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ASSESSMENT OF THE REGIONAL DEVELOPMENT INCENTIVES PROGRAM

One of a series of staff papers prepared by the federal
Canada, Department of Regional Economic Expansion.
as part of the regional development policy and program review

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Preface

This report reviews the activity of the Department of Regional Economic Expansion in providing incentive grants to industry under two distinct statutes: the Department of Regional Economic Expansion Act and the Regional Development Incentives Act. Although the two Acts provide for different geographic and industrial coverage, incentive assistance provided under both have a common objective--encouraging investors to establish, expand or modernize manufacturing or processing facilities in target regions. For purposes of this report, therefore, incentives activity under the two Acts is aggregated and referred to as the Regional Development Incentives Program or, more briefly, as the RDIA Program or the incentives program.

December 31, 1972 was the cut-off date for information used in assessing the program. The report, then, covers incentives activity from inception of the program on July 1, 1969 to the end of last year.

Early in 1971, an area including Montreal and Cornwall was designated, on a short-term basis, as being eligible for special development incentives. Designation of this area, which is referred to as Region C, brought a major industrial area within the Regional Development Incentives Program. The nature of the unemployment problem and the solution sought, however, differed from those in other designated regions. Thus, throughout this report data related to Region C is tabulated separately.

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PART 1

SALIENT FEATURES OF THE RDIA PROGRAM

1.1 The Nature of the Problem

Major economic advances occurred in Canada over the 1950's and 60's. Canada's Gross National Product increased over 4½ times with a compounded annual growth rate of 7.6 per cent. During these years, population rose by 55 per cent, and G.N.P. per capita tripled. In the same interval, total public and private investment increased more than four-fold. By the end of the 1960's the level of investment activity in manufacturing was over five times that in 1950. Both the labour force and employment grew very rapidly, far more rapidly than experienced by most other countries.

While the Canadian average rate of growth was impressive, the growth rate for some regions and provinces was much less so. In fact, the conditions of relative prosperity in the 1960's helped emphasize the existence of significant interregional differences in income and employment as well as their persistent nature.

Policies were already in place which recognized that national economic development would not automatically result in all regions sharing as fully as possible in its growth and prosperity. For example, the fiscal equalization program adopted after the Second World War, while not designed to promote regional development as we understand the term today, has played and continues to play a role in helping prevent further interregional disparities in levels of public services.

Another phase of federal regional policy followed upon the 1957-61 recession. The ingredients of federal regional policy in this phase were many and varied. The programs introduced were concerned with low income and land utilization problems in rural areas of the country; with the development of social and industrial infrastructure in the Atlantic Provinces; and with the provision of incentives for industrial development in areas of high and persistent unemployment and low levels of non-farm family income. Incentives for industrial development offered prior to 1969 are particularly relevant to a discussion of the RDIA Program and are, therefore, described below.

As initiated in 1963, the program of industrial incentives took the form of tax concessions. This early program, which was administered by the Area Development Agency, applied to thirty-five areas located in seven provinces and provided for the following incentives:

- a three-year exemption from federal income tax for new manufacturing and processing businesses;

- special capital cost allowances (50% on a straight line basis) for new manufacturing and processing businesses acquiring new machinery and equipment;

- special capital cost allowances (20% on a straight line basis) for new buildings or significant extensions to existing buildings; a wide range of business qualified for this provision.

Following a review of the program undertaken in 1965, it was decided to amend the program to provide for cash grants in lieu of the tax holiday. The Area Development Incentives Act (June 30, 1965) provided for capital grants on a sliding scale - amounting to one third of the first $250,000 spent on new machinery, equipment, and buildings, one quarter of the next $750,000, and one fifth of the remainder to a maximum of $5 million. These grants, it should be noted, were administered on a non-discretionary basis. That is, as long as the investment fell within the industrial and geographic scope of the program, which encompassed about 20 per cent of the national labour force, assistance was automatically granted on a predetermined scale.*

The regional development policies described above, however, were introduced on an ad hoc basis in response to the particular needs of specific situations. Different agencies were responsible for specific aspects of these regional policies, with the result that effective program co-ordination on an overall basis was difficult to achieve. Furthermore, in spite of these special programs and the years of relative prosperity in the 1960's, there had been no significant narrowing of the gap in incomes and employment opportunities between the provinces and regions of Canada.

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* Appendix A includes a table on ADIA activity, by region, up to December 31, 1972.

A desire to improve the rate of progress in reducing regional disparities led the Federal Government in 1969 to establish the Department of Regional Economic Expansion. More particularly, in respect to this review, it led to the establishment of the RDIA Program.

1.2 Objective and Strategy of the RDIA Program

The primary objectives of the RDIA Program are to increase job opportunities and to reduce job losses in the manufacturing and processing sectors in designated regions and special areas by stimulating private investment. However, the Regional Development Incentives Act, relevant provisions of the Government Reorganization Act (1969), and public statements indicate other dimensions of the program. In summary form, the underlying strategic elements of the current industrial incentives program are:

a) industrialization with special emphasis on manufacturing and processing and a consequent increase in the processing of natural resources;

b) a progressive strengthening of industry and/or related services in special areas, in and around which development may more easily be encouraged;

c) a heavy reliance on a positive response by entrepreneurs to establish, expand and modernize manufacturing and processing industries yielding a type and scale of development which through multiplier effects will produce economic strength, higher wage rates, and other foundations for social adjustment; and

d) an active and selective approach to the discovery of opportunities and the development of community involvement.

It should be recognized that the RDIA Program is one of a number of programs of the Department of Regional Economic Expansion designed to reduce regional disparities. The RDIA Program, therefore, was never intended single-handedly to achieve the desired reduction in disparities.

1.3 Incentives Legislation and Regulations

Current incentives legislation and regulations owe much to experience with the Area Development Incentives Act. The basic features of that Act are outlined in Appendix A.

Incentives under the RDIA are available in designated areas, as provided by the legislation, and in Special Areas designated pursuant to the DREE Act. The legislation states that after consultation with the government of any province or provinces, any region may be designated for purposes of the RDIA provided the following conditions are met:

a) existing opportunities for productive employment in the region or area concerned are exceptionally inadequate;

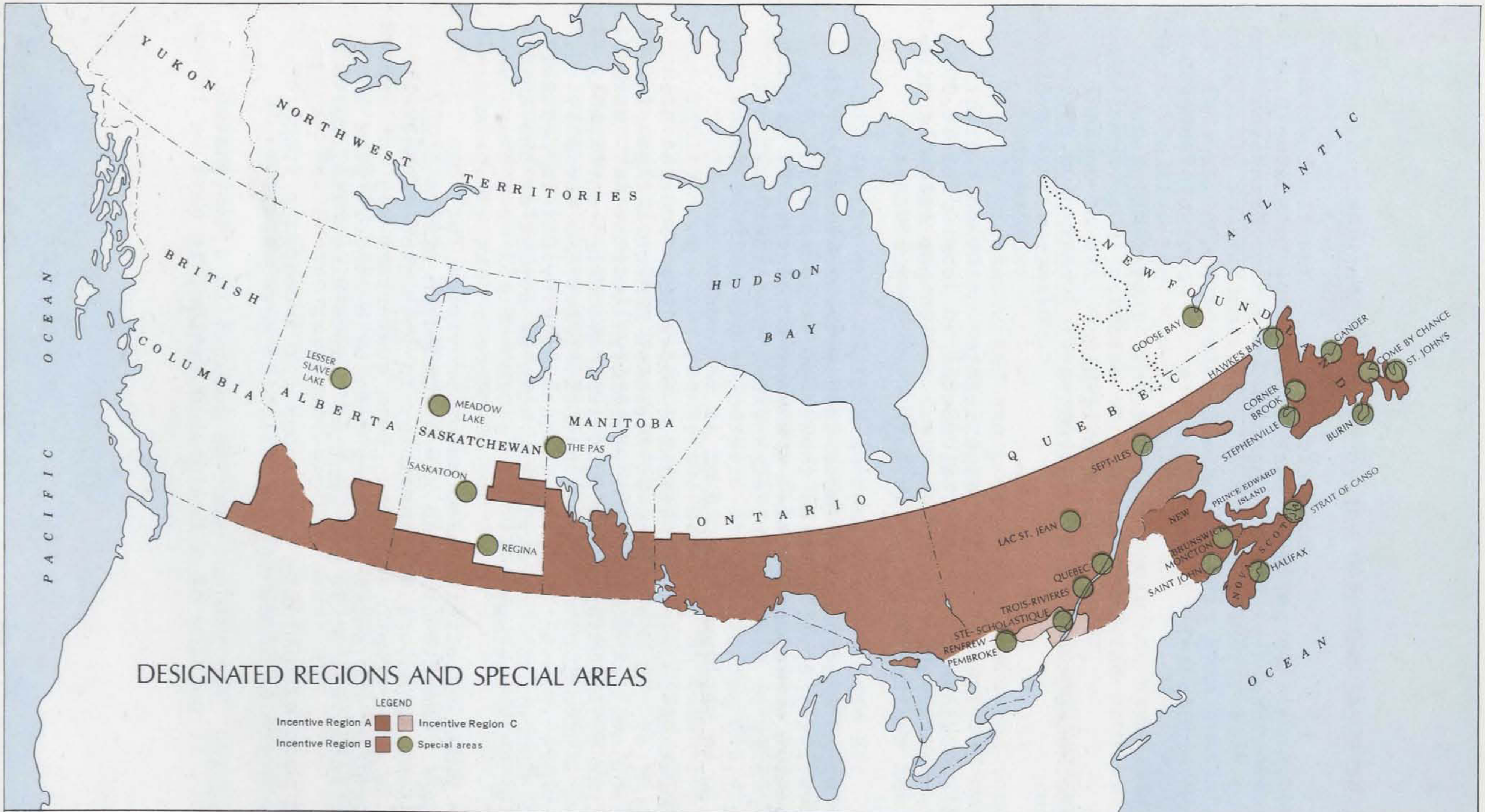
b) the provision of development incentives will make a significant contribution to economic development and social adjustment within the region or area; and

c) the designated region is not less than 5,000 square miles in size.

The designated regions cover broad segments of the country. The special areas, of which there are now 23, represent more localized focal points of potential development (see map on page 5). Special areas where industrial incentives are available and the RDIA designated regions together comprise 50 per cent of Canada's population and 46 per cent of Canada's manufacturing labour force; the Montreal-Cornwall designated region accounts for 18 per cent of Canada's population and 21 per cent of Canada's manufacturing labour force.

The size of an incentive grant may be varied, within statutory limits, to meet the requirements of a particular project. For a plant modernization or an expansion that does not involve a new product, only approved capital costs can be considered as a basis for an incentive grant. For a new plant or the expansion of an existing plant into new product lines, the number of jobs to be created may be considered in addition to approved capital costs.

The maximum available grant depends on location and type of project, as shown in the following table:



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Regional Economic Expansion
Expansion Économique Régionale

Location	Type of Project	
	Modernization or Expansion	New Plant or New Product Expansion
Region A (Atlantic Provinces)	30% of eligible capital costs	35% of capital cost plus $7,000 per eligible direct job created
Region B (Standard Designated Regions)	20% of eligible capital costs	25% of capital cost plus $5,000 per eligible direct job created
Region C (Special Designated Region - southwestern Quebec and southeastern Ontario)	10% of eligible capital costs	10% of capital cost plus $2,000 per eligible direct job created

In addition to the schedule shown above, the Regional Development Incentives Act stipulates that a grant respecting modernization or expansion of a plant cannot exceed $6 million. For new plants or new product expansions the grant must not exceed $30,000 per direct job created or one half of total capital to be employed, whichever is the lesser amount.

Industrial incentives available under the "Special Area provisions" of the Department of Regional Economic Expansion Act are not subject to the same statutory limitations. However, as a matter of administrative practice, standards applicable under the Regional Development Incentives Act are normally applied where relevant. Thus, incentives provided in Special Areas under the DREE Act are dealt with as a part of the RDIA Program in this Review.

The RDIA legislation also makes provision for loan guarantees. These guarantees are intended to offset difficulties investors may encounter in obtaining financial capital in slow-growth regions. Loan guarantees may not exceed 90 per cent of the total advances made by a lender, plus the interest involved, or 72 per cent of the total capital costs.

The main eligibility conditions for incentives support under RDIA are outlined in the following paragraphs.

<u>Location</u> The project must be located in a designated region or, if outside of a designated region, it must be in one

of the special areas approved by the Governor in Council under authority of the DREE Act.

Kind of Project The program is aimed at manufacturing and processing operations and grants and loan guarantees, separately or in combination, are available for such operations. (In the case of commercial facilities only loan guarantees are available).

Prior Commitment The applicant must not have made a prior commitment, e.g. purchase of equipment for the project.

Minimum Size of the Project The project must exceed a minimum size as follows:

a) In manufacturing and processing, where the incentive is based on capital cost only, the approved capital costs must be $30,000 or more. If the incentive is based on capital costs and jobs, the approved capital cost must be $60,000 or more.

b) In the case of loan guarantee incentives for commercial operations, capital costs must exceed $2,500,000 if the location is Montreal, $500,000 if the location is Quebec City or Winnipeg, and $250,000 in any other place within a designated region or special area.

