

# *Saskatchewan in the West: An Economic Profile*

**W**ith a population of just over 1 million, Saskatchewan is a relatively small province in western Canada. The natural resource sector – agriculture, energy, mining, and pulp and paper – is the backbone of the province's economy. However, the transportation, manufacturing, and service sectors are making growing contributions.

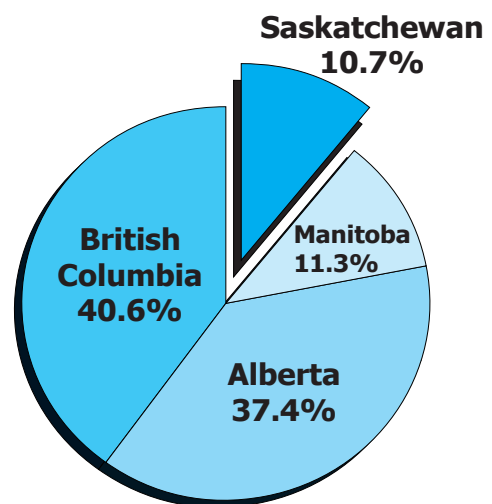
Efforts to diversify Saskatchewan's economic base in the areas of tourism, agri-food and food processing, high-tech manufacturing, and telecommunications are also beginning to move the province away from a strong reliance on natural resources.

The province is dominated by two urban centres – Regina and Saskatoon – which act as major service hubs for education, government, and health care in the province.

**Part I** of this report explores the general economy of Saskatchewan, profiling major sectors and describing its industrial base. **Part II** examines Saskatchewan in the global economy – its international exports and its major trading partners. **Part III** presents a discussion of Saskatchewan in the context of western Canada. Comparisons and contrasts are drawn between it and the other three western provinces. Finally, **Part IV** looks at

some of the major challenges and opportunities facing Saskatchewan in the coming decade. Two areas are given primary attention – economic diversification and transportation.

**Relative Economic Size  
of Canada's Western Provinces**  
(based on 1997 GDP\*)



**SOURCE:** Statistics Canada \*At 1992 prices

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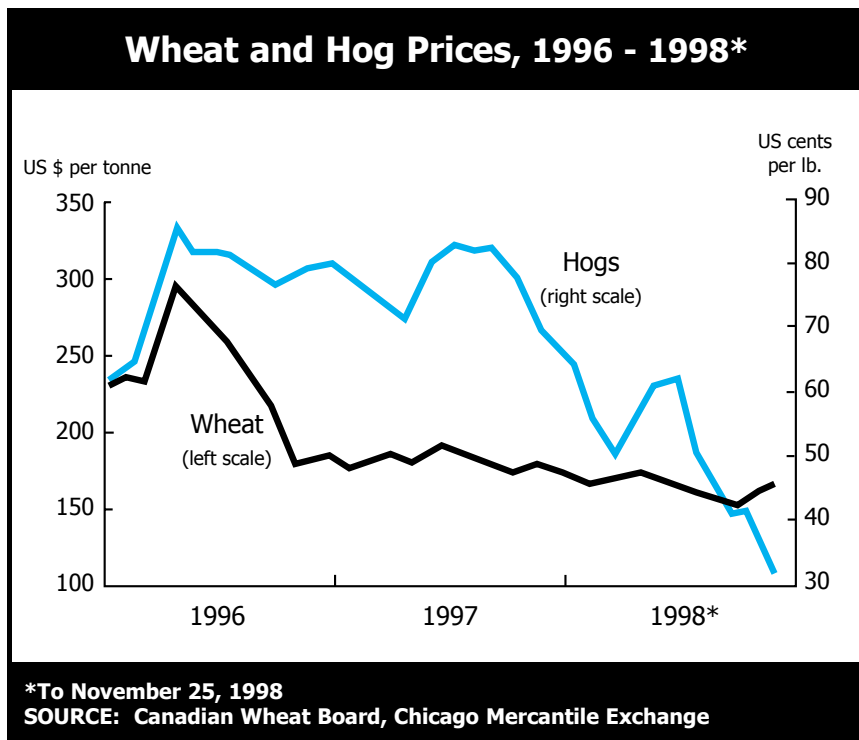
**CANADA WEST FOUNDATION**

## I. Saskatchewan's Economy

### Agriculture

Throughout the early part of the 1900s, Saskatchewan's economy was built around the agricultural settlement of the Prairies. Following World War II, the rapid development of rural infrastructure, roads, and a system of prairie railways, led to an immense increase in agricultural output from the province. Exports of wheat to Eastern Canada, Europe and Asia led to the moniker "Breadbasket of the World."

The province reached a peak population in the early 1970s of over 1 million people. Improved farming techniques, superior crop genetics, and larger average farm sizes were able to increase output with fewer farms and fewer people. The population slid in the 1980s, but has since stabilized at approximately 1 million.



Wheat has traditionally been the main cash crop in the province. However, given the wild vagaries in wheat prices, there has been a steady diversification to other grain and vegetable crops. Canola, barley, oats, livestock farming, and specialty crops such as lentils and peas have increased in volume and importance.

