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ECONOMIC DEVELOPMENT PROSPECTS IN PRINCE EDWARD ISLAND

One of a series of reports
on development prospects
in the provinces, territories,
and regions of Canada
prepared by *L. Condo.*
the Department of Regional Economic Expansion



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**ECONOMIC DEVELOPMENT PROSPECTS
IN PRINCE EDWARD ISLAND**

PREFACE

In 1973, the Department of Regional Economic Expansion issued a series of reports on the economic circumstances of each of the provinces¹ and their prospects for development. These reports were useful in discussions leading to the successful implementation of a new federal-provincial mechanism, the General Development Agreement, which was designed as a flexible tool to pursue regional development in Canada. This mechanism has as its central objective the formulation of integrated federal-provincial regional development strategies based on the identification and pursuit of development opportunities.

With the aid of hindsight, it now appears that the mid-1970s represented a watershed period in many respects, as fundamental realignments and adjustments occurred internationally and within Canada. These considerations, in conjunction with the recent public discussion concerning the appropriate roles of business, labour and governments in the economy, suggest that this is an opportune time to review in a comprehensive fashion some major economic issues and factors affecting regional development. This report expands upon previous DREE reviews of provincial economic circumstances and opportunities by examining the major factors affecting performance of the provincial economy. In addition, it explores the policy issues and instruments which affect development planning and which have a bearing on the potential for realizing development opportunities.

The analysis begins with a detailed description of factors relating to economic development and an assessment of the economic performance of the province. This section provides a context for the next section which deals with specific development problems facing the province and the issues which bear on its economic development. Federal and provincial approaches to development are then discussed. The following section on development opportunities is the central focus of the report. In this section, the comparative advantages of the province are described and its potential economic development opportunities highlighted.

It is a truism that over time, regional economic circumstances and development opportunities will continue to change and evolve. In a similar vein, it is apparent that economic development will continue to require an evolving spirit of policy coordination within and between various orders of government. In this context, it is hoped that this report will serve as a backdrop to federal-provincial discussions on the economy and to the further formulation and implementation of integrated federal-provincial development strategies; and on a broader level, contribute a spatial dimension to economic policy-making over the medium term.

¹ Except Prince Edward Island.

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1. OVERVIEW

The Prince Edward Island economy has experienced modest growth in the seven-year period, 1971-78, with a significantly higher growth of Real Domestic Product in 1977-78 than Canada as a whole.

Out-migration, which has occurred throughout the Province's history, has been reversed in the 1970s with an average net in-flow of 800 people per annum. This is expected to continue, but at a lower level.

Investment in the same period has grown well above the national average and is expected to continue to do so in the next five years.

Continuation of the present growth rate is expected for the next five years. This will be based on a high level of construction, particularly for the hospital and the headquarters building for the Department of Veterans Affairs.

Agriculture, fishing and food processing industries are expected to increase their outputs. Hog and other livestock output should be well up, new species in fisheries will lead to increased landings and greater percentages of crops will be processed.

In addition, the rate of job creation is expected to continue, which will mean lower levels of unemployment.

Increased emphasis will be given to forestry-based industries, especially as a source of energy for home heat.

If the above expectations are fulfilled, the province's economy will be in a much stronger position than that of the recent past.

2. ECONOMIC DEVELOPMENT FACTORS

2.1 Background

The economic performance of the Province's economy was very dependent on the volume of potatoes sold and the price received by the farmers. This dependence has been reduced a little as more of the crop is now processed.

In addition, the service sector has been growing at a fast rate: this has led to a more diversified economy and to the growth of the capital city, Charlottetown.

The secondary industry is dominated by agriculture and fish processing, but extensive efforts have been made in the last few years to establish non-resource-based manufacturing industries.

The real domestic product by selected industries is shown in Table I.

TABLE I
REAL DOMESTIC PRODUCT
(In Constant 1971 Dollars)

| | <u>1971 (\$Million)</u> | <u>1978 (\$Million)</u> | <u>% Change</u> |
|------------------------------|-------------------------|-------------------------|-----------------|
| Agriculture | 16 | 21 | 31.5 |
| Fisheries | 8 | 3 | -62.5 |
| Manufacturing and Processing | 19 | 24 | 26.3 |
| Construction | 22 | 24 | 9.1 |
| Utilities | 3 | 3 | 0.0 |
| Total Goods | 68 | 75 | 10.3 |
| Total Services | 164 | 223 | 36.0 |
| TOTAL | 232 | 298 | 28.4 |

Source: Conference Board in Canada

2.2 Factors

2.2.1 Resources

Prince Edward Island has a land area of approximately 568 557 hectares. This land mass is part of the Acadian physiographic region with undulating landscape. There is no Class I agriculture land in the province, but 72 per cent of the land or 407 237 hectares is Class 2 or 3 soils; this is the basis for the description of the province as "the one-million-acre farm".

The climate of Prince Edward Island is strongly affected by the continental air masses which move across northwestern Canada to the southeast. The frost-free period averages 155 days with a precipitation of about 1 092 millimetres inches distributed fairly evenly. The mean spring and summer temperatures are between 3°C and 17°C. This climate makes the Province suitable for the growth of a wide range of crops although excess moisture in spring and fall can delay seeding and harvesting.

The province is surrounded by waters, which provide opportunities for fishing, lobster being the most important species.

There are no known commercial deposits of minerals except for gravel or fossil fuels in the province.

2.2.2 Markets

The province's production of any product is insignificant in the total Canadian picture; thus prices are externally set unless controlled by federal or provincial government-sponsored price schemes. This means that the province's production units tend to be price takers to a large extent. As a result, many producers of primary products are subjected to the "bust or boom" cycle which prevents planned growth. Even when these products are processed, Island production retains some of this cyclical quality.

2.3 Overview of Economic Performance

2.3.1 General Indicators

Prince Edward Island has witnessed an increase of 129.3 per cent in its personal income per capita between 1971-77. This increase is slightly higher than the Atlantic average and significantly above the Canadian average of 115.7 per cent. In 1977 the personal income per capita in the Province was \$4 975, compared to the Canadian figure of \$7 411.