Equity For a new plant, the offer of an incentive is conditional on the applicant providing a specified amount of equity capital. This can never be less than 20 per cent of the approved capital cost as estimated at the time the incentive is offered. In the case of expansion or modernization, the applicant must have equity not less than 20 per cent of the approved capital costs and the book value of the assets of the existing facility at the time of application. In the case of loan guarantees for commercial facilities, the borrower's minimum equity must also be 20 per cent.

Contribution and Need A project is ineligible if in the Minister's opinion it:

a) would not make a significant contribution to economic expansion and social adjustment within the designated region or special area; or

b) would go forward without the inducement of an incentive.

1.4 Organization for Administering the RDIA Program

The primary responsibility for determining whether projects meet the requirements of the RDIA Program respecting location, type of investment, prior commitment, minimum size, equity and need is assigned to the Incentives Division of the Department of Regional Economic Expansion. During the period 1969-72 this Division was organized as indicated in Appendix B. The professional staff, who comprise approximately 60 per cent of the total staff of the Division, work under arrangements that facilitate common understanding of the legislation and fair and objective judgments of cases.

To a varying degree all professional staff engage in activities aimed at identifying opportunities and inducing and assisting desired industries to locate or expand in the locations at which they are wanted. However, some staff specialize in industrial development work while others specialize in evaluation and inspection work.

Maximum use is made in the evaluation procedures of technical expertise housed in other federal departments. Vital information, both from a regional standpoint and fitted into the wider, overall national context, is available for various departments but mainly from the Departments of Industry, Trade & Commerce, Environment (Fisheries), Manpower, and Agriculture.

1.5 Evaluating Applications

In its essentials, evaluating a project consists of assembling and analyzing the facts about the project and preparing recommendations to reject the application or to offer an incentive of a specific amount and under specific conditions. These latter are those of the Act plus such other conditions as are deemed essential and prudent as protection for the interest of both the public and the applicant.

Evaluations are based on information collected from the applicant, other government departments and agencies, provincial and municipal authorities, Dun and Bradstreet Reports, and any other source of data relevant to factual and fair evaluations. As appropriate to the circumstances, the incentive officer maintains contact with the applicant throughout this evaluation so that the applicant may be aware of progress. This contact is an important part of evaluations and whenever possible a visit is made to the project site by the evaluating officer.

In regard to the evaluation process itself, analysis follows the general pattern of eligibility - viability - financial feasibility - need for an incentive - type and amount of incentive including grant/loan guarantee combinations - benefits - special conditions. This pattern may be broken at any point by a negative decision and may be restarted again if a suitable restructuring option is found.

1.6 Evaluation Information and Criteria

The basic information used in evaluations and the factors considered in determining the amount of offers are as follows:

Information The following basic information is used in evaluations:

a) Capital Costs. A breakdown of capital costs and proposed jobs to be created in each of the first three years.

b) Profit and Loss Statements. Pro-forma balance sheets and profit/loss statements covering a period of five years for a new facility. (An existing operating company would be expected to also forward the three previous years' audited financial statements).

c) Marketing Information. One of the most important aspects of any project is clearly the scope of the market that the intended facility is to supply. Substantiation of market potential is specifically requested and may take the form of letters of commitment or letters of intent to buy.

d) Management. The quality and experience of the intended management are considered in some detail. If essential expertise is lacking, the Department would require assurance that this defect will be remedied.

e) Financing. This includes disclosure of the source of funds and methods of financing.

f) Operations. Other factors considered include the source of machinery and equipment.

g) Pollution. Possible environmental effects are considered and standard safeguards are incorporated as a condition of offers.

Determining the Amount of Incentive Offers. Major factors considered in determining the amount of incentive to be offered are as follows:

a) An examination of the net economic opportunity. Among the questions asked are the following: From where is the market now supplied? At what rate, in relation to existing production, is the market growing? Accordingly, will the new or expanded plant operate successfully without any significant reduction in other production in Canada?

b) Given the opportunity, is the project feasible? Is it technically sound? Are the physical and human resources adequate? How will costs compare with those of competitive operations?

c) How important are the direct and indirect benefits of the project to the area? For example: How much of the labour will be local? How likely is it to generate other developments in the area?

d) What infrastructure investment will the operation make necessary? Is pollution adequately controlled, will it involve public costs, and how much are they likely to be?

e) How does the prospective rate of return compare with the rate of return in an alternative location and the rate of return that is normal for the type of investment?

f) What levels of incentive have been found necessary for other comparable projects and what amount is likely to induce the applicant to go ahead with the proposal.

1.7 Inspection, Payment and Follow-Up

A standard condition of offers is a requirement that they be accepted within 90 days, otherwise they automatically lapse. Provided that an offer of a grant is accepted within this deadline, the case proceeds to the inspection stage.

Essentially inspections are the basis for approving payments of incentives grants. They consist of ensuring that projects actually meet both the requirements of the Act and the conditions of the offer. Although fundamentally an audit, the discretionary aspects of the legislation carry over from evaluation to inspection and careful judgment is required.

The practice is to assign inspection and payment responsibility to an officer other than the one who performed the evaluation. This provides a fresh and independent judgment at the stage wherein the actual disbursement of public funds occurs.

When the applicant's capital costs schedule has been received and the project is legally in commercial production, i.e., at least half of the assets upon which the offer was based have been in continuous operation for 30 days, the inspecting officer makes a thorough on-site inspection of the project. As a minimum he examines: the general ledger accounts; fixed asset control accounts; payment procedures; labour and wage records; accounts receivable and payable; invoices; details of any costs incurred on a non-arm's length basis; and the location and state of relevant physical assets. In addition he examines: the company's equity status, insurance coverage; credit position; marketing and sales policies; and various criteria of statutory compliance.

On completion of his inspection, the officer prepares a report which, in addition to covering compliance and other audit details, gives his judgment regarding the continued viability of the project and the prospect that direct job creation expectations will be fulfilled. This report recommends the amount of the first payment which may be less than but never more than 80 per cent of the incentive offered. The final payment must be made within a maximum of 30 months after the legal commercial production date if the incentive was based on capital costs only and within 42 months after the legal commercial production date if the incentive was based on capital costs and direct jobs.

PART 2

A REVIEW OF RDIA ACTIVITY: GEOGRAPHIC DISTRIBUTION AND INDUSTRIAL COMPOSITION OF INVESTMENT AND JOBS SUPPORTED

2.1 Introduction

This part of the Report examines the achievements of the Incentives Program in directly stimulating manufacturing and processing investment and employment in the slow-growth regions. Particular attention is given to the geographic distribution and industrial composition of investment and jobs supported under the Program. By way of orientation, a very brief account is first given of the overall activity of the Incentives Program during the 1969-72 period.

2.2 Summary Data on the Operations of the Incentives Program

Tables 1 and 2 give summary data on the operations of the Incentives Program since its inception. As of December 31, 1972, the Department had received 6,936 grant applications. Of these applications 2,066 were withdrawn, 1,575 were rejected and 2,665 resulted in offers. Of the offers made 2,198 were accepted, 336 lapsed and 131 were outstanding. After acceptance, 241 offers were either withdrawn or declined. Thus, as at December 31, 1972 the "net accepted offers" under the program totalled 1,957.

The projected effect of these "net accepted offers" in terms of incentive grants committed, jobs to be created, and new fixed capital investment is $324.4 million, 81,752 jobs and $1,616.3 million respectively.

Excluding Region C (the Montreal-Cornwall region which was designated in 1971, on a short-term basis, as being eligible for special development incentives) direct jobs expected from industrial incentives amount to 54,953. Incentives per job under RDIA (Region C excluded) average $4,980 and incentives as a proportion of capital costs average 21.9 per cent.

The designation of Region C (Montreal-Cornwall) brought a major industrial area within the Regional Development Incentives Program. Data related to Region C is tabulated separately. Since designation of the region in January, 1971, assisted investment is projected to generate almost 27,000 new jobs.

While some $324.4 million were committed under the RDIA Program at December 31, 1972, incentives payments actually made up to that date amounted to $72.6 million. Approved capital costs associated with these payments amounted to $412 million and an approximate 21,000 jobs were actually in place.

As of December 31, 1972 there were 14 net accepted offers under the loan guarantee program, for total guarantees of $16.3 million. Four of those approved were for commercial facilities and the remainder originated from Regional Development Incentives Act grant applications.

TABLE 1

Disposition of Incentive Applications and Status of Offers as of December 31, 1972 *

Status of Applications	Grants	Loan Guarantees
Applications Received	6,936	199
Applications Withdrawn	2,066	73
Applications Rejected	1,575	55
Applications In Process	630	48
Offers Made	2,665	23
Status of Offers Made		
Offers Made	2,665	23
Offers Lapsed	137	2
Offers Declined	199	2
Offers Outstanding	131	3
Offers Accepted	2,198	16
Status of Offers Accepted		
Offers Accepted	2,198	16
Accepted Offers Declined or Withdrawn	241	2
Net Offers Accepted	1,957	14
Status of Net Offers Accepted		
Net Offers Accepted	1,957	14
No Payment Made	1,069	
Partial Payment Made	847	
Final Payment Made	41	
Guarantees in Force		3

* A provincial breakdown is given in Appendix C.

TABLE 2

Incentive Grant Activity up to December 31, 1972

Provincial Breakdown of Net Offers Accepted, Expected Eligible Capital Cost, Expected Direct New Jobs, Estimated Amount of Incentive Grants and Actual Payments Made

	Net Offers Accepted	Expected Eligible Capital Cost	Expected Direct New Jobs	Estimated Amount of Incentive Grants	Actual Payments Made
		$		$	$
Newfoundland	61	22,839,445	1,963	8,564,790	1,280,200
Prince Edward Island	34	9,642,641	778	3,616,531	1,031,458
Nova Scotia	119	181,146,014	5,720	40,075,796	4,056,866
New Brunswick	139	71,714,633	5,626	29,100,478	11,473,825
Quebec					
Region C	660	346,817,577	25,054	46,501,795	5,743,557
Other	532	497,060,906	24,097	103,184,275	24,702,718
Total	1,192	843,878,483	49,151	149,686,070	30,446,275
Ontario					
Region C	24	23,987,561	1,745	4,201,493	332,163
Other	89	210,103,456	5,030	35,375,721	10,170,244
Total	113	234,091,017	6,775	39,577,214	10,502,407
Manitoba	174	65,354,262	5,964	17,167,997	5,595,660
Saskatchewan	47	31,415,274	2,344	7,392,948	3,081,673
Alberta	47	139,882,388	2,253	25,479,185	3,318,985
British Columbia	31	16,382,637	1,178	3,728,404	1,804,148
Total (Including Region C)	1,957	1,616,346,794	81,752	324,389,413	72,591,497
Total (Excluding Region C)	1,273	1,245,564,156	54,953	273,686,125	66,515,777

In order to gain a view of how the Incentives Program has developed over time, Table 3 indicates the yearly level of RDIA activity. The indicator is expected jobs from net accepted offers segregated by year of acceptance. Figures for each year are totals resulting from offers accepted in that year which, at December 31, 1972, had either been acted upon or were still active. Figures in the table for 1969 reflect the start-up phase of RDIA, during which it overlapped with the ADIA Program. The most pertinent data, therefore, relates to the period since 1969. Table 3 illustrates that the rate of job-support under the RDIA Program in 1971 and 1972 was, on average, approximately 33,000 per year. About 13,000 of this total accrued in Region C.

As may be seen in the table, expected jobs from accepted offers in 1972 were well above those in 1971. This is true whether one looks at the total including or excluding Region C. But expected jobs from accepted offers outside Region C grew less rapidly between 1971 and 1972 than earlier, due to the maturing of the RDIA Program. The Atlantic Region continues to show an increase in jobs expected from accepted offers, although the whole of the increase is accounted for by activity in Nova Scotia. The originally designated regions in Quebec appear to have picked up particularly strongly. In the western provinces RDIA activity appears to have fallen off somewhat from the 1971 level.

It should be noted that the statistics on jobs, new fixed capital investment and value of incentive grants presented here relate, in all cases, to "net accepted offers". To arrive at the net position, adjustments are continuously being made to take account of withdrawals, declines and revisions of accepted offers and, further, for projects which cease operations or enter into bankruptcy. The parliamentary monthly report for December 31, 1972 incorporates these adjustments. More adjustments will be required as notification is received on additional bankruptcies and withdrawals or declines of accepted offers pertaining to the 1969-72 period.

2.3 Regional Distribution of RDIA Activity

The regional impact of the RDIA Program is summarized in Table 4. Region C is noted separately.

