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# BRITISH COLUMBIA INDUSTRIAL DEVELOPMENT BULLETIN

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## International Outlook

Spurred by heightened tension in the Persian Gulf, oil prices have been sticky at \$20/barrel and are expected to remain at this level through 1988. Other commodity prices (eg. copper, pulp) after a period of strong advance, appear to be stabilizing, though a further price increase for newsprint is expected soon. Industrial world inflation appears to be picking up from a trough of 2 1/2% last year to about 4 1/2% over the next year. A further downward correction of the U.S. dollar before year end is expected and higher interest rates over the next six months are likely.

## National Outlook

The Canadian economy should expand at an annualized 2 1/2% to 3% rate during the second half of 1987, due to slower consumer spending and fewer housing starts than seen in the first half. Employment growth at 3% over the last 12 months is expected to slow to about half that rate next year, leaving the unemployment rate near 9%. Consumer price increases, 4.1% last year,

are expected to reach 5% over the next year. The Bank of Canada could let interest rates rise, even faced with the Canadian dollar strengthening relative to the U.S. dollar. An improvement in the current account is forecast for 1988.

- What's inside**
- Forestry
  - Tourism
  - Aquaculture
  - Electronics
  - Small Business
  - Sectoral Strategies
  - Labour
  - Tax Reform
  - Did You Know?
  - Special Feature
  - Calendar of Selected Events

## Provincial Outlook

The surprising growth of the B.C. economy this year (2 1/2% to 3%) is largely attributable to stronger commodity prices. Notable areas of strength, in final demand, are capital spending with an expected increase in excess of 12% and exports laden in B.C. which appear headed for a similar increase. Consumer spending is holding firm, post Expo 86, with retail sales up 8% to mid-year. Major sectors with output growing to mid-year faster than 5% annually include primary forestry, manufacturing, transportation and communications, and wholesale and retail trade. In aggregate, goods producing industries are expanding output at twice the rate of the service sector. This is a reversal of trends of the recent past.

In 1988 and 1989 strong consumer spending is expected to be fueled by personal income tax cuts and the best increases in wage and salary income since the recession. Firm capital spending is forecast to more than offset slowing export growth and an increasing level of imports. A lower level of housing starts is likely to be offset by firmer business capital spending on construction.

Growth is forecast at 2% to 2 1/2% next year. Employment growth is expected to slow from 1 1/2% to 1%, leaving the unemployment rate near 11%, namely 2 to 3 percentage points higher than the national average.

	Government of Canada	Gouvernement du Canada
	Regional Industrial Expansion	Expansion industrielle régionale

## Forestry

A new provincial forestry policy has been announced. It will, among other things, alter the stumpage pricing system, assign industry with responsibility for forest renewal, and allow small logging contractors to compete more effectively on the open market for standing timber. The policy has, perhaps not surprising, been greeted with mixed reactions. Aspects of the new approach will increase wood costs and, significantly, when lumber prices fall as they surely will, these costs will not moderate with the depressed market. Also to help maximize the value realized from timber, the policy encourages increased market and research activities - activities needing attention from the industry.

Although the stumpage policy is effective October 1, 1987, an implementation plan has yet to be worked out. The orientation of this plan will be watched carefully. Industry does not want to be penalized twice on lumber shipped to the U.S. - once through the current 15% export tax and again through stumpage increases (reported to be up to 18%). There is some concern that even if industry and government follow a practice like that used in Quebec - where the industry has been given a rebate on lumber shipped to the U.S. - B.C. mills will still face uncertainty in selling to reload yards where the final destination is unknown. And remanufacturers could also be hurt because they will face increased wood costs. Remanufacturers will not qualify for a rebate on increased stumpage since they do not pay these costs directly in the first place.

MacMillan Bloedel will spend \$6 million to upgrade its No. 8 paper machine located at Powell River, B.C. which was idled in 1985. This investment suggests that

current strong worldwide demand for standard newsprint grades is putting increased pressure on existing capacity and encouraging increased production.

Although North American lumber production is at its highest level ever, mainly due to the rebuilding of lumber inventories after the six month B.C. forest industry strike in 1986, a decline in U.S. housing starts may erode lumber prices as early as this fall. The 15% export surcharge also narrows Canadian producers profit margins which may force less efficient sawmills to cut production, reduce employment, and slow spending on plant modernization and expansion.

MacMillan Bloedel also plans to spend \$97 million on expansion of its New Westminster prototype plant to manufacture Parallam. Parallam is made by combining strands of softwood fibre with resins. Because it is more than twice as strong as conventional construction grade lumber, its main competition is steel and beams made with laminated veneer lumber. A second Parallam plant is planned for south-western U.S. The interest in this reconstituted lumber product points to the changing sector philosophy respecting remanufactured wood products. It also points out the fact that B.C. can not take its locational advantages for granted.

