC PRODUCT AND PERCENTAGE CHANGE (Constant 1971 \$ millions)

	1983	1984	1985 PROJECTED
Canada	119 015	124 896	130 341
% Change	2.7	4.9	4.4
Alberta	13 864	13 845	14 503
% Change	-5.1	-0.1	4.8

Source: Conference Board of Canada

During the first several months of 1986, however, optimism quickly vanished as world oil prices plunged to levels below US\$12 per barrel on the international spot markets. This equates to a 60 percent drop in the

price of oil from the 1985 high of approximately US\$30. A significant price decrease, in the range of 20 percent, also affected the natural gas market.

a) Consumption

Consumer demand rose throughout 1985 and remained well above 1984 levels. Personal disposable income in Alberta (Graph 5, page 24) continued to exceed the national level. In 1984, disposable income per capita was \$11 949 compared to \$11 544 for Canada as a whole. Retail sales in 1985 were buoyant and are expected to be 10 percent greater than in 1984, reflecting growing consumer confidence, lower nominal interest rates and release of pent-up demand arising out of the recession.

During the first eight months of 1985, manufacturing shipments expanded more quickly than in 1984, increasing by 8.9 percent compared to an annual growth rate of 8.3 percent in 1984.

b) Investment

In 1985, Alberta continued to have the highest per capita amount of public and private investment of any Canadian province, although the level was significantly less than the per capita investment in either 1981 or 1982. Alberta's per capita investment totalled \$7309 in 1985 compared to \$4304 for Canada as a whole (see Graph 6, page 24).

Public and private investment, which in Alberta is primarily energy-related, in the past has increased sharply as a percentage of the national total, rising from 12.5 percent to 21.7 percent between 1975 and 1982. In 1983, this proportion dropped to 17.6 percent followed by a decline to 15.3 percent in 1984. In 1985, this trend was reversed with public and private investment increasing to 15.7 percent of the national total (Graph 7, page 25).

Housing starts in the third quarter of 1985 increased by 38.4 percent over the same period in 1984, showing a strong quarterly performance. But year-to-date activity (4113 units) was below the 1984 level of 4244 units for the first three quarters. If 1985 starts come in below the 1984 level, it will mark the third consecutive year that housing starts have declined in Alberta. This will be mainly attributable to the overbuilding which took place in the early 1980s and the resulting oversupply of housing still on the market.

c) Trade

In 1984, exported goods were valued at \$12.4 billion, or about 12 percent of the Canadian total. Energy and agriculture accounted for 60 and 14 percent of exports respectively. Approximately 75 percent of total exports went to the U.S., primarily natural gas, crude petroleum and petrochemicals. During the first half of 1985, the value of trade exports

increased by approximately 20 percent over the same period in 1984. On the travel account, the number of U.S. visitors entering Alberta during the first six months of 1985 increased by 6.9 percent over the same period in 1984.

d) Labour-Management Relations

On the labour-management relations front, Alberta experienced a significant increase in the number of person-days lost due to work stoppages in 1985. Twenty-nine strikes and lock-outs in industries falling under provincial jurisdiction resulted in 100 255 person-days lost, up from 73 265 in 1984 and only 15 426 in 1983. The public sector industries most affected by these stoppages were elementary and secondary education and health care. In the private sector, breweries and construction were most affected. In addition, Alberta was affected by the Air Canada work stoppage and a lengthy stoppage at Pacific Western Airlines which continued into 1986.

In 1985, new wage settlements continued to come in well below the inflation rate, averaging 1.7 percent compared to an annual increase in the provincial consumer price index of three percent. Generally, private sector settlements were higher than their public sector counterparts, averaging 2.1 percent for 1985 compared to 1.6 percent in the public sector.

Settlements in the construction industry averaged an increase of two percent in 1985, reversing a trend of wage roll-backs in the previous two years. This pattern of settlements raised the overall average weekly earnings among employed workers in Alberta to \$503.04 (October 1985), compared to \$514.16 in British Columbia and \$464 for Canada as a whole. Recessionary pressures brought about by falling oil prices are likely to continue to restrain wage settlements in 1986.

v) Outlook

By the fall of 1985, it appeared that the Alberta economy had gained considerable strength and that performance over the medium term would closely track national projections. However, due to falling oil and gas prices Alberta's future is blurred and uncertain.

At present, the Conference Board of Canada is projecting a real growth rate of 3.4 percent for 1986, falling to 1.2 percent in 1987, based on a forecast of US\$18 per barrel of oil. Both the current low world price of oil and the continuing unstable environment facing this sector are creating major concerns throughout the economy. If prices remain at February 1986 levels for the remainder of the year or fall lower, the Conference Board projections for the Alberta economy will not be realized. Real growth in the area of zero to one percent per year for 1986 and 1987 is a possibility, as contrasted with the Conference Board's forecast published in the fall of 1985 of 5.2 percent and 2.9 percent, respectively, for 1986 and 1987.

More recent projections, such as those of Chase Econometrics, indicate Alberta's GDP growth rate could fall to 1.2 percent in 1986 and -1.0 percent in 1987, based on a continuation of per-barrel oil prices in the US\$10 range.

The current situation is having an immediate impact on both the short-term operational viability of oil and gas related companies and on investment plans, which could lead to significant increases in unemployment rates throughout the province. In fact, some industry estimates place the potential decline in energy-related investment during 1986 as high as \$8.5 billion.

Low agricultural commodity prices combined with the income tax increases announced in the May 1985 and February 1986 federal budgets will tend to curtail consumer spending, also dampening the growth prospects for Alberta over the medium term. Even with normal growing conditions in 1986 and 1987, agriculture is not expected to recover its role in the regional economy.

