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June 14, 1971

Mr. Tom Kent
Deputy Minister
Department of Regional
Economic Expansion
Government of Canada
Sir Guy Carleton Building
161 Laurier Avenue West
Ottawa, Ontario



Dear Mr. Kent:

Economic Expansion and Balance - Canadian Metropolitan System

We respectfully submit the discussion paper outlining an approach to achieving greater economic expansion and balance within the Canadian Metropolitan System. This discussion paper has been produced as part of this assignment that we have undertaken on behalf of your Department.

In the discussion paper, the concept of systems of related economic activities or activity packages as an approach to achieving economic development is outlined. The role and growth of the Canadian Metropolitan System, (primarily the Montreal and Toronto urban regions), is examined on a historical basis. This review indicates the disparity in growth between these two urban regions that became manifest in the early 1950s. Examples of activity packages that are uniquely appropriate to the eastern portion of the Canadian Metropolitan System are identified as possible levers to greater economic balance. Some of these activity packages appear to merit further investigation.

An initial strategy for implementation of this approach to the economic expansion and balance of the Canadian Metropolitan System is discussed.

This discussion paper has been reviewed in draft with yourself and Mr. J. P. Francis, Assistant Deputy Minister. A further meeting was held with Mr. Francis and members of his staff. The comments resulting from

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both of these meetings are now incorporated in this discussion paper. We trust that you will find this paper is satisfactory.

We have been pleased to undertake this important assignment on behalf of your Department. We are at your convenience to discuss the ramifications and possible opportunity for economic expansion and balance for the System that could result from your further consideration and discussions of this approach.

Yours truly

KATES, PEAT, MARWICK & CO.

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ECONOMIC EXPANSION AND BALANCE

CANADIAN METROPOLITAN SYSTEM

ACTIVITY PACKAGES

The activity system or "package" approach to development has undergone considerable evolution in the post-war years. The approach is one where a set of related activities undertaken by a number of organizations is more or less co-ordinated; this goes beyond the essentially passive co-ordination of government regulation or the market place, to active planning and co-ordination between organizations.

The activity package in North America is well exemplified in the real estate field, where multi-organizational and multi-activity developments are becoming more and more the norm. With this form of activity package, one entrepreneur is backed by financial and other support organizations. He designs, markets, and builds a multiple-use facility for sale or lease. The post-war shopping centre has become a Fairview in Montreal or a Yorkdale in Toronto. A more complex example is the multi-purpose building such as Place Bonaventure, and we are now moving toward the omni-building. This type of activity package is comparatively simple -- centralized overall management and a common "imperative" between organizations of a single overall physical facility. Nevertheless, it is comparatively new, and is only now becoming the main way of providing physical facilities.

ROTTERDAM - EUROPORT

A MAJOR ACTIVITY PACKAGE

The Port of Rotterdam has some natural strategic advantages:

- Its geographical location. It is at the confluence of the North Sea, and three rivers that lead inland into Europe. It is at the mouth of a very extensive inland waterway, where some 200,000 barges load and unload annually, all of which make it a natural distribution point.
- It has the advantage of deep harbours, long spacious berths and is also connected to an extensive network of good roads and railways (unit trains of containers now run all the way to Italy).
- It is also quite close to most of the major consuming centres in Europe and the heavily industrialized Rhur.

The phenomenal relative growth of this port, compared to Montreal specifically, and all other ports of the Atlantic shipping system is based on the "activity package" approach combined with these natural features.

- The port, through very intelligent planning, has emphasized a full range of services to its clients. These include a free port, where goods can be processed and manufactured before passing on; warehousing, repacking, and container parks; it has kept up with all the technological developments related to super ships, faster vessels needing quick turnaround, roll-on/roll-off technology, etc.; it offers a full range of services to the shipping industry, including ship-building, and repairs, brokers, forwarding agents, communications, banks, trading centres, importers and exporters.
- The Port of Rotterdam has benefited from a well-planned industrialization policy, and very dynamic entrepreneurship. The planners have recognized that the growth of its port should not be dependent on goods in transit only and have developed extensive industrial estates and marine facilities, and succeeded in attracting an enormous petro-chemical complex. This of course has generated an enormous volume of tonnage, and has also attracted all the supporting industries for various chemicals and machinery. The port also has the advantage of being close to a natural gas source, and has a network of pipelines extending to various markets in Europe.

The following statistics give some indication of the magnitude of the complex:

- The Rotterdam-Europort complex has a total area of about 25,000 acres of which some 14,000 acres are leaseable sites, about 4,200 are transportation facilities.
- The harbour handles approximately 150,000,000 tons per year delivered in some 12,500 regular sailings made by 275 shipping lines annually.
- The port directly employs 16,000 workers in cargo handling alone.

Another class of activity package is that which grows around a large-scale primary activity, often in the transportation field. Airports are a good example. Until recently, the spin-off activities have often been allowed to grow without too much hindrance, yet there has been little positive planning and promotion to optimize the effects of the primary activity. The planned development of the Port of Rotterdam since World War II is one of a few notable exceptions. Here a co-ordinated effort to facilitate and promote a great number of mutually supporting activities has been the core of the Randstadt's regional success story. This, of course, is an extremely large activity package, made up of many supporting packages, each with a complex mix of economic activities in transformation, handling, movement, and services (see facing page).

Yet another class of activity package has developed in Japan, where the "nationalization cartels" for manufacture and the Yushutsu-Kumiai export associations began to be formed after the 1953 depression. The 1,500 or more known and hidden cartels in Japan, and the export associations in more than 120 sectors of industry reflect a restricted range of activities in each case, but with closely-linked multi-organizational participation. The power behind Japanese growth is due in no small measure to this intermediate agglomeration of control, which in turn complements large-scale packages with a wider range of activities through another dimension of groups of companies or affiliations.

The many other examples of bouyant multi-organizational activity systems or packages in the post-war period around the world generally

bear out the Dutch and Japanese situations cited here, which rest in large measure on active government leadership rather than passive support. Although each case reflects a particular indigenous style and operates within the local legal framework, government initiative has been critical, particularly in cases of this complexity and scale, where these are clearly beyond the reach of even the strongest private sector organizations.

