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# Perspective 86

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Prince Edward Island



Government  
of Canada

Regional Industrial  
Expansion

Gouvernement  
du Canada

Expansion industrielle  
régionale

Canada

PRINCE EDWARD ISLAND

ECONOMIC DEVELOPMENT PERSPECTIVE

1986

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**Federal Economic Development Coordinator  
Charlottetown, Prince Edward Island**

(All statistics and conclusions are contingent upon data available as  
of April 11, 1986)

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## 1. SUMMARY

Although Prince Edward Island remains a "have-not" province, considerable economic progress and relative improvement has been made in the last two decades. Today, family disposable incomes approach 80 percent of the Canadian average, every citizen has access to a full range of social services, the population is gradually increasing and employment opportunities are not appreciably worse than in most other provinces. The short-term forecast is for slow, if unspectacular, growth with some marginal reduction in unemployment rates.

P.E.I. lacks a forestry or mining industry and has underdeveloped manufacturing and business-service sectors. Agriculture and fisheries play a relatively more important role in the P.E.I. economy while public administration is also a much more dominant factor.

The structure of the P.E.I. economy is largely a consequence of its resource base and its distance from major markets. These have been the root cause of many of P.E.I.'s economic "problems", the most noteworthy of which are high unemployment, low incomes, low productivity, low investment and outmigration.

Over the last two decades, high government expenditures have, to a large extent, compensated for inadequate private sector opportunities which has resulted in reduced income disparities, a rapid increase in the labour force and participation rates, and notable improvements in the quality of government, social services, public sector infrastructure, and the competitiveness of the primary industries.

However, the basic weaknesses in the economic structure remain, the most fundamental being the lack of a significant manufacturing sector. While opportunities exist in other sectors, they are not of sufficient magnitude to offset the lack of an adequate manufacturing base.

During a period when the dominant player in the economy -- government -- is contracting in real terms, economic development strategies must be concerned with identifying options to sustain the population base and overall level of economic activity. The most promising option involves broadening the economy by promoting growth in the manufacturing sector together with tourism and select components of the service sector.

The promotion of a manufacturing sector in Prince Edward Island is not without its difficulties. However, recent successes together with the new range of possibilities in the biotechnology field introduced by the Atlantic Veterinary College and the proposed Animal Health Laboratory and the prospect of Litton Industries locating in the province, provide some support for this approach.

The major issues identified all relate to P.E.I.'s abilities to develop the relatively modest opportunities which exist and to reduce its dependence on government expenditures.

The most important issue deals with the need to develop a modern, efficient transportation system irrespective of whether a permanent fixed crossing is constructed. At the same time during this period of federal "downsizing", it is important to manage federal expenditures on Prince Edward Island so that progress in the private sector is not offset by the impact of reductions in government expenditures.

Current trade developments, including attempts to dismantle interprovincial trade barriers, are of fundamental importance to P.E.I.'s economic development aspirations. Finally, although the Prince Edward Island economy is generally healthy and the outlook bright, the agricultural sector is currently going through a very difficult period and some steps are needed in the short term to preserve what in the long term can be a productive and competitive industry.

## 2. ECONOMIC OVERVIEW

### 1) Outlook

The Prince Edward Island economy grew by approximately three percent in 1985, a rate marginally below that of Canada. The pace faltered perceptibly in the final quarter as the effect of disastrous potato prices began to be felt.

The outlook for the immediate future is for continued, if unspectacular, growth.

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#### Economic Forecast

	Regional Domestic Product %	EMPLOYMENT (thousands)	UNEMPLOYMENT RATE %
1985	+2.7	51.0	13.2
1986	+3.0	52.0	12.5
1987	+3.2	53.0	11.7

Source: P.E.I. FEDC Office

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Forecasters generally agree that the P.E.I. economy will not grow quite as fast as Canada's over the next few years. Employment is expected to increase faster than the labour force growth, bringing a marginal reduction in unemployment rates.

By far the most important consideration in any economic projection concerning P.E.I. is the performance of the service industries. P.E.I.'s four largest sectors are all service industries, which in total account for three quarters of all output. Much of P.E.I.'s recent growth has been due to rapidly expanding service industries. The engine has been the public administration and defence component which by itself accounts for 20 percent of the Gross Domestic Product (GDP). When one has an economy in which U.I.C. receipts outweigh those of the potato crop and Department of Veterans Affairs (DVA) expenditures are greater than the lobster harvest, it is not difficult to pinpoint the major player in the economy.

Expectations are that future government expenditures will decline in real terms and that this will moderate consumer spending and cause the service industries to grow much more slowly than hitherto.

