

A Canada West Foundation Publication

# Dialogues

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Summer 2005

## **CHINA'S RISING OPPORTUNITIES**

western Canadian exports booming

## **LABOUR PAINS**

filling the skills shortage gap

## **THE ECONOMY IS ON A TEAR**

but some structural issues remain

## **MISSING THE FOREST FOR THE TREES**

the forestry sector is transforming the West

# ECONOMIC POWERHOUSE

Canada's economy shifting West





## Our Vision

*A dynamic and prosperous West in a strong Canada.*

## Our Mission

*A leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces, the territories, and all Canadians.*

In 1970, the One Prairie Province conference was held in Lethbridge, Alberta. Sponsored by the University of Lethbridge and the Lethbridge Herald, the conference received considerable attention from concerned citizens and community leaders. The consensus at the time was that research on the West (including British Columbia and the Canadian North) should be expanded by a new organization.

To fill this need, the Canada West Foundation was established under letters patent on December 31, 1970. The first Canada West Council was elected in June 1973.

Since that time, the Canada West Foundation has established itself as one of Canada's premier research institutes. Non-partisan, accessible research and active citizen engagement are hallmarks of the Foundation's past, present and future endeavours. These efforts are rooted in the belief that a strong West makes for a strong Canada.

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## Letter from the Special Editor

# Economic Prosperity for the West: The Third Option

BY TODD HIRSCH

Western Canada has been enjoying enviable days lately. By almost any yardstick you choose - unemployment rates, GDP growth, capital investment, rising wages - the West is the place to be in Canada. While central and eastern Canada struggle with a sluggish manufacturing sector and weak employment growth, the West is roaring ahead.

Large-scale construction activity is revitalizing downtown Winnipeg. Expansions of uranium and potash mines are planned across Saskatchewan. Calgary bustles as it scrambles to keep up with housing demand. The lower mainland of British Columbia is being transformed with massive new transportation and infrastructure projects.

It is important to note, however, that while the economy of the West as a whole is performing well, the same cannot be said of all individual regions or sectors in the West. Manitoba's economic growth is barely keeping up with the national average. Pockets of the BC interior and coastal region, ranching communities in Alberta and

Saskatchewan, and companies exporting non-resource commodities have been struggling. For the most part, though, the times are good.

It is no secret that natural resources have been fueling the current boom. As rare as the aligning of the planets, prices for most of the West's natural resources are currently enjoying lofty heights. Prices for crude oil, natural gas, lumber, coal, base metals, uranium, hydro and potash are being lifted by strong world demand. Even prices for most cereal and oilseed crops are decent.

Will the good times keep rolling? Or will the whole economic boom come crashing to a halt if (or when) commodity prices fall? No one can say for sure, but the probability of a major downturn in commodity prices - and along with it, western Canada's economy - is not zero.

So, how do policy-makers manage the current economic, resource-driven boom? How do we keep the boom from turning into a bust?

Typically, when this question is

posed, the chorus rings out with calls for greater economic diversification and more "value-added" industries. "Let's not just be the hewers of wood and drawers of water," they say. "Let's be the makers and assemblers and processors. Why send our wood and grain and oil somewhere else when we can create manufacturing jobs right here in the West? Let's keep the wealth creation at home!"

It all sounds good and makes for great political speeches. But the whole "value-added" theory has some serious flaws, and western Canadian policy-makers had best examine these flaws before they put any public money towards half-baked ideas.

Before tackling the problems of trying to foster "value-added" manufacturing in the West, let's back up a step and consider the old, worn-out, misguided criticism of western Canada as being the "hewers of wood and drawers of water."

Back in the days of Joshua and the Old Testament (from which this reference is taken) "hewers of

wood and drawers of water” meant something different. The term referred to slaves - people cursed to serve as bondmen doing grunt work for the princes of the land.

In western Canada in 2005, things are completely different. Our modern-day “hewers of wood” in the forestry sector, for example, are highly trained, highly paid technicians. As Neil Shelly puts it in an article in this magazine: “A modern mill is a futuristic combination of computers, robotics, precision instruments and machinery, and today’s forest harvester linked by GPS guidance works a joy stick, not an axe, to fell trees.” Some hewers of wood!

The point is that one of western Canada’s greatest comparative advantages lies in its ability to efficiently extract natural resources. But those who extract resources with today’s modern systems and machinery certainly should not be belittled with the “hewers of wood” cliché. Let’s just stop using this phrase altogether - it is meaningless and insulting.

Back to the question of “value-added” and economic diversity. Is the answer to build factories to turn wood into chairs, wheat into pasta, and copper ore into wire? Maybe, but not necessarily. Of course one can point to examples of manufacturing across the West that have been successful. But one does not need to look too far to find myriad examples of economic diversification fiascoes (many that were paid for with tax money).

The problem with building value-added manufacturing facilities in the West is two-fold.

First, geography is clearly against us. Try as we may to convince ourselves that our large cities are only a short trucking distance from major markets, we might as well face facts we are in the middle of nowhere in a sparsely populated continent. The “just-in-time delivery” demands are simply not going to be met if you are shipping from Saskatoon to

New York, Edmonton to Tampa or Vancouver to St. Louis.

Secondly, our wages are high. This is both an advantage and a curse of living in a wealthy, progressive, first world nation. The sewing, bolting, packaging and other assembly-line tasks associated with “value-added” manufacturing are usually quite low-skill jobs. We just cannot compete with lower wage countries such as China, India, Bangladesh or Thailand.

Where does that leave western Canada? Are we destined to be solely the producers of natural resources for the world (albeit highly trained and well paid)? If value-added manufacturing is not the solution to diversification, what is?

There is a third option that, I believe, paves the way for western Canada to prosper and succeed with or without high commodity prices. It lies not in the manufacturing of consumer items, but in the design, research, testing, and imagination that these items require. Why not design the chair in Kamloops, test the new hybrid of wheat in Winnipeg, develop the more efficient system of enhanced oil recovery in Edmonton, and create the new line of clothes in Prince Albert?

Western Canada’s economic strength runs far beyond our riches in natural resources. Doubtless, these resources have brought us to where we are, but let’s think about where we would like our economy to go.

Public policy has a huge role to play in ensuring western Canadians have access to top-rate education from K-to-12 to the post-secondary system. Governments must ensure that public money goes towards developing world-class research facilities, modern infrastructure and classroom space. We need more training centres and medical research laboratories, not more potato chip factories.

Economic booms like this one are rare. Let’s seize this chance to

propel the West into a whole new era of natural resource extraction - the resources of our ideas, our research and our creativity.

*Todd Hirsch is the Canada West Foundation’s Chief Economist*



# Economic TRANSFORMATIONS in Western Canada



BY ROBERT ROACH

Three things are immediately apparent when thinking about western Canada's economy. First, it is one of the most advanced and productive economies in the world. From massive natural resource harvesting to world class service industries, western Canada's economy is competing and succeeding in continental and global markets. The result is a very high standard of living and an elaborate system of physical, financial, and educational infrastructure that will be instrumental in maintaining and increasing our economic prosperity in the years ahead.

The second thing one notices is the tremendous amount of change that has occurred in the western economy over the last 30 to 40 years. The advances in oil sands

recovery techniques, a film industry that attracts A-list Hollywood actors and directors, breakthrough medical research, increased agricultural productivity, and computers in virtually every office, warehouse and factory hint at the many transformations that have shaped and re-shaped the West's economy in recent decades. As Todd Hirsch points out in his Letter from the Special Editor in this magazine, the old image of a hinterland populated by "hewers of wood and drawers of water" is

badly out of date. The West's economy is high-tech, diverse, and able to support a standard of living that rivals anywhere else in the world.

The third thing that stands out about the western Canadian economy is, that despite the many transformations it has undergone, its core strengths remain much the same today as they did in the past. These strengths include the region's rich endowment of natural resources, its agricultural capacity, and its people. The latter strength



Photo: Travel Alberta

The West's economy is able to support a standard of living that rivals anywhere else in the world.

is particularly important for it is the hard work, creativity, entrepreneurialism, and skills of western Canadians that built the Old West and transformed it into the New West of today.

Oil does not find its way from remote subterranean reservoirs to plastic factories by itself; high-yield crops do not grow and end up on tables around the world on their own; airplane parts do not manufacture themselves; the financing and execution of new ventures does not spring from the ether; and so on. The western economy is successful because westerners make it successful. Hence, the importance of human capital and of being able to plan ahead and proactively shape the future of the western economy.

It is at this juncture that a think tank like the Canada West Foundation can play a critical role. While other westerners are busy keeping the economy going, we can step back and ask some key questions: What are the transformative forces that will shape the western economy over the next 10, 20 and 30 years? How do we seize the opportunities that these changes will bring? How do we best overcome the challenges that lie ahead? What do we know today that will help us in the future?

These questions are at the heart of a major new Canada West Foundation project called **The NEXT West**. The goal of this project is to help westerners understand where we are today and where we are going to be tomorrow so we can maintain and increase both our

economic prosperity and quality of life. The project will examine the economic transformations that will, or should, animate the western Canadian economy in the years ahead. The project will also explore the generational and community transformations that the region is likely to experience as we march deeper into the 21st Century and recommend ways that public policy can respond to, keep up with, and maximize the benefits of these changes.

The entrepreneurial and creative spirit of westerners will serve us well as we conduct this critically important research. In this regard,

we look forward to connecting with as many westerners as we can to learn from their experience and their sense of where the West is headed. It is this input that will “put meat on the bones” of The NEXT West Project. If you would like more information about this exciting endeavour, please do not hesitate to contact me (roach@cwf.ca).

*Robert Roach is Director of Research with the Canada West Foundation*

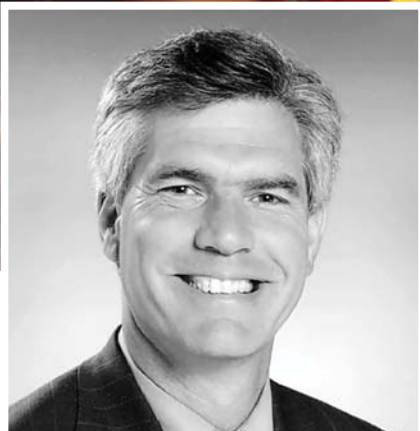


*Photo: Travel Alberta*

What are the transformative forces that will shape the western economy over the next 10, 20 and 30 years?

# Manitoba's precious asset

## IMMIGRATION KEY TO PROVINCE'S PROSPERITY



BY JIM CARR

If you ask a group of Manitobans, let's say one hundred people, where their ancestors were hanging out when Canada became a nation in 1867, you would get at least twenty answers within thirty seconds. Of the hundred, maybe a handful would say "Canada." If they did, it would likely be in Quebec, or maybe one or two in the rural prairie. If there happened to be any Aboriginals in the crowd, then they would know exactly where in Canada their forefathers and mothers were living and what they were doing. From the rest, you would hear "Philippines, China, India, Japan, Korea, Chile, Argentina, Russia, Poland, Italy, Ukraine, England, Ireland, Scotland, Wales, France, Iceland, Germany, United States, Switzerland and the Netherlands," among others.

Not bad for thirty seconds in a random crowd.

It is little wonder then, that Manitobans are leading the country, by far, in their acceptance and use of the Provincial Nominee Program (PNP). This is an agreement signed by Manitoba and Ottawa, and offered to the other provinces, which allows the provinces to recruit immigrants according to their particular economic and demographic realities. Canada maintains control over the final granting of a visa and performs the health and medical checks necessary for any would-be immigrant to Canada. But the province does most of the work, and really does control the selection process.

This program has been a big hit and a big deal for Manitoba. In 1998, it welcomed 2,981 immigrants, the same year that the Provincial Nominee Program was signed with Ottawa. In 1999 - 3,698, in 2000 - 4,610, in 2001 - 4,583, in 2002 - 4,621, in 2003 - 6,492, in 2004 - 7,427 immigrants arrived. This year, 2005, we are anticipating

welcoming more than 8,500 immigrants, of which more than half will be through the PNP. The Governments of Canada and Manitoba have set a goal of landing 10,000 immigrants a year for Manitoba, a number roughly equal to Manitoba's share of the national population.

In an evaluation of the Manitoba Provincial Nominee Program done by ProLogica Research in 2001, it was found that 90% of Provincial Nominees who initially came to Manitoba continued to live here and 94% of principal applicants and 44% of adult dependents who came to Manitoba through the PNP were employed. Not one was on social assistance. It is no coincidence that, since the Manitoba initiative took off, other economic indicators in the province have taken off too. For example, we have an acute housing shortage. All the demographers were wrong. They thought Manitoba was a no-growth or slow-growth jurisdiction and that available land for housing subdivisions would be sufficient





**Immigrants are doing extremely well in Manitoba**

to meet the sluggish demand. The demand is so intense that housing prices have shot up, developers are frustrated at insufficient available land to develop, and young families are trying to figure out where they will live in such a tight housing market.