TABLE 3

Expected Direct New Jobs
Associated With Net Accepted Offers
1969-72

	Expected Direct New Jobs				
	1969	1970	1971	1972	Total 1969-72
Newfoundland	128	269	1,163	403	1,963
Prince Edward Island	-	240	275	263	778
Nova Scotia	-	979	1,124	3,617	5,720
New Brunswick	875	1,014	2,184	1,553	5,626
Quebec					
Region C	-	-	9,776	15,278	25,054
Other	876	5,465	7,910	9,846	24,097
Total	876	5,465	17,686	25,124	49,151
Ontario					
Region C	-	-	600	1,145	1,745
Other	0	1,235	1,379	2,416	5,030
Total	0	1,235	1,979	3,561	6,775
Manitoba	203	1,292	2,411	2,058	5,964
Saskatchewan	-	849	680	815	2,344
Alberta	-	701	850	702	2,253
British Columbia	-	160	639	379	1,178
Total (Including Region C)	2,082	12,204	28,991	38,475	81,752
Total (Excluding Region C)	2,082	12,204	18,615	22,052	54,953

TABLE 4

Regional Impact of the Incentives Program up to December 31, 1972

	Net Offers Accepted		Estimated Amount of Incentive Grants		Expected Direct New Jobs		Expected Eligible Capital Costs	
	No.	% of Total	Million $	% of Total	No.	% of Total	Million $	% of Total
Atlantic	353	18.0	81.4	25.1	14,087	17.2	285.3	17.6
Quebec Region C	660	33.8	46.5	14.3	25,054	30.6	346.8	21.5
Other	532	27.2	103.2	31.8	24,097	29.5	497.1	30.7
Total	1,192	61.0	149.7	46.1	49,151	60.1	843.9	52.2
Ontario Region C	24	1.2	4.2	1.3	1,745	2.1	24.0	1.5
Other	89	4.5	35.4	10.9	5,030	6.2	210.1	13.0
Total	113	5.7	39.6	12.2	6,775	8.3	234.1	14.5
Prairies & B.C.	299	15.3	53.8	16.6	11,739	14.4	253.0	15.7
Total	1,957	100.0	324.5	100.0	81.752	100.0	1,616.3	100.0

Designation of Region C was introduced to provide a special incentive to help new projects go ahead quickly and thereby assist in overcoming the serious unemployment in that area. To maintain the relative position of the Atlantic Region, however, the special development incentive was incorporated into the levels of assistance already available in the region. In terms of value of incentives, only 15.7 per cent of the RDIA total has been awarded in Region C but some 33 per cent of total expected jobs will result therefrom.

Of the RDIA totals, the Atlantic Region accounts for 25.1 per cent of the value of grants committed under net accepted offers and for 17.2 per cent of the expected jobs. For the Province of Quebec, excluding that portion of Region C pertaining to it, comparable figures for grants and jobs were 31.8 per cent and 29.4 per cent, respectively, of the RDIA totals. The remaining designated regions accounted for 27.4 per cent of the value of net accepted offers and 20.4 per cent of total expected jobs.

A further elaboration of regional RDIA activity is given in Table 5. Table 5 illustrates the provincial levels for manufacturing employment in 1969 - that is, at the time the RDIA Program was introduced - as well as the number of jobs associated with net accepted offers for each province. It shows that, in the provinces where the program applies most extensively, the share of total expected jobs is higher, in some cases considerably higher, than the share of total manufacturing employment in Canada.

Excluding Region C, approximately 70 per cent of all jobs supported are located in the Atlantic provinces and Quebec. Newfoundland, for example, has received support for a far higher proportion of total assisted jobs than its share of Canada's manufacturing employment. More generally, all Maritime provinces accounted for greater shares of total assisted jobs than their shares of Canada's manufacturing employment.

2.4 Regional Differentiation in Quality of Jobs Supported

While the preceding section indicated that Quebec and the Atlantic Region have benefited substantially in terms of the total number of jobs supported under the RDIA Program, it appears that other provinces are benefiting from higher quality jobs. In Table 6 a comparison between provinces is given on the average capital costs per job supported since inception of the program to December 31, 1972. Also given is the provincial value of incentives per job supported.

TABLE 5

Total Provincial Manufacturing Employment and Expected Direct New Jobs from RDIA Net Accepted Offers to December 31, 1972

	Total Manufacturing Employment (1969)		RDIA Expected Direct New Jobs		
	No. (000)	% of Total	No.	% of Total (incl. Region C)	% of Total (excl. Region C)
Newfoundland	17	0.9	1,963	2.4	3.6
Prince Edward Island	3	0.2	778	1.0	1.4
Nova Scotia	38	2.1	5,720	7.0	10.4
New Brunswick	33	1.8	5,626	6.9	10.2
Quebec					
Region C	NA	NA	25,054	30.6	-
Other	NA	NA	24,097	29.5	43.8
Total	582	32.0	49,151	60.1	-
Ontario					
Region C	NA	NA	1,745	2.1	-
Other	NA	NA	5,030	6.1	9.2
Total	862	47.4	6,775	8.3	-
Manitoba	51	2.8	5,964	7.3	10.9
Saskatchewan	19	1.0	2,344	2.9	4.3
Alberta	64	3.5	2,253	2.8	4.1
British Columbia	148	8.1	1,178	1.4	2.1
Total (incl. Region C)	1,817	100.0	81,752	100.0	100.0
Total (excl. Region C)			54,953		

TABLE 6

Capital Costs and Incentives Per Direct Job Supported up to December 31, 1972

Province	Capital Cost per Direct Job Supported	Incentives per Direct Job Supported
	$	$
Newfoundland	11,635	4,363
Prince Edward Island	12,394	4,648
Nova Scotia	31,669	7,006
New Brunswick	12,747	5,172
Quebec		
Region C	13,843	1,856
Other	20,628	4,282
Total	17,170	3,046
Ontario		
Region C	13,746	2,408
Other	41,770	7,033
Total	34,552	5,845
Manitoba	11,958	2,879
Saskatchewan	13,402	3,154
Alberta	62,087	11,309
British Columbia	13,907	3,165
Total (Excluding Region C)	22,666	4,980
Total (Including Region C)	19,771	3,968

Alberta and Ontario have had the most capital intensive projects, with Nova Scotia third in rank but considerably below the first two in absolute terms. This result obtains from incentive support to a few large, capital intensive projects - such as the Proctor and Gamble facility in Alberta. In contrast, most of the incentive support in Newfoundland has been extended to much more labour intensive facilities.

Capital intensive projects are frequently associated with high quality jobs. If it is true that more remunerative and skilled jobs are found in capital intensive industries, then it would appear that Alberta and Ontario have benefited somewhat more than other provinces in terms of the quality of job being supported. Table 6 also points out that the level of incentive per job supported is highest in these provinces. It should be noted, however, that a relatively small proportion of the total RDIA supported jobs is to be found in Alberta and Ontario.

2.5 RDIA Activity Within Special Areas

DREE activity in Special Areas is intended to promote and to a degree concentrate economic activity in industrial growth centres in an attempt to accelerate area-wide economic development. ,Aside from this intention, and without prejudice to the principle involved, other centres across Canada were designated Special Areas eligible for incentive assistance in order to meet certain local requirements and conditions. In this manner, Saskatoon, Regina and Renfrew became Special Areas and qualified for incentive grants, while adjoining areas to these centres did not so qualify. Similarly, a number of Special Areas were created in Newfoundland, where the intention was to upgrade facilities and make it increasingly attractive for people from outlying areas to relocate.

Tables 7 and 8 present data on RDIA activity respecting the Special Areas. Table 7 indicates that, excluding Region C, of total offers accepted somewhat more than one quarter were for projects in the Special Areas. More importantly, however, on the basis of jobs, value of offers and particularly capital costs, Special Areas accounted for significantly greater shares of total RDIA activity. Considerable variation, however, is indicated as between provinces. Three provinces show a heavy concentration of RDIA activity in their Special Areas - Newfoundland, Saskatchewan and Alberta; in addition, the Special Areas of New Brunswick contained roughly one-third of RDIA activity.

TABLE 7

RDIA Activity Within Special Areas as a Percentage of Total Provincial Activity up to December 31, 1972

	Share of Net Offers Accepted	Estimated Share of Incentive Grants	Share of Expected Direct New Jobs	Share of Expected Eligible Capital Costs
	%	%	%	%
Newfoundland	62.3	62.9	58.5	64.8
Nova Scotia	25.2	9.8	32.7	17.8
New Brunswick	35.3	34.3	32.5	31.2
Quebec*	31.0	51.9	37.2	37.9
Ontario*	32.6	6.5	24.6	13.3
Saskatchewan	76.6	80.6	76.5	78.1
Alberta	23.4	76.2	48.7	75.3
TOTAL *	28.1	36.9	32.7	33.2

* Excluding Region C

TABLE 8

Rates of Incentive by Province and Special Area up to December 31, 1972

	Estimated Incentives as a % of Eligible Capital Costs	Estimated Incentive Per Job
	%	$
Newfoundland	38	4,363
Special Areas	39	4,832
Nova Scotia	22	7,006
Special Areas	40	3,805
Prince Edward Island	38	4,648
New Brunswick	41	5,172
Special Areas	37	4,970
Quebec (excluding Region C)	21	4,282
Special Areas	15	4,396
Ontario (excluding Region C)	17	7,033
Special Areas	34	3,829
Manitoba	26	2,879
Saskatchewan	24	3,154
Special Areas	23	3,222
Alberta	18	11,309
Special Areas	18	17,447
British Columbia	23	3,165
TOTAL (excluding Region C)	22	4,980

Table 8 illustrates RDIA activity by Province and Special Areas, showing per cent of incentive to eligible capital assets and incentives paid per job. It can be observed from the table that the rate of assistance on either capital or jobs given in Special Areas is, in the case of some provinces, higher than that given outside the Special Areas while, in the case of other provinces, the opposite pattern has - on average - evolved.

In New Brunswick, for example, Special Areas received a lower fraction of total eligible capital costs as incentive grants and a lower incentive per assisted job as compared to similar ratios for the province as a whole. On the other hand, Nova Scotia's Special Areas received a higher fraction of total eligible investment as an incentive, but considerably smaller grants per assisted job as compared to the province. Industrial grant assistance for projects within Special Areas of other provinces either exhibited similar comparative experiences to those of New Brunswick and Nova Scotia, or displayed patterns with little noticeable difference in degree between the Province and Special Areas.

There is nothing surprising in the above outcome. The RDIA Program is administered in such a manner that the minimum grant is given consistent with ensuring that the assisted project does, in fact, go ahead on a viable basis. The extent that a Special Area location is preferred over a location in the hinterland (or vice versa) does not, for this reason, permit a higher (lower) rate of grant to be awarded to the assisted project. Furthermore, the RDIA Program relies - in large measure - upon initiatives from the private sector and there are limits to what can be done to stimulate initiatives pertaining to particular centres within designated regions.

2.6 Industrial Composition of Investment and Jobs Supported

The industrial structures of the designated regions are, in many cases, largely local market and resource oriented. Questions have therefore been raised about the capacity of the RDIA program to affect, change or diversify industrial structures.

Diversification, however, cannot be extolled as a universally sound objective of the incentives program. It may be that such factors as transportation costs and labour skills preclude major deviation from existing industrial structures in certain designated regions. Alternatively, if the comparative advantage of a region is strongly related to a particular resource and further gains could accrue from increased manufacturing based on that resource, then continued concentration in this line of activity may well be the most sensible development course to pursue.

One indicator of the impact of the incentives program on the industrial structures of the designated regions is the distribution of support activity by type of project. Table 9 classifies net offers accepted, by province since inception of the program to December 31, 1972, according to whether the project involved:

a) modernization or expansion of existing facilities;

b) a new plant;

c) a new product line; or

d) some combination of the above.

About 36 per cent of the projects have involved modernizations or expansions of existing facilities, and about 57 per cent of the projects have involved new plants or new product lines. While these percentages apply to total RDIA activity, exclusion of Region C does not materially alter the distribution. Further, from this point of view, the distribution of RDIA activity by type of project has been quite similar in each year since inception of the program.

The distribution of RDIA activity by industrial sector for all regions combined is shown in Table 10. The greatest number of jobs supported is in the wood related industries (14.0% of total). The transportation industry ranks next (11.4% of total), followed by the clothing industry (8.8%) and the textile industry (7.0%). In terms of capital investment and the value of incentives offered, the ranking of industries supported under the RDIA Program is considerably different. While wood related industries are important on both these accounts, the primary metal industry and paper and allied industries also account for significant proportions of the totals.

Table 11 disaggregates RDIA industrial job-support activity by region.

TABLE 9

Net Offers Accepted by Type of Assisted Project up to December 31, 1972

	Number of Assisted Projects			
	Modernization or Expansion	New Plant	New Product	Combination*
Newfoundland	18	31	8	4
Prince Edward Island	11	13	8	2
Nova Scotia	51	48	16	4
New Brunswick	50	66	15	8
Quebec:				
Region C	250	202	142	66
Other	203	232	65	32
Total	453	434	207	98
Ontario:				
Region C	8	12	3	1
Other	23	51	12	3
Total	31	63	15	4
Manitoba	69	76	13	16
Saskatchewan	12	21	7	7
Alberta	13	30	3	1
British Columbia	8	13	5	5
Total (Incl. Region C)	716	795	297	149
Total (Excl. Region C)	458	581	152	82

* For example, a project involving both the modernization of existing facilities and the production of a new product.