Performance in the goods-producing sectors is expected to be quite strong. The most difficult area to predict and the one currently in difficulty is agriculture. On balance it would seem that the oversupply

situation which characterizes so much of agriculture will force output contractions in a number of areas (potatoes, hogs, tobacco) in the medium term.

Moderate growth is anticipated in construction and fisheries and strong performances are anticipated in tourism and manufacturing.

**ii) Competitive Performance**

Since entering Confederation in 1873, the economic circumstances of the province gradually deteriorated relative to the rest of Canada. This trend was reversed in the 1970 as a result of accelerated federal government expenditure. The present situation is outlined in the current economic indicators chart that follows.

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**1985 Economic Indicators**

	<u>P.E.I.</u>	<u>P.E.I. as a Percent of</u>			
		<u>Atlantic Provinces</u>	<u>Canada</u>	<u>Atlantic Provinces</u>	<u>Canada</u>
Population (thousands)	<b>127</b>	2 308	25 379	5.5%	0.5%
Gross Domestic Product (current \$ million)	<b>1 244</b>	24 489	420 671	5.1%	0.3%
Labour Force (thousands)	<b>59</b>	948	12 577	6.2%	0.4%
Employment (thousands)	<b>51</b>	804	11 339	6.3%	0.4%
Unemployment Rate	<b>13.2%</b>	15.2%	9.8%	87%	135%
Participation Rate	<b>61.9%</b>	55.2%	64.6%	112%	96%
Personal Income Per Capita (\$)	<b>11 192</b>	11 588	15 390	97%	73%

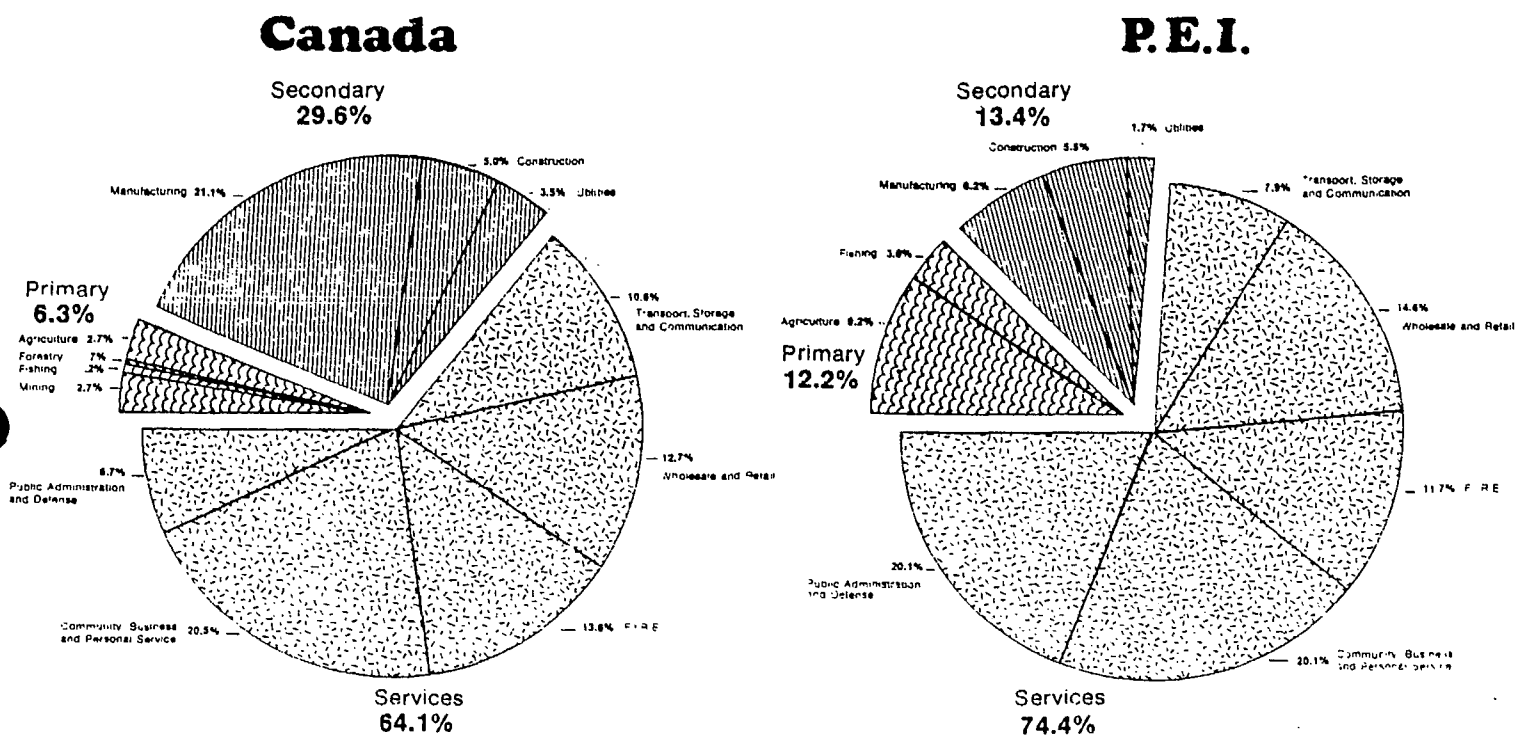
Source: Conference Board of Canada, Statistics Canada