The impact of the influx of immigrants is not confined to Winnipeg or the Capital Region. Hundreds of German speaking Mennonites have settled in rural Manitoba, especially in the southern communities of Steinbach, Winkler and Altona. These new Manitobans are made to feel at home by others who share language, religious tradition, work ethic and entrepreneurial spirit. These communities are vibrant and healthy. The unemployment rate is virtually zero.

The results are not perfect. Too many of these immigrants are not able to find work that uses their knowledge and training. There are still doctors and other professionals who are underemployed and who are frustrated by the lack of opportunity to realize their full potential.

But some progress is being made. For example, it is much easier than it was for foreign-trained physicians to have their education assessed and their knowledge tested en route to remedial education and intern-

ship possibilities, especially outside the City of Winnipeg. A real opportunity for Manitoba is to offer a speedy path to full accreditation for professionals and trades people who want to work in this province. Leading the nation in accrediting skills would give Manitoba a competitive advantage in a world where competition for skilled workers is intense.

Language is always a problem. It is painfully clear to any immigrant without a command of English or French that the battle is uphill. It is made easier by English as a Second Language (ESL) programs and a commitment by government to make these programs available, but more is needed. And it is also true, sadly, that some employers who require Canadian experience before hiring an immigrant are not willing to provide those immigrants with Canadian experience. This conundrum persists. And it is also true, sadly, that some employers are reluctant to hire immigrants who are of a different colour and who speak with a heavy accent.

On balance, though, immigrants are doing extremely well in Manitoba. We have created a culture of celebrating diversity. It is not just a cliché - it is a reality. There are no majorities in Manitoba. We all come from somewhere else, or our parents or

grandparents did. There is no backlash to this aggressive immigration program, and there are no questions posed in the Legislature by opposition members that take issue with the goals of the initiative.

We have built a society here with people from every corner of the globe. We recognize that diversity makes us strong. It makes Manitoba a desirable place to live. It makes us a welcoming society. The PNP is an example of how that sense of community manifests itself in ways that go well beyond rhetorical flourishes; our economy is growing, our communities are stable. Manitoba's future, like its past, will depend on that influx of talented, hardworking men and women who realize that the freedom to be what one can be is the most precious asset any society can offer its citizens.

*Jim Carr is President and CEO of the Business Council of Manitoba and a Member of the Board of the Canada West Foundation*

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# THE EVOLVING BC ECONOMY



By DAVE PARK

The British Columbia economy is evolving, although some of the driving forces remain the same.

Historically, resource industries have been the foundation of the province's economic performance. As late as the mid-1990s, the several facets of the forest products industry (logging/forestry, wood products and paper products) accounted directly and indirectly for 25% of provincial GDP. Mining, mineral processing, oil and gas generated another 8% of GDP.

The forest industry, in particular, reached a limit some time ago in terms of physical output, although varying prices and market conditions have affected its economic contribution. On the other hand, oil and gas exploration and output has soared in recent years. And, given an enlightened regulatory regime and higher prices, the mining industry is showing signs of renewal.

For decades the BC economy was among the leading provinces in Canada. However, for much of the 1990s, economic growth in BC was flat. While most of the rest of Canada experienced significant economic growth, BC did not. Between 1991 and 2000, BC was last among the provinces in terms of increasing real economic growth on a per capita basis.

However, under the influence of a new provincial government that took office in 2001, this has changed. Real economic growth in BC in 2004 was 3.9%, the highest of any province in Canada. In 2002 and 2003, economic growth here

was nearly the highest in the country. Between December 2001 and December 2004, British Columbia had the highest rate of employment growth in Canada, with nearly 200,000 new jobs. The unemployment rate in BC was 6.1% in December 2004 compared with 9.7% in December 2001. The May 2005 unemployment rate of 5.7% is the lowest in 25 years. From 2001 to 2004, growth of private sector investment in BC was 26%, second only to Quebec. BC housing starts nearly doubled from 2001 to 2004.

The forest industry has surged, oil and gas exploration and development is proceeding at a rapid pace, mining is making a remarkable comeback, the construction industry is at capacity, there is positive in-migration from other provinces and retail sales are surging. Consumer confidence and business confidence are high.

Clearly British Columbia's economic performance over the past four years has been remarkable, and prospects for the next few years appear very favourable. The outlook is for modest inflation and low interest rates, a reasonably stable currency, continuing buoyant growth in Asia and economic progress in the US. These trends, together with strong domestic construction activity, are indicative of continuing healthy economic activity levels and increasing employment in BC.

The very strong growth of the economy of China is a major factor in the growth of the British Columbia economy. The surge in the prices of commodities produced in BC coupled with a large increase in the volumes shipped is a key to the prosperity that the province is enjoying. In addition, container shipments from China to North America are straining the capacity of all of the container ports on the west coast of the US and Canada.

The rapid growth in container shipments and other cargo is stimulating very substantial development of British Columbia's

ports. Container capacity is being expanded substantially at Lower Mainland ports, and a whole new container port is slated to be constructed at Prince Rupert. The latter has the advantage of a greatly underutilized railway leading through the mountains and prairies to the key markets of the US Midwest. The British Columbia Ports Strategy embracing all of these developments is helping to focus the substantial efforts required on the part of many players to harness the potential of Canada's west coast ports.

The build up to the 2010 Winter Olympics will help to sustain the remarkable economic growth that the province is enjoying. Estimates of the economic impact of the games include over \$700 million of capital investment on facilities and \$600 million on highway improvements. Direct and indirect effects will include 100,000 person years of employment and \$3.4 billion in wages, salaries and benefits.

A variety of other capital investment is also underway or planned. This includes expansion of the Vancouver Convention and Exhibition Centre, two large rapid transit projects in Vancouver, a major new bridge across the Fraser River, more than \$1 billion in airport expansion, and a like amount spent on new electrical transmission lines. Altogether, these projects involve expenditures of approximately \$10 billion between 2005 and early in the next decade.

In addition, the Olympics are having a positive psychological effect that will extend throughout the second half of this decade and provide a stage for ongoing trade and tourism. It is estimated that two billion people throughout the world will watch the 2010 Winter Olympics on television. Many key decision-makers will visit British Columbia

during the games. As has been the case with other successful Olympic games, this attention to the region is expected to initiate investments totaling hundreds of millions of dollars.

Residential construction in British Columbia is continuing at a very rapid pace. The province's economic growth coupled with an influx of population has resulted in a housing boom that shows no signs of letting up. The construction industry is operating at capacity and is projected to remain that way for the foreseeable future.

Advanced technology is increasingly contributing to the BC economy. While information technology remains an important component of this, the life sciences are becoming a key focus. The Michael Smith Foundation, Genome BC, BC post-secondary educational institutions and a host of life sciences companies have put the province firmly on the life sciences map.

For most of the 1990s, the provincial economy was in the doldrums, and it seemed unlikely that it would ever regain the lustre that it once had. However, in a few short years that dull perspective has been transformed into one of strong growth and optimism. Consumer and business confidence has been restored, and British Columbia is again an economic leader among the provinces of Canada.

*Dave Park is Chief Economist and Assistant Managing Director with The Vancouver Board of Trade*



**SMALL  
BUSINESS**

IS



**BIG  
BUSINESS  
IN WESTERN CANADA**

BY MARILYN BRAUN-POLLON

While many may have heard politicians say nice things about small- and medium-sized businesses (SMEs) during small business week, few realize the size and scope of this sector and its overall importance to the western Canadian economy. Even fewer understand the significant obstacles entrepreneurs must overcome in order to stay in business.

Over the past 35 years the small- and medium-sized business sector's role in the Canadian economy has grown considerably, so that it now generates over 50% of total employment and GDP. Today, 95% of western Canada's 375,751 plus businesses employ fewer than 50 people and smaller firms can rightfully lay claim to creating the bulk of new jobs - in good times and, more importantly, in bad ones.

In fact, a recent report by Leger Marketing found that Canadians trust SMEs more than the government or multinationals to create

jobs. Research results found that two Canadians out of three (66%) mainly trust SMEs to create jobs.

Entrepreneurship is very much alive and well in western Canada. The most recent Statistics Canada data indicate that there are roughly 882,100 self-employed people in western Canada. In fact, western Canada's SMEs accounted for 58% of the total business employment in 2004.

A key component of the development of western Canada over the decades has been the contribution and vision of its entrepreneurs. People who came to build their lives and their businesses were the foundation of western Canada and continue to be the heart of their communities. They are the key ingredients to a prosperous future as they continue to grow and diversify the economy, hire and train young people, pay taxes and contribute to their communities through volunteerism, donations and sponsorships of local events.

The fact that self-employment continues to be a growing force in

the economy is hardly surprising. One consistent theme among small business owners is the great sense of personal satisfaction that comes from being in charge of your own destiny and making a positive contribution to your community. Turning something you love to do into a profitable business is a dream for many Canadians. Who would not want to spend their days completely engaged in a pursuit that not only gives them a great sense of pleasure and accomplishment, but that also pays the bills? That is not to say that operating a small business is easy, but most people who have been there believe that the benefits are well worth the cost.

Recent surveys of the Canadian Federation of Independent Business (CFIB) revealed that nine out of ten small business owners agree that independence and control over their decisions is the most rewarding aspect of being an entrepreneur. Even though 92% of entrepreneurs find running a business stressful, the

benefits of being their own boss still measure very high. Despite the long hours and the reduction in the amount of personal time, entrepreneurs value their ability to decide their own futures and take great pride in the ownership of their businesses.

One of the great strengths of CFIB, and the small business community in general, is the diversity of the membership, be it cultural, geographic, linguistic or by gender. CFIB is a non-profit, non-partisan political action organization that has been representing the interests of small and medium-sized Canadian-owned enterprises since 1971. With over 105,000 members across the country (30,000 in western Canada), CFIB is the largest individual membership business organization in Canada.

CFIB's role is to ensure that the important contributions small business owners make to their communities and to the economy are understood by decision-makers, and to work at improving the business climate in order to maximize Canadian entrepreneurs'

chances for success. CFIB exists to promote and protect a system of free competitive enterprise, to strengthen the entrepreneurial culture in Canada, and to give independent business a greater voice in determining the laws that govern business and the nation.

At the same time as small businesses are creating jobs and contributing to economic prosperity, they are also committed to generously giving back to their communities through involvement in charities and community causes. In spite of the many challenges faced by small businesses - heavy tax burden, excessive red tape, and shortage of skilled workers to name a few - nearly all contribute in some way or another. In fact, CFIB's research revealed that 80% of small business owners in western Canada contribute cash donations to support community groups and organizations and 62% contribute in-kind donations of products and services. But the giving does not stop there. Small business owners are also volunteering their time, promoting local events or charities, and enabling employees to volunteer during work hours. It is pretty clear that small business owners in western Canada are committed to caring.

Small business owners deal with a number of factors in the course of a day. While some of the factors are beyond the control of governments (e.g., BSE), many are within the policy scope of national, provincial, and local governments. These should be examined if all parties are serious about growing the small business sector. When looking closer at each province, it is no surprise to see that businesses in Alberta and BC continue to lead the nation in their level of optimism. Alberta's competitive tax rates and a hospitable environment for entrepreneurs have allowed it to grow and flourish. Alberta firms are also bucking the national trend when it comes to employment plans. BC's economic conditions have improved

considerably since the dismal decade of the 1990s. The BC government's recent regulatory reform has made itself a leader in regulatory accountability by finding a good way to measure the regulatory burden. While progress has been made on some fronts in both Saskatchewan and Manitoba, their level of optimism continues to lag their Alberta and BC counterparts. It is evident that more work is required in order to improve Saskatchewan's and Manitoba's overall level of competitiveness.

Running a small business is hard work; for most small business owners, time is often in short supply. Public policy must, therefore, facilitate the efficiency of small business rather than hinder it. Governments at all levels must continue to work to provide measures that further build on one of western Canada's key economic strengths - the small and medium-sized business sector.

*Marilyn Braun-Pollon is Director of Provincial Affairs for the Saskatchewan Canadian Federation of Independent Business*

#### **Battle River Pioneer Museum, Manning**

*Photo: Travel Alberta*



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# Help Wanted: Resolving the Petroleum Sector's Labour Woes



BY CHERYL KNIGHT

Sustainability, the mantra of today's oil and natural gas industry, usually refers to matters such as environmental stewardship, assured access to resources, clear regulations, proactive stakeholder engagement, and a competitive investment climate. Since October of 2003, however, many more in the energy business have equated the sustainability of their sector with the assurance of an adequate, well-trained and stable workforce.

That is when the Petroleum Human Resources Council of Canada published *The Decade Ahead*, a landmark report that forecasts skilled labour shortages in the industry, particularly in western Canada, in the absence of swift, collaborative and strategic action. The Council's comprehensive, third-party study was the first to provide hard numbers that reinforced subjective

beliefs about the pending skills shortage and to prescribe viable solutions on a national, industry-wide basis.

