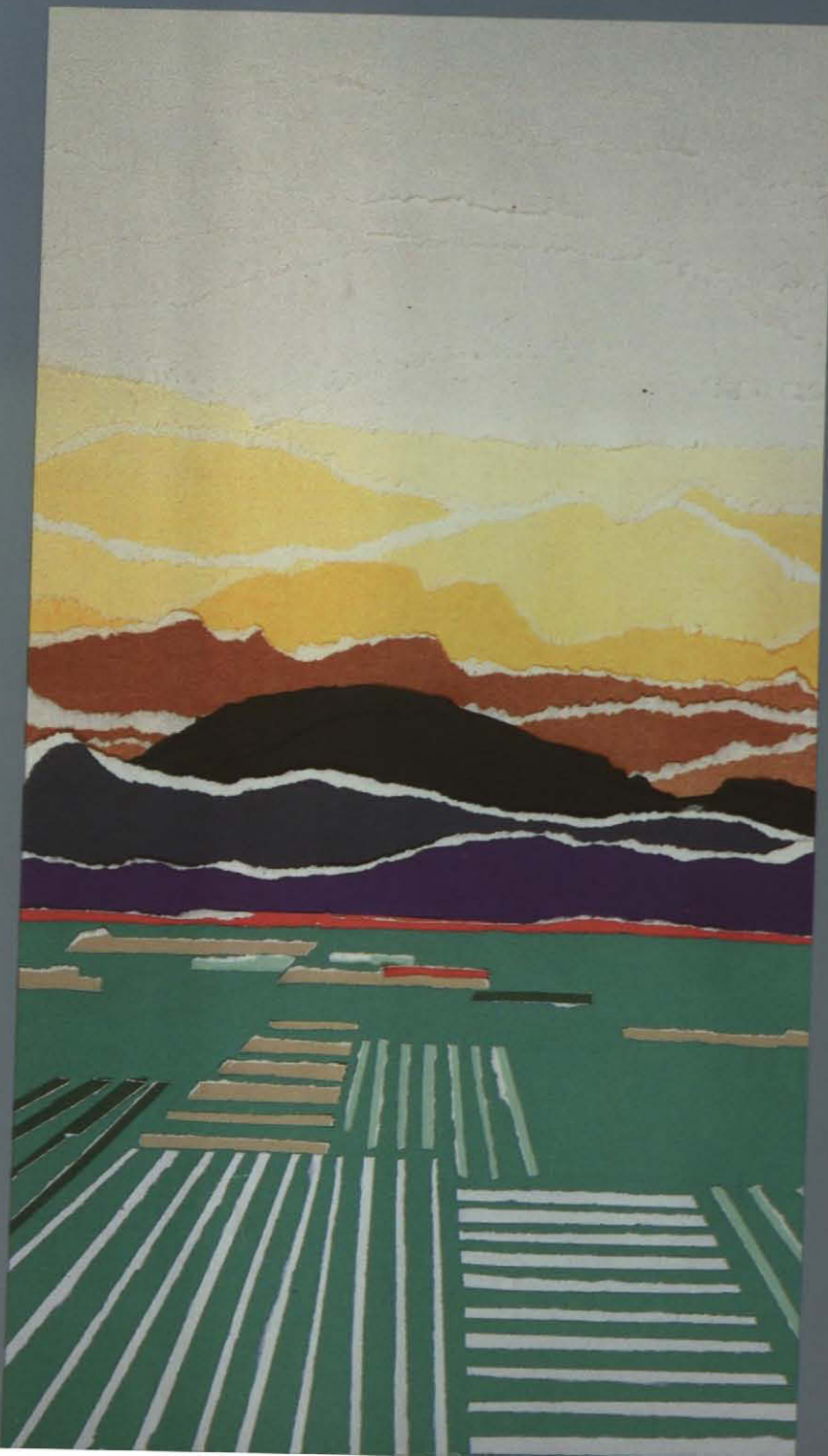


A Framework for **DIVERSIFICATION** in Western Canada



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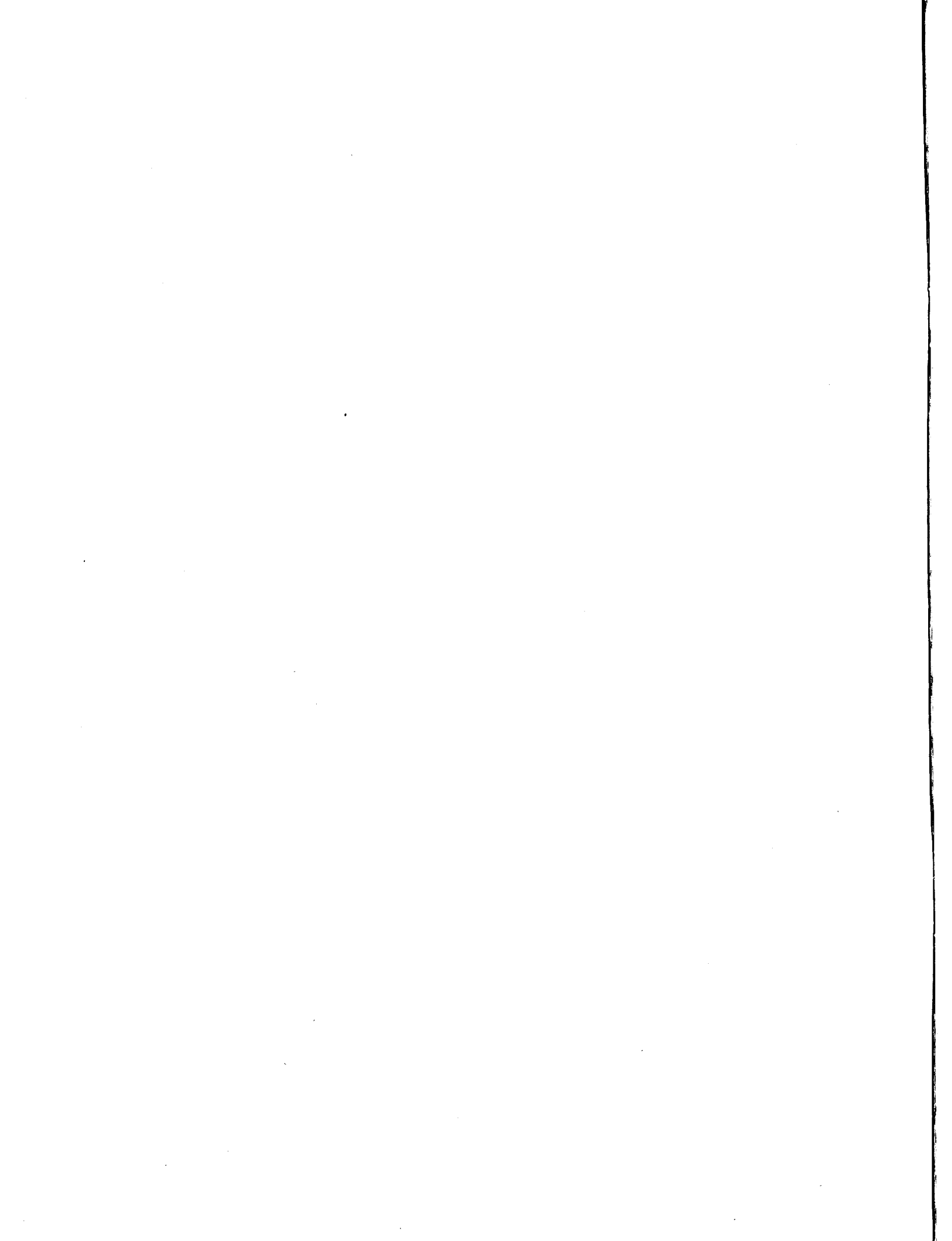
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A Message from the Prime Minister

Diversifying the Western economy is an old dream, but never has it been more urgent. Now, for the first time, the tools are in place to do the job. A new framework for national economic renewal has been built over the last three years. Western Canadians and their provincial governments are coming to a consensus about what needs to be done. And now, through the Western Diversification Office, Western Canadians have an instrument and the resources to weave all these strands together in a way that makes most sense in the West.

Many people have taken part in forging this Western Diversification Initiative. For the federal government, the roots lie in the Prince Albert Declaration of June 1984, itself a result of wide consultation with Western Canadians. I would be remiss, though, if I did not take this opportunity to call attention to the contribution of the Deputy Prime Minister, the Honourable Donald Mazankowski, whose energy and leadership have been vital to the whole enterprise.



The Western Diversification Office

Western Canada's economic development needs and opportunities are unique. The enormous bounty of land, forest, mine and sea has provided great wealth, but it does so unevenly. Small changes in resource prices can have dramatic effects for Western families and communities. Over the years, Western Canadians have adapted well to the uncertainty of international markets.

Domestic and international market conditions provide both the need and the basis for economic diversification in the West. Westerners, for their part, want to work in partnership with the federal government in the West, to ensure that planning and decision-making take true account of their needs and opportunities.

In developmental terms, the first obligation of the federal government is to ensure the framework for wealth and job creation in these basic resource industries works well. The building blocks, outlined below, are now mostly in place.

