ECONOMIC DEVELOPMENT PROSPECTS IN THE WESTERN REGION

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

Government of Canada | Gouvernement du Canada
Regional Economic Expansion | Expansion Économique Régionale

December 1979

ECONOMIC DEVELOPMENT PROSPECTS IN THE WESTERN REGION

IL

PREFACE

This staff paper is an overview of the economic prospects and regional development issues in Canada's four western provinces and two northern territories. It is a contribution to the formulation of regional and national economic development policy in Canada by the Department of Regional Economic Expansion. The size and diversity of conditions within the Western Region does not allow the detailed examination of local economic circumstances and prospects in this paper. The more comprehensive analysis of prospects within the region is presented separately in provincial and territorial reports.

This Western Region review focuses upon the highlights and common themes that are emerging across the west, and where possible identifies the implications for Canada and the west. The report includes an assessment of economic performance, prospects, development framework and more pervasive development factors and issues that will shape important regional policy for western Canada during the 1980s.

TABLE OF CONTENTS

(i)

1. OVERVIEW

Western Canada contains an abundance of renewable and non-renewable resources. The export of these commodities has historically provided the basis for economic growth in the region. The economy has become highly resource-dependent, an economic structure in part encouraged by past government policy actions. Resource concentration has periodically led to many problems of economic instability and restricted income and employment opportunities.

During the 1970s, the west assumed a more substantial and potentially catalytic role in the national economy. In the 1980s, western Canada is expected to enter into another period of resource expansion based primarily upon rising demands for the region's energy, agriculture and mineral products. The concentration of resource project investments in the 1980s,(which may invite as much as $50 billion dollars in direct development expenditures) will provide a major opportunity for industrial growth and economic diversification in the west. However, the rapid pace of development may also have adverse effects on western manufacturing growth because of input shortages, especially of skilled labour; in combination with major projects elsewhere, this could strengthen the Canadian dollar and exacerbate other adjustments to international markets. This potential represents a challenge and major opportunity not for the west only, but also for Canada as a whole.

Western growth during the 1980s will be particularly dependent upon federal and provincial policies for the determination of viability, timing, pace and direction of western developments. Federal export quotas and fuel pricing, tax concessions to energy projects and efficiency in the foreign marketing of grain are all central to western prospects. There are many potential constraints to realizing development opportunities within the region. The direction of immigration, trade, manpower, finance, transport, research and native policies will be of particular concern to the west in the next decade.

Economic expansion will be accompanied by continuing, and perhaps aggravated, social and economic disparity within the region. Native people throughout the west have never been in a position to fully share in the benefits of the growing western economy. Their incomes, employment opportunities, and conditions of life are well below any acceptable Canadian standards. These disparities are even more visible in the urban centres of the west, where increasing numbers of people of native ancestry are migrating in an attempt to find employment and maintain a level of personal dignity acceptable to their peers, if not society at large.

The benefits and other impacts of growth are increasingly concentrated in metropolitan areas and resource towns. Manitoba's prospects fall far short of the other three western provinces in the absence of major resource developments within provincial borders. Increasingly, the province must rely on wider western markets. Conditions in the territories are unique and less affected by other developments in the west. However, the economic prospects there are for periodic expansion alternating with pauses.

The western provinces and territories view the continued resource boom as a major chance to address the economic, social and geographic disparities inherent in the historic patterns of growth. Western development also holds the potential to make a major contribution to national economic performance in the 1980s. The energy, inter-regional trade, employment and foreign trade benefits may be substantial. One of the challenges for development policy in the region will therefore be to improve the ties of the less dynamic parts of the west and Canada to the western growth centres.

Inevitably, this integration will require coordinated planning by federal and provincial governments. Many individual industrial projects are too large to be accommodated by any one provincial economy. Some opportunities and markets such as steel are regional and national in character. Many of the constraints to industrial change such as water or labour supplies or transportation facilities may be beyond the jurisdiction of individual provinces and hold development implications for others. Recognizing this, western provincial governments have formally demonstrated a common interest in many of these problems.

To realize the western development opportunity of the 1980s will require an increased level of coordination and cooperation among federal and provincial economic development strategies within the west. Development instruments are available to foster such cooperative federal-provincial development within provinces. The General Development Agreements (GDAs), for example, have encouraged and accommodated a wide range of joint initiatives. On some issues, cooperation on a wider multiprovincial basis may be desirable. However, federal-provincial cooperation to date appears to have been more active at the bilateral rather than the multilateral level.

2. INTRODUCTION

2.1 The Resource Endowment

The Western Region, consisting of Manitoba, Saskatchewan, Alberta, British Columbia, the Northwest Territories and Yukon, forms two-thirds of the Canadian land mass and covers an area of 6 854 169 square kilometres (see Map 1). This region contains an abundance of natural resources -- both renewable and non-renewable.

Energy resources found throughout the region include conventional oil, heavy oils, oil sands, natural gas, hydroelectric power, coal and uranium. These reserves are large even in an international context. The 234 billion barrels or 37.2 billion cubic metres of recoverable reserves, primarily nonconventional commercial oil resources concentrated in Alberta, represent one-half of 1978 known recoverable reserves of world oil supplies. Western coal reserves, particularly in British Columbia and Alberta, exceed 162 billion tonnes. Current estimates suggest that Saskatchewan has some of the world's richest uranium ores: they represent 30 per cent of Canada's uranium reserves and more are available from the Northwest Territories.

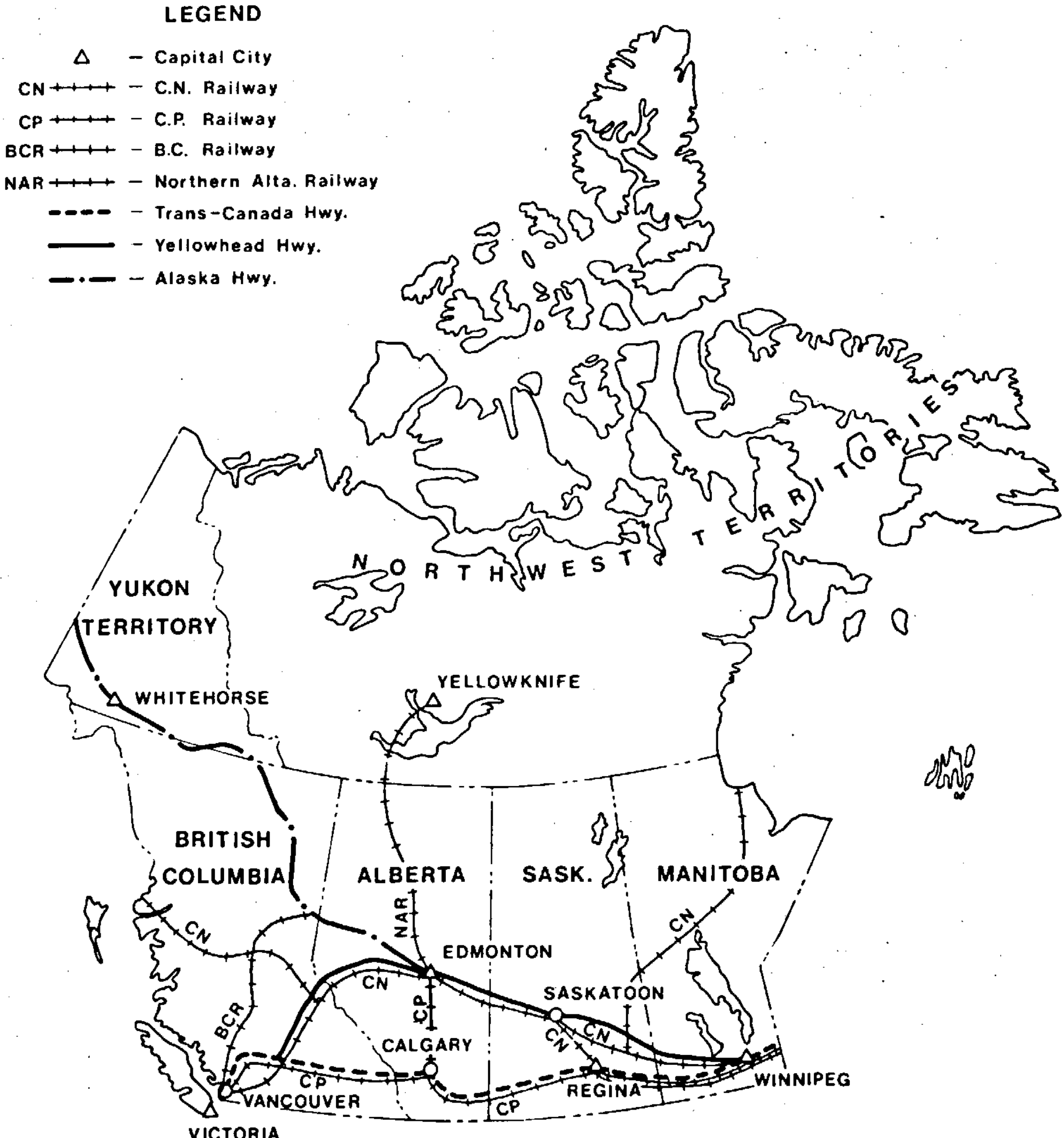
Base minerals are also widely available. Copper, zinc, nickel, molybdenum, gold, silver, lead, tungsten and barite have all been commercially developed in the mountainous interior of British Columbia, Yukon and in parts of the glacial shield that covers much of the western northlands and the Northwest Territories. Sodium sulphate, sulphur, silica sands, and clays exist in abundant quantities in the prairies. High-grade potash deposits in Saskatchewan could supply the entire world for the next 3 000 years, at current rates of consumption.

The land and soil base provides the foundation for agricultural and forest production. The western provinces contain 68 million hectares of arable land or approximately three quarters of Canada's total. Forests that cover most of the mountainous west and the western northlands have only received extensive commercial development in British Columbia. In Yukon and the prairies, forest operations have seen limited and often recent development.

The more remote areas of the region in the western northlands, the territories and the mountainous interior continue to provide habitats for fur-bearing and game animals. The 357 237 square kilometres of western lakes and rivers contain commercial quantities of freshwater fish, and the coastal Pacific waters have long sustained a large commercial salmon and herring fishery in British Columbia. The spectacular land forms,

THE WESTERN REGION

MAP 1



seascapes and river basins of British Columbia, the Arctic northlands, the mountainous interior and the extensive plains provide a unique recreational resource which remains largely untapped.

