Perspective 86

Nova Scotia

Government of Canada
Regional Industrial Expansion

Gouvernement du Canada
Expansion industrielle régionale

Canada

NOVA SCOTIA

ECONOMIC DEVELOPMENT PERSPECTIVE

1986

Federal Economic Development Coordinator
Halifax, Nova Scotia

(All statistics and conclusions are contingent upon data available as of April 14, 1986.)

TABLE OF CONTENTS

1. SUMMARY

After very strong real growth in 1984 (7.6 percent -- the highest of any province in Canada), growth of the Nova Scotia economy slowed in 1985. This slow growth is expected to continue through the remainder of the decade.

The slower growth is attributed to a reduction in the rapid rate of expansion experienced by the resource industries in the first half of the 1980s, a decrease in the fast pace of non-residential construction, particularly affecting the Halifax/Dartmouth metropolitan region, and sluggish growth in the service sector as a result of a decline in offshore exploration activity and restraint in the public sector.

Several sectors important to the performance of the Nova Scotia economy face very uncertain medium term prospects -- fisheries, energy, heavy industry and defence. U.S. countervail measures dominate fishing industry prospects. Thermal power developments with beneficial spin-off effects on the coal industry are offset by declining offshore exploration industry prospects. Weak markets continue to plague the province's metal-related heavy industries (steel, rail cars, shipbuilding). Restraint could affect the defence industry in Nova Scotia, a very significant sector in the economy.

Among the sub-regions, eastern Nova Scotia (Cape Breton, Strait of Canso and eastern mainland) continues to be most in need of assistance. Prospects for the sub-region are somewhat brighter now than a year ago with some positive developments taking place in industrial Cape Breton, the Strait of Canso and the Pictou/New Glasgow area. However, with the sub-region's heavy dependence on metal-related industries, a number of soft spots are evident.

The economy of the Halifax/Dartmouth area will be tested by the decline in offshore exploration and government restraint.

Three horizontal issues will be important to all of Nova Scotia -- downsizing, trade and transportation. The effect of federal government downsizing on the Nova Scotia economy could potentially be much greater than many observers anticipate. Trade liberalization will probably benefit the Nova Scotia economy, but particular sectors and communities could be negatively affected. The effects of transportation deregulation seem likely to be positive with respect to the trucking and air modes. However, apprehension exists over the potential negative effects with respect to rail deregulation.

2. ECONOMIC OVERVIEW

i) Comparative Performance

In terms of the usual comparative measures of economic performance, Nova Scotia ranks first among the Atlantic provinces, but still remains significantly behind the nation as a whole. A number of comparative measures are given below.

1985 Economic Indicators

	Nova Scotia	Atlantic Provinces	Canada	N.S. as a Percent of: Atlantic Provinces	N.S. as a Percent of: Canada
Population (thousands)	881	2 308	25 379	38.2%	3.5%
Gross Domestic Product (Current $ million)	10 040	24 489	420 671	41.0%	2.4%
Labour Force (thousands)	382	948	12 577	40.3%	3.0%
Employment (thousands)	335	804	11 339	41.7%	3.0%
Unemployment Rate	12.3%	15.2%	9.8%	81%	126%
Participation Rate	57.2%	55.2%	64.6%	104%	89%
Personal Income Per Capita ($)	12 278	11 588	15 390	106%	80%
Earned Income Per Capita ($)	9 992	8 855	13 068	113%	76%
Exports as a Proportion of GDP	35%	N/A	31%	N/A	113%

The service industries in Nova Scotia (transportation, communication and utilities; wholesale and retail trade; finance, insurance and real estate; business and other services; public administration and defence), account for about 74 percent of the province's output and 73 percent of employment compared to 68 percent and 70 percent, respectively, for Canada. The largest single industry in Nova Scotia is public administration (including such services as health and education) and defence in which 86 000 people, or 25 percent of the labour force, are employed.

ii) <u>Outlook</u>

In 1984 and 1985, the Nova Scotia economy grew at real rates of 7.6 percent and 2.6 percent respectively, compared to national real rates of 4.8 percent and 3.7 percent. The 1984 rate was the highest of any province in Canada, whereas the 1985 rate was the third lowest. Most forecasters (Informetrica, the Conference Board of Canada, Foster Economics, the Royal Bank of Canada, the Atlantic Provinces Economic Council) are predicting Nova Scotia's slow rate of growth, which began in 1985, to continue through 1986 and 1987 and on to the end of the decade. Projections indicate the Nova Scotia economy will grow from 1986 to 1990 at a real rate of between 1.2 and 2.5 percent annually, compared to a growth rate in the Canadian economy of between 2.4 and 3.8 percent annually.