The second obligation, in response to the consensus of Western Canadians, is to help moderate the swings inherent in resource markets by stimulating the development of complementary economic activities. Western Canadians and their elected representatives have been articulate in demanding an economic vision that, building on the great strength of the traditional resource industries, generates a greater degree of employment and social stability. The Western Diversification Office (WDO), a new department of the federal government, is a response to that requirement.

The Office will work in the closest contact with Western industry, producer associations, co-operatives, labour and provincial governments to give force and effect to this vision of the Western future. Within the federal government system, it will have powers as unique as the region that it serves. It will deliver certain business-related programs directly or jointly with the provinces. It will invest the \$1.2 billion Western Diversification Fund (WDF), with Western partners, where the payoff in economic development and diversification is greatest. More importantly, it will act as a pathfinder for all Western Canadians seeking access to all federal economic programs; and it will ensure that the needs and views of the West are

taken minutely into account in the earliest stages of the setting of national economic policies.

To have effect, the Fund will have to be invested judiciously on projects yielding the highest returns in economic development and diversification. Criteria will be further developed through consensus with Western industry, producer associations, labour and provincial governments with particular attention to each province's economic circumstances, strengths and potential. In that context, the following principles are put forward for discussion:

- WDO's most significant contributions in the long run will be the informed influence it can bring to bear on behalf of Western Canada in the formulation of federal economic development policies.
- The Fund will be used to prepare for the next decade and the next century; it will eschew bail-outs.
- WDO will work with industrial, labour and producer groups, provincial governments and federal departments. It will not substitute Fund resources for the normal responsibilities of others but rather work with all of them as partners to catalyze cooperative action through initial or "topping-up" contributions.
- WDO will normally seek to have its contributions delivered by the competent public body or by contract, rather than building a large program delivery staff.
- Like any investor, WDO will seek high returns in economic development and diversification, will monitor the performance of its investments, and will cut its losses if expectations are not met.

Many other useful ideas will come to the fore during the process of consultation. For the moment it is sufficient to note that the Fund is in addition to the substantial amounts already provided to support the basic resource sectors. Federal assistance to energy and grain producers has increased dramatically in the past two years; the Fund builds on and reinforces that commitment to Western Canada.

WDO's real assets are a Western economy which, though difficulties remain, is once again starting to match the pace of the nation as a whole, and a foundation of national economic policy that rewards entrepreneurship and innovation. These assets are reviewed in the next three sections. A third part of the essential framework for Western diversification is an outward-looking international trade policy. For no other region in this trading nation is the international context so crucial; it gets its own brief section. Finally, the efforts of the federal government must respond to, and be matched by, those of the Western provinces. The paper concludes with remarks on how best to take advantage of an exceptionally harmonious period in federal-provincial cooperation.

National Economic Foundation

In September 1984, when the present government came into office, the need for economic renewal was pressing. Unemployment was high. Private sector confidence was low. The investment environment was unstable. Government was contributing to these problems: large and growing budget deficits had swollen national debt to nearly half of national income.

In November 1984, the *Agenda for Economic Renewal* set out the federal government's philosophy of economic management and its blueprint for the rejuvenation of the Canadian economy.

The federal government's national economic renewal program includes a better framework for growth and job creation, the reduction of obstacles to change and innovation and the improvement of Canada's competitive position. It also includes policies that foster entrepreneurship and risk-taking, promote innovation and create a positive climate for the birth and growth of new enterprises. The Canadian economy must become more dynamic, more flexible, and more competitive in world markets.

In order to drive down interest rates and stimulate investment it was essential to restore fiscal responsibility. The government began by reducing the deficit and slowing the growth of the national debt.

The government has made substantial progress in delivering on its fiscal commitment. The deficit is down \$ 9 billion from \$ 38.3 billion in 1984-85 to \$ 29.3 billion in the present fiscal year. The growth of the debt has halved, from an annual average of 23.5 per cent in the four years ending in 1984-85 to 11 per cent in 1987-88.

Expenditure control and good management have been the primary focus of fiscal restraint. Over the three years ending in 1987-88, program expenditures in "real" terms — after adjusting spending for inflation as measured by the consumer price index — will have declined on average by roughly one per cent per year. The real size of the government is being cut back. From 1984-85 to 1987-88, program expenditures as a share of the economy will drop 1.8 percentage points. Over 5,000 Public Service staff positions have been eliminated.

With the revenue and expenditure structure now in place, the prospects are for continuing declines in the deficit over the medium term. The deficit is projected to decline to \$ 23.5 billion, or 3.4 per cent of GDP, by 1991-92—the lowest ratio

since the mid-1970s. A full 75 per cent of the decline in the deficit relative to the size of the economy is accounted for by expenditure control. The debt-to-GDP ratio will stabilize in 1991-92, a key milestone in attaining the government's fiscal objectives.

The government has also undertaken major structural policy initiatives to bring about economic renewal, as an integral part of a strategy to reinforce the ability of Canadian firms to compete in the global marketplace.

The government has replaced the National Energy Program with a market-oriented energy policy, decontrolling energy prices and eliminating discriminatory sector-specific taxes.

Sweeping and long overdue reform to the legislative framework for private enterprise has been introduced. A new Competition Act strengthens international competitiveness while effectively guarding against abuses of market power. Changes to the Patent and Copyright Acts, and the pending Plant Breeders' Rights Act, will ensure that Canadians who create the basis for national prosperity are rewarded for their efforts. Our financial institutions have an entirely new basis for competing to serve the financial needs of Canadians.

Regulation of the transportation sector is being streamlined and reduced through a new National Transportation Act. The antipathy to investment embodied by the Foreign Investment Review Agency has been changed to a welcome to new job-creating investment through Investment Canada. Stage 1 of the comprehensive reform of corporate and personal taxation will ensure that our tax system is fairer, more equitable, and internationally more competitive. Stage 2 will follow, with reform of the antiquated and discriminatory sales tax system.

The size of the government has been reduced and economic efficiency increased through privatization: 11 Crown corporations that no longer served public policy purposes have been sold to the private sector. More will follow.

The government is encouraging Canada's technological competitiveness through an increased focus of its research and development activities in areas of promising application, the establishment of a new national science and technology policy, and the formation of a National Advisory Board on Science and Technology chaired by the Prime Minister.

These important measures are the beginning of the federal government's efforts to meet the economic and social challenges facing Canada today. And they are working.

The Canadian economy as a whole has performed well despite unsettled conditions in international currency markets, slow growth among our trading partners and sharply depressed world oil and grain prices.

As a result of restoring fiscal responsibility, interest rates have trended down and are currently at levels not seen in more than a decade.

From the third quarter of 1984 through the first quarter of 1987, economic growth in Canada has averaged 3.4 per cent at an annual rate, a pace unmatched by any of our major trading partners except Japan. Canadian growth is now less dependent on exports, with final domestic demand growing in line with that of total output. Of particular note has been the robust growth in consumption, housing and non-energy investment. The confidence of consumers and business has recovered.

Real consumer expenditures on goods and services advanced by nearly 12 per cent from September 1984 through the first quarter of 1987. Real residential investment grew by 39 per cent over the same period. Retail sales have increased by 28 per cent and manufacturing orders by 13 per cent. Housing starts rose from a yearly rate of 141,000 units in September 1984 to 200,000 units for 1986 as a whole, the highest annual level since 1978. During the first six months of 1987, housing starts have averaged 238,000 at an annual rate.

The abrupt drop in energy and grain prices, combined with a general softening of other natural resource prices, buffeted the Canadian economy in 1986.

Investment was adversely affected, with total real non-residential investment increasing only two per cent in 1986 and the energy component falling more than 20 per cent. On the other hand, after falling to an 11-year low in 1984, real investment in the manufacturing sector rose 23 per cent in 1985 and by a further 16 per cent in 1986. Real investment in machinery and equipment has rebounded, advancing by 29 per cent since the third quarter of 1984. Overall, despite the weakness in the resource sector, the climate in the business community has significantly improved.

After nearly a decade of rising and unstable inflation, Canada's CPI inflation rate, which peaked in the early 1980s at double digit values, fell to under 6 per cent in 1983, and to about 4 per cent in each of the years 1984 to 1987. Some increase has been observed this year, but the annual rate remains below 5 per cent. Underlying this steady decline in inflation has been an improved productivity performance.

Above all, strong employment growth has been a hallmark of Canada's economic performance since September 1984. More than 80 per cent of new jobs created have been full-time.

The unemployment rate in June was 8.9 per cent, down from 11.7 per cent in September 1984 and under 9 per cent for the first time since January 1982. From September 1984 to June 1987, 890,000 jobs have been created at a pace unrivalled among the major industrialized countries of the world; 173,000 of those jobs have been created in Western Canada.

These statistics reflect a solid foundation of economic renewal and policy change on a national level. This foundation is crucial to the success of Western economic growth and development. Strong and stable national economic performance will provide the necessary footing for building a more vibrant economy in Western Canada. The government will continue its present policies of fiscal prudence and structural reform for the benefit of Canadians everywhere.

The Western Economy

The economy of Western Canada has gone through an exceptionally tough period, but is now turning around, in part because of the actions taken by the federal government. Looking forward, the prospects for a number of resource sectors are promising. Now is the time to take advantage of a partial respite in international commodity prices to undertake a major effort at long-term diversification.