Any activity packages in Canada have traditionally been initiated by the private entrepreneur. Examples in real estate were noted above. These are comparatively simple in nature because more complex developments could not be achieved without the essential government leadership, which has not been forthcoming. However, as proven elsewhere, and here for simpler cases, it can be done and it is probably one of the few ways to achieve economic expansion and balance in our country.

CANADIAN METROPOLITAN SYSTEM

The Canadian metropolitan system, comprising the inter-dependent Montreal and Toronto regions, is where a large portion of the tertiary and the majority of the quaternary activities of the country are concentrated. Supported by a broad base of secondary activity, the key role of the system in national terms has been assured for many years.

The western portion of the system (the Toronto Region) includes government activity at the provincial and federal levels, mostly concentrated in Metropolitan Toronto. The same holds true for the eastern portion of the system, except that the federal and provincial government

activity in Ottawa-Hull and Quebec City could be defined as part of the system, because of the proximity of these two centres to Montreal.

The activities of the metropolitan system interact, to some extent, with systems of activities on a series of broader scales which can be described as follows:

- Western Canada
- Atlantic Canada
- Great Lakes
- Northeast Corridor
- North America
- North Atlantic
- World.

The extent of interpenetration and the pace of development at these broader scales has influenced the expansion and focus of economic activities within the metropolitan system. Expansion of activities in the western portion of the system has proceeded at a significantly greater rate than in the eastern. This, in part, is causing the under-utilization of resources in Montreal.

The graphs in Appendix A indicate gradual ascendancy of the western portion of the system over the eastern. This tendency is accelerating, and is manifested in:

- Employment Index: Industrial Composite
of Secondary, Tertiary, and Quaternary (Figure #1)
- Employment Index: Construction (Figure #2)

- Building Permits (Figure #3)
- Employment Index: Finance, Insurance and Real Estate (Figure #4)
- Employment Index: Business and Personal Services (Figure #5)
- Cheques cashed in clearing centres (Figure #6)
- Employment Index: Trade (Figure #7)

The ascendancy of the western portion of the system began to manifest itself in the early 1950's. Prior to that, the eastern portion was close to or even somewhat ahead of the western region. However, between 1950 and 1952 the growth in the Toronto region began to exceed that in the Montreal region and by 1956-57, Toronto had a clear ascendancy over Montreal. This trend has continued except for the years around 1967 when Expo 67 gave Montreal a brief boost in areas relating to construction, trade and personal services.

The exceptions that have been identified to this overall trend are in:

- Employment Index: Transport, Communications and Public Utility (Figure #8)
- Personal disposable income per capita (Figure #9)

although Figure #8 does display Toronto's ascendancy to some degree. These latter two are largely based on public sector support or investment.

The approach toward increased effectiveness and balance calls for aggressively promoting increased interpenetration of the metropolitan system as a whole with the broader scales through activity packages

as described above. Particular emphasis should be placed on these activity packages which can most favourably or uniquely be promoted through the eastern portion. The system is a larger and stronger entity than Montreal or Toronto alone and this approach would afford more effective interaction and potential for economic expansion, than unilateral promotion of either region.

A strengthened eastern portion of the system can then complement the western portion and interact in a more balanced manner with it, in contrast to the present trend of continued or even accelerated drift of activity to Toronto. Such balance will be, in the medium- and long-term, in the best interests of both parts and of the system as a whole.

The approach through activity packages of necessity involves considerable numbers of organizations in each case, and requires strong leadership. Promotion at this level of complexity requires the kind of leadership that is generally beyond the competence of the private sector.

The initiation of new activity packages in the Canadian Metropolitan System from the standpoint of the DREE mission calls for new activities for the weaker eastern portion which also add to the system as a whole, distinct from any tendency to re-balance development from the western to the eastern portion. A number of potential examples are outlined in the section below.

EXAMPLES OF
ACTIVITY PACKAGE

The Cargo Hub Concept:

The Montreal air cargo hub concept is a distribution system serving markets throughout northeastern North America and Europe. All cargo freighter aircraft such the Boeing 707 and DC-8 would fly directly between cities in Europe and Montreal, achieving very high aircraft utilization. Distribution to and from major cargo market areas surrounding New York, Boston, Toronto, Detroit, and Chicago, as well as Montreal, would be effected by rapid, dedicated trucking services. Coupling the efficiencies of unitization, automated handling and modern scheduling systems could ensure fast, dependable service.

This centralized distribution system would provide the Montreal region with strong linkages to Europe, to the northeastern U.S.A. and to central North American markets, similar in kind and in potential to the linkages resulting from the rapid emergence of Rotterdam as a major distribution centre for the European economic community.

Initially, European and Canadian airlines would be the major users of the system attracted by the opportunity to sharply reduce duplication of expensive unitized air cargo handling facilities while achieving increased utilization of aircraft, costing from \$10 million, through the consolidation in Montreal of part of their North American-based operations. Participation of U.S. airlines might be achieved at a later stage. Trucking companies, air freight forwarders, international warehousing operations and associated service industries could benefit significantly from the service as well.

The essential ingredients for the system are already at hand. The modern new airport under construction near Ste. Scholastique is unique in the world in terms of unlimited future capacity on a twenty-four hour basis with freedom from restrictions which increasingly plague major North American airports. All major European airlines are already

operating all-cargo service into Montreal and could readily consolidate their services to other cities, with the trucking support connections.

The result would be increased activity at the airport and revenues, increased employment, and a basis for establishing an international warehousing distribution system and, eventually, a free-trade zone and with product assembly.

The Dutch, with the benefit of the Rotterdam experience, are pursuing this course at Amsterdam's Schipol Airport, and have attracted thirty new distribution centres in the last two years alone.

. The Saint Lawrence Harbour System:

There is evidence that the centre of gravity of the Saint Lawrence Port capability from Montreal downstream should progressively be shifted toward Quebec City. Physical aspects such as draught requirements, ice conditions, and ship utilization are part of the story. The opportunity to design and install a new harbour system over time is another, and the closer linking of Quebec City to the Metropolitan System is yet another. The highly successful Rotterdam "future planning" and development experience is in some respects an analogue, although on a much larger scale. The analogue is being extended by pending initiatives at LeHavre to exploit the needs of super-carriers which find some difficulty in negotiating the English Channel. There is a parallel here in the Montreal/Quebec City relationship, except that in the latter case a single jurisdiction can optimize a situation which is competitive with Rotterdam - LeHavre.