Tourism receipts are expected to rise, primarily due to the low value of the Canadian dollar relative to the United States dollar, and also because the U.S. dollar has weakened recently relative to other foreign currencies. Tourism-related accommodation, food and recreation industries are expected to benefit from EXPO 86. The increase in American visits is forecast to continue, as the Canadian dollar remains low.

In summary, the prospects for the Alberta economy are, in broad terms, very uncertain, with much of the current concern attributable to falling oil and gas prices. The over-dependence upon primary resources, particularly energy and agriculture, is a continuing problem in the Alberta economy.

3. MAJOR ELEMENTS IN THE ECONOMY

Alberta has an abundance of minerals, agricultural lands and tourist attractions. The development of energy, agriculture, related manufacturing and processing and, to a lesser extent, tourism resources (a significant component of the services sector) has played a major role in the growth of the Alberta economy.

Alberta's economic performance relies heavily upon the production and export of these natural resource products. Fluctuating world commodity prices and demand have, in part, led to the province alternating between periods of boom and bust.

Other traditional disadvantages affecting the Alberta economy include a relatively small local market, significant distances to major markets (both domestically and abroad), associated high transport costs and a resultant small local industrial base. (Alberta's 1985 GDP by sector and employment by sector are illustrated in Graphs 8 and 9, pages 25 and 26.)

i) Oil and Gas

The oil and gas sector, rather than agriculture, is likely to remain the dominant economic force in the Alberta economy, at least for the medium term.

The mineral extraction industries, predominantly oil and gas, account for approximately 485 000 direct and indirect jobs in the provincial economy, or about 39 percent of the provincial total. During the 1970s and early 1980s, the dollar value of Alberta's mineral output increased significantly, despite receiving lower than world prices for much of this output.

Between 1969 and 1983, the oil and gas sectors almost doubled as a percentage of the gross provincial product in nominal terms, from 12.9 percent to 24.1 percent. In constant dollar terms, however, the sector improved its share only slightly from 10.2 percent in 1961 to 11.5 percent in 1985. This growth stimulated strong economic performances in other sectors including construction, services and, to some extent, manufacturing.

The spin-off growth in these sectors indicates a key vulnerability of the Alberta economy: growth has stemmed predominantly from a single non-renewable resource, petroleum.

Much of the recent recovery in the energy industry is attributed to the 1985 Western Accord and changes to the provincial royalty scheme. This resulted in an industry drilling record of over 11 000 new wells, more than 60 percent of which were located in Alberta, and a substantial increase in the size of the western drilling fleet. Most of the increased drilling activity continued to be related to oil, reflecting the ongoing surplus in North American gas markets.

During the last year, a number of in-situ oil sands projects were announced, indicating a renewed confidence in expansion of non-conventional oil production. In addition to Dome's and Suncor's projects near Primrose, which were approved by the Energy Resources Conservation Board in December 1985, activity is underway at Cold Lake, Wolf Lake (B.P.), Peace River (Shell), Elk Point (Amoco), Lindbergh (Murphy Oil and Dome) and at Manatokan (Can. OXY). Phased plant expansions at Syncrude and Suncor also were initiated during 1985.

The recent plunge in oil prices has reversed the optimism prevailing in the Alberta oil and gas sector during 1985.

While drilling activity continued to be very high in the first quarter of 1986, largely the result of efforts to capture Petroleum Incentive Program (PIP) grants that are due to be phased out April 1, 1986, oil companies are now drastically revising their drilling plans downward for the remainder of 1986 and beyond. Several companies are announcing layoffs and cancelling orders for supplies and equipment. Related industries, primarily the oil and gas service sector and trucking, are also beginning to feel the effects of decreased oil and gas activity.

Little is now being said about new oil sands developments, even though their profitability would depend on the medium-and-long-term outlook for world oil prices, rather than the short-term view.

The decline in oil prices has raised calls from some quarters for a floor price for domestic oil in order to support industry and government revenues. Others have spoken out against such proposals on the grounds that they lead to massive distortions in economic activity and ignore reality.

Those who hold this latter position may soften, however, if there are no early signs of a recovery in world oil prices. Some industry spokespersons have recently suggested that a further cutback in provincial royalties and a more rapid phase-out of the Petroleum and Gas Revenue Tax (PGRT) may be required in order to help bolster the industry after the shock of lower oil prices. The impact of falling oil prices is expected to hit the smaller, largely Canadian-owned oil and gas producers first and foremost.

A growing concern is that investor confidence in the energy sector may have seriously deteriorated as a result of the instability of the sector. This suggests that, in future, investors may demand significantly higher rates of return to accept the risks inherent in the sector. This, in turn, has implications for the economic health of Alberta and for the future security of supply of oil and gas in Canada.

ii) Agriculture

It is estimated that about one in every three jobs in the province is linked to, and dependent upon, the agricultural sector. This sector, broadly defined to include the agri-food sector, accounted for some \$4 billion in

shipments in 1984 and approximately 27 percent of Alberta's manufacturing shipments.

In the past, agriculture was considered the stabilizing force of the economy. Between 1971 and 1983 the value of farm cash receipts grew steadily from under \$1 billion to almost \$4 billion in current dollar terms.

In recent years, however, soft world prices, shrinking markets, rising international competition, land degradation and unfavourable geoclimatic conditions have restrained further growth in agricultural output. As well, lower product prices and rising input costs put many Alberta farmers in a cost-price squeeze.

Other problems facing Alberta's agricultural sector include agricultural subsidies and import quotas imposed by other governments which have undermined the traditional comparative advantages enjoyed by Alberta farmers. As well, rail transportation subsidies, which have tended to raise the price of feed grains, have hampered the development of the Alberta livestock sector.

The slow adoption of new technologies and high capital requirements for both new farmers and expanding enterprises also are considered to have a retarding effect on the growth of this industry.