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Although the last two decades have witnessed only a small reduction in income disparities, they have seen a much more significant relative improvement in other indicators such as the level of social services, the quality of socio-economic infrastructure, employment creation and the competitiveness of the province's major industries.

iii) Economic Structure

The major structural difference between P.E.I.'s economy and that of Canada is that agriculture, fisheries, and public administration are comparatively more significant in the island economy while manufacturing, mining and forestry are less so (see chart). By far the most critical difference lies in the manufacturing sector which is both small and tied to the resource sectors (75 percent food processing).



Source: The Conference Board of Canada

A very small local market requires P.E.I. to export two-thirds of its agricultural, fisheries and manufacturing output. Approximately two-thirds is exported to other provinces, the balance to other countries, mainly the U.S.A.

Strong linkages exist within the island economy, some 50 percent of the fish catch and agricultural output being processed locally, including virtually all dairy and meat production. The lack of a diversified manufacturing industry causes income generated by island industries to be rapidly leaked from the province.



The province's production of any product, with the exception of potatoes, is insignificant in the total Canadian picture. Thus, prices are externally set unless controlled by federal or provincial government-sponsored price schemes.

This means that the province's production units tend to be price takers to a large extent. As a result, many producers of primary products are subject to the "bust-or-boom" cycle which prevents planned growth. Even when these products are processed, P.E.I. production retains some of this cyclical quality.

The province's unique economic structure together with its small-scale production units and distant markets largely explains other distinctive features of the island's economy. For example:

- \* Low Productivity: Earned incomes are low in P.E.I. because productivity, i.e., output per worker, is low. In 1985, GDP per employed person is estimated at \$24 390 in P.E.I., 65.7 percent of the Canadian average, by far the lowest in Canada. Low productivity appears to be spread across all sectors, although in agriculture the gap is relatively small. The general situation is characterized by low output per worker, low earnings and relatively higher utilization of labour relative to capital. The size of the productivity gap between P.E.I and Canada is very substantial, requiring an upward shift in the value of production-per-worker in the order of 65 to 85 percent in order to meet national averages. This order of adjustment is indicative of the magnitude of the problem if one aims to achieve national income levels on P.E.I.
- \* Low Investment: P.E.I.'s dismal investment performance is of critical importance to efforts to achieve self-sustained economic growth. Per capita investment, which in 1985 was 59 percent of the Canadian average, has varied between 50 and 80 percent of the national average. Slow rates of capital formation translate directly into slow rates of growth in productivity and per capita earned income.
- \* High Seasonality: Virtually all the goods-producing industries and tourism-related service industries are seasonal. Unemployment is largely seasonal. Highly seasonal industries such as tourism, inshore fishing, construction and food processing are labour intensive and utilize largely unskilled workers. Seasonality contributes toward low investment, productivity and wages.

#### **iv) Labour Market Analysis**

The long-run population trend has been toward stability with natural growth, largely counter-balanced by outmigration. Unfortunately, a high percentage of these migrants have been highly skilled adults in the 18- to 35-year age range. This has produced adverse consequences on labour force composition in terms of a comparative lack of entrepreneurs and skilled workers, and produced a population age structure relatively heavy at both ends of the age spectrum with concomitant social costs.

Dramatic changes have occurred in the P.E.I. labour market in the last two decades. Structural economic changes resulted in employment shifts from the primary to the service industries. Female participation rates soared, and the labour force became much better educated. It also grew rapidly as the "baby boom" generation became of age. Consequently, despite the creation of many additional jobs, the unemployment rate gradually increased.

Employment participation rates have continued to remain the highest in Atlantic Canada. Wage rates and per capita incomes are the lowest in Canada at approximately 70 percent of the national average. Unemployment rates have always been amongst the highest in Canada, indicative of severe structural unemployment. The composition of the labour force is relatively unskilled. Hence, despite high unemployment, manufacturers and government at times must import skilled workers.