TABLE 10

Industrial Distribution in Canada of Net Accepted Offers
up to December 31, 1972

	Net Accepted Offers % of Total	Expected Jobs % of Total	Est. Capital Costs % of Total	Total Value of Offers % of Total
Wood	15.0	14.0	9.5	14.1
Transportation	5.8	11.4	3.7	5.7
Clothing	5.1	8.8	1.8	2.2
Textile	6.4	7.0	5.5	5.6
Food Mfg.	11.2	6.9	6.9	7.8
Electrical	4.1	6.2	3.3	4.6
Misc. Mfg.	7.4	6.0	2.9	4.1
Metal Fab.	8.7	5.8	2.7	3.0
Primary Metal	2.5	5.4	3.7	16.4
Knitting	3.7	4.9	2.2	2.2
Fish Processors	4.1	3.8	2.0	3.6
Furniture	4.2	3.3	1.2	1.7
Machinery	3.9	2.7	1.6	2.0
Paper - Allied	2.3	2.6	15.7	11.3
Chemical	2.6	2.2	7.9	5.6
Rubber	1.6	2.1	2.8	2.7
Non-Metallic	3.0	1.8	2.4	2.9
Printing & Pub.	4.4	1.7	1.4	1.4
Leather	1.2	1.6	.5	.9
Other Mfg.	1.1	1.2	.6	1.0
Beverage	1.4	.6	1.6	1.1
Tobacco	.2	.0	.1	.1
Petroleum	.1	.0	.0	.0
	100.0	100.0	100.0	100.0

TABLE 11

Percentage Distribution of Total Manufacturing
Employment and RDIA Activity by Sector up to December 31, 1972

	Atlantic		Quebec		Ontario		Prairies		B.C.	
	1969 Base	Expected Jobs	1969 Base	Expected Jobs	1969 Base	Expected Jobs	1969 Base	Expected Jobs	1969 Base	Expected Jobs
	%	%	%	%	%	%	%	%	%	%
Wood	9.6	10.6	4.1	11.4	2.2	30.3	6.9	11.7	32.2	90.8
Transportation	10.3	8.4	7.0	12.1	12.2	3.0	7.5	19.1	5.0	1.1
Clothing	.6	1.5	12.2	9.6	3.0	10.7	7.9	14.1	1.7	-
Textile	1.8	1.8	7.9	9.3	3.8	6.8	1.4	3.6	.8	-
Food Mfg.	16.0	11.9	7.8	5.4	7.9	1.8	20.8	11.0	9.6	-
Electrical	5.1	10.8	6.9	7.2	10.0	3.4	2.3	3.3	2.1	-
Metal Fab.	4.9	2.9	6.9	7.4	10.0	1.6	11.2	5.1	7.4	4.7
Primary Metal	N/A	1.9	5.0	4.8	8.1	17.1	5.4	5.5	6.7	-
Knitting	1.9	3.1	2.9	6.4	1.0	2.6	N/A	1.7	N/A	2.6
Fish Processors	14.8	19.8	-	.5	-	-	N/A	1.3	N/A	-
Furniture	.7	3.7	3.3	3.6	2.6	7.8	2.9	2.0	1.9	-
Machinery	.6	2.1	2.9	2.6	6.9	1.4	5.5	4.8	3.6	-
Paper - Allied	12.0	.3	8.5	2.8	5.6	1.3	3.1	5.8	14.2	-
Chemical	1.6	1.1	5.5	1.4	5.2	9.9	3.4	2.3	2.5	-
Rubber	N/A	10.0	1.3	.5	2.1	.4	N/A	.4	N/A	-
Non-Metallic	3.0	1.1	2.7	2.4	3.3	.4	5.8	.9	2.7	.5
Printing - Publishing	4.3	1.0	4.4	2.2	5.4	.5	8.7	2.1	4.9	-
Leather	N/A	.3	3.0	2.3	1.7	1.9	.9	.3	.2	-
Beverage	2.7	.8	1.9	.4	1.3	.5	3.0	1.0	1.6	-
Tobacco	N/A	.2	1.2	-	.4	-	-	-	N/A	-
Petroleum	N/A	-	.6	-	1.1	-	1.7	-	.7	-
Other	1.5	6.7	4.0	7.7	6.2	3.6	1.6	4.0	2.2	.3

In the Atlantic region, while there appears to be some re-orientation towards rubber and plastics, the overall impression is that incentives are distributed in a manner that is patterned after the existing distribution of industry. For example, 43 per cent of the manufacturing labour force is in the food, beverage, fishing and wood sectors; these sectors account for approximately the same percentage of the jobs directly supported by the incentives program.

Aggregate figures for the Atlantic Region, however, gloss over significant differences between the individual provinces. Early emphasis in Newfoundland was given to food and fish processing but, as the incentives program has matured, other sectors have been more active. In contrast, RDIA activity in P.E.I. has been, and continues to be, predominantly in fish and food processing. With the major exception of significant assistance for the expansion into the rapidly growing radial passenger car tire field, RDIA activity in Nova Scotia has primarily supported investment in that province's traditional sectors. In the case of New Brunswick the incidence of offers accepted by traditional industries has declined very rapidly over the four years that the RDIA Program has been in operation. Moreso than for the other Atlantic provinces, the RDIA program appears to be encouraging a change in emphasis in New Brunswick from traditional and generally slow growth industries to dynamic industrial sectors.

In Quebec there is evidence of significant development growth particularly in knitting mills, wood and transportation equipment industries. Sectors that have considerably less representation under RDIA than in Quebec's 1969 industrial base are foods, paper products, printing and chemicals. Textiles and clothing which employ approximately 20 per cent of Quebec's manufacturing labour force, account for 19 per cent of RDIA supported jobs. In terms of trends in industrial assistance, since inception of the program, there is evidence to suggest that the momentum of job creation under RDIA in Quebec is changing from support of the existing industrial mix to a more diversified mix.

In Manitoba, the foods and beverages industry accounts for almost one-quarter of the labour force but only one-twelth of expected incentive jobs. The second largest employer - the clothing industry - accounts for 13 per cent of the labour force but 16 per cent of expected jobs. The re-orientation under incentives has been largely toward rubber and plastics and transportation equipment.

In Saskatchewan, one-quarter of expected jobs are in the food and beverage sectors. Nonetheless, this proportion is considerably lower than the 40 per cent share of the total manufacturing base held by this sector in 1969. There was a relative concentration of incentives activity in clothing, primary metals and transportation equipment.

In summary, the impact of the RDIA Program on the industrial composition of the Atlantic Provinces, Quebec, Saskatchewan and Manitoba has been mixed. There has been considerable support for their traditional industrial sectors, but there has also been support for new activities. Some diversification of the manufacturing base has occurred under the RDIA Program in Quebec, Manitoba and Saskatchewan. In the Atlantic provinces evidence of diversification is strong in New Brunswick, less so in Newfoundland and Nova Scotia, while RDIA activity in P.E.I. centres on the traditional sectors of fish and food processing.

2.7 Conclusion

In discussing the RDIA Program activity in relation to both its concentration within the slow-growth regions and the industrial composition of jobs supported, two characteristics of the program have been underscored. They are, first, that the program depends primarily upon initiatives from the private sector and, second, that the program is administered in such a way as to offer the minimum grant consistent with ensuring that the project goes ahead on a viable basis.

In light of these considerations, therefore, it is to be expected that, as Part 2 has shown, there has been no particular concentration of RDIA activity in the Special Areas. Nor has there been any noticeable tendency to either diversify industrial structures or to encourage industrial concentration and rationalization. A normative statement about the performance of the incentives program should not be deduced from these observations, however, for industrial concentration and diversification of the economic base cannot be extolled as universally sound objectives.

The response of the business sector to the incentives program has been considerable. A very substantial amount of investment and jobs has been or is slated to be supported as a result of incentives offers made and accepted during the 1969-72 period. On the basis of net accepted offers as of December 31, 1972, assistance is to be extended to help generate $1.6 billion in manufacturing and processing investment and 81,752 jobs. Offers made and accepted under the incentives program are now providing support for job-creation at the rate of approximately 33,000 jobs a year. About 13,000 of this yearly average is attributable to activity in the Montreal-Cornwall designated region.

PART 3
AN EVALUATION OF THE INVESTMENT AND JOB IMPACT
OF THE RDIA PROGRAM

3.1 Introduction

The description of RDIA activity given in Part 2 was based upon anticipated investment and jobs associated with total net accepted offers as of December 31, 1972. That is, upon the expectation that investment and jobs actually put in place would match forecasts made when offers are made and accepted.

It should be recognized, however, that there are a number of events that may cause actual performance to differ from the forecast. Further, inevitably some fraction of those investments and jobs supported by the RDIA Program would have materialized in the absence of an incentive.

Part 3 analyzes, first, the factors that may cause the investments and jobs put in place to differ from the levels anticipated at the end of 1972. An analysis is then given of the degree to which RDIA supported investments and jobs would have been created without the incentives program. After taking account of both sets of adjustments, an estimate is made of the probable impact of the RDIA Program in stimulating net new continuing jobs in the manufacturing and processing sectors of the slow-growth regions.

3.2 Adjustments to RDIA Job Creation Forecasts

The data presented in Section 2.2 of this Report indicated that 81,752 jobs are anticipated to result from the 1,957 net accepted offers made from inception of the incentives program to December 31, 1972. On the basis of experience to date, however, it can be stated that fewer than 81,752 direct new jobs will actually materialize from offers made during the period under review. The following points need to be considered in estimating the final outcome:

a) further withdrawals or declines of offers accepted during the 1969-72 period may occur, thus reducing the "net accepted offers" figure of 1,957 and consequently the December 31, 1972 total of 81,752 jobs;

b) of those projects that do reach commercial production some may cease operations, thereby reducing the job total;

c) the value of accepted offers and degree of job creation will change as individual firms revise their plans and scale of operations.

3.2.a Offers Withdrawn or Declined after December 31, 1972

In respect to the first point, some applicants that have been awarded an incentive grant either change their mind (i.e. decline the offer) or fail to meet a condition of the offer (i.e., the offer is withdrawn). From inception to December 31, 1972 approximately 11 per cent of accepted offers had either been withdrawn or declined. To reiterate, the net accepted offers figure of 1,957 and the job total of 81,752 incorporate adjustments for withdrawals or declines made by year end.

Additional withdrawals and declines, however, will no doubt be registered relating to the 1969-72 period. For while most adjustments have already occurred for offers made in 1969 and 1970, more adjustments can be expected for offers made in 1971 and 1972. Experience with offers accepted in the earlier years of the program suggest that some 18 per cent are either withdrawn or declined. Since the net accepted offers total for the 1969-72 period already incorporates an 11 per cent adjustment for offers withdrawn or declined, it would not be unreasonable to expect that roughly 7 per cent fewer cases will actually materialize than indicated by the December 31, 1972 figures. In turn, expected jobs and incentives payments may be some 7 per cent lower.

Note should be taken of two factors that may act to reduce the adjustment necessary to make allowance for offers made and accepted in the 1969-72 period but withdrawn or declined after December 31, 1972. First, it will be recalled that the RDIA Program developed at a time when business conditions were not buoyant. The buoyancy now being experienced should provide a much more positive climate for proceeding with scheduled projects, and the rate of "fall-out" (i.e. declines and withdrawals) associated with offers accepted in 1971 and 1972 may not be as high as it was in earlier years. Secondly, the rate of "fall-out" should decline as techniques for processing applications are perfected and expertise accumulates in identifying sound, viable projects that will, if assisted, go ahead. Undoubtedly there has been a learning process in the administration of the incentives program.

Neither the influence of cyclical business conditions nor the influence of a learning process can be quantified at this stage of the incentives program. Thus, while a downward adjustment of 7 per cent is used to make provision for offers accepted in the 1969-72 period but withdrawn or declined after December 31, 1972, the adjustment made should be recognized as possibly unduly large.

3.2.b Closure of Supported Projects

As is to be expected, some RDIA supported projects that begin commercial production subsequently go bankrupt or cease operations. In estimating the impact of the RDIA Program in stimulating net new continuing jobs, therefore, the job totals derived from the forecasts made at the time when offers are made and accepted should be adjusted to reflect jobs likely to be lost through closures of supported projects.

At the end of the period covered by the assessment, 31 closures had occurred amongst RDIA supported projects. Jobs associated with these projects number 2,168. It is possible, indeed likely, that a number of these projects will be reactivated. Only two projects had, as of December 31, 1972, been written-off and the associated 123 jobs deducted from the RDIA job total. While an additional 2.5 per cent reduction in the RDIA job total may be required if the 2,045 jobs associated with the other 29 projects cannot be reestablished, the prospects of reactivating at least some of these projects argues for a somewhat lower discount factor respecting closures as of December 31, 1972.

Further notifications of closures relating to offers made during the 1969-72 period can be expected. About half of the net accepted offers pertaining to this period have reached the stage of commercial production, but a portion of these only relatively recently. Thirty-one closures represent 1.5 per cent of projects approved and 3.5 per cent of projects where payments have been made. The percentage of jobs lost to total jobs expected is only 2.6 per cent but, more significantly, the percentage of jobs lost to jobs paid is 6.4 per cent.

How large an adjustment should be made to the RDIA job total to account for further closures of projects supported by offers made and accepted in the 1969-72 period is very difficult to determine. Perhaps the most reasonable position at this juncture is to assume a repetition of the experience to date.

As already stated, with approximately half the projects now in commercial production 31 have ceased operations or become bankrupt with a potential loss of 2,168 jobs. Assuming that a similar pattern emerges as the remaining half of the projects come into commercial production, another approximate 2,200 jobs could be lost. Combining these two figures would give - keeping in mind the adjustment of 123 jobs already contained in the parliamentary releases - a total adjustment on behalf of closures of 4,250, or 5 per cent of the December 31, 1972 figure of 81,752 jobs. To the extent that closures can be reactivated, though, the adjustment necessary may be less than this.