The current economic problems being experienced by the West can be traced in part to international economic developments, especially since 1980. The first half of the decade was a turbulent period for the entire industrial world. High inflation and record levels of real interest rates brought about a severe and worldwide recession which affected all types of economic activity. Commodity producers were caught in a squeeze between lower prices and increasingly high debt-service charges. As a result many companies, co-ops and farms were forced to undergo substantial retrenchment and rationalization. These financial problems were intensified by the appearance of new sources of supply from the Third World and, in the mineral and petroleum sectors, increased competition from substitutes.

Normally, when demand for one of Western Canada's great commodities is low, buoyancy in other sectors can be counted on to maintain economic growth. However, even as the world economy recovered after 1982, demand and prices for most Western primary resources did not improve, and, in some instances, worsened substantially.

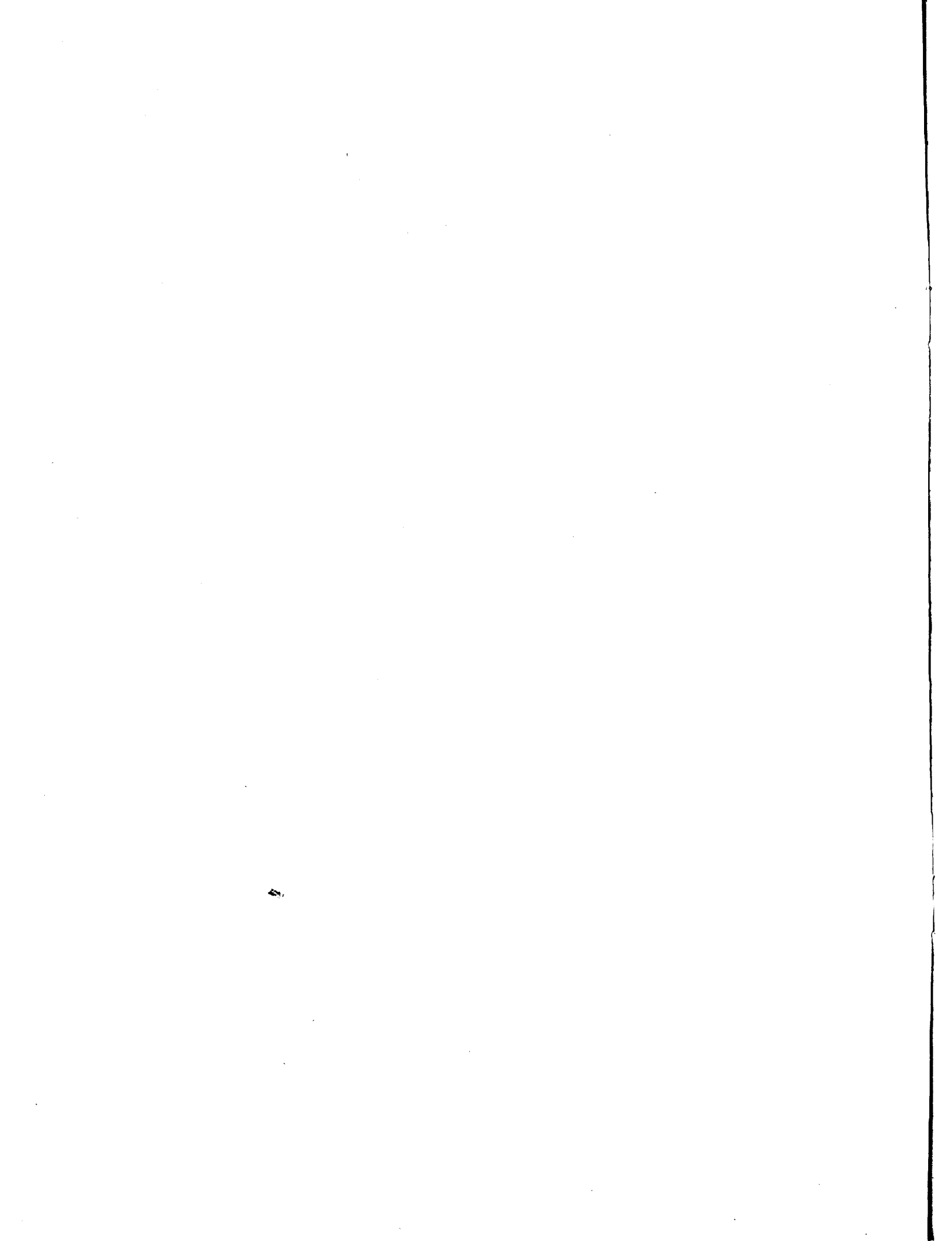
In energy, the Western Accord, signed in early 1985, spurred growth substantially in that year, but in 1986 rapidly declining world oil prices caused the return of recessionary conditions.

In the past two years the escalating international agricultural subsidy war has driven grain prices—not, thankfully, productivity—down to Depression levels. This subsidy war, fueled by the European Community and the United States, has stimulated global overproduction and put severe pressure on farm incomes in Western Canada.

Protectionist measures in the United States against Canadian softwood lumber products have threatened another of Canada's traditional resource sectors. While negotiations have restricted the impact of the US measures and kept \$ 600 million a year in Canada, such hostile actions depress the sector and increase damaging uncertainty elsewhere.

The impact of external economic forces affecting the global supply and demand for resource products was magnified by domestic political developments. The National Energy Policy, with its massive and discriminatory taxation and regulatory regimes, weakened the ability of many Canadian energy companies to withstand price fluctuations. And the Foreign Investment Review Agency discouraged the new investment necessary to create jobs in the capital-intensive Western economy.

In the past, Western Canada's ability to withstand a downturn in the resource sector was also limited by federal government policies which inhibited the development of secondary manufacturing and service industries in the region. Historically, federal trade, transportation and procurement policies did little to promote economic development and diversification in Western Canada. The continued dependence on the resource sector and consequently, a narrower economic base, has left Western Canada vulnerable to the boom-and-bust cycles of international commodity markets. As a result, the impact of the recession and the continued decline in commodity prices were more seriously felt in the West than in other parts of the country.



Context for Growth: A Sectoral View

This section summarizes the current views of the federal government on the constraints and opportunities facing the Western economy on a sector-by-sector basis. Each part concludes with preliminary observations about the potential contribution of the Western Diversification Office (WDO), and the Western Diversification Fund (WDF), to progressive economic development and diversification. The first duty of the new organization will be to deepen its understanding of these opportunities through discussion with industry, producer associations, labour, and provincial governments. The main conclusions to date are as follows:

- The enormous natural resource endowment of the West means that the region's economy will continue to be centred on resource-related industries. The challenge is to ensure the continuing competitiveness of this base.
- Western economic diversification is more advanced than is commonly recognized. The challenge is to lead and coordinate this diversification process by ranging technical, financial and market-opening support behind Western Canadians with a will to win. In so doing, overlap and duplication of effort is a luxury Western Canada cannot afford. The intensity of competition in the world economy compels us to respond vigorously together.
- Broadening the economic base and realizing the new opportunities in the decades ahead will require an increased commitment to research, innovation, and technology in both the goods and services sectors.
- For the federal government, the critically important roles in economic development lie in setting an attractive economic and social climate for enterprise and individual risk-taking, working to open markets here and abroad for Canadian producers, and ensuring that Western Canada has equal access to federal initiatives to promote growth.
- Over time the greatest returns to Canada will result from an investment in our people. Education and training, while broadly a provincial responsibility, is of special interest to the federal government both with respect to highly qualified workers and to Native people. The federal government is anxious to see the nation's

current performance improved in these areas.

Agriculture

Agriculture continues to be a mainstay of Western Canada's economy. Even in the face of low grain prices, farm cash receipts in the West last year amounted to over \$ 11 billion, accounting for more than half of total Canadian farm cash receipts.

Western Canadian agriculture generates 95 per cent of Canada's wheat sales, 93 per cent of barley sales, almost 100 per cent of canola sales, 60 per cent of cattle sales and 32 per cent of hog sales. Much of this production is destined for export markets; about 60 per cent of the dollar value of Canadian agricultural exports in 1986 were grains, oilseeds or their products.

In recent years, the sector has been challenged by events and problems originating beyond Canada's borders. Worldwide recession, high interest rates, and international trade distortions have all put pressure on the sector in all parts of Canada. Western agriculture has been further burdened by successive droughts, and the impact of low world grain prices and international subsidy wars.

While current market conditions in the livestock sector are much better, there is increasing market access uncertainty — particularly in the United States which is a crucial export market for Western farmers. Already Canada's hog producers have seen their access to the United States restricted by protectionist measures.

Other factors have also contributed to the financial problems now being faced by many farmers. The buoyant commodity price forecasts in the 1970s led to increased investment at the farm level. High interest rates in the early 1980s left many farmers unable to keep up with debt repayments and with limited options for responding to changing circumstances. Consequently, farm sector adjustment and the adoption of cost-reducing and resource-conserving technologies have been slowed down. Not only has the industry lacked the money needed to adjust to changing circumstances, the natural resource base has been further eroded.

The federal government has responded to the financial difficulties facing Western farmers. In 1987, as a result of initiatives taken by the government in late 1986, federal direct and indirect payments to Western grain and oilseed farm-

ers are expected to reach \$ 3.5 billion, compared with an average of just over \$ 600 million in the early 1980s. As well, the Canadian government covered the \$ 200 million loss sustained by the Canadian Wheat Board as a result of selling the 1985 crop on the fiercely competitive international market, and has held freight rates to essentially 1984 levels.

