

**Western Centre for Economic Research
University of Alberta**

Annual Report

January 1 – December 31, 2005



University of Alberta

Western Centre for Economic Research (WCER)

Dr. Rolf Mirus, director of the WCER since 2003, relinquished his position to become Acting Vice Provost and Acting Vice President, International. He continued to liaise with the WCER and will return as a Research Professor in the summer of 2006.

Dr. Michael Percy, Stanley Milner Professor and Dean of the School of Business, assumed the directorship on July 1, 2005. Dr. Percy was appointed Dean of the School of Business in 1997. He is the author and co author of numerous articles on public policy, international trade, and economic development. Dr. Percy served one term as a member of the Legislature, Province of Alberta beginning in 1993. He served as co chair of the Premier's 1997 (Alberta) Economic Growth Summit. He has participated in several health care panels for the province and acted as a consultant to various provincial governments on issues related to economic development and to United Nations agencies.

Activities of the WCER in 2003 included co-hosting the release of "Firing on (Almost) All Cylinders" with the Canada West Foundations and the design of a new Business Sentiments Index in collaboration with ATB Financial. The WCER is the recipient of a pledged endowment by Canadian National Railway Company (CN) for transportation and Canada – US trade research. The WCER supported the academic community by offering small grants for research on international trade and foreign direct investment, Trade fellowships, an ATB Financial award to students, and new CN Fellowships for research relating to transportation and trade. Analysis of Western Canadian trade performance was again made possible with funding from Alberta International and Intergovernmental Affairs.

Background on the Western Centre for Economic Research

Since its creation in late 1985, the WCER has had as its primary objective the dissemination of timely and balanced research findings relevant to the Western Canadian economy. The intended audience consists of concerned citizens and, in particular, decision makers within government and industry throughout Western Canada and beyond. Sponsored by the School of Business and the Departments of Economics and Rural Economy, the Western Centre is able to draw on a wide range of expertise and to offer academic research, conferences, workshops and seminars on a diversity of issues pertaining to the performance of Western Canada's economy.

The results of research findings and conference deliberations are distributed through a series of information bulletins and similar monographs, where emphasis is continually placed on ensuring that the information is presented in a non-technical, accessible format. Information Bulletins are available from the WCER office (780 492 2235) or online at www.bus.ualberta.ca/wcer.

The Centre's activities are often co-sponsored with other University of Alberta entities as well as with federal and provincial government departments and research organizations at other universities across the Americas.

Funding for the WCER is derived from two primary sources: fee-for-service contract work and financial support from the George Cormie Foundation. The revenue stream from this endowment permits the WCER to consider some independent initiatives, and to involve academic staff and graduate students in its research activities.

Information Bulletins

The Information Bulletin series remains the WCER's primary vehicle for the dissemination of its research findings. Following are summaries of Bulletins published during 2003.

No. 83 *The Alberta and Western Canada Export Experience Under the Free Trade Agreements, 1988-2004* by Wade Church, Michael A. Padua and Monic D. Willner, August 2005

This report offers a review of the merchandise exports from Western Canada for 16 years of free trade with the United States and 11 years with Mexico under the Canada – U.S. Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA). As with previous reports, 1988, the year before the FTA, has been employed as a benchmark against which to measure growth in aggregate exports and in specific product categories. The annual report for 2004 summarizes the merchandise export experience and draws some comparisons to the 2003 export experience. Information on the top 20 exports for each western province and for Western Canada as a whole for 2002 are provided, as well as a separate presentation of export relations to the United States, Mexico, Chile, Costa Rica and Israel.

Exports to NAFTA countries comprise 70.7% of total Western Canadian exports, down from 80.4% in 2003. Only Saskatchewan increased its exports to NAFTA countries in 2004. Alberta had the highest percentage of exports going to NAFTA countries at 89.3%.