It should be noted that in terms of establishments the closure rate respecting RDIA assisted firms is - to date at least - lower than the rate for total manufacturing across Canada. This is particularly significant in light of the fact that the Incentives Program applies to the disadvantaged regions of the country where the risk of failure is higher. In 1969 and 1970, for example, manufacturing establishments in the Atlantic provinces and Quebec had a relatively high failure rate compared to Ontario.

While not directly relevant to the job creation of the incentives program, it should also be noted that legal action is undertaken to recover incentives paid in respect of assisted projects that have ceased production and gone into bankruptcy.

3.2.c Scale and Other Adjustments to RDIA Job Totals

Finally, in an effort to determine the outcome from commitments or forecasts contained in net accepted offers, some account must be made of changes in plans and scale of operations of RDIA supported firms. Some firms reduce their scale of operation from that forming the basis for an offer, thereby reducing the incentive to them but also, in general, the number of jobs created. On the other hand, some firms increase their scale of operation beyond that specified and approved in the original authorization of a grant offer.

It is very difficult to gauge what the net effects of scale adjustments will be in terms of jobs created. The most concrete information is gathered at the time of payment of the offer. Commercial production must begin prior to any incentive payment. As of December 31, 1972 final payments had been made to 41 firms. These payments were made on the basis of 329 jobs in place, versus 408 jobs expected at the time of authorization of the offers. This represents a 17 per cent shortfall.

Needless to say, experience with 41 firms is a very small sample on which to draw inferences about the general outcome. In addition, while increases in scale beyond original plans are partially accounted for in the RDIA tally of jobs, the legislation states that the number of jobs directly created may not - for purposes of determining the amount of the incentive - exceed by more than 15 per cent the number of jobs specified and approved in the authorization. Overruns beyond this amount are not, therefore, recorded in the RDIA statistics.

Perhaps more importantly, no provision is made for the retention of jobs that would otherwise be lost but for RDIA supported projects involving the rationalization and modernization of plant facilities. The more dramatic cases in which RDIA assistance has saved existing jobs can be identified. These include eleven cases for which grants of $7.0 million have been made to help save 2,430 jobs. In addition, DREE participated in the Sydney Steel modernization program. Grants totalling almost $16 million were made towards the $94 million modernization program. No jobs were recorded as being created by this action, but undoubtedly operations would have ceased sometime in the future if no modernization had taken place. Since some 2,800 are employed by Sydney Steel, jobs lost would have been very considerable.

3.2.d Summary

Forecasting the final job outcome from RDIA net accepted offers for the period 1969-72 is a very complex and difficult exercise. The nature of the variables involved makes precision almost impossible. So as to make allowance for offers withdrawn or declined after December 31, 1972, it was suggested that deflating the RDIA job total of 81,752 by 7 per cent would yield a conservative estimate of the final outcome. An additional deflator of 5 per cent was suggested to make provision for jobs lost as a result of closures. Scale revisions may cause a further 17 per cent shortfall from the expected job outcome, although this was pointed out as being possibly on the high side as overruns are only partially accounted for in the RDIA statistics.

Summing the above percentages at their face values gives a cumulative adjustment of 29 per cent. However, both the adjustment for closures and the adjustment for scale revisions or alterations may well be too high. This consideration, together with the very significant offset resulting from over-runs and jobs saved in the rationalization and modernization of plants, argues for a much lower overall deflator.

Our best estimate at this stage of the RDIA Program is that, taking account of all the factors discussed above, the actual number of continuing jobs created may fall short of the total associated with net accepted offers as of December 31, 1972 by some 20 per cent.

Given this adjustment, jobs created by projects assisted by incentives offers in the three and a half year period should approximate 65,400. Of this total, roughly 33 per cent will be in Region C and 67 per cent in other designated regions. The adjusted job-support rate under the RDIA Program would be in the range of about 27,000 jobs a year. This average for 1971 and 1972 reduces to about 16,000 a year when Region C is excluded.

Except for the adjustment made on behalf of closures, incentive payments will be lower than the December 31, 1972 figure by a similar percentage as that applicable to expected direct new jobs.

3.3 Incrementality of Jobs Supported

Just as it was noted in the preceding section that not all expected jobs will materialize, so too not all that are created can, in retrospect, be said to have been created by the RDIA Program. Some of these jobs would have been created without the program. Despite the detailed screening process described in Part 1 of this Report, the difficulties of evaluating almost 7,000 applications received in the three and a half year period under review have - not surprisingly to those cognizant of the problem - undoubtedly resulted in some judgements that were faulty in terms of whether projects would proceed without incentive assistance.

In order, therefore, to determine the RDIA Program's impact on investment and employment prospects in the slow-growth regions an estimate must be made respecting the degree of "incrementality" of investment and jobs supported.

In the RDIA context, incremental jobs could result in four different ways:

(i) Location option

The applicant would have located in a non-designated region. By inducing such a project to locate in the designated region, the jobs and investments are incremental to that region.

(ii) Size Change

Because of the availability of an incentive, the applicant constructed a larger facility than otherwise would have been the case. In this instance, incremental jobs and investment relate only to the increase in size of the project.

(iii) Timing Change

The availability of the incentive makes the applicant undertake a project now rather than sometime in the future. Incrementality in this instance relates only to the advancement in time frame.

(iv) Viability Threshold

The anticipated return on investment, without a grant, may be insufficient to attract an investor with other options for his capital. By offering a grant a marginal project becomes viable. Alternatively, the grant may make up for limited capital available to the applicant, thereby permitting a project to proceed which would otherwise be beyond the capability of the investor.

All four types of incrementality are in keeping with the RDIA legislation, but attainment of the long-run goals of the Department will be most significantly influenced by its success in inducing recognition of and pursuit of new investment opportunities in the slow-growth regions.

The relevance of timing shifts is limited. While advancing jobs forward in time yields immediate benefits, if they would accrue in the natural course of events classifying them as fully incremental may - unless agglomeration effects are significant - give an unduly favourable impression of the RDIA Program's performance in contributing to employment creation. It should be noted, however, that the objective in designating Region C was fundamentally different from that leading to the designation of the other regions, and that acceleration of new projects in time was sought to help overcome less deep-seated and less persistent but nevertheless serious unemployment in the area.

Each incentive offer is made after careful analysis and finding that the project would not proceed without the incentive. The screening is a real one, resulting in rejections of approximately 20 per cent of applications otherwise acceptable. Thus, at the time an offer is made, each case is incremental in the considered opinion of the responsible officials of the Minister.

Review of offers several months after the fact has also been carried out to determine whether, with the benefit of hindsight, some projects could now be said to have been likely to proceed without assistance. There is no doubt that some such cases occur. The best estimate possible, based on an internal review of a large sample of cases, indicates that less than 10 per cent of offers relate to such cases.

Not all jobs associated with "incremental projects" are incremental jobs. A project may be brought forward in time, and thus qualify for an incentive, but the jobs may not be considered as net additions to the region over the medium or long term. Similarly, it is difficult to establish precisely the incremental jobs provided by a project which has increased in size with an incentive.

Lack of precision in defining incrementality confounds, of course, the problem of measuring incrementality. With this in mind, a number of studies are reported upon below which draw upon questionnaires, interviews and the RDIA case files in order to help estimate the impact of the incentives program in stimulating projects that would not otherwise have materialized in the slow-growth regions.

One final caveat before proceeding. It should be kept in mind that a definitive evaluation of incrementality is not possible. The objective is simply to gain an insight based on the collective evidence available.

3.3.a DREE's Internal Study

DREE has undertaken a two part analysis of incrementality. In the first part a sample of 329 cases, representing well over 50 per cent of both total commitments and expected jobs under the RDIA Program, was classified according to whether or not the projects concerned had location options. To determine whether a project had a locational option in a non-designated region an incrementality matrix was developed incorporating resource and market factors which are determinants of locational mobility. These factors were defined and RDIA accepted offers (excluding Region C) were classified in the matrix of resource and market factors. For example, if the project involved the use of natural resources and if less than 2/3 of the production was destined for sale outside the region then the project was classified as not having a locational option. Departmental files were referred to in each case to help determine whether the investment concerned could have been located elsewhere.

According to the classification system followed, projects with location options comprise 58.5 per cent of the grants accepted, 43.3 per cent of direct jobs to be created and 63.1 per cent of fixed assets. The incidence of locational options was found to be highest amongst the 87 cases receiving grants in excess of $500,000. For those below $50,000 there was no evidence of location options. It was assumed that evidence of a location option for an RDIA recipient firm demonstrated an incremental impact. That is, the recipient firm could have located in a non-designated area but was induced to locate in the designated or special area. The validity of assuming that evidence of a location option for an RDIA recipient firm demonstrates an incremental impact is, however, hard to test.

Identifying the incidence of the other types of incrementality is difficult, if not impossible, to undertake in a fashion which will produce definitive results. The approach used was to request the provincial offices to classify offers accepted into five categories reflecting incrementality:

1. With locational option
2. Size change
3. Timing change
4. Viability threshold
5. No effect

Definitions of each category were provided. In the case of applications with which the provincial offices were unfamiliar, no classification was to be made. In accordance with remarks made earlier in this Report, only 20 per cent of the jobs created by projects classified as having size or timing changes were considered to be incremental. Similarly, it was estimated that 2/3 of the jobs resulting from "viability threshold" cases are incremental. As of September 30, 1972 there were 1,203 RDIA accepted offers, excluding Region C. 569 of these offers were classified for incrementality, representing 47.3 per cent of offers accepted.

By combining the results of the first part of the study concerning location options and the survey of provincial offices concerning other dimensions of incrementality, and applying the ratios to accepted offers as of September 30, 1972, the following is obtained:

Incrementality by Type (Region C excluded)

Type of Incrementality	Capital Costs $ million	Jobs	Grants $ million
Locational options	720.2	22,688	147.0
Size change	9.6	829	2.5
Timing change	9.5	834	2.5
Elements of both timing and size	8.9	829	3.7
Viability threshold	143.3	9,427	37.7
No effect	0	0	0
Incrementality Total	891.5	34,607	193.4
RDIA Sample Total	1,118.4	49,429	248.3
Incrementality as % of RDIA Sample Total	79.7	70.0	77.9

The results recorded above incorporate discounts, as specified earlier, for those cases involving size or timing changes and for those cases involving "viability thresholds".

From the above table, RDIA assisted investment is estimated to be almost 80 per cent incremental, associated jobs are estimated to be 70 per cent incremental and the value of grants supporting incremental projects and jobs represents 78 per cent of the total. This means that 70 per cent of the jobs being supported by the RDIA Program would not be created in the absence of the program. Similarly, over three quarters of the grants relate to investment which would not have occurred without the program. It is apparent from the above table that much of the program's incrementality results from its influence on locational options.

3.3.b The APEC Survey

The Fifth Annual Review of the Atlantic Provinces Economic Council included results of a mail survey of selected firms that had accepted grants offered by DREE. Questionnaires were sent to firms both outside and inside the Atlantic Region. All firms accepting offers for new plant construction outside the Atlantic region as of March 31, 1971 were sent brief questionnaires; all firms accepting offers for undertakings in the Atlantic region--whether new plants, expansions or modernizations--were sent a more detailed questionnaire.

Of the 196 firms receiving DREE grants for new plant construction outside the Atlantic region, 98 replied. Ninety-one replies were usable, which represents 46.4 per cent of all firms receiving DREE help to build new plants up to March 31, 1971.

Of the 133 projects receiving DREE help in the Atlantic region, there were replies from 73 which represents 54.8 per cent of all DREE assisted projects in the region up to March 31, 1971.

Following is a summary of responses to the questionnaire, by recipients of grants for projects outside the Atlantic region, respecting incrementality:

Would the project have been undertaken without an RDIA grant?

Yes	19	20.9 per cent
No	59	64.8
Other	12	13.2
No response	1	1.1
Total usable replies	91	100.0

Following is a summary of responses to the questionnaire, by recipients of grants for projects in the Atlantic region, respecting incrementality:

Would the project have been undertaken without an RDIA grant?

Yes	14	19.2 per cent
No	50	68.5
Other	9	12.3
No response	-	-
Total usable replies	73	100.0

The two sets of responses indicate that the RDIA Program caused 65 - 69 per cent of the projects surveyed to be undertaken. Further, 57.5 per cent of the firms surveyed in the Atlantic region stated that the size of their expansion or new facility was affected by the availability of a grant and 49.3 per cent said the timing of their project was affected by the availability of a grant.

There is some doubt as to whether the APEC questionnaire was sufficiently discriminating. For example, there was no reference to location options in the questionnaire and, hence, it is difficult to judge the credibility of the high incrementality rate suggested from the survey. With this proviso in mind, it may be concluded that the APEC study suggests a combined incrementality rate in the 70 - 80 per cent range as being reasonable.

3.3.c The Springate Thesis

David Springate, in his doctoral thesis for the Harvard Business School, reported on a field survey he conducted with selected executives in Quebec, Ontario and the Maritimes, whose companies had been granted incentives under the RDIA Program. Of the thirty-one unidentified cases he examined, eighteen were large companies with annual sales exceeding $20 million. The total incentives grants for all thirty-one cases was $37.5 million, with 2,600 expected jobs. In relation to net accepted offers as of December 31, 1972, this sample represents about 2 per cent of offers, 11 per cent of incentives commitments and 3 per cent of jobs.

Mr. Springate concluded, on the basis of these interviews, that RDIA grants had relatively little effect on the investment decisions of large firms. While in three cases foreign operations were attracted to Canada, there was little influence on either the location of "domestic" investment within Canada or the timing of investment. Two-thirds of the offers made to the large companies he considered to represent windfall gains (grants to the large companies in the sample totalled $34 million).