2.2 Economic Evolution

Canada's western provinces and northern territories have a long history of human occupancy that predates the arrival of fur-trading Europeans to the region in the 17th century. Indian and Inuit people occupied, established, and on occasion contested territories within the west and the north. They generally pursued a seasonal migratory subsistence economy determined by the locally available fish and game resources, over a territory linked to the size of the tribal group. Fur trading changed the traditional economy and settlement patterns of many native people in the west.

The flood of European immigrants into the southern prairies and foothills after Confederation and the construction of the railway created more significant and lasting changes. Native people were often displaced from their traditional lands by the continued westward and northward expansion of European settlement. Indian people lost free access to vast tracts of land as treaties were signed and reserves established, usually on poor marginal lands. Such events isolated native people from the mainstream of economic development. This dichotomy remains a major factor in the west today.

For the west, nation-building in the Canadian Confederation was given substance by the deliberate establishment of railroad connections to develop and exploit the wheat potential of the prairies; by the forest and mineral resources of British Columbia; and, to a somewhat lesser degree, by the gold in Yukon. The transcontinental railroads opened the west to the development of vast acreages of agricultural lands on the prairies as well as the forest and mineral resources of the foothills and mountainous areas of British Columbia and Alberta. Western commodity production provided both the export staple for national economic growth and the captive market for an infant and protected manufacturing industry in central Canada. By the late 1920s, the western population had reached 2.9 million. The settlement pattern was characterized by a few major centres and hundreds of small communities serving the agricultural, forest and mineral economies. This pattern -- based on travel distances conducive to horse-drawn wagon deliveries to grain elevators -- still lingers in rural southern areas, although some concentration has occurred to produce medium-sized regional centres. In the north, with the exception of the short-lived gold and mineral booms in Yukon, much of the area has retained its traditional economy.

Economic dependence upon limited products and primary markets plus the vagaries of climate, lead to periodic severe depressions. During the 1930s, the economic and climatic determinants of western prosperity combined to dramatically reduce incomes, deplete the soil resource and remove the rationale for many communities. Consequently, many thousands of rural westerners left the land in search of jobs in both western cities and eastern Canada.

Since the Second World War, western Canada's continued growth has depended on the sale of its natural resources, often in an unprocessed form, to world export markets. The base for resource extraction has grown in both size and diversity. Additional agricultural lands have been opened up, and energy production has become a major addition to the previously predominantly agricultural and forest economies.

Major finds of oil and gas were made and developed in Alberta during the late 1940s and on through the 1960s. Smaller finds were made in Saskatchewan, British Columbia, the Northwest Territories and Yukon. New coal deposits were brought on-line in both the prairies and the Rocky Mountain interior to supply metallurgical markets as well as domestic thermal generating requirements. Hydro-electric power project construction also stimulated provincial performance, particularly in British Columbia and Manitoba. Uranium development in northern Saskatchewan at Uranium City also added to a more diversified energy base.

Through the 1960s, mineral production and processing also contributed to the region's natural resource economy, largely based on the extraction and export of copper, lead, gold, silver, iron ore, nickel, potash and molybdenum. These developments resulted in a settlement distribution characterized by many single-industry communities. In northern Manitoba, nickel resources led to the establishment of the town of Thompson; in British Columbia, aluminum smelting using low-cost hydro-electricity made Kitimat legendary.

Thus during the 1960s, the Western Region's economy continued to grow based upon an expanded range of exported resources. Agriculture and oil production dominated the prairie economy, accounting for well over two thirds of output; forestry and mining remained the mainstays of the British Columbia and Yukon economies. In the Northwest Territories, the commercial extractive resource activities were only locally important, and traditional pursuits and public services dictated the pace of change. Both the west and the north retained and reinforced their resource dependence, and economic structures continued to remain vulnerable to variations in international market conditions.

3. WESTERN PERFORMANCE AND PROSPECTS

3.1 Recent Trends

Since 1971, the growth of the western economy has, in most years, surpassed the national average because of regional developments in agriculture, mining and energy production as well as buoyant prices in these sectors. The western and territorial population exceeded 6.5 million by 1978, an increase of the national population share from 26.5 to 28 per cent.

Despite the national recession of the early 1970s, real domestic product rose by over 45.5 per cent from 1971 to reach $33 billion by 1978, nearly one third of the Canadian total. This growth was supported initially by the massive international commodity requirements of the early 1970s and, more recently, by rapidly rising energy prices, steadily increasing fuel demands and a depressed Canadian dollar which stimulated exports.

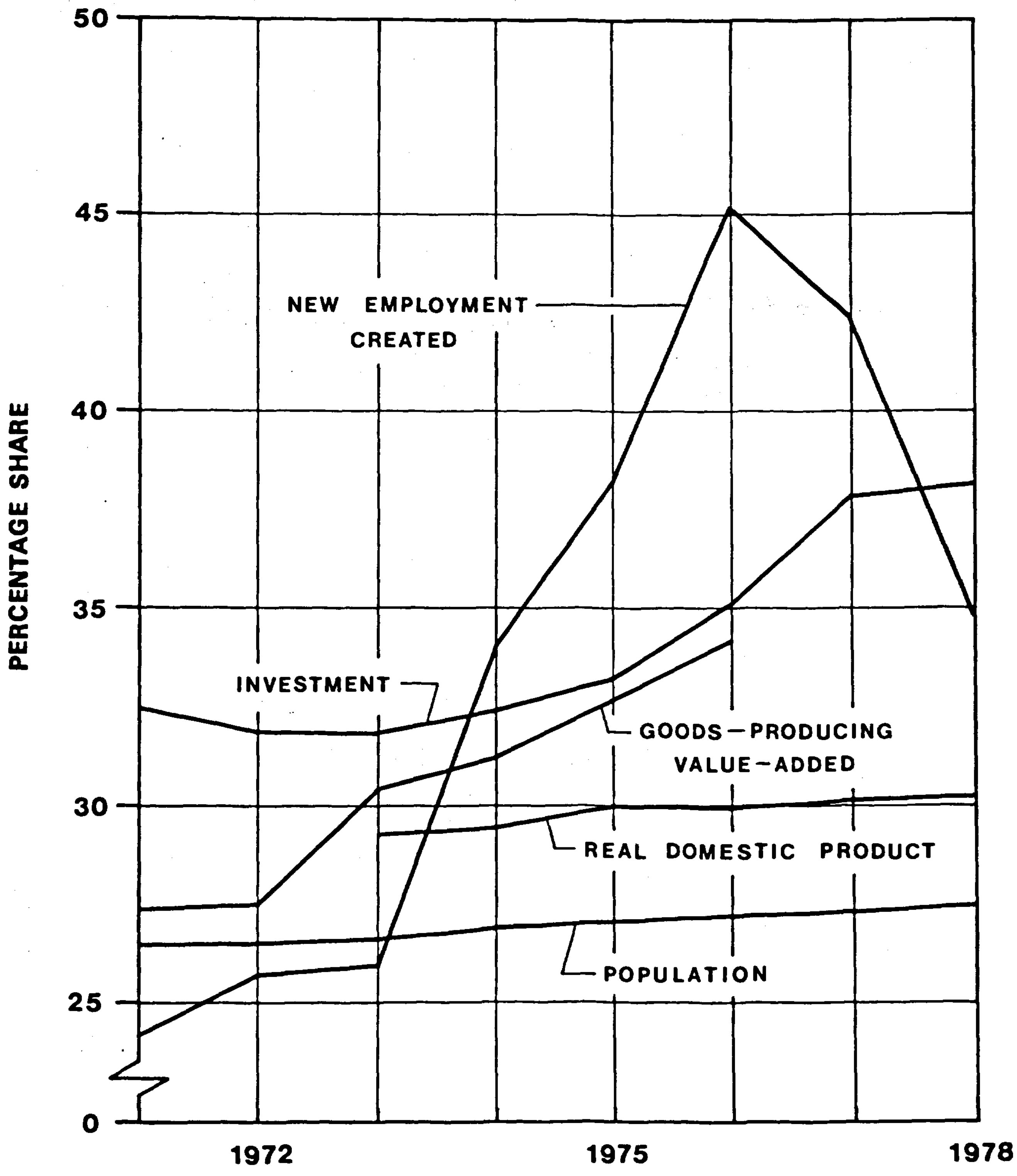
Western economic expansion has produced a westerly shift in Canada's centre of economic gravity. The west's share of national new capital investment, goods-producing value-added, and new employment creation all increased dramatically during the 1970s. Western personal incomes in 1971 dollars increased 57 per cent between 1971 and 1978 as compared to 46 per cent nationally. Employment over the same period grew by 33 per cent to 2.8 million (see Figure 1), while the labour force grew by only 30.4 per cent; because of this the unemployment rate in the west dropped significantly while the national average rose.

During the periods of strong demand for the region's products, explicit public policy interventions often determined the pace of western change. Federal energy policy has been critical in determining the price and markets available for fossil fuels. Federal and provincial tax policies periodically restricted and stimulated energy development through the 1970s. Commodity exports of grains, minerals and forest products are highly sensitive to the efficiency of the western bulk transport and port facilities.

Recent western development has done little to change the overall structure or export dependence of the regional economy. By 1976, western natural resource dependence stood at 64.8 percent of regional goods-producing value-added (excluding

FIGURE 1

WESTERN CANADA'S SHARE OF NATIONAL ACTIVITY 1971 - 1978



construction). The manufacturing sector is dominated by the preliminary processing of resources for export. A comparison of the west's industrial and export structure identifies the continued orientation of the economy towards the export of primary products and fuels (see Chart 3.1).

CHART 3.1

INDUSTRIAL AND EXPORT STRUCTURE OF WESTERN CANADA [1]

	1976 Share of Western Goods-Producing Value-Added [2] (Per Cent)	1977 Share of Western Exports (Per Cent)
PRIMARY		
Agriculture	17.6	21.6
Forestry	3.5	1.0
Fishing & Trapping	0.6	0.2
Mining (including fuels)	38.9	34.7
Electric Power	4.0	0.7
Total Primary	64.8	58.2
MANUFACTURING		
Primary-based	23.0	38.6
Other	12.2	3.6
Total Manufacturing	35.2	42.2
TOTAL	100.0	100.0

[1] Adjusted exports basis.

