British Columbia Industrial Development BULLETIN

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International Outlook

Fears of overheated economies are once again appearing on the horizon. The negative market reaction to the dramatic decrease in the March U.S. trade deficit is testimony that inflationary concerns are preeminent. The U.S. has responded to these fears by raising interest rates with the hopes that confidence will be instilled in the capital markets. These rates will remain in place until early to mid-summer and then further reductions will be in store.

OPEC continues to be rife with internal divisions and mounting strain on its price and production strategy. In spite of recent attempts to involve non-OPEC countries in the production discussions, one can expect stable oil prices in the $17 to $18 (U.S.) range.

OECD member country inflation will be in the 4.0% range in 1988 while employment levels in Britain and the U.S. will continue to decline.

National Outlook

The Canadian economy should continue to expand at an annualized 3 to 3 1/2% rate during the remainder of 1988 due to stronger than expected consumer spending, business investment and a surprisingly buoyant residential housing market. Unemployment rates should change only slightly during 1988 reaching the 8.0% range. The Bank of Canada's strong stand on inflation will ensure that inflation will not be a problem for the remainder of 1988, averaging 3.8% to 4.2%. Overall trade will decline in 1988, dropping by about 7.0% Import demand will also drop but Canada will continue to enjoy a goods trade surplus in the $10 to $12 billion range.

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Provincial Outlook

Though national housing starts are down (200,000 annual)from last year's high (245-,000 annual) they are much stronger than previously forecast. The recent rise in mortgage rates has not had the effect on starts that had been feared. This strong national housing market can be expected to soften for 1989.

GDP growth will be in the 3.0% to 3.25% range in 1988. The forest,mining and tourism industries will continue to provide the impetus to growth in 1988.

Particularly strong is the pulp and paper industry. It is gearing up for another quarterly price hike effective July 1, 1988. The industry is operating at near full capacity and the peak in prices may be seen before year end.

Employment levels in British Columbia, particularly the lower mainland, will continue to decline but not as dramatically as Central Canadian rates. Expect rates in B.C. to be in the 9.5% to 10% range and lower mainland rates in 8% to 8.3% range by year end.

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

This edition of the Bulletin will examine the potential roles that specialty wood products and advanced ceramics may play in B.C.'s future economy. The possibilities that these sectors offer, and the means by which they may be realized, suggest interesting avenues for growth in some of the province's major industries. Additional articles examine developments within the provincial mining sector, the emerging dude ranch industry and the often overlooked food and beverage processing sector.

Specialty Wood Products

There is a clear consensus that the key opportunities for major growth within the province's forest industry lie in the manufacture and marketing of more diverse, and higher valued, specialty wood products. For industry members this implies **a need for a commitment to a redirection in business planning from the high volume manufacture of lower value commodity lumber, to one that balances commodity production with higher value specialty production.**

Specialty wood production encompasses a wide variety of operations ranging from simply sorting primary lumber to any combination of sorting, drying, resawing, dressing, ripping, cutting, finger-jointing, edge gluing and even packaging. Market opportunities for remanufactured B.C. softwoods look positive as **a developing global hardwood shortage is forcing the use of softwood species in the manufacture of specialty products in joinery,furniture, doors, windows, etc.** Additionally, as **Scandinavia is experiencing diminishing yields from its forests, it will only be able to supply 2.5 million, of the 6 million, cubic meters of joinery products annually marketed to Europe.**

Recently conducted analysis on the province's specialty wood products industry utilized a number of business models to determine the potential added value that could be extracted from B.C.'s forest resources. The analysis revealed that even a marginal increase in the volume of specialty products, attained through improvements in fibre and grade recovery at the primary processing level, resulted in substantial revenue gains. **Sales revenue improvements ranged from 20% for coastal hemlock to 30% for interior lodgepole pine. Moreover, the early removal of specialty fibre at the primary level served to lower processing costs which, when factored with the increases in sales revenue, resulted in improvements in gross profit of 1098% for hemlock and 165% for pine.** Further analysis was also undertaken of a model remanufacturing plant using upper grade coastal hemlock . The results indicated that **such a plant could generate a gross profit per thousand board feet 234% higher than that of a modified primary mill.** These findings suggest that significant potential for additional revenue is available throughout the entire specialty production spectrum - from sorting through to the manufacture of finished products.