According to this survey, the grants had very little effect on the location of small firms, although somewhat more so than for large firms. Their chief impact appeared to be on the size of investment. He concluded that the incentive grants to small firms do not influence investment in any significant manner, and, for this reason, that roughly one-half of the incentive grants could be considered windfall gains.

A number of explanations were offered in the report for the high percentage of windfalls, foremost amongst them being a willingness on the part of businessmen to submit biased information and the difficulty on the part of DREE in judging the need for an incentive. The conclusions were drawn, however, from limited hours of very informal, unstructured, subjective interviews. It is not known whether Mr. Springate talked with officials in a position to speak with authority about the investment decisions involved, or to what degree he had access to the type of detailed company information that is available to Departmental officials when applications are being evaluated. Finally, it is questionable whether Mr. Springate was able to discern biased information that may have been given him by those interviewed--a factor of some importance in view of his conclusion that biased information is often given by companies to DREE.

3.3.d Summary of Incrementality as Determined by Questionnaires, Interviews and Reference to Case Files

Sample surveys are extraordinarily difficult to conduct in a way that give unbiased results. The unstructured informal approach of Mr. Springate contained no controls and was highly subject to the rationalizations of respondents. The APEC survey and the Departmental analysis are also subject to uncertainty, which necessarily accompanies an attempt to determine what the outcome might have been if a material fact had been altered.

Two of the studies reviewed here indicate very similar conclusions respecting incrementality. The third reaches a very different conclusion. While none of the analysis can be said to be conclusive, the broader sample and more detailed analysis of the APEC and DREE reviews may suggest that the 70 per cent level of incrementality indicated by these reviews is more nearly the case than the approximate 30 - 50 per cent level suggested by Mr. Springate.

3.4 Probable Job Creation Impact of RDIA

In Section 2.2 of this report statistics were presented on the expected jobs from RDIA grants. Table 3 (page 18) indicated that the rate of job-support under the incentives program in 1971 and 1972 was approximately 33,000 a year, and that approximately 13,000 of this total accrued in Region C. A provincial distribution of expected jobs was also indicated.

Section 3.2 pointed out that not all jobs expected at the time of an accepted offer in fact materialize. Some companies that accept offers subsequently cancel their investment plans and decline the offer or, alternatively, fail to meet the conditions of the offer and the offer is withdrawn. Other companies may revise their plans and scale of operations, either expanding or reducing them, and thereby alter the degree of job creation from that originally expected at the time of an offer. Still other companies may, after beginning commercial production, cease operations. As noted in Section 3.2, forecasting the net effects of all these factors is a very complex and difficult exercise. Our best estimate at this stage of the RDIA Program, however, is that - due to the above adjustments - the actual number of continuing jobs created may fall short of the total associated with net accepted offers as of December 31, 1972 by some 20 per cent.

Undoubtedly, some of those RDIA supported jobs that do have long-run viability would have occurred even in the absence of the program. Judgement respecting incrementality is especially difficult, as the analysis in Section 3.3 demonstrated. There is as yet no conclusive evidence available on the degree of incrementality respecting investments and jobs supported under the RDIA Program. In light of the analysis described in Section 3.3,however, it may be suggested that an incrementality rate approximating 70 per cent of the adjusted expected job total is not unreasonable. It should be recalled that incorporated in this estimate of incrementality is a substantial discount of jobs associated with projects moved forward in time or assisted over a viability threshold.

If the 70 per cent figure for incrementality is accepted and applied to the adjusted forecast of employment to be created by projects supported by incentive offers made up to the end of 1972, it can be estimated that some 45,700 direct new jobs that would not be created without incentive support will materialize. On an annual basis, the incentives program now appears to be generating additional new continuing jobs at a rate of approximately 19,000 per year - of which 7,500 are in Region C.

In the above account of RDIA activity reference was made only to direct jobs and investment resulting from RDIA accepted offers. The total impact of the program is greater than this, if for no other reason than the cited figures do not reflect the construction employment component of incentives-assisted facilities. In addition, the economic multiplier and job spin-off effects will magnify the total impact.

The significance of indirect job creation is, in many instances, very considerable. For example, wood-cutting operations associated with RDIA supported forest-based facilities comprise on average some 40 per cent of the total labour force involved. In such cases as the ITT Rayonier facility at Sept-Iles and the Proctor and Gamble facility at Lesser Slave Lake the employment involved in woods operations far outnumber those employed directly in the plant. No provision is made for off-site labour, however, in the RDIA statistics.

Admittedly, forest-based operations are - like food processing - examples of where the job spin-off is particularly high. All forms of manufacturing and processing jobs, though, involve supportive functions. Tertiary and primary employment, on a very conservative estimate, at least matches that created in the manufacturing and processing sectors.

3.5 Projected and Actual Levels of Manufacturing Investment, by Region

In reviewing the achievements of the Incentives Program in directly stimulating manufacturing and processing investment and employment in the slow-growth regions, reference to their investment and employment circumstances over the past three and a half years would appear to be highly pertinent. More particularly, comparison of actual levels of investment by region during the 1969-72 period to what might have been expected on the basis of historical experience should assist in ascertaining the progress made toward reducing regional disparities. One would anticipate, of course, actual investment to be above the historical expectation - for that is the intent of the RDIA Program.

A fundamental problem with this approach is that the historical data in effect contains the impact of all kinds of government policies and economic and political events, many of which have tended to alter the relationship between a regional and a corresponding national variable. The difference between the calculated or expected level and the actual level of investment for a given year, therefore, cannot be attributed to a particular program.

Difficulties in compiling comparable data also arise. Eligible capital for purposes of the RDIA Program excludes investment in paper and allied industries and petroleum and coal products industries, but includes used equipment and plants. Used plant and equipment purchases may account for 10 to 20 per cent of total RDIA approved capital expenditures. While adjustments can be made for most regions to remove investment expenditures of those industries not eligible for RDIA assistance, no adjustment can be made for purchases of used plant and equipment.

With these provisos in mind, regression analysis was used to determine the "expected" level of RDIA related manufacturing investment in 1970, 1971 and 1972. The analysis was carried out for the Atlantic Region, Quebec, Manitoba and Saskatchewan, where the RDIA activity is most significant in relation to the respective regional economies. The following sub-sections give a summary account of the analysis. Since the Incentive Program applies to a relatively small portion of the manufacturing base in Ontario, Alberta and British Columbia, and the intent of the program in these provinces is more to stimulate specific areas rather than overall provincial investment levels, "expected" and actual investment comparisons were not undertaken for these three provinces.

3.5.a Atlantic

Table 12 indicates the absolute level of total manufacturing investment in the Atlantic Region since 1968, estimates of the expected level of manufacturing investment based on historical experience, and RDIA supported investment actually put in place each year since inception of the program.

The Atlantic Region increased its share of Canadian manufacturing investment in each of the past five years except 1972. Some of the relative improvement in its share is accounted for by investment receiving ADIA support and by other development activities. Nonetheless, part of the relative gain is no doubt attributable to the RDIA Program. RDIA supported investment put in place in 1972 in the Atlantic Region amounted to approximately $77 million, which represents 20 per cent of total manufacturing investment for that region. The significance of this level of support is considerably higher than the preceding percentage level might suggest, for several unusually large investments in the Atlantic Region in, for example, linerboard and oil refining plants were non-eligible for RDIA support - thereby depressing the percentage of total manufacturing investment supported by the program.

Historical projections of manufacturing investment in the Atlantic Region were made in order to gain an insight into what manufacturing investment might have been without an industrial incentives program. These projections were based on the 1950-65 Atlantic-Canada historic relationship. As shown in Table 12, this analysis indicates that the Atlantic Region experienced levels of manufacturing investment in the 1968-72 period far higher than the Atlantic-Canada historic relationship would have predicted. While many factors - including major projects in the natural resource sectors, oil refining and a linerboard

TABLE 12

Atlantic Manufacturing Investment
and RDIA Activity
(millions of dollars)

	Manufacturing Investment[1]		Estimated RDIA Supported Investment	Atlantic's Share of Canada's Manufacturing Investment
	Actual	Expected		
1968	177.8	125.3	-	6.9
1969	232.0	149.2	1.5	7.5
1970	358.6	188.1	26.0	9.2
1971	412.0	170.9	55.0	11.2
1972	377.5	175.5	77.0	10.1

1. Due to statistical limitations, it was not possible at this time to compute "eligible" capital expenditures respecting the RDIA Program for the Atlantic Region.

mill in Newfoundland, as well as other federal and provincial development initiatives - played an important role in this outcome, it is reasonable to assume that the RDIA Program made a substantial contribution.

3.5.b Quebec

Table 13 indicates the absolute level of total manufacturing investment in Quebec since 1968, an estimate of that portion of the total eligible for assistance under the RDIA Program, and an estimate of RDIA supported investment actually in place each year since inception of the program.

From Table 13 it can be seen that both total and eligible capital investment grew unevenly during the past five years. By 1972, however, eligible capital expenditures were more than 20 per cent above the level in 1968. On the other hand, Quebec's share of Canada's manufacturing investment declined in all years except the latest. This situation developed in spite of considerable assistance towards investment in that province by way of incentive grants. RDIA supported investment put in place in Quebec amounted to approximately $157 million in 1971 and $332 million in 1972, which represents 29 per cent and 50 per cent, respectively, of total manufacturing investment in those years.

It is possible to estimate what would have been the level of investment in Quebec in the period 1968-72 if the Quebec-Canada historic relationship respecting manufacturing investment had been continued. Estimates of expected eligible capital investment, therefore, have been calculated and they are given in Table 13. These estimates are higher than the levels of investment actually recorded, particularly so in 1970 and 1971. The difference is much less in 1972, when investment activity, much of it supported by RDIA incentive offers, increased markedly.

The impact of the RDIA Program in Quebec is clearly very difficult to assess from reference to expected and actual investment trends. It seems reasonable, however, to conclude from the estimates that, without the program, the province would have suffered from a more serious investment slump and would have been slower in showing signs of recovery.

TABLE 13

Quebec Manufacturing Investment
and RDIA Activity
(million of dollars)

	Manufacturing Investment			Estimated RDIA Supported Investment	Quebec's Share of Canada's Manufacturing Investment
	Total	Actual Eligible[1]	Expected Eligible[2]		
1968	600.4	424.9	473.5	-	26.2
1969	617.9	469.9	499.1	.5	24.2
1970	623.6	472.0	582.9	43.6	20.9
1971	538.3	426.0	524.2	156.8	19.9
1972	665.8	517.0	552.1	332.2	22.2

1) The major exclusions from eligibility for RDIA incentive grants are petroleum refining and pulp and newsprint activities. Due to statistical limitations the entire paper and allied industries and petroleum and coal products group had to be excluded. On the other hand capital expenditures on projects ineligible because of size restrictions are not excluded.

2) These estimates were derived by projecting the Quebec-Canada investment relationship during 1950-1965 through to 1972.

3.5.c Manitoba and Saskatchewan

Table 14 indicates for Manitoba and Saskatchewan the absolute level of total manufacturing investment since 1968, an estimate of that portion of the total eligible for assistance under the RDIA Program, and an estimate of RDIA supported investment actually put in place each year since inception of the program.

From the table it can be seen that during the period 1968-72, Manitoba and Saskatchewan obtained a declining share of Canadian manufacturing investment. Some of the factors tending to reduce manufacturing investment in these provinces between 1968-72 include depressed grain sales, a peripheral position in natural resource development and a diminishing portion of the population of the Western Region. In terms of what might have been expected from past experience, actual manufacturing investment fell short of expectations. It would appear therefore that, although not insignificant, RDIA supported investment in Manitoba and Saskatchewan was not sufficient to reverse a declining trend.

3.5.d Summary

Comparisons of actual with expected levels of investment give rather mixed results respecting the degree to which manufacturing investment has increased in the seven provinces where the RDIA Program applies to a significant portion of the manufacturing base. In the case of the Atlantic Region the level of manufacturing investment has been well above projections based on historical data, and the levels indicate that the RDIA Program has been instrumental in promoting a good deal of net new investment. For Manitoba and Saskatchewan, however, the impact indicated by reference to actual and expected levels of investment is low. For Quebec, it appears that the RDIA Program may have assisted substantially in reversing a strong tendency to depart from the historic Quebec-Canada investment relationship.

3.6 Conclusion

It is estimated that, of the 81,752 jobs associated with net accepted offers up to December 31, 1972, some 65,400 will actually be put in place and have long-run viability. If, as the DREE and APEC studies indicate, 70 per cent of these jobs are additional over the long-run, then it can be said

TABLE 14

Manitoba and Saskatchewan Manufacturing Investment and RDIA Activity (millions of dollars)

	Manufacturing Investment			Estimated RDIA Supported Investment	Manitoba & Sask.'s Share of Canada's Mfg. Investment
	Total	Actual Eligible[1]	Estimated Eligible[2]		
1968	116.3	102	70.3	-	4.5
1969	98.4	77	79.1	-	3.8
1970	125.8	75	93.4	15.8	3.7
1971	84.1	73	87.1	33.3	2.9
1972	74.8	66	88.8	32.5	2.6

1) The major exclusions from eligibility for RDIA incentive grants are petroleum refining and pulp and newsprint activities. Due to statistical limitations the entire paper and allied industries and petroleum and coal products group had to be excluded. On the other hand capital expenditures on projects ineligible because of size restrictions are not excluded.