The multi-organizational/multi-activity Rotterdam approach to the assessment of future demand, the design and provision of facilities and services to meet this demand (i.e. the activity package approach), is quite unlike any harbour planning, development, and management in Canada up to now. This approach would be a step toward achieving a new level of port efficiency and growth.

Consideration of expanding Quebec City's port facilities should also recognize the increasing role of the Port of Halifax. In many ways, activity at one port influences and is influenced by activity at the other. As a result, two factors must be taken into consideration:

- whether it is possible for the two ports to play complementary roles
- what types of development at each port will lead to the greatest benefit for Eastern Canada as a whole.

Development at the two ports should not be examined in isolation with consideration being given only to benefits to their immediate regions but rather with reference to the benefits which will accrue to Eastern Canada from the two ports together. A detailed analysis would be needed to provide a basis for determining what types of development should be promoted at each port.

• Recreation Cottage Industry:

This activity package is based on the needs to provide a stable alternative outdoor environment for the urban population at all income levels in major eastern North American urban centres. At present, a preliminary evaluation is underway on behalf of local regional interests for the design and development of a large-scale lease-or-purchase cottage industry over some hundreds of square miles north of the Ottawa River between Montreal and Ottawa.

The rationale for such a prototype initiative is the fast-growing demand for outdoor recreation facilities in Canadian and American cities, as compared to the limited availability of attractive recreational opportunities, both land and water, particularly when projected over ten to twenty years. A prototype activity package of this nature would have a development impact on local resource regions, would serve the Montreal/Ottawa-Hull demand over time, and could also serve a market from further afield. The scale and the scope of activities make this approach qualitatively different from past initiatives of this kind in North America. It has some relation to the Volksgarten initiatives in Europe dating from the last century, notably in Denmark, Holland, and Germany. These entailed the setting

aside of large estates at the urban fringe, and the making available of individual plots for leasing to the citizenry.

. Convention and Recreation Centre:

Ste. Scholastique has a unique advantage over other eastern North American airports, because of its combined proximity to the Laurentian recreation area and to Metropolitan Montreal. A planned large-scale activity package linking airlines, hotels, recreation facilities, intra-regional transport facilities, and supporting services such as reservations and marketing and meeting services of all kinds could place the Montreal airport region within the metropolitan system in a unique position to attract the growing number of extremely large national, continental, and international meetings. Organizations holding these meetings cannot find a fully-integrated facility of this nature anywhere in the world at present. In addition, such a facility should cater to the smaller specialized meeting market which is growing at a fast pace. This kind of activity package would support the kind of services which are also needed for corporate or regional headquarters in Montreal, and would thereby help strengthen its tertiary and quaternary service capability.

. Inter-Language Information Systems:

At present, Montreal faces a great challenge to integrate the use of two languages in its economic activities at all levels. This is a problem which Montreal shares with most other parts of the world - Asia, South America, Africa, the Middle East, and many parts of Europe. Little overall co-ordination is yet apparent in meeting the challenge here, but capability in the private and public sectors and in the learning and communications industries is developing to some extent, albeit in a disjointed way.

If an activity package were designed to meet the fast-growing world demand in this field, a dual incentive would be provided to meet a local problem which adversely affects the eastern portion of the Metropolitan System.

. Urban and Inter-Urban Transportation:

Recent studies, notably the Eastern Corridor Study, and studies dealing with airport access at Montreal, have given consideration to cost benefit and the technology of new systems. So far, the activity package approach has not been applied to these investigations, enlarging cost benefit considerations to include research and development, and provision of new transportation systems by Canadian firms for domestic use and export. Such a comprehensive activity package should be evaluated in relation to various possible new technologies. In turn, the eventual successful installation of such technologies would have the effect of extending the manufacturing base as well as better integrating the complex.

This small, yet diverse, list of potential activity packages is meant to illustrate the potential scale, scope, and range of activities which could be redesigned, reorganized, and extended through the approach. Each one requires government initiative to get it underway, because government either must be the catalyst or the critical entrepreneur, or because government regulations would need to be significantly changed or extended to make it possible.

AN IMPLEMENTATION STRATEGY

To implement this activity package approach in achieving an adequate balance within the Metropolitan System requires a mechanism to identify and evaluate potential packages, including the role of the federal government and its agencies, and then to design, promote, and achieve their realization. Such a mechanism is proposed in the following.

A key ingredient for this mechanism is a task force whose function would be to identify and evaluate and to provide leadership in promoting, designing, and achieving activity packages. The task force mission should stress the identification of a great number of potential packages, as most of them may not be immediately practicable. The air cargo hub concept appears to be an opportunity of immediate potential.

The task force should be set up in some form of federal/provincial partnership, with direct industry and municipal linkages. This composition reflects the joint interest and jurisdiction of the two levels of government; it should be comparatively easy to negotiate because it has a promotional and marketing, rather than a control, mission.

In identifying the activity packages, the task force will primarily use the future planning approach in scanning the widest possible range of possibilities. The task force will also need forward and operational planning capability to evaluate and help design the activity packages at the operational level. Other organizations will be stimulated to take on the responsibility for execution according to their interests.

The linkages to line agencies at the federal and provincial levels, to local governments, to industry and other private sector organizations, will be the means of communicating this stimulus.