A number of factors are responsible for this projected slowdown in the growth of the Nova Scotia economy. Crucial to the performance of the economy over the medium term is the performance of the service industries. Two factors suggest sluggish growth for the service sector over the next few years: the predicted, and already evident, slowdown in offshore activity; and very little growth, and possibly even a reduction, in public administration and defence.

The medium-term prospect for the construction industry also is mixed. While lower-cost residential (housing) construction -- which is a provincial government priority -- may increase (particularly in the short term), fear is that a slowdown in non-residential construction as a result of the over-supply of office buildings could negate any gains in residential construction.

Construction outside of the metropolitan region could improve as a result of the provincial government's decision to construct or modernize a number of regional hospitals, the decision of the Nova Scotia Power Corporation to add to its thermal-generating capacity, school construction, SYSCO modernization and possible other developments in Cape Breton.

Forecasters are virtually unanimous that the bright spot in the resource industries is mining and, in particular, coal production and tin production from the recently opened Rio Algom mine in Yarmouth County. Stable international tin prices are important to the operation of the Rio Algom mine. Environmental concerns with respect to this mining operation are an emerging issue.

No major problems are foreseen in agriculture and tourism and these sectors are expected to be stable. Projections for the fishing industry range from nil or declining real growth to a significant growth depending on assumptions made regarding U.S. tariff decisions. Forestry output is expected to be maintained, but its future depends on forest-renewal work being done now.

In total, it can be predicted that the resource industries will experience growth over the medium term, but that high growth rates should not be expected.

Manufacturing output is expected to increase. The manufacturing sector has regained the share of provincial output it lost in 1983 and 1984. Construction has begun on the Pratt and Whitney plant at the Halifax Airport and other prospects are being pursued aggressively.

Despite the relatively strong performance of the Nova Scotia economy in recent years, employment growth has not kept pace, nor are large employment gains expected over the next few years. Consequently, while the unemployment rate is expected to decrease, it is not expected to do so dramatically, and the unemployment rate (currently above 13 percent) will likely be between 10 and 13 percent throughout the remainder of the decade.

As a consequence of the heavy dependence on public administration and defence, restraint at the federal, provincial and municipal levels of government is felt sharply within the economy, resulting in no increase -- or possibly even a decrease -- in investment and in the consumption of goods and services.

iii) Dependence on Federal Government

As is the case with the rest of the Atlantic provinces, Nova Scotia is particularly dependent upon the federal government in a number of ways:

* As a provider of government revenue: The government of Nova Scotia receives 24 percent of its revenue from equalization payments, 13 percent (not including tax points) from established programs financing and seven percent from other programs (e.g. the Canada Assistance Program). In total the province receives 44 percent of its revenue from the federal government.

* As an employer: Approximately 11 percent of the employed labour force in Nova Scotia works for the federal government. Federal government employees account for 15 percent of the province's total wages and salaries.

* As a provider of goods and services: The federal government spends in Nova Scotia an amount equivalent to 36 percent of the province's Gross Provincial Product.

iv) Provincial Debt

Along with the governments of the other Atlantic provinces, Nova Scotia is heavily in debt ($3051 per capita in 1984-85), with 36 percent of its revenue from own-sources and 20 percent of total revenue being used in 1984-85 to cover debt charges. Thirty-five percent of the federal government's revenue in 1984-85 was used to cover debt charges. Income taxes are high (56.5 percent of federal income taxes: the third highest provincial rate). Three-quarters of the provincial government's expenditures are committed to health, education, social services and services to the public debt. Reductions in the rate of increase are expected in education and in transfers to municipalities, although new provincial hospital and transportation projects have been announced.

3. MAJOR ELEMENTS OF THE ECONOMY

As outlined above, the performance of the Nova Scotia economy in the medium term is dependent to a large extent upon the performance of a number of key sectors. Each of these sectors is faced with its own set of issues (constraints and opportunities) which, in the end, will determine how that sector performs and, in a more limited way, how the Nova Scotia economy performs over the medium term.