## A Canada-wide concern

Concerns about a calamitous labour shortage are widespread in Canada. In fact, many business leaders now see addressing the shortage as their top priority.

Since the 1960s the Canadian birth rate has been so low that only immigration keeps our national population from shrinking. Compounding the problem is the coming retirement of the baby boom generation. Statistics Canada says that our declining birthrate and the imminent retirement of baby boomers means that 100% of our net labour force growth must come from immigration as early as 2011.

Yet unemployment numbers seem to tell a different story. Nationally, the rate stands at nearly 7% - more than one million people want jobs. In western Canada, there are an estimated 330,000 people looking for work.

The apparent discrepancy vanishes when you realize this is

less a matter of numbers than of skills. Productivity and competitiveness demand a well-trained workforce and Canada is not educating enough skilled workers for both existing and emerging job opportunities.

## Meeting the challenge in the petroleum sector

The situation in the upstream oil and natural gas sector is the same, only worse.

Once an industry carried on the strong backs of prairie farm boys, it has evolved into a sophisticated business that relies on leading-edge technology and job specialization. Its growth has been explosive because of growing world demand and rising commodity prices. Today, the industry is the largest single private sector investor in the country, contributing \$18 billion to government revenues, underpinning the livelihoods of 500,000 Canadians, and accounting for more than half of the nation's merchandise trade balance.

*The Decade Ahead* provides forecasts of demand for skilled workers in key occupations across Canada's four oil and natural gas producing regions. Even based on the assumption that the price of oil would be lower than \$27 a barrel, which seemed reasonable in 2003, the report found that many thousands of new workers will be needed in western Canada and, to a lesser extent, on the East Coast and in the North.

The Athabasca oil sands near Fort McMurray, which account for one-third of our production already and represent the industry's future, face the greatest challenge. In the next decade, an additional 8,000 highly skilled, permanent workers must be recruited, trained and retained.

Then add thousands more to fill construction and indirect jobs. Phil Lachambre, Executive Vice-President at Syncrude Canada Ltd. and head of the oil sands industry-driven Regional Issues Working Group, calls this "a significant challenge."

### The crucial role of the Petroleum Council

The Petroleum Human Resources Council of Canada is among more than two dozen national sectoral councils that address issues relating to technological change, quality standards, planning and human resources development. Executive Director Gary Greenman of The Alliance of Sector Councils says that each council "unites the voice of industry with the voice of labour to create a collaborative forum that can drive systemic change."

The Petroleum HR Council, established in 2001, pools the talents of industry and union representatives within the upstream industry.

*The Decade Ahead* report identified critical issues ranging from skill shortages to shifting regional demands to the employment challenges faced by non-traditional workers. Since

2003, the Council has worked closely with national stakeholders to develop a cohesive strategy for addressing the most pressing concerns.

When it comes to dealing specifically with skills shortages, the Council's approach is to:

- Share information;
- Promote careers in the industry;
- Assist in workforce development; and
- Create alliances and networks.

The petroleum industry is filled with innovators and I have great faith in their ability to tackle tough problems. Our skills and workforce shortages stem from long-term human resources problems that will need concerted, industry-wide efforts and resources to address them.

While the Petroleum HR Council can and will serve as a catalyst for strategy development and innovative solutions at the national level, real change will take place only when companies put adequate resources behind long-term human resources planning.

To foster such change, the Council is developing:

- A strategy that aligns training programs with industry needs;
- An outreach strategy that increases understanding of the industry and the opportunities it offers to traditional and non-traditional pools of labour;
- A description of the key job families and occupations in the industry and requirements for entry-level positions;
- Occupational standards for "in-demand" and "safety-sensitive" positions; and
- Resources that make it easier to attract employees to challenging locations, optimize their skills for local conditions, and retain them in such places.

Is this a step in the right direction? Phil Lachambre certainly thinks so. "The Petroleum HR Council has quickly

become our key source of labour information. Previous to their involvement, we had no comprehensive view of our labour market.

They have identified gaps in our knowledge base, raised awareness in industry and government of the key issues before us, and developed a solid strategy for acting together to resolve those issues. While we all recognize that there is no short-term solution to the labour issue, the Petroleum HR Council has launched some important long-term initiatives."

"That's why," he adds appreciatively, "its work has been so well received by our industry."

*Cheryl Knight is Executive Director and CEO of the Petroleum Human Resources Council of Canada*

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# EMERGING role of POST-SECONDARY EDUCATION IN WESTERN CANADA

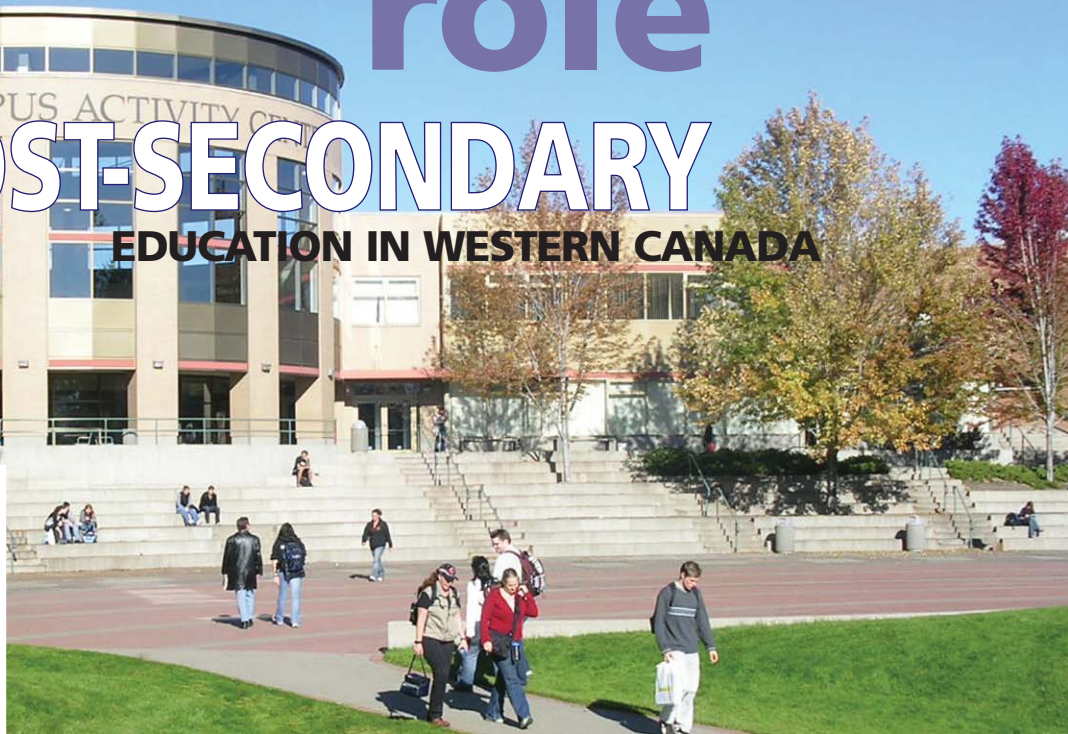


BY ROGER BARNSELEY

Canadians attach great credibility and prestige to the institutions we know as universities. That credibility is based on the traditional understanding of what a university is and does. But in western Canada, a new type of university is emerging.

Rather than simply delivering degrees and being research-driven, this emerging university is a comprehensive, teaching-focused institution strongly linked to meeting the needs of local and regional economies and communities which lie beyond our major urban centres.

But this new kind of university, while different in many ways from traditional universities, still meets the high standards of quality we expect from universities in Canada; in other words, it is really not as new as it appears.



Thompson Rivers University Campus

The development of post-secondary education in the West has been based on a system of local and regional colleges with clearly defined links to our larger, urban universities. That is in contrast to the East, where there are many more universities, but where colleges (especially in Ontario) are separate entities with no connection to the university.

In our 21st century economy, employees with both applied and academic skills are needed. Employees require the ability to know what to do, why they need to do it, and how to effectively communicate their needs. This new reality is part of what is driving change in universities, especially in BC. At the heart of this change is a new understanding of the positive effects that this new kind of university can have on smaller communities.

Thompson Rivers University (TRU) in Kamloops, BC, is the newest provincial university in western Canada, and dramatically illustrates this change. We are

witnessing a convergence in post-secondary education in the West - a convergence that is benefiting students, employers and communities.

TRU may be a new university, but it is not a new institution. It was founded 35 years ago as Cariboo College when post-secondary education was expanded into BC's interior. As they developed in the West, colleges offered adult upgrading, trades, and career diplomas, along with university courses in arts and science that were transferable to urban universities.

Two decades after the creation of community colleges in BC, however, it became apparent that, for reasons of economics and mobility, among others, less than 20% of students taking university courses at colleges actually transferred to a university. In communities across the province, there were literally thousands of people who started but never finished a university education.



In 1989, demand for degree access in the interior of BC led to the creation of a new kind of institution - the University College. While university/colleges in other parts of Canada were usually private, religious-based institutions, the new BC creation was a true combination of the traditional community college and public university.

Cariboo College became The University College of the Cariboo (UCC) offering full degree completion in Kamloops. The skeptics said a university could not be created alongside a college, but the UCC's leadership had a vision to take the concept far beyond the co-existence of university degrees and college diplomas.

If trade and job-entry certificates, career diplomas and degrees were all offered on one campus, why not make all of these opportunities available to students in a way that was seamless, and that did not require them to start over every time they wanted to add a new credential? Why not connect one- and two-year college programs to university degrees?

Over the past decade, UCC has made this vision a reality. Virtually all two-year diploma programs are connected to one or more degree completion opportunities, and most one-year programs are linked to a two-year diploma.

In the process of becoming a truly comprehensive, degree-granting university, the institution learned two important truths about post-secondary education:

- the economic, cultural and social impact of post-secondary institutions in smaller cities is significantly greater when you combine college and university in a comprehensive model; and
- unless you call it a university, no one actually believes or accepts this reality to be true.

From 1989 through 2002, UCC tripled in size: we now have 9,000

students in more than 100 programs, including almost 50 degree options. The international student body also expanded to 700 students from 45 countries around the world.

Economists have calculated that the direct economic impact of the institution on the community is in the hundreds of millions of dollars. More impressive is the response of employers who hire graduates with both diplomas and degrees. They experience firsthand the value of employees who have both applied skills and academic degrees. This provides both the employers and the workers with the combined power of theory and practice.

To add to the excitement of the success of the comprehensive model was the growing list of potential opportunities for, and the impact UCC could have on, the entire region. The notion of Kamloops as a "university city" began to take shape in people's minds. But there was still the nagging reality that, unless the institution was actually known as a university, many of these aspirations and opportunities would not be taken seriously.

It took a grassroots community organization two years to create the conditions that led to the next logical step in the evolution of post-secondary education in Kamloops: UCC became a full-

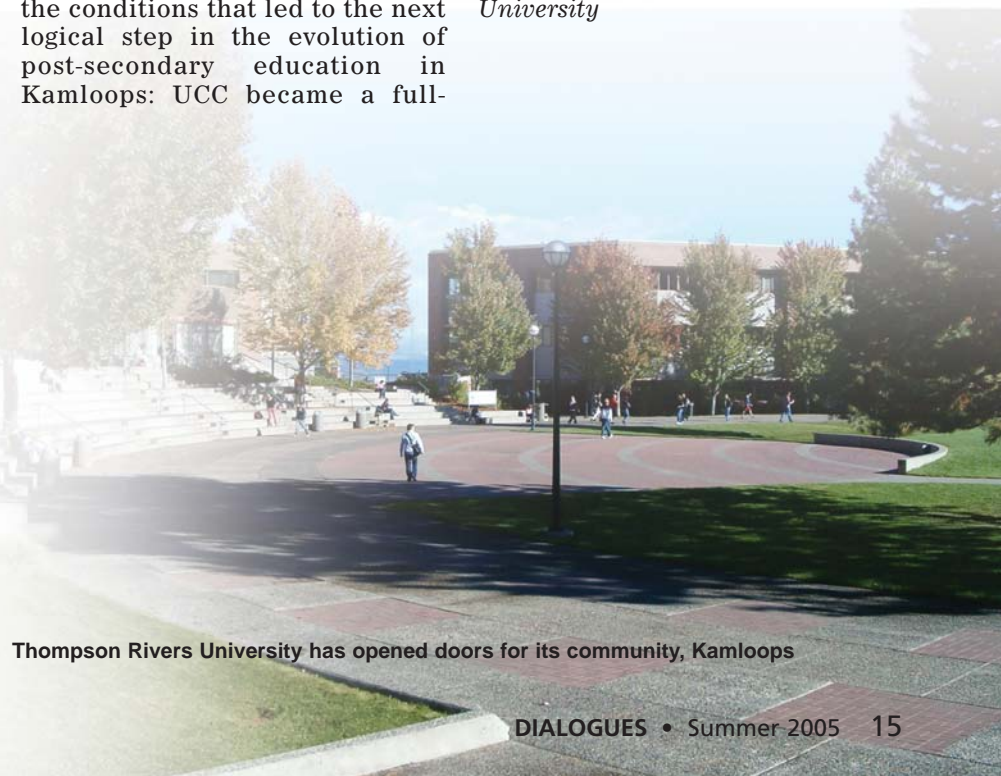
fledged provincial university on March 31, 2005, when Premier Gordon Campbell officially declared Thompson Rivers University (TRU) to be a reality.