A similar trend was experienced in the earned income per capita for the province, with an increase of 120.4 per cent, well above both the Atlantic and Canadian averages for the same 1971-77 period. Earned income per capita for Prince Edward Island in 1977 was \$3 817, as compared to \$6 445 for Canada.

Government transfer payments per capita have risen from \$438 in 1971 to \$1 158 in 1977. This increase of 164.4 per cent for the period 1971-77 represents 14.2 percentage points higher level over the Canadian figure. However, it is 16.9 percentage points lower than the Atlantic provinces' increase.

Wages and salaries have continued to rise since 1971 when \$126.4 million was paid out; in 1978 the figure was \$340.5 million. This increase of 169.4 per cent between 1971 and 1978 is above both the Atlantic and Canadian averages by 15.3 percentage points and 20.1 percentage points respectively.

Personal disposable income in Prince Edward Island is rising faster than both the Canadian and Atlantic provinces' average at 140.3 per cent since 1971-78. The Canadian increase of 132.7 per cent is 7.6 percentage points lower, while the Atlantic provinces' average of 136.1 is 4.2 percentage points below this province's average.

The gross domestic product for Prince Edward Island rose from \$255.6 million in 1971 to \$559.5 million in 1978. This 1971-78 change represents an increase of 118.9 per cent. This increase is slightly below the Atlantic provinces' average and significantly below the Canadian average of 126 per cent.

The same type of situation is evident in the real domestic product where the province is well behind the Canadian percentage increase for 1971-78. In 1971, Prince Edward Island had a real domestic product of \$232 million versus \$298 million in 1978 for a 1971-78 increase of 28.4 per cent, 7.6 percentage points behind the Atlantic provinces and 7 percentage points behind the Canadian average.

2.3.2 Labour Markets (1971-78)

The population of Prince Edward Island grew from 112 000 in 1971 to 122 000 in 1978. This growth rate of 9.3 per cent betters both the Atlantic provinces' and the Canadian average. The population over 15 years of age grew from 74 000 in 1971 to 87 000 in 1978, an increase of 17.8 per cent. This figure is higher than both the Atlantic and Canadian averages. The total labour force increased by 10 000 between 1971 and 1978: this represents a 25 per cent increase. During the same period employment rose from 37 000 to 45 000 people.

The unemployment rates for 1977 and 1978 have remained the same at 9.9 per cent, well above the national average, despite the fact that some 7 000 jobs were created over the past eight years.

The labour force participation rate has increased from 54.3 per cent in 1971 to 57.8 per cent in 1978; this is due mainly to the number of women entering the labour force during that period. In 1971, the female labour force participation rate was 34.2 per cent. The 1978 figure shows an increase of 10.3 percentage points to 44.5 per cent. This figure is lower than the Canadian average but has been increasing at a faster rate. Male labour force participation rates increased from 68.4 per cent in 1971 to 71.7 per cent in 1978. The Canadian average participation rate of 77.9 per cent is 6.2 per cent higher than that of this province.

The largest population group is in the 25-34 age bracket: it makes up 13.8 per cent of the Island's total population. This factor has not only contributed to the increase in the labour force, but it also has contributed to the increase in the participation rate and placed added pressure on the labour market. At the opposite ends of the population scale Prince Edward Island faces a decline in the population between 0 and 9 on one hand and an increasing proportion of old-age (65+) population on the other hand.

Prince Edward Island remains subject to seasonal variation in both the participation and unemployment rates. This is due primarily to the structure of the Island economy which has traditionally emphasized - with resultant dependency - the development of its primary industries and associated processing activities.

The rate of growth in the size of the labour force will likely decline during the early to mid-1980s, because of the effects of the current decline in birth rates. This trend began in the sixties; thus in 1961 there were 2 838 births, while in 1976 only 1 936 births were recorded. With this potential decline in the growth of the labour force, education will play a vital role for individuals preparing themselves for the labour market, as the competition for fewer vacancies becomes more acute.

2.3.3 Investment Climate

The annual capital investment in Prince Edward Island between 1974-78 was \$128.4 million, an increase of 122.9 per cent over the 1961-65 average of \$57.6 million. There have been numerous fluctuations in the trends of investment during the 1961-78 period. After expanding by more than 70 per cent to

\$123.9 million in 1973, there was a steady decline until 1977 when total investments began to rise again. Overall the 1971-78 period's total investment in Prince Edward Island registered an increase of about 125 per cent compared to 149 per cent for Canada - but only 82 per cent for the Atlantic Region.

Housing starts in 1978 showed a dramatic increase of 46.8 per cent over the 1977 statistics: there were an additional 386 housing starts in the province for 1978. In 1973, there were 2 122 housing starts, a 96.7 per cent increase over 1972 and by far the most productive year in housing. During the 1971-78 period there were 9 621 housing starts. In comparing the housing starts in 1971 with those in 1978, an 11.2 per cent decline has been observed. This is well below the Canadian change of -2.6 per cent but significantly better than the Atlantic decrease of -18.3 per cent. The housing stock in the province is now at an extremely good level.

The value of building permits issued in Prince Edward Island has increased every year except 1972 and 1976. The total dollar value for 1978 was \$90.4 million, an increase of 32 per cent over 1977. An increase of 10.6 per cent in the value of building permits between 1971 and 1978 was recorded.

2.3.4 Sectoral Review

Agriculture

Agriculture has always played a vital role in the Prince Edward Island economy and in the 1971-78 period farm cash receipts in the province increased at a substantially higher rate than in any other province in the Atlantic Region. However, a very high proportion of these receipts come from the Island's largest cash crop - potatoes - which are subject to great price fluctuations. In 1975, farmers suffered a 41 per cent decline in their average net income due to poor potato prices.

In 1976, farm receipts went up by about 25 per cent compared to their level in the previous year, largely because of high prices for potatoes due to a drought in Europe. In that year, the Island exported an unprecedented 238.8 million kilograms of potatoes to Europe, compared to the usual exports of 50.8 million kilograms. Since that period, the market for potatoes has softened. However there are opportunities opening up to export seed potatoes to the developing countries of both white and yellow-fleshed varieties.