Opportunities for this sector include efforts to lower production costs, to increase the productivity of arable land, to accelerate technology adoption and to extend value-added processing of agricultural commodities before export.

Soil degradation is a critical problem in Alberta. It is estimated that potential productivity of arable land has been reduced by up to 50 percent since settlement. There is a major opportunity to increase the productivity of arable land in Alberta through improved soil management. However, these measures would be long-term and capital-intensive.

The productivity of many agricultural producers lags behind that which is both possible and economically feasible using the advanced technology available today. There is an opportunity to accelerate the transfer of technology from researcher to producer and to enhance the managerial ability of farmers.

Alberta produces an abundance of raw agricultural products, many of which are shipped out of province. There is an opportunity to add value to these products prior to export (e.g. by processing canola seed and developing specialty meat products). In order to capitalize on this potential, a significant effort would be required to identify opportunities in an evolving market and tailor products to meet opportunities as they arise.

The outlook for the agricultural sector in Alberta is not favourable. The possibilities of another drought, continued low international prices for

agricultural products and rising input costs indicate the vulnerability of this sector. Recent U.S. initiatives have resulted in further declines in grain prices and are expected to further reduce the revenues of grain farmers, perhaps by as much as 20 percent.

iii) Tourism

Tourism plays a significant role in Alberta's services sector and involves a wide range of businesses situated throughout the province. In 1983, tourism contributed approximately \$2 billion in gross receipts to provincial GDP and employed about 80 000 people. Between 1973 and 1983, revenues grew at an average annual rate of 15 percent.

At the same time, Alberta has been recording travel account deficits as residents travel abroad at a rate exceeding the growth of domestic and offshore accounts.

Almost half of tourism expenditures in 1983 in Alberta, or \$980 million, were made by Albertans. Of the remaining, \$740 million came from within Canada and \$260 million from outside the country, mainly from the United States. In 1983, however, Alberta's U.S. tourist market share dropped 30 percent owing to the recession. This share increased in 1985 but it is still not back to levels achieved in the early 1980s.

Constraints affecting the Alberta tourist industry include distance from major mass markets and associated high travel costs, inadequate training within the hospitality industry and restrictions on development of the province's major travel generators, the Rocky Mountains national parks.

Significant new potential for this industry exists in enhancing the training opportunities available to industry employees, improving marketing strategies and by encouraging a more flexible perspective on development within the Rocky Mountains parks.

In the area of marketing, attention needs to be focussed on the interests of the target population in the manner outlined in the recent study entitled The U.S. Market for Canadian Tourism Opportunities. It has been noted that the international tourist industry is often frustrated to find out about the limited range of activities the clients can participate in once they get to Canada or to any one of its regions.

The training and development of persons entering or currently employed by the industry is a major constraint. Tourism, recreational, leisure and hospitality industries are very complex and demanding businesses. In addition to competent staff, they require serious and knowledgeable investors and managers.

A recent survey of financial institutions in Alberta regarding their experiences and their attitudes with respect to leisure, tourism and hospitality industries indicated that of the loans made between 1979 and

1981, 45 percent turned into bad loans and another 15 percent are now defined as "problem" loans.

A third problem arises from the dispersed and unstructured nature of the industry. Businesses in the tourism sector range from the smallest "Mom and Pop" operations to organizations of multinational scale.

Tourism impacts on a number of other sectors in the economy -- e.g., transportation, agriculture, the cultural industries -- and benefits could accrue from closer consultation leading to joint ventures. Priority attention needs to be given to an inventory of tourism attractions and activities in Alberta, to the development of packages focussed on specific target markets and to the development of appropriate promotion programs.

iv) Manufacturing and Processing

Manufacturing and processing form a relatively small part of the Alberta economy, accounting for 15.5 percent of Alberta's net value of production in the goods-producing industries in 1981, compared with 53.3 percent nationally. Nevertheless, the value of this production still places Alberta fourth among the Canadian provinces after Ontario, Quebec and British Columbia. Moreover, manufacturing output per capita grew 119 percent between 1960 and 1980, as compared with 65 percent in Ontario and 74 percent in Quebec.

As might be expected, given the significance of Alberta's agriculture and energy sectors, the food and beverage, refined petroleum and coal products, and chemical and chemical products industries are the three dominant manufacturing industries in Alberta. Taken together, they represent almost 70 percent of Alberta's gross value of manufacturing shipments.

In terms of constraints, the manufacturing and processing sectors are particularly affected by the relatively small local market, significant distances to mass markets and the associated high transport costs.

Opportunities for development in the manufacturing and processing sectors exist in such areas as microelectronic research, industrial laser technology, pharmaceutical development and value-added processing of certain resource products.

Alberta has significant advantages in some of the "forefront" technologies. The Alberta Microelectronic Centre, for example, provides a custom microchip design and fabrication facility. This centre was recently joined by the new Alberta Laser Institute which was created to provide support for a significant existing private sector capability in the industrial laser field. Further, the availability in Calgary of Canada's only publicly accessible supercomputer offers opportunities for high-speed processing and software development.

The province also possesses strengths in biotechnology and genetic engineering, predominantly at the University of Calgary. As well, the Alberta Research Council operates a rare biotechnology facility designed to undertake commercial-scale fermentation runs on a contract basis.

The University of Alberta has developed a competitive edge in the development of certain drug products and has one of the few small-scale, research-oriented nuclear reactors in Canada. As well, the University of Alberta possesses the only existing Western-based heart transplant facility in Canada.

In addition to the high-technology areas outlined above, there is a significant level of research and development activity in Alberta related to the more traditional areas such as enhanced oil recovery techniques, agricultural products and processes and commercial uses of Alberta's hardwoods (e.g., oriented strand board).