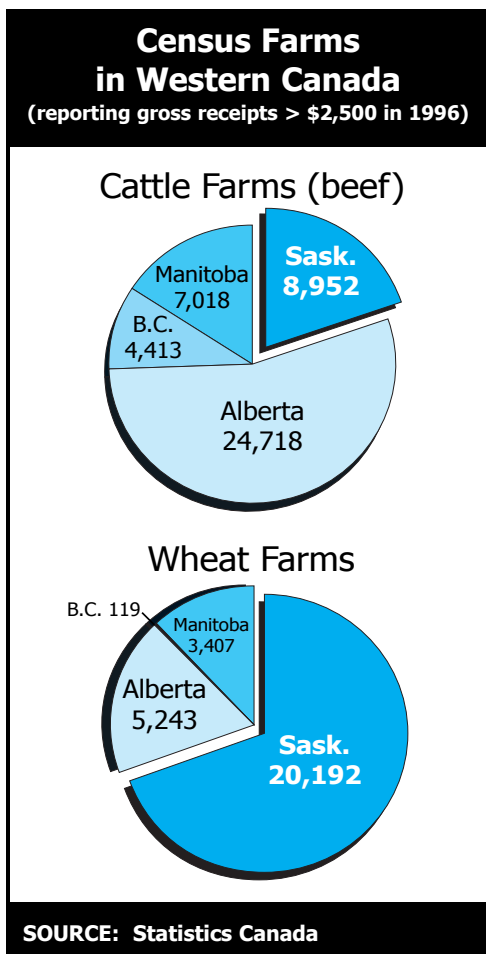
Hog production has also experienced rapid growth and expansion over the past several years, with no fewer than 26 major hog barns (farrow to finish) either planned or already under construction.

Having enjoyed several years of high grain prices, burgeoning foreign sales of pork and livestock, and relatively good growing conditions, the province's agriculture sector experienced a relatively weak year in 1998. Wheat and canola prices have fallen dramatically in recent years. Hog prices have also dropped, sagging by more than 60% from last year due to falling Japanese and Asian demand.

Farmers who have seen their incomes plummet because of low commodity prices have received indications from Ottawa that there will be some financial relief provided by a federal-provincial program.

### Oil

The development of Saskatchewan's oil deposits over the past two decades represents a major shift away from agriculture as the sole economic generator in the province. Major developments with government involvement – such as the establishment of SaskOil and the government's participation in the early phases of the Husky heavy oil upgrader at Lloydminster, demonstrate the province's intentions to move away from a strictly agriculture-based economy.



From 1995 to 1997, oil was the single-largest international export item Saskatchewan, overtaking wheat and potash.

However, while oil wells drilled in Saskatchewan last year reached a record high, 1998 has seen oil prices slide to ten-year lows. The price of West Texas Intermediate Crude (a common benchmark price for oil) has dropped from over \$US 20/bbl earlier in the year to a low of just over \$US 10/bbl in December of 1998. Global oversupply, weakening Asian economies, faltering demand, and the inability of OPEC to impose production quotas on its members have been largely responsible for this price collapse.

For Saskatchewan, the drop in oil prices will mean a corresponding drop in energy-related employment, income, and tax revenues. During the first eight months of 1998, oil exports from the province fell nearly 20% compared to the same period in 1997. Unlike the Alberta of the early 1980s, Saskatchewan's economy is not solely dependent on energy and therefore is not likely to face a recession from this oil price collapse alone.

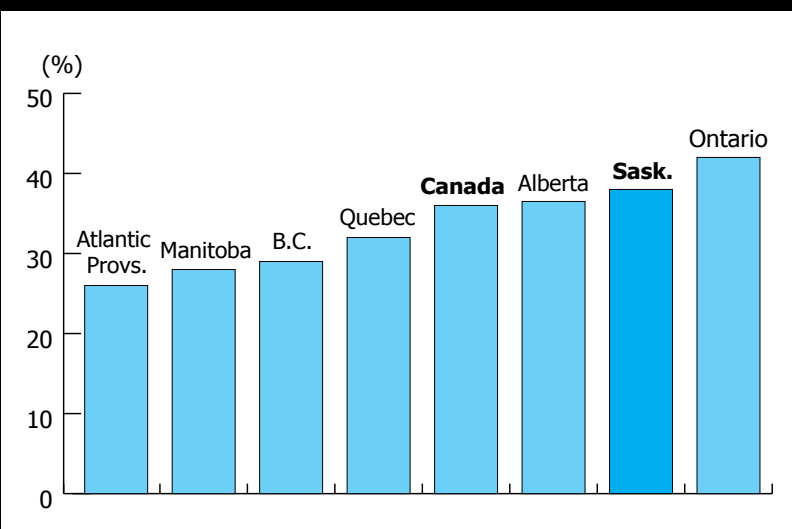
### Potash

Saskatchewan is one of the largest producers of potash fertilizer in the world. Exports of potash from the province have bucked the trend of most other commodity-based goods, rising by 32% during the first eight months of 1998 over the same period in 1997. A large proportion of Saskatchewan's potash exports are sold to China which has not experienced as dramatic an economic decline as have other Asian countries.

### Pulp and Paper

Investment in pulp and paper manufacturing in Saskatchewan has grown considerably over the past decade. While production and exports have grown very rapidly, pulp and newsprint prices have fallen along with all other major commodities in 1998. Global oversupply, weakening demand, and additional supply coming on-line with the post-strike resumption of paper-giant Abitibi

## International Exports as a Percent of GDP, 1996



SOURCE: Statistics Canada and TD Economics

Consolidated will prevent any significant price increase in the short-term.