TRU, barely a few months old, is already reaping the rewards. So is the community. Suddenly the map of Canadian universities includes Kamloops, and doors that were once closed are now opening. Whether it is access to funding for research or the development of new programs, it seems that when a "university" calls, people listen.

When the Mayor of Kamloops travels or the economic development office is promoting opportunities to business and industry, one of the first questions asked is "do you have a university?" Now, for the first time, they can answer yes without having to explain their hesitation.

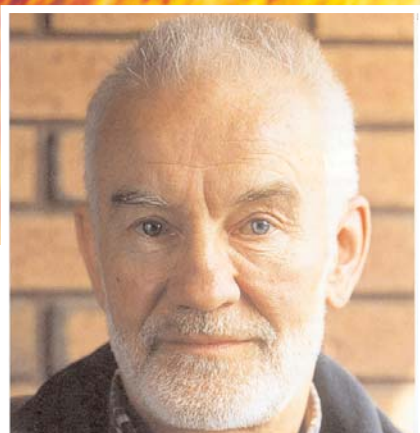
In the West, where our population is smaller and the majority is urban, convergence in post-secondary education may be the key to more vibrant regional economies through a comprehensive model of education delivered by a new kind of a university.

*Roger Barnsley is President and Vice-Chancellor of Thompson Rivers University*



Thompson Rivers University has opened doors for its community, Kamloops

# CHINA BECKONS



BY ROLF MIRUS

These days we all wear, use, or play with made-in-China products, and we read about the 9% real annual growth of China's economy while ours is plodding along at 2.5%. Of late, we also hear of Chinese companies' plans to acquire a nickel producer, an energy company, a pulp mill, and to participate in a new pipeline in Canada. Indeed, China is very much on our economic radar screen.

But how are Canadian exports to China doing? What has been happening to western Canada's and Alberta's exports to China? How do we stack up against our competitors? What are the prospects for the future of our business relationships with China?

## What has been happening to western Canada's exports to China?

Total Canadian exports to China have grown significantly this year. During the first quarter of 2005, exports were 19.6% greater than during the same period last year. This type of growth has helped counterbalance some of the consequences of the higher Canadian dollar for US destined exports.

Among western provinces, Alberta has been the most successful in sales to China, to the point where first quarter exports represented nearly a third of total Canadian exports to that country. The 65% year-over-year growth rate in export value is indeed phenomenal (though higher prices for our products played a significant part). To make sure that we are not just reporting a short-term phenomenon, let us put this growth in perspective by looking at the recent trends.

During the period 1999-2004,

Canada's total exports increased by nearly 16%. By contrast Canada's exports to China increased to the tune of 150%; western Canada's exports to China increased by 127%; and Alberta's by 215%. China has become Canada's fourth largest export market (after the US, Japan and the UK). In 2004, China displaced Japan as Alberta's second most important foreign customer. To be sure, the US still bought approximately 33 times as much from Alberta, but the \$1.76 billion of exports to China were \$0.5 billion greater than Alberta's exports to Japan.

## What are we exporting to China?

What, then, is the composition of western Canadian products sold to China? As one would expect, we are supplying raw materials and processed natural resource-based products to China. Table 1 (next page) shows the major product categories and their export values

Total Canadian exports to China, during the first quarter of 2005, were 19.6% greater than during the same period last year

Photo: Courtesy of Lorie Miller Hansen

**Table 1. 2004 Western Canadian Exports to China > \$100 Million with corresponding Alberta Values**

PRODUCT	WESTERN CANADA (\$millions)	ALBERTA (\$millions)
Organic Chemicals	852	811
Wood-pulp	851	177
Cereals	767	225
Fertilizers	275	0
Machinery (incl. Electrical)	190	103
Nickel and articles thereof	174	27
Fats and Oils	153	34
Salt, Sulfer, Earth and Stone	132	123
Misc. Grain, Seed, Fruit	118	27
Mineral Fuel, Oil, etc.	117	<1
Plastic	107	102

Source: World Trade Atlas, products listed according to 2-digit level of the Harmonized Tariff Coding System (HS Codes)

for 2004. Naturally, there are many more products exported to China, some of them sophisticated manufacturing products.

In the first quarter of 2005, the western provinces supplied 70.5% of Canada's exports to China. Historically cereal exports have been volatile. Wheat exports, for example, facing a 65% tariff, represent a source of supply for China when the domestic harvest falls short. That is unlikely to change. Wood-pulp exports, on the other hand, are showing a strongly rising trend, as are the other resource-based and processed products in Table 1. Significant increases in exports of wood, mineral fuel and oil, and fats and oils can also be reported. In view of China's construction boom and increasing affluence - just think of the recent boom in private car purchases - we can expect a continuation of this trend.

As year-to-year data are characterized to some extent by chance fluctuations, we averaged export data for 1997-99 and compared them to those for the 2002-04-period. This perspective shows that while Alberta's exports to its NAFTA partners - the US and Mexico—grew by 88% and 95%, respectively, those destined to China grew by 122%. Clearly, China has represented a growth

opportunity for Alberta's producers.

Are we availing ourselves of this opportunity to the fullest extent? To answer that question we need to take a brief look at our competitors.

### How is the competition doing?

Both Brazil and Australia export raw materials and processed resource-based products to China. They can be used for a modest benchmarking exercise. Australia has shown average annual growth rates of exports to China of 20%, implying a 150% growth over the most recent five-year period. This matches the above-mentioned 150% increase of Canada's exports, exceeds the 127% for western Canada's, and is exceeded by the 215% growth of Alberta's exports. For Brazil, the period 1997-2002 saw an increase in exports to China of 132%.

While not strictly comparable in product composition, these data suggest that other producers of natural resources have been experiencing similar growth in their sales to China. China's tide raises all boats!

### What can we expect in the future?

A recent report on China by Export Development Canada

suggests that China's imports from Canada are expected to grow by approximately 17% in the coming year. China would therefore appear to continue to represent a great opportunity for both Alberta's and Canada's exporters. The risk factors include a possible slight revaluation of the Chinese Yuan with attendant cooling of the export boom, the possibility of banking system troubles, and, of course, unpredictable shocks like a SARS outbreak.

A major opportunity for Canadian businesses lies in China's commitment to open its markets to full international competition by foreign providers of services. In view of the fact that the provision of services comprises nearly 80% of Canada's economy, our business sector has new market opportunities in China in fields like telecommunications, financial services, distribution, business and computer services, as well as legal, environmental, accounting, and architectural services.

Nortel is already active in China, as are Canadian law firms, insurance companies, banks and the accounting profession. As most people know, the Chinese market is difficult to crack and requires a long-term commitment. But according to Export Development Canada, there have been few problems for exporters to obtain payment. Besides, where else does one have such growth prospects?

If our government proves in convincing China to grant Canada the status of "approved tourist destination," a major new market for our hospitality industry will open up: "Canada's Rockies beckon" to the increasingly well-off Chinese middle class!

*Rolf Mirus is Director of the Western Centre for Economic Research at the University of Alberta*

# WHERE ARE THE BODIES?

## SKILL SHORTAGES IN WESTERN CANADA



BY ROSLYN KUNIN

What is scarcer than diamonds in the Northwest Territories? Recent visitors to that part of western Canada saw that workers able to staff the growing diamond mining industry were almost as hard to find as the precious stones themselves. The same shortages apply to the energy sector, construction and other industries, not only in NWT, but throughout western Canada.

At first glance, everything seems to be coming up roses in the western part of this country. Economies are strong. There are many construction projects happening and on the books. Additional special projects loom like the upcoming Canada Winter Games in Yukon in 2007 and the Winter Olympics in Vancouver and Whistler in 2010.

Factors that present a competitive

challenge to central Canada, such as the growth of manufacturing in China and other developing countries, provide market opportunities to the resource rich West as these same developing countries put upward pressure on demand and prices for energy, metals, food and other Canadian products. But we cannot benefit from this boom unless we have the people who are willing and able to do the building, the mining, the tree falling, etc. and to provide all the related support goods and services that industry and consumers need.

At this time, shortages in key areas are already being felt. Other things being equal, such shortages will only worsen as demand for skilled workers grows with the economy and as supply diminishes both because aging workers are already starting to leave the labour force and also because demographics indicate that we have a relatively small number of young people entering the work force. The vast majority of those young people, moreover, are

not choosing to go into the occupations where we are, and will be, experiencing the most pressing shortages.

Where are the most pressing shortages? Given that western Canada is enjoying lower levels of unemployment than has been seen for many years, demand for workers is widespread across geographic areas and over a wide range of occupations. However, the tightest bottlenecks are for those with mid-level skills - more than high school graduation, but less than a full university degree.

All the blue collar trades are - or will be - needing people. Some sectors I have been looking at recently include residential and non-residential construction, trucking and transportation, and energy and mining. All of these sectors are struggling to find enough trades and other experienced workers now. They are seriously worried about sources for future workers for growth and to replace those retiring. One mining company has lost 20% of its workforce to

retirement over the past two years. One third of its remaining workers is now, or soon will be, eligible to retire.

The small number of young people is not the only reason for the shortage of blue collar workers. Boys that would previously have filled those jobs are now playing video games and are planning computer related careers, especially related to the entertainment sector. Increasing parental pressure for academic education pushes young people toward the universities and the more academic programs in the colleges. School counselor are often unfamiliar with opportunities in the trades and how to access them.

Finally, employers in the traditional blue collar industries have not moved anywhere near far enough or fast enough to welcome non-traditional workers like women. Saying "we hired a woman once and she did not work out" is not sufficient. For stability, one needs a minimum of three female workers at a worksite. One advantage of hiring females is that wages that do not seem excessively generous to men will be much more attractive to women who traditionally have lower earnings. As worker shortages put upward pressure on wages, this fact becomes more important to employers.

If any group of workers is going to be in even stronger demand than skilled trades workers, it will be the foremen/women, supervisors and managers to oversee those workers. You cannot supervise at a construction site, mine or other such work site unless you, yourself, have experience working on such a site. Therefore, a shortage of workers dries up the pool from which bosses can be drawn. Narrow wage differentials, loss of overtime pay and other union benefits, and more paper (or computer) work are some of the factors that deter workers from taking that first step up the career ladder and becoming supervisors.

In addition to the trades, we also have serious need for technicians and technologists in all areas and in certain professions such as medical doctors and electrical engineers.

### **What can we do to meet our labour market needs?**

First, we must make sure that adult workers, young people and their parents know where the opportunities are. They must have access to appropriate training and be aware that such training will not only get them a well-paying job in the short-run, but lead to good career opportunities in supervision and management in the long-run.

Secondly, employers must recognize that lack of suitable

human resources is and will be a bigger problem for their organizations than lack of financial capital or even markets for their products. They must provide a welcoming work environment for all those who have the skills they need or are willing to learn them. And they must put some time and money into training workers. Yes, training is a cost, but it is also an investment. Offering training and helping your workers get and maintain their skills is one of the surest ways to retain employees in a tight labour market.

*Roslyn Kunin is President of Roslyn Kunin & Associates and a Member of the Board of the Canada West Foundation*



**In addition to the trades, we also have serious need for technicians and technologists in all areas and in certain professions such as medical doctors and electrical**

# LIGHTS, Camera... SASKATCHEWAN!



Photo: Allen Feildel

Corner Gas in production in Rouleau, Saskatchewan



BY VALERIE CREIGHTON

It has all the makings of a great script – a struggling, yet spirited province approaching its centenary begins to reinvent itself and emerge from its agricultural past as a competitive player in the glamorous world of the film and television industry.

Sound like fiction? Possibly. Hollywood hyperbole? Maybe. But undeniably, Saskatchewan's film and television industry has experienced unprecedented growth and may have won a starring role as the province's newest success story. This past year alone, the province has hosted two-time Oscar nominated director and Monty Python alumnus Terry Gilliam, three major Hollywood movies, a highly anticipated mini series on the life of Tommy Douglas, and is home to several returning television

series, including Canada's top-rated comedy series *Corner Gas*.

In 1990, film and television production in Saskatchewan amounted to \$5 million. Somewhat insignificant when compared to \$7 billion in manufacturing exports, but the industry was still in its infancy. Slowly and steadily, primarily through the support of the provincial government, the Saskatchewan Film Employment Tax Credit Program was put in place, and the Canada Saskatchewan Production Studios - a state of the art production facility in Regina - was built. Armed with a team of experienced producers and a competitive incentives package, SaskFilm, the provincial film agency and film commission, went to work.