Four sectors (which do not necessarily correspond to the national accounting definition of sectors) have been identified as important to Nova Scotia's medium-term prospects: fisheries, energy, heavy industry and defence. While forestry has not been included in that listing, failure to negotiate a new federal-provincial agreement will have an impact on the continued existence of the forest industry, particularly in eastern Nova Scotia.

i) Fisheries

The fisheries sector continues to be relatively stable and is an important source of employment and export revenues. Problems associated with U.S. trade measures, over-capacity in harvesting and in groundfish processing, threatened fish stocks and parasite infestation create an uncertain outlook for this sector. Employment could decline as productivity increases.

Nova Scotia companies rely heavily on the U.S. as a market for their groundfish, whether fresh or frozen. Recent U.S. trade measures threaten, to some extent, to counteract the favourable currency exchange rate. The imposition of anti-dumping duties on some Canadian saltfish producers last year has been followed by the imposition of countervailing duties of 5.85 percent on imports of Canadian fresh fish. The impact on Atlantic exports is not expected to be significant, however, as long as U.S. demand remains high and the value of the Canadian dollar remains low vis-à-vis the U.S. dollar.

There are some grounds for believing that U.S. countervail action is related to the desire of New Englanders to regain access to the Canadian part of Georges Bank. U.S. stocks have been drastically depleted through over-fishing and ineffective resource management. Canada recently proposed discussions aimed at joint management of certain threatened trans-boundary fish stocks, but American fishing access to Canadian grounds is not on the table.

Other issues facing the processing sector include:

* Resource availability: Partly because of the poor state of U.S. fish stocks, there has been a dramatic increase in the amount of fish shipped unprocessed to the U.S., because Canadian processors can not match the U.S. price for raw material. This reduces the amount of onshore processing employment, a condition which could be exacerbated if the inshore sector succeeds in having quotas re-allocated from the offshore fleets.

* Productivity: As processors become more productive -- which is recognized to be essential if the Canadian fish processing industry is to remain healthy and hold on to its international markets -- employment can only decline.

* Factory vessels: National Sea Products Ltd. has been given a licence for one factory-freezer trawler, and there is a possibility of one more for the other offshore operators in Nova Scotia. If this leads, as some claim it will, to more factory-freezer trawlers, there could be a decline in onshore employment which will be partially offset by an increase in better-paid jobs on the vessels. The decision to license factory trawlers is justified as being necessary to tap particular top-end market segments, resulting in an overall improvement in quality. Nevertheless, the issue is likely to remain contentious, particularly in view of the resource shortages facing the inshore fishery.

* Parasites: Parasite infestation in groundfish, which is connected to the curtailment of the seal harvest, is costing companies millions of dollars per year in removing parasites from fillets and in lower quality products. The infestation may be reaching epidemic proportions and it may soon become a visible and controversial problem for industry and government, with attention focused on two aspects: how to control the seal population, and how to avoid a loss of consumer confidence in groundfish.

Aquaculture is likely to be the focus of growing attention by both the federal and provincial governments during the next few years. Jurisdictional and regulatory issues are complex, but perhaps even more difficult is the decision about how aggressive governments should be in promoting, encouraging or assisting the development of aquaculture as a business. The Department of Fisheries and Oceans has recently signed a Memorandum of Understanding with the Nova Scotia government setting out a framework for the liaising, regulation and development of the aquaculture industry.

In all, the fishery sector faces an uncertain future over the medium term. Issues are both external and internal. Industry participants have little control over many of the issues facing them, thus increasing the likelihood of friction and turmoil within the industry.

ii) Energy

Energy in Nova Scotia includes electric-power production (thermal, hydro and tidal), oil refining and offshore oil and gas exploration. In the future, energy may include gas and oil production, additional thermal power and possibly additional tidal power and synthetic fuels.

In 1979, the Nova Scotia government embarked on an eight-year plan to phase oil out of electric-power generation which, in that year, accounted for about 65 percent of the province's electric-power output, and to replace oil with coal, which accounted for only 15 percent of power generated in 1979.