Since 1988, the value of Alberta's exports has risen 407% and the province's share of total Western Canadian exports has risen from 33% to 55%. Energy accounted for 77.4% of Alberta's exports, rising in value by 15.2% over 2003 and 277% since 1993. The manufacturing sector has seen an increase in its share of Alberta's total exports to NAFTA countries, up to 5.3% in 2004 compared to 3.8% in 1993 and an increase in value of 423%. Alberta's commodity based exports' share of total exports to NAFTA countries declined slightly from 19.8% in 1993 to 17.3% in 2004.

Exports of live animals have continued to suffer due to the BSE crisis with exports of live cows to NAFTA falling to \$0 from \$627 million in 2002. Wood and wood products remain British Columbia's top exports; and agricultural products remain Saskatchewan's and Manitoba's top exports although there is greater diversification among Manitoba's exports compared to the other Western Provinces.

Exports to Chile and Israel were down \$71 million since the implementation of agreements in 1997 and Canada's exports to Costa Rica are down from \$28.8 million in 2001 to \$28.3 million in 2004. These values are small and, therefore, are liable to fluctuate from year to year.

No. 84 *Alberta Tariff Reduction and Elimination Priorities, 2002 – 2004* by Jeff Koskinen, August 2005

This report provides an overview of Alberta's top exports from 2002 to 2004 and the tariff barriers that these products face. The report focuses on exports to countries that do not have a free trade agreement with Canada and is intended to assist in prioritizing Alberta's tariff reduction or elimination objectives in multilateral trade negotiations at the World Trade Organization (WTO). Export data is presented in accordance with the Harmonized Tariff Coding System. In addition to export values, bound tariff rates from the Uruguay Round of WTO negotiations are provided for each export destination, if available.

The top five non-FTA trading partners for Alberta from 2002 to 2004 were Japan, China, the EU, South Korea and Taiwan. Exports to China increased by 132% from 2002 to \$1.7 billion in trade. Large increases were also noted for the EU

(38.9%), Australia (87.8%) and Singapore (35.2%), however the value of exports decreased to South Korea (-2.2%) and Taiwan (-30.7%).

Alberta's dominant export category continued to be Mineral Fuel and Oil (HS 27) followed by Plastics (HS 39). The eight categories for which exports to non-FTA countries exceeded 10% of total category exports were Plastics (HS 39), Organic Chemicals (HS 29), Machinery (HS 84), Meat (HS 02), Electrical Machinery (HS 85), Wood Pulp (HS 47), Cereals (HS 10) and Nickel (HS 75). The report identifies the specific countries for which tariff reduction should be considered during trade negotiations.

No. 85 *Alberta Heritage Fund: Blessing Becoming Curse?* By Allan A. Warrack, November

Presented at the 4th Conference of the Academy of International Business, July 2005, this paper outlines Alberta Energy Policies and the implementation of the Alberta Heritage Savings Trust Fund (AHF). Financial composition and management of the AHF through the 1980s and 1990s and the current financial status is discussed. The fund is compared to the Alaska Permanent Fund. Eight parameters are identified for evaluation of the fund: economic, financial, social, environmental, educational, medical research, other research, and governance. The paper concludes that whether energy revenues become a curse, or not, depends on leadership and management. Seven 'lessons' are proposed.

First, a permanent fund from energy revenues should be established to confer non-renewable resources benefits through the generations and so convert a non-renewable energy wealth to renewable wealth. Second, governance of the fund should be at arms length. Third, there should be a process of policy formulation and legal approval that is transparent, with the fullest, widest and most open and inclusive consultation and debate. Fourth, a fair proportion of ownership share of energy royalties should be determined, considering future generations. Fifth, a mandate of endowment financial management should be adopted to preserve purchasing power of capital, inflation proofing and yield disposition. Sixth, the public should be involved directly and frequently. Finally there should be an independent review of policies and mandates every five years, including accountability rules and open transparency-to-public rules.

CN Fund for WCER Program Initiatives

The WCER takes great pleasure in announcing a \$500,000 pledge commitment from the Canadian National Railway Company. This strategic investment will raise the profile for both organizations and will ensure continued public debate on Canada – US trade issues relevant to a wide spectrum of business and industry in Western Canada in particular and to Canada as a whole. The appointment of a CN Executive Professor of Canada – US Trade Relations is expected in 2006.