[2] Excludes Construction.

(Percentages may not add to 100 due to rounding.)

3.2 Geographic and Social Disparities

Wide disparities exist in the geographic and social distributions of economic opportunity and performance within the Western Region. However current trends toward urban agglomeration suggest that these disparities will affect fewer people over the coming decade.

Much of the economic activity in the west has been concentrated in the British Columbia Lower Mainland and in the Edmonton/Calgary Corridor. These metropolitan areas provide a growing base of professional enterprises, financial expertise, transport services and manufacturing production. Between 1971 and 1976, these three largest centres accounted for one half of the population growth within the region. The other large western cities of Winnipeg, Saskatoon and Regina have grown far more slowly and accounted for only 8 per cent of the western population growth. Significantly, some non-metropolitan regional centres, particularly in British Columbia and Alberta, have experienced faster growth rates than the largest western cities. Current northern uranium development prospects for Saskatoon may give the city a more rapid growth rate in the 1980s.

Many of the small rural community service centres, once necessary for a labour-intensive agricultural economy, continue their steady decline. The limited prospects facing many of these settlements, their limited financial base and the continuing population drift from the land effectively reduce both the quality and accessibility of neighbourhood rural services. This means that the maintenance of services to the farming community through the strengthening of larger key rural centres with more specialized personnel will be increasingly necessary for the efficient operation of the agricultural economy, and to some extent, the resource extraction industry.

Wide variations also exist in provincial prospects. In Manitoba, there are no new resource projects anticipated to lead provincial development in the 1980s. Winnipeg's 1971-76 population growth rate of 5 per cent was the lowest of the Western Region's metropolitan and capital centres. Continuing net out-migration from Manitoba, normally to points further west, suggests that both the province and Winnipeg are facing stiff competition from other western centres. Increasingly, the province and the city must look towards the growing resource markets outside of Manitoba as a basis for an expanded level of activity.

The scale of both settlement and economic activity is much smaller in the two northern territories. In the Northwest Territories, the dominance of the public sector reveals perhaps the least independent economy in Canada. In Yukon, a longer history of mining and some commercial tourism represents a very small but significant early stage of economic growth.

Development disparities are most severe for native people in the northern territories, the western northlands, and increasingly in certain major urban centres. In the north, the remote location of many native and Inuit communities, life-style and culture, level of skills and public policy have tended to isolate them, physically, economically and socially, from the non-native residents of the territories. Similarly, the western northlands provide striking examples of disparities in housing, income, health and employment between native people and the non-native migrants who live in nearby industrial and mining communities such as Fort McMurray, Uranium City and Thompson.

Economic disparities for native people are becoming more visible as large numbers of natives migrate to urban centres. These moves have involved an enormous social and economic cost. Cultural and family ties are broken and the traditional lifestyle relinquished. Urban natives generally lack the labour skills to take advantage of job opportunities and their rate of unemployment and dependency on transfer payments is high. In a real sense, the growing native population in urban centres such as Regina and Winnipeg has effectively transferred many long-established western social and economic development issues from the less visible remote locations to a more public forum. The economic and social dichotomy between native people and non-native immigrants to the west, which began more than 100 years ago, is today increasing in both divergence and magnitude. Demographics suggest that its importance will grow.

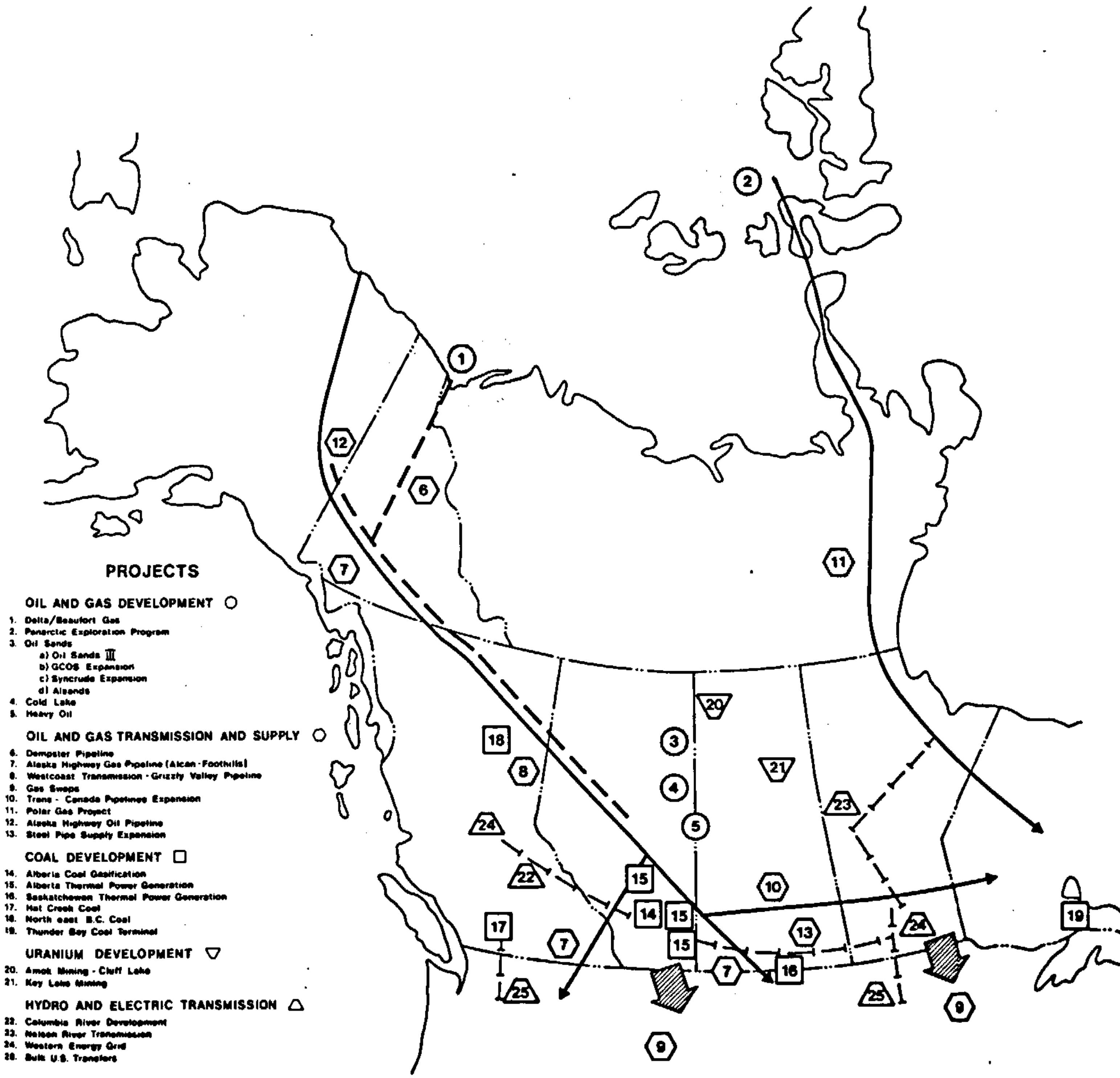
3.3 Emerging Economic Prospects

3.3.1 Project Investments

The economic performance of the western economy in both the north and south will continue to be dominated by the region's energy investments in resource developments. Numerous large-scale, capital-intensive development projects are scheduled, or have been proposed, to take place in the west during the 1980s. Most of them are related to energy development, processing and/or transmission (see Chart 3.2). Pipeline investments alone could require over $15 billion and will influence development in both the north and the south. In addition, major investments are expected to be required for the western bulk-handling transportation and export system if the land-locked prairies are to remain competitive in foreign markets.

CHART 3.2

MAJOR WESTERN DEVELOPMENT PROJECTS



In addition to these highly visible large projects, the prospects are equally buoyant for the incremental expansion of the more traditional western primary resource industries, as well as burgeoning and increasingly sophisticated manufacturing and especially service sectors.

The combined impact of these development projects on the western economy will be dramatic. Investment requirements between 1980 and 1990 on identified projects range between $30 and $50 billion (1978 dollars). The major resource projects in the west could generate over 400 000 person-years of employment in Canada over the decade.

The magnitude of investments in the western development projects creates a massive potential opportunity for Canadian manufacturing and service industries. Spin-offs from these projects could equal the size of the original investment and have major impacts on a wide variety of manufacturing and service industries. In the service sector, many financial institutions have moved west. In the 1980s, the opportunity could also arise for a major increase in consulting and engineering services as well as research and development efforts traditionally obtained from abroad. Heavy oil extraction and upgrading provide the opportunity for development of new technologies. In addition, the development of high-grade uranium ores provides a major opportunity to develop sophisticated mining as well as electronic monitoring equipment.

For the Canadian or western economies to realize these opportunities, intergovernmental (federal-provincial and multiprovincial) and public/private sector coordination will be required to deal with a series of issues such as transportation, labour force size and skills, research, taxes and commercial arrangements. In addition, the concurrent demands of all major resource investments in western Canada for equipment and capital items may exceed the current and expected capacity of Canadian (and certainly western Canadian) industry to supply a large proportion of these goods. As a result potential Canadian jobs and value-added may be lost to foreign suppliers.

Traditionally, three-quarters of the region's foreign imports, which totalled an estimated $7 billion in 1976, are in the form of manufactured products. Dominating these imports are the equipment and machinery requirements of western Canada's resource and resource-related industries. The establishment and expansion of manufacturing facilities to replace the current dependence on foreign supplies could serve to both diversify the resource-dependent regional economy and contribute to Canada's balance of trade.

3.3.2 Resource Expansion

(a) Energy

The long-term continental and world oil and gas requirements are expected to both maintain the high energy prices established initially by OPEC in the 1970s and stimulate developments in western Canada through the 1980s. Most recently, the cutback in production and export of Iranian oil provided additional significance for the relatively secure Canadian reserves and has maintained the underlying pressures for the continuing upward trend in the price of oil. In the medium term, the demand for secure supplies and continuing price rises are expected to stimulate exploration activity as well as secondary and tertiary recovery from existing oil reservoirs. However, little increase in conventional oil production rates is anticipated from the western provinces.