While serious problems of low farm commodity prices will continue in the immediate future, the continued importance and contribution of agriculture to the Western economy is not in question. The Government of Canada recognizes the need for continued action to ensure the continued viability of Western agriculture.

Many of the foundation stones for future action are already in place. The federal government will continue to work to reduce barriers to agricultural trade in both multilateral and bilateral negotiations. The Prime Minister has been successful in having agriculture placed on the agenda of the GATT negotiations and will continue to press for international actions to bring about a fairer, saner and more predictable world trading environment. Bilaterally, the government is seeking an agreement with the United States that will secure and enhance our access to that important market.

For Western farmers, access to international markets is vital. Canada was instrumental in the adoption by OECD countries of a set of principles to guide realistic domestic agricultural policies in member countries. Canada is continuing to press for the adoption of these principles among GATT members. These principles incorporate undertakings to increase the role of international market signals in decision-making in the farm sector, to reduce progressively the linkage between support measures and production, to reduce government assistance measures which artificially distort world prices, and collectively to redress the current supply/demand imbalance.

At home, the government will continue its efforts to provide a stable economic environment, including lower interest and inflation rates, both of which are critical to the return of an efficient and profitable agri-food sector.

There is an increasing economic and environmental focus on Western Canada's wetlands and wildlife, especially waterfowl. Poor wetlands management not only endangers western wildlife but is having a negative impact on prairie agriculture by increasing soil erosion and soil and water degradation. Wildlife-related activities now represent a significant economic sector which could be put at risk unless remedial action is taken.

The Minister of Agriculture will continue to work, with his provincial colleagues and farm and food industry leaders, to implement the National Agriculture Strategy presented to the 1986 First Ministers Conference in Vancouver. The strategy calls for measures to improve farm financial security, protection against climatic and economic risks, soil and water conservation and development efforts, technology development and transfer policies, and interprovincial and international agri-food trade measures.

In the near term, the federal government is considering a range of specific initiatives including introduction of plant breeders' rights legislation to encourage development of more crop varieties suited to Canadian conditions, and extending tripartite stabilization to other commodities. In addition, federal and provincial Ministers have met to discuss what special assistance measures are required for the 1987-88 grain and oilseed crops, and these consultations will continue.

The future of Western agriculture depends on widening the range of commodities produced, increasing production efficiency, improving soil and water management practices, and increasing the extent of processing of agricultural commodities before export. To support these developments, the federal government will maintain and strengthen its research and development activities, planning these efforts in close consultation with the provinces and the private sector.

The role of the WDO, working with producer groups, provincial governments and Agriculture Canada, will be to invest in projects with high economic payoffs that lead to new levels of international competitiveness. Experiments to spread technological innovations more quickly, to speed the application of research findings, and to improve management skills in agri-business are all possibilities, as are focused efforts on the development of strategic products or processes. The Office will help define federal sectoral policies with respect to trade, transportation and support to Western producers. It will not duplicate existing programs or responsibilities, though on occasion it might act with other contributing partners to extend a promising but financially strapped initiative.

Energy

The energy sector is a vital component of the Western economy. Today, Western Canada accounts for approximately 99 per cent of Canada's crude oil and natural gas production; Alberta alone accounts for roughly 87 per cent of production. The total value of Canadian energy

production, including electricity, reached \$ 37 billion in 1985, representing 8.4 per cent of GNP; oil and gas represented 80 per cent of this production. In 1985, exports of crude oil, natural gas, and liquid petroleum gas and petroleum products contributed \$ 8 billion, or 71 per cent of Canada's positive trade balance in energy of \$ 11.1 billion.

Western Canada remains highly dependent on the oil and gas sector as an engine of growth. The price of oil declined significantly in early 1986. In March 1986, spot prices fell to under \$US 13 a barrel from roughly more than \$US 30 four months earlier. While prices rose in the latter part of 1986 and into 1987, continuing price uncertainty is expected in the short run, with a gradual firming of prices over time. This price decline has had a substantial impact on industry activity and employment. Wells drilled declined from a record high of 11,500 in 1985 to 6,400 in 1986, with significant job losses in the Western energy sector. With the firming up of oil prices and the positive benefits of assistance provided by governments, the outlook for the energy sector is now brighter.

Faced with rapid and unforeseen developments in oil and gas markets, the Governments of Saskatchewan, Alberta and Canada have taken measures to assist the industry and maintain employment. Alberta has announced royalty relief and support programs for the industry; Saskatchewan has introduced three programs to promote industry activity or reduce royalty burdens; and the federal government has provided a variety of tax relief measures and assistance. These include the elimination of the Petroleum and Gas Revenue Tax (PGRT), and the introduction of the Canadian Exploration and Development Incentive Program worth an estimated \$ 350 million a year.

These steps, together with the recent firming of world prices, have encouraged an increased level of activity in 1987, generating renewed employment especially in the conventional oil sector.

At the Federal-Provincial-Territorial Conference of Ministers of Energy on January 30, 1987, Ministers agreed to undertake a review of energy security which would include an assessment of the role of conservation, oil substitution, oil and gas transportation infrastructure, electricity, and the means to accelerate the development of new energy projects.

The initiatives taken to date will help prevent a loss of technological leadership. Canada's oil and gas sector is among the most advanced anywhere and has benefitted from exporting its technological expertise around the world. Substantial potential for future growth exists in technology-intensive areas within the

energy sector, such as oil-sands mining and heavy oil recovery and upgrading.

While the current low world oil price situation may have reduced the immediate urgency to develop alternative energy technologies, energy research and development (R&D) continues to be essential.

The Government of Alberta has invested in energy R&D principally through the Alberta Oil Sands Technology and Research Authority. Meanwhile, with the federal government, it is administering the Alberta/Canada Energy Research Fund. In Saskatchewan, energy R&D is carried out under the Canada/Saskatchewan heavy oil agreement. Conservation and Renewable Energy Agreements, some of which provide R&D support, have been concluded with a number of provinces. This commitment to energy research and development will strengthen and expand Canada's leadership role.

It is fundamentally important that Canada maintain this technological edge and that federal government actions to support the oil and gas sector help maintain this advantage. This expertise, particularly in engineering, consulting services, oilfield equipment and computer services, should also be utilized in other sectors. The WDO will be interested in projects, consistent with Canada's international trade policy, which would help firms in the sector to broaden a commercially competitive capacity to apply their considerable expertise to other domestic sectors and to exports.

With respect to alternative fuels, the government has issued a Discussion Paper on means to encourage their development. Support of propane and natural gas fuels development will continue. These efforts, complemented by those of industry and provinces, will ensure that alternative fuels will be available when they are economically or strategically desirable. The government will continue to encourage R&D on long-term options.

In the future, non-conventional sources of supply, such as oil sands, heavy oil and frontier supplies will become an increasingly large factor in Canada's energy equation. At present a number of specific projects to develop these resources are being evaluated or are under way. A number of these major projects have the potential to bring on-stream large new oil supplies while increasing Canada's technological leadership. As indicated in the White Paper on Tax Reform, the government will examine, on a project-specific basis, measures to accelerate the development of those major projects which are fundamentally economic.

Indian lands offer continued exploration and development potential across Western Canada. As a result of requests from Indian

leadership the federal government will update antiquated regulations to provide Indian government with more control over their resources. The government will also assist Bands in exploring processing and distribution activity, as well as use of their own resources for energy-intensive enterprises.

The importance of Canadian energy security should not obscure the value and benefit of Canada's energy exports. The goal of security of supply can best be achieved in an environment that encourages a free international flow of energy commodities.

The federal government, through the bilateral trade negotiations with the United States, is working to secure access for Canadian oil and gas to the US market. As well, federal regulatory changes associated with the agreement on natural gas deregulation have permitted greater access and flexibility for Canadian firms seeking sales in the United States. Improved access to US markets will help secure the cash flow necessary to encourage further exploration and development activity in Canada.

The importance of the trade negotiations to the energy sector is underscored by the recent ruling of the US Federal Energy Regulatory Commission concerning Canadian gas transmission costs. This ruling will erode the competitive position of Canadian natural gas in US markets. The federal government will continue to work closely with the governments of the producing provinces and producers themselves to overcome or mitigate the impact of the US action, and to maintain fair access to US markets.

Hydro-electric power represents another major energy source in Western Canada. Projects in all four provinces could be moved ahead, provided real and potential obstacles to power exports to the US are removed. While these projects are unlikely to proceed before the 1990s, they do offer scope to strengthen the Western economic base over the medium term.

Forestry

The forest industry is a success story. It went through a difficult period, but by stringent cost control and modernization is now well placed to take advantage of firmer prices. In 1985, Western forest industry shipments amounted to \$ 10 billion — about one-third of Canada's total forest industry production of \$ 30 billion. Forest products from Western Canada account for 72 per cent of Canadian lumber, 53 per cent of market pulp, 19 per cent of newsprint and 85 per cent of plywood shipments. Direct employment in West-

ern Canada, including logging, is over 100,000 and indirect employment creates an additional 20,000 jobs. In British Columbia, the sector accounts for 45 per cent of the manufacturing activity and for 86,000 direct jobs. The forest industry is the primary economic base for British Columbia, where some 120 communities are highly dependent on this industry, and for more than 20 single-industry communities in the northern regions of the Prairie provinces.