The local potato processing facilities are also expanding and the proportion of the crop processed has shown a significant improvement from about 5 per cent in 1969 (when

processing on the Island began) to over 25 per cent in recent years. This development has imparted increased stability to the agricultural sector.

Potato farming in Prince Edward Island is not a growing industry in terms of employment. It now employs only about 3 500 people compared to 15 000 in 1948. The reduction is largely due to mechanization and partly because of uncertain incomes.

The year 1979 may not prove to be a very good year for potatoes, but farm cash receipts are expected to grow from \$96.9 million in 1978 to \$105 million, mainly because of better returns in the livestock sector and expanded production of both fluid and industrial milk.

Forestry

In recent years, the forest industries of Prince Edward Island have been declining in terms of their contribution to the provincial economy. While approximately half of the Island is covered by forests, a number of factors including poor management, lack of markets, the size, ownership and distribution of woodlots, together with the depletion of the resource, have combined to significantly reduce the potential impact of forest-related industries. Harvesting is only marginally economic, and in the absence of an assured supply the output of lumber and other wood products has been declining. Exports of pulpwood have also declined. The total annual harvest is about 179 200 cubic metres compared with 430 080 cubic metres throughout the 1950s. With limited employment and little new investment, forest industries contribute less than 1 per cent to the gross provincial product.

Under Phase II of the Comprehensive Development Plan, an ambitious program to revitalize the forest resources through reforestation with improved species has been undertaken as the first step in rebuilding the forest industries of Prince Edward Island.

Fisheries

The annual value of fish landings increased from about \$10 million in 1971 to more than \$12 million in 1973 and stayed at about that level until 1976. Since then however, it has been experiencing significant increases each year. It rose by about 19 per cent in 1977 and 39 per cent in 1978, more because of prices than volume landed.

The 1977-1978 rate of increase was the highest in the country. The Prince Edward Island fishing industry is heavily dependent on one species - lobster. In 1978, lobster landings

were among the highest in the last 50 years. There were also substantial increases in ground fish landings.

The outlook for 1979 is good, as the Canadian quotas for this year have been increased, including the important increases for the Island in the inshore fisheries. Actually, due to the establishment of the 200-mile limit and the expected recuperation of stocks, the fishing industry in Prince Edward Island, along with the fisheries in the other Atlantic provinces, has good growth potential over the medium to long-term period and the fisherman's income is expected to grow.

The fish processing industry is composed of approximately 23 operators (licensed for export). These plants are involved in the processing of fresh, frozen, canned, salt and pickled fish. The majority of the plants rely on lobster as their basic raw material, although plants in Souris, Tignish, and Georgetown process a significant amount of groundfish. Collectively these plants employ between 1 100 and 1 200 people during the peak summer months of each year. The plants are supplied by approximately 1 500 fishing enterprises whose annual catch had a landed value of \$24 million in 1978.

In terms of contribution to the Prince Edward Island economy, the fish processing industry is quite significant. In 1975, fisheries (both catching and processing) accounted for nearly 20 per cent of the value added in the goods-producing sectors. Its importance can be highlighted even more when the fact that processed value of fishery products increased from \$12.7 million in 1969 to \$37.0 million in 1977 is considered.

Manufacturing

In the period between 1971 and 1978, the output in the Prince Edward Island manufacturing sector as a percentage of the total real domestic product remained stable, as compared to a decrease of about 1 percentage point at the national level. The manufacturing sector's contribution to the real domestic product of the province was \$24 million in 1978.

Employment in this sector has never been more than 4 000 and more than 75 per cent of the employment is accounted for by the food and fish processing industries. However since 1974 initiatives to diversify the industrial structure of the Island have been in effect.

Prince Edward Island took steps to diversify into small industries that require specialized technical skill. New industrial malls have been built in Charlottetown and Summerside to house a number of small-scale firms producing high-technology products. Performance to date has been encouraging.

Services

The service sector makes more of a contribution in terms of real output and employment than the goods-producing sector. Its share in the real domestic product produced in Prince Edward Island moved from some 71 per cent in 1971 to about 75 per cent in 1978, an increase of about 4 percentage points. The corresponding increase for the country was about 2.0 percentage points; from 59.4 per cent in 1971 to 61.4 per cent in 1978. The expansion in the service sector employment in this period, however, was about 4 percentage points for Canada, as compared to 10 percentage points for the Island.

The share of the service sector in the total employment on the Island is expected to grow further with the planned move of the Department of Veterans Affairs (DVA) from Ottawa to Charlottetown. The first phase of the relocation process occurred this fall; and the final phase is scheduled for September, 1981. Additional employment in Prince Edward Island as a result of the move is expected to be significant.

Tourism

The number of tourists visiting the Island between May and October each year continued to grow until 1976, when it declined by about 4 per cent from the 1975 total. This decrease was common to all the Maritime Provinces. However, in 1977, the rate of decline came down to 2.4 per cent and in 1978 there was an increase of about 1.5 per cent. In these two years the total tourist expenditure in Prince Edward Island went up by about 11 per cent per year. This was a very significant shift from a decrease of 12 per cent in 1976. With the devaluation of the Canadian dollar, it is expected that the tourist industry on the Island will be strengthened further in 1979.

Construction

The construction industry in Prince Edward Island, in terms of its contribution to the provincial real domestic product, reached a peak in 1973 and then started to decline. The upturn occurred only in 1977 and continued into 1978. In 1977-78, the housing starts in the Island jumped by a very significant margin of 46.8 per cent (from 824 in 1977 to 1 210 in 1978) whereas in Canada and the Atlantic Region as a whole they had experienced a decline of 7.3 and 13.8 per cent, respectively.

In August of 1978, a building permit valued at \$24 million was issued for the construction of the new Queen Elizabeth Hospital in Charlottetown. This amount is not included in the \$76.4 million for 1978 as it would distort the true value

because of the unusually large amount of money involved. The 1975 value of building permits issued was \$53.5 million, plus an additional \$17 million which was projected for the construction of the new hospital at that time.

The rate of increase for Prince Edward Island between 1971 and 1978, excluding the \$17 million in 1975 and the \$24 million in 1978, extends this Province well beyond the increases for Canada and the Atlantic provinces.