Development of northern oil and gas reserves in the Arctic and Mackenzie Valley will clearly require the construction of major pipelines to southern markets. Three pipeline projects, all among the largest in Canadian history, have been proposed to realize these resources. These are the Foothills northern pipeline to access Alaskan and Canadian gas, an oil pipeline to the Mackenzie Delta following the same route, and the Polar Gas pipeline to the Arctic island gas fields. In addition, liquid natural gas tanker transshipments from the Arctic have been proposed. These multibillion dollar projects can all be expected to affect development in the northern territories and the western provinces dramatically, while giving direction to Canada's industrial adjustment throughout the early 1980s.

The largest and most significant opportunity for energy development lies with the oil sands and heavy oils. Currently, plans are well advanced for at least one additional conventional oil sands mining and upgrading plant, one in-situ heavy oil extraction and upgrading facility and two heavy oil upgrading plants. Oil from these nonconventional sources, in combination with effective energy conservation measures, is viewed by the federal government as the best medium and long-term energy option for Canada. The expected production from the four projects could equal one-third of the current Canadian crude oil production. These projects are expected to have a positive impact of about $82 billion on the balance of trade, at 1978 world prices.

The four synthetic and heavy oil projects planned for the mid-1980s are expected to require a capital expenditure of between $10 and $12 billion. Combined, they will require over 20 000 construction workers in the early 1980s during the projected peak construction period. When completed, they are expected to generate nearly 5 000 permanent jobs.

Unlike potential new oil reserves, these resources have few of the risks associated with resource exploration activity; only about half as much time is required for their development. Massive capital costs ($4.5 to $5 billion for an extraction and upgrading plant) constitute the major drawback to synthetic and heavy oil developments. By Canadian standards, they are among the largest construction projects ever undertaken.

These projects are extremely capital-intensive when compared to conventional oil. Almost all the capital costs are incurred in the initial stage of the project. As an illustration of the costs of production, consider that relatively high-cost offshore oil (as, for example, that in the North Sea) has an investment cost of only one quarter to one third of that of synthetic oil. The economic returns from synthetic oil developments are highly sensitive to oil prices and the fiscal and royalty arrangements which, in part, determine how the burden and risk of these large investments will be distributed.

Natural gas is in a more favourable supply position than oil. Alberta and British Columbia's "gas bubble" not only provides the opportunity to increase short-term exports to the United States, but also to supply natural gas to Canadian markets east of Montreal. Increased exports of gas to the United States and expansion of shipments into eastern Canadian markets are also expected to make positive contributions to the balance of payments.

In general, the market for thermal coal, either as a mine-mouth operation or for shipment to Ontario Hydro, looks promising. Ontario Hydro, Saskatchewan Power, Calgary Power, and Edmonton Power are all expanding existing coal-fired generating stations. Several coal-fired facilities are under construction or in the advanced planning stages with construction scheduled for the 1980s. Alberta alone projects the requirement for an additional 320-megawatt facility each year well into the 1980s.

Longer term prospects (after 1985) are also promising. British Columbia Hydro is exploring the possibility of developing the Hat Creek coal deposit for electrical generation. Large volumes of thermal coal are expected to be used as the boiler fuel to generate the steam and power for projected in-situ heavy oil and oil sands recovery projects. In addition, offshore demands for thermal coal are increasing.

By way of contrast, the immediate prospects for metallurgical coal are less encouraging. Despite recent contracts between western Canadian metallurgical coal producers and the Japanese steel industry, world demand for metallurgical coal has not returned to mid-1970s levels. A resurgence in demand is not expected until 1980, with the earliest development of new mines forecast for the early 1980s. Given a recovery in the market for metallurgical coal and expanded thermal coal requirements, total output of western Canadian coal could double in the 1980s.

Development of Saskatchewan's high-quality uranium reserves has been a yet another response to the rising price of energy. Three new mine developments are underway or planned for a capital cost of over half a billion dollars. More commercial prospects have been identified. However, increasing international production capacity and the recent nuclear accident at Harrisburg, Pennsylvania will probably combine to reduce, rather than maintain, the current pace of mine expansion, which because of the excellent quality of the ore is nevertheless expected to proceed.

(b) Minerals

Equally dynamic, but smaller in magnitude, are the prospects for mining both metallic and nonmetallic minerals. Copper, molybdenum, lead, zinc, potash and, to a lesser extent, nickel, all have promising prospects for development. The resurgence in world investment spending, the prolonged buoyancy in the United States economy, and the relative value of the Canadian dollar have been the prime contributors to the upswing in demand and prices for metals and nonmetallic industrial raw materials.

In the longer term, occasional instability in many Third World mineral and energy-producing areas may continue to provide concern over the security of markets. The relatively stable production and supply characteristic of the Canadian mining industry is thus expected to become increasingly attractive in international markets during the 1980s.

(c) Agriculture

Agriculture remains a keystone of the western economy. While the agricultural share of the western economy has slipped over the past decade, from 19.3 per cent of the goods-producing industry's value-added (excluding construction) in 1971 to 17.6 per cent in 1976, the output of both grain and meat will continue to rise significantly in the mid-1980s. Expected rising world demand for grain, plus the capability for expanded yields per hectare, has led the Wheat Board to suggest that western grain farmers could increase production by as much as 50 per cent to 30 million tonnes by 1985.

Such an expansion in output would require major improvements in the elevator collection system, the efficiency of bulk rail movements, the tidewater storage and throughput capacities, as well as in farm capital. Together, these represent major capital investments. However, increasing costs on the farm may deter farmers from making the necessary investments. Still, the growing markets of the 1980s could allow for major expansions in grain production.

The volume of beef marketed is expected to remain low in the short term as herd sizes are built up. By the early 1980s, the meat available to the market could rise substantially. During these years, ranchers are expected to recoup some of the losses they experienced during the mid-1970s; and farm cash receipts from livestock should have increased. Expanded beef production, irrigation, new crop varieties and the introduction of specialty crops will create a modest diversification and possibly improved stabilization in agricultural output.

(d) Resource Processing

Most manufacturing industries in western Canada are centred on processing primary products. The prospects for Canadian lumber rest largely on the United States market for residential construction. By 1985, housing starts in North

America are projected to rise by 30 per cent over 1978 levels as the post-World War II baby boom enters the 30 to 35 age group. (Household formation and initial purchase of a principal residence occur largely among people in this age group.) The resultant increase in demand (plus any continued benefits from the Canadian level of foreign exchange) is expected to benefit Canadian lumber producers. However the impact will be minor in comparison to energy and mining.

Markets for the pulp and paper industry are expected to improve. Expansion of newsprint and pulp capacity are proposed by western producers. Although several "greenfield" sites are under consideration for development in both British Columbia and Alberta, most of the increase in capacity is expected to come from expansions and modernizations of existing plants. The timing of these developments may be partly influenced by increases in capacity and utilization in eastern Canadian mills; however, the available wood supply, which reaching its sustained yield limits in many areas of British Columbia, may be a major constraint limiting their expansion.

The food and beverage industry is a large component of western manufacturing, especially on the prairies (over 25 per cent). While development opportunities for food and beverage processing exist, no major expansion is anticipated in western Canada (with the possible exception of Manitoba). Local market size, distance to markets and international trade barriers are constraints to large-scale development in this industry. However, the recent "Tokyo Round" of the General Agreement on Tariffs and Trade (GATT) has lowered the barriers on beef, processed meat (boxed beef), oilseeds and rapeseed products. If access to expanded United States markets can increase presently low utilization rates, further investments could be made in meat and rapeseed processing.

(e) Tertiary Industries

In the west, the tertiary sector is strongly oriented toward providing services to resource extraction and processing industries. Service industries comprise the largest component of the western economy: they produce nearly half of the real domestic product generated in the west and account for over half of all employment.

The anticipated western resource boom should continue to strengthen this basic orientation of the service sector. Already, there has been a major structural shift of financial services to the west. In the 1980s, the number, size and duration of major projects should provide the opportunity to develop consulting and engineering services which have traditionally been obtained from abroad.

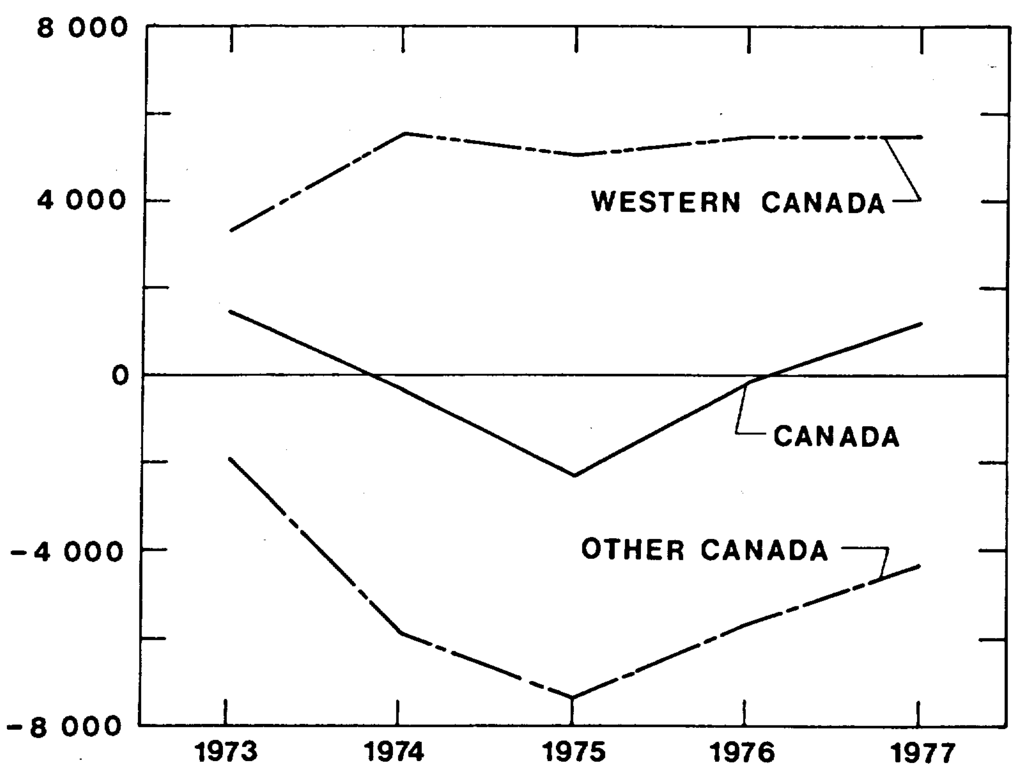
In addition, the magnitude, degree and relative newness of heavy oil extraction and upgrading requires the development of major new technologies. As well, the development of very high-grade western uranium ores provides an opportunity to develop sophisticated mining and electronic monitoring equipment. The research and development opportunities associated with all the resource developments offer a major opportunity for the private sector as well as for federal-provincial cooperation to benefit all Canadians.