4. MAJOR ISSUES

The Alberta economic development agenda includes reducing unemployment, increasing real incomes, expanding trade, promoting balanced growth and mitigating the province's traditional cycle of boom and bust. This agenda corresponds closely to the federal economic development agenda, the emphasis of which is upon creating jobs, promoting economic renewal, reducing regional disparities and expanding trade. More specifically, the economic development issues for Alberta lie in the areas of investment, trade, transportation and economic diversification.

i) Investment

a) Oil and Gas

As previously noted, the outlook for world oil prices is uncertain. Notwithstanding this uncertainty, there continues to be an opportunity for development of major projects. The longer construction and production time frames for such projects make their development less dependent upon short-term fluctuations in energy prices. Major projects also offer opportunity for employment growth both in Alberta and nationally. The proposed Husky Bi-Provincial Upgrader, as well as a new oilsands mining project, would help secure the supply of oil products in the future and assist in Canada's economic recovery by injecting large amounts of capital into the economy and by creating thousands of jobs both in Alberta and Canada as a whole.

The increasing supply of heavy oil production in Canada and the uncertain outlook for this product in U.S. markets supports the need for new domestic upgrading facilities. The Alberta government also has been examining ways and means of supporting another oilsands mine development. A more favourable fiscal regime in terms of reduced royalties and lower taxes may be required to launch these projects.

The central issue in the development of non-conventional oil projects is one of timing. While it is clear that heavy oil resources will require exploitation at some point in the future, the timing of such development is uncertain given the outlook for world oil prices and interest rates. Public resources which may be required to launch energy projects need to be considered along with the competing demands for such funds.

b) Agriculture

Alberta is pursuing investments that will serve to enhance agricultural productivity through both provincial programs and programs developed jointly with Canada. A proposed Economic and Regional Development Subsidiary Agreement on Agriculture and Food Development is aimed at improving the conservation, development and management of agricultural soils and on-farm water, assisting the development of crop and livestock production and improving access to information on farm management practices and technologies.

In addition, the province is interested in pursuing certain joint federal-provincial irrigation initiatives. However, such projects must be considered in the light of the outlook for agricultural products and in the context of the development of an agri-food policy for Canada. As well, agricultural initiatives may well be affected by bilateral and multilateral trade negotiations which are expected to be pursued during the coming years.

c) Tourism

Tourism presents special investment problems. The development of attractive terminal destinations entails either large-scale investment projects like Whistler-Blackcombe in British Columbia or the co-ordination of small and large business enterprises to create marketable packages. Both represent significant risks for the investor or lender, as outlined earlier. In particular, small businesses, which do much to contribute to an attractive and interesting environment, are experiencing difficulties in obtaining the necessary capital.

d) Other Sectors

On other investment-related fronts, federal-provincial initiatives in the areas of science and technology, industrial diversification, forestry and nutritive processing are being pursued in an effort to lever private sector investment and create jobs.

ii) Trade

Preliminary indications are that trade liberalization between Canada and the U.S. would be a positive measure for the Alberta economy and would serve to pre-empt growing protectionist sentiment in the United States. The Alberta government continues to be strongly supportive of this initiative with the expectation that Alberta, as well as the rest of Canada, would become more internationally competitive.

Existing trade restrictions, which are designed to provide long-term protection for certain Canadian industries, also serve to delay required adjustments, distort trade and invite retaliatory measures which may affect Canadian and Alberta-based industries. During 1985, for example, the province's hog producing industry suffered the imposition of countervailing duties on live swine exports to the United States. In addition, trade policy for textiles and automobiles has a profound impact on certain Pacific Rim countries which form a major export market for Western producers.

Federal and provincial subsidies to industries similarly hinder the adjustment process, distort interprovincial trade and invite retaliation by foreign governments. Subsidies to the petrochemical, red meat and lumber products industries are cases in point. In the case of the red meat sector, these effects are exacerbated by federal grain transportation subsidies which

raise feedgrain costs for local producers and thereby inhibit the further development of the Alberta-based livestock industry.

Alberta has responded with its own provincial feedgrain subsidy of approximately \$160 million per annum in an effort to offset the impact of the Western Grain Transportation Act. This system of competing subsidies leads to economic inefficiencies in both agriculture and transportation.

iii) Transportation

As a land-locked, resource-oriented economy dependent on world markets for its exports, transportation is an important aspect of the Alberta economy. In 1984, the value of goods exported from Alberta amounted to some \$12.4 billion. Transportation, a significant cost component of many of these exported products (primarily resource products), must be cost-effective, efficient and competitively based.

Transport Canada's proposed "Freedom to Move" legislation places a greater emphasis on the role of the private sector and the market place in determining transportation needs. The proposed changes to the National Transportation Act should assist in providing a more responsive transportation system in Alberta.

The Western Grain Transportation initiative has allowed the railways to increase the capacity of west-bound rail trackage to meet future rail demand. The "method of payment" for grain shipped to export markets under provisions of the Western Grain Transportation Act is currently under review by the federal Minister of Transport. Payments to producers, as opposed to railways, would encourage resource allocation neutrality on the part of the Alberta-based livestock industry.

There is concern that Alberta shippers are paying a disproportionately large share of railway overhead costs (constant or fixed) compared to the rest of Canada. The Burden Study, a recently completed Alberta government publication, suggests that the absence of effective competition to the railways in the West has resulted in higher rates. This study is currently being reviewed by Transport Canada.

As an example of the provincial government's commitment to assist exporters in reducing transportation costs, the province has recently established a new container distribution system for Alberta (Alberta Intermodal Services Ltd.) at a cost of \$30 million. This distribution system will reduce container transportation costs for individual Alberta companies shipping goods for export to the West Coast. The reduced transportation costs, approximately 30 percent less than previously established rates, have come about as a result of a long-term contractual agreement between the Alberta Intermodal Services Ltd, and the Canadian Pacific Railway. Interestingly, this agreement has resulted in the Canadian National Railway decreasing its rates by a similar amount.

iv) Economic Diversification

A long-standing objective in Alberta has been to reduce economic reliance on natural resources, particularly energy and agricultural products. In this context, the proposed federal-provincial Subsidiary Agreement on Industrial Diversification offers the prospect of increased funding for industrial diversification initiatives.