### Manufacturing

Offsetting the resource declines is higher activity in manufacturing. Saskatchewan has become more industrialized in recent years, particularly in the area of value-added food processing. For this reason, total shipments from the province were up year-over-year in the first seven months of 1998, although growth was slight at 0.4%.

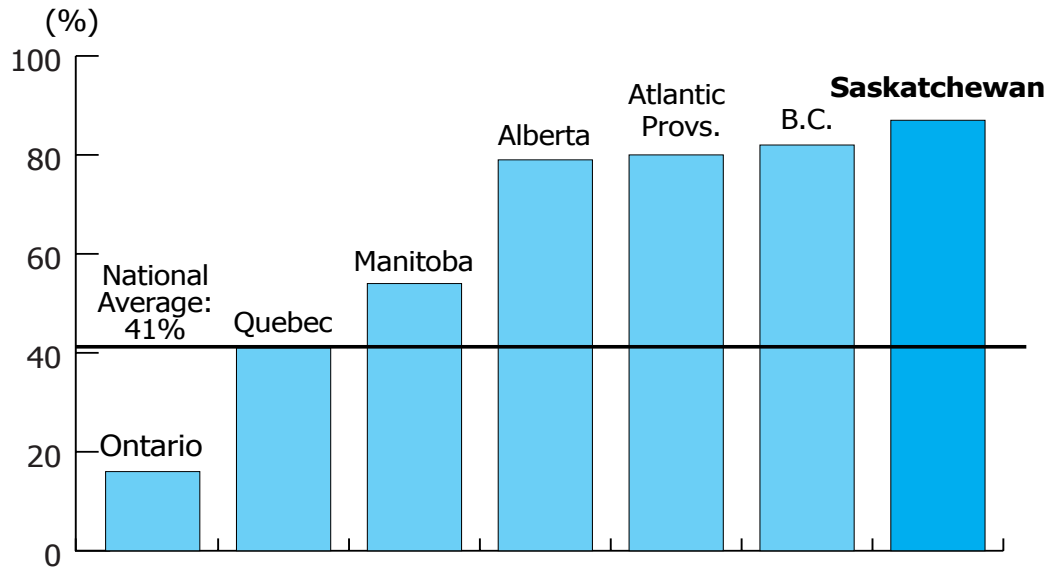
While a good deal of the province's secondary manufacturing is related to agriculture and natural resources, a growing sector including high-tech and software falls within a broad range of higher value-added services. Both Saskatoon and Regina each have their own clusters of high-tech firms, and over the past year have been adding to the numbers of companies and workers.

## II. Saskatchewan in the Global Market: International Trade

With the exception of Ontario and its enormous automotive sector, no other province is as dependent on international exports as Saskatchewan. Approximately 38% of total provincial GDP is exported to international destinations. This compares with a national average of about 36%.

The province's reliance on international markets is an indication of its ability to compete in the global environment. However, it also brings with it a susceptibility to external economic shocks and events well

## Commodity Exports as a % of Total International Exports, 1996



SOURCE: Statistics Canada and TD Economics

beyond domestic control. The present turmoil in Asia and the continuous debates between the U.S. and the European Union over agricultural subsidies are two examples of how external events can frustrate even the most competitive trade efforts in the province.

In terms of commodity-based international exports, Saskatchewan is the most reliant of any province. Agriculture, energy, potash, uranium, and forest products top the list of exports by value. This can be considered both a blessing and a curse. Its rich abundance of natural resources has in no small part contributed to the wealth and high-living standard in the province. On the other hand, exporters are subject to the wild swings in prices and markets for commodities over which they have no control.

1998 has been an unusual year for commodities in that all major categories (with the exception of potash) are in a severe price slump. Typically, the vagaries of price swings in a certain commodity will offset the price swings in others. This time, however, most prices seem to be at a low-ebb in unison. Base metals, oil, agriculture, and forest products have all experienced dramatic price declines of between 20% and 50% over last year.

This has already had a substantial impact on the value of exports from Saskatchewan. During the first 8 months of 1998 (statistics available to date), total exports from the province have declined 5.7%. The commodities falling

the most in percentage terms are typically resource-based goods; oil (-19.8%); wheat (-36.7%); canola (-21.4%); barley (-54.1%); and uranium (-47.1%) are all suffering from low prices and correspondingly weak export values.