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**Current P.E.I. Labour Force Statistics**

	1985 <u>('000)</u>	1984 <u>('000)</u>
Population	127.0	125.3
Labour Force Population	95.0	93.0
Active Labour Force (seasonally adjusted)	58.5	55.7
Employment (seasonally adjusted)	50.8	48.6
Unemployment Rate (seasonally adjusted)	13.2%	12.8%
Participation Rate	61.9%	60.2%

Source: Canada Employment and Immigration Commission Labour Market Bulletin, P.E.I. Region

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The immediate future is expected to see the opposite of what has happened in the recent past, i.e., few new jobs created but a virtually static labour force resulting in a marginal reduction in the unemployment rate.

In the long term, preoccupation with the creation of new jobs may well abate to allow consideration to be given to other important issues. For example:

\* Unemployment is largely seasonal (i.e., employment is 20 percent higher in July than in January), and will remain high by Canadian standards until the impact of seasonality is cushioned. More jobs will result in higher participation rates and more in-migration rather than lower unemployment.

- \* How the island labour force will adapt to, and utilize, technological change will be critically important, especially in the service industries.
- \* By Canadian standards the labour force remains to some extent unskilled. There will be a continuing need for practical job training, as well as formal education.
- \* Youths, females and rural workers are not enjoying an equal share in employment opportunities.

### 3. MAJOR ELEMENTS OF THE ECONOMY

#### 1) Agriculture

The agriculture industry has long been the backbone of the provincial economy. Agriculture accounts for nine percent of GDP and employs 10 percent of the labour force. In addition, the processing of agricultural products accounts for approximately 50 percent of employment and value added in the manufacturing sector. The past year has been particularly difficult with potatoes selling at one-third of production costs, poor hog prices, and cut-backs in tobacco acreage. No significant improvement is expected in 1986.

There are a number of expansion opportunities including:

- \* increased sales of seed and breeding stock including potatoes, strawberries, hogs, beef, and fur-bearing animals;
- \* increased production of livestock feed including grains, forages, and protein crops to reduce the region's requirement for western grain and Ontario protein supplements; and
- \* increased red meat sales to the region which is a net importer but demands high quality (less fat) at competitive prices.

The overwhelming output constraint is the surplus capacity that exists in almost all commodities. There are simply too many potatoes and hogs, too much tobacco and milk. This seems increasingly to be the case for more and more commodities, and on a wider scale, i.e., on a world, rather than North American market basis. This situation is not likely to improve and may well get worse in the immediate future. This scenario would lead to continued pressure on prices and ultimately output reductions whether the result of heightened competition or the adoption of supply management programs.

Other key constraints that impede performance include poor financial status, lack of appropriate technology, weaknesses in marketing, inadequate technology adoption and management practices, and soil erosion and drainage problems.

Major current or potential issues are:

- \* farm financial stress and bankruptcies;
- \* U.S. trade issues, especially countervail and trade liberalization negotiations;
- \* Feed Freight Assistance which has not kept pace with grain transportation cost increases, resulting in higher feed costs;

- \* assistance for particularly distressed commodities such as potatoes and swine;
- \* planned increases in federal inspection fees; and
- \* plant breeders' rights.

Employment opportunities for both operators and farm labour are expected to continue to decline slowly over the next decade as the number of farms decreases and improved technologies are introduced to reduce unit costs of production and allow the industry to remain competitive. In the long run, the competitiveness of island farmers and cyclical price improvements should enable the industry to cope with current difficulties.

## ii) Fisheries

In general, the last decade has been a period of expansion and prosperity for the island fishery. At present there are approximately 3000 registered fishermen and 2200 fish plant workers. Fisheries accounts for seven percent of GDP and 10 percent of employment. Of the record \$51 million landed value in 1985, shellfish accounted for 80 percent. Lobster by itself represented two-thirds of total landed value. The fishery is largely seasonal and inshore and is concentrated at the eastern and western ends of the island where employment opportunities are scarcest and average incomes lowest.

There are limited opportunities for further growth in fisheries, including:

- \* Aquaculture development holds some promise especially for cultivated mussels, oysters, trout and salmon. A major lobster farming project has recently been announced.
- \* Increasing the carapace size and reducing poaching of lobsters could add considerably to sustainable yields.
- \* Prince Edward Island was recently awarded an additional 14 exploratory snow crab permits to supplement the 16 granted in 1985. Catches were excellent in 1985, and three island fish processors are known to be gearing up to process crab in the coming year.