3.4 National Significance of Western Trends

The western economy is increasingly providing the development dynamic for the national economy. Growth in the western energy sector has already made major contributions towards national self-sufficiency in energy and the foreign trade balance in fuel products. Even during the national trade deficit on current account that occurred between 1974 and 1976, the west continued to contribute positively to the national trade balance (see Chart 3.3).

CHART 3.3

WESTERN CANADA'S CONTRIBUTION TO CANADA'S TRADE BALANCE ($ MILLION)



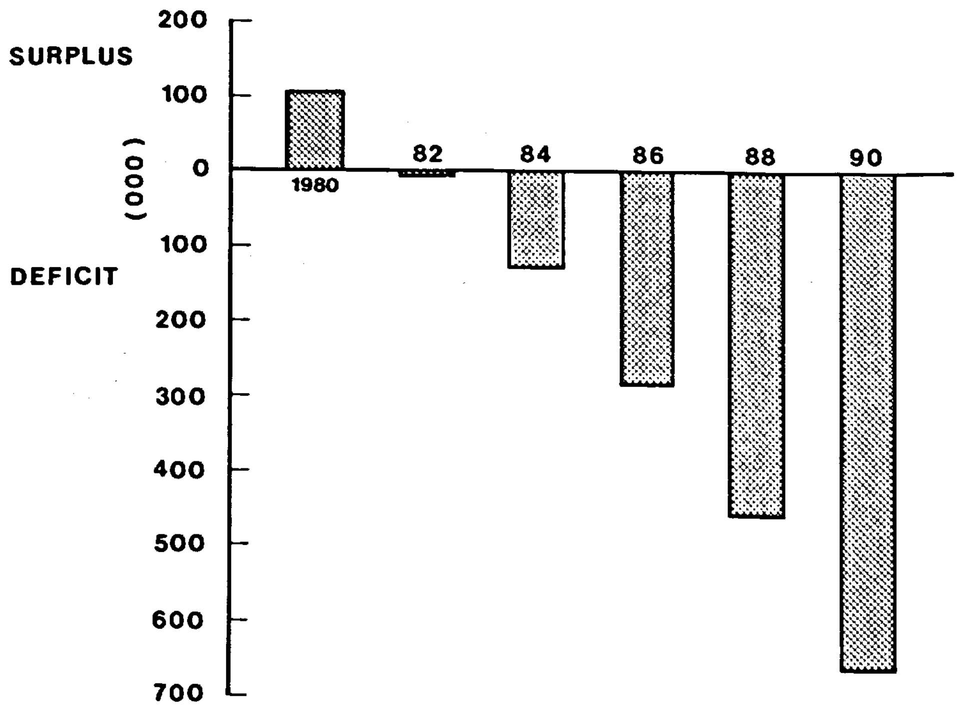
If the western resource development prospect can be realized in the 1980s, the regional rate of job creation may again contribute to lower western and national unemployment rates. In absolute numbers the west alone will not be able to supply all the labour force demands generated by these projects. In order to accommodate these expected requirements, the western labour market will have to be augmented by migrants from other regions of Canada or from foreign sources (see Chart 3.4).

CHART 3.4

WESTERN CANADA

PROJECTED NATURAL LABOUR FORCE SUPPLY

MINUS PROJECTED EMPLOYMENT



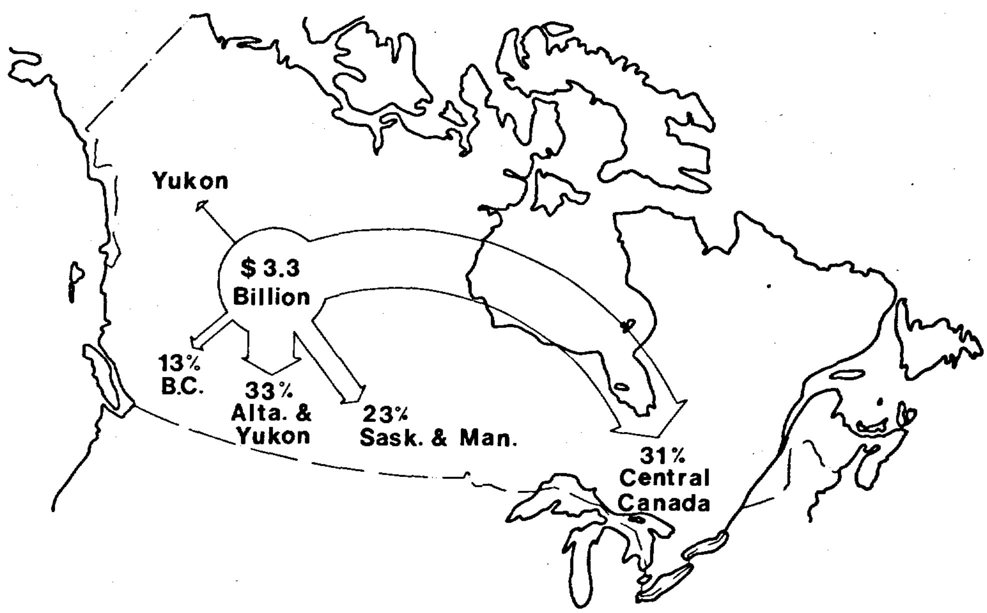
Economic growth and rising resource revenues in Alberta, British Columbia and Saskatchewan have dramatically improved their fiscal capacity. This improvement has made them less reliant upon federal transfers and indeed has meant the taxpayers in the two westernmost provinces have become net contributors to the system, at about $200 per capita in 1977-78.

The historic manufacturing ties that have been established between the west and central Canada continue to operate. Thus the manufacturing and service benefits from the western resource boom will be available nationally. For example, analysis of the potential geographic distribution of benefits from the 1976 Foothills northern gas pipeline proposal suggested that 31 per cent of $3.3 billion of material input costs would be sourced in central Canada (see Chart 3.5).

CHART 3.5

ESTIMATED DIRECT NATIONAL INDUSTRIAL BENEFITS

ALASKA PIPELINE DEVELOPMENTS



A more general assessment of domestic inter-regional trade trends between 1967 and 1974 identifies an increasing level of economic linkages in manufactured goods among regions. Manufactured trade ties between the west and central Canada increased by 12 per cent in real terms over the eight-year period. In the 1980s, a challenge to Canada (from the viewpoint of both national unity and economic development) may be the establishment of policies and an infrastructure to improve such interregional linkages for both goods and services.

Similarly, native development represents one of the major socio-economic development issues for Canada in the coming decade. The employment requirements of the western resource boom should represent a major opportunity to resolve many significant issues related to native participation in the Canadian economy and society. National policy on native people may be partly determined by the manner in which the west can respond to the significant and growing aspirations of native peoples in such matters as land claims, employment and participation in the wider economy.

4. THE REGIONAL DEVELOPMENT FRAMEWORK

The economy of Canada consists of an incredible array of interdependent industries and markets. The multitude of supply and market linkages across regions and industries demonstrates the extreme complexity of economic impacts associated with economic development and economic policy. Economic prescription which dissects the economy into sectors or into provinces ignores the fundamental reality of commerce and runs the risk of continuous stress and imbalance in the economy.

4.1 Western Development Aspirations

The economic and social history of western Canada has long made steady industrial growth and economic diversification a primary objective for economic policy in the region. Steady growth is required to reduce economic instability and increase the opportunities available to local residents. The changing geographic distributions of activity also require measures to enhance the opportunities so that all residents can participate in the benefits of economic development.

These objectives are often pursued through manufacturing growth in further value-added processing, through resource services and supply industries and through an increased variety of resource products and export markets. Disparities in development between metropolitan and urban, urban and rural, native and non-native, and north and south provide a further focus for program and policy initiatives.

In Yukon and the Northwest Territories, development is the focused toward the achievement of better balance between conventional wage economy and traditional economic pursuits. Ultimately, the reconciliation of native and non-native social, cultural and economic interests is a prerequisite to realizing the development potential of these northern areas.

4.2 Development Policies and Instruments

The four western provinces have active economic development programs similar in many respects to their federal counterparts. All western governments have chosen to invest in commercial enterprises. Most provincial governments make use of Crown corporations for economic development (e.g. the Potash Corporation of Saskatchewan, Manitoba Hydro and the British Columbia Railway). However, different political philosophies result in different approaches to such mechanisms. As an alternative, some governments have opted for direct or indirect equity participation (e.g. Alberta Steel, Alberta Energy Company, British Columbia Resource Investment Corporation and Saskatchewan Economic Development Corporation).

Both Alberta and Saskatchewan are setting aside part of their accumulating resource revenues in Heritage Funds. These represent the most recent and as yet untried development instruments. They have been established to offset the long-term fiscal and economic weakness that is inherent in a non-renewable resource economy by public investment in diversified productive economic alternatives.

By the end of the 1978-79 fiscal year Alberta had deposited over $4.7 billion into the Alberta Heritage Savings Trust Fund (AHSTF), while Saskatchewan has just under $500 million in the Saskatchewan Heritage Fund (SHF). The AHSTF is expected to at least quadruple by the mid-1980s. The SHF is expected to grow at an even faster rate following an expected increase in uranium revenues in the mid-1980s.

Federal policies and programs in agriculture, water, foreign trade, and transport have long been central to western prospects. Most recently, energy pricing and exports, grain handling and tariff negotiations have emerged as priority federal policies for western development. Taxation policies, research assistance, direct industrial incentives and equity investments have all held significance for specific projects like Syncrude, and to overall levels of business activity. Federal equalization payments have been important to the prairies historically, although during the 1980s, only Manitoba can expect to receive significant funds from this source.

Direct federal initiatives probably have most impact in the north where government employment and program expenditures by the Canada Employment and Immigration Commission and the Department of Indian Affairs and Northern Development are the largest single factors in the territorial economy. More recently (in 1978), DREE opened offices in both Whitehorse and Yellowknife to administer the Special ARDA and Regional Development Incentives Act programs. Two federal Crown corporations, the Northern Canada Power Commission and the Canadian National Telecommunications, provide essential services and infrastructure to both territories.