With 1,300% growth over the last fifteen years, a 56% increase in film and television production over the last year, a 70% occupancy rate in the production studios, and a record-breaking \$65 million dollars in production for 2004, it is

evident Saskatchewan's film and television industry has finally arrived. The Saskatchewan film and television industry is clearly a case of *if you build it they will come*.

The industry's slow and steady evolution and its ability to generate economic return is due to a number of important convergent factors that allowed the province to aggressively market itself as a film location across Canada and around the world. At every glitzy film festival and trade market from Halifax to Hollywood, Saskatchewan faced stiff competition from Toronto, Montreal and Vancouver - not to mention Texas or Romania. After years of knocking on doors and continually marketing the province's crop of incentives, SaskFilm gradually cultivated relationships, wooed decision-makers and was soon co-producing feature films, television series and documentaries with the US, Britain, Italy, Germany, Ireland, Australia, Switzerland, Ukraine, China, Japan and other Canadian provinces.

At first, much like the rest of Canada, Saskatchewan's industry benefited from a favourable currency exchange, a low cost of doing business, and competitive tax incentives. But when the US dollar fell and competition reached new heights, Saskatchewan's



Photo: Francois Duhamel

Director Terry Gilliam filming *Tideland* on location in southern Saskatchewan

investment in the province's team of young, dynamic producers, writers, directors and production crew, members through training programs and professional development initiatives paid off. The province had safely avoided becoming solely a service production centre and balanced its efforts to build a home-grown industry in Saskatchewan and create long-term economic benefits for the province.

Striking the balance between service production and local production has proven successful. While local producers form the foundation of a sustainable industry and produce Saskatchewan stories such as *Corner Gas*, service production (such as Terry Gilliam's film *Tideland*) places Saskatchewan on the international stage and acts as a calling card to the industry's top producers and directors around the world.

Last year, a combination of service and local production topped \$65 million, which in turn generated

\$50 million in direct expenditures in the province. Clearly, the industry has spawned a quantifiable, significant return on investment for Saskatchewan's cities and towns. Small- and medium-sized businesses such as hotels, car rental agencies, equipment rentals, cell phone companies, and restaurants thrive. The province has simultaneously developed a skilled and well-compensated film industry labour force. In order to evenly distribute the economic returns, Saskatchewan's tax credit program offers a unique feature that rewards production companies that choose to film a portion of their project 25 miles outside of Saskatoon and Regina. Moose Jaw, Gravelbourg, Rouleau, Fort Qu'Appelle and Lumsden - all small prairie towns - have hosted major film productions

and have reaped the economic rewards.

Economic incentives aside, Saskatchewan's film and television industry has unequivocally benefited from the support of the municipal, provincial and federal governments to establish a solid infrastructure since the outset. Funded by the provincial government, SaskFilm administers a number of investment programs and professional development initiatives for Saskatchewan's aspiring and established filmmakers and producers. The Saskatchewan Motion Picture Industry Association fosters training and employment initiatives for emerging filmmakers and production crew and serves as the voice for the industry at large. Unions, guilds and professional associations followed suit a move that demonstrated that the industry had professionalized and recognized its long-term potential.

On the threshold of Saskatchewan's centenary, the film and television industry has established itself as a shining example of how a relatively new sector can produce significant economic returns by both developing a home-grown industry and by exporting our financial incentives, infrastructure and experience around the world.

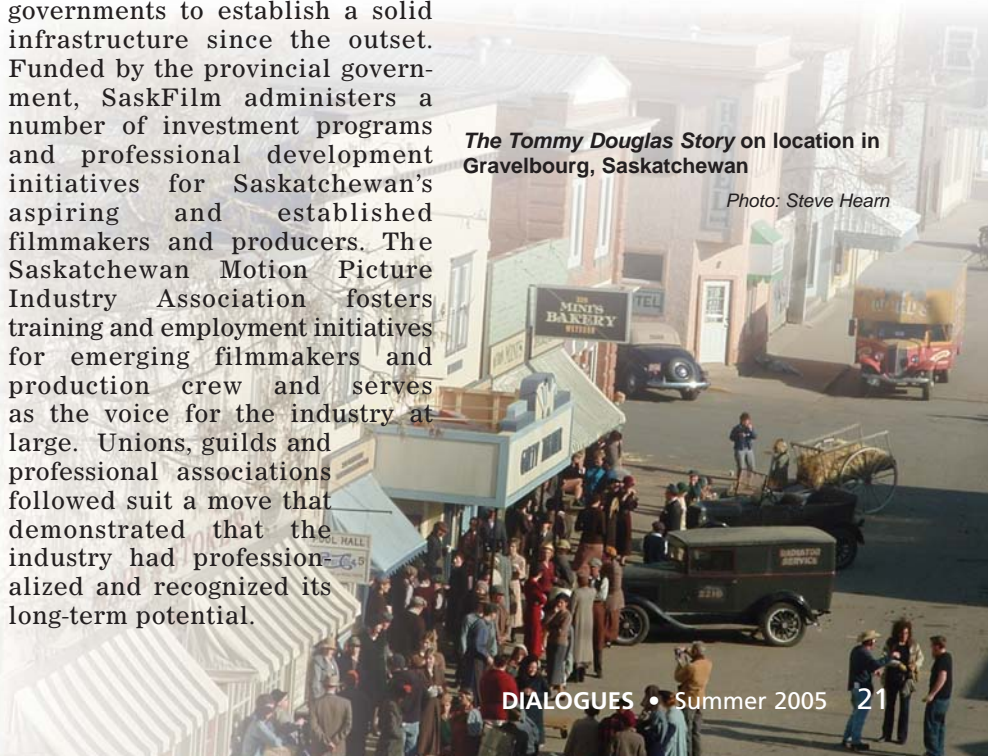
Hailed as the new "Hollywood North" by the *Globe and Mail*, the Saskatchewan film and television industry is currently experiencing a renewed renaissance where Brent Butt has become a household name, the town of Rouleau is a tourist destination, *Corner Gas* is the top Canadian TV series, and the country's Greatest Canadian is about to be immortalized in a widely anticipated television mini-series.

But, at the end of the day, the industry is cyclical, high risk, and built on the ability to deliver. It takes careful management to steer the industry through times both thick and thin. And it is in this careful management that the most important resource Saskatchewan possesses - its people - excel.

*Valerie Creighton is CEO and film commissioner for SaskFilm*

*The Tommy Douglas Story* on location in Gravelbourg, Saskatchewan

Photo: Steve Hearn



# ABORIGINAL POTENTIAL: a valuable CANADIAN resource



BY DR. SAM SHAW

Aboriginal business is one of Canada's best kept secrets.

Since 1996, the number of self-employed Aboriginal people in Canada has increased by more than 30%—a rate nine times higher than that of self-employed Canadians overall (3.3%).

One of the greatest untapped sources of skilled labour in this country, and certainly in western Canada, is the Aboriginal population. It is also a talent pool for entrepreneurs. Historically, the Cree were excellent traders, and in today's economy would be considered business leaders.

It is time to start working with our Aboriginal people to open doors, create access and develop new strategies to allow them to participate. It is also time to start talking about successful Aboriginal business in this country.



The median age of Canada's Aboriginal population is 25

Consider the growing need for skilled talent. In Alberta alone, the value of major projects has reached a landmark total of more than \$107 billion. This is not unique in the West: BC forecasts 130,000 person years of work leading to 2010.

Over the next decade, 40% of the Canadian workforce is expected to retire. The resulting shortage of skilled workers is made more critical by the fact that Canada faces its lowest birth rate on record. At the same time, however, the Aboriginal population is one of the youngest and fastest-growing in the country, with a birth rate one and one-half times that of non-Aboriginal people and a median age of 25, compared to 38 for non-Aboriginals.

A recent Statistics Canada survey reports that Aboriginal businesses are performing increasingly well in today's competitive environment.

“Over 27,000 self-employed individuals of Indian, Métis and Inuit heritage are creating

economic opportunities for their people - and making an important contribution to Canada's economy. Their businesses are growing, reporting profits and gaining ground in sectors such as professional, scientific and technical services, where the number of Aboriginal businesses has tripled since 1996” (Aboriginal Entrepreneurs Survey, 2002).

Mikisew Cree First Nation-owned Air Mikisew, which has 60 employees and operates scheduled flights between Fort McMurray and Edmonton, is one example. Air Mikisew became the largest carrier in Northern Alberta without any money from outside interests - government or otherwise.

We need to promote self-employment, create more business leaders and encourage innovation.

There are scores of Aboriginal-owned and operated businesses in every sector of western Canada's economy, including hotels and



malls in Manitoba, arts and crafts companies in Saskatchewan, drilling and heavy equipment suppliers in Alberta, air transportation in the Northwest Territories, and retail and knowledge-based businesses in British Columbia.

Reg McLean, owner of RKM Logging Ltd. in High Level, says that Aboriginal youth looking to get a start in business must be persistent. "Set a goal first. Whether you are Aboriginal or not, anything is possible. And, never take no for an answer."

RKM Logging has been in the logging and reclamation business for over 20 years and has doubled the size of its operation within the last two years. With millions of dollars in equipment and as many as 40 employees at one time, this company was one of three finalists in the 2001 Alberta Business Awards of Distinction. McLean says many Aboriginal people lack confidence in themselves, although they are just as capable as anyone else.

Unemployment rates for Aboriginal people in western Canada remain 2.5 times higher than for non-Aboriginal people. However, education can narrow that gap considerably. Completion of post-secondary education is particularly important for Aboriginal people, since it dramatically increases the chance of obtaining employment. In fact, the employment rate for Aboriginal people aged 25 to 64 who have finished post-secondary education is 82.5% in western Canada, just shy of the 83.5% rate for non-Aboriginals.

McLean believes that a Grade 12 education is the bare minimum for young Aboriginal people, and a necessary foundation that will enable them to take advantage of further educational opportunities.

For post-secondary-educated Aboriginal people, the unemployment rate is 6.9% compared to 3.9% for non-Aboriginal people. If we can bring the Aboriginal unemployment rate down to the

non-Aboriginal rate, we will create hundreds of thousands of jobs in the next 10 years - and a tremendous source of skilled workers.

This demands a vision for the country - in particular the West, which has the highest Aboriginal population. We must ensure that our Aboriginal youth have career opportunities and not just jobs on the front line. Training needs to be anytime, anywhere and linked to the needs of communities and settlements, both urban and rural. We need to improve Aboriginal high school completion rates to meet or beat the national average and convince more students to study math, business, science, and technology. Then we need to make our programs relevant, culturally sensitive and nothing short of excellent.

Why are we not celebrating our Aboriginal business leaders? Why do we continue to see the glass

as half empty and focus on unemployment when we should be creating policies to level the playing field for Aboriginal entrepreneurs?

Many Aboriginal entrepreneurs face an uphill battle acquiring capital - both financial and in terms of education and job skills. Yet, above all these challenges rise examples of outstanding businesses created by Aboriginal men and women. Leading provincial and national media need to tell these stories. We need to celebrate and promote policies to foster more examples of Aboriginal business entrepreneurship. The potential is vast - don't keep these stories secret any longer.

*Sam Shaw is President of the Northern Alberta Institute of Technology*

Aboriginal businesses are performing increasingly well in today's competitive environment



# THE EMERGING ROLE OF SCIENCE RESEARCH & TECHNOLOGY IN SASKATOON



BY TED MITCHELL

Saskatoon, known as Canada's Science City, is world renowned for its incomparable mix of scientific infrastructure. Among this infrastructure is Canada's largest science project in over three decades - the Canadian Light Source (CLS) synchrotron.

The economy of the Saskatoon region has diversified greatly from its resource-based roots, with strength in biotechnology, food processing, health, and technology. Extensive scientific infrastructure is available to support the development of these key industry sectors. Saskatoon is one of the lowest cost research and development centres in North America with a #2 ranking from KPMG in all of Midwest North America for overall cost competitiveness. Companies now conduct leading research and

manufacture innovative products in the Saskatoon region across a wide variety of industry sectors - from traditional industries such as food processing and manufacturing to growth industries such as biotechnology and value-added agricultural processing.

In the last decade, Saskatoon's life science research community has built a critical mass for a world-renowned, vibrant industry which is among the strongest in the world. A close-knit scientific community offering expertise in the life sciences can be applied to a wide range of agriculture and food business. World-class research and development facilities, including labs, greenhouses and pilot plant facilities, can be shared, thus reducing costs to business. By concentrating expertise and facilities in one place, Saskatoon provides an atmosphere where new ideas flourish and evolve.

## Life Science Industry

The biotechnology industry in

Saskatoon symbolizes the growth and advancement of the city into a world-class community. By uniting its historical agricultural roots with cutting edge technology, the city's biotechnology industry has grown with strength and speed.