The proposed Science and Technology Subsidiary Agreement also is supportive of economic diversification efforts in Alberta. Alberta has significant potential in certain areas of microelectronics research, the related field of industrial laser technology and biotechnology, among others.

Similarly, the province also has developed expertise in the areas of clinical, medical and pharmaceutical research, in part to attract investment. However, certain restrictions on obtaining patent protection for pharmaceutical products may be removing the incentive for pharmaceutical industries to invest in Canada. It is possible that the economic benefits from increased research and development and manufacturing by existing and new pharmaceutical companies could more than offset any increases in basic drug costs that may result from removing these restrictions.

In the travel industry sector, the dilemma between conservation and tourism development within the Rocky Mountains national parks requires further review in light of the recently released Four Mountain Parks Management Framework.

Tourism, because of the structural characteristics of the sector, provides major opportunities for both geographic and economic diversification. In addition to the wide range of businesses involved in tourism, there are a variety of opportunities for the transportation, service and even agricultural and manufacturing sectors (e.g., farm holidays, industrial tours). The decision to contain growth in the national parks suggests that opportunities exist to develop the potential in the foothills and eastern slopes of the Rocky Mountains which are very attractive in their own right and are close to park attractions.

5. CONCLUSIONS

In general terms, the economy of Alberta showed marked improvement in 1985, but due to significant declines in oil prices (on the order of 60 percent over the last several months), the outlook is now uncertain and potentially somewhat grave.

The major driving force of the economy -- energy and related industries -- is facing a major short-term decline which is expected to have a negative impact on the operational viability of firms, and investment and employment levels.

Agriculture and its associated processing and service industries, long thought of as having a stabilizing influence upon the economy, remain in a cost-price squeeze, have a number of significant constraints to overcome and face significant declines in world grain prices.

Much of the province's tourism potential has yet to be realized.

Further diversification of the economy is dependent upon the relative health of the principal sectors and, to a lesser extent, on recent initiatives in the areas of value-added processing, tourism, industrial diversification and high technology.

Most sectors suffer from the province's traditional disadvantages of a small local market and industrial base, distances to mass markets and associated high transportation costs and, in a few instances, as a result of artificial advantages conferred upon competing industries in other jurisdictions.

Both the federal and provincial governments recently have announced measures to address the issues identified in this Perspective (e.g, farm financing and input costs, employment), and further announcements may be expected. However, it is too early to assess their impact, other than to say it will be significant.

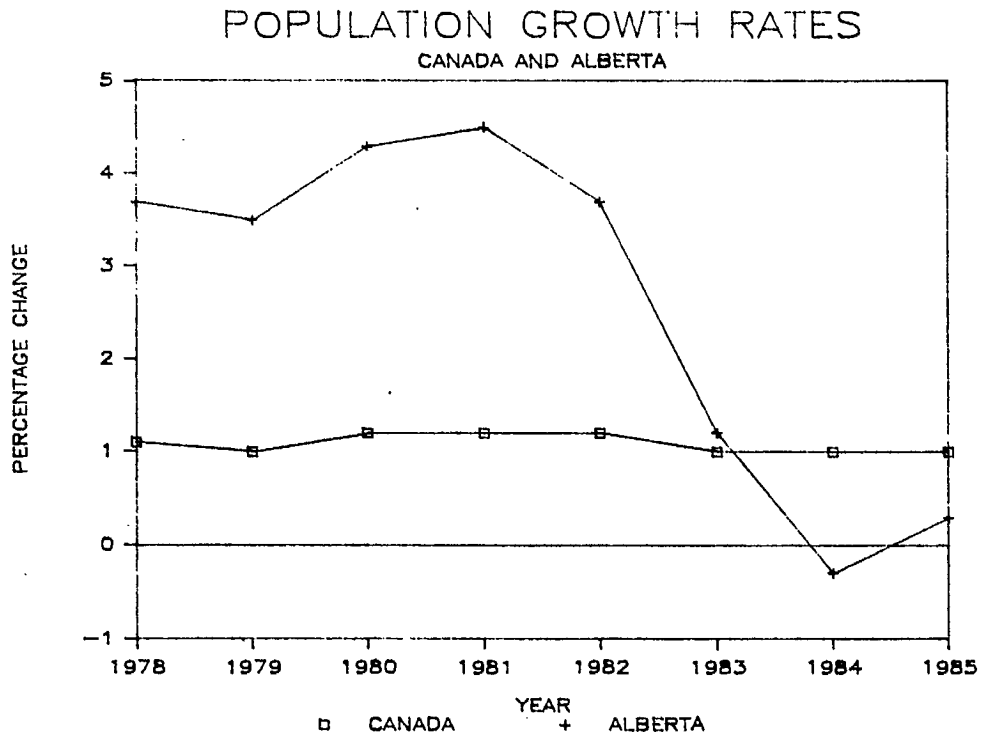
TABLE 1

ALBERTA PROFILE -- 1985

	<u>Alberta</u>	<u>Canada</u>	<u>Alberta as a % of Canada</u>
GDP (constant 1971 \$M)	14 503	130 341	11.0
Population	2 349 000	25 359 000	9.3
Labour Force	1 248 000	12 605 000	9.9
Participation Rate	71.6%	65.1%	109.9
Unemployment Rate	10.1%	10.5%	95.2
Unemployed	125 300	1 329 300	9.4
Per Capita Disposable Income (\$)	11 949	11 544	103.5
Per Capita Investment (\$)	7 309	4 304	169.8
Urban Housing Starts	6 051	139 292	4.3
Business Failures (January-November 1985)	1 070	7 981	13.4