Policy Seminar “Canada and Mexico: What Common Ground?”

C.D. Howe Institute, Toronto, April 15, 2005

The WCER, through the employment of the CN funds, and the C.D. Howe Institute jointly sponsored a policy seminar to review current Mexican and Canadian policy stances with respect to trade, investment and security within North America after a decade of the NAFTA. The seminar comprised four sessions:

Session I: Shared Interests: What are independent Mexican and Canadian objectives with respect to North America? What do Mexico and Canada currently have as shared interests in their relationship, both bilaterally and with the United States? On what aspects might interests diverge?

Peter Boehm (Chair), Assistant Deputy Minister, Foreign Affairs
Canada

Jack M. Mintz, President and CEO, C.D. Howe Institute
Gerónimo Gutiérrez, Undersecretary for North America, Secretariat
of Foreign Relations, Government of Mexico

Session II: North American Public Goods: What specific North American public goods do Canada and Mexico share in their approach to the U.S., other than removing barriers to trade and flows of people and capital? For example, are there shared interests in security, defense, health and disease control, transportation, environment, and resource management (energy/water)? Should there be a North American approach to other parts of the world regarding foreign aid, security, etc.?

Carol Pujalte (Chair), Consul General of Mexico in Toronto
Wendy Dobson, Professor, Institute for International Business,
Rotman School, University of Toronto
Andrés Rozental, President, Mexican Council on Foreign Relations

Session III: Barriers to Trade and Flows of People and Capital: What regulations and other public policies (such as taxes and tariffs) would Canada and Mexico (with respect to Canada – Mexico and to Canada – Mexico – U.S) both seek to change in order to facilitate greater trade and mobility of people and capital? Is it desirable to take a Canada – Mexico or trilateral approach towards future bilateral or regional free trade agreements?

William B.P. Robson (Chair), Senior Vice-President and Director of Research, C.D. Howe Institute

J. Trevor Eyton, Senator, Canadian Senate

Rafael Cortes, Trade Commissioner of Mexico in Toronto

Session IV Strategy: What actions should each country undertake before approaching Washington? Should Canada and Mexico jointly pursue a broad initiative or a set of smaller initiatives? What are short, medium and long-term options for joint co-operation? How should negotiations be sequenced? What, if any, common institutions should be considered for North American co-operation as opposed to bilateral co-operation (Canada – US, Mexico – U.S)?

Carlos Manuel Sada (Chair), Mexican Consul General, Chicago

Phil Ventura, Assistant Secretary to the Cabinet, Privy Council

Office

Rafael Fernández de Castro, Head, Department of International Studies, ITAM

Seminar proceedings were summarized in “The Canada – Mexico Conundrum: Finding Common Ground” by Danielle Goldfarb, C.D. Howe Institute Backgrounder No. 91, July 2005.

Canadian National Railways Canada-US Trade Fellowships

The WCER offered new fellowships to encourage transportation research and trade policy research covering the WTO, the NAFTA and other regional arrangements. The fellowships were sponsored by Canadian National Railways Company and focused on Canada – US trade issues. Resulting research may be published as Information Bulletins. Fellowships were open to Faculty of Law and MBA (International) students. Three fellowships of \$1,500 were awarded:

Trent Mercier (Law) "A Standardized Weight Restriction Regime for Cargo Shipments Moving Overland in North America."

Allison Henning (Business) "The Softwood Lumber Game."

Kamren Farr (Business) "Open Skies in Western Canada: The Potential Economic Impact of Canada-US Trade Liberalization in Aviation Services."