The analysis also highlighted two principal obstacles to the expansion of specialty wood production: a lack of industry commitment to the strategy of balancing commodity and specialty production, due to misconceptions about specialty wood products; and, a lack of adequate specialty wood market promotion and exploitation.

In light of the results of the fore-running analysis, a number of actions present themselves as appropriate, including: an extensive promotional campaign for specialty wood products; a permanent display and headquarters for sector promotion; an Annual Wood Fair to foster market development; and, a major awareness campaign promoting the benefits of balancing specialty, with traditional, wood production.

These actions may be part of future public and private sector efforts to encourage growth in this industry. Meanwhile, consideration is being given to a plan, involving DRIE and other interested departments, to conduct a major symposium and regional seminars, to promote a greater awareness and understanding of the benefits that specialty wood production has to offer.

Advanced Ceramics

The revolution in advanced ceramics began over a decade ago to fill important industrial needs for materials with superior mechanical, thermal, electrical, chemical and optical properties. These materials will help lead the technological advance by making products and processes more competitive, more reliable and less expensive.

The **global market for advanced ceramics is expanding quickly and is expected to reach $30 billion dollars by 2010.** Consequently there is intense world wide competition to develop and commercialize advanced ceramic components. Japan is recognized as the world leader in the field, followed by the United States and a number of West European countries. In comparison Canada's industrial activities in advanced ceramics have been rather small, and from a government-industry strategy perspective, Canada is a late comer. However, a national industrial commitment to the application of advanced materials, and ceramics in particular, does appear to be slowly emerging.

At the provincial level, recent analysis has identified specific opportunities for expanding B.C.'s advanced ceramics industry in the areas of both product development and application. The analysis found that the presence of a small number of established firms in each area - ceramic powders, structural and functional ceramics- could form the basis for expansion to meet projected market growth.

The analysis also revealed a number of obstacles to the expansion of B.C.'s advanced ceramics industry. From the demand side, there is an apparent technology awareness gap such that B.C. industry is generally unfamiliar with the efficiency and productivity advantages that advanced ceramics offer. From the supply side, many of the province's existing advanced ceramic manufacturers identified a need for additional technological assistance and venture capital to carry ideas from the R&D stage through to production.

In addressing these opportunities and obstacles within the area of advanced ceramics it would appear appropriate that, among other things: a technology awareness program be developed to help disseminate information on the advantages of employing advanced ceramics in the manufacturing process; the implementation of a technology and product development program through existing R&D assistance mechanisms; the creation of an industry-university internship program to help match industry needs with academic skills; and, the implementation of a special industry development program to address the marketing, technology transfer, test facility and venture capital needs of B.C.'s advanced ceramics industry.

Mining

The B.C. mining industry has been experiencing mixed markets for its base metals: as an example zinc prices have continued to strengthen, while copper and aluminum prices have softened.

Despite modest price declines recently, gold has continued to be a dependable profit center, and many mining companies are devoting increasing amounts of resources towards enlarging gold production. Recent estimates for 1987 gold production in the province notch output at 350,000 oz, or nearly 11 tonnes, up 25% from the 8.7 tonnes produced in 1986. By 1990 production is expected to exceed 600,000 oz (18.7 tonnes) and surpass the peak annual production of 18 tonnes achieved back in 1939.

Another favorable development within the mining sector is the recently announced Canadian Exploration Incentive Program (CEIP) which will replace the previous flow-through financing program that is due to be phased out over the next two years. The CEIP will maintain investment interest in junior mining companies which do the bulk of grass roots exploration.

Tourism

Recent tourism studies in the United States have shown a shift in vacationer preference towards experience and adventure vacations, as opposed to destination travel. Given B.C.'s many spectacular natural attractions it seems in a good position to cater to such a change. One type of adventure vacation that has been experiencing a high level of growth in the province, 28% annually, is the full service **guest ranch**.