By 1985, 74 percent of power was generated by coal, 11 percent by oil, 11 percent by hydro and four percent was purchased. With the conversion to coal of the Nova Scotia Power Corporation's 150-MW, oil-fired generating plant at Point Tupper and the possible construction of two 300-MW, coal-fired plants at the same or other locations, to be completed in the early 1990s, virtually all of the thermal-generating capacity in Nova Scotia will be coal.

Construction of these plants would have a most significant impact on the province's coal mining industry, located almost entirely in Cape Breton. The three plants would require about 1.7 million tons of coal annually and could potentially increase purchases from DEVCO from the current annual level of 2.3 million tons to 4.0 million tons. It must be recognized that coal-burning thermal plants are a major source of SO_2 emissions which, with proper corrective measures, can be controlled.

In 1985, the Annapolis Tidal Power pilot project, the first of its kind in North America, began producing electricity. The project is a prototype for a much larger project within the Bay of Fundy at one of two possible sites with construction costs estimated at $3 billion and $7.5 billion, and installed capacity of 1428 MW and 4400 MW, respectively. Construction of either of these projects would depend upon long-term contracts with New England utilities, external financing (the projects are well beyond the capacity of the province to finance) and resolution of environmental issues. Technical issues are much less important now than previously, as a result of the successful operation of the Annapolis project.

The Nova Scotia government opposes the construction of nuclear power plants within the province. As well, an assured market for nuclear power in the northeastern United States would be necessary before any commitment was given to constructing a plant. At the moment, therefore, nuclear power can not be considered as a serious alternative to conventional power.

The Venture gas project can not now be expected to proceed according to the timetable submitted by the Venture partners (Mobil, Texaco, Petro-Canada, Nova Scotia Resources, Canterra) in their application to the National Energy Board indicating that gas would be produced in 1990. Knowledgeable observers suggest a more likely date is between 1992 and 1995, while some observers, such as Informetrica, are suggesting gas will not be produced this century. More important to Nova Scotia industry over the medium term may be the impact of Newfoundland's Hibernia project or, possibly, the Cohasset oil field off Nova Scotia.

A number of issues confront offshore oil and gas development, including:

* Prices: Gas prices in the northeastern United States will be determined by the price of competitive fuels. Prices of these competitive fuels would have to increase above their present level for Venture and other offshore projects to be viable, and there is always the question of whether Western Canadian gas can supply the northeastern U.S. market at a lower price. This issue is considered to be the most important.

* Reserves: Another major gas discovery in the vicinity of Venture has been considered necessary to bring reserves up to the level required for commercial production. It remains to be seen whether the recent (January 1986) North Triumph discovery will provide the necessary reserve level, or whether an alternative development proposal will be put forward by Shell -- operator of the North Triumph field and a number of other fields in the area including Glenelg and Alma.

* Markets: A Nova Scotia offshore gas project would be dependent upon a market in the northeastern United States. While sales agreements have been signed for Venture gas, increasing competition in this market from Western Canada is expected.

* Georges Bank: Exploration for offshore hydrocarbons on Georges Bank now comes under Canadian jurisdiction, but before drilling begins in the area, previously covered by a moratorium, it is expected that the fishing industry's concerns over damage to stocks and gear would have to be satisfied.

Several synthetic fuel projects using coal are being considered. The largest, and perhaps most ambitious, is the Scotia Coal Synfuels Project being proposed for Port Hawkesbury, on the Strait of Canso. A second project is a Carbogel plant in Cape Breton being promoted by DEVCO which would produce a coal-water mix, technically not a synthetic fuel. The Carbogel process has already been proven and the partners are putting together a proposal to construct a production plant. A third, smaller project, Scotia Liquid Coal, is at the testing stage.

Crucial to all these projects is a price of crude oil sufficiently high to make the production of synthetic fuels an attractive, commercially viable alternative.

As for fisheries, the medium-term prospect for energy is mixed. The construction of coal-fired generating plants will stimulate construction and construction employment, whereas the delay in proceeding with Venture gas will have a negative impact, if only in terms of expectations.

iii) Heavy Industry

Metal-related heavy industry in Nova Scotia (primary metal, metal fabrication, machinery, transportation equipment, shipbuilding) accounts for 20 percent (9300) of Nova Scotia's total manufacturing employment of 46 400. Employment is concentrated in 10 plants which employ over 100 each, and in a few locations -- Sydney in Cape Breton, Trenton/New Glasgow/Pictou in northern Nova Scotia, and Halifax/Dartmouth.