The construction industry has been helped by the large investments in new schools across the province which have been financed through the Comprehensive Development Plan.

2.4 Medium-Term Prospects

Moderate growth in real domestic product of 3 per cent per annum to 4.0 per cent per annum is expected for the province over the next five years. This compares to the 3.6 per cent per annum in 1971-78 and 5.3 per cent in 1977-78. The higher figures result from the belief that the private sector will be increasing its investment and because of the many structural shifts in the economy which have taken place.

Major investments have been made in agriculture over the last five years by both the governments and the farmers. This and other factors have resulted in the reversal of a number of trends such as the reduced acreage of production.

The level of physical production is expected to continue upwards. In the medium-term, good growth in output is expected from hogs, grain, and vegetables; moderate growth in dairy, beef and other livestock.

Greater processing activity is also expected due to the above-mentioned expected growth and the penetration of new markets by the processing companies. The hog production continues to expand, and production to date in 1979 is about 20 per cent above 1978. This should lead to expansion in the processing sector which should lead to job creation.

The general outlook for the fishing industry is good. The establishment of the 200-mile limit and the expected recuperation of stocks should provide more fish and a greater variety of species for the fishermen to harvest. These can be caught outside the lobster season, thus encouraging greater length of operation of processing plants, as well as better income for the fishermen. Lobster, the most important species to the province's fishing industry, is being fished close to its

maximum sustainable yield. Increases in income from this species will depend on prices and the reductions in the number of entrants.

Existing fish plants are basically lobster processing operations; in terms of output, this is expected to continue. However, recent trends in new lobster products and the development of marketing consortia, such as Northumberland Seafoods, may mean less lobster processing employment. The new catch of other species will be able to fill the void, thus diversifying this sector to some extent.

Less than 25 per cent of the industrial sector employment is in non-food-processing employment. Employment in this sector is expected to grow at approximately the same rate as the food processing sector (5 per cent). This is because the strong thrust in this area by government is over. Numerous new firms have located in the new industrial parks and the successful ones are expected to increase employment.

Construction activity is expected to continue at a high level during most of the next five years, with a number of major projects scheduled. These include the headquarters for the Department of Veterans Affairs, (which will create construction jobs in 1980-82), the Queen Elizabeth Hospital and the Waterfront Development (which could include a hotel and specialized housing). New housing construction will be reduced from 1978 levels, but private non-residential investment will continue at existing levels.

As well as sector approaches, other approaches are being taken. Increased emphasis will be given to the marketing of products produced on the Island. Initial steps in this area have been successful and will be expanded to include a food products intelligence centre and broadened to encompass manufactured goods.

3. DEVELOPMENT PROBLEMS AND ISSUES

There are a number of factors which limit the scope for economic development in Prince Edward Island. The small size of the provincial market provides limited opportunities for companies; thus any company wishing to grow must export to the rest of Canada and abroad. Prince Edward Island has been successful in selling abroad more than it imports, but runs a deficit in its balance of trade with the rest of Canada.

The economy is very dependent on agriculture and agriculture-related industries, thus it is not very diversified. In the last three to five years, the Government of Prince Edward Island made a relatively expensive effort to diversify the industrial sector with new companies producing new products in new industries. The success of this approach will not be known for some time.

Many of these companies, as well as the majority of companies located in the province, did not have a corporate marketing strategy. During the last five years many companies, with the assistance of the Market Development Centre, have become aware of the importance of all aspects of marketing. Some potato producers, for example, are requesting changes to the present marketing system and a new marketing system for grains which is to be implemented shortly has been announced. The problem of marketing is, however, far from being solved, particularly in the primary industry areas such as potatoes and lobster.

Recent transportation issues include the adequacy of rail equipment and truck service as well as the level of increases in transportation rates. The potato industry is now being served by better railway, truck and piggyback equipment, and in the near future steps are expected to be taken to improve the rail infrastructure. During the winter months potatoes are shipped by rail or truck to Halifax or Saint John and then by boat to their destination. Because of ice, no fish are landed by boats in Prince Edward Island ports and pulpwood or sawlogs trade is not carried on. In recent years, Charlottetown, Summerside, Georgetown and Souris have been examined as (container) ports.

The highest electrical energy costs in any province are found in Prince Edward Island. The effect of this on economic development has been a concern in the immediate past and will continue into the future. One positive step taken to reduce the rate of increase of electrical costs was the submarine electrical interconnection cable between New Brunswick and Prince Edward Island which can provide a significant proportion of Prince Edward Island's requirements. At present, alternate energy sources including wood, wood gasification and solar, are

being considered. Projects have been undertaken in all areas by both government and individuals to reduce the cost of energy. The first priority of government at this time appears to be wood gasification, while individuals are investing in wood-burning appliances.

Investment in this province is heavily influenced by government as indicated by a high public-private ratio. This means that the private sector, which produces the output and self-sustaining jobs, is investing less than is necessary to reduce the dependence of the provincial economy on the government. In 1977, institutional and government department investment was \$32 million; manufacturing, \$11.1 million; and primary and construction investment, \$23.7 million. This compares to a ratio of 2:1 of government-to-manufacturing investment in other maritime provinces. The province has attempted to encourage development and investment in non-resource based industries as well as resource-based industries which have comparative advantages.

A further problem exists in the lack of enough provincial government funds for economic development. The revenue from taxation is low; for instance, corporation income tax yields about \$4 million per year and individual income tax, about \$25 million. The problem is thus one of extremely scarce resources with which to develop the economy. Federal assistance in this regard has been forthcoming since 1969 under the Comprehensive Development Plan. Federal transfers have also helped the Prince Edward Island economy from slowly falling further behind Canadian levels of performance.

Another emerging developmental problem involves current methods of agricultural production, which if they persist, will deplete the soil resources of the province within 30 years. Increasing efforts in soil conservation are therefore indicated.

4. FEDERAL AND PROVINCIAL INSTRUMENTS

4.1 Approaches to Economic Development

Because of demographic, geographical and economic constraints, the Province of Prince Edward Island is severely limited in its fiscal capacity to provide essential public services financed from its own revenues. Accordingly, the province has continuously sought and accepted financial assistance from the federal government, through its 106-year history in Confederation.