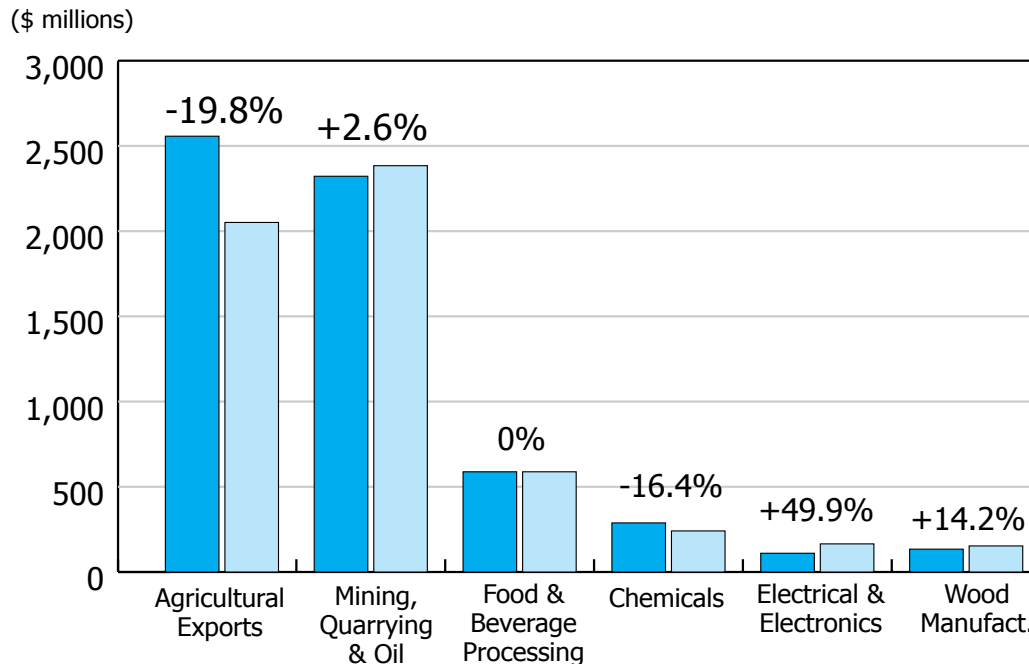
Conversely, value-added and/or manufactured export items have generally performed quite well in 1998. The one export good having increased the most over the first 8 months is canola oil (+433%), an agricultural-based good, but with value-added (crushing and processing). Optical fibers (+70.0%), fine paper (+51.7%), and chemical woodpulp (+20.7%) are all major export items that have shown significant increases in export value over 1997.

Looking back over the past five years, a similar trend toward value-added and manufactured export items can be identified.

Exports of optical fibers, for example, increased from \$29 million in 1993 to \$123 million in 1996. The figure for the first 8 months of 1998 is already \$126 million – suggesting an annual total of approximately \$180-\$190 million. If this amount is realized, exports of optical fibers from the province will have increased by 678% in only 5 years.

Fine paper is another example of a manufactured good with expanding export value. In 1993, Saskatchewan exported \$38 million of fine paper; in 1998, annualized estimates are in the order of \$147 million – an increase of nearly 386%.

## Saskatchewan Exports by Major Industry (Jan-Aug 1997 and Jan-Aug 1998 and % change)



SOURCE: Industry Canada, based on data from Statistics Canada (Report Date: 4 November 1998)

These value-added manufactured goods have provided a well-needed offset to the precipitous decline in natural resource exports. Without these manufactured exports, Saskatchewan would now likely be on the verge of a severe, trade-induced recession. This would probably have been the case in the province 20 years ago.

### Export Markets

Examining the markets to which Saskatchewan sells its goods, the United States is clearly the dominant customer. In 1997, exports to the U.S. totaled over \$5.4 billion dollars – 55.6% of all its international sales. This rate has been fairly stable over the past decade.

But Saskatchewan is far less dependent on the U.S. than are other Canadian provinces. In 1997, 81% of Alberta's exports and 76% of Manitoba's exports went south of the border. Ontario is the most dependent, selling over 90% of its exports to the U.S. The Canadian average for the same year is 82%. Compared with these figures, the importance of the U.S. to Saskatchewan exporters is relatively low, although it remains the single largest customer in absolute terms.

The second largest international customer for Saskatchewan's exports in 1997 was Japan, although it had slipped considerably from past years. In 1993, Japan

purchased 10% of all the province's exports; during the first eight months of 1998, the figure is at 4.8%. This sharp drop in exports is due to the slumping Japanese economy, triggered last year by the general Asian economic collapse.

With significant potash purchases, China has taken over third place among the province's largest markets. In the first 8 months of 1998, China purchased \$357 million from Saskatchewan, most of this (68%) being potash fertilizer.

Because of the broad base of Saskatchewan's exports – ranging from potash to energy and agriculture – its export markets are much more diverse than other provinces. Being the least dependent on the U.S., its international customers are not concentrated in one or two economies which may swing into recession.

This is the situation that British Columbia is experiencing with a high concentration of export markets in Asia. As the present downturn developed, B.C.'s 30% share of exports in the Pacific Rim quickly started to deteriorate, exposing the province to falling sales and recession in 1998. Saskatchewan, however, is far less exposed to single markets. Large sales to China, Algeria, Latin America, the EU, and of course the U.S. make it *relatively* immune to a major regional economic downturn (such as the Asian flu).