Heavy industries in Nova Scotia have a number of common characteristics, most of which represent constraints to their development and threaten their continued operation.

For several of these industries (particularly shipbuilding), capital equipment is outdated and sadly in need of modernization. Markets for the output of many of these industries are shrinking. To a large extent, particularly for the shipbuilders, but also SYSCO (Sydney) and Hawker-Siddeley (Trenton), the industries depend upon government contracts and/or the infusion of government funds to keep them going.

Despite these constraints, these industries keep operating. In many communities they are the major source of employment and closure would bring serious economic dislocations. The three heavy industries facing perhaps the most difficult situations are SYSCO in Sydney, Hawker-Siddeley in Trenton and Halifax/Dartmouth Industries in Halifax/Dartmouth.

* SYSCO: The recently announced (December 27, 1985) intent of the federal and provincial governments to spend approximately $157 million on a second stage in modernizing the plant has been met with generally positive reactions. There is a recognized need for modernization and new technology if SYSCO is to continue to operate, despite some concern about the possible reduction in employment that could be brought about by the installation of an electric arc furnace. Modernization would, however, improve product marketability as a result of increased production and end-product flexibility.

* Hawker-Siddeley: The company and the federal government are devoting considerable effort to obtaining rail-car orders for this plant which recently laid off about 600 employees.

* Halifax/Dartmouth Industries: This shipbuilding company recently has been bailed out by the federal and provincial governments once again. Its future, and that of the people employed, depends upon the success of its management in obtaining construction and repair contracts.

iv) Defence

Defence is a major industry, accounting for almost half of the federal presence in Nova Scotia. In 1985, for example, it is estimated that the Department of National Defence (DND) spent over $850 million within the province on military and civilian pay, operation and maintenance, and construction. In that same year, including the military, reserves, civilians and instructors, 21 600 persons were employed in national defence. To put these figures in perspective, expenditures represented 8.5 percent of the provincial Gross Domestic Product in 1985 and employment represented 6.4 percent of the employed labour force.

For historical and strategic reasons, the distribution of defence activity within the province is uneven. Approximately 75 percent of employees and expenditures are within the Halifax/Dartmouth metropolitan region, 21 percent in the Annapolis Valley, three percent along the South Shore and one percent in Cape Breton.

According to DND, some 3100 civilian defence jobs in Canada will be lost over the next five years. Any major cutbacks in the defence budget will affect the provincial economy and, in particular, the economy of the Halifax/Dartmouth metropolitan area which is already beginning to feel the effects of the decline of offshore oil and gas exploration activity.

4. ISSUES

i) Sub-Regional Issues

Broad sub-regional overviews were included in the 1985 Perspective, which indicated that eastern Nova Scotia (Cape Breton and the eastern mainland) faced severe economic problems. Since the 1985 Perspective was written (November 1984), the federal and provincial governments have undertaken a number of initiatives in this sub-region including the introduction of special tax and incentive measures for Cape Breton and implementation of a number of the recommendations of the private sector Cape Breton Advisory Committee. This Perspective examines the prospects for three particular areas within eastern Nova Scotia and also the prospects for the Halifax/Dartmouth metropolitan area.

a) Cape Breton

Cape Breton has been a challenge for both its citizens and the federal government for many years. During the past quarter of a century, the federal government has been, through various development programs, the primary source of development funding in Cape Breton. The means have included federal-provincial programs, direct federal funding to industry, job creation through public sector corporations, various types of infrastructure development, various tax incentives and many short-term job creation programs. As well, certain federal activities have been located in Cape Breton and income maintenance programs have been used extensively. The region has become deeply dependent on the public sector for job creation and job maintenance.

The economic situation of Cape Breton in the mid-1980s is still depressed. Of a total population of 170 000, approximately 53 000 are employed and 17 000 unemployed. The unemployment rate of 24.6 percent is one of the highest in Canada, and the unemployment situation is significantly understated because of the "hidden" unemployed, i.e., those too frustrated or discouraged to continue actively pursuing employment opportunities. Economic difficulties in Cape Breton have been compounded recently by the closing of the two Atomic Energy of Canada Limited heavy water plants.