2) These estimates were derived by projecting the Manitoba and Saskatchewan-Canada investment relationship during 1950-1965 through to 1972.

45,700 net new continuing jobs will materialize that would not have done so without the regional development incentives program. Adjusting incentives commitments to compare with jobs expected to be put in place yields a cost per net new continuing job created of about $5,700.

In reviewing the job creation impact of the RDIA Program, account must also be taken of the economic multiplier and spin-off effects stemming from assisted projects in the designated regions and special areas. For every job directly supported, at least one additional job is indirectly created in the tertiary and primary sectors.

There is evidence to suggest that regional disparities respecting some major indices have narrowed. Certainly the level of manufacturing investment in the Atlantic Region in the last few years attests to the impact of the RDIA Program. There is also evidence to suggest that the incentives program has helped materially in restoring investor confidence in Quebec and in offsetting a lagging manufacturing investment in the Prairies.

It should be noted that the impact of the RDIA Program reported upon here has been attained with less that 65 per cent of the expected investment from net accepted offers as of December 31, 1972 having been actually been put in place. Additional benefits from RDIA activity during the 1969-72 period will, of course, be registered in 1973 and later years.

PART 4
AN EVALUATION OF THE ADMINISTRATION OF DISCRETION

4.1 Introduction

An outline of the main eligibility conditions for RDIA incentive support was given in Part 1. The conditions to be met by supported projects were characterized as relating to location, type of investment, prior commitment, minimum size, equity and need. The primary responsibility for determining these requirements of the program, which are essentially discretionary in nature, is assigned to the Incentives Division of the Department of Regional Economic Expansion.

Discretionary power inevitably raises questions respecting the outcome of its use. It is appropriate, therefore, to describe the results of this discretion and to ascertain the degree to which it has assisted in promoting the objectives of the Incentives Program.

4.2 Results of the Screening Process

From inception of the Program until December 31, 1972 some 6,936 applications for assistance were received. The fact that there were only 1,957 net accepted offers gives a general indication of the screening involved.

Table 15 gives data on the reasons for the high rate of rejections. Under "other" is included simple ineligibility due to failure to meet the statutory regulations respecting location, type of investment, minimum size of project, etc. More interesting, are the figures for rejections classified under 7 (1) (A) and 7 (1) (B). In accordance with Section 7 of the Regional Development Incentives Act, no incentive may be authorized if, in the opinion of the Minister,

Table 15

Summary of Withdrawls and Rejections

by

Size of Capital Investment

To December 31, 1972

	Designated Regions and Areas Excluding Region C			Region C			Total		
	Cases	Capital Costs (000')	Jobs	Cases	Capital Costs (000')	Jobs	Cases	Capital Costs (000')	Jobs
Investment under $100,000									
Withdrawals	485	23,708	8,366	293	16,247	7,012	778	39,995	15,378
Rejections									
7(1)(A)	128	7,903	2,225	38	2,100	548	166	10,003	2,773
7(1)(B)	121	7,153	1,674	27	1,602	509	148	8,755	2,183
Other	350	16,579	4,030	66	3,050	843	416	19,629	4,873
Total Cases Processed	1,571			657			2,228		
Investment $100,000 to $500,000									
Withdrawals	516	111,620	17,671	342	70,029	14,972	858	181,649	32,643
Rejections									
7(1) (A)	113	24,423	2,771	54	12,424	1,151	167	36,847	3,922
7(1) (B)	143	30,816	5,456	56	11,644	1,541	199	42,460	6,997
Other	186	34,143	6,820	50	10,668	2,541	236	44,811	9,361
Total Cases Processed	1,814						2,800		
Investment over $500,000									
Withdrawals	302	1,625,022	49,910	128	347,460	14,111	430	1,972,482	64,021
Rejections									
7(1)(A)	54	249,393	5,965	24	44,252	1,401	78	293,645	7,366
7(1)(B)	73	278,643	9,434	17	24,805	1,124	90	303,448	10,558
Other	62	507,442	9,808	15	102,768	5,727	77	610,210	15,565
Total Cases Processed	944			332			1,276		
Total for all investment groups	4,329			1,975			6,304		

(a) it is probable that the facility would be established, expanded or modernized without the provision of such an incentive; or

(b) the establishment, expansion or modernization of the facility would not make a significant contribution to economic expansion and social adjustment within the designated region.

For all regions and all sizes of projects, 413 cases were rejected because they would proceed anyway and 441 cases were rejected because they would not make a significant contribution to the region concerned. Together, these cases account for 14 per cent of all applications received and processed as of December 31, 1972. It should be added that a certain percentage of withdrawals were made in the knowledge of a pending rejection. Rejections on the grounds of Section 7 of the Act amount to more than 40 per cent of net accepted offers at December 31, 1972.

The positive result from this screening is the reduction in total cost of the incentives program through avoidance of windfalls or support of projects unlikely to last. Unavoidably, some projects which were rejected might have proven to be worthy candidates for support, thus something less than the total 854 rejections under Section 7 represent real savings to the program. There can be no doubt, however, that this aspect of discretion has reduced the net cost per job created.

4.3 Relative Incentive Support by Province, Industry Group and Type of Project

The RDIA Program is essentially a responsive program, dependent upon initiatives taken by the business community. Thus evidence of discretion is not to be expected in the number of applications received by region and industry group but, rather, in the level of incentives given. As noted earlier in this Report, the RDIA Program has been administered in such a way as to offer the minimum grant consistent with ensuring that the assisted project will, in fact, go ahead on a viable basis. Discretion, in this content, has meant tailoring support to the requirements or needs of individual applicants.

Table 16 gives data on the level of incentive (expressed both in terms of dollars per job supported and percentage of fixed assets) by province and industry group. As may be discerned from the table, there is no consistent pattern in the

TABLE 16

Levels of Incentive Support
by Province & Industry Group

From Inception to December 31, 1972

INDUS. \ PROV.	NFLD.		P.E.I.		N.S.		N.B.		QUE.		ONT.		MAN.		SASK.		ALTA.		B.C.	
	% of Assets	$ Grant/ job	% of Assets	$ Grant/ job	% of Assets	$ Grant/ job	% of Assets	$ Grant/ job	% of Assets	$ Grant/ job	% of Assets	$ Grant/ job	% of Assets	$ Grant/ job	% of Assets	$ Grant/ job	% of Assets	$ Grant/ job	% of Assets	$ Grant/ job
1- Food	35	6889	47	4716	21	6788	46	7714	22	3670	20	5294	22	2798	17	4168	22	5245		
2- Fish	37	4070	35	3301	50	4549	36	2721	31	1385			10	3797			60	3313		
3- Beverage					19	8349	21	4206	20	9675	10	1056	12	12627	22	21875				
4- Tobacco			23	10235	18	3000														
5- Rubber					19	5775	20	7615	21	2588	23	3560	20	2694						
6- Leather	71	2462							49	3026	115	2170			49	2857	20	4810		
7- Textile	31	3667	25	7000	39	4191	79	5648	25	4088	20	6197	26	1704			57	1208		
8- Knitting					114	3000	44	4785	25	2351			34	635					20	833
9- Clothing					20	1854	44	957	32	708	73	2079	31	1310	35	1189				
10- Wood	34	2679	35	5026	42	3390	38	5115	33	3637	23	4605	35	2776	35	12769	38	7326	23	3176
11- Furniture	65	2447			40	5256	47	4115	27	2023	32	2995	38	1867						
12- Paper & allied	30	3500			18	19048	30	2833	14	24574	25	5926	24	3125	20	3500	15	30000		
13- Printing					21	1900	36	8208	20	4684	25	3971	16	3788	29	3667				
14- Primary metal	47	6941			17	289074	38	7448	12	10652	15	10491	41	2139	19	3043	19	5286		
15- Metal fab.	23	4984	39	2357	37	5335	30	3625	28	2517	19	3887	30	2381	42	2033	17	2500	27	3218
16- Machinery			46	4733	41	2188	101	6667	30	3006	33	4453	27	5921	17	1294	21	3500		
17- Transport.	48	5308	15		30	4808	27	3389	32	1436	40	2375	40	2682	34	2938	53	3546	30	5000
18- Electrical	59	2110			42	2437	57	3721	26	4988	19	2667	37	2988						
19- Non-Metal.	41	7140			31	11412	34	5293	29	9652	19	2935	28	12622			22	5000	21	10833
20- Petrol.																				
21- Chemical	50	3737					44	4913	19	17729	13	13119	34	2942			13	18246		
22- Misc.	30	10800			36	2896	46	6410	21	2145	41	4712	35	3599	29	2667	37	1471	14	1500
23- Others			84	13474	23	5182	26	3100	18	2206	37	5000	19	2940	10	1435	36	7392		
Total	38	4150	42	4649	22	7093	41	5206	21	4276	17	6821	26	2934	24	3355	18	11341	23	3171

level of incentive by industry group as between the provinces. The level of incentive for food processing was higher in the Atlantic Region than in Ontario or the Western Provinces, but this was not the case for the paper and allied category. Transportation is another example where investments in Ontario and the Western Provinces have been as favourably supported as in the Atlantic region and Quebec. While in general there has been a higher level of support given RDIA assisted investments in the Atlantic Region and Quebec than elsewhere in Canada, there are instances where this has not been the case.

Discretion in levels of incentive given is also exercised as between various project types. As shown in Table 17, projects involving new plants and/or new products have - in terms of incentive grants expressed as a percentage of estimated capital costs - been given a higher level of support vis-à-vis projects involving expansions and/or modernizations. The relative disparate position of the Atlantic Region is reflected in the higher level of support given, on average, to RDIA assisted investments undertaken in that region.

The data presented in Table 17 is cross classified to indicate levels of assistance by project size. It demonstrates that as between small projects (capital costs less than \$200,000) and medium size projects (capital costs between \$200,000 and \$1 million) there is little difference in the level of support given. Grants as a percent of capital cost projects over \$1 million, however, tend to be somewhat smaller - particularly in the case of projects involving new plants or new products. More notably, the variation in level of support given to large projects is - on a province by province comparison - considerable and underscores the high degree of discretion used in such cases.

The data presented in this section indicates that discretion has, in fact, been used to tailor support to individual requirements or needs. Lack of consistency is what one should expect with a discretionary program requiring that the minimum grant be given while ensuring that the assisted project proceeds on a viable basis.

Within provinces wide variations have prevailed in levels of support given projects of the same industry grouping. The explanation for this is as in the above paragraph; different levels of support are required for individual projects to ensure that they go ahead on a viable basis.

TABLE 17

Levels of Incentive Support by Province
(Excluding Region C), Size of Project and Type of Project
To December 31, 1972

	Grants as a % of Capital Costs for those Projects Involving Less than $200,000 Capital Outlays			Grants as a % of Capital Costs for those Projects Involving Capital Outlays between $200,000 and $1 million			Grants as a % of Capital Costs for those Projects Involving Capital Outlays over $1 million		
	Expansions & Modernizations %	New Plant & New Products %	Other %	Expansions & Modernizations %	New Plant & New Products %	Other %	Expansions & Modernizations %	New Plant & New Products %	Other %
Newfoundland	25.2	47.9	46.0	23.7	39.2	26.9	20.0	46.5	-
P.E.I.	22.7	36.9	-	24.7	41.4	41.3	-	65.2	-
Nova Scotia	22.8	44.4	20.5	20.8	39.5	-	17.7	23.2	18.0
New Brunswick	25.4	45.8	42.5	21.6	50.4	28.2	23.1	46.7	26.5
Quebec	17.5	36.5	25.0	17.3	33.7	29.7	17.7	18.5	27.6
Ontario	16.9	44.0	35.0	16.0	34.5	-	15.4	15.3	15.0
Manitoba	15.9	41.3	37.1	15.9	33.9	33.6	20.8	24.7	20.0
Saskatchewan	17.6	38.8	22.4	14.4	33.3	29.6	15.0	27.6	15.0
Alberta	17.5	45.9	24.8	18.5	35.6	-	-	17.0	-
British Columbia	16.8	31.8	21.6	17.3	32.3	24.3	20.0	-	19.6
TOTAL	19.1	40.2	28.9	18.0	36.9	30.5	17.2	20.3	20.5

4.4 Case Numbers by Size of Project

Table 15 indicated that large scale projects account for approximately 90 per cent of total capital investment forecast in rejected applications and for approximately 50 per cent of total estimated jobs detailed in those applications. Just as large scale projects are the most significant ones in terms of rejected applications, so too are they the most significant ones in terms of approvals. Table 18 shows that projects involving more than $1 million in capital costs account for only 12 per cent of the number of net accepted offers up to December 31, 1972. However, in terms of incentives commitments, these large cases account for roughly 70 per cent of the total.

All applications, regardless of the size of project, are processed in the same manner. Thus, despite the fact that large scale projects account for most of the expected jobs and incentives commitments, the more numerous small case applications means that staff resources devoted to processing them are large relative to commitments made to them.

4.5 Time Required for Processing Applications

One consequence of applying a uniform screening process to both small and large cases, in light of the fact that small cases are numerically more significant but account for a low percentage of jobs expected from net accepted offers, is a time delay in processing applications. Table 19 shows that some 35 per cent of the small cases (less than $200,000 in capital costs) take from 2 to 4 months between the time of receipt of an application to the offer of an incentive. Over 25% of the small cases take more than six months to process.