## Tourism

The Cruise Industry Association of B.C. after enjoying a banner year will re-focus its major efforts at:

- extending tourist stays in the city before and after cruises;
- increasing local business through the cruise ships using Vancouver as a summer home port; and,
- attracting more cruise ships to other B.C. communities. Already, South Moresby and other B.C. coastal areas

are attracting interest as viable cruise destinations. A major U.S. line, Exploration Cruise Lines, is planning a second luxury service out of Prince Rupert to Alaska which may include calls in the Queen Charlottes and other B.C. ports as part of its seasonal program.

### Aquaculture

The aquaculture industry continues to enjoy the confidence of capital markets. Recently, European investors expressed this confidence by way of a \$9 million investment in Royal Pacific Sea Farms Ltd. of Vancouver. This represents the largest private placement of foreign venture capital in the B.C. aquaculture industry. Such significant sums of capital are needed to cover expenditures that are often overlooked in initial start-up stages. A profile on Salmon Farming produced under the Canada-B.C. Agreement on Small Business indicates that a fish farm with an output of 110 tons a year, will incur annual operating expenses of \$450,000. Total typical capital costs for this farm could be as high as \$200,000. In addition, a prospective operator will have to apply for a number of federal and provincial permits and licences. Considerable planning is obviously required before starting up an aquaculture business. For copies of the profile, contact DRIE at (604) 666-2255.

### Electronics

The importance of the electronics industry to B.C. has been reaffirmed by the establishment of the Electronic Manufacturer's Association of B.C. office in Vancouver. The office will serve to disseminate information, to maintain a directory of members and to prepare a monthly newsletter. The industry is now the fifth largest industrial sector in B.C. with 1986 revenues reaching \$750 million. For

more information contact:  
Mr. Ted Hobrough, 60 West 3rd Ave.,  
Vancouver, B.C. V5Y 1E4  
(604) 875-6618

MacDonald Dettwiler (MDA) of Richmond continues to build on its world-wide reputation as a technological leader. This company has recently been awarded two contracts which may signal the start of the long awaited high-tech boom in B.C. The first is associated with the NASA Space Project. MDA will identify other B.C. contracts over a 10 year period to share in the estimated \$50 million in advanced technology. The second is an \$800,000 contract from Brunei to provide a weather satellite reception and analysis system. This contract opens up a new market in Asia for this product line, which is the company's major current strength.

### Small Business

A set of Small Business Profiles has been developed by DRIE and the provincial governments, with the assistance of Statistics Canada. The profiles, which are available by industry group and by province, offer useful data on operating and financial ratios within the sector. For free copies, contact F.B.D.B.

### Sectoral Strategies

The provincial government is planning to re-structure its government machinery and in a related initiative, to develop an economic strategy that will use eight regional economic zones to permit a focus on more small-scale and sectoral approaches to industrial development. As part of the re-focus, the government will place emphasis on import replacement, local purchasing, seed capital, technology transfer and encouraging small firms to seek export markets. The sectoral approach will include strategies on business invest-

ment, trade and technology. Regional strategies are, in turn, expected to be based on the potential for local resources.

### Labour

A recent report produced by SFU and CEIC on B.C. labour markets confirms the structural shift towards part-time, contracts, temporary and/or non-union jobs, and away from full time jobs with large firms. The paper predicts that market forces may contribute further to deunionization. In addition, because of the over abundance of skilled, full time workers, especially in traditional professions, training here will no longer be an issue. By contrast, the U.S. is facing major labour shortages, especially in the service sectors, as population growth levels off and sector employment increases. As a result, employers are targeting new worker pools such as the elderly and providing on-the-job training for underqualified applicants.

### Tax Reform

Just a reminder that effective January 1, 1988 changes to the personal income tax system will include the creation of three tax brackets, and the conversion of many deductions to tax credits (eg. personal exemptions and tuition fees). Interim changes to the sales and excise tax system will include a 10 per cent tax on phone and telex services, excluding local residential phone lines, and an increase to 10 per cent from 8 on cable and pay-TV. The refundable sales tax credit will rise by \$20 per adult and \$10 per child. On household chemicals, recreational equipment, audio accessories and pet litter, the federal sales tax will shift from the manufacturer's to the wholesale level.

### DID YOU KNOW?

Percentage growth in assets by Mr. Jax Fashions in 1986: 311.0

Percentage growth in sales by Galactic Resources in 1986: 4296.9

Ranking by sales (1986) of B.C. aquaculture against other B.C. industries: 19

Ranking by growth rate: 1

Revenues of the 28 operating B.C. mines in 1981: \$1.8 billion  
Revenues of the remaining 21 mines in 1985: \$2.1 billion

Recent survey of 177 Canadian companies claiming to allow employees to work at home: 30

Number of these companies encouraging employees to do so during regular business hours: 6

Percentage of message retained after listening to a ten minute presentation: 50

Percentage of same message retained after forty eight hours: 25

Percentage of employees contributing to 90% of office absenteeism: 10

Percentage of fanatical exercisers who suffer significant injuries within two years: 85

Cost of mortality insurance for a fish farm with 110 tons per year of output: \$30,000

## THE UP AND COMING B.C. TELEVISION AND FILM INDUSTRY

The establishment of a production studio for television and feature films may prove to be a significant boost to the growing B.C. television and film industry. Cannell Studios of the U.S. plans to build a \$20 million studio in North Vancouver as part of the redevelopment of the Park and Tifford distillery site. This is the second major film facility proposed in B.C., the first being the \$20 million B.C. Film Centre oddly known as Dominion Bridge.