APPENDIX A

FIGURE 1

EMPLOYMENT INDEX - (1949=100) - INDUSTRIAL COMPOSITE (SECONDARY, TERTIARY & QUATERNARY)

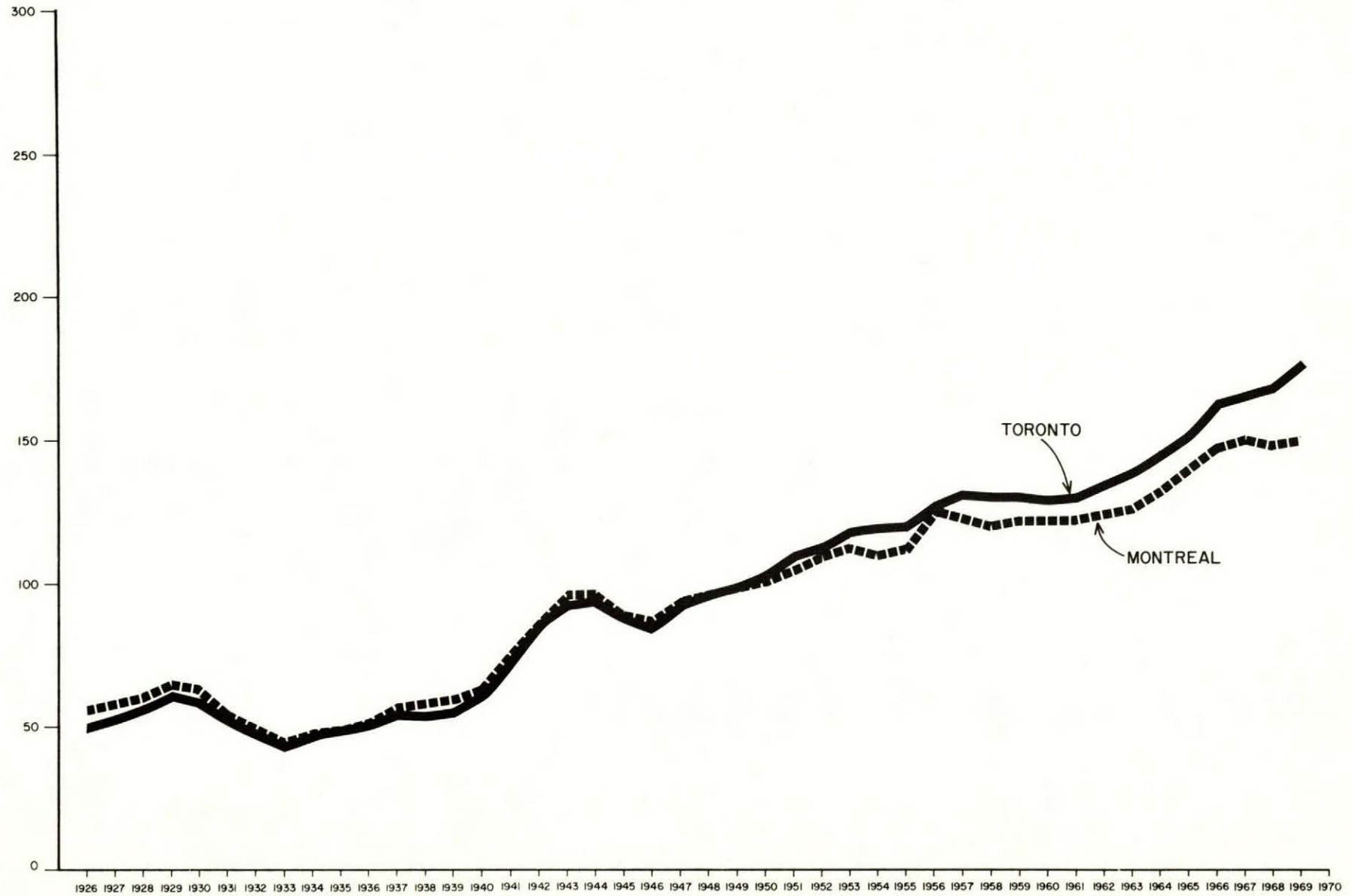


FIGURE 2