## Top 25 Exports from Saskatchewan, 1993 to 1997

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
	(Value in 000s of C\$)				
Petroleum Oil	1,115,119	1,344,931	1,668,484	1,841,574	1,875,180
Potash	1,044,188	1,408,996	1,533,696	1,346,245	1,597,730
Wheat	1,286,717	1,488,018	1,409,209	1,655,183	1,499,177
Durum Wheat	362,766	556,434	927,024	752,674	796,848
Canola	291,492	605,235	579,800	412,707	491,964
Barley	159,506	206,538	197,474	368,110	239,979
Live Cattle	249,501	202,407	157,859	204,890	205,791
Linseed	48,937	102,209	168,666	173,047	194,389
Lumber (coniferous)	57,635	31,874	35,337	112,363	185,100
Uranium	139,804	116,888	161,670	141,940	183,656
Wood Pulp (semi-chemical)	61,995	117,559	203,006	124,590	147,419
Oats	42,813	47,337	103,363	124,350	138,021
Peas	59,117	88,858	158,350	168,351	134,229
Lentils	72,009	82,213	117,467	134,127	132,100
Optical Fibres and Cables	28,691	38,961	57,785	122,628	111,078
Fine Paper	37,836	47,378	54,670	47,365	96,865
Malt	32,719	22,095	36,173	80,146	92,429
Chemical Wood Pulp	72,906	43,461	69,944	47,425	91,693
Urea	86,656	103,052	66,381	70,647	77,175
Canola Seed Oil	14,390	9,505	9,990	43,108	66,596
Herbicides	27,904	40,168	35,467	44,229	63,659
Canola Oil, Crude	9,944	--	--	59,726	56,810
Bond Paper	14,133	23,584	38,827	31,369	51,487
Beef (fresh or chilled)	12,839	9,011	22,376	44,039	51,160
Sub-total, top 25 categories:	5,356,298	6,771,821	7,851,043	8,193,742	8,633,709
Others	712,531	765,939	997,520	1,118,403	1,170,169
<b>TOTAL (ALL PRODUCTS)</b>	<b>6,068,829</b>	<b>7,537,759</b>	<b>8,848,563</b>	<b>9,312,145</b>	<b>9,803,878</b>

Source: Industry Canada, based on data from Statistics Canada (Report Date: 24 November 1998)

## Top Markets for Saskatchewan Exports

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
	(Value in 000s of C\$)				
United States	3,333,980	3,851,254	4,263,466	4,776,218	5,447,109
Japan	607,251	632,294	796,332	772,218	749,767
China	328,436	559,323	935,476	679,478	446,886
Algeria	110,243	274,498	376,255	259,080	382,634
Iran	57,436	168,824	192,069	269,671	252,027
Belgium	117,204	212,617	302,273	188,112	209,588
Brazil	128,131	179,317	153,154	264,182	190,973
Mexico	113,172	178,046	172,998	195,154	183,316
Indonesia	72,830	68,570	76,336	203,980	181,375
South Korea	247,832	331,656	118,933	163,854	169,481
Sub-total of above:	5,116,515	6,456,397	7,387,293	7,771,946	8,213,156
Others	952,314	1,081,362	1,461,270	1,540,198	1,590,722
<b>All Countries</b>	<b>6,068,829</b>	<b>7,537,759</b>	<b>8,848,563</b>	<b>9,312,145</b>	<b>9,803,878</b>

Source: Industry Canada, based on data from Statistics Canada (Report Date: 24 November 1998)

## Impact of the Asian Flu on Saskatchewan Exports

	<u>Jan-Aug 1997</u>	<u>Jan-Aug 1998</u>	<u>% chg.</u>
	(Value in 000s of C\$)		
China	318,403	357,531	12.3%
Japan	524,877	287,381	-45.2%
Indonesia	145,895	75,175	-48.5%
Malaysia	76,299	73,127	-4.2%
South Korea	119,871	47,555	-60.3%
Taiwan (T'aipei)	33,1388	29,205	-11.9%
Thailand	23,706	24,734	4.3%
Philippines	40,966	6,799	-83.4%
Singapore	1,358	395	-70.9%
Asian sub-total	1,284,515	901,903	-29.8%
All other countries	5,124,870	5,139,176	0.3%
<b>TOTAL</b>	<b>6,409,385</b>	<b>6,041,079</b>	<b>-5.7%</b>

Source: Industry Canada, based on data from Statistics Canada  
(Report Date: 25 November 1998)

### III. Saskatchewan in Western Canada

Of Western Canada's four provinces, Saskatchewan and Manitoba are relatively similar in population and economic size, whereas Alberta and British Columbia are much larger. Compared to its three western neighbours, Saskatchewan exhibits a number of similarities and differences that highlight its chief characteristics.

#### Equalization Payments

Along with Manitoba, Saskatchewan is considered one of the "have-not" provinces in the West. Unlike other financial transfers the provinces receive for specific purposes (e.g., the Canada Health and Social Transfer), only those provinces below the national average level of fiscal capacity receive equalization payments. The wealth of B.C., Alberta, and Ontario bring the national average to a level that surpasses the other seven "have-not" provinces. In this regard, the term "have-not" province does not necessarily imply poverty, but only that its financial resources per person are below the national average.

Saskatchewan will receive \$406 million in equalization payments in 1998-99. This compares with only \$190 million in the previous fiscal year, and \$224 million in 1996-97. The marked increase is due to the sharp decline in natural resource prices and royalties thereof.

Compared to other provinces, Saskatchewan receives relatively little. In absolute terms, its \$406 million is lower than only P.E.I., which receives \$201 million. Other provinces receive considerably more: Quebec (\$3.9 billion), Nova Scotia (\$1.2 billion) and Manitoba (\$1.1 billion) receive the most equalization payments.

In per capita terms, Saskatchewan receives the lowest amount of equalization payments – \$396 per person, compared with the next lowest recipient, Quebec, at \$529 per person.

#### Population Growth

Once again there is a remarkable similarity between Saskatchewan and Manitoba, and a stark contrast with Alberta and British Columbia. While both Saskatchewan and Manitoba have shown very moderate growth over the past thirty years, Alberta and B.C. have grown strongly over the same period.