The Research Grants Programme

This programme, which was initiated in 1997, is made possible through the revenues available to the Western Centre from the George Cormie endowment and the Royal Bank Endowment. Its purpose is to encourage academic staff and graduate students in the School of Business, and in the Departments of Economics and of Rural Economy, to investigate topics relating to (1) international trade and foreign direct investment — including such aspects as management issues, regulatory and commercial policies, international standard setting, and other like issues presenting a challenge to Western Canadian firms active in international markets; and (2) general international conditions having an impact on Western Canada.

A maximum of four grants are approved each year, and none may exceed \$5,000 in value. The grant applications are assessed by an *ad hoc* committee of peer reviewers and, following approval, the first half of the grant monies are disbursed, with the second half provided following submission of a draft of the study. The work is normally expected to be complete within nine months of accepting the first installment. Grant recipients are required to present their findings in a style that is readily accessible to the public and private sector. Normally, publication will be through the Centre for International Business Studies and/or the Western Centre for Economic Research. However, it is also

anticipated that the papers will be reviewed through standard academic procedures and, whenever possible, lead to publication in refereed journals.

Two grants were awarded in 2005.

1) Michele Veeman, Department of Rural Economy, "Harmonising Standards Related to Agricultural Biotechnology: How Successful is Codex Alimentarius?" (Information Bulletin 91)

The Codex Alimentarius Commission, established by the Food and Agriculture Organization and the World Health Organization as a means of establishing and coordinating food standards, is the major mechanism to aid development of internationally recognized food standards. Codex provides a means to coordinate standards for foods, including standards associated with the testing, labelling, advertising and handling of foods derived from genetic engineering. Progress in these various activities appears to have been mixed. However, this programme has developed consensus standards and guidelines for a variety of food issues and is recognized as a primary mechanism to pursue international harmonization of food standards.

This small scale project initiated a specific case study of Codex Alimentarius as a standards setting body for food quality and safety in the particular context of food biotechnology. The specific focus and objective of the project is to assess the effectiveness of the Codex Alimentarius processes in defining consensus-based international standards for different regulatory aspects of food derived from agricultural biotechnology.

2) Dorothee Feils, School of Business, "Foreign Direct Investment and Regional Economic Integration."

Regional economic integration motivates firms from outside countries to invest in an integrated economic area as the regional economic integration increases the 'size of the country'. However, the fortress effects of regional integration may increase the barriers to trade for outsiders. Free trade agreements (FTA) may contain elements that create barriers to competitors from non-member countries, thereby increasing the incentive for FDI into the FTA area.

The project examines the impact of regional economic integration on inward FDI in all OECD countries over time on a country by country basis and studies the impact of regional integration on FDI while controlling other explanatory variables. The results of this study will foster a much better understanding of the effects of regional economic integration on FDI, as cross regional differences, if

any, will be controlled. Up to date panel data methodology will be used to analyze the data and will allow us to make meaningful cross-country comparisons.

Part of the grant will be used to facilitate attendance at the Business Academy Annual Meeting in Fribourg, Germany in December 2006 where the results of the project will be presented.

International Trade Policy Fellowships

Alberta International and Intergovernmental Relations continued to support the International Trade Policy Fellowship programme. Three fellowships were awarded in 2005, each worth \$6,000. Fellowships are open to Ph.D. and Master's candidates in Business, Economics, Rural Economy and Political Science. The 2005 Fellowships were awarded to:

Jeff Koskinen (Business) was awarded a summer fellowship to study Alberta Tariff Reduction and Elimination Priorities from 2002 to 2004.

Monic Willner (Business) was awarded a summer fellowship to study the Alberta and Western Canada export experience under the Free Trade Agreements from 1988 to 2004.

Goscia Cicy-Weclaw (Business) was awarded a fall term fellowship to study the Alberta perspective on the inclusion of tourist guide, pipeline transport and research and development services to the General Agreement on Trade in Service

ATB Financial Student Award

Through support from ATB Financial, a new undergraduate student award will be offered for each academic term, worth \$750. The student will assist in the construction of the quarterly Business Sentiments Index. The first award was given to Hiam Selah, a fourth year Business student.