Saskatoon is recognized as one of the top biotechnology centres in the world, attracting over 30% of all ag-biotechnology research spending in Canada. With most biotechnology research occurring at the University of Saskatchewan (U of S) and Innovation Place research park, scientists work synergistically to promote research and development.

As one of Canada's major academic and research institutions, the U of S is a driving force for innovation. With annual research income of more than \$115 million, the U of S excels in a broad range of disciplines, from medicine and engineering to agriculture, telecommunications and space science.

The campus boasts a dynamic cluster of university and govern-

*Photo: Courtesy of Saskatchewan Industry and Resources*

ment research facilities, including the CLS and the Vaccine and Infectious Disease Organization (VIDO), known for ground-breaking vaccine technology. With its focus and experience in both human and animal vaccine research, VIDO is well positioned to address emerging diseases such as SARS and West Nile virus.

Innovation Place, one of the most successful, rapidly growing technology parks in North America, is located right next door to the U of S. Innovation Place supports the research and development community in Saskatoon by providing facilities like the Innovation Place Bio Processing Centre (one of the most advanced bio processing facilities in Canada) and the L.F. Kristanson Biotechnology Complex, which includes growth chambers, over 40 greenhouse compartments and furnished labs servicing the life sciences sector - all within the same park.

The POS Pilot Plant, the largest pilot plant operation of its kind in North America, and the National Research Council Plant Biotechnology Institute are also located on the U of S campus and work with industry to transform knowledge into commercial and economic opportunity.

The \$173.5 million Canadian Light Source synchrotron is a unique national resource that will light the way to a new era of science and innovation for academic, industrial and governmental researchers. Research areas range from the study of anti-wear additives in motor oil that coat moving parts and extend engine life to the development of new medicines. Mining companies utilize synchrotron technology to determine the fate of contaminants such as arsenic in mine wastes or mercury from fish in the human diet.

At the heart of an excellent supply of raw materials, the Saskatoon region's nutraceutical industry is poised to undergo significant growth. This, in

combination with our strong foundation in agricultural research, is leading local and multi-national companies to discover the exceptional opportunities available in the region for research and development, production, and processing.

The "knowledge-based" growth of the life science industry provides seemingly unlimited economic opportunity. There is no doubt that the life science industry will continue to grow and strengthen in Saskatoon.

### **Value-Added Food Processing Industry**

Another industry that finds its roots in agriculture is the value-added food sector. This sector is supported by Saskatoon's proximity to raw materials, transportation efficiencies, abundant labour supply, and strong industry and institutional support. The food processing industry has made many advances during the last decade with research in food sciences ongoing at the world renowned College of Agriculture, as well as Saskatoon's own Food Centre. Saskatoon's approximately 70 local and international food processing companies find their products in demand, and have cultivated export relationships with other regions, provinces, and countries.

The value-added food-processing sector continues to grow in Saskatoon with Westco Storage operating a multi-temperate distribution centre in Saskatoon. Saskatoon ranks 4th in food processing across North America, and 6th in the world as the most cost competitive location to conduct business in the food processing sector. Prairie Pride Natural Foods Ltd., a wholesale poultry food processing company, will be opening their head office in Saskatoon. This include a \$15 million, 115,000 square foot, state-of-the-art processing plant along with an \$8 million hatchery. These companies, along with nationally

recognized companies located in Saskatoon, including Mitchell's Gourmet Foods, Cargill Oilseed Processing, Saskatoon Specialty Meats, and Centennial Foods (meat packaging), serve as a strong nucleus for the future of food processing in Saskatoon

### **Health Industry**

The University of Saskatchewan is the only Canadian university to house six life science colleges including Agriculture, Dentistry, Medicine, Nursing, Pharmacy and Nutrition and Veterinary Medicine, as well as a major teaching hospital all on the same campus. Saskatoon has a well-developed health sciences sector including companies in the areas of pharmaceuticals, telehealth, health informatics, medical devices, nutraceuticals and the bio-based health industries.

Health care is one of Saskatchewan's largest employers and provides direct employment for approximately 10,000 residents. Approximately one in ten employed individuals in Saskatchewan is involved (directly and indirectly) in delivering some form of health related service.

### **Technology Industry**

The technology sector in Saskatoon is a world leader in telecommunications; satellite control, monitoring, and communications; digital communications; automation; and robotics. Many technology firms have chosen to make Saskatoon their home, including SED Systems (a company that designs, installs and maintains satellite ground equipment) as well as Vcom (an information technology company that manufactures wireless telecom products). VCom is just one of at least 15 companies in Saskatchewan with their roots at the U of S College of Engineering, that together employ over 1,000 people.

This innovative sector has helped Saskatchewan to become home to many technological

breakthroughs. Saskatchewan was the first province in Canada with “pay-for-view” cable television service; the first in North America to introduce automated banking machines and the first in the world with an automated health card system. Saskatchewan’s information and communication technology is exported around the world.

### Mining and Manufacturing Sectors

Mining is one of the most important industries in the Saskatoon region. Exploration and mining remain ongoing for potash, uranium, gold and diamonds. The region has almost two-thirds of the world’s recoverable potash reserves and is the world’s largest exporter of uranium. There are seven potash mines located in the Saskatoon region and their head offices are located in Saskatoon.

Building on their expertise in agricultural and mining equipment, local metal fabricators are tackling new projects. Metal fabricators have exhibited innovation and willingness to develop the local metal fabricating industry by expanding their operations and

manufacturing new products.

Saskatoon has expanded from its traditional roots in agriculture to a dynamic growing city that is home to a significant life science industry with world-class research facilities, and a growing value-added food processing sector.

Saskatoon truly has become Canada’s Science City.

*Ted Mitchell is Chief Executive Officer of the Saskatoon Regional Economic Development Authority Inc.*



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*The Canada West Foundation is a leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces, the territories, and all Canadians*

# Western Canada's

Two

# Economic Solitudes



BY BARRY PRENTICE

Canadian society places a high value on the equity of access to basic services and the elimination of regional disparities. In the urban centres and more densely populated parts of rural Canada, where transportation and logistics costs are low, regional disparities have been minimized. Canadians enjoy quality healthcare, modern education and opportunities for employment. Where success has been elusive is in the 70% of the landmass that has no all-weather roads. Without effective transportation, the standard of living in the North will always be inferior to the more densely populated South.

Former Prime Minister Mackenzie King encapsulated the economic problem of providing infrastructure to develop the remote parts of Canada, "If some

countries have too much history, we have too much geography." The Canadian population has always been too small, relative to the financial demand, to construct and maintain all-weather roads or railway lines to most parts of the country. Moreover, the construction of surface infrastructure is difficult in Canada's northern regions. The rugged terrain, environmental concerns and the complications posed by the need to deal with muskeg and permafrost make road construction very expensive.

[Modern generations still marvel at the feat of Canada's early leaders who forged three transcontinental railways across the country. The cost of financing this effort almost bankrupted the country, and two of the three railways fell into receivership within 20 years of operation. The low population density and vast distances make the high fixed costs of surface infrastructure difficult to justify. In retrospect, the railway infrastructure investment paid handsome dividends because it opened a vast hinterland to settlement and economic development. Still 100 years later, Canada has yet to build a continuous four-lane highway from east coast to west coast, or a single paved road to the northern coast.]

Transportation challenges discourage investment in resource

industries, limit employment prospects and increase the cost of living. Without an efficient and economic means of transport, the natural resource opportunities in the North remain unreachable. High freight rates inflate the cost of inputs and limit the selection of consumer goods available. Often, Canadians living in the North are cut off from public services that are taken for granted in the rest of the country. These socio-economic disparities are greatest in the remote communities that have no all-weather road access.

This situation is not unique to Canada's three northern territories; the northern parts of the four western Provinces share a similar fate. In terms of economic development, the area of western Canada without all-weather roads is like a Third World country that borders a modern highly industrialized country to its south.

The North is served best by air transport. The distances are vast, the infrastructure costs of air transport are low, and the service

is available year round. The technological challenge is the volume of goods that can be moved economically by small airplanes. If the costs of air transport could be reduced, the socio-economic benefits would be significant. It is for this reason that the development of a new generation of cargo carrying airships presents such an appealing opportunity for western Canada.

The Transport Institute at the University of Manitoba has convened three conferences since 2002 to assess the potential use of airships in Canada's North. The observations provided by these meetings are encouraging. On the demand side, the demand for better freight and passenger transportation is growing stronger. Transportation costs have limited most mining developments to diamonds and gold, but rich deposits of copper, zinc and other base metals have been identified. In addition, proposals for new pipelines and hydro projects underline the need for better transportation. Finally, the spectre of climate change is threatening existing transportation systems. Winter roads are becoming less reliable and concerns are growing that the warming of the permafrost will force landing strips to discontinue operations.

On the supply side, the airship industry is making great technology strides. New hull materials based

on carbon fibre and composites offer lighter weight and greater strength characteristics than was previously available. Computer controlled avionics and vectored thrust has greatly improved reliability and handling of airships. As a result, new hybrid designs concepts are being engineered that combine the static lift of helium with aerodynamic lift of unique shapes. A worldwide race has begun to develop a heavy lift cargo airship that can serve remote areas with minimal or no existing infrastructure. At the present time, over a dozen companies are engaged in the development of new airship designs.

In addition to the obvious civilian needs, the US military has funded two projects that will spur the development of airships to provide high altitude surveillance and logistical support. The two winning bids in the WALRUS project were announced in June 2005. The immediate goal of the WALRUS project is to develop a 30 ton lift cargo airship demonstrator that can land and take-off at unprepared sites. The ultimate target is a 500 ton lift airship with inter-continental range that can deliver troops and material from a US base to any part of the world.

The implications of this economic development for western Canada are significant. Economic modeling suggests that a 30 ton-lift cargo airship could compete with winter

roads to serve remote communities, while an airship with greater than 80 tons lift would find a market in mining. Although the per ton freight rates would still exceed trucking, the saving inherent in avoiding road construction would make the airships viable. Moreover, "airship mining hubs" could be created at centres like Thompson, Manitoba that could serve as transfer points to existing rail and road infrastructure and provide all the amenities for the workers and supply industries.

The economic conditions in the North resemble the state of western Canada prior to the arrival of the railway in 1879. At that time, the relatively few people who were living in western Canada eked out a subsistence living based on the fur trade as the only exportable product that could compete on world markets given existing freight rates. With the exception of aviation, the transportation infrastructure in the North resembles the state of affairs in the 19th Century. In terms of economic development, the area of western Canada without all-weather roads is like a Third World country bumping up against a modern industrialized country to the south. The high cost and restricted nature of transportation services in the North limit the development of its natural resources and condemn the population to growing economic disparities.



The saving inherent in avoiding road construction would make airships valuable

*For more information on airships and their prospects for Western Canada, the proceedings of the Airships to the Arctic conferences are available free of charge at [www.umti.ca](http://www.umti.ca).*

*Barry E. Prentice is Director of the Transport Institute at the University of Manitoba*

# THE WESTERN CANADIAN ECONOMY AND PUBLIC FINANCE:

## ARE PROVINCIAL GOVERNMENT FISCAL PLANS ON TRACK?



BY JOCK FINLAYSON

A review of recent economic and fiscal policy developments in the western provinces highlights two main themes. First, the economic growth dynamic in Canada has tilted westward, in part because of higher commodity prices and buoyant Asian demand for many of the industrial raw materials produced in abundance in the West. Second, Alberta's unique fiscal situation increasingly sets it apart from both the rest of the West and the country as a whole.

### Canadian Growth: The West Takes Charge

In April 2005, statistics Canada published its preliminary estimates of economic performance by province for 2004. The data show economic conditions improving as one moves from east to west.

On an inflation-adjusted basis,

the Canadian economy expanded by 2.8% last year. Three of the western provinces fared considerably better, with Saskatchewan achieving real GDP growth of 3.5%, followed by Alberta at 3.7% and British Columbia at 3.9% - the best result in the country. Manitoba was the outlier in the West, as its economy, weighed down by falling agricultural production, grew by 2.3% in 2004.

What about the region's near-term prospects? Table 1 (next page) summarizes the 2005-06 growth outlook for the ten provinces. It is based on computing the average of the latest published forecasts from the five largest Canadian banks.

Most prognosticators see the West outperforming the rest of Canada for the next two years - continuing the pattern of 2003-2004. The four western provinces are poised to lead the pack this year, while in 2006 Alberta, BC and Saskatchewan are all expected to rank among the four fastest

growing economies.

This positive scenario for the region rests upon a reasonably favourable external economic environment. In particular, the current consensus outlook assumes somewhat slower but still solid growth in Asia and the United States; global commodity prices staying at lofty levels by historical standards, even as they give up some of the ground gained since early 2003; a gradual uptick in Canadian interest rates; and a Canadian dollar that trades within the range of 80-85 cents US.