There are a variety of reasons for this pattern of population growth. Stronger economic performance, job creation, and (particularly in the case of B.C.) a moderate climate have made B.C. and Alberta the destination of inter-provincial migrants, many of them from Saskatchewan and Manitoba.

British Columbia has also attracted far more international migrants than have either Saskatchewan or Manitoba, and to a lesser degree, Alberta. In 1996, British Columbia received 51,463 international immigrants, while Saskatchewan received only 1,868. The reasons for B.C.'s higher *international* migration mirrors those for *interprovincial* migration – superior employment opportunities (until recently), milder climate, and – especially in the case of Asian immigration – a concentration of familiar cultural and language communities in British Columbia.

#### Economy

As described in the sections above, Saskatchewan's economy is dominated by the production and export of natural resource commodities – agriculture, energy, potash, pulp, and mining. In this regard, it is very similar to all of the western provinces. But upon closer examination, the similarities tend to disappear.

British Columbia is perhaps the western economy least similar to Saskatchewan. Not only is the province significantly larger, it is far more reliant on forestry, tourism, international investment, and fishing. What agriculture is to Saskatchewan, forestry is to British Columbia. The recent down-turn in Asia, tumbling

## Population of the Western Provinces

	<u>1961</u>	<u>1971</u>	<u>1981</u>	<u>1991</u>	<u>1996</u>	% chg. ( <u>61-'91</u> )
BC	1,629	2,185	2,744	3,282	3,725	129%
AB	1,332	1,628	2,238	2,546	2,697	102%
SK	925	926	968	989	990	7%
MB	922	988	1,026	1,092	1,114	21%
Canada	18,238	21,568	24,343	27,297	28,847	58%

Source: Census of Canada, Statistics Canada

NOTE: Census year statistics are not directly comparable to "post-censal year estimates" which may appear elsewhere in this report.

commodity prices, high production costs, and a relatively high tax regime have combined to throw B.C.'s once-thriving forestry sector into recession in 1998.

Alberta, created as a province at the same time as Saskatchewan, was settled early on in much the same way. The creation of the CPR in the late 1800s led to a wave of immigrant settlers, encouraged by the federal government to homestead on the vast, open Prairies. The two provinces were very similar in their infancy, with Saskatchewan being the more populous of the two until the late 1940s.

But the similarities began to fade with the discovery of oil at Turner Valley and Leduc, Alberta. The western twin began to develop in wealth, population and political influence at a far greater pace than Saskatchewan.

Over the years, Alberta's wealth in energy resources led to a general reliance on oil and gas prices, and a resulting "boom and bust" mentality which has defined the provincial economy for most of the century. Saskatchewan, on the other hand, has not enjoyed the same level of wealth, but has also not fallen victim to energy price crashes as severely as Alberta. It is only during the recent period of energy price collapse that Alberta has demonstrated enough diversity to avoid another "bust."

Manitoba is the western economy most similar to Saskatchewan, despite the differences in their historic developments. Both provinces are relatively rural-based, with agriculture playing a central role. Both are recipients of equalization payments, and both have shown only moderate population growth over recent decades.

Where Saskatchewan and Manitoba differ is in the latter's ability to develop a strong, stable manufacturing sector. Apparel, aerospace, machinery, and biotechnology have played a much larger role in Manitoba's development than they have in Saskatchewan (although Manitoba remains a relatively small player in all of these industries).

### Political Role and Culture of Saskatchewan

Saskatchewan's role in Western Canada is dominated by its agricultural presence, not only in terms of economics but also in terms of politics and its influence at the national level. With 68% of Canada's wheat farms, the province has been able to exert political influence at the national level through both Agriculture Canada and the Canadian Wheat Board. While it is a small province with only 14 of the 301 seats in the House of Commons, the federal ministers of Agriculture (and less frequently, Transportation) are often from Saskatchewan.

The role of the Canadian Wheat Board (CWB) has been a source of extreme controversy over the past several years. Established in 1935, the Board's purpose was to act as a collective marketing board for wheat and barley farmers in Western Canada. The idea was that although individual farmers were insignificant in the world wheat markets, the collective powers of the Board would be sufficient to achieve a greater role in the global market and thus influence price. It also sought to moderate the price vagaries of wheat and barley, providing a buffer for western farmers when prices were low.