Round Table “Firing on (Almost) All Cylinders”

Round Table Discussion with Todd Hirsch, Canada West Foundation, and Jim Edwards, Chair, Board of Governors, University of Alberta, April 12, 2005

The WCER co hosted a round table discussion with community leaders to release the Canada West Foundation’s economic profile and forecast for Alberta. With (almost) all sectors flourishing, Todd Hirsch said it was hard to find anything but optimism in Alberta's economy. The value of exports has nearly tripled over the past ten years reaching a record level of \$66.7 billion in 2004. This represents about 40% of the total provincial economy. Oil and natural gas account for two-thirds of all exports. Two export items that stand out in terms of growth over the past decade are frozen or fresh cuts of beef and plastics. China is a growing market for Alberta exports.

Hirsch asserts that even with large fluctuations in energy prices, the province does not face a boom or bust economy but rather one of boom and healthy. Real GDP growth in 2005 is forecast to be 3.7%, moderating somewhat to 3.3% in 2006. In both years, Alberta will likely lead all provinces in economic growth.

Reports

Presence and Performance of Priority Industries and Technologies in Edmonton and Calgary

The WCER was retained by the Government of Canada to examine the presence and recent performance in the Edmonton and Calgary regions of firms identified as priority industries and technologies. Qualitative and quantitative measures were considered.

The Alberta Perspective on the Inclusion of Tourist Guide, Pipeline Transport and Research and Development Services to the General Agreement on Trade in Service

Gosia Cichy-Weclaw, International Trade Fellow, developed an overview of economic issues related to the tourist guide, pipeline transport and research and development services in Alberta. This included a description and explanation of these services based on the World Trade Organization Secretariat’s Services Sectoral Classification List and the United Nation Central Product Classification. An analysis of Alberta’s laws that would affect international trade in the examined services was also included.

Tourist guide services – no measures, including Alberta’s laws and governmental policies, have been identified that would have an impact on international trade in this sector. Measures that establish residency and nationality requirements relate to hunting guides whose services are excluded from tourist guides services under the CPC.

Pipeline transport services – the *Pipeline Act* and the *Pipeline Regulation* include provisions that limit market access of foreign suppliers to Alberta’s market. These laws require juridical persons to have a commercial presence and natural persons to meet a residency requirement in order to obtain a license for a pipeline’s operation. Licensees that are not Alberta residents must appoint an agent to carry out a licensee’s duties and responsibilities in the province. As a result, a full commitment in respect to all four modes of supply in this sector is not feasible without amending the respective laws.

The research and development services analysis is yet to be completed.

Current and Ongoing Projects

ATB Financial Business Sentiments Index™

The Western Centre for Economic Research and ATB Financial (ATB) have developed a new Alberta based, forward looking quarterly survey of business confidence. Businesses across Alberta and across industry sectors will be surveyed quarterly to determine their outlook for future demand, employment needs, pricing and inventory levels. An index of business sentiments will be developed based on survey results. The survey is modelled to considerable degree on the EU format, an established and successful model.

These Indexes are based on responses to a telephone survey of over 400 business firms in key driving sectors of the Alberta economy: oil and gas exploration and development, agriculture, construction, manufacturing, transportation and warehousing, wholesaling, professional and technical services. The survey questions adapt to the circumstances of each sector. The Population Research Laboratory at the University of Alberta will administer the survey to 400 firms.

The *Business Sentiments Index* and the *Hiring Intentions Index* are constructed as follows:

- take the difference between the percentage of positive and negative responses to questions about current and future sales and employment requirements i.e. (% stating 'increase' minus % stating 'decrease');
- convert the results to an index measure, i.e. add 100 to the % difference;
- and
- assign weights to the index of responses from each sector to obtain a composite index.

To interpret the results:

- growth occurs in the economy if the index is greater than 100;
- an economy is in neutral if the index is at 100; and
- the economy is in decline if the index is below 100.

The higher the value of the Index the stronger is the sentiment for expansion. The ceiling value of the index is 200 (all respondents expect increase) and the floor value is zero (all respondents expect a decrease).