The federal assistance may be divided into three programming elements. The first major area of aid is that of unconditional transfer payments. A series of four tax-rental agreements with the federal government in 1941, 1947, 1952 and 1957 introduced a new field of unconditional transfer payments, equalization and revenue stabilization, which was separated from tax-sharing and other fiscal capacity-related programs. Federal equalization payments to Prince Edward Island have increased from \$3 085 000 in 1957-58 to \$65 200 000 in 1977-78.

Conditional transfer payments under grant-in-aid and cost-shared programs constitute the second major policy thrust. From a modest outlay of \$347 000 in federal funds through conditional transfers in 1945-46, the level of transfers has risen dramatically to \$1 122 000 (1955-56), \$7 461 000 (1965-66) and \$58 921 000 (1975-76).

The third programming element consists of federal initiatives in rural development, regional economic development and social adjustments in Prince Edward Island over the past 30 years. Specific programs which evolved were administered under such auspices as the Maritime Marshland Rehabilitation Act, the Agricultural Rehabilitation and Development Act (1961-65), the Atlantic Development Board (1962-69), the Agricultural and Rural Development Act (1965-1970), the Canada Land Inventory (1964-69), the Area Development Agency (1965-69), the Fund for Rural Development Act (FRED, 1966-69), the Prince Edward Island NewStart Corporation (1966-71), the Prince Edward Island Comprehensive Development Plan (1969-84), the Regional Development Incentives Act (1971-81), the Land Registration and Information Services of the Council of Maritime Premiers, and various transportation and marketing agencies established in aid of Prince Edward Island produce.

Before beginning an examination of regional differences in conditions and their economic determinants, it is worth while to review government efforts to augment economic development in slower growing regions. Regional disparities have been recognized as a problem for federal policy since Confederation.

Minor programs of special payments for the poorer provinces and transportation subsidies evolved before World War II; however, the development of a comprehensive regional policy did not really begin until the mid-1950s. In subsequent years it is useful to distinguish three phases of evolution.

The equalization program, established in 1957, was heralded as an explicit regional development policy. The aim of the program was to allow provinces with below-average tax bases to provide reasonable standards of public service without having to resort to levels of taxation which would be well above the national average. In theory, fiscal equalization enables provinces to direct incremental development assistance for economic investments rather than improving current services.

4.1.1 Atlantic Development Council (ADC)

Created in 1969, the function of the Council as given in Section 13 of the DREE Act is "to advise the Minister, in respect of the Atlantic Region, on matters to which the duties, powers and functions of the Minister extend; and, in particular, to give consideration to and make reports and recommendations to the Minister".

4.1.2 Agricultural and Rural Development Act (ARDA)

The first ARDA act was passed in June, 1961 by the House of Commons; provinces passed similar enabling legislation. The first projects were launched late in 1963 and the program was in operation for approximately one and one-half years. Final federal expenditures came to \$304 680, of which \$66 512 was spent on federal research and the Canada Land Inventory Project.

4.1.3 Comprehensive Development Plan (CDP)

Under legislation passed in 1966, the Fund for Rural Economic Development Act was passed and under this legislation, the federal government and the Province of Prince Edward Island signed a 15-year Comprehensive Development Plan on March 7, 1969, to take effect on April 1, 1969, and terminate on March 31, 1984. The second phase commenced on April 1, 1975, and will end on March 31, 1980. The final period begins on April 1, 1980, and terminates on March 31, 1984. There have been numerous cost-sharing ratios since the inception of the Plan and there could be future changes in the cost-sharing for the last four years. The Plan is designed to promote economic development, increase income and employment opportunities, and raise standards of living. During Phase I, a three-pronged approach was directed towards economic development, infrastructure assistance, social adjustment and rural development.

Prior to 1969, when the Comprehensive Development Plan was signed, the level of unemployment was always 3 to 7 percentage points above the national average on an annual basis. Both governments realized the province had substantial adjustment problems but also had significant development potential.

The Plan is governed by the Joint Advisory Board, which is vested with the overall responsibility for the implementation and management of the plan. The board guides the joint activities of the federal and provincial plan managers who approve all projects, recommend all programs and budgets, evaluate the management and implementation of the plan in terms of objectives, performance and priorities, and also suggest, as required, amendments to be made to the agreement and to its memoranda to the Joint Advisory Board. An equal number of federal and provincial officials make up the board.

During the course of this agreement, there have been federal-provincial management committees set up to explore possibilities for analyzing projects, to seek solutions to existing problems and to determine alternatives for meeting the objectives of the Plan. Their input has played a major role in the formation of programs and projects; and it is hoped that these will produce results originally intended to assist in the development of the Prince Edward Island economy.

DREE policy was reviewed in 1972. It was concluded that a wider range of public policies and programs, including those of provincial governments and other federal departments and agencies should be better coordinated if development opportunities in the slower growing parts of the country were to be fully realized.

During the remaining years of the Comprehensive Development Plan programming is shifting to employment generation with the creation of self-sustaining job opportunities as the primary objective during this period. More specifically, this can be interpreted as: (1) the generation of self-sustaining and stable employment opportunities in the private sector; (2) the achievement of consistent increases in value-added in each of the province's major economic sectors: agriculture, fisheries, processing, manufacturing, forestry and tourism; (3) the development of a more integrated economy with improved linkage among sectors; and, (4) the strengthening of existing and the development of new competitive enterprises in each of the province's major economic sectors.

Through this Comprehensive Development Plan, emphasis has been placed on the agricultural, fisheries, tourism, industrial development, and transportation sectors. Total expenditures in 1977-78 for these sectors were \$19 million;

this amounted to over 65 per cent of the total Comprehensive Development Plan expenditures. In addition, the Department of Regional Economic Expansion and the province shared the costs of the Prince Edward Island-Mainland Electrical Interconnection, with DREE providing \$18 million of assistance. The federal Department of Energy, Mines and Resources provided a loan of \$9 million to the province.

At the present time, agriculture is by far the most important sector, with such important projects as the Agricultural Extension Services, Family Farm Development and the construction of a number of grain elevators across the province.