The cyclical nature of the shellfish fishery places the island fishery in a vulnerable position. Diversification is therefore required to protect fishermen from extreme income fluctuations.

More productive utilization of the groundfish fishery is hindered by low prices and high operating costs, and the sporadic implementation of key Kirby Task Force recommendations, especially those concerned with improving quality through the introduction of dockside and final product grading/labelling.

The island's largest processing plant, Georgetown Seafoods, has not been re-opened. At the same time, Prince Edward Island's other significant offshore plant, Usen Fisheries, is concerned about its low catches of redfish.

The major issues facing the island fishery are:

- \* U.S. Countervail: The recent reduction of the interim duty on Canadian fresh fish from 6.85 to 5.85 percent has reduced many of the fears island fishermen have concerning U.S. countervailance activity. Efforts by the New England lobster fishermen and the Alaskan offshore industry to extend the countervail to lobster and processed groundfish appears to have abated. The failure of the U.S. Department of Commerce to find unemployment insurance countervailable and the public stance of the U.S. fish processing industry against duties on Canadian fish, seem to have at least temporarily taken the steam out of the countervail bandwagon. The International Trade Commission confirmed the 5.85 percent duty at inquiry hearings. The impact of this level of duty will not be substantial as long as the Canadian dollar does not appreciate significantly.
- \* Aquaculture: The rapid production increases planned in several provinces, combined with unorganized marketing and extensive government intervention brings the possibility of destructive competition. Jurisdictional and regulatory issues abound, but perhaps the key question concerns the long-term viability of many aquaculture projects without extensive government assistance.
- \* Quality: As previously mentioned, delays in implementing dockside grading regulations and other measures continue to harm the reputation of Canadian fish in export markets. In general, P.E.I. is ahead of other provinces in this regard but suffers the same stigma in the marketplace.

Prince Edward Island has now enjoyed several very good years in fisheries. The heavy reliance on lobster which has historically been a cyclical fishery suggests that sooner or later a downturn will occur. The progress made in recent years towards diversifying the fishery through the introduction of crab and expansion of aquaculture species such as mussels, oysters and trout and the revitalization of the groundfish fishery should provide increased stability. The long-term outlook is for higher incomes, but the fishery will not be a source of significant new job opportunities.

### **iii) Manufacturing**

Manufacturing accounts for only 6.2 percent of GDP compared to 21.1 percent for Canada. About 75 percent of manufacturing activity is accounted for by processing of the bulk of the island's fish, beef, pork and dairy products, and a significant portion of vegetable production.

Output is expected to increase by three percent in 1985 to \$330 million, and by a further six percent in 1986. Much of the new growth will come in the non-food processing sector as companies such as Advanced Medical Technologies, Aqua Health Ltd. and Weavea Canada Limited begin commercial production. The province, through the vehicle of the Comprehensive Development Plan, made a determined effort to broaden the industrial base in the 1970s. Investment in industrial parks, shell factories and incubation facilities, combined with an aggressive industrial prospecting and promotion program, resulted in a number of European-based, "footloose" industries being attracted to the island. This experiment was only partially successful, with many companies failing to survive. The province's industrial policy stresses resource-based manufacturing and the expansion of existing enterprises.

The long-term outlook for the manufacturing industry in P.E.I. has never looked better. In the agricultural processing area a new brewery and a new meat plant promise moderate expansion. The fish processing industry has performed very well during a period when the industry in general has encountered severe difficulties. The continued closure of the Georgetown Seafoods facility, together with uncertainty surrounding the future of the offshore plant at Souris which suffers from inadequate fish supply and an outmoded fleet, are the major problems facing this sector.

The bright spot in the industrial sector is undoubtedly the non-food processing component where growth is expected to reach 12 percent in 1986 and continue at a rapid rate. This growth will derive partly from expansion of existing companies, such as Advanced Medical Technologies, which have yet to reach full potential, and partly from the result of P.E.I. attracting increasing numbers of new ventures.

As the Atlantic Veterinary College and possible Department of Agriculture Animal Health Laboratory become established, it is hoped that together with a nucleus of companies such as Aquahealth and Advanced Lobster Technology, sufficient mass may be achieved in the biotechnology field to attract similar ventures to P.E.I. Should Litton Industries locate on P.E.I., which depends on the company finalizing a major defence contract, a major boost would be given to Prince Edward Island's industrial development aspirations.

Major constraints include a lack of venture and equity capital, uncertainty with respect to future electricity and transportation rates and, in some cases, inadequate supplies of skilled workers.

The recently implemented Industrial Electricity Agreement provides for a 20 percent rate reduction to island enterprises for a two-year period. This agreement also calls for the appointment of a special advisor to examine long-term electricity supply and pricing options for P.E.I.