Source: Conference Board of Canada and Statistics Canada

GRAPH 1

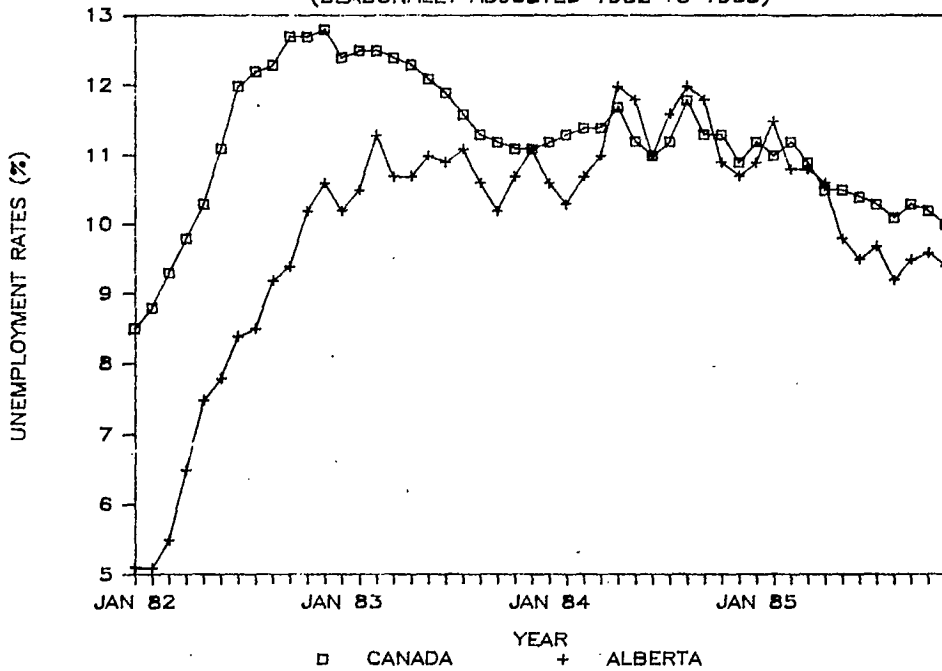


GRAPH 2



GRAPH 3

UNEMPL. RATES FOR CANADA & ALBERTA (SEASONALLY ADJUSTED 1982 TO 1985)