As with other resource-based industries, the Western forest industry is export-oriented. Exports are destined mainly for the US, although Japan is also an important market. In 1985, exports of forest products from Western Canada accounted for more than \$ 5 billion.

Increasing competition from new producers in the southern hemisphere and growing protectionism on the part of our principal trading partners have made it imperative to diversify Western Canada's traditional forest product mix and market orientation.

Because of its strategic location, the forest industry in the West has the potential to capture new markets in the Pacific Rim. These countries, especially Japan, Korea, and the Association of Southeast Asian Nations (ASEAN) bloc, are among the most rapidly growing economies in the world. The penetration of Pacific Rim markets will require an aggressive marketing strategy through a concerted effort by both governments and the industry. The Western Diversification Office will join industry, the provinces, and External Affairs in considering proposals to capture new markets.

Experience shows that the industry is capable of reducing its production costs and of diversifying its product base. Increased research in mechanized silviculture and advanced logging methods will further ensure that wood costs in Canada continue to be competitive with other major competitors. An enhanced R&D effort in the area of codes and standards, improved production methods, and new product development would allow the industry to be more competitive and to diversify away from the present product base of pulp, paper and lumber. New products, especially those with high added value, will greatly strengthen the Western economy. WDO might entertain proposals from industry and the provinces to reduce costs through targeted and well disseminated research efforts.

The unique species and sizes of the trees in British Columbia, together with well-established international marketing networks, offer significant opportunities to develop special market niches and increase value through processing.

For Canada, of course, the Pacific Rim does not stop at the Rockies. The Governments of the Prairie provinces are looking to the forest sector as a vehicle to diversify an economic base dependent on agriculture and petroleum. One of the best opportunities available is to tap the large and under-utilized hardwood resource, found primarily in Alberta, northern Saskatchewan, Manitoba and parts of British Columbia, for the production of chemi-mechanical pulp, composite wood and specialty products.

Minerals

Mining and mineral processing are an integral part of the economy of Western Canada. Production from Western Canadian mines and non-fuel mineral processing operations represents about 40 per cent of total Canadian industry. Copper, nickel, zinc, gold, silver, uranium, coal, sulphur and potash play a significant role in Western Canada's economy and will continue to do so.

The mining industry in Western Canada, like the industry worldwide, has gone through some tough times, especially in recent years. But the industry has survived through its ability to adapt to change. Productivity improvements and restructured operations have kept Western Canadian producers among the lowest cost and most competitive in the world. The industry is now well positioned to take advantage of strengthened mineral and metal markets in the 1990s.

Geology will also assure a long-term future for Western Canadian mining and mineral processing. While some operations will close as economically recoverable ore is exhausted, new operations will take their place. With improving techniques, the possibilities for successful mineral discoveries remain favourable. Significant opportunities exist in gold and other precious metals, industrial minerals and structural materials. The potential for a potash-based fertilizer and chemicals complex in Western Canada has yet to be realized.

These prospects suggest broad directions concerning the role of governments in the mining sector, which are in keeping with the recently-announced federal mineral policy. Government support of geoscience activities such as geological surveys, mapping and information dissemination can provide the basis for the industry's continued renewal through the identification and development of new deposits.

The Western Diversification Office may consider, together with the industry and the provincial governments, projects which would

expand or speed dissemination of research efforts in geoscience, product or process development, and marketing.

Once significant discoveries are made, the provision of infrastructure such as roads and power is a provincial responsibility. Joint measures to ensure the efficient operation of the Western transportation system will also assist the industry in competing in world markets. Keeping those markets open to Canadian products will be an increasing preoccupation of Canada's trade negotiations. The provision of research facilities and expertise working in harmony with industry will spur the search for new products and processes. Finally, the government is committed to working with industry in meeting more stringent environmental standards through the Acid Rain Abatement Program.

Coal

Coal plays a major role in the economic base of Western Canada. This key sector employs 8,000 Western Canadians directly. Railways and port systems ship approximately \$ 1.7 billion worth of Western coal around the world. In fact, only oil and natural gas exceed coal as mineral exports.

British Columbia, Alberta and Saskatchewan are responsible for more than 90 per cent of Canada's coal production, including both low-cost thermal coal for electrical power plants and high quality metallurgical coal for steelmakers.

The future of the industry and its employment base face serious challenges in the next several years. Reduced global steel demand and new coal export competitors abroad have resulted in oversupply, triggering a 30 per cent price drop over the past four years. Environmental guidelines have forced users to comply with new emission limits. Declines in Canadian prices of oil and gas have reduced the incentives for switching to coal.

Despite these challenges there remain many reasons to be optimistic about the continuation of coal's important role in Western Canada's economic future. The entire industry, producers and workers, has shown the insight and will to meet world competition. Reserves are abundant, accessible and of generally good quality. Environmentally, Western Canadian coal has sulphur levels almost a tenth of most coal imported from the United States. Canada possesses world class mining and transportation capabilities. Coal has increased its share of Canada's primary energy supply from about 9 per cent in 1974 to 14 per cent in 1986. There is a real opportunity for the federal government to work with the provinces, the

producers, the users, the transportation companies and the workers to give the coal industry an expanded future.

The federal government has already taken important initiatives to improve the competitiveness of Western coal. Land transportation accounts for about one-third to one-half of the final delivered cost of coal from British Columbia, Alberta and Saskatchewan. The new National Transportation Act will provide coal producers with new opportunities to negotiate competitive rates with the railways, thereby assisting Canadian companies to remain competitive in international markets.

Further, the Deputy Prime Minister is chairing an Action Committee on Western Canadian Coal to Ontario. This high-level committee, which includes the Premiers of Ontario, British Columbia, Alberta and Saskatchewan, is undertaking to improve the competitiveness of Western coal, to review all regulatory and fiscal aspects of transportation and to pursue relevant product-oriented development and demonstration programs.

Through the Western Diversification Office, the federal government is prepared to do more. In concert with the provinces and the private sector, the Office will consider projects to reduce risk through technology demonstrations, to promote Canada as a reliable and low-cost supplier, and to educate the public about Western Canadian coal's attractiveness as an energy source. These and other possibilities will be discussed at the September 13 Canadian Conference on Coal to be held in Jasper, Alberta.

Fisheries

The commercial, recreational and Native fisheries have important economic and social significance along the entire coastline of British Columbia and in the separate freshwater commercial fisheries of the Prairies. In 1985, the market value of Western Canada's commercial fisheries was \$ 775 million, or 30 per cent of the total market value of Canada's fishing industry. The dominant British Columbia industry contributed \$ 726 million, with \$ 49 million derived from the Prairie freshwater industry. Almost two-thirds of Western Canada's fish production is exported, primarily to Europe, Japan and the United States.

Prairie freshwater fisheries employ about 6,000 fishermen and 800 plant workers while the British Columbia fisheries provide seasonal or year-round employment to about 18,000 fishermen and 7,000 plant workers.

The major issue facing the fisheries of British Columbia is the continuing imbalance between available fish resources and the vastly larger capacity to catch and process fish. The profitability of all components of the B.C. fishing industry is subject to large cyclical fluctuations in both fish stocks and international prices. These fluctuations worsen the effects of the continuing problem of surplus capacity in the fishing and processing sectors. As a result, competitiveness in world markets is reduced and the ability of the industry to pursue new products and new markets is weakened. The imbalance between fish resource availability and fishing capacity, particularly in the B.C. salmon fishery, heightens the competition between user groups in the commercial, recreational and Native fisheries.

The federal government will take action to address this vicious circle of resource fluctuations, capacity imbalance, and competition for scarce resources by a further investment in increased stocks. The Fund will provide \$ 53.7 million in new funds over the next five years for the Salmonid Enhancement Program (SEP). These funds will bring the total federal financing for SEP to \$ 200 million over the period.

SEP currently accounts for 21 per cent of the value of Pacific salmon landings by commercial, sport, and Native food fisheries. The new funds will generate immediate and continuing employment and economic benefits at hatcheries and through increased fish landings. Native people in remote areas of B.C. will be particularly affected.

A great potential exists for the Western commercial fisheries to diversify into new products and new markets. The WDO will be receptive to industry-sponsored fisheries development initiatives to increase the exploitation of under-utilized species, develop new products and markets, and develop and test new technologies.

The dramatic growth potential of aquaculture, particularly in sea-pen rearing of salmon and shellfish ranching in B.C., deserves special reference. While aquaculture is in the early development stage in Canada, the technologies are well established elsewhere. As technologies are developed, aquaculture becomes less risky and thus more attractive as a larger-scale commercial venture. Norway has doubled culture of salmon production every two years since 1973 and exports 90 per cent of its farmed salmon production.

British Columbia salmon and oyster aquaculture production has tripled over the last six years but remains relatively small with only a \$ 3.6 million value in 1986. However, the examples of Norway and other countries point to an important

potential for Western Canada for stable growth and exports. The Office will be prepared to consider contributing to the promotion of technology development and transfer to industry in the areas of nutrition, disease control and research, supply of salmon eggs, vaccine development, biotechnology, genetic engineering, reproductive research and brood stock development. It will be important to coordinate federal and provincial initiatives in this regard to ensure that new private sector undertakings are best served.