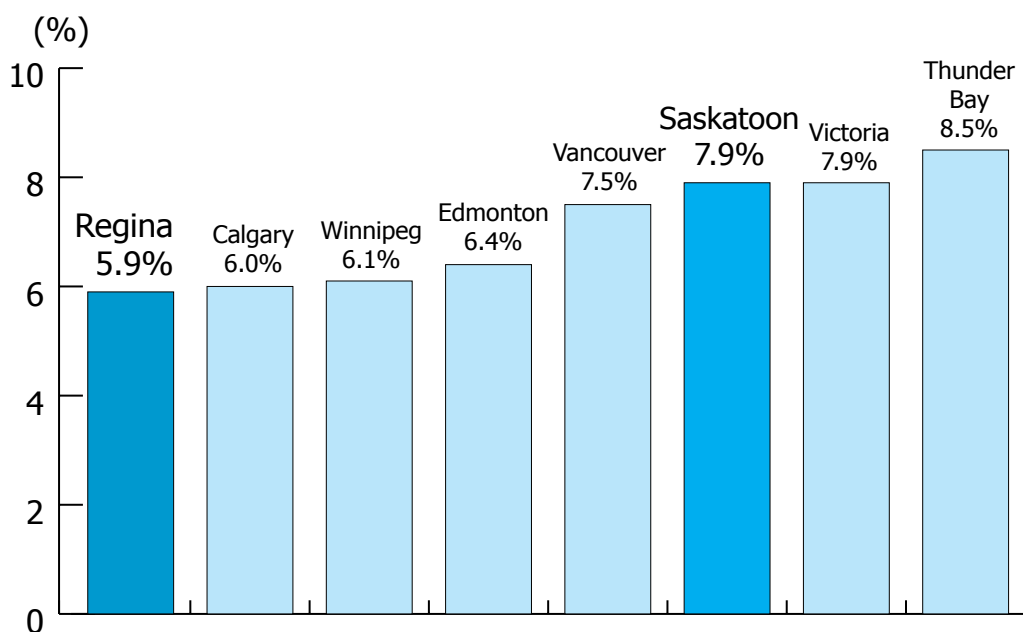
For most of its 63-year history, the CWB has enjoyed domestic support, and is respected and recognized around the world as a marketer of high-quality grain. However, over the past few years, support among Canadian farmers has dimmed. It is illegal under current legislation for western wheat farmers to sell their grain to any other buyer except the Canadian Wheat Board – a point that created a great deal of animosity among farmers during 1994 and 1995 when world wheat prices were relatively high. Prices paid by the CWB were lower than farmers could have achieved if they were to sell directly to grain buyers in the U.S. or elsewhere.

Opinions and support for the CWB are split, with a strong cleavage between farmers in Alberta (largely against the current CWB arrangements), and those in Saskatchewan (largely in favour of it). Manitoba farmers are less uniform in their opinion.

The fact that Saskatchewan farmers are generally in favour of maintaining the CWB as the sole buyer and



## Urban Unemployment Rates, October 1998 (seasonally adjusted 3-month moving average)



SOURCE: Statistics Canada

marketer of Canadian wheat highlights the province's unique collective characteristic. This has been a political feature which has defined the province since its inception. Saskatchewan, as is often pointed out, is the birth-place of Canada's Medicare system. The predecessor of the modern New Democratic Party (the CCF) first came to power in Saskatchewan. Its provincial governments have largely been NDP with (until the 1990s) a strong emphasis on government-owned and operated initiatives such as SaskOil, SaskPower, the Saskatchewan Potash Corporation, and SaskTel.

While it is clear that a strong collective mentality has defined Saskatchewan, it is less clear how this framework has impacted the province's economic development. Through the initiatives of several entities such as the Saskatchewan Wheat Pool (established in 1924), the province has certainly achieved a measure of economic clout that would have been very difficult in the absence of collective measures.

However, it is argued by many that the high tax regime created by the provincially owned commercial ventures and social programs has led to slower growth, less wealth, and a significantly smaller economy than neighboring Alberta. It is difficult to deny the role of Alberta's massive oil and gas deposits in that province's

economic development; however, Saskatchewan is also a province rich in similar natural resources, yet has not enjoyed the wealth and growth of Alberta.

## IV. Challenges and Opportunities for the Next Decade

### Economic Diversification

The term "diversification" is applied so often in economic writing that it has become synonymous with the goal of growth itself. Certainly the benefits of a diversified economy cannot be denied. It is the same principle applied to personal finances and mutual funds, where not all eggs are kept in the same basket.

In Saskatchewan's case, it is worth examining just how diversified the province already is.

In terms of international trade, Saskatchewan is among the most diversified of any province. With only 55% of its exports going to the U.S., it is relatively less vulnerable to any major economic recession that may descend south of the border. It has a wide variety of international markets such as China, the Middle East, Latin America and Europe. It is unlikely that all of these economic regions would fall into recession at the same time.

While Saskatchewan is quite reliant on natural resource commodities in general, the mix of these resources is in fact quite diversified. Agriculture, which is still the most significant sector, no longer stands alone. Oil, potash, and forestry have all made major contributions to diversification – at least within the realm of natural resources.

Other than its resource base, however, the province remains relatively under-diversified. Nonetheless, there have been some notable inroads in the development of high-tech manufacturing in the province, primarily concentrated in Saskatoon and Regina. As well, agri-foods and food manufacturing have grown considerably.

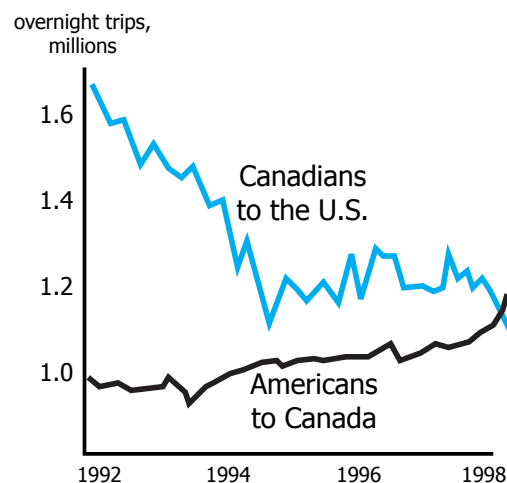
Tourism is also a growth industry in the province, particularly with visitors from the United States. This has been a development enjoyed across the country. For the first time, overnight trips by Americans to Canada now exceed Canadians' overnight trips to the United States. The low Canadian dollar has been the primary driver of this development. Saskatchewan has enjoyed its share of growing American tourism, with overnight trips increasing 21% from June 1997 to June 1998.