EMPLOYMENT INDEXES (1949=100) - CONSTRUCTION

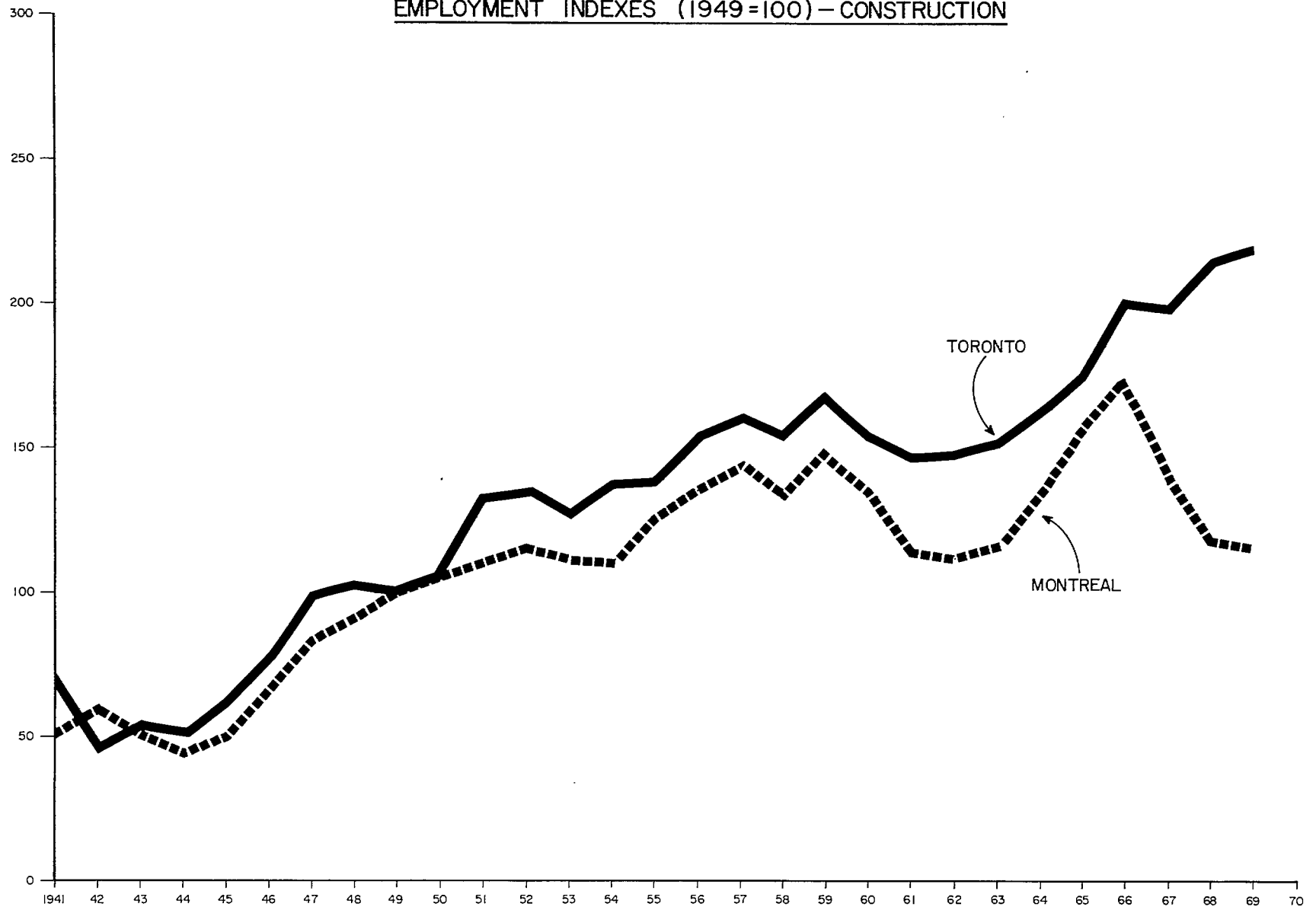


FIGURE 3
BUILDING PERMITS ISSUED

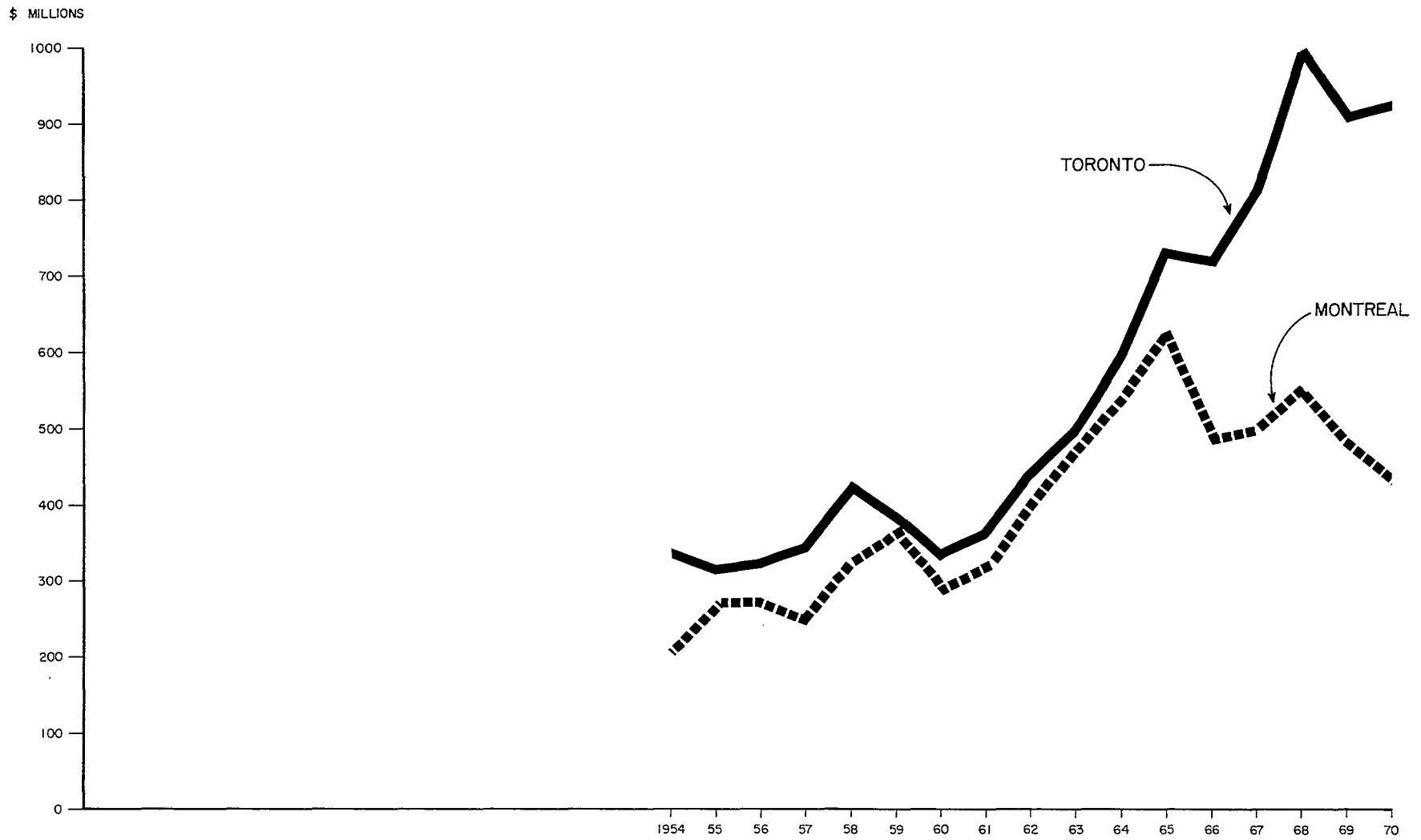


FIGURE 4