The Family Farm Development Program is designed to encourage and assist the established and establishing farmers, to increase the productivity and profitability of their farming operations and to increase the contribution of the agricultural sector to the provincial economy.

The Agriculture Extension project is to support and assist farmers through the provision of effective and timely extension and specialist services, information and advice. Other objectives are to promote improved farm management and more productive utilization of land, labour and capital; to promote the economic and social well-being of farm families and other rural and urban residents of the province; and to encourage the development of leadership and agricultural skills of young Islanders.

The grain elevators project is to encourage increased grain production for the regional livestock feed needs and more diversification of cash crops. Other objectives of this project are to further increase off-farm grain storage capability and the associated drying, cleaning, grading and buying-selling services; and to provide the infrastructure basis for developing a handling and marketing mechanism so that Island farmers can take advantage of the export potential for feed grains, both in the Atlantic Region and outside the country. Federal contributions to agriculture have totalled \$19.9 million between April 1975 and March 31, 1978.

In forestry, upwards of \$4 million has been allocated under Phase II of the Comprehensive Development Plan in efforts to revitalize the Island's forestry resources. Through projects such as elite seed, greenhouse facilities, nursery and planting, the basis for a major reforestation program has been established. Over the long term, efforts to improve the quality and quantity of wood fibre production will lead to expanded forest-based industries with increased employment and investment. The local, renewable forest resources are seen as increasingly important in meeting the Island's energy requirements.

Fisheries projects have recently been focused on aquaculture so as to increase returns from shellfish, oysters, salmonoids and seaplants. In addition, research activity on developing innovative harvesting and product-handling methods for the traditional fishery continues. A voluntary lobster vessel certificate retirement program has been undertaken to increase incomes for lobster fishermen.

Over the past number of years the larger share of the tourism and conservation budget has gone to the provincial parks and resorts. Both resorts have demanding 18-hole layouts that would test even the best golfers. Brudenell Resort has a swimming pool, tennis courts and overnight accommodation. Similar plans are being prepared for the Mill River Resort. Smaller parks and beach access areas have been and are in the process of being upgraded. The tourism program is now increasingly orientated to market and industry development including the development of "country vacations" and package and bus tours.

The industrial development sector has such projects as Industrial Intelligence, West Royalty Industrial Park, Industrial Rental Facilities and the Summerside Industrial Park and Mall. The basic objectives of these projects are to create additional income and jobs through expansion or creation of new manufacturing facilities; to expand existing facilities; to attract new industries and identify promotional targets through detailed feasibility studies; to promote those services that are engaged in off-Island markets, etc.

The highway construction program in Prince Edward Island with which DREE is involved consists of three sub-groups: the resource, collector and expanded collector highways. The general objective of this program is to improve accessibility by upgrading the highway structure, to improve year-round accessibility to the agricultural areas and to complete an east-west all-weather collector highway system. Federal input has been \$8 million between April 1, 1975 and March 31, 1978. Through the improvement of the province's highway systems, goods can be transferred more quickly to their destination point year-round.

In the energy sector, besides the Prince Edward Island Mainland Interconnection Cable (which is expected to slow down the accelerating rates of electrical increases, as well as reduce the Island's total dependency on imported oil for generation of electrical power), DREE and the province have become involved in a program of conversion to three-phase power. The objective of this program is to provide adequate energy supplies to those manufacturing and processing plants that are restricted in

capacity and production because the present power supply is transmitted by single-phase instead of three-phase power lines.

Other energy sector projects being implemented or being formulated are a wood gasification plant, a wood garbage energy plant, a school built with a self-contained energy plant and another school with an electricity generating windmill. Studies are also under way on forest harvesting, reforestation and smaller, more efficient farm machinery.

The importance of this sector is obvious: energy plays a key role in Comprehensive Development Plan strategies. Through reducing or stabilizing energy costs in the province, entrepreneurs will look much more favourably on investing capital in Prince Edward Island.

4.2 Federal Instruments

The Canada Mortgage and Housing Corporation anticipates expenditures of \$29 million for the current 1978-79 year. CMHC had seven active programs for the year. In 1978 a total of 2 498 dwelling units were either constructed, renovated, or provided with loan assistance. Close to \$9 million went into repair and rehabilitation through funding by the CMHC RRAP programs in rural and urban areas.

Total Ministry of Transport expenditures were in excess of \$41 million for 1978-79. This includes grants for the Prince Edward Island ferries, coast guard, air transportation and the cost of rebuilding the Trans-Canada Highway.

The Department of National Defence spends an average of \$35 million per year on the Island. The majority of this is on the operation of Canadian Forces Base Summerside.

The Department of Public Works, Parks Canada and Fisheries and Oceans together added another \$11 million to the economy of the province in 1977-78.

Both Agriculture Canada and Veterans Affairs contributed approximately \$10 million each in 1977-78. The largest expenditure in Agriculture was in the Production and Marketing Department, which totalled \$6.8 million. Research contributed another \$2.4 million. Grants and contributions amounted to \$9.7 million of the Veterans Affairs expenditures for the year; these were basically pensions.

The Department of National Health and Welfare, through its Family Allowance-Old Age Security, Canada Pension, contributions for Hospital Insurance, Medical Care, Health Care, and other

programs, put approximately \$75 million into the economy of this Province each year.

A federal instrument which should have a direct impact on the Island's economy is the 200-mile economic zone Canada has adopted. This should increase fish landings and expand our domestic and offshore markets.

The Canadian Employment and Immigration Commission has numerous programs and services to assist individuals and employers in the area of job creation, training and mobility. Total departmental expenditures were \$54.9 million in 1977-78 and a budget figure of \$62.5 million for 1978-79. These figures include unemployment insurance benefits of \$38 million in 1977 and an anticipated \$45 million in 1978-79.

4.3 Provincial Instruments

The provincial development strategy and programs are basically those incorporated into the jointly-funded federal-provincial agreements. Some exceptions do occur, one of which is Industrial Enterprises Incorporated which provides, among other incentives, interest-free loans to manufacturing companies for up to three years.