In the south, direct employment by federal departments is significant in all provinces although it holds additional importance for particular centres in Manitoba and Saskatchewan. Longer term development is not only affected by direct federal employment but also by the corporate and investment policies of such federal crown corporations as the Federal Business Development Bank, Petro-Canada, Eldorado Nuclear, Air Canada and the Canadian Broadcasting Corporation. Recent initiatives by the federal Fisheries Department on the west coast will have a significant impact on available fish stocks in the 1980s within the 200-mile offshore limit. These will be further enhanced by the federal-provincial salmon enhancement program. Parks Canada policies have long managed the pace and direction of recreational development for the large areas of the west covered by National Parks.

Federal activities have been central to rural development in the agricultural prairies. Agricultural experimental farms, commodity marketing, farm credit and production programs have been developed and implemented by Agriculture Canada. Grain production, transport, pricing and marketing have all been influenced and regulated by many federal instruments that include the Crow's Nest statutory rates, Wheat Board and Grain Commission policies, levels of feed freight assistance, grain income stabilization programs and decisions of the Canadian Transport Commission. Recommendations by periodic commissions of enquiry (e.g. Hall Commission and Prairie Rail Action Committee) serve to further guide the direction of rural development.

The Prairie Farm Rehabilitation Administration (PFRA) has dealt directly with rural problems of soil and water conservation and management that have been, and still remain, central to prairie economic development. Rural development initiatives by DREE with such federal and federal-provincial instruments as the Fund for Rural Economic Development (Manitoba Interlake), Special Area designations (Slave Lake, Alberta; Meadow Lake, Saskatchewan; and The Pas, Manitoba) and the Agricultural and Rural Development Act (ARDA) were instrumental in improving rural conditions and prospects through comprehensive rural economic development initiatives.

Specific federal-provincial instruments have been developed and implemented over the years to deal with a variety of western development needs. Both the ARDA and the PFRA legislation provide for federal-provincial agreements, and such cooperation has marked the implementation of both Acts. River basin studies and development schemes have also been the subject of federal-provincial agreement for water management, development and power generation purposes.

Most recently, the 1974 General Development Agreements (GDAs) signed between Canada and the four western provinces (and in 1978 with the territories) provide a cooperative and coordinated federal-provincial framework for regional economic development. Subsidiary agreements under these GDAs deal with priority development concerns in each province. Thus, development expenditures have been directed towards the western northlands, diversified industrial development and the evaluation of major new western resources.

The GDA processes are flexible enough to adjust to the opportunities for development in a dynamic economy. The resulting subsidiary agreements can be area- or sector-specific while taking advantage of human or physical resources peculiar to a province, or overcoming particular developmental problems. Although link subsidiary agreements (involving more than one province simultaneously) have not been made, there is no reason why they could not evolve on regional issues such as water, energy, or energy interconnections. Thus the GDA mechanism entails the geographical flexibility to work with initiatives which are sub-provincially specific or broadly interprovincial. The narrowly defined projects can assist specific groups while the more general ones can distribute benefits more broadly.

4.3 Regionalism

Regionalism is important in determining the form of economic development that prevails in western Canada. The four western provinces have, in many respects, a common history of dealing with the problems of their often similar natural resource economies. Strong ties of provincial economic interdependence were established early in western Canada's development. Cities such as Winnipeg and Vancouver both developed large trading hinterlands. A steady and continued movement of people within the west has occurred, usually in search of jobs.

Today, there is an increasing number of economic developments with interprovincial, regional implications. The development of water resources for industrial growth and energy generation involves regional water basins such as the Saskatchewan, the Nelson and the Churchill basins. Manufacturing markets are approaching commercially-viable sizes for some products when viewed from a western perspective. Major industrial and energy projects planned for the region create major spillover effects throughout the west. The northern gas pipeline through Yukon will create employment opportunities for Regina's steel industry, place pressures on Pacific coast ports as well as on wages and labour markets throughout the region. There is a need both to coordinate industrial developments across the west and to develop rational transportation systems for the expanded import and export of materials.

Interprovincial cooperation within western Canada is well-established. The Prairie Economic Council formed in 1965 provided an informal forum for most western provinces to deal with ad hoc economic issues of mutual concern. In the early 1970s, the Western Economic Opportunities Conference (WEOC) in Calgary, led the western provinces toward a broader perspective on their common development problems: for the first time, they presented Ottawa with a single regional position.

Following WEOC, a more deliberate examination of regional issues has occurred through a variety of public and semi-public bodies. The Federal-Provincial Committee on Western Transportation and the provincially-sponsored Western Transportation Advisory Council were both established to examine transport problems in the region. The federal Grain Handling and Transportation Committee (The Hall Commission) took a similarly broad regional view of problems in that industry. Meetings of western premiers (the successors to the informal Prairie Economic Council), have adopted common positions on such items as transportation, fiscal arrangements and shared cost programs, agricultural policy, natural resource taxation, coordination of federal development programs, federal constitutional trends, and an industrial development strategy. Most recently, joint policy planning, agriculture, trade and transportation have been discussed.

A committee of western Industry Ministers has produced common positions regarding the Canadian international negotiations on the General Agreement on Tariffs and Trade, sent a trade mission to South America, studied federal and provincial purchasing policies and reviewed areas of complementary industrial specialization as an essential prerequisite to the development of a regional economic and industrial strategy. In addition, a major study of a potential western energy grid was recently completed. The efforts at cooperation have tended to accommodate the basic historical and political diversity of the partners in Confederation. In reality, diversity leads to economic interdependence; independence has never and does not now exist. Therefore, "cooperative federalism" which embraces the reality of commerce must embrace multilateral prescriptions for economic health more readily.

5. WESTERN DEVELOPMENT FACTORS AND ISSUES

The buoyant economic prospects for western Canada provide not only a major opportunity for the region, but also significant implications for the national economy. Public policy instruments have and will continue to play a major role in these developments. Cooperation and coordination in the use of federal and provincial development instruments are essential if the maximum benefits from these developments are to be realized in Canada. This section presents some of the issues which will influence western economic developments in the Western Region during in the 1980s.

5.1 Northern and Native Development

The most persistent disparities in the western provinces and northern territories arise from the lack of native participation in the economic development process. In the south the population of people of native ancestry is estimated to account for a small proportion of the western population (5 per cent). In the northern territories, 30 to 50 per cent of the population is of native ancestry. In both areas they comprise an inordinately high proportion of the unemployed. Numerous barriers of employment skills, incomes, geographic isolation and social structure combine to preclude most native people from the option of participating meaningfully in all aspects of western and northern development. A significant number of jobs (80 per cent) associated with future resource developments will require skills currently not widely held by native people. This situation will remain unaltered without conscious efforts by both native groups and governments for change.

Differences between the industrial and native societies are perhaps most extreme in the Northwest Territories and the western northlands area of the prairie provinces. Few ties exist between the southern-oriented mainstream of economic development and the native and Inuit economies. The latter are often dependent upon financial transfers and programs in combination with traditional pursuits.

High rates of native population increase have prevailed for several decades. This trend will have a significant impact upon labour force composition and school populations in the 1980s. Increasingly, native people are migrating to the larger urban centres in the west. Regina and Winnipeg, and to a lesser extent Edmonton, Calgary, and Vancouver all have large and growing native populations. By 1985, the native population of Regina is expected to reach 33 500, an estimated increase of 65 per cent over 1976; and projections estimate that 25 per cent of the school enrollment in Regina at that time will be children of native ancestry.

For many western and northern natives, economic development also revolves around questions of land tenure and control of resources. Unresolved native land claims will likely impose serious impediments to economic expansion, particularly in the northern area and in non-renewable resource development.

For native people, resource control represents a historical and cultural legacy as well as a significant mechanism to improve the quality of their lives. Some provinces are of the opinion that native land claims are a federal problem only. The controversy surrounding this situation and the resulting uncertainty have created a negative investment atmosphere for commercial and industrial development interests. Native land claims are thus viewed by some as disruptive to major economic development initiatives rather than as an opportunity for native people to control their own development.

5.2 Resource Control and Western Development

Who will manage the western Canadian economy is clearly an issue central to the regional development process given western aspirations for resource development and industrial diversification. In a wider context, the allocation of the "rights" and "responsibilities" to develop each of Canada's regions lies at the core of the present national debate into Canadian unity. The contribution of the west to Canada -- through its natural resource exports, its energy sales to Central Canada, and its purchases of manufactured goods -- has assumed a critical importance in the national economy. But a national concern with central Canada's "soft" manufacturing sectors may reduce priorities for aggressive western manufacturing growth (ironically, a larger western industrial base would improve market prospects for eastern manufacturers).

Under the British North America Act (BNA), both federal and provincial governments hold powers that can influence regional development. Throughout the west, both federal and provincial governments have been directly involved in development through taxation and ownership of industry and incentives to the private sector. However, there is considerable debate between federal and provincial governments over who holds the appropriate responsibilities to meaningfully effect the regional development of western Canada.

In the Report of the Western Premiers Task Force on Constitutional Trends in May 1977, eleven functional areas of existing or potential jurisdictional conflict were identified as frustrating the region's legitimate development aspirations. These were competition, trade, resources, housing, urban affairs, land use, economic development, communications, demography, immigration and justice policies. Additional alleged encroachments have been identified in subsequent meetings. Subsequently the federal government disbanded the Department of Urban Affairs, thereby removing one of the areas of conflict.

In addition, two Supreme Court decisions on Saskatchewan potash prorationing and the provincial oil-income tax scheme indicated limits to provincial constitutional authorities in matters of resource management and taxation. These decisions have led the province to request, under any constitutional renegotiation, the power to levy indirect resource taxes and an amendment of the trade and commerce authorities under the BNA Act.