### A Brighter Fiscal Picture

In common with Ottawa, all of the western provinces posted better-than-anticipated financial results for the most recent fiscal year, which ended on March 31, 2005. Two key factors contributed to this upside surprise: rapidly rising resource-related revenues, and a sizable boost in federal cash transfers in the wake of the agreements reached by First Ministers on health care and

*Photo: Travel Alberta*

Most prognosticators see the west outperforming the rest of Canada for the next two years

**Table 1. Real GDP Forecasts by Province**

	<b>2005</b>	<b>2006</b>
<b>British Columbia</b>	<b>3.4%</b>	<b>3.3%</b>
<b>Alberta</b>	<b>3.8%</b>	<b>3.6%</b>
<b>Saskatchewan</b>	<b>3.0%</b>	<b>3.6%</b>
<b>Manitoba</b>	<b>2.7%</b>	<b>2.8%</b>
<b>Ontario</b>	<b>2.3%</b>	<b>2.9%</b>
<b>Quebec</b>	<b>2.3%</b>	<b>2.8%</b>
<b>New Brunswick</b>	<b>2.4%</b>	<b>2.6%</b>
<b>Nova Scotia</b>	<b>2.2%</b>	<b>2.5%</b>
<b>Prince Edward Island</b>	<b>2.1%</b>	<b>2.4%</b>
<b>Newfoundland and Labrador</b>	<b>1.4%</b>	<b>4.9%</b>

Source: average of forecasts from RBC Financial Group; CIBC World Markets; Scotiabank; BMO Financial Group; TD Bank

equalization in the autumn of 2004.

British Columbia ended 2004-05 with a hefty \$2.6 billion surplus, much better than the \$100 million projected in the February 2004 budget. Saskatchewan recorded a \$383 million surplus, versus the balanced budget expected a year earlier, while Manitoba's surplus came in at \$314 million, up from the \$3 million originally predicted.

For Alberta, the 2004-05 results were nothing short of spectacular: "net revenue" (which is equivalent to surpluses in other provinces) of \$4.3 billion, dramatically higher than the \$303 million of black ink estimated in the province's 2004 budget. Powered by surging oil and natural gas prices, Alberta collected an impressive \$9.6 billion in resource revenues last year, approximately double the amount assumed in its 2004 budget.

All of the western provinces are forecasting continued balanced budgets or better for the coming year, but with surpluses significantly smaller than those reported in 2004-05.

Blessed with healthier finances and strong economies, provincial governments in the West have opened the spending taps. A comparison of the 2004-05 spending levels initially built into their 2004 budgets and the outlays planned for 2005-06 points to a 14.5%

jump in program expenditures in Alberta, a 7.5% hike in BC, and increases of 6.7% and 6.6%, respectively, in Saskatchewan and Manitoba. Except in Alberta, health care will absorb the bulk of the additional spending. Alberta is directing substantially more financial resources to advanced education and infrastructure, at the same time as its health care budget continues to march higher.

While tax cuts were a central element of the fiscal strategies embraced by most provinces in the late 1990s and into the early post-2000 period, the era of significant tax relief appears to have passed. Across the West, the 2005 budgets feature only limited tax measures. After trimming its sales tax rate by half a point (from 7.5% to 7.0%) last fall, British Columbia is now expanding tax credits for film and video production and lifting the small business income threshold. BC is also implementing a new non-refundable credit that eliminates personal income tax for people earning less than \$15,000 and lessens the tax burden on those with incomes between \$15,000 and \$26,000. Manitoba is proceeding with minor reductions in personal and business taxes, along with enriched tax credits for research and development, film production, and manufacturing investment. Saskatchewan is lowering

education property taxes and will increase royalty and tax credits to encourage enhanced oil recovery and greater use of ethanol.

Although it has ample room to consider across-the-board tax reductions, Alberta also relegated tax cuts to the back-burner in 2005 - doubtless to the great relief of the other western provinces. A more generous Alberta Family Employment Tax Credit will benefit low and middle-income working families, while provincial school property taxes are to be cut by 5% beginning in July 2005.

Looking beyond 2005-06, it is clear that a widening fiscal gap is emerging within the West. Having essentially eliminated its accumulated debt, and already endowed with both the multi-billion dollar Heritage Fund and the lowest taxes in the country, Alberta is uniquely positioned to blaze new paths in tax reform, infrastructure investment, human capital development, and a commitment to excellence in public services and programs.

True, the other western provinces have seen their public debt burdens decline as a share of GDP and, like Alberta, can look forward to decent economic growth during the next few years. That said, BC, Saskatchewan and Manitoba are far from having the fiscal and policy flexibility enjoyed by Alberta. All three will find it difficult to keep their budgets in the black as they confront the prospect of rising interest rates on their accumulated debts, relentless pressure to shovel more money into health care, and the need to respond to the reductions in business taxes planned by Alberta and now being contemplated in the United States.

*Jock Finlayson is Executive Vice President for Policy with the Business Council of British Columbia and a Member of the Board of the Canada West Foundation*



# Good Times

Now it's time to lay the foundation for sustained long-term growth



BY DEREK BURLETON

Powered by robust conditions in world commodity markets, the economy of Canada's resource-based western region is on a roll. In 2005, and for the second straight year, real economic growth in the West is expected to weigh in at more than 3%, a brisk rate both in absolute terms and when taken in the context of the sub-par 1.5% to 2% rates being chalked up in central and eastern Canada. And, with commodity prices likely to hold close to current high levels over the next few years, the West's healthy growth streak is expected to remain intact.

However, the road Canada's western economies are driving on is not free of potential potholes. Some of the potholes include the possibility of a greater-than-expected softening in global eco-

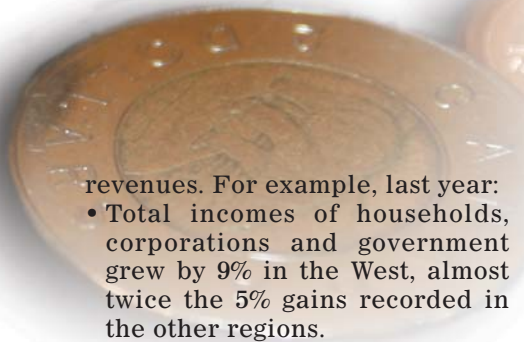
nomie growth, an unanticipated plunge in resource prices, and continued intensification of labour shortages in an environment when the jobless rate is close to 30-year lows. But while these risks are largely externally driven, and hence out of the control of western decision-makers, one potential threat is not: that is the possibility that this current period of prosperity could detract the attention of government and the private sector from tackling some of the region's pressing longer-term challenges, which - if left unaddressed - could lead to problems over the long haul.

## Economic momentum has shifted westward

For Canada's economy as a whole, the ride taken since 2003 has been a bumpy one indeed. The US dollar's depreciation has pushed the value of the Canadian dollar up by roughly 30%, leading to a weakening in the nation's export competitiveness. So, in spite of booming US demand,

exports of manufactured goods have been under pressure in factory-heavy central Canada. Meanwhile, in Atlantic Canada, the inventory of major construction projects that was behind much of the burst of economic activity over the past decade has waned, leaving growth in the slow lane.

The West's economy, on the other hand, and despite the currency's rise, has been buffered over the past few years by the significant rally in commodity prices. Since mid-2002, commodity prices, as measured by TD Commodity Price Index in US dollars, have climbed by about 70%, led by gains turned in by crude oil and natural gas (+140%), base metals (+80%), forest products (+70%) and precious metals (+50%). For the western region - where, at a massive 20%, resource industries comprise a much larger share of GDP than elsewhere in Canada - these favourable price trends have catapulted corporate profits, lifted job and housing markets, and buoyed tax and royalty



revenues. For example, last year:

- Total incomes of households, corporations and government grew by 9% in the West, almost twice the 5% gains recorded in the other regions.
- At \$7 billion, the combined budget surplus of western governments stacked up extremely well against the \$4 billion total deficit posted in other regions.
- The unemployment rate in the west averaged 5.5%, well below the rates of 7.4% and 11.5% in central and Atlantic Canada, respectively.
- Housing starts in the West have surged to their highest level in a quarter century.

It would be a stretch to say that the boom underway in the West is being enjoyed in all parts of the region. Manitoba - the most manufacturing-based economy in the west and the most closely tied to developments in central Canada - has not experienced the same acceleration in economic growth as its three counterparts. And, although many rural communities are benefiting from the boom underway in the commodity-based sectors, the impacts of the US border closure to cattle shipments has devastated many areas reliant on livestock farming. However, in general, it is a good time to be a westerner.

### **Medium-term outlook favourable**

Over the next few years, we expect to witness a narrowing

in the growth gap between the western economy and those of the Atlantic and central regions. But, rather than a story of the West slowing down, it is more likely to be the case that the other lagging economies will begin to snap back.

World commodity prices are likely to retreat by roughly 10% by 2007, with the price of crude moving back to the US\$40-45 range. Still, with this downward move representing more of a modest adjustment than a major retrenchment, the powerhouse resource sectors of the West will continue to turn in solid showings. As shown in the chart, look for the reviving BC economy to the top the growth charts in the 2005-07 period, while the Manitoba economy returns to the regional average growth rate of about 3%.

### **Keep all eyes on the long-term ball**

Yet, success can often breed complacency. In general, when tax revenues are flowing in, government budgets can contain a laundry list of policy initiatives that lack common themes and which fail to provide a clear agenda.

And, in the private sector, improved profitability allows inefficiencies to develop.

With no assurance that commodity prices will remain high over the next five years and beyond, the region's key players need to take advantage of the resources generated by the current boom times in order to lay the

foundation for broadly-based growth, and the process of economic diversification, to continue. The best way to accomplish this feat is for governments to pursue policies that will raise productivity. Continuing to cut tax rates - particularly on highly-mobile income and capital - investing in public education and infrastructure, and reducing the costs of regulation are all necessary ingredients. At the same time, there is a need for greater efforts by government to contain the escalating increases in public health-care costs. The good news is that western governments have been making strides in most of these areas in recent budgets.

The onus will then shift to the private sector, which will need to lead the charge in expanding trade and investing in productivity-enhancing capital, R&D, and skills training.

And, if governments throw the door open, business in the region will need to become bigger players in areas such as energy supply and infrastructure provision.

The good times are rolling in the West! But it is high time both the government and the private sector capitalize on the economic boom to lay a foundation for solid, long-term growth.

Let's not squander the chance.

*Derek Burleton is Associate Vice President and Senior Economist with the TD Bank Financial Group*

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# FORESTRY

**it's not Paul Bunyan  
anymore . . .**



BY NEIL SHELLY

When people think about the forest industry, many envision a Paul Bunyan scenario with rugged men in suspenders swinging axes in the woods. The reality could not be further from this romanticized, historical vision. A modern mill is a futuristic combination of computers, robotics, precision instruments and machinery, and today's forest harvester - linked by GPS guidance - works a joy stick, not an axe, to fell trees.

Few industries affect Canada as profoundly as the forest products industry. Canada has about one quarter of the world's boreal forest. The forest industry is one of Canada's largest industrial employers, providing direct jobs to 223,000 Canadians, contributing nearly 3% of Canada's GDP, and exporting almost \$40 billion of products to markets around the world. In fact, Canada is the

Canada has about one quarter of the world's boreal forest

*Photo: Barry Worbets*

world's leading exporter of wood, pulp, and paper products. Fully 85% of Alberta's forest production ships to international markets.

However, we face competition from other forest regions including the Brazilian rain forest, Scandinavia, Australasia and the vast Siberian forests in Russia. In this competitive global environment, our colder northern climate provides both advantages and disadvantages. While our slower growing wood is recognized and sought after for its high quality and strength, competitors in warm climates grow wood much faster. In the time it takes for one growth cycle in Canada, other areas can move through three or four rotations. Because of the faster growth, and the use of plantation forestry with reduced environmental standards and reclamation requirements, delivered wood costs in southern climates are significantly less than those faced by northern producers, providing a distinct advantage in the international marketplace.

Adding to these competitive

pressures is the on-going softwood lumber trade dispute with the United States - Canada's largest market. While numerous NAFTA and WTO panel rulings have determined the US actions to be illegal, Canadian lumber is still plagued with border tariffs with an accumulated cost of \$4.6 billion since 2001. There is no end in sight to this difficult, costly and lengthy trade dispute.

When the US industry lobbied their federal government to impose these duties, they assumed the Canadian industry would crumble and shut down production. This backfired. The Canadian industry answered the challenge by reinvesting heavily in new equipment and technology and becoming more efficient producers.

More than \$30 billion in capital spending in the Canadian forest industry since 1990 has delivered significant results. The Conference Board of Canada heralded this continued reinvestment and efficiency gain, ranking the wood products industry as one of the few Canadian industries that is



more competitive than its US counterparts. In the January 2005 report, *How Can Canada Prosper in Tomorrow's World*, the Conference Board reported: "Productivity grew by 9.8% per year between 1999 and 2002 in Canada, more than double the 3.8% annual growth in the United States. On the basis of its sterling performance, the wood products industry deserves to be hailed as a success."