EMPLOYMENT INDEX (1949 = 100) — FINANCE, INSURANCE & REAL ESTATE

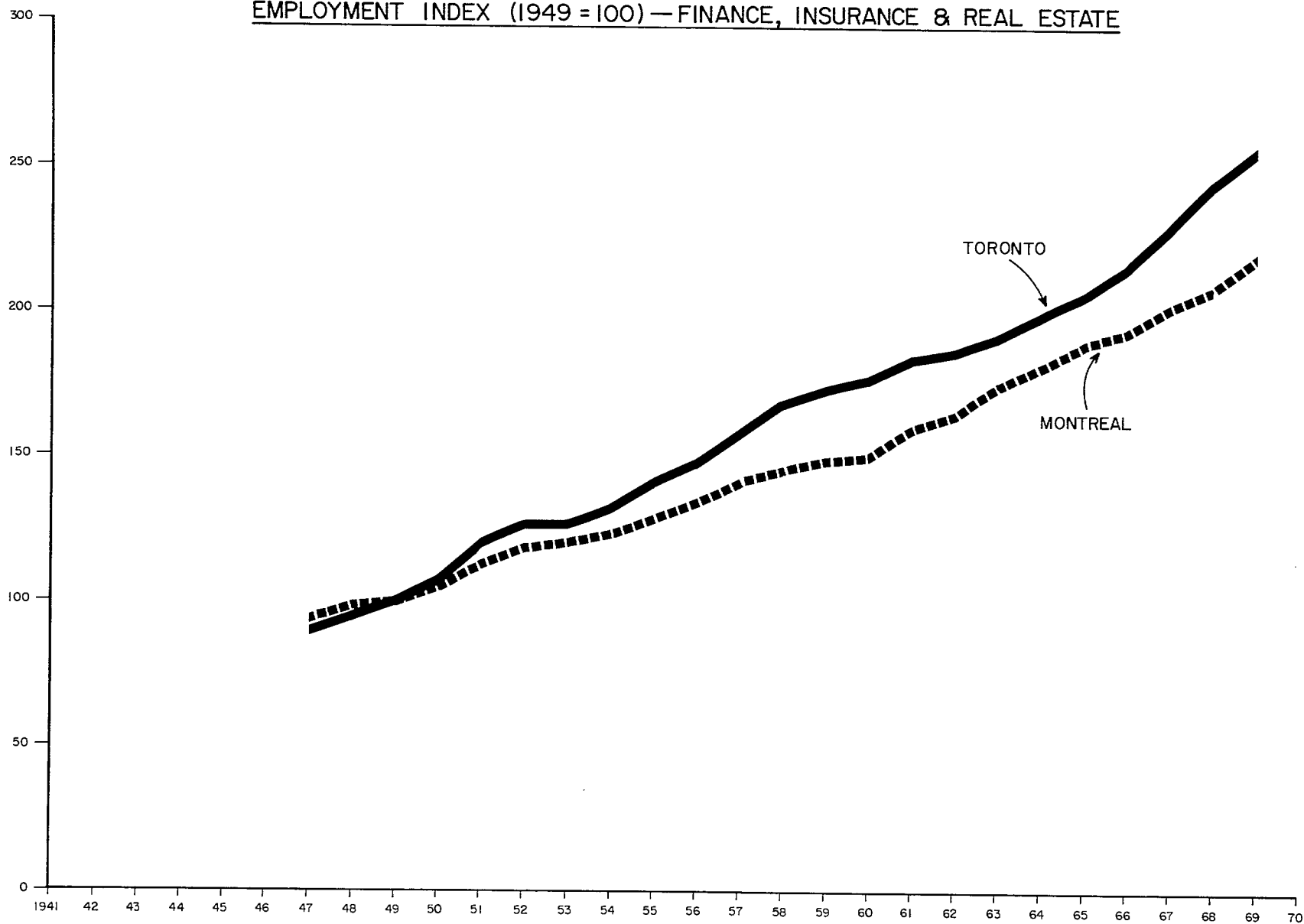


FIGURE 5

EMPLOYMENT INDEX — BUSINESS & PERSONAL SERVICES (1949=100)