In 1986 the B.C. guest ranch industry generated **over $3.5 million in revenues from an estimated 102,416 visitor nights**. Total capital investment in the industry was over $20 million.

A recent market analysis of the industry, commissioned by the Federal Dept. of Regional Industrial Expansion and the Provincial Ministry of Economic Development, and conducted by Maclaren Plansearch, Tourism Research and Addison Travel Marketing, suggests that there is an **increasing demand for the guest ranch experience within both the North American and overseas markets.** The study found that visitors to the ranches were interested in experiencing an authentic western holiday where both adults and children could go horseback riding. Highlights for visitors on such vacations were the western hospitality, friendly people and food.

Although the guest ranch industry is growing, achieving **the full development potential of this tourism sector will require an increase in marketing.** Perhaps the B.C. guest ranch industry might follow the marketing example set by the Colorado guest ranches. Such a strategy would include both a generic awareness program that promotes the B.C. guest ranch experience to all markets, and the development of ranch specific advertising campaigns. Target markets for such a strategy could include the Pacific Northwest, California, Alberta, Germany, Switzerland, and Ontario.

Did You Know ?

The estimated proportion of Fortune 500 companies participating in advanced ceramics activities:	**1/5**
Value of advanced ceramic products used annually by B.C. industry:	**$35 million**
Proportion of this used by the mining industry:	**1/2**
The annual increase in world supply of newly mined gold:	**50 million oz**
Percentage this adds to existing stocks:	**1%**
The number of jobs directly linked to each $1 million in flow-through exploration funding:	**21**
Estimated number of jobs such funding has created nationally over the last 5 years:	**50,000**
Percentage of dude ranch visitors that are repeat customers:	**60%**
Day of the week employees are most productive:	**tuesday**
Least productive:	**mon. & fri.**
Value of exports of Cdn. whiskey to Japan for the first 10 months of 1987:	**$15.7 million**
12 months of 1986:	**$6.5 million**
Price for 25oz bottle of Crown Royal:	**$100**

The process to create cookies with soft texture and long shelf life was originally developed for moist and chewy dog food.

Value of shipments of Cdn. chewing gum manufacturers for 1985 (000's):	**$203,435**
Cdn. Wineries (000's):	**$256,227**
Copper prices $U.S. per lb.	
January 1987:	**$.60**
January 1988:	**$1.50**
May 1988:	**$.98**

BRITISH COLUMBIA'S FOOD AND BEVERAGE PROCESSING INDUSTRY: THE SLEEPING GIANT

While agriculture and fishing are generally recognized as major components of B.C.'s economy, the processing of these primary resources is not. However, it is noteworthy that the value of shipments from food and beverage processing plants, $3 billion annually, is more than double the value of farm receipts and landed fish combined.

Within the manufacturing sector, food and beverage processing is one of the key industries in B.C. Figures for 1986 reveal that food and beverage ranks second in employment, with 20,000 people; third in the value of shipments, at $3 billion; third in the value of its export sales, $900 million; and third in the value added to its factors of production, $1 billion.

Nationally, food and beverage processing is a $40 billion industry that has grown by more than 10% since 1984. The four largest subsectors - meat, dairy, fruit & vegetable, and brewery products - account for over half of the industry's sales.

Internationally, world trade in high value agricultural products, including processed commodities, now exceeds world trade in bulk agricultural commodities. Moreover the market value of these higher value commodities is projected to continue to grow significantly over the next few years.

Within B.C. sales and employment levels in the food and beverage industry have risen 18% and 15% respectively since 1984. Of additional interest is the effect that such industry growth has on the Provincial economy. It is estimated that every dollar spent in the food and beverage processing sub-sector stimulates a total of $3.10 worth of economic activity in B.C.

The future of the food and beverage processing industry also contains some real challenges. Domestic demand projections are flat; competition in foreign markets is expected to increase as agricultural productivity improves in developing nations; and, developed nations move to remedy surplus food disposal problems. Other foreseeable challenges include the recent GATT rulings concerning the export of unprocessed fish and opposing the differential pricing policies on imported wines by provincial liquor control boards. As well, the impact of the Free Trade Agreement, will encourage the Province's food and beverage industry to make some adjustments.