The most important issues in the manufacturing sector are:

- \* Trade Issues: These would include potential U.S. action on processed fish and pork products, liberalized free trade with U.S. and reductions in interprovincial trade barriers.
- \* Fixed Crossing: Three proposals are presently being examined to construct some form of fixed crossing to New Brunswick. Should this venture proceed it would give a considerable impetus to the manufacturing sector.
- \* Transportation Deregulation: Dependent as they are on distant markets, manufacturers are concerned that current steps to deregulate transportation will result in reduced competition, higher freight rates and poorer air service.

As previously mentioned, the long-term outlook for the manufacturing sector is for healthy expansion. However, it is important to realize that manufacturing employs only 4000 person-years and therefore the impact of such expansion on the overall employment situation will be quite limited.

#### iv) Tourism

Federal tourism statistics indicate that tourism is responsible for \$140 million of direct and indirect expenditures on Prince Edward Island. Employment is approximately 4000 person years although 9000 people are employed in the peak season. Relatively speaking, tourism is more important to Prince Edward Island's economy than that of any other province.

For the ten years prior to 1983, tourism visitation to the province has fluctuated around the 600 000 mark. The number of tourists increased by approximately four percent in 1985, and is forecast to increase by 1.2 percent in 1986. Major market areas are Nova Scotia, New Brunswick, Ontario, Quebec and the New England States.

Since the mid-1970s tourism has essentially been stable in Prince Edward Island. Thus market share has been gradually eroding. This appears mainly to be the result of increased sophistication and, consequently, segmentation in tourism marketing, which Prince Edward Island with its stress on family/automobile-type mass marketing has failed to take advantage of. A change of direction is now taking place, with such groups as windsurfers, golfers, cyclists, and theatre-goers being the target of specific promotions. A further challenge lies in the ability of the tourism industry to extend the season beyond the six-to-eight-week peak which has serious drawbacks from the point of view of attracting investment in facilities such as accommodations and attractions.

Tourism is a major growth industry, and Prince Edward Island has the qualifications to share in this growth. An extensive tourism infrastructure and tradition together with widely acknowledged natural attractions present numerous opportunities. The most interesting are those which would extend the season, such as convention traffic, fall bus tours, fishing enthusiasts



and so on. The major constraints include a short season of dependable weather, relatively high costs, and ferry delays.

It is possible to be cautiously enthusiastic about the tourism industry, provided the island develops a well-thought-out marketing program. However, until tourists can be attracted in the shoulder seasons, tourism will not be an attractive investment or offer employment potential to any but students and unskilled seasonal labour. The construction of a fixed crossing would give a major impetus to tourist traffic.

**v) Government**

Examining spending per capita provides a key to understanding a major aspect of the P.E.I. economy. In 1981, for example, islanders were able to support expenditures of 76 percent of the national average, with income of 70 percent of the national average on the basis of production valued at 51 percent the Canadian average. This situation is sustained largely because of the size of federal spending on P.E.I. relative to GDP.

As has been pointed out, public administration and defence is the province's single largest sector accounting directly for approximately 20 percent of GDP. However, as the following statistics demonstrate, this seriously underestimates the real influence of government expenditures on the economy.

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**Dependency Indicators (1981)**

	<u>Canada</u>	<u>P.E.I.</u>
Government expenditure/gross provincial expenditure	19.4%	44.3%
Transfers/personal income	11.0%	23.4%
Government employees/total employed	13.0%	18.0%
Government investment/total investment	11.8%	29.1%

Source: P.E.I. FEDC Office based on Statistics Canada data

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Government expenditures approximated 87 percent of GDP in 1981, a situation which has deteriorated considerably in the last two decades. Rapid growth of federal spending in constant dollars occurred in 1965-75, at about eight percent per year, slowing to 0.3 percent per year in 1975-81.

In 1981 total government spending per capita was \$6441 in P.E.I., 15 percent above the Canadian average. This was comprised of \$4890 federal (168 percent of the Canadian average) and \$1551 provincial (57.9 percent of the Canadian average).

A similarly low revenue-per-capita picture emerges for federal revenues. Thus, one finds that P.E.I. has the second highest government spending per person in Canada, but the lowest revenues per capita. The difference of total government spending relative to total government revenues on P.E.I. at all levels measured \$3727 per person in 1981, compared to \$165 for Canada in total and \$3577 in Nova Scotia, the second largest.

The following comparisons may serve to underline the dominant role of government in the P.E.I. economy more vividly than aggregated statistics.