In response to these economic difficulties, the provincial and federal governments in May 1985 appointed the Cape Breton Advisory Committee. Its mandate was to provide both governments with recommendations to promote economic development and productive employment in Cape Breton. On September 25, 1985, the Cape Breton Advisory Committee released its report.

As a result of the committee's review of Cape Breton prospects, the formation of Enterprise Cape Breton -- a central agency designed to attract and secure new investments for Cape Breton -- was announced on December 6, 1985. In addition, the federal and provincial governments announced on December 27, 1985, agreement to fund the next stage of SYSCO modernization at a level of $157 million ($110 million federal) and to clean up the Sydney tar ponds. Additional measures are expected to be announced shortly. However, nothing less than a concerted effort, with local participation, will turn the Cape Breton economy around.

b) Strait of Canso

The major industries in the Strait of Canso region, now that Atomic Energy of Canada Ltd. is closing its heavy water plant, are all resource-related with 47 percent of employees in fish processing, 50 percent in pulp and paper and three percent in dairy-food processing.

Recent economic activity has concentrated at the Strait of Canso itself (Port Hawkesbury, Mulgrave). The Nova Scotia Nautical Institute is under construction and will be in operation in the fall of 1987. The Strait of Canso Industrial Development Authority is actively pursuing the proposed Canadian Underwater Centre. There is also a possibility of diversifying the operations of the shipbuilding yard at Port Hawkesbury, which could capture opportunities related to the Hibernia offshore development. At Mulgrave, a herring processing plant began operating recently and there is the possibility of an offshore clam operation being established there.

The brightest prospects for the region are the institutes (Nova Scotia Nautical Institute and the proposed Canadian Underwater Centre) establishing in the region and the proposed upgraded shipbuilding facility. The two institutes and the shipyard are uniquely linked through skilled personnel and the potential also exists for joint use of facilities and other types of exchanges. In total, these operations would employ 400 to 500 people. It is expected that spin-off activities, taking advantage of the human resources and high-tech ocean industry facilities, would locate in the area.

c) Pictou/New Glasgow

The Pictou/New Glasgow area, which includes the towns of Stellarton, Westville and Trenton, had a population in 1981 of 28 200 and a labour force of 12 100. The area is dependent upon heavy industry with five major employers in the area: Pictou Industries (shipbuilding); Maritime Steel and Foundry (metal fabrication); Michelin Tires (Canada) Ltd. (tires); Scott Maritimes (pulp and paper); and Hawker-Siddeley (rail cars). In total these plants employ approximately 3000 but, at full capacity, could employ 4000 or more. The economic health of the area depends very much on the operation of these major industries.

Both the Michelin and Scott Paper plants are operating at full capacity. Both have recently been modernized or expanded through assistance under the previous federal/provincial General Development Agreement. Markets appear to be secure and could possibly even be expanded under a trade-liberalization arrangement.

Maritime Steel and Foundry is undergoing a modernization program with DRIE assistance which, when completed, could close to double employment at the plant, currently at 50 to 55 workers.

Pictou Industries, unlike many shipyards in Nova Scotia, is busy. It recently has been awarded contracts for extending four trawlers and constructing a new ferry (to operate between Halifax and Dartmouth), has completed construction of a $26 million icebreaker for the Canadian Coast Guard and is constructing a $2 million scallop dragger. Employment at the yard should increase to about 300 in 1986 from the current level of about 200.

The Hawker-Siddeley rail-car plant at one time employed 1500 with employment over the last seven or eight years at a level of 700 to 800. Current employment is less than 100. The short-term prospects for the plant are not bright, despite efforts by both the government and the company to pursue foreign and domestic rail-car orders. Transportation costs and the company's use of Canadian inputs (albeit from suppliers with which the firm has corporate links) increase the cost of rail cars produced, compared to the company's Canadian competitors, but also increase the quality of the product. The delay in development of the offshore oil and gas industry has inhibited the diversification of the plant into construction of offshore structures.