5. ECONOMIC DEVELOPMENT OPPORTUNITIES

5.1 Comparative Advantages

Prince Edward Island has both absolute and comparative advantages in a number of resource areas. The province has the climate and soils which make it the best location for the production of cole crops, i.e. cauliflower, broccoli, and Brussels sprouts. It has a comparative advantage over the rest of Canada in the cultivation of many other crops and the rearing of livestock; and it has a comparative advantage in most agricultural products over the Atlantic region: potatoes, pork, dairy products, beef and tobacco are good examples.

The fishing industry is basically made up of inshore fishermen harvesting lobster. Its location has given the province a comparative advantage in this area. While its location and iced-covered oceans have limited its offshore industry, with the new 200-mile zone announced by Canada the possibility of offshore fishing cannot be discounted.

Recent moves in the price of oil have begun to place certain parts of the forestry industry at a comparative advantage for energy production. It now appears that firewood and wood gasification may be economically viable for heating purposes.

Tourism has been growing at about 10 per cent a year because of the comparative advantage of the Island's natural beauty and beaches. In recent years, transportation costs and other relative changes in costs have reduced this comparative advantage. The devaluation of the Canadian dollar may help this industry in the short term.

Food processing has some comparative advantage, such as nearness to raw material supply, adequate labour supply, etc. It is also closer to Europe for its market than most of Canada; however, high energy costs negate some of the advantages.

Attempts have been made to attract industries which do not have comparative advantages, by means of generous financial inducements. Whether these inducements turn out to be effective will be seen over the next few years - after the companies have been in existence for the critical first three years.

5.2 Review of Major Projects

In the rural areas the farmers and potential farmers have taken advantage of the New Farmer and Family Farm Development programs to expand or increase the efficiency of their operation. Since the inception of the programs in 1976, at least \$35 million has been invested by the farmers through them.

These investments have been in land, buildings, equipment and livestock.

The expenditures in these types of programs have probably peaked, but the benefits will be increasing over the next few years. A small sample survey of farmers who made investments in the early years of the program have been examined: it shows that the output of these farms has increased faster than the industry as a whole. The output of each of the major commodities produced on the Island is expected to increase over the next five years.

The benefits will become more pronounced, because a reversal of many of the declining trends in agriculture has taken place at the same time. For instance, total improved acreage on farms increased from 1971 to 1976; crop acreage has increased and is now back to the 1961 level.

The above-mentioned program and the reversal of trends will provide an increased supply of raw material for the processing industry, arrest the decline in agricultural employment and provide a steady growth base for the provincial economy if improvements are made in transportation and marketing.

In Charlottetown, major construction projects are either underway or planned. Downtown Charlottetown is being rejuvenated both on the waterfront and in the retail core. Projects presently underway include the renovation of a number of older buildings, the construction of a 90-unit apartment complex and a retail-office complex known as Confederation Court Mall, which will be completed early next year. Additional projects which may be included in this area are a large modern hotel or apartment hotel, new warehousing, specialized housing and recreational facilities.

A new large office building for about 500 people will be constructed for the headquarters of the Department of Veterans Affairs in the downtown core. Work on this site may start this winter, with completion planned for 1982. The planned projects should thus ensure a high level of construction activity in the City of Charlottetown.

Private industry may be investing heavily in new facilities over the next few years. The trends for the production of raw products such as vegetables and livestock are up; the consumer is buying greater quantities of processed food and the local companies are broadening their marketing approach to make a stronger showing in the marketplace. As a result of these and other factors, processing plants on the Island could be running at capacity and requiring new facilities.

The most likely new investments will be in vegetable processing and hog processing, as potato processing has already grown from 6 per cent to 25 per cent of the crop, while the opportunity in cole crops is not yet fully recognized. Hog production was up in 1978 and 1979 is running at about 20 per cent above the 1978 level. Some new investments in fish processing are anticipated.

At the increased processing level, new types of industry using by-products, producing some of the input and marketing the final products will become viable. The by-products of potato processing can be used as cattle feed or for the production of ethanol; the by-products of livestock for tanning, wool, and so on. For the input side, potentially feasible projects could be cardboard box production and pallets. From the marketing aspect there would be the need for advertising agencies, cold storage facilities, insulated containers and a year-round port.

The year-round port would be used to extend the shipping season to 12 months from the present seven or eight months. This would help reduce the Island's seasonality of employment. At present, potatoes which are exported in the winter and spring months are shipped by rail and truck to Saint John and Halifax for loading onto ships. The average closed period for Prince Edward Island is between January 15 and April 15 for ships of less than 13 kilowatts over 0.3 metres of shaft (not restrengthened). However, with ice-strengthened vessels and/or coordination with two icebreakers which are on call around the Magdalen Island and further south, regular trips could be made. Souris has the best conditions for ease of entry into the port during the winter.

The port could also be used for food product exports to Newfoundland, especially if oil and gas is found in commercial quantities and the economic benefits of hydro-electric generation and iron ore mining accrue to Newfoundland.

In the area of manufacturing, major investments have been made and will continue in the West Royalty Industrial Park and the St. Eleanor's Industrial Park. Government costs for the parks have been about \$10 million, with additional RDIA grants to individual companies and loans from Industrial Enterprises Incorporated. The majority of the companies have been metal-working firms. This has been a high-risk approach, but a nucleus of viable firms will be derived from the existing ones. This nucleus should expand as greater attention is paid to marketing. Furthermore, additional firms are expected to locate in the parks as a more selective approach is taken and the success of the nucleus entices new entrepreneurs.

5.3 Sectoral Comparative Advantages

The economy of Prince Edward Island has few sectors by national standards, as it is basically a farming, fishing and food processing economy. In each area, it has a comparative advantage.

In relation to its size, it has a comparative advantage in being a province. This is particularly important for Charlottetown, where the majority of provincial and federal civil servants are located. Many facilities associated with capitals (but not cities of 20 000), are found in Charlottetown. This, in turn, makes the city a very desirable location choice for businessmen and employees.

5.4 Locational Comparative Advantages

Because it is a relatively small province, Prince Edward Island has very few locational comparative advantages. One of the few examples, would be potato growing and processing, which is concentrated in eastern Prince County.

Fishing, by its very nature, is located across the province, with processing plants at many of the ports. Recent developments such as consortia and new products may cause locational changes.