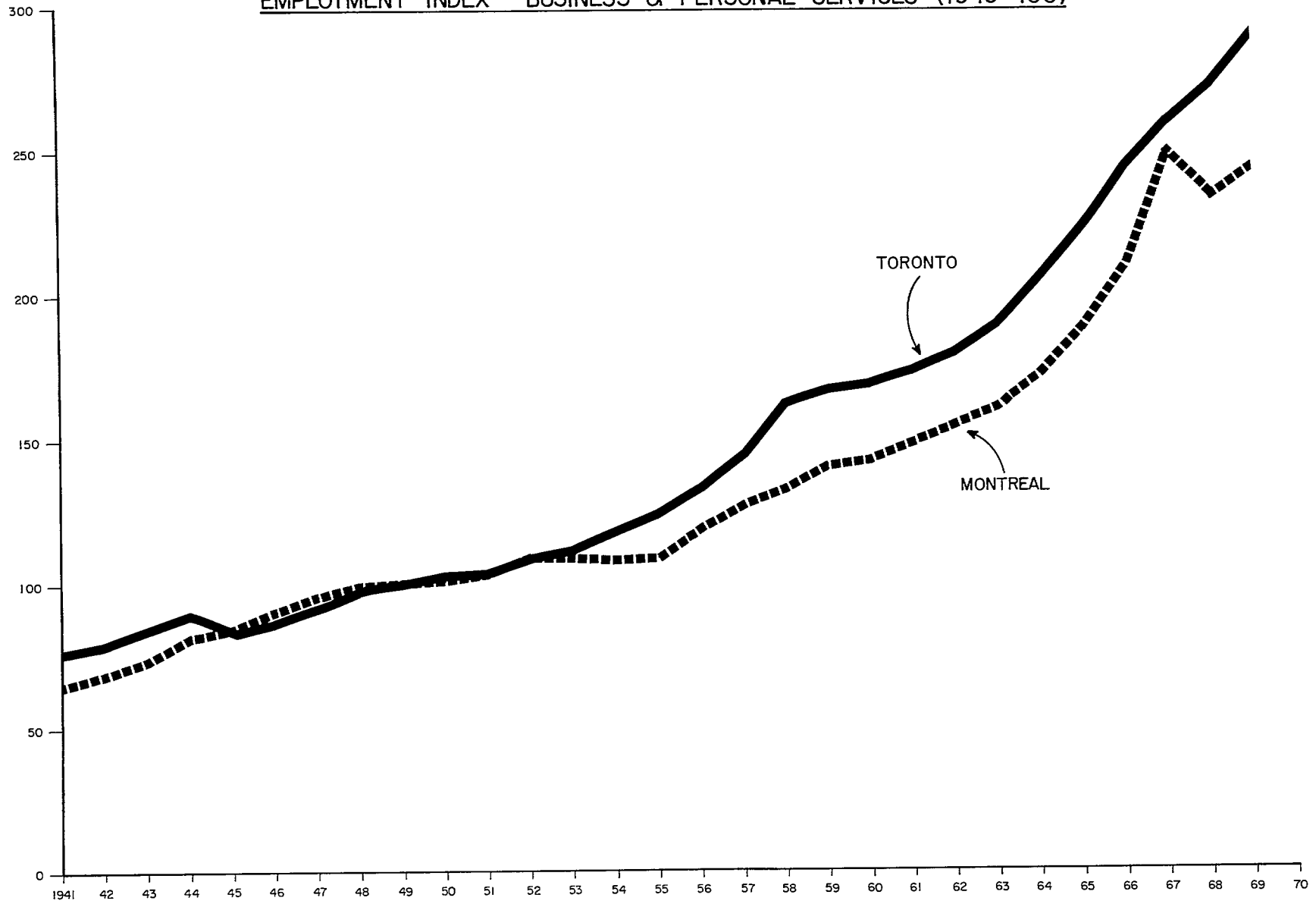


FIGURE 6
CHEQUES CASHED IN CLEARING CENTRES

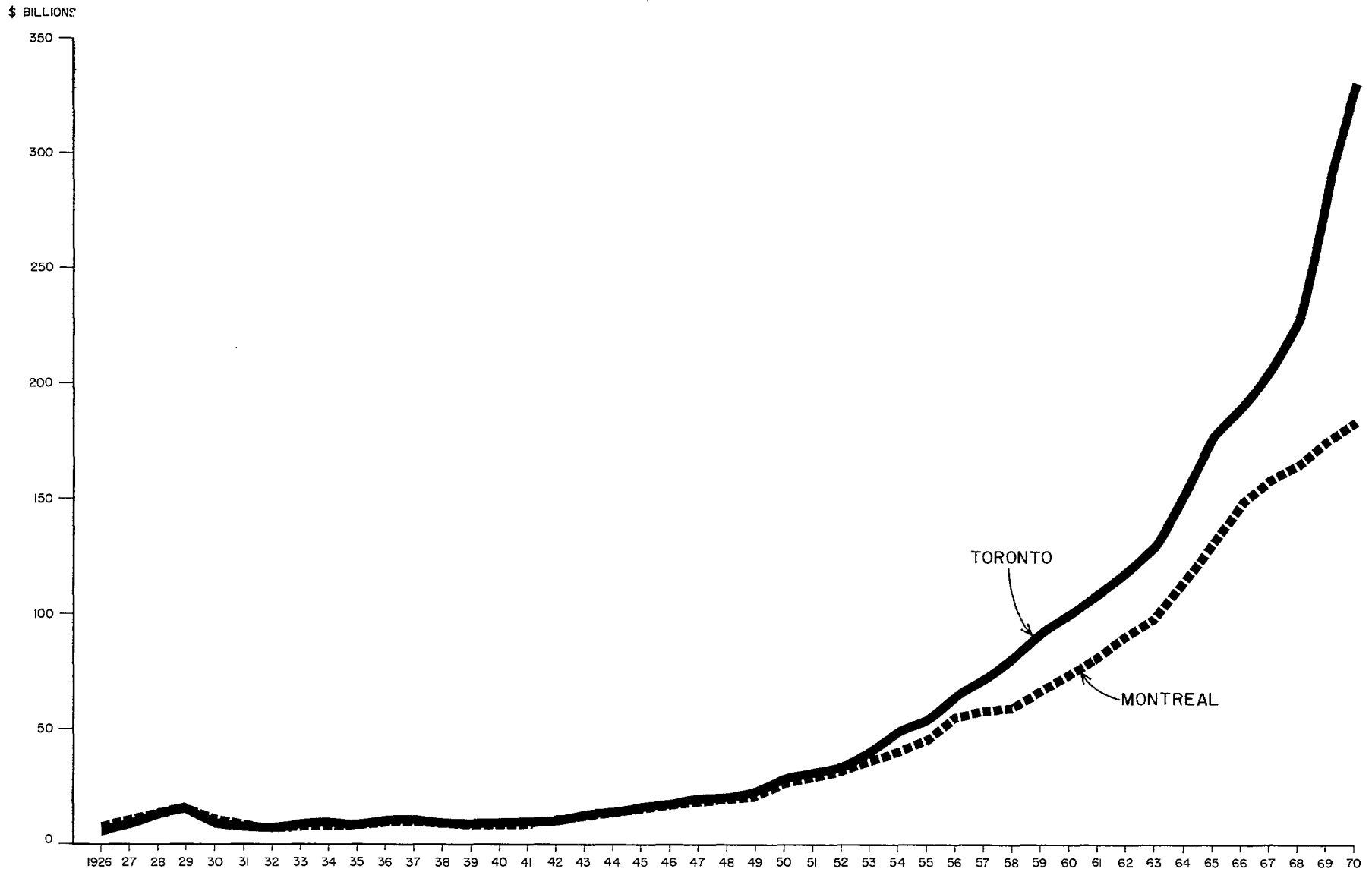


FIGURE 7
EMPLOYMENT INDEX - TRADE (1949 = 100)