The commercial fishermen of Western Canada depend on the 200 fishing harbours maintained by the federal government in the four Western provinces for refuge, vessel repairs and services, and fish landings and sales. In accordance with the Speech from the Throne, the ongoing expenditure base of the Small Craft Harbours Program will be increased to improve harbour services and provide for increased local harbour management. In Western Canada, \$ 20 million over base levels is programmed for new harbour facilities, maintenance and improvement projects over the next three years.

The recreational fisheries of B.C. and the Prairies are important to Western tourism. In B.C., 700,000 anglers spend \$ 350 million per year on supplies and equipment while the 690,000 anglers who fish each year in the Prairies and territories spend some \$ 307 million. These expenditures often occur in remote areas where there are few, if any, alternative sources of employment.

British Columbia is home to a strategically important oceans industry, partly developed in support of the oceans science and sovereignty requirements, of the federal government and the high technology needs of industries exploiting the fisheries, energy and mining resources of the oceans. While now a small contributor to the regional economy, the further development of areas of ocean science and technology where Canada is already a world leader, and the commercialization of applications in Canadian and world industries, represent important medium- and long-term economic opportunities for Western Canada. Some of the exciting areas of opportunity available to Canadians include remotely operated vehicles, submersibles, ocean equipment, remote sensing and satellite technology, hydrographic survey technology, geoscience and ice dynamics.

Services

Over the past two decades, service activities such as tourism, construction, retail trade, public sector services, health, financial services, transportation, and education have played an extremely

important role in generating employment and income in the Western provinces. Overall, services in the region account for a proportion of economic activity that is slightly higher than the national average. There is also some evidence that service sector jobs tend to be more recession-resistant than goods-producing jobs.

Growth in the services sector in the West has been driven by increased urbanization and population growth and the resulting need for public sector services — for example, education, health and welfare, power and other utilities — as well as transportation, construction, distribution and personal services. In addition, there has been a rapid proliferation of specialized business services, particularly in resource and resource-related areas, such as agricultural science, consulting engineering, construction, oilfield services, and surveying and mapping. Many of these activities are technology-intensive, using state-of-the-art equipment and techniques and requiring a highly-trained, professional work force.

Further development of the specialized operational, engineering and logistics capabilities existing in Western Canada could form the basis for a new centre of excellence in Canada's West. There is potential for expanding the utilization of Western and northern-based expertise in northern and remote area operations, transportation and logistics for both military and civilian activities.

On a provincial basis, there are specific areas of service activity which could provide an impetus for growth and diversification. In Manitoba, for example, specialized consulting expertise in the health care industries, computer-aided learning, computer software for the garment industry, and specialized technologies for the food sector all present opportunities for economic growth. Developing specialized services for the finance and insurance sectors is also an area of significant potential. In Saskatchewan, consulting and other commercial services related to agriculture are promising. The prospects for consulting services that expand upon local expertise in data and satellite communications, fibre optics and agricultural biotechnology are good and should be pursued.

Alberta has developed advantages in technologies related to enhanced oil recovery, synthetic fuels, and engineering services in exploration and cold climate construction. Alberta's world leadership in cold regions technology could be strengthened by WDO support for the Cold Regions Laboratory. The province also has a primary capability in consulting services for oil exploration, recovery, refining, upgrading, and other activities related to the oil industry.

In British Columbia, consulting services in the forestry and fishing sectors are obvious areas for further growth as are ocean industries, pulp and paper, mining, forestry, and transportation. Services associated with finance, commercial management and international trade will be an important focus of federal and provincial government initiatives to develop British Columbia's links with the Pacific Rim. The federal government has introduced legislation to establish Vancouver as an International Banking Centre as one means to encourage this development.

Much of Western Canada's technological leadership is concentrated in service industries with strong export potential. Through its trade initiatives with the United States and at the GATT, the federal government is working to improve access for Western Canadian service firms to world markets.

The export of Canadian technological expertise to meet Third World needs through CIDA projects presents an important avenue of access to new markets for Western consulting and engineering firms. Current efforts to increase the role of Western Canadian firms in CIDA aid projects will continue. In 1985-86, for example, 22 per cent of CIDA's registered consultants were from Western Canada and they received a similar percentage of the value of CIDA service contracts. Moreover, the West accounted for some 32 per cent of total official development assistance disbursed in Canada in 1985-86, a proportion equivalent to the West's share of domestic population and GDP.

The cultural sector is an increasing important component of the Western economy. There are labour-intensive activities which promise new opportunities for artists and artisans and for highly skilled technicians who are familiar with the leading edge technologies of broadcasting, sound recording, publishing, film, and video production. As well, the exciting multicultural heritage of the West provides valuable tourism opportunities.

In these, as in other service areas, the prime interest of the WDO will be in sectors which operate in international markets, or are significantly exposed to international competition. The Office will want to explore with industry associations and provincial governments ways in which judicious investments in R&D, technology dissemination, specialized and mid-career updating for key professionals, and market development efforts abroad might stimulate growth in some of the highest quality jobs in the country.

Tourism

Tourism is one of the fastest growing and most competitive industries in the world. In West-

ern Canada, the industry generated \$ 6.8 billion in revenues in 1985 and provided direct employment for some 180,000 people.

Partly as a result of Expo 86, which surpassed all expectations in attracting more than 22 million visitors, the tourism sector in Western Canada showed strong growth in 1986.

Considerable federal assistance has already been provided to encourage the further development and expansion of the Western tourism sector. Federal-provincial agreements on tourism have been signed with all four Western provinces providing over \$ 140 million in total assistance for facilities, marketing and training.

Tourism development in the northern regions of the Western provinces will also be assisted through the \$ 100 million federal-provincial Yellowhead Highway Upgrading Program. Improving access to areas along the 3000 km Yellowhead route will be a major contribution to development.

Transportation services are a vital link in developing tourism potential. Accordingly, the federal government acted to encourage the growth of new and expanded services by introducing a new National Transportation Act. This legislation will significantly reduce the regulatory obstacles to establishing new transportation services both to bring tourists to the West and as tourism attractions in their own right.

The federal government also recognizes that the National Parks in Western Canada are a major tourist destination. Much of their appeal lies in their unspoiled natural beauty. The establishment of a national park reserve on South Moresby and nearby islands is a good example of a cooperative investment which, by preserving the unique natural environment of the Haida, promises to create permanent new employment in the Queen Charlottes and along the routes leading there.

Federal programs are assisting feasibility studies and capital investment in a range of Indian tourism enterprise developments, from marinas, golf courses and lodges to wilderness settings providing camping, fishing, and hunting for visitors from Canada and abroad. The Indian arts and crafts industry is an important beneficiary of tourist activity.

Strengthening existing tourism markets, encouraging the establishment of new attractions, and increasing the skills and expertise within the tourism industry will help broaden the base of the Western tourism sector. Federal initiatives will be coordinated with those of the provincial governments to ensure that marketing and development strategies are complementary and reinforce the entire West as a tourist destination. In the intense

North American competition for the tourist dollar, Western Canada must market itself as a package. The cooperative development of comprehensive tour packages will produce a greater return on tourist promotion dollars than competition among areas of the West.

Transportation

Transportation remains a vitally important industry in Western Canada. Approximately 163,000 people are directly employed in transportation in the West, with transportation expenditures accounting for 11.4 per cent of the region's GDP (compared with 4 per cent in Eastern Canada). Annual capital investment in transportation infrastructure and vehicles, excluding automobiles, is estimated to be \$ 1.3 billion, accounting for 7 per cent of the total 1986 capital expenditures in Western Canada.

A total of 23 per cent of Western Canada's economic output is exported. Given the long distances to both tidewater and markets and the bulk, high volume nature of the commodities exported, transportation is a major component of the price of exported goods. Indeed, more than 40 per cent of the delivered price for coal and potash is the cost of transportation. Transportation as a percentage of the value of tradeable goods in the West amounts to 31 per cent compared to 14 per cent in the East. A competitive and efficient transportation industry is thus essential to most Western Canadian industries and especially to the resource sector. With this in mind, the federal government will be interested in reactions to the proposals advanced by some Western interests for reform of the Western Grain Transportation Act.

The federal government's new National Transportation Act (NTA) will improve the international competitive position of Western businesses. New provisions such as confidential contracting, competitive line rates and final offer arbitration will provide shippers with mechanisms to negotiate improved freight rates with transportation carriers, particularly the railways.

By scaling down the burden of unnecessary economic regulation, without reducing safety standards, the new NTA will provide the railways, truckers, airlines and marine carriers the flexibility to provide improved services at the lowest price.

As well as improving the competitive edge of Western businesses against their international competitors, the new federal legislation will establish a balanced regime for shippers across Canada. Western Canadians have long believed that federal freight rate policy provided preferential rate structures to processed and manufactured

products moving into Western Canada. Putting Western Canada on an even footing with the rest of the country will encourage the development of secondary industries and will help broaden the economic base of the West.

The federal government has also acted to increase international opportunities for Western transportation companies. Wardair was selected as the new Canadian carrier for scheduled service between Canada and the United Kingdom. CP Air, now part of Canadian Airlines International, was granted important new Pacific Rim routes. In negotiating new bilateral air agreements, the government will continue to seek new opportunities for Western Canada. At the same time, the improved federal policy environment has led to a remarkable expansion of commuter airlines like Time Air and Air BC.