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Major Factors in the P.E.I. Economy (1984-85)

	<u>\$ million</u>
U.I.C. payments	102
Potato crop cash receipts	72
Non-resident tourism expenditures	58
Fisheries landed value	52
D.V.A. expenditures	48
C.F.B. Summerside expenditures	39

Source: P.E.I. FEDC Office

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Just as in times of rapid government expansion, a heavy government component in the economy ensures reasonable growth, in the present era of government "downsizing" it acts as a major damper on economic prospects. In fact, any downsizing has to be carefully managed to prevent major harmful effects.

#### 4. ISSUES

##### 1) Transportation

The quality and cost of transportation services is the most important issue affecting Prince Edward Island today.

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#### Modal Share of Transportation Services Output

	<u>Air</u>	<u>Rail</u>	<u>Water</u>	<u>Motor</u>	<u>Pipeline</u>	<u>Total</u>
	Percent					
Canada	25	32	7	26	9	100
P.E.I.	29	24	6	41	-	100

Source: Informetrica Ltd., Conference Board of Canada

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As the above figures show, Prince Edward Island is relatively much more dependent on the highway mode than Canada generally, and much less so on rail. This is a relatively recent development and somewhat surprising in that Prince Edward Island's markets tend to be distant and its products of relatively low value. Part of the answer lies in the weighting of high value imports, but much is due to the relative inefficiency and poor service of rail in Prince Edward Island. Considerable quantities of potatoes move at higher rates by truck to Central Canadian markets because delivery and quality are much more dependable.

P.E.I.'s transportation system is beset with many problems. The province has the highest density of paved and unpaved highways of any province, but unpaved roads are unpassable during the spring thaw and the paved highways deteriorate quickly and require costly annual maintenance. The island rail system, because of capacity limitations, a poorly maintained track base, an inconvenient schedule and continuing uncertainty regarding CNR intentions, does not meet the needs of shippers and has witnessed a persistent loss of traffic to trucking. The ferry system has been operating with ever-increasing subsidies, but at the present time Northumberland Ferries requires new ferries and concerns are being expressed regarding CN Marine schedule cutbacks.

On the positive side, the new Charlottetown Airport terminal building and current air links will provide adequate air transportation services, and the state of island ports, once the Georgetown wharf is reconstructed and the Summerside/Souris harbour improvements completed, should satisfactorily cope with medium-term demands.

Current transportation issues include:

- \* The level of ferry service between Prince Edward Island and the mainland is an issue now before the Minister of Transport;
- \* The Canada Shipping Act which is now before a Parliamentary committee is a major concern to the province with respect to section 4 which would give the Minister of Transport authority to implement cost recovery for certain marine services such as ice-breaking and dredging;
- \* Transportation services for the tourism industry, especially in the area of long-haul air services to conventions;
- \* CN multi-modal plans including the possible reduction in rail freight service;
- \* The condition of the province's many small ports and harbours; and
- \* The state of the island's highway system and the high ongoing maintenance costs.

**ii) Downsizing**

As has been demonstrated, federal government expenditures are the dominant factor in the island's economy.

In a period of federal government budgetary constraint those provinces such as Prince Edward Island that are heavy net recipients of federal funds must either make up the difference with own-source funding or learn to operate with fewer federal dollars.

The provincial government is heavily reliant on federal transfers, which approximate 50 percent of total revenues. The provincial government is unable to meet, from its own revenue sources, basic social services such as education, health and welfare and, at the same time, service the provincial debt. By 1985 expenditures on education, health and social services and debt charges accounted for 71 percent of the provincial budget. These non-discretionary expenditures have been absorbing an increasing percentage of total provincial expenditures and are forecast to continue to do so in the future.

The implication of this trend is that the province will find it increasingly difficult to fund existing economic development programs, let alone undertake new developmental initiatives. The province has calculated that approximately eight percent of its budget is available to be spent on discretionary programs. Provincial debt per capita was \$3606 in 1983 and the province was recently given an A-3 rating by Moody's. Increased borrowing to sustain development efforts is not a realistic long-term option.

It is forecast that the growth rate in provincial government revenues will continue to decline in the next five years, placing extreme pressures on the province to control rapidly increasing social expenditures and making it more dependent than ever in the short term on federal government transfers to maintain current social service levels and undertake any new economic development initiatives.

Although, in a province with such a heavy federal presence, it is likely that the major economic impact of federal constraint will derive from the many small budget cuts in the ongoing expenditures of all line departments, there are several areas of major concern. These are:

- \* Increased cost recovery for federal services, e.g. higher agricultural-inspection fees, increased national park entrance fees, high freight and ferry rates, etc;
- \* Major amendments to the Unemployment Insurance Act which would shift a financial burden onto provincial welfare programs; and
- \* Reductions in federal transfers to the province such as the announced intent to reduce transfers under Established Programs Financing.