GRAPH 4

GDP GROWTH RATES CANADA AND ALBERTA

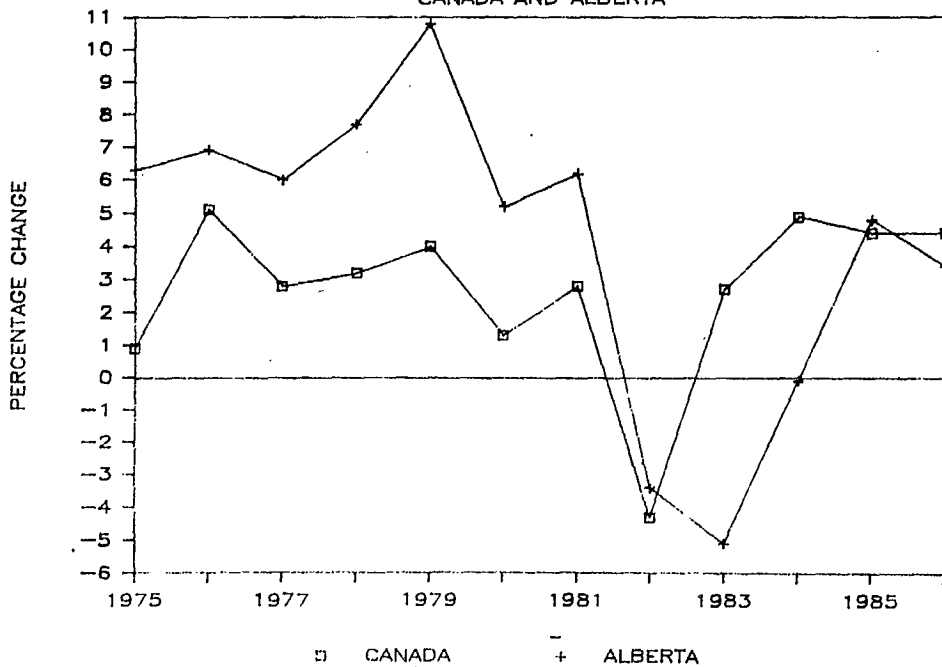
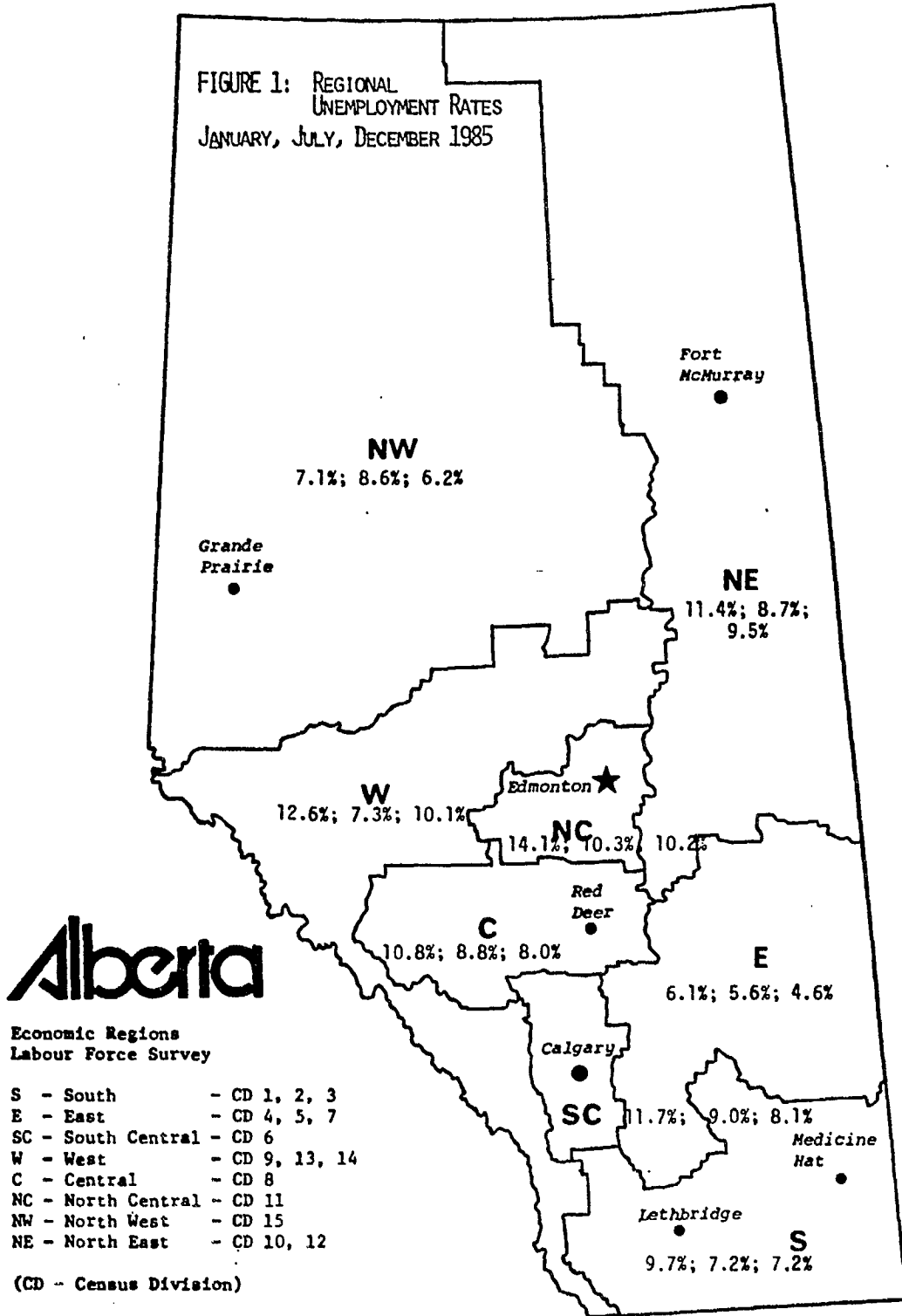
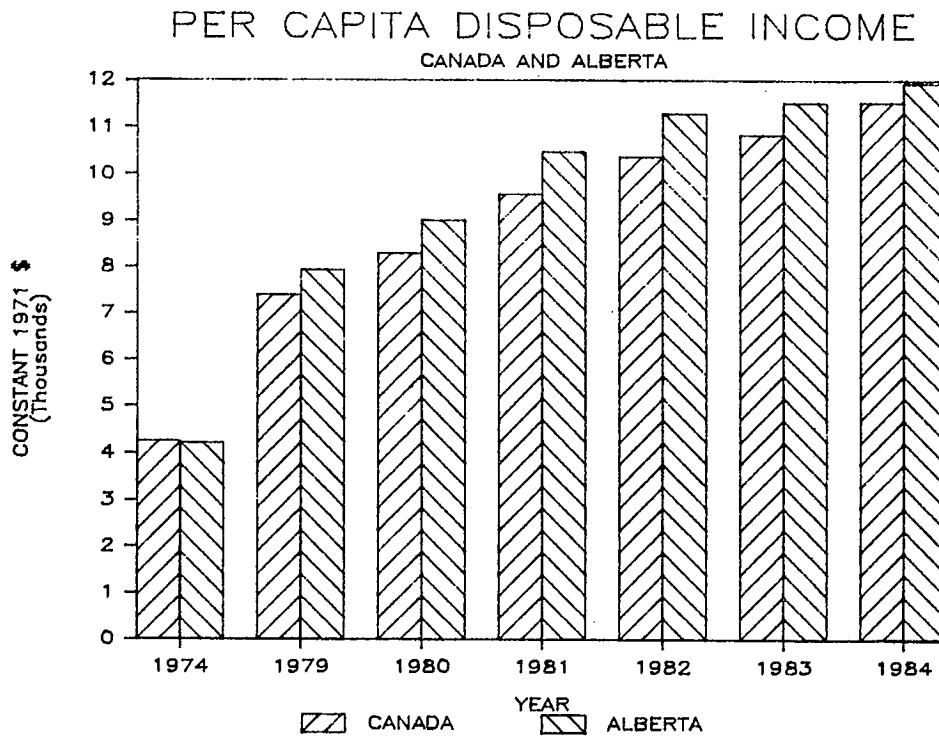