The prospects for the Pictou/New Glasgow region, therefore, must be considered as mixed. Four of its five heavy industries appear to be on a solid footing, at least for the medium term, and there is the prospect of a new coal mine in the area which, if it proceeds, could employ 150 or more. However, the soft market for rail cars has a dampening effect on prospects for the area.

d) Halifax/Dartmouth Metropolitan Area

The Halifax/Dartmouth area is, in terms of population and economic activity, the largest in Nova Scotia and the Atlantic provinces. In the past few years it has grown significantly faster than other areas.

Three factors have contributed to a high rate of economic activity in the area:

* offshore oil and gas exploration;

* Halifax's growing importance as a commercial service centre for the Atlantic region, particularly in finance and insurance activities; and

* increased tourism and convention activity.

Offshore oil and gas exploration, which has accounted for a large part of new activity and investment in the Halifax-Dartmouth area in the last few years, is expected to decline by 50 percent in 1986. Related employment has already begun to drop. Forecasts for Nova Scotia's offshore oil and gas sector vary dramatically, but there is little doubt that in the medium term Halifax/Dartmouth will experience a decline in offshore-related investment, employment and business activity. It is conceivable, however, that a substantial number of companies will use Halifax/Dartmouth as a base from which to service the Hibernia development.

The prospect of offshore development, in part, spurred a number of new office towers and luxury condominium projects, many of which have recently been completed or are due to be completed in 1986. Commercial office space, for example, increased by 21 181 and 26 383 square metres in 1983 and 1984, respectively. Over 92 900 square metres of space will become available in 1985 and early 1986. This is far beyond the likely absorption rate and the vacancy rate which increased from roughly eight percent in March 1985, to 19 percent at the end of 1985, will likely increase to over 20 percent in 1986. To the extent to which offshore activity declines, several planned residential and hotel developments may also be revised.

A brighter spot is the Aerotech Park at the Halifax Airport where work has begun on the Pratt and Whitney plant.

On the positive side, Halifax continues to be a busy port. Although cargo traffic decreased 1.8 percent in 1985, container traffic increased 1.5 percent. The medium-term outlook is for growth, resulting in part from Halifax's ability to dock the new generation of container ships.

Halifax also will see continued growth in its service sector as a result of its position as a financial and commercial centre for the Atlantic provinces. The real challenge is whether future activity can absorb the excess capacity created by the boom of the last few years, particularly at a time when governments are retrenching.

ii) <u>Horizontal</u>

A number of issues facing Nova Scotia cut across both sectors and sub-regions. Three have been identified: downsizing of federal government activities, trade, and transportation.

a) Downsizing

Downsizing of the federal government and its agencies is a potentially significant issue to Nova Scotia and to the Atlantic region. It appears that downsizing will be evident in a number of ways:

* In many departments and agencies there will be an actual reduction in the number of public servants. The federal government has indicated 15 000 person-years will be cut in Canada over the next five years, 40 percent of the cuts will occur in the 1986/87 fiscal year.

* The activities of some government agencies which produce a good or service have been or will be reduced or eliminated (e.g. AECL's heavy water plants).

* The level of services to particular client groups (e.g. Coast Guard services or fisheries protection) are also being reduced and fees have been or are being introduced to recover costs for some services such as agriculture, harbours, and national parks.

* The federal government intends to reduce the rate of increase of transfer payments (e.g. established programs financing) which, in the absence of offsetting revenue growth elsewhere, will have the effect of increasing the general tax rate (if the services provided by the transfers are maintained) or reducing the level of services.

* A reduction in incentives to industry (e.g. Petroleum Incentive Program grants) is reducing economic activity in particular sectors. This reduction could be offset, to some extent, by the introduction of new incentives, such as the Atlantic Enterprise Program.

Individual downsizing measures can generally be justified in terms of increased efficiency of the public service. Taken together, however, downsizing measures offset, and may even exceed, employment and output creation brought about by the government's regional development initiatives.

The impact of downsizing on particular communities is of concern, as no mechanism for addressing the combined effects of individual downsizing measures is evident.

b) Trade

An issue of importance to Nova Scotia is the impact that trade liberalization will have on the provincial economy. The consensus is that trade liberalization will be a net benefit to the province, but it must be recognized that there will be differential impacts in terms of both sectors and sub-regions.