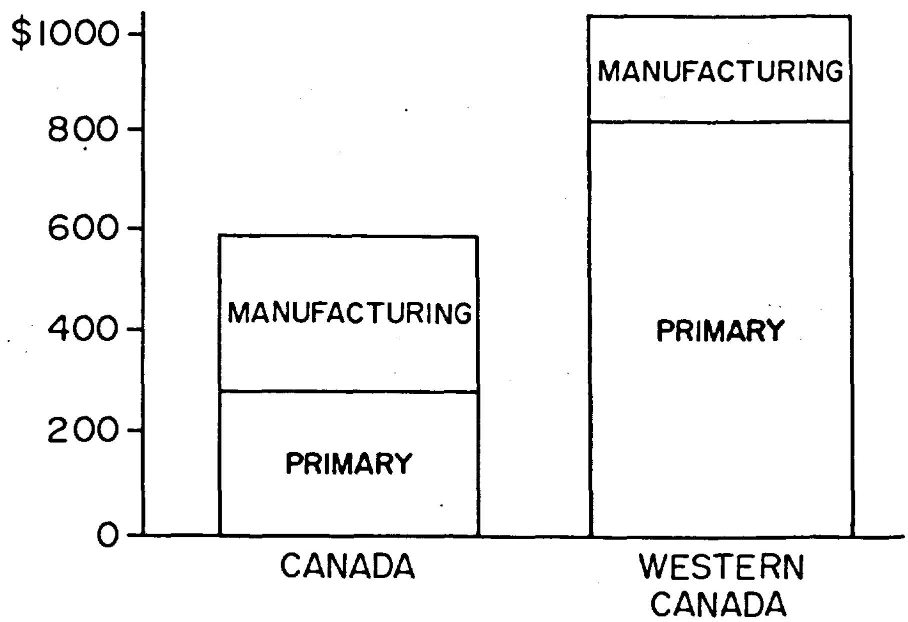
The energy sector has become the focal point for a general western and national conflict concerning resource ownership and control. This factor has impact not only on the development of oil and gas but also on synthetic oils, potash, coal and uranium as well. The on-again off-again accords and understandings reached between the two levels of government on prices, royalties and exports can add to the unstable policy atmosphere surrounding resource development. Moving towards the large investments of the 1980s, stability in this area becomes crucial for development. Resolution of these differences and the clarification and coordination of areas where federal and provincial responsibilities overlap is a clear prerequisite for improving the development process.

5.3 Industrial and Economic Diversification

A concern for economic diversification in the west is the result of its great dependence on resources. Diversification of the western economic structure thus requires an expansion into manufacturing activity or services. Employment in manufacturing accounts for only 12 per cent of regional employment in contrast to the national share of 20 per cent. Present investment trends in the west have dramatically expanded resource output and related services. However, they have had only a limited impact on manufacturing growth which remains well below national per capita levels (see Chart 5.1).

CHART 5.1

PER CAPITA CAPITAL INVESTMENT, 1978



Several assessments of the economic structure indicate that an expansion in the resource industry will siphon off labour from the western manufacturing sectors that appear to have the best development opportunities during the 1980s. Among the sectors that are anticipated to contract most because of labour shortages created by an expanding mining industry (i.e. which have requirements comparable to many western development projects) are metal fabricating, machinery, iron and steel, smelting and refining, and food and feed. The high demand of the large resource projects for the limited supply of skilled labour, and the attendant rising wage rates, are symptomatic of these limitations. Active public industrial policy initiatives may therefore be required simply to maintain present levels of diversification, let alone realize the expanding regional market opportunity.

Since strong similarities occur between both the resources and structures of several western provincial economies, the potential for considerable interprovincial competition to realize the emerging western opportunities exists. Such competition could result in costly and destructive overexpansion of industry arising from competing public incentives. Balkanization of provincial markets has, in the past, also produced diseconomies of scale and aggravated the limitations of small size and wide dispersal in western markets. Reducing this level of counterproductive provincial competition can hold benefits for both Canada and the region. However, at present, no formal mechanisms are available to establish the framework and rationale for such industrial rationalization on a multiprovincial basis.

5.4 Western Investment and the Resource Funds

Western projects during the 1980s are expected to require between $30 and $50 billion dollars of capital investment. Financing these developments can be expected to hold major implications for both the regional and national economies.

Obtaining offshore funds of this magnitude for individual projects in an uncoordinated way could place significant upward pressure on the value of the Canadian dollar with respect to its American counterpart. To finance these projects domestically would require the conscious redirection of both public and private spending towards western investment. Significantly, given the ownership structure of the western energy sector, Canada could find itself financing an increased level of foreign ownership.

The large resource revenues accumulating in Alberta and Saskatchewan could contribute significantly to the west's financial requirements. By the mid-1980s, they are expected to exceed four times their current size. These large discretionary pools of potential development capital could thus represent a major force for national and regional development. This potential could be heightened if such investments were complementary to federal development incentives.

From both a regional and a national development perspective, an increased level of federal-provincial cooperation and coordination in matters relating to western financing and economic development seems particularly important. The peaking of project investment and construction requirements in the mid-1980s suggests that some close consideration should be given to project phasing in order to prolong employment opportunities and avoid unnecessary expenditures on capital equipment.

5.5 Western Transportation

Historically, transportation infrastructure was put in place to facilitate commerce and bind the Confederation together. Today, because of the high degree of resource dependence and an economy fuelled by large exports of bulk commodities, the economic efficiency requirements of trade and commerce as well as the developmental needs of the nation and the region provide the foundation for western transportation policy. In the more developed parts of the south, transportation efficiency and cost considerations are paramount, while in the more remote and undeveloped areas of the British Columbia interior, the western northlands and the northern territories, developmental needs still prevail.

The transportation of western natural resources to export markets is crucial to the economic structure, trade and industrial performance of both western Canada and Canada. Improving the transportation efficiency of moving bulk commodities such as grain, coal, potash and lumber across the large expanses of western Canada to ocean terminals can reduce the delivered costs of the resource exports, increase Canada's international competitive position for these commodities and result in higher returns to western producers.

Currently, a variety of institutional barriers exist to improvements in some aspects of western transportation efficiency. Often these have developed over many years. In recent years the statutory Crow's Nest freight rate for the movement of specified grains to export markets has dropped below a compensatory level and now remains a central and complex problem for western transport development. Modification to, or removal of, the existing statutory rate will clearly have an impact and cause structural changes to western agriculture.

What is not clear is exactly where, to whom and how damaging or advantageous these changes will be. Depending on the details of change and offsetting compensatory packages, benefits might be expected for livestock producers in Alberta, southern Saskatchewan and Manitoba and the feed grain growers of central and northern Alberta. The negative impacts are expected to affect grain producers in southeastern Alberta and

Saskatchewan and the agriculture service and support industry operators. It is not even obvious that extensive markets would exist for beef. In fact, alternative crops might be stimulated. The net overall economic impact including processing is unclear.

Aside from the direct impact upon agriculture, the removal or modification of the Crow's Nest freight rate is expected to have an impact on intermodal competition. Truck transport is increasing its share of total commodity movements. Any fundamental shift in the rail rate structure will undoubtedly affect the trucking industry. A compensatory rate system would eliminate the loss on commodities shipped under the Crow's Nest rate and thereby lower the revenue-generating requirements on other commodities. The overall impact on rates and intermodal competition is again not clear-cut, but would probably lead to some structural adjustment in the western economy.

Prairie grain-handling issues are further complicated by rationalization of the country elevator system and the original pattern of widely dispersed branch lines. The whole issue has been the subject of several commissions of enquiry but as yet remains unresolved. Western interest groups are very concerned about the possible elimination of the Crow's Nest Pass freight rate. The existence of a railway branch line is often viewed by local residents as the foundation for community survival. Concerns, alternatives and solutions to this issue are neither clear-cut nor unanimous and involve a wide variety of economic, social and political considerations.

The Crow's Nest Pass Agreement (1897) also has significant nonagricultural implications. It transferred the surface and mineral rights for 20 250 hectares of coal-bearing land in southeastern British Columbia, known as the Dominion Coal Blocks, from the Canadian Pacific Railway (CPR) to the federal government "for the purpose of securing a sufficient and suitable supply of coal to the public at reasonable prices, not exceeding $2.00 per ton".

This land was originally given by the Province of British Columbia to the British Columbia Southeast Railway (BCSR) as a land grant to construct a railway. The assets of the BCSR were acquired by the CPR in 1897, and a portion of the original BCSR land entitlement subsequently became the Dominion Coal Blocks. Following the Crow's Nest Pass Agreement, the Province of British Columbia has periodically claimed the right to this land.

The statutory $2.00 selling price in effect prevents the development of these resources, which are located adjacent to existing mines with established infrastructure. Changes to the Crow's Nest Pass statutory rates could open up this valuable tract of coal deposits for development. The availability of these resources would alter the timing and viability of coal development elsewhere in the west, particularly in northeastern British Columbia.

Currently, the movement of bulk commodities includes not only railroads, but trucks, ships, pipelines and the infrastructure associated with each mode of transportation as well. Intraprovincial and interprovincial trucking regulations and intermodal competition are also a part of western transport concerns. Given the possible expansion in grain exports (a 40 to 50 per cent increase) by 1985, and given the anticipated increase in the shipment of other bulk commodities such as coal and potash, all these issues (centred as they are on rail transportation) should magnify over time.

With the appointment of a Grains Co-ordinator to allocate cars among prairie grain elevators and co-ordinate the system, some improvements in the system may be anticipated. These will be assisted by announced additional purchases and rentals of rail cars by both levels of government and the expansion of elevator facilities both at key points on the prairie and at dock-side.

Transport for broader development purposes, both social and economic, remains important in the west. In the remote western northlands and the territories, establishing an initial transportation system is a basic requirement. Northern access for both social and commercial reasons has yet to be fully realized in many areas of this extensive region. The presence of even minimal transport infrastructure in these regions is often a prerequisite for local residents, often native, to gain access to, and participate in, the benefits of the wider economy. Winter and all-weather road construction, air and water connections will remain important for development in these more remote and sparsely-populated parts of Canada.

5.6 Trade Arrangements

Trade arrangements in part govern access to foreign markets. Because of their resource dependence and desire to diversify their economic base, the western provinces have consistently favoured a liberalization of Canada's trading position. Anticipated growth in Pacific Rim markets in the 1980s provides an additional and expanding component to the region's foreign trade interest.

The current round of Multilateral Trade Negotiations has resulted in a substantial reduction in the level of tariff protection for Canadian processed and semi-processed raw materials, especially exports to the United States market. The west is particularly interested in American and Japanese concessions on "boxed beef", grain and grain products, oilseeds and rapeseed oil. The United States has also offered duty-free entry on most agricultural machinery and equipment coming from Canada provided it is used in agriculture. British Columbia will benefit from the concessions made by Japan on plywood, waferboard, Kraft papers, manufactured wood products, prefabricated buildings and herring roe.