### iii) Trade

Prince Edward Island consumes approximately 35 percent of its output, markets 45 percent to other provinces and exports the remaining 20 percent.

On the other hand 25 percent of consumption is supplied locally, 10 percent is imported while 65 percent comes from other provinces. Hence, other provinces are much more significant as sources of supply than as markets. In fact, the negative balance of interprovincial trade on goods was \$250 million in 1979.

Two-thirds of Prince Edward Island's exports are to the U.S.A., and 80 percent of these are food and related products (largely fish and potatoes). New England is by far the most important U.S. market. By way of comparison, in 1983 Prince Edward Island exported approximately 11 percent of GDP compared to 17 percent for the Atlantic provinces and 22 percent for Canada.

Relatively speaking, Prince Edward Island has been far more successful penetrating export markets than other Canadian markets. This is in part due to the growing incidence of interprovincial trade barriers. The MacDonald Commission placed the potential gains from "free" interprovincial trade at one percent of GDP per annum. Because Prince Edward Island is in the position of being the weakest (in terms of market power) and yet the most needy (in terms of having the smallest domestic market), this figure is presumably somewhat conservative for Prince Edward Island.

Particularly significant impediments include provincial preferential procurement practices, Quebec's agricultural subsidies and provincial promotion of agricultural products.

The above picture explains the province's current positions on trade, namely:

- \* Cautiously in favour of Canada-U.S. trade liberalization with some concerns about the impact on agriculture;
- \* In favour of dismantling interprovincial trade barriers; and
- \* Aggressively favouring market development as the driving force behind its economic development strategy.

#### iv) Farm Financial Situation

"Nationally, total net farm income declined by 14 per cent from 1984 to just \$3.7 billion. And in 1984, a post-Depression high of 551 farmers declared bankruptcy.

About 40 000 farmers across Canada -- or roughly one in six -- are struggling to keep their farms from being plowed under by low prices, rising costs and adverse weather."\*

A serious issue facing the Prince Edward Island economy is the financial plight of farmers. Agriculture is the backbone of the Prince Edward Island economy, accounting for 10 percent of GDP and \$193 million in farm cash receipts.

Many island farmers currently face financial ruin. This situation has resulted from a prolonged period of low commodity prices, high real interest rates, collapsing land values, rising input costs and global surpluses in many commodities.

Losses on agricultural loans are at historic high levels. The agricultural credit system is having difficulty adjusting to the financial need of farmers caught in the decreasing-equity, low-price squeeze. The capital and equity base of agriculture is shrinking on Prince Edward Island at a rate close to 15 percent per year. Financial problems are now spreading to the support and service industries, i.e., agri-business firms are now experiencing financial difficulties as well.

The real crisis is expected to surface in the spring of 1986 when farmers traditionally seek their operating credit from lending institutions.

\* The Canadian Press, January 20, 1986

Outstanding debt of potato farmers alone is expected to increase from \$10 million at the end of the 1984 crop year to \$40 million at the end of the 1985 crop year. There may be as many as 50 of the island's 850 potato farmers that will be refused operating credit because equity levels in their farms have totally disappeared. Should this situation materialize, the political and economic impact will be substantial.

Although potato farmers are in the worst situation (potatoes account for 30 percent to 40 percent of farm cash receipts), both hog and tobacco farmers also face financial difficulties, the former because of low prices, the latter because of reductions in quota due to reduced demand for tobacco. However, the recently introduced hog incentive program and steps being taken to help tobacco farmers diversify into other crops should assist to resolve current problems.

After a year of poor prices, island potato farmers planted a record crop of 31 000 hectares in 1985, a situation duplicated elsewhere in North America and which has resulted in prices at one-third of production costs. Tough new import measures on seed potatoes adopted by the European Common Market have reduced marketing options. Requests by some farm organizations for the federal government to institute an organized marketing system sound like echos from the past: such requests always are made when prices are low and potato farmers are in trouble, but never followed through once prices improve or government assistance is provided.

The provincial government announced on February 17, 1986, a diversion program whereby \$3 million worth of potatoes will be purchased at 3 cents per pound and diverted to cattle feed (a further \$3 million has also been earmarked for future use). The federal government similarly announced on April 2, 1986, a \$6 million program in P.E.I. aimed at diversion. These measures will have little effect on market prices or the financial health of the industry unless other provinces institute similar programs.