The index will provide a business barometer and serve as a reference point for appraisal of the business experience in the past quarter. Over time, results will be analyzed for any evidence of seasonal patterns. *Alberta Venture* will publish the index. The first index will be available in January 2006.

An Examination of Small Business in Western Canada

The WCER continued the multi year study of the role and practices of small business in Western Canada. With funding from Western Economic Diversification, Government of Canada, the WCER re-examined the importance of small business to the Western Canadian economy and employment. Four different data sources were used in this study: *Canadian Business Patterns*; the *Longitudinal Employment Analysis Program*; the *Survey of Employment, Payrolls and Hours*; and the *Labour Force Survey*. The first three are collections of data about business establishments and the fourth is a sample survey of households. The results will be published in 2006 as Information Bulletin 86 *Revisiting Portraits of Small Business Growth and Employment in Western Canada* and Information Bulletin 87 *Nouveau portrait des petites entreprises de l'Ouest du Canada : croissance et emploi*.

The research found that the performance of the small business sector in Western Canada dominated that in the rest of the country, with new businesses in the region accounting for a disproportionate share of those in the country as a whole. The growth in Alberta small business enterprises, fuelled by the energy industry,

generally outstripped that in the rest of the county. Small business in Saskatchewan and Manitoba was very much affected in this period by the retrenchment in agriculture leading to the loss of a substantial number of micro businesses.

Wade Church, a fourth year Bachelor of Commerce student was hired to assist the WCER team with the statistical research, and Birgitta Smith assisted with the editing.

Implications of a Mountain Pine Beetle Infestation

The Alberta government retained the WCER to look at the implications of an infestation of the Mountain Pine Beetle on the Alberta forestry industry.

Website

The WCER continued to maintain its website www.bus.ualberta.ca/wcer. Information Bulletins and other publications are available for downloading from the site free of charge.

Activities of Dr. Chambers, Research Professor

Dr. Chambers is the chief investigator for the WCER's small business projects. The final Information Bulletins, No. 86 *Revisiting Portraits of Small Business Growth and Employment in Western Canada* and No. 87 *Nouveau portrait des petites entreprises de l'Ouest du Canada : croissance et employ*, will be released in 2006.

Dr. Chambers designed the new ATB Financial Business Sentiments Index™, the first of which will be released in January, 2006.

In May, Dr. Chambers attended the Montreal meeting for the Centre of Excellence for United States Studies.

Dr. Chambers is an Assessor with the British Columbia Department of Higher Education Degree Quality Assessment Board for B. Com and MBA Programme applications. He is a member of the Advisory Council of the North American Economic and Finance Association and he is President of the Oak Bay Probus Club.

Activities of Dr. Rolf Mirus, Director

Dr. Rolf Mirus attended the C.D. Howe Institute Policy Seminar “Canada and Mexico: What Common Ground.” The seminar explored elements of a common Canada – Mexico approach to economic and other relations with the United States, as well as Canada – Mexico bilateral issues. Participants discussed which issues are better negotiated on a trilateral basis and which in parallel bilateral sessions. The policy seminar was jointly sponsored by the School of Business, University of Alberta.

Dr. Mirus accompanied MBA students on a study excursion to Instituto Tecnológico de Estudios Superiores (ITESM), Guadalajara, Mexico during Reading Week in February.

Public Relations

The WCER is frequently asked by the media and by others for assessments of economic conditions in Alberta and other western provinces. Priority is continually placed on prompt and credible response to these inquires.

Internal Management

The WCER acknowledges the support of the Summer Career Placements Programme, Human Resources and Skills Development Canada. The employment of Wade Church and Williams Shaw was partially funded by this programme.

Many thanks are extended to Dr. E.J. (Ted) Chambers, Jean Frost, Stephen Janzen, and Birgitta Smith for their assistance and valued contributions throughout the year and to our summer students, Williams Shaw and Wade Church.

Respectfully submitted,



Michael B. Percy
Director, Western Centre for Economic Research