In response to these environmental changes it has been suggested in a recent report prepared for the Science Council of B.C. that new products must be developed, improvements to processing efficiencies be pursued and markets be more aggressively developed. To these ends, the report recommends that there be a push in applied research in the agriculture and food sector to: develop innovative, high value products; and, develop packaging and storage processes which increase consumer satisfaction and convenience, add to product life, and increase market penetration. Additionally, it was recommended that there be increased research aimed at improving the efficiency of B.C.'s food processing and marketing operations.

An upcoming event that will profile the food and beverage industry is Food Pacific, Aug.30 - Sept.2 at B.C. Place Stadium. This exposition, which also promotes Vancouver as Canada's gateway to the rapidly expanding marketplace of the Pacific Rim, is expected to attract more than 18,000 trade visitors and feature over 500 exhibitors from some 30 countries. Food Pacific will offer a glimpse at a vast array of Canadian and international food and beverage products in addition to providing an exceptional opportunity to initiate trading arrangements in a number of domestic and international markets.

Post script: New Zealand has recently relaxed import restrictions on smoked salmon, which opens new markets for B.C. fish processors.

Calendar of selected events

"Manufacturing Strategies for the 1990's" (UBC Programmes), June 6-7, 1988, Vancouver, B.C., Cost: $875.00 per person, Contact: (604) 224-8400

Vancouver Enterprise Forum: Soft-Set Technologies Ltd., June 14, 1988, Robson Media Centre, Vancouver, B.C., Cost: $12.00 (includes diner), Contact: (604) 430-3533

Montreal International Computer & Office Exhibition, June 8 -10, 1988, Place Bonadventure, Montreal, Quebec, Contact: (513) 288-8811

"High Temperature Superconductivity", address by Dr. Jess Brewer, University of British Columbia, June 9, 1988, Engineers Club, Vancouver, B.C., Contact: The Association of Professional Engineers of the Province of British Columbia, Vancouver Branch, (604) 736-9808

The 11th Biennial National Petroleum Show, June 14 - 16, 1988, Stampede Park, Calgary, Alberta, Contact: Administrative Assistant, National Petroleum Show, Suite 300, 999-8th St., S.W. Calgary, Alberta, T2R 1N7

"Making Global Connections", Conference focuses on the evolving trade relationships between Canada and its trading partners, June 19 -21, 1988, Ramada Renaissance Hotel, Edmonton, Alberta, Contact: Bob Gawreluck, (403) 441-4780

"International Trade in Theory and Practice", July 25 - August 12, 1988, Seattle Pacific University Campus, Seattle, Washington, Contact: Washington Council on International Trade, (206) 443-3826

"Food Pacific '88", August 30 - September 2, 1988, B.C. Place Stadium, Vancouver. Contact: (604) 276-2277.

"Aquaculture International '88", September 6-9, 1988, at the Vancouver Trade and Convention Centre. Contact: Bill Ellwyn at (604) 641-1411.

International Conference on Timber Engineering, September 19 - 20, 1988, The Westin Hotel, Seattle, Washington, Contact: Confernces and Institutes, (509) 335-2946

"Wood Expo", September 22-24, 1988, B.C. Place Stadium, Vancouver. Contact: Georgena Good, (604) 433-6125.

International Food and Agriculture Show, September 29 - October 5, 1988, Place Bonadventure, Montreal, Quebec, Contact: (514) 745-0280

International Food and Drink Exhibition, October 10 -13, 1988, Australian Exhibition Services, Melborne, Australia.

"Tourism - Vital Force for Peace", Oct. 23-27, 1988, Trade and Convention Centre, Vancouver, B.C., Contact: L.J. D'Amore, (613) 526-3280

"International Business and Investment Exposition", November 7-9, 1988, Vancouver Trade and Convention Centre. Contact: John Bavlovich, (604) 669-3818.

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