In conjunction with these initiatives to improve air services, the federal government will continue to encourage the use of federally-owned and -operated airports, as a source of economic growth. By giving these airports a commercial orientation, the federal government promotes their role as catalysts for the development of industrial and service activity. A new management structure for federal airports is now being put in place which stresses local community involvement and a greatly increased commercial focus.

In addition the federal government has indicated its willingness to consider proposals for the establishment of local airport authorities to manage the commercial aspects of airports. This action is based on recommendations received from an independent Task Force on Airport Management established by the Minister of Transport and public consultations which followed release of the Task Force's report.

The Government of British Columbia has already expressed its desire to pursue such an opportunity as part of the Pacific Rim Trade, Transportation and Commerce initiative being coordinated by the federal and provincial governments.

A key component of that initiative is British Columbia's port system, including Canada's busiest, the Port of Vancouver. Ports Canada will encourage the development and upgrading of the Port of Vancouver to ensure it remains a competitive outlet for Western Canadian products and resources.

As well as contributing to the international competitiveness of Canadian industries, the transportation sector is also a growing exporter of equipment, technology and services in its own right. The technical expertise necessary to overcome the challenges of geography, climate and

distance to develop Western Canada's integrated transportation network is a valuable product. Areas such as rail electrification, communications and traffic management have significant export potential. The federal government will work with the transportation sector to capture emerging opportunities around the globe.

Manufacturing

The manufacturing industry in Western Canada contributes 16 per cent of Canada's total manufacturing output compared to the West's 30 per cent contribution to Canada's total GDP. Only 10 per cent of the jobs in Western Canada are in manufacturing, compared to more than 17 per cent nationwide. It is clear that growth of existing and new manufacturing industries must be a major component of Western Canada's economic diversification.

This sector should be anchored by resource processing, inputs to the resource sectors, and technologically-sophisticated secondary goods, as well as consumer goods, and other types of light industry.

In Manitoba, the broadly-based manufacturing sector represents more than 40 per cent of total goods production, nearly double that of the important agricultural sector. Within the manufacturing sector, food and beverage processing and farm machinery manufacturing remain important components. Other industries such as transportation equipment (including aerospace), electrical products, metal fabricating and clothing, have also grown to significant size. Manitoba's manufacturing sector is characterized by its diversity, its dependence on small business and its geographic concentration in Winnipeg.

Areas of concern in Manitoba's manufacturing continue to be the agricultural equipment and urban bus sectors which are both facing declining demand and severe North American production overcapacity and declining demand. The printing and publishing, apparel and paper industries anticipate stable markets over the next two years while the aerospace, electronics, metal fabricating, household furniture, non-metallic minerals and wood industries are expecting steady growth over the same time period.

Saskatchewan's manufacturing reflects the dominance of primary resource activity in the provincial economy. Manufacturing industries, accounting for about 5 per cent of total GDP in 1986, are heavily oriented towards the resource sectors either through the downstream processing of resources (food products, animal feed, wood products) or through the upstream manufacture of

machinery, equipment and other capital goods (farm implements, mining equipment, chemicals, primary steel and fabricated metal products).

In recent years a growing list of manufacturers of advanced technology products and supporting institutions have emerged in Saskatchewan. Strength is concentrated in communications and electronics (instrumentation and process control, satellite communications, remote telemetry) and there is a growing capability in biotechnology.

The three dominant manufacturing industries in Alberta are food and beverage, refined petroleum and coal products, and chemical products. These three represent almost 70 per cent of Alberta's gross value of manufacturing shipments.

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 processing of certain resource products.

In British Columbia, business capital spending is depressed and has been since the recession. Outlying resource communities have been hit hardest. There are signs of a turnaround, however. A survey of business intentions conducted by the Department of Regional Industrial Expansion in April 1987 showed business investment up 19 per cent, the second highest in Canada.

Progress in British Columbia's competitiveness is attainable through well-targetted modernization, innovation and the use of advanced technology across the industrial spectrum. Diversification opportunities of special potential include the areas of telecommunication, biotechnology, ocean industries, transportation machinery and the service sector, especially trade and finance. Value-adding opportunities are also significant in remanufactured wood products.

Defence industries have a special interest in Western Canada, where the Department of National Defence (DND) has long played an important role. Canadian Forces Bases in Shilo, Cold Lake, Esquimalt, and the many stations and detachments across the West are of major importance in providing economic activity to the region. The federal government has recently transferred tribal-class destroyer capability, with helicopters, to CFB Esquimalt.

Western Canadian companies are becoming increasingly competitive for federal defence

spending. In British Columbia, Microtel was awarded the work to provide the communication and information system for the Far North Warning System. The expertise the company will derive from this project will establish Microtel as a world-class supplier of this technology.

SED Systems of Saskatoon is part of the Canadian Patrol Frigate electronics program. In Edmonton, Northwest Industries is participating with CAE Electronics and Canadair in the CF-18 life cycle maintenance contract. Boeing of Canada in Winnipeg is working with DND to develop a new generation of rocket-booster targets. Bristol Aerospace, also of Winnipeg, is currently producing the CRV-7 rocket for Canada and is designing and manufacturing the helicopter wire strike protection system used on all Canadian Forces' helicopters and which is marketed world-wide. The fleet of CF-5 fighters is also being updated for the Canadian Forces at the Bristol facility.

As these and other companies continue to develop state-of-the-art expertise, Western Canadian companies will gain even more opportunities to contribute to Canada's defence.

For the West in general, industrial strategy will centre on exploiting opportunities to add value to traditional resources, building on and expanding existing technology-based sectors and attracting new consumer goods production. The Western Diversification Office will work closely with the new Department of Industry, Science and Technology in developing a dialogue with Westerners about how revitalized federal programming can best promote Western objectives.

Higher Technology Industries

The higher technology sector emerging in Western Canada is one of the most promising growth areas in the region and offers significant potential in each of the four provinces. All four governments place a high priority on developing a "high tech" sector and have created programs to promote its growth.

Compared to other Western provinces, Manitoba is less dependent on its resource sector, and possesses a considerably more diversified manufacturing and service sector. The province has the potential to become a leader in the development of small-scale advanced manufacturing technologies. Manitoba has successfully integrated high technology in particular products and processing in its manufacturing and service sectors, including the aerospace, electronics, machinery, garment, transportation and financial services industries. It also has a keen interest in expanding its health care and other technology

sectors, particularly where this will lead to new opportunities in biotechnology, manufacturing and grain industries and financial services development. Growth in such knowledge-intensive industries will depend on the achievement of a "critical mass" in selected areas. Total spending on R&D by business, universities, and all levels of government in Manitoba in 1984 was \$ 206 million, which, at 1.25 per cent of provincial gross domestic product, was virtually equivalent to the national average in that year.

Although comparatively small, Saskatchewan's high technology sector has grown rapidly over the past few years. Most firms in advanced technology fields are located in Saskatoon and have evolved around the people and activities of the University of Saskatchewan. Major areas of activity are in electronics, chiefly data and satellite communications. While in the past, much of the high technology was concentrated on applications in the resource sector, particularly agriculture, there has been a significant broadening of activity into fields such as transportation and computer hardware and software. Although electronics accounts for a significant proportion of present revenues, biotechnology is an emerging strength. High quality organizations already exist, centred around the University, and these could yield commercially important products in agricultural production, food processing, and disease control in the years ahead. Total R&D expenditures in Saskatchewan were \$ 121 million in 1984, which represents less than one per cent of provincial gross domestic product.

Of all Western provinces, Alberta has made the strongest commitment to research. The Alberta Research Council is the oldest and largest provincial research organization in Canada, with expenditures of \$ 37 million in 1984. Total public and private sector funding of R&D in Alberta in 1984 was \$ 480 million. The focus of R&D in Alberta has been on natural resources, with more than half of the R&D performed in the energy sector where Alberta is internationally competitive in several technologies. The focus is shifting, however, to other areas, particularly those in the manufacturing sector. Alberta has important capabilities in fibre optics, electronics, sensors and computer technology and is developing capabilities in agricultural biotechnology, lasers, and health care technologies.

Total funding of R&D in British Columbia in 1984 was \$ 365 million, ranking it second to Alberta. High technology is a diverse growth sector in the province and is supported by a growing infrastructure. B.C. leads in ocean industry and forestry technology (both silviculture and wood products) and the province also has strong

capabilities in electronics, selected computer software areas, and medical diagnostics. The most important and fastest growing "high tech" area in B.C. today is the electronics industry, including integrated circuits, computers, telecommunications, particularly remote sensing and process control, and other applications. The province is also keen to build knowledge-intensive industries in aerospace, biotechnology, and nuclear research. Future growth prospects will depend on the extent to which initiatives complement resource sector applications or develop new export markets.

In general, there are significant opportunities for industrial diversification based on existing Western Canadian technological expertise and the further development and application of high technology strengths. Indeed, the West has a large untapped pool of entrepreneurial expertise on which to capitalize. Policies to support such development must focus on a number of areas which underpin further rapid growth:

- the quality and quantity of the infrastructure supporting technology development including the university system, R&D and financial services, must be further strengthened across the Western provinces;
- complementary in the objectives and priorities of the Western provinces in high technology endeavours must be further pursued;
- the growing effectiveness of university-industry linkages needs to be encouraged in a more concerted way; and
- knowledge of the international competition must become more current and commonly known.