In 1984, Nova Scotia exported over \$1.3 billion outside Canada and imported \$0.9 billion of goods. The level of trade in services is not known. Over 70 percent of Nova Scotia exports are to the United States with over 50 percent of total exports going to New England (Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island) and the middle Atlantic (New York, Pennsylvania, New Jersey) states. Exports to these markets have increased as exports to other U.S. markets and other countries have fallen. An estimated 35 000 jobs (10 percent of the employed labour force) in Nova Scotia can be attributed to exports.

Over 60 percent of Nova Scotia's exports outside the country in the first three quarters of 1985 were resources and resource products (fish and fish products -- 34 percent; minerals -- five percent; pulp and paper -- 22 percent). The other major exports were transportation equipment (24 percent -- largely tires) and industrial oils and chemicals (five percent).

Products considered to be most adversely affected by trade liberalization are some agricultural products (dairy, poultry and hogs), textiles, beverages (beer), lumber, steel and steel products. Fear is that increased price competition from imports will reduce sales of these products in the domestic market. With the exception of beverages, these products are produced in the areas outside of the Halifax/Dartmouth metropolitan region.

Of greater concern to the economy of Nova Scotia is the effect of non-tariff barriers and countervail actions in the United States. Countervail is linked to subsidies of various sorts provided to industries to locate in Nova Scotia. If, as a result of trade negotiations with the United States, these subsidies were removed, then gains from trade liberalization arrangements could easily be offset by losses through the removal of regional development incentive schemes.

c) <u>Transportation</u>

About 60 percent of the value of goods produced in Nova Scotia is in export products, 34 percent going to the rest of Canada and 26 percent going out of the country. The transportation network which moves these goods is vitally important to Nova Scotia, as are the rates at which goods are shipped.

With respect to exports, Nova Scotia, with its container facilities in the Halifax/Dartmouth metropolitan area, may be at an advantage compared to centres in Central Canada, depending upon the destination of the goods.

It is with respect to trade within the country that Nova Scotia's disadvantages appear. Freight rates for goods shipped from Nova Scotia to Central Canada are reduced through subsidies provided under the Maritime Freight Rates Act (intra-regional) and Atlantic Region Freight Rate Assistance Act (westbound) at a level of 10 percent. About three quarters of the payments go to trucking, and most of the rest to rail. Less than one percent goes to marine. Still, centres in Central Canada are at a cost advantage in terms of shipping goods to the major Canadian markets of Quebec and Ontario. Transportation costs also put local firms which use inputs from Central Canada at a cost disadvantage.

Deregulation of transportation is being met with mixed reactions. Trucking deregulation, for instance, is welcomed as it will remove interprovincial barriers and inconsistencies. On the other hand, concern is being expressed over rail deregulation because attempts to increase competition may mean little to an area served essentially by one railroad (Canadian National). Nova Scotia firms may well be at a disadvantage vis-à-vis Central Canadian firms in negotiating "confidential contracts". There also is a fear that rail service to smaller, more remote centres may suffer and that the Port of Halifax may be at the mercy of Canadian National in establishing rates. Coastal shipping is a concern to the extent that shippers are forced to use uneconomical Canadian vessels at a time when there appears to be a switch to sea transportation both locally and for shipments to the eastern United States.

The outlook regarding air service is generally positive. Although some concern has been expressed that service to smaller centres may deteriorate and fares increase, deregulation is generally expected to open up opportunities for smaller carriers which could improve service. It is expected that it will be a year or two before the system shakes out as the two major air carriers (Air Canada and Canadian Pacific Air Lines) line up with different regional airlines. One effect could well be an upgrading of equipment serving the smaller centres in Nova Scotia and the Atlantic provinces together with better scheduling. As well, the prospect for improved air service to New England is much improved.

5. CONCLUSIONS

Prospects for the Nova Scotia economy are less bright now than they were a year ago, as a result of:

* the decrease in offshore activity;
* delays to the Venture project;
* government restraint measures; and
* U.S. countervail threats.

It remains to be seen if vigorous efforts by the federal government in eastern Nova Scotia, and in particular in Cape Breton, will result in economic improvements.

Three emerging national issues will have a significant impact on the Nova Scotia economy in the medium term -- federal government restraint, trade arrangements with the United States and transportation deregulation. In all three issues the role of the federal government is paramount. It will clearly be necessary for the federal government to consider regional impacts in the process of making decisions in these areas.