The lack of a breakthrough in access for petro-chemicals into the United States is a major disappointment to the west, especially Alberta, as is the unwillingness of the Japanese to reduce their tariffs on dressed lumber and on nonferrous metals significantly. The west will continue to suggest that pressures to protect the "soft economic sectors" in central Canada hinder the federal government in obtaining foreign concessions on western manufactured products, such as petro-chemicals. However United States tariff cuts of up to 50 per cent will be phased in on such products as ethylene dichloride, phenols, and styrene.

5.7 Selected Development Constraints

A variety of basic constraints are expected to influence the viability and timing of western development potential during the 1980s.

5.7.1 Labour Supply

Historically, the availability of human resources has not deterred the economic growth of the territories and western provinces significantly. However, future economic development scenarios for western Canada indicate that substantial labour shortages may be forthcoming because of the large number of concurrent development projects. Demographic projections for the Western Region indicate that the manpower requirement arising from these scenarios cannot be met from internal population growth in the west (see Charts 5.2 and 5.3). Therefore substantial migration from other parts of Canada and/or abroad will be required. This is particularly true for development in the northern territories.

CHART 5.2

ESTIMATED EMPLOYMENT MAJOR WESTERN DEVELOPMENT PROJECTS (1979-1990)

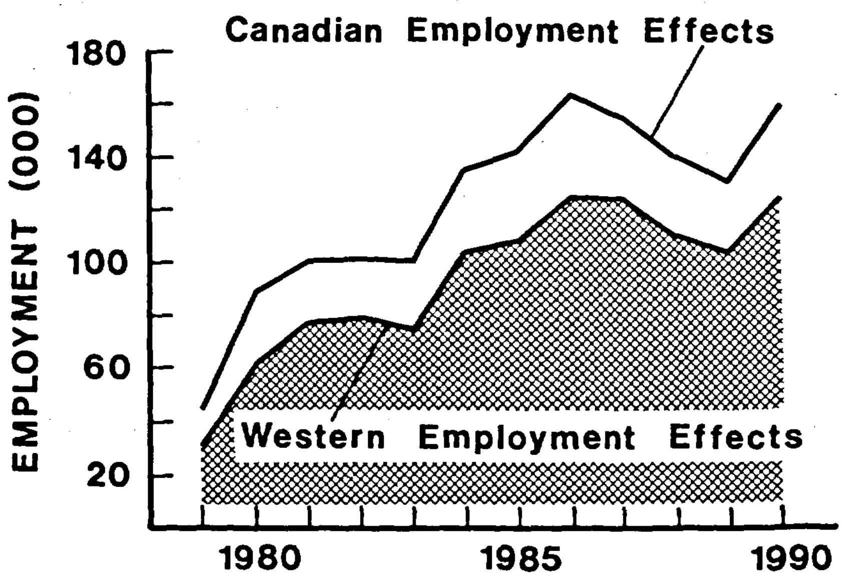
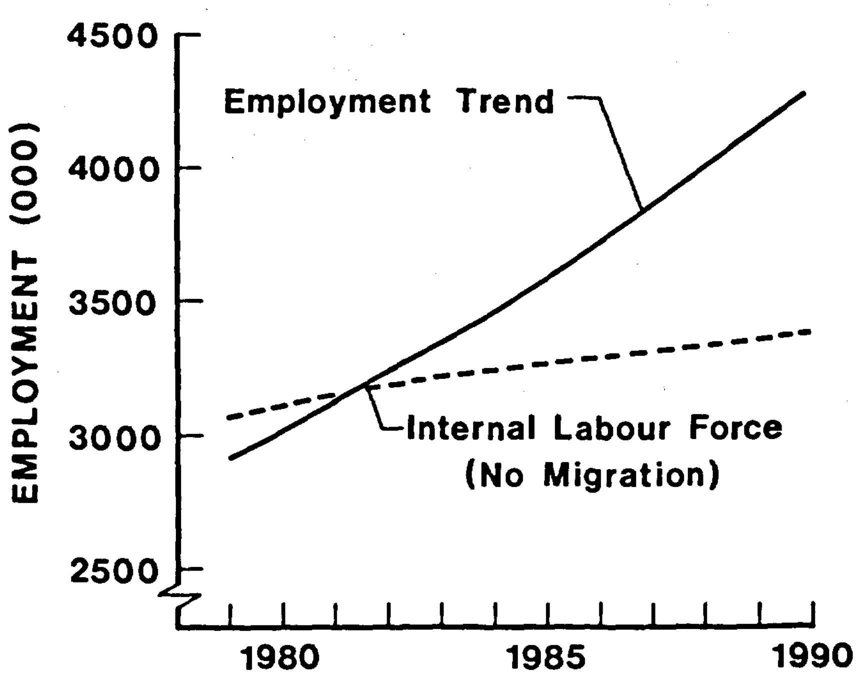


CHART 5.3

ESTIMATED LONG-RUN TRENDS EMPLOYMENT AND INTERNAL LABOUR FORCE GROWTH WESTERN CANADA (1979-1990)



Anticipated economic prospects in Saskatchewan, Alberta and British Columbia through 1985 will place a large demand on the skilled component of the labour force. Demand for construction workers plus operating employees on major projects could total nearly 46 000 in the peak year of 1986. Evidence derived from previous large resource projects indicates that over 80 per cent of this total must have various levels of skills to qualify for these jobs. In total, the major resource projects in the west could generate over 400 000 man-years of direct employment in Canada between 1980-90.

Such massive incremental demands will place a great strain on the economy of the west. Alberta's construction boom of 1974 to 1978 resulted in a shortage of many skilled occupations which was felt throughout western Canada. Industries may lose workers to the higher paying jobs offered by the major projects. Many smaller commercial and industrial projects will probably be postponed or shelved because of shortages and rising labour costs; housing will be expensive because of high construction costs.

5.7.2 Water Supply

The performance of the western economy has been strongly influenced by the availability and stability of water supplies. Adequate supplies are a key factor in the location of industrial sites and a broad range of commercial and other service facilities necessary for the primary resource sector. A major shortfall in precipitation over a one to two-year period in western Canada could result in serious municipal water supply and electrical energy production problems and a decline in the total output of the Canadian economy. As the western provinces attempt to diversify their agricultural and industrial base, water needs become an increasingly important factor in development.

In addition to the problems of the absolute level of water supply, considerable variation occurs in the reliability and volume of precipitation. Periodic droughts have increased the economic costs for the farm, industrial, hydro generation and municipal sectors and have constrained some long-term development. Conversely, rapid spring run-offs, when combined with high rain or snowfall, lead to flooding, particularly in southern Manitoba and Saskatchewan.

Flooding in 1974 and again more extensively in 1979, and drought in 1977, illustrate the continuing need to plan and manage the region's water resources in the 1980s. Major infrastructure expenditures designed to allow both interbasin transfers and control of water may be required. It will be important, therefore, to ensure cooperation among the large number of federal and provincial agencies and authorities that are concerned with water planning as well as related hydro-electrical and recreational uses.

5.7.3 Soil Limitations

Soil management and conservation practices were established and widely implemented in the prairies following the 1930s drought. Current farming practices are viewed by some western soil scientists as inadequate to maintain the soil resource in the face of a continuing capital-intensive and highly mechanized grain economy. In many areas nitrogen content and soil salinity are combining to produce absolute reductions in soil fertility and a weakened soil structure which may encourage wind erosion and reduce water-storage capacities.

Changes in farm management practices, including the increased use of fertilizer with appropriate crop rotations, may provide the resolution of this issue. However given the significance of the grain economy to the west and Canada, and the anticipated grain export development opportunities, it will be important to undertake further research and implement policies to improve farm management. Management procedures will also be aimed at energy conservation methods of production.

5.7.4 Western Iron and Steel

The steel requirements for the major resource projects as well as the expected expansion of indigenous manufacturers such as the farm implement and farm storage building industries, provide a major opportunity for western industrial diversification. The region's present steel industry consists of five electric mills based on both provincial and United States scrap supplies.

Future growth in western steel production will require additional supplies of iron units in the form of either scrap iron and steel or prereduced (sponge) iron. Scrap supplies within the west are limited, although it seems possible that a further 200 000 tons might be generated with improved collection systems. Current imports (approximately 350 000 tons) are vulnerable to Canada/United States foreign exchange fluctuations and have, in the past, been subject to border restrictions.

Sponge iron has not been economically competitive with scrap, although recent increases in scrap prices again make direct reduction look attractive. In the booming western economy of the 1980s, it will become increasingly important to develop a higher level of interprovincial cooperation in the management, collection and transfer of the scrap resource and again to consider closely the possibilities for obtaining a western direct ore-reduction facility to serve the western steel industry.

6. CONCLUSIONS

Western development offers the potential to make major contributions to regional and national economic development in the 1980s. These benefits are unlikely to be realized, however, without active federal and provincial policy and program initiatives.

In the past, policy initiatives by both orders of government have been central to the pace and direction of required development. In the future it will be important nationally for the wider implications of growing western financial and economic power to be given close examination in the formulation of federal economic development policies. Financial management of provincial assets should not undermine wider national interests. The opportunities for resource processing, supply and service associated with the protracted construction boom will be significant. A higher level of economic integration between the faster and slower growing areas of the west and Canada may offer a prospect of combined regional and national development objectives, reduce foreign imports and increased Canadian control of the national economy.

Social disparities, particularly for native people, will remain acute even in the rapidly growing western economy. It will be important that these human problems not be overlooked and by-passed in the drive for economic performance.

Regional policy and development in the west are influenced by a wide range of federal, provincial and federal-provincial initiatives and policies. Since 1974 in the south and 1978 in the north, the General Development Agreement process has provided a major framework for cooperative federal-provincial program initiatives within individual provinces, and has become an important element in provincial economic development strategies.

The regional nature of many western development opportunities and problems has led to a coordinated federal-provincial response that can incorporate the multiprovincial and often multiregional nature of these issues. The informal coordination of individual provincial or federal-provincial economic development initiatives and the more formal arrangements between the federal government and a number of provinces are receiving close consideration. An expanded GDA mechanism, for example, could provide one basis for such joint federal-provincial planning and development.

Finally, the Western Region is now clearly emerging from the aging chrysalis of the 19th-century National Policy. Shifting federal attitudes towards a new role for the west within Canada can only serve to revitalize and stimulate the whole of Confederation.