Simple efforts to diversify the economy away from natural resources are not sufficient to move Saskatchewan into a mode of growth and expansion for the next decade. *The diversification efforts must be strategically focused in niche areas that both take advantage of Saskatchewan's natural advantages and tap into markets that are not already saturated.*

For example, Saskatchewan cannot hope to compete with British Columbia or Mexico for general tourist dollars. However, it *could* compete for the tourist dollars of high-income German visitors seeking a wilderness and fishing vacation at a remote resort in northern Saskatchewan. While such niche marketing techniques may only bring a small fraction of the number of visitors that Banff National Park brings, a small, growing niche can make a notable impact on an economy such as Saskatchewan's.

In manufacturing, the province must recognize its natural disadvantage in terms of geography. It is in the middle of the North American continent, but it is remote and distant from all major consumer markets. It may not be realistic to compete head-to-head with Ontario in auto manufacturing. But it may make sense to aggressively develop a specialty pasta-producing plant with major markets in Italy, making use of the close proximity to durum wheat inputs.

## Canada-US Cross Border Tourism 1992-1998



SOURCE: Statistics Canada

Such niche marketing techniques are, of course, not a new invention. Nor are they being ignored by the provincial government and entrepreneurs of Saskatchewan. It is, however, worth re-emphasizing the importance of specialty marketing in the effort to diversify the economy, particularly given the relatively small size of the province.

### Transportation

One of the most significant hurdles facing Saskatchewan in the coming few years is transportation, specifically its system of grain transportation, its railways, and its highways.

Currently, the railway companies dominating Saskatchewan's grain distribution system – Canadian Pacific Railway (CPR) and Canadian National (CN) – are divesting themselves of many rural grain branch lines throughout the Prairies. Changes made to the *Canadian Transportation Act* in 1995 have simplified the process of branch line rationalization for the railway companies.

Under the current legislation, CPR and CN are required to identify branch lines that are considered uneconomic and to place these on the market for sale. Potential buyers of these lines may be short-line railway companies, municipalities, or provincial governments. While the lines are considered uneconomic to the major railways, they may well be economically viable for smaller, more flexible operators.

If no buyer can be found at a reasonable market price (somewhere above salvage value of the track and property) within a reasonable amount of time, the railways are then permitted by the Canadian Transportation Agency to abandon the line.

The reason that the railways are finding many of their Prairie branch lines uneconomic is that they do not carry the same volume of grain that they have in the past. This does not reflect lower production of grain on the Prairies, but another rationalization that has been taken place concurrently – that of the major grain companies.

The largest of these companies, the Saskatchewan Wheat Pool, has been on an aggressive marketing plan to rationalize (i.e., eliminate) many of its older, smaller grain elevators and to consolidate its grain collection activities at enormous concrete grain terminals. These new mega-elevators are capable of handling up to 100 times the volume of grain as the obsolete wooden elevators which are now vanishing across the Prairies.

Other major grain companies, such as Agricore (the new merger of the Alberta Wheat Pool and the Manitoba Pool Elevators), United Grain Growers, and the American giant ADM are following similarly aggressive strategies to consolidate their operations, lower their costs through scale economies, and capture market share.

This concurrent restructuring of two major industrial activities – the rationalization of grain elevators and railway branch lines – is causing a major strain on Saskatchewan's rural economy. Most farming and rural organizations in the province are opposed to these activities, especially the railways' program of branch line divestiture. The railways point to the grain companies and their consolidation of collection points. Without an elevator on the rail line, there is no point in keeping it open. The grain companies point to rising costs and global competition.

The not-so-obvious loser in this current race to rationalize is Saskatchewan's rural highway system. Because of the fewer grain collection points, grain has to be trucked farther and in significantly larger commercial grain trucks than ever before. This has put a considerable strain on the province's highways (the longest system of highways in all of Canada). Maintenance cannot keep up to the wear and tear caused by the trucks, and the provincial government is not in a financial position to invest the amount of capital needed

to create a usable, long-lasting, efficient highway system.

The present government is billing the deterioration of the highways as a crisis situation, and is lobbying the federal government to share the costs of upgrading and new highway construction. Whether a partnership with the federal government is achieved or not, this is an acute area of concern for the entire province.

## Summary

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Saskatchewan's reliance on agriculture has lessened in recent years. Natural resources (energy, forestry, and mining) have been developed over the past decades, creating a more diversified economy.

Its trade patterns also reveal a lack of reliance on any one particular market. Saskatchewan is the least reliant of any province on the United States, and has developed strong trade ties with all regions of the world.

However, diversification in natural resources and international markets is not enough. In 1998, the province experienced tumbling prices for almost all of its major commodities, and a slowing world economy has leveled-off demand for its exports.

Saskatchewan's challenges in the next decade will be to:

- continue to develop value-added and high-tech manufacturing;
- create opportunities through specialized niche markets, emphasizing its natural advantages;
- address the issues of transportation, particularly as they relate to grain movement, trucking, and the provincial highway system. ■

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- ▶ to **educate** individuals regarding the West's economic and social contributions to Canada; and
- ▶ to act as a catalyst for **informed debate**.

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