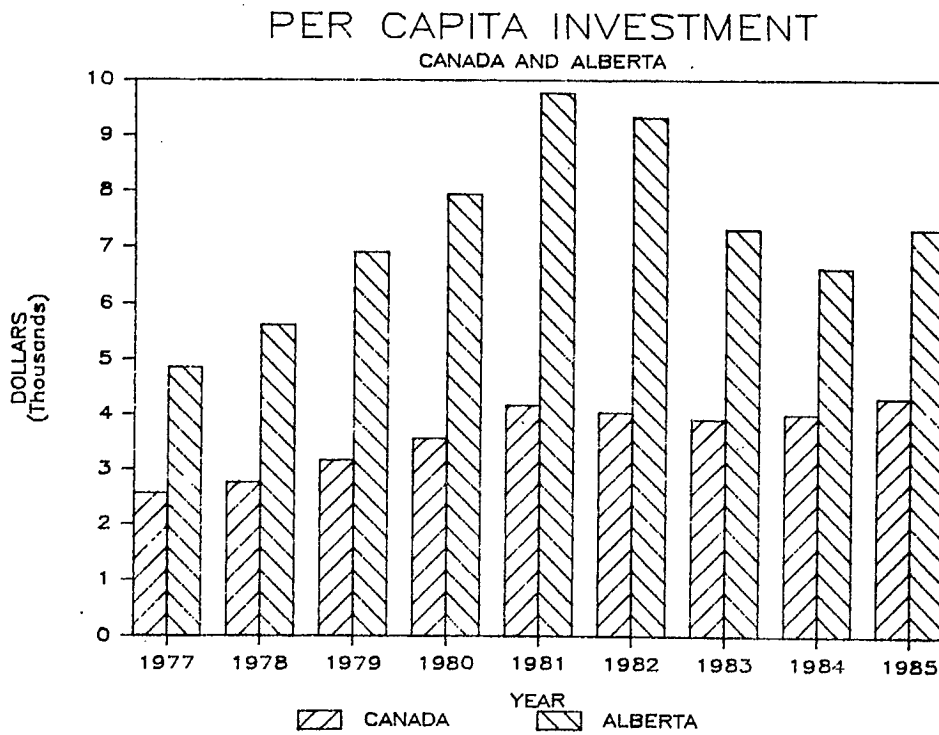
FIGURE 1: REGIONAL
UNEMPLOYMENT RATES
JANUARY, JULY, DECEMBER 1985



GRAPH 5

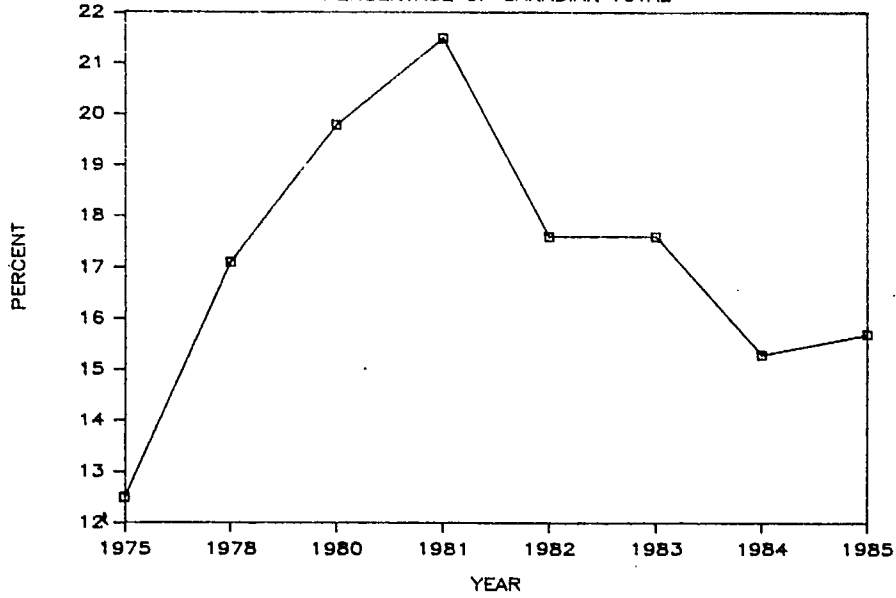


GRAPH 6



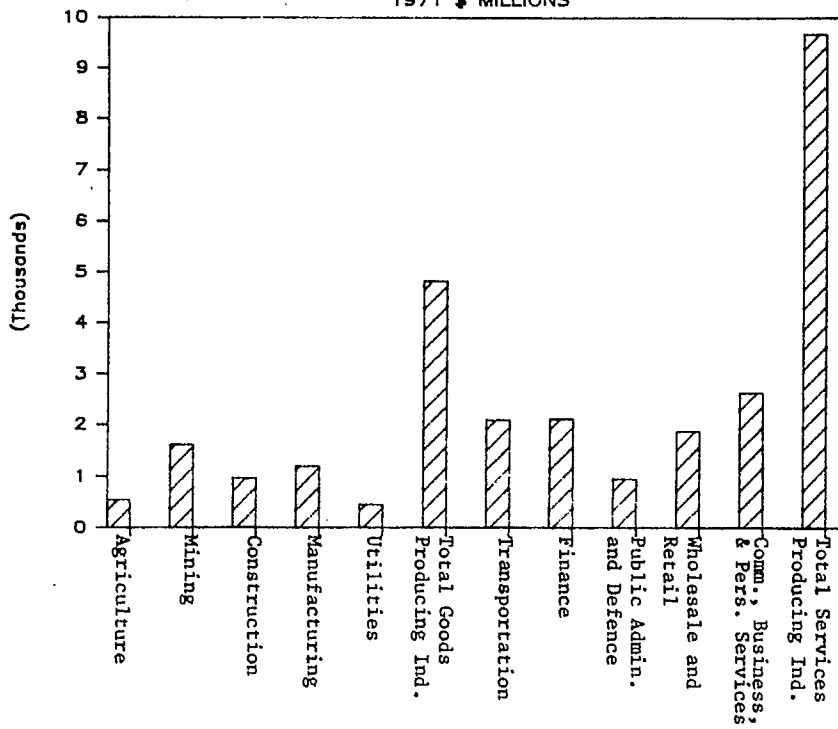
GRAPH 7

ALBERTA PUBLIC AND PRIVATE INVESTMENT PERCENTAGE OF CANADIAN TOTAL



GRAPH 8

ALBERTA GDP BY SECTOR, 1985 1971 \$ MILLIONS



GRAPH 9

ALBERTA EMPLOYMENT BY SECTOR, 1985