The proposed Cannell facility would consist of seven sound stages with the necessary support facilities for the production industry. Cannell Films Canada, will be the lead tenant, with space available to related service firms. Such a facility should aid B.C. in the establishment of an indigenous film industry and lessen reliance on a volatile foreign industry sector.

The proposal will strengthen the provincial capability to handle sound stage as well as location production. B.C. will see a trend towards television series from the present mix of feature films, series and "movies of the week".

The industry has been described as a growth industry which has the potential to assist in the diversification of the provincial economy. Last year, more than \$156 million worth of film and television work was done in Vancouver, and for the first six months of 1987, the figure was \$129 million. By contrast, in 1979, production work was worth about \$40 million. Current employment is estimated at about 3,500. This new facility could make B.C.'s film labour force less dependent on attracting foreign producers into the province and enabling increased production by Canadians.

There is competition however, for the title of "Hollywood North". Montreal for example, is planning to open a \$175

million film production centre with nine studios and support facilities in 1989. The studio is expected to boost Montreal as the home to many feature film shoots. In 1986, \$115 million worth of production work was done in Montreal. Toronto is also competing vigorously as Atlantis Films Ltd. creates a stir in the Canadian television and film industry with its new film studio. Last year, \$180 million worth of production work occurred in Toronto.

B.C. enjoys the lure of the combination of a favourable exchange rate, quality film crews and interesting locations. However, there are a number of factors which tend to hamper the development of the industry, here and across the country. The 15% talent (withholding) tax levied against American actors and producers has adversely affected a number of B.C. productions. Tax reform will also serve to reduce the two main film investment incentives. Further impediments stem from the inability to find a sufficient number of skilled technicians, pre and post production facilities, and experienced management personnel. In 1985 alone, some \$50 million in film budgets were turned away because of shortages of one type or another.

As these shortages are overcome, growth opportunities will multiply. To help alleviate some financing problems, a new \$10 million B.C. Film Development Fund has been announced, which gives loans over a period of three years to local producers with proven records.

In general, diversification appears to be the key. Adequate pre and post production facilities combined with state-of-the-art techniques, especially in post production, should help guarantee the future of the film and television industry in B.C.

- The Economic Development Association of B.C. is holding its bi-annual convention at the Hotel Vancouver, October 25 - 27, 1987. Contact (604) 763-4918.
- Small Business Week starts October 26, 1987 at the Annual Business Information Fair at Harbour Towers Hotel, Victoria from 1:00 p.m. to 8:00 p.m. Contact (604) 388-0161.
- Marketplace '87: Making the Match, October 26 - 27, 1987 at the Vancouver Trade and Convention Centre. Twenty-five trade commissioners and their officials visit Vancouver to discuss export opportunities with experienced and potential exporters. Individual interviews can be scheduled. \$25. Contact Sannifer Louis Ross at (604) 641-1262.
- Pacific Rim Computer and Communications Show, October 28 - 30, 1987 at the Vancouver Trade and Convention Centre. Contact (604) 874-5233.
- "Business Ownership For Women Conferences" sponsored by the Women's Secretariat of the Ministry of Advanced Education and Job Training. The schedule is: Vancouver, October 29, 1987 - Four Seasons Hotel; Prince George, November 12, 1987 - Coast Inn of the North; Kamloops, February 11, 1988 - Coast Canadian Inn; Nanaimo, February 25, 1988 - Coast Bastion Inn; and Cranbrook, March 10, 1988 - Inn of the South.
- "Promoting Import Replacement in a Resource Based Economy" at the Dunsmuir Lodge, Victoria, October 27 - 30, 1987. Contact Rordon Wikkramatileke at (604) 721-8070.
- The Export Development Corporation will hold its "Lets Talk Risk" workshops concerning factors affecting export trade on November 4, 1987 in Vancouver. Contact Jim Siddon at (604) 688-8658.
- The University of B.C. will host a one day workshop called "Import/Export: The International Dealer" on November 7, 1987 from 8:30 a.m. to 4:30 p.m. Contact Ethel Jones at (604) 222-5222.
- International Investors Forum, November 17 - 19, 1987 at the Vancouver Trade and Convention Centre. Contact Robert Speed at (604) 669-3813.
- The 17th Annual Economic Outlook Conference sponsored by the Association of Professional Economists of B.C. will be held on November 18, 1987 at the Four Season Hotel in Vancouver. Contact Peter Roulston at (604) 682-2239.

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