4.6 Conclusion

Part 4 has described the use and results of discretion in reviewing applications for assistance under the Incentives Program. The methods and analysis used in screening applications appear to have been highly effective in contributing to the objectives of the program. Almost 25 per cent of all applications received were rejected and over half of the rejected applications were based on the decision that proposed projects would not be viable or would go ahead without incentive assistance. The saving in incentives that would otherwise have been paid out is, of course, very considerable.

TABLE 18

Net Offers Accepted by Case Size
To December 31, 1972

PROVINCE	TOTAL CASES: Less than $200M.	TOTAL CASES: $200M. to $1MM.	TOTAL CASES: $1MM. and Above	AS A % OF TOTAL: Less than $200M.	AS A % OF TOTAL: $200M. to $1MM.	AS A % OF TOTAL: $1MM. and Above	TOTAL INCENTIVES: Less than $200M.	TOTAL INCENTIVES: $200M. to $1MM.	TOTAL INCENTIVES: $1MM. and Above	AS A % OF TOTAL: Less than $200M.	AS A % OF TOTAL: $200M. to $1MM.	AS A % OF TOTAL: $1MM. and Above
Newfoundland	33	22	6	54.1	36.1	9.8	1,195	2,872	4,498	14.0	33.5	52.5
Prince Edward Island	21	12	1	61.8	35.3	2.9	609	2,181	827	16.8	60.3	22.9
Nova Scotia	58	43	18	48.8	36.1	15.1	1,691	6,037	32,033	4.3	15.2	80.5
New Brunswick	81	44	14	58.2	31.7	10.1	2,893	8,597	16,935	10.2	30.2	59.6
Quebec: Region "C"	374	237	48	56.7	36.0	7.3	7,567	16,024	23,026	16.2	34.4	49.4
Other	274	190	69	51.5	35.6	12.9	8,366	23,048	71,533	8.1	22.4	69.5
Total	648	427	117	54.4	35.8	9.8	15,933	39,072	94,559	10.7	26.1	63.2
Ontario: Region "C"	8	7	9	33.3	29.2	37.5	381	570	3,250	9.1	13.6	77.3
Other	39	31	19	43.9	34.8	21.3	1,661	4,441	29,306	4.7	12.5	82.8
Total	47	38	28	41.6	33.6	24.8	2,042	5,011	32,556	5.2	12.7	82.1
Manitoba	108	57	10	61.7	32.6	5.7	3,460	6,697	7,000	20.2	39.0	40.8
Saskatchewan	23	15	9	49.0	31.9	19.1	747	1,797	4,848	10.1	24.3	65.6
Alberta	22	15	10	46.8	31.9	21.3	715	2,489	22,133	2.8	9.8	87.4
British Columbia	14	14	3	45.2	45.2	9.6	473	1,730	1,523	12.7	46.4	40.9
Total (including Region "C")	1,055	687	216	53.9	35.1	11.0	29,758	76,483	216,912	9.2	23.7	67.1
Total (excluding Region "C")	673	443	159	52.8	34.7	12.5	21,810	59,889	190,636	8.0	22.0	70.0

Table 19

Time Periods for Processing RDIA Applications by Investment Size and Ultimate Status of Application

as a % of TOTAL (Cumulative)

Status	1					2					3				
Capital Costs	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Time Lapse															
More than 1 month	93.8	97.7	95.7	95.5	95.2	78.6	82.2	81.6	86.5	85.0	96.4	96.6	95.2	93.2	93.1
More than 2 months	80.3	92.3	89.2	87.2	90.4	56.2	67.3	68.4	71.9	76.2	85.0	84.8	85.6	80.5	78.2
More than 3 months	68.5	78.8	76.2	74.3	81.2	40.8	53.5	54.2	59.5	63.7	65.9	67.6	72.4	66.4	62.5
More than 4 months	48.2	59.6	59.3	56.9	74.2	29.0	37.5	42.6	40.4	54.9	49.4	52.9	54.2	44.9	48.8
More than 6 months	23.5	28.4	31.6	25.8	50.0	12.5	19.3	24.7	24.7	30.1	26.5	23.3	29.6	24.4	25.0

Status:

1 - Withdrawals
2 - Rejections
3 - Offers

Capital Costs:

1 - $0 - 99,999
2 - $ 100,000 - 199,999
3 - $ 200,000 - 499,999
4 - $ 500,000 - 999,999
5 - $1,000,000 and up

Notwithstanding the above merits, a very high proportion of the applications involve small capital investments and relatively few jobs. Because the same screening procedures are used for both large and small scale projects, considerable staff resources of the Incentives Division are allocated to processing small case applications. This, in turn, has probably meant that the larger more significant cases have been dealt with rather less expeditiously than would be the outcome if means could be devised for reducing the administrative difficulties of screening small cases.

Appendices A, B & C

KEY FEATURES
AREA DEVELOPMENT INCENTIVES ACT

General

The Area Development Incentives Act (ADIA) came into operation in 1965. It was administered by the Area Development Agency of the Department of Industry from inception until responsibilities were transferred to the Department of Regional Economic Expansion (DREE) in April 1969.

Within DREE, basic responsibilities for administering the Act have been assigned to the Incentives Division and operations have been conducted as part of the overall industrial incentives program. Although these operations have been phasing out ever since the introduction of the Regional Development Incentives Act, residual activities are expected to continue until at least 1974.

Key Features

The following outlines the key legislative features of the act:

a) The incentive consisted of a cash development grant based on approved capital costs, plus an accelerated capital cost allowance write-off for income tax purposes on buildings and machinery related to the grant.

b) Provided that certain conditions were met, development grants were awarded against approved capital costs on a sliding scale of percentages specified in the act. This scale peaked at 33 1/3 per cent for an approved capital cost of $250,000 and then decreased as approved capital costs went above that figure. The maximum allowable grant was five million dollars.

c) Conditions of project eligibility were: new or expanded manufacturing and processing operations wherein the equipment for grant purposes was, by value, 95 per cent or better in a new and unused state; no commitment prior to applications; and location of the project in a designated area.

Summary Critique

In practice and provided that the statutory conditions of eligibility were met, incentives were available automatically for almost all kinds of new or expanded manufacturing and processing operations. Designated locations were determined by assessing relatively small areas according to the severity of their unemployment and the lowness of their average incomes. This often had the effect of excluding those communities, within the slow-growth regions, which had proved to have the greatest attractiveness for industry and which under a modified program could become growth centres conducive to improvement of a large surrounding area. A further disadvantage of ADIA, resulting from its non-discretionary characteristics, was the lack of reasonable assurance that grants offered were not so small as to threaten long-term viability or so large as to contain a clear-cut "windfall".

Notwithstanding the disadvantages of the Area Development Incentives Act, the cash development grant proved to be a good instrument, relative to other means, for stimulating industrial development in slow-growth areas. It was an identifiable one time offset to locational disadvantages. It lowered start-up costs. It provided the entrepreneur with a known basis for a rational calculation as to whether the location would be economic in view of market prospects and operating costs. Finally, its administration was relatively straight forward.

The ADIA Program, during the four and one-half years of its existence, generated 1920 applications for grants and 460 applications for tax exemptions under Section 71(a) of the Income Tax Act. During the life of the program, grants totalling some $250 million were authorized for individual firms up to March 31, 1972. Expenditures on account of these grants totalled $207.1 million.

The following table indicates the number of active applications (cases where payments have been or may still be made) the capital costs, and the estimated number of jobs involved, by region, at the end of the effective period of the program (December 31, 1972).

ADIA Program Activity up to December 31, 1972

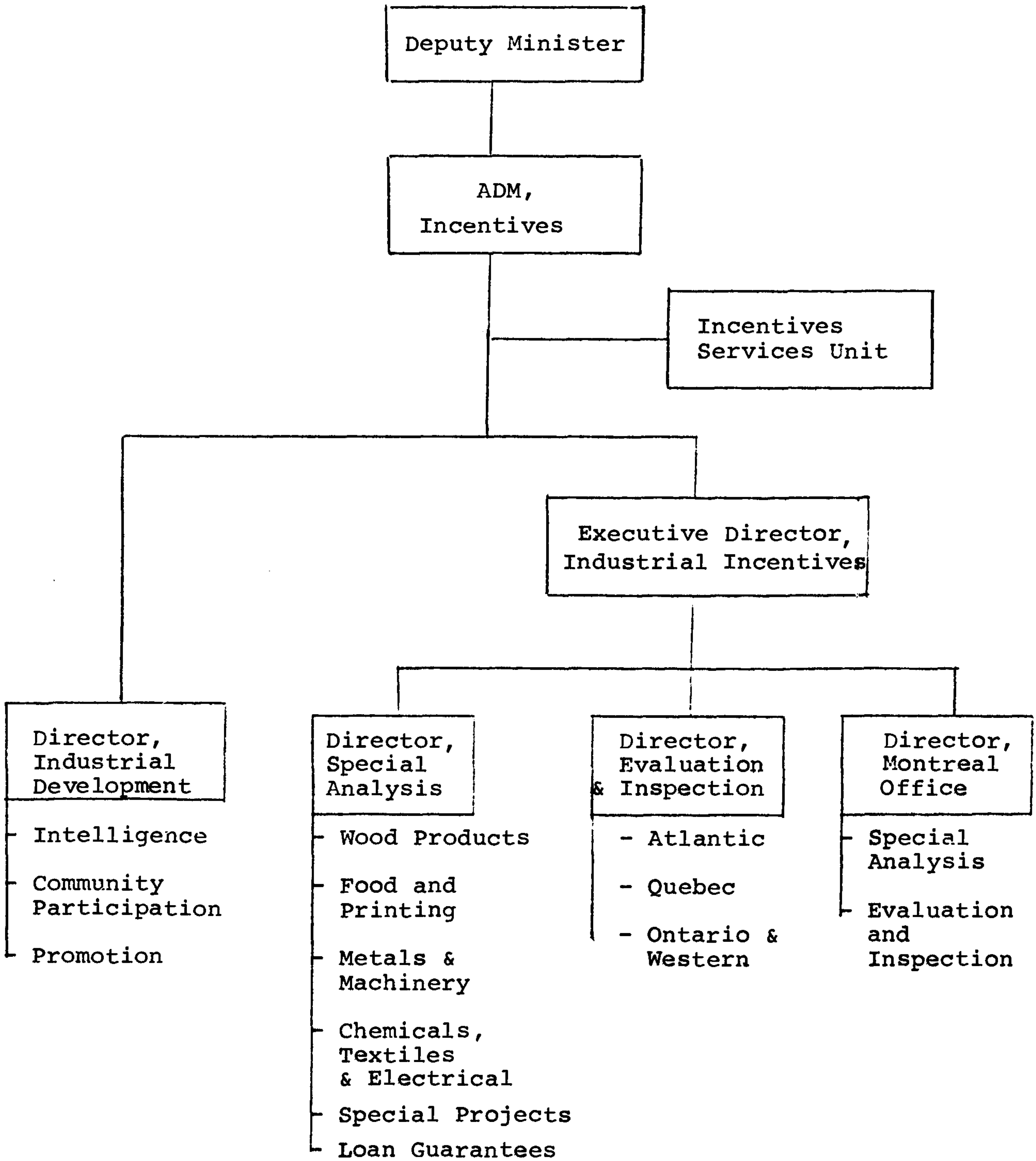
		Active Cases	New Investment in Fixed Assets	Estimated Employment
Atlantic Provinces	Grant	264	$611,961,000	15,400
	Tax	33	88,465,000	2,745
Quebec	Grant	242	369,295,000	12,777
	Tax	40	154,214,000	2,986
Ontario	Grant	102	171,877,000	7,668
	Tax	94	223,988,000	8,544
Western Provinces	Grant	165	294,039,000	6,919
	Tax	9	5,038,000	658
Total - Canada	Grant	773	1,447,172,000	42,764
	Tax	176	471,705,000	14,933

The estimated employment resulting from the program as at December 31, 1972 was:

Grant	-	42,764
Tax	-	14,933
		57,697

ORGANIZATION - INCENTIVES DIVISION

1969-1972



APPENDIX C

Disposition of Incentive Applications and Status of Offers, by Province, up to December 31, 1972

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
Applications										
Received	270	105	371	437	4,048	540	563	193	200	154
Withdrawn	73	13	108	111	1,299	157	130	42	47	49
Rejected	87	36	57	80	822	153	146	69	70	48
In Process	16	8	39	41	384	47	44	17	15	12
Offers made	94	48	167	205	1,543	183	243	65	68	45
Offers										
Lapsed	5	1	6	9	87	7	14	1	4	2
Declined	12	4	14	25	95	15	17	5	6	4
Outstanding	3	1	7	10	79	14	7	6	3	2
Accepted	74	42	140	161	1,282	147	205	53	55	37
Accepted Offers										
Declined or Withdrawn	13	8	21	22	90	34	30	6	8	6
Net Accepted Offers	61	34	119	139	1,192	113	175	47	47	31
Net Accepted Offers										
No Payment Made	42	19	70	72	705	72	83	23	23	14
Partial Payment Made	19	15	43	65	465	39	82	24	24	17
Final Payment Made	-	-	6	2	22	2	10	-	-	-