Offshore competitors and protectionist lobbies are not the only challenge facing the industry. Given the multiple uses on the forestlands and the social, environmental, economic, and cultural values of the forest, industry is under continuing pressure to prove that its operations and activities are sustainable - in all forms.

Although the public's passions for the forest run deep, its understanding of issues and realities is, in most cases, limited. Add to this the conflicting messages from governments, environmental organizations, industry and others regarding the state of our forests and people are not sure who to trust. In response, the Canadian forest industry has become a leader in independent, third-party certification of operations to measure stewardship and sustainable forest management.

Alberta's forest companies are pioneers in certification and third-party auditing for sustainable forest management and practices. Alberta Forest Products Association members, following extensive stakeholder input, introduced the FOREST-CARE program in 1993 for both woodlands and mill operations. The Canadian Council of Forest Ministers and the Canadian Standards Association developed Canada's national program. The CSA Sustainable Forest Management Standard is one of many national and international certification schemes.

Forest companies that apply for

Alberta's forest companies are pioneers in certification and third-party auditing for sustainable forest management and practices.

certification are audited by an independent third-party against certification standards. In Canada, there are 104.6 million hectares certified to one of three international standards. The practice of certification not only makes industry accountable for what it does, but also incorporates a culture of continuous improvement into every aspect of operations.

Our commitment to sustainability does not end with certification. The forest industry also invests in research and science to help with the management of the forested lands with which we are entrusted. The Sustainable Forest Management Network, housed at the University of Alberta, provides a basis for environmental and sustainable use research in the Boreal forest. The Canadian Model Forest Network addresses the challenge of balancing the extensive range of demands placed on forests today with the needs of future generations by collaborating with the forest industry, environmental groups, woodlot owners, academics, Aboriginal communities, parks, government agencies, recreational groups, trappers and others with an interest in sustainable forest management.

An example of this partnership effort is Alberta's Foothills Model Forest Grizzly Bear Program. To better understand the effects of human activities on grizzly bears along the northeast slopes of the Alberta Rockies, intensive research studies were conducted. These studies included the use of state of the art global positioning system tracking collars, allowing researchers to track a bear's movements 24 hours a day - in real time. Some collars have tiny cameras attached letting researchers see what the bears are seeing. The continuing results from this program have provided the resource industry with new and innovative ways of avoiding conflict with these majestic animals, and helped to make Alberta internationally recog-

nized as a leader in Grizzly bear research and knowledge.

The forest products industry has been extremely resilient, and resourceful, in meeting multiple challenges. To meet future challenges, the industry also works closely with governments to ensure an appropriate regulatory and policy climate exists to encourage continued investments in the industry. Without a level of reasonableness in government policy, investment capital will travel to other parts of the nation or the world where higher returns are possible.

An important example of this principle was experienced by the British Columbia forest industry in the 1990s when an NDP-led government introduced new and radical changes to forest management policy without due consideration of the industry impact. The result was corporate reluctance to invest the required capital to stay competitive, with dire consequences. Numerous shutdowns occurred across the

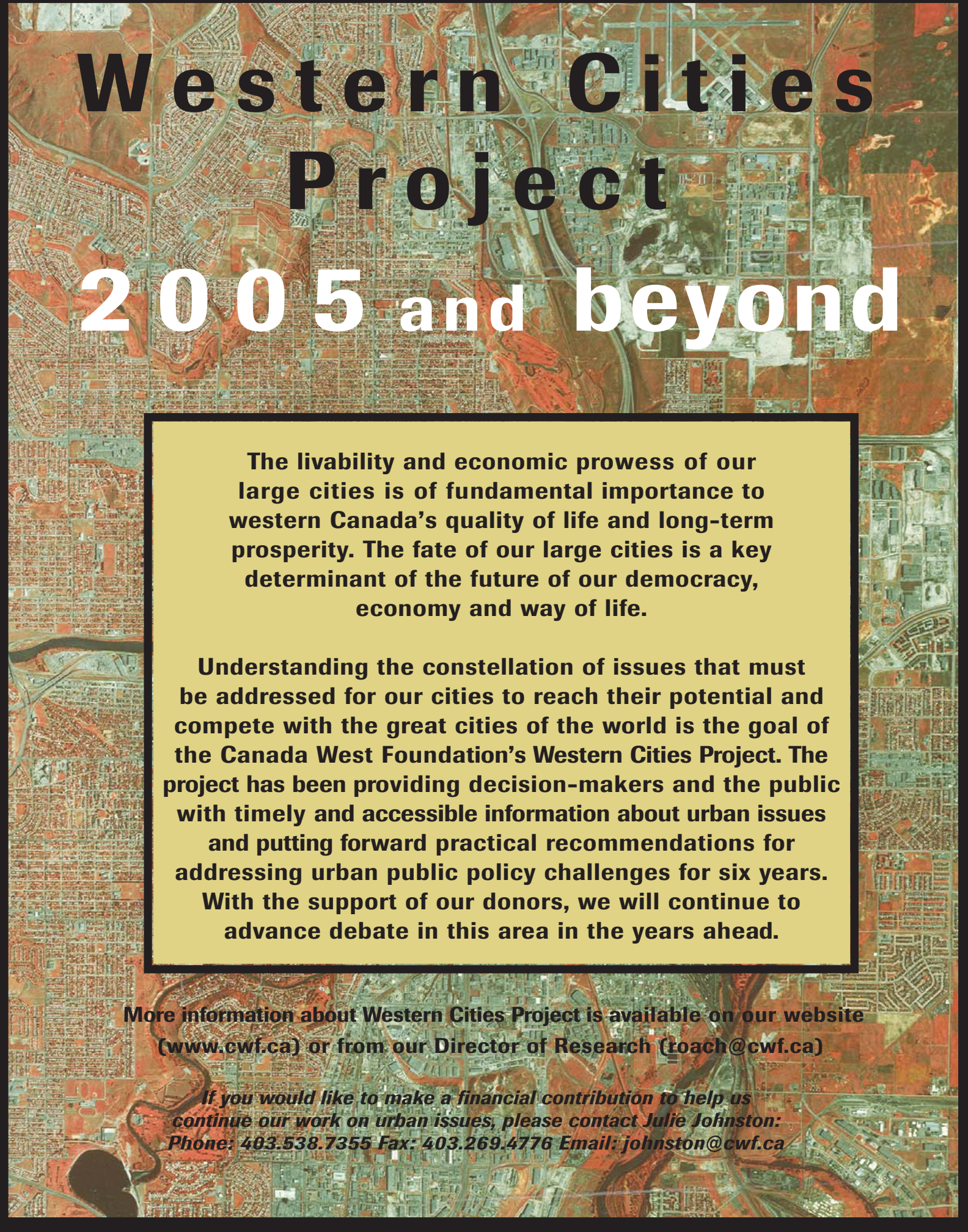
province during low market cycles, putting thousands out of work. The next government, realizing that forestry was the primary contributor to the British Columbia economy, introduced changes to help the industry recover.

Our forests are important to all of us in so many different ways. The Canadian men and women involved in the forest products industry are rightfully proud of their Paul Bunyan heritage. They are also equally proud of how far they have come in the face of so many challenges. The forest industry has evolved into one of the leading high tech industries in Canada, with an ever-watchful eye on ensuring sustainability of the forest and the industry for generations to come. The public, and the industry itself, expect nothing less.

*Neil Shelly, P .Eng, is Executive Director of the Alberta Forest Products Association*



*Photo: Courtesy of Saskatchewan Industry and Resources*



# **Western Cities Project**

## **2005 and beyond**

**The livability and economic prowess of our large cities is of fundamental importance to western Canada's quality of life and long-term prosperity. The fate of our large cities is a key determinant of the future of our democracy, economy and way of life.**

**Understanding the constellation of issues that must be addressed for our cities to reach their potential and compete with the great cities of the world is the goal of the Canada West Foundation's Western Cities Project. The project has been providing decision-makers and the public with timely and accessible information about urban issues and putting forward practical recommendations for addressing urban public policy challenges for six years. With the support of our donors, we will continue to advance debate in this area in the years ahead.**

**More information about Western Cities Project is available on our website ([www.cwf.ca](http://www.cwf.ca)) or from our Director of Research ([roach@cwf.ca](mailto:roach@cwf.ca))**

***If you would like to make a financial contribution to help us continue our work on urban issues, please contact Julie Johnston:  
Phone: 403.538.7355 Fax: 403.269.4776 Email: [johnston@cwf.ca](mailto:johnston@cwf.ca)***



# In CONCLUSION...

By DR. ROGER GIBBINS, President and CEO of the Canada West Foundation

Anyone who has spent any time in western Canada lately can attest to the fact that it is growing. The crane—once thought to be an extinct species of machinery in the West—has made a remarkable comeback. One can easily spot it perched on the tops of construction sites in almost every major city from Winnipeg to Prince Rupert.

As this edition of *Dialogues* illustrates, economic growth is broadly based across the West and across several sectors.

Natural resources are, of course, the obvious jewel in the crown of the West's booming economy. Because of high global prices, it is crude oil that generally tends to steal the headlines when discussing commodities. But the West's resources do not begin and end with the energy sector. Neil Shelly's article explains how forestry is making strides in efficiency and finding its footing despite the ongoing softwood lumber trade dispute with the US.

The current expansion in the West also goes well beyond natural resources alone. Ted Mitchell describes convincingly how Saskatoon has become a world-class city for scientific research. Roger Barnsley presents the vision of post-secondary education from Canada's newest university. James Carr explains how international immigration is helping to fuel Manitoba's economy. And Val Creighton paints a bright picture of growth for Saskatchewan's film and TV industry.

But along with the economic growth that the West is enjoying

come the inevitable challenges and difficulties. Among these are the shortages of available skilled labour, particularly in the petroleum, trades and health care sectors. Two of our contributors in this edition—Roslyn Kunin and Barry Potyondi—address the topic of labour shortages in the West.

As well, small- and medium-sized business (SMEs) are the source of much of the growth across the West, but policy-makers must be careful not to stifle their entrepreneurial enthusiasm with repressive taxes or unnecessary red-tape. Marilyn Braun-Pollon of the Canadian Federation of Independent Business describes the energy and growth that SMEs bring to the western economy - as well as some of the challenges they face.

Along with all issues that at first seem to be roadblocks come opportunities, chances to use creativity and research to solve what seem to be insurmountable problems. One of these "problems" in the West and North has to do with the immense geography we attempt to inhabit. How, in the absence of expensive roads and impractical air service, can we bring economic viability to remote towns and or industrial sites (such as the oil sands or mining operations)? Barry Prentice's article offers a surprising "outside-the-box" solution.

Throughout all of the articles in this edition of *Dialogues* runs one constant theme - optimism. The word "grow" or "growth" appears repeatedly in all 15 articles and all in relation to the economy and opportunities in the four western provinces. Even if the article is highlighting a potential problem in western Canada's economy (labour shortages, transportation limitations, government finances),


all of the articles maintain a tremendous sense of optimism. These problems can be overcome!

Optimism. Growth. Opportunities. Enthusiasm. This is the language that is powering western Canada's economy in 2005.

But as Derek Burleton, a contributing writer from TD Economics, wisely points out, "success can often breed complacency." Now is our chance to build on our current success and to think about the long-term. How do we want our economy to function in the coming years? What policies can we put in place now (or, what policies should we scrap) to ensure prosperity and a high standard of living beyond an era of high commodity prices? How will the decisions of businesses, governments and citizens in the West today affect our economic success tomorrow?

These are questions for which there are no easy answers, but questions that need to be addressed nonetheless. To help provide answers, the Canada West Foundation will be conducting a series of economic scenario planning events in each of the four western provinces in the fall of 2005. These events will help us think beyond the here and now, and prepare the western economy for the opportunities that lay ahead. For more information on these events, please contact Canada West Foundation Chief Economist Todd Hirsch at ([hirsch@cwf.ca](mailto:hirsch@cwf.ca)).





## Ideas change the world

As Canadians debate the key public policy issues of the day, it is critical that the aspirations, perspectives, and ideas of western Canadians are heard.

Through its Western Cities, NEXT West, and Natural Capital Projects, the Canada West Foundation is proactively working to generate ideas for positive change and to make sure that the views of western Canadians are an integral part of national policy debates.

### How can you help?

Without ideas – and an organized effort to get them heard – change will not happen. This is what the Canada West Foundation does. But, we cannot do it without your support. If you want to help ensure that western Canadian ideas are front and centre on the national stage, we invite you to become a FRIEND of the Canada West Foundation by making a donation. For more information, please visit our website ([www.cwf.ca](http://www.cwf.ca)) or contact our Director of Fund Development, Julie Johnston, by phone (403.538.7355) or email ([johnston@cwf.ca](mailto:johnston@cwf.ca)).

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