The importance the federal government attaches to helping industry seize the high ground in advanced manufacturing is indicated by the Prime Minister's personal chairmanship of the new National Advisory Board on Science and Technology, a panel of 35 distinguished leaders in science, business, research, and labour. On the Board's advice, the government has committed more than \$ 100 million to InnovAction projects. It has committed an initial \$102 million to the RadarSat project and has also invited the provinces and foreign governments to join in committing other funds. RadarSat will vastly improve Canadian resource management capabilities, and with InnovAction and the rest of the space program, offer new challenges to Western Canada's high tech firms.

Achieving positive results more rapidly in terms of economic growth will require the federal government to cooperate with the Western provinces in focusing efforts on selected areas where globally competitive capabilities exist or can readily be developed. Such cooperation must include focusing on common efforts to pool rather than dilute resources, governments working with the university community and private industry to improve the linkages, and strengthening infrastructure that support high technology industries. In the period ahead, the Western Diversification Office will explore the higher technology opportunities available to the Western provinces and encourage greater inter-provincial cooperation to take advantage of these opportunities.

International Trade

Trade expansion with the United States and overseas markets is vital to the future prosperity of all regions of Canada, particularly Western Canada. Improving and securing our access to foreign markets is critical for economic expansion and diversification and is the cornerstone of the federal government's trade strategy.

The federal government is pursuing a two-track approach to trade liberalization. It is actively participating in the multilateral trade negotiations — the Uruguay Round — now under way under the auspices of the General Agreement on Tariffs and Trade (GATT) and is also seeking a comprehensive bilateral free trade agreement with the United States that would be fully consistent with, and supportive of, the current GATT negotiations. Steps are also being taken to intensify our trade promotion and development activities in the United States, Pacific Rim countries and the European Community.

The trade negotiations, both bilateral and multilateral, are about expanded economic opportunities, certainty for producers and investors, and most importantly, permanent jobs. As a country with a small domestic market and reliant on foreign trade, Canada is faced with ever-increasing competition for export markets and is particularly vulnerable to the growing tide of protectionist trade barriers and trade-distorting subsidies. Nowhere is this more acute than in Western Canada, given the traditional importance of exports of natural resources and resource-based products. Success in both the bilateral and multilateral negotiations is the single most important key to Canada's future.

The importance of these negotiations to Western Canada cannot be overstated. The significance of trade is illustrated by the following basic statistics:

- Manitoba exported \$ 2.5 billion worth of goods in 1986, of which 56 per cent went to the United States.
- Saskatchewan's 1986 exports were worth \$ 4.3 billion of which \$ 1.8 billion or 42 per cent was sold to the United States.
- Alberta's total exports were valued at \$ 10.7 billion in 1986, 73 per cent of which went to the United States.
- British Columbia's exports were worth \$ 13.5 billion in 1986 with \$ 6.3 billion, or 47 per cent, going to the United States.

The emergence of substantial trade imbalances and consequent protectionist pressures, and

the increasing resort to non-tariff trade barriers and competitive export subsidies, are placing growing strains on the rules and understandings governing international trade relations.

For Canada, the West in particular, strengthening the rules, ensuring that they are respected, and facilitating the effective resolution of disputes is of paramount importance.

Canada's vulnerability to trade-distorting practices is most pronounced with respect to grains and oilseeds. Canadian grain producers have seen their prices drop dramatically and are caught in the cross-fire of an agricultural subsidy war. As demonstrated by the federal government's \$ 1 billion in additional assistance under the Special Canadian Grains Program, the government is first and foremost committed to ensuring the survival of this key sector of the economy. No country, however, can win a battle of the treasuries. The only long-term solution is to achieve a major international reform of the framework for global agricultural trade.

The current negotiations with the United States should help to bring greater discipline to bilateral trade in agricultural products. It is clear, however, that these negotiations cannot resolve the fundamental, global problems affecting agriculture. An effective multilateral approach is urgently required. The Prime Minister, recognizing the need to bring greater international discipline to bear on agricultural trade barriers and the use of trade-distorting subsidies, is in the forefront of efforts to ensure that agricultural trade receives priority attention in the multilateral trade negotiations. Canada has taken the lead in placing agriculture at the top of the agenda of meetings of trade ministers, is participating actively in the Cairns Group of agricultural exporters, and has worked to reach agreement in the OECD on a set of principles to guide the reform of domestic policies and international agricultural trade. The Prime Minister accorded priority to discussions on agriculture at the recent Economic Summit in Venice.

At Venice, Summit partners committed themselves to the reform of agricultural markets. Canada joined other Summit members in endorsing measures agreed to by OECD countries to refrain from actions that would stimulate production of surplus agricultural products, increase protectionism or destabilize world markets. Members further urged that Uruguay Round negotiations be pursued vigorously and agreed to table

negotiating proposals for agricultural reform in the next few months. Of particular importance was the adoption of Canada's proposal for a mid-term review of agricultural issues during the Uruguay Round and agreement to address agriculture again at the next Summit to ensure the implementation of agreed measures.

The government is participating in these negotiations with the support and close involvement of Western Canadian interests. The most extensive consultative process ever established for trade negotiations is in place with quarterly meetings between the Prime Minister and provincial Premiers, ongoing discussions between the federal and provincial ministers responsible for trade, and regular meetings of senior federal and provincial officials through the Continuing Committee on Trade Negotiations. Detailed consultations with industries and other concerned groups are being held through the International Trade Advisory Committee and the Sectoral Advisory Groups on International Trade. Throughout, the interests of Western Canada are well represented.

With the support and advice of the provincial governments, the government is committed to achieving a major liberalization of world trade and ensuring that the benefits accrue to all regions — none more so than Western Canada. The government is also committed to achieving major reforms in agricultural trade and ensuring that Canadians are in a position to capitalize on the opportunities that freer trade will provide.

Working with the Provinces

The federal government recognizes the importance placed on economic diversification by the Western provincial governments and the value of ensuring that federal and provincial initiatives proceed in a coordinated and complementary fashion.

Since announcing its intention to place a priority on Western diversification in the October 1986 Throne Speech, the federal government has held numerous informal meetings and discussions with the provincial governments concerning the federal initiative. Naturally, the provinces have put forward a number of specific proposals.

In particular, the federal government has paid close attention to the deliberations of the Western Premiers at their 1987 Annual Meeting in Humboldt, Saskatchewan. In that regard, the federal government welcomes the Premiers' "commitment to a cooperative approach" to diversification, as stated in the Humboldt communiqué. Particularly helpful is the fact that "the Premiers agreed to establish a Western Ministerial working group on diversification to design with the government of Canada the imminent federal strategy."

The establishment, by the Premiers, of the Provincial Ministerial Working Group will be a great help in focusing federal-provincial cooperation in this vital task. The federal government agrees with the emphasis placed by the Premiers in their communiqué on "the importance of long-term policies to secure economic stability, growth and diversification in Western Canada." The federal government looks forward to the results of the Working Group's efforts and to joint meetings of the Group with federal Ministers. Establishing the Office in Edmonton should facilitate this cooperative effort.

The federal government also agrees, in principle, with the Premiers' suggestion that federal procurement can be a powerful tool of regional development in Western Canada.

It should be noted that to that end, the federal government has improved the regional basis of its own procurement and will be introducing new measures to ensure that suppliers in all parts of Canada have equal opportunities to bid. However, the value of federal government purchases accounts for a relatively small part of total Canadian public sector procurement. In 1984, the

last year for complete figures, federal purchases totalled \$ 9.2 billion, representing 12.5 per cent of total public sector procurement. In comparison, provincial governments spent \$ 13.6 billion, provincial Crown corporations \$ 18.3 billion, federal Crown corporations \$ 14.4 billion, local governments \$ 9.6 billion and another \$ 8.3 billion was spent by local government enterprises, hospitals and universities. It is certainly true that government purchases can lift regional firms onto a whole new plateau of competitiveness in private markets. All governments will, however, wish to await the outcome of the current trade talks before embarking on new directions.

In that respect, the federal government acknowledges the welcome support of Western Premiers for the Canada-US trade negotiations and wholeheartedly endorses the Premiers' belief that "a satisfactory outcome to the negotiations would contribute to the economic development of the Western provinces." Canada's talks with the US and leadership in multilateral forums are a measure of the government's desire to create new trade opportunities for Western Canada. The federal government particularly appreciates the Western Premiers having "endorsed Canada's initiatives to include agriculture in the multilateral trade negotiations for the first time."

The federal government strongly supports the coordinated initiatives of the four Western provinces to reduce barriers to trade within Canada. The government will continue to place high priority on the continuing federal-provincial work aimed at eliminating such barriers through mutual agreement and cooperation.

In preparing the Western Diversification Initiative, the federal government has listened closely to the advice of Western Canadians. A consensus has emerged on objectives. The Initiative is a major step toward their realization. Its philosophy is based on the advice and counsel of the Western provincial governments. The federal government hopes to enjoy an equally cooperative and complementary approach to its implementation.