Recent concerns in the province have dealt with the growth of small communities in relation to the growth of the City of Charlottetown and the Town of Summerside. It is felt by some that the growth of these relatively large urban areas has been at the expense of the small communities.

The other side of the argument is the amount of money spent and potentially to be spent in Moncton and Halifax if sufficient choice and variety of retail stores and stock is not developed in the major centres on the Island.

However, it is recognized that development is needed in both ends of the province as these are the areas of historically high unemployment and out-migration.

5.5 Inter-Sectoral and Interprovincial Linkages

As the provincial economy is heavily dependent on the resource sectors and imports much of its manufactured goods and services, the inter-sectoral linkages are limited. However, the forward linkages in the resource sectors of potato growing (to processed consumer products), hogs (to processed consumer products) and lobster (to a variety of fish consumer products) are pronounced.

The openness of the economy is rather extreme: thus the inter-provincial linkages are strong. The Atlantic Provinces and the Provinces of Quebec and Ontario are the markets for many products of agriculture and fishing and are the source of tourists to Prince Edward Island. On the other hand, the majority of the manufactured goods (including timber) comes from these provinces.

Strong efforts will continue to be made to improve the Island's balance of trade through both export enhancement (by value and volume) and import substitution. Exports are being improved by the growing success of the Market Development Centre and private industry joint ventures in the field of marketing such as labelling, market research and promotion.

Import substitution is being created by further processing and diversification in the food industries and by the firms producing new manufactured products which have recently located in the province.

5.6 Leading Sectors

In the next five years the leading sectors in the economy are expected to be construction, food processing, fishing and forestry.

Construction has greatly increased since the early seventies, both for institutions and for housing. For the next three years the demand for institutional facilities will remain high with the construction of Department of Veterans Affairs headquarters' building, the proposed construction of the Queen Elizabeth Hospital and downtown buildings for the Charlottetown Area Development Corporation. As this demand tapers off, the demand by the private sector should pick up as the anticipated continuing increase in the agricultural and fishing sectors materializes, encouraged by government programs.

Most of the major agricultural products are increasing in supply. Potato production is increasing, with a larger share going to the processing sector. This trend should continue as the existing marketing program for potatoes, which has been very successful, is finely tuned. The farmers and processors have recently become active in the area of cole crops and vegetable processing. As we have seen the province has a strong comparative advantage in this area. This will lead to new jobs and value-added if the potential is acted upon.

Hog production has been steadily increasing over the last several years. The farmers have made major investments in facilities on-farm, while the marketing board has arranged for the development of superior genetic stock, all of which indicates

continued growth. Canada Packers has chosen Charlottetown as the site for their regional hog processing plant. All these factors can be linked to the 20 per cent increase in hog production in 1979 as compared to 1978: this is expected to continue in the medium-term and provide employment and income to most areas of the province.

With the 200-mile limit for fishing, the Prince Edward Island fishery will gain some benefits. Little or no effect will be noticed on the lobster fishery, the main fishery in Prince Edward Island. However better products, marketing and prices will bring better gross incomes to the fishermen. Other species could be harvested by the inshore fishermen, and this could help extend the viable season for them and the processors. The processing and marketing season could be extended with adequate cold storage. Offshore fishing may become possible and further joint ventures with other countries could be promoted.

The growth in the above-mentioned areas should lead to further manufacturing such as the processing of by-products; a cardboard box plant, for example, even a small one by national standards, can have a significant effect on the province's economy.

The continual increase in the price of oil, including the recent increase, is making the production of wood for energy an economic proposition. There are significant opportunities in the areas of applied research, technology transfer and demonstration which should make the sector a major supplier of energy to the economy, and at the same time lead to the development of new industries. In addition, with an improved resource, the potential for forest-based industries is encouraging.

5.7 Potential for Government Action

The area of marketing, which includes labelling, market research, market promotion, product design, transportation facilities, and new product development, perhaps offers the best returns for government action. As stated during this report, there are excellent growth opportunities for a number of commodities within the food processing sector.

Assuming that the present programs are vigorously applied to the food processing industry, one of the new areas of government action in the province would be in the form of assistance for the creation of a Food Product Intelligence Centre.

The main function of this centre would be to develop and produce, at the commercial batch level, new products demanded by the ever-changing marketplace, which can be processed from the fresh product. Island firms at present are generally too small to afford this developmental activity, yet it will be necessary if they wish to survive.

The smallness of the Island firms presents many problems in the marketplace, one of which is their inability to compete for what are termed major supply contracts - for supply on a continuing basis to large chain stores. One example of an initiative taken to overcome this problem was the formation of a seafood marketing consortium known as Northumberland Seafoods. Further development of this concept should take place in the next few years.

Marketing assistance will also be required by the non-resource-based manufacturing companies, which can diversify the economy. These companies face unusual marketing needs, such as the establishment of an initial sales-distribution system. Government can assist to some extent in the preparation of new marketing packages on a once-and-for-all basis, which include a marketing strategy, the establishment of a marketing system and the essential marketing aids.

It will be extremely important for government, and DREE in particular, to achieve a smooth transition from assistance in the more social areas to the more economic areas without disrupting or halting the growth of the provincial economy. This will involve assistance to the private sector in many forms, while withdrawing from present government activities, which could be well-managed by the private sector.

Other opportunities for government action will continue to arise in the medium-term. However, it is felt that the present DREE instruments are flexible enough to respond to them.

6. SUMMARY AND CONCLUSIONS

The province has made substantial gains in most of the social sectors such as educational levels and the calibre of the housing stock; the province has also moved closer to the Canadian average in the economic indicators. With greater emphasis given to economic sectors and less to the social in the future, further economic progress will be made.

Growth in the medium-term will be led by the growing, catching, harvesting and processing of primary products. Limited selective growth will also occur in the manufacturing sector and construction will be maintained at its existing level.

Continual increases in the price of oil will make alternate sources of energy more attractive. In the next few years forest resources are expected to provide an increasing proportion of the energy needs of the province. This will greatly assist the balance of trade and improve the economic well-being of the people.

Thus continued but selective government assistance will allow the province to move closer to the Canadian average in the sphere of economic activity.