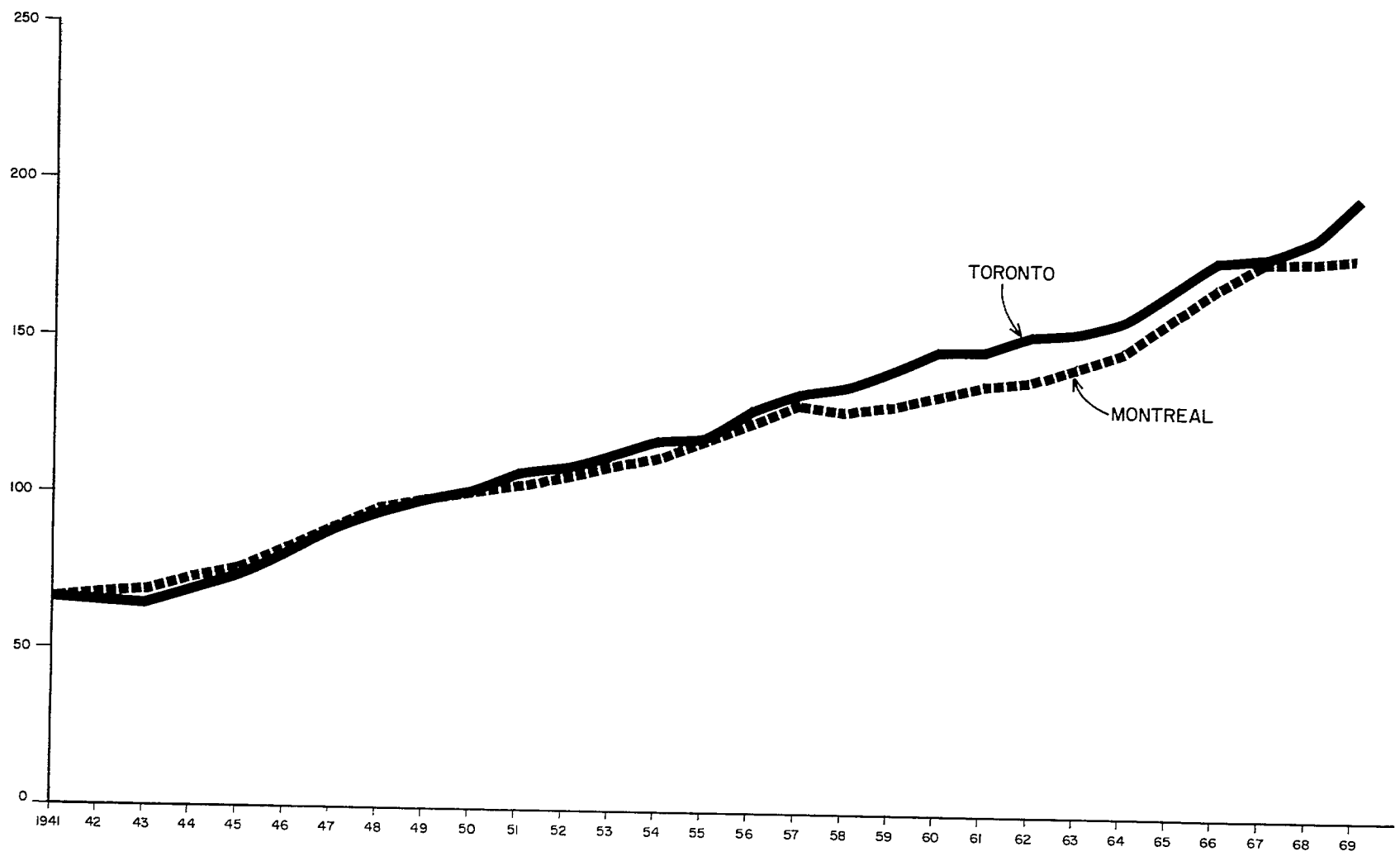


FIGURE 8

EMPLOYMENT INDEX - (1949 = 100) - TRANSPORTATION, COMMUNICATION & PUBLIC UTILITIES

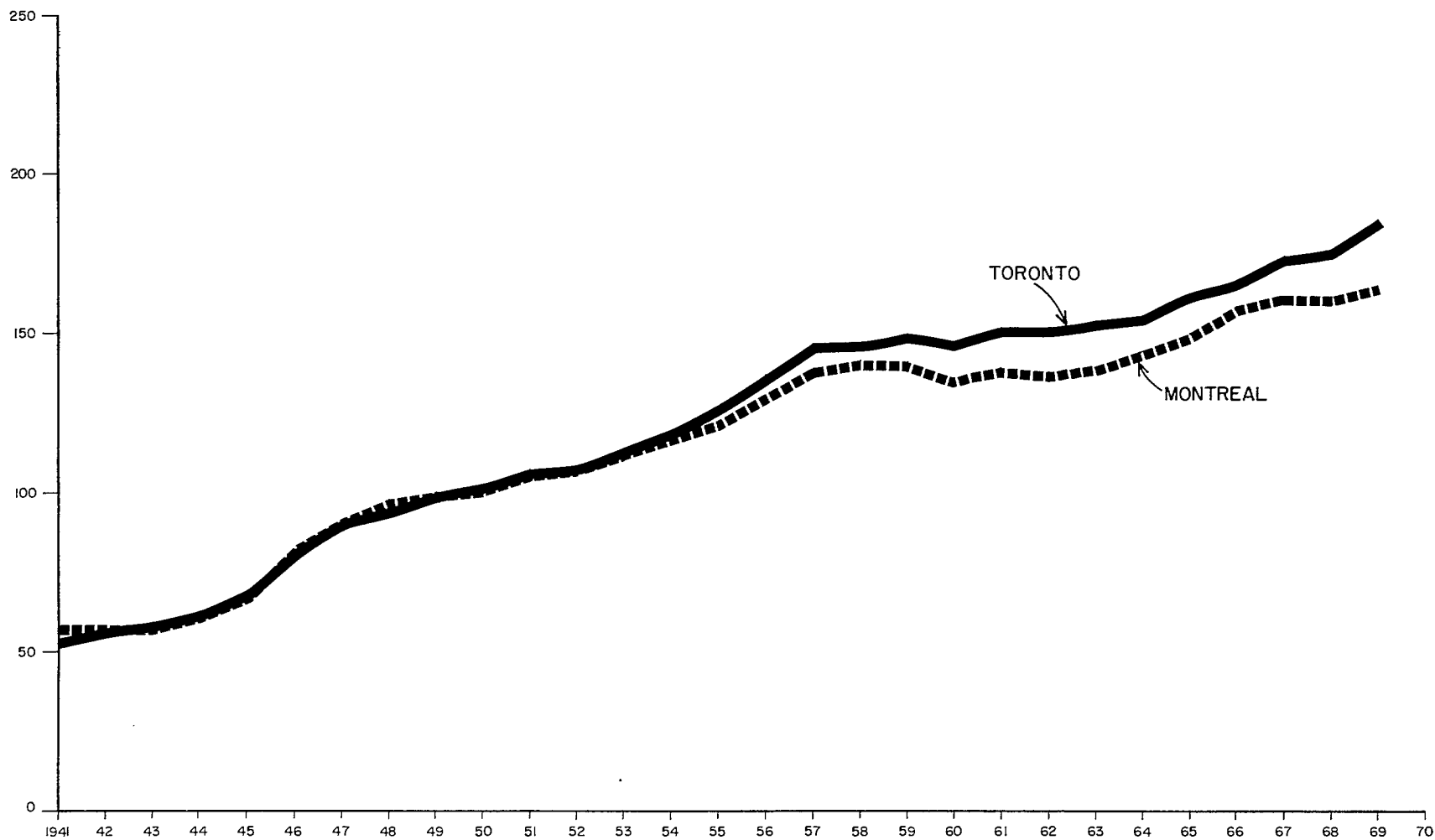


FIGURE 9
P.D.I. PER CAPITA

