

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

**Annual Report**

**January 1 – December 31, 2003**



**University of Alberta**



## **Western Centre for Economic Research**

2003 was a very successful year for the Western Centre for Economic Research (WCER), with the publication of *Alberta Benefits: Economic Impacts of Northern Gas Pipeline Construction* as well as several Information Bulletins. Work continued on two projects on small business in Western Canada, *Insights into Entrepreneurship in Western Canada* and *Small Business Markets and Marketing Channels*. Both projects will be completed in 2004. The WCER hosted several events year, most notably the Pre - Budget Consultative Round Table with Honourable John Manley, Minister of Finance and Deputy Prime Minister.

### **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](http://www.bus.ualberta.ca/wcer).

The Centre's activities are often co-sponsored with other University of Alberta entities, such as the Centre for International Business Studies, also housed in the School of Business, 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.

# Publications

## Reports

### *Alberta Benefits: Economic Impacts of Northern Gas Pipeline Construction*

This report takes stock of the potential benefits to Alberta from the proposed development of the Mackenzie Valley Pipeline (MVP) and the Alaska Highway Pipeline (AHP). Alberta Economic Development (AED) contracted the Western Centre for Economic Research at the University of Alberta to prepare a report that summarizes the potential economic impact on Alberta of these pipeline projects. The report supports Alberta Economic Development's mandate of gathering information and analysis that provides a planning framework for business and industry. The WCER was asked to evaluate each proposed pipeline separately, focusing on the economic impact of their development on the province. Direct and aggregate effects are supplied, as are related developmental impacts. An Addendum to the report provides a detailed listing of Alberta firms that potentially stand to benefit from construction of either or both pipelines.

### Principal Findings

- Northern pipeline development will provide opportunities for Alberta business in design, construction, management, and will have a secondary impact on petrochemical industries and infrastructure.
- The Mackenzie Valley Pipeline will provide an estimated aggregate employment increase of more than 38 thousand person years. Alberta's portion will require a \$266 million direct investment and will generate about \$1 billion in revenues. This will yield a \$3.6 billion GDP increase, a \$2.3 billion labor income increase and about \$900 million in government revenue.
- The Alaska Highway Pipeline will benefit Alberta employment with an increase of some 25 thousand person years of aggregate employment. A forecast direct investment of \$155 million promises Alberta \$641 million in revenues. This translates into a \$2.5 billion GDP increase, a \$1.5 billion labor income increase and a rise in government revenue of \$628 million.
- Alberta is well placed, industrially and geographically, to take full advantage of these developments as they move forward. The province's sophisticated oil and gas industry will receive value-added opportunities in areas of specialized expertise: natural gas and natural gas liquid (NGL) storage; NGL processing; gas to liquid (GTL) technology projects; power generation and cogeneration.

- There is a wide array of secondary business opportunities beyond those directly dealing with handling upstream production. Alberta will also experience a significant impetus for the development of infrastructure. In particular, the northern pipelines are likely to enhance the role of First Nations in economic development.
- Finally, northern pipelines should offer Alberta gas consumers lower prices, less volatility and a more secure supply of gas.

## **Information Bulletins**

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

### ***No. 74 The Alberta and Western Canada Export Experience Under the Free Trade Agreements: 1988-2002 by Xiaozhan Liu, June 2003***

This report offers a review of the merchandise exports from Western Canada for the years since 1988. As with previous reports, 1988 has been employed as a benchmark against which to measure growth in aggregate exports and in specific product categories. The annual report for 2002 summarizes the merchandise export experience and draws some comparisons to the 2001 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 separate presentation of export relations to the United States, Mexico, Chile, Costa Rica and Israel.

### ***No. 75 What's Wrong with the WTO: Reforming Anti-Dumping and Countervailing Subsidy Provisions by Matthew Saunders and Rolf Mirus, November 2003***

The World Trade Organization (WTO) has successfully hastened the pace of trade liberalization eliminating or substantially reducing many of the conventional trade barriers. There is, however, strong opposition to further liberalization because of the vested interests of particular producer groups. This bulletin dispels some popular misconceptions of protectionism. A brief history of the origin, present state and the theoretical foundation of antidumping laws are given. In light of the shortcomings found in the WTO's Agreement on Subsidies and Countervailing Measures specific changes are proposed to curtail abuses.

## 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 is run jointly with the Centre for International Business Studies. 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 instalment. 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.

### Grants Awarded in 2003

#### **1. Melville McMillan, Department of Economics and Paul Boothe, Department of Economics: "Fiscally Induced Migration within a Border City: The Case of Lloydminster, Alberta."**

Economists, politicians and the public have long been interested in the influence of fiscal features upon factor location. In particular, how do taxes and government expenditures affect the location of capital and labour? The location of the City of Lloydminster directly on the Alberta-Saskatchewan border provides an excellent but unexploited opportunity to study the border city situation and to contribute to the very modest literature which has investigated business and residential location and relative growth in the border community context.

The research will look at the influence of provincial fiscal differences upon the location and growth of population and business within the City of Lloydminster. The study will examine patterns from 1950 to the present during which time the fiscal situations of the two provinces have changed from being initially very similar to being quite different. In addition, the fiscal situations of the two provinces have each varied internally over time with shifts in economic trends and patterns and variations in provincial fiscal management.

A second direction for analysis is to examine the nature of the populations choosing to live on the two sides of the border. The average total income of Saskatchewan tax filers is considerably below that of Alberta filers.

## **2. Randal Morck and Gloria Y. Tian, School of Business, University of Alberta: "The Economic Importance of Corporate Control in Canada."**

The central topic in corporate governance is how firms are managed and how well firms perform under different management mechanisms. The current paper is fundamentally motivated by one major, but often completely overlooked, difference between Canada and the US -- who owns companies. The research will try to develop some insights into one particular ownership structure, the Corporate Control Pyramid, which is absent in the US but extensively used in Canada. The economic implications of this ownership structure will be addressed in this research.

Most large firms in most countries have controlling shareholders. These are typically shares owned by another company, which in turn has yet another company as its controlling shareholder. These chains of corporate control tend to extend downward from a relatively small number of ultimate owners in each country -- a few ultimately free standing corporations, wealthy families, or state-owned enterprises. Such control pyramids are quite common. Canada is, in this respect, a typical country.

Most discussion of corporate governance issues in Canada proceeds as if Canadian firms were also organized as their US counter-parts. The economic implications of corporate control pyramids are unknown. This study seeks to fill in this critical gap in our knowledge studying the linkages between ownership structure and firm's performance using Canadian firm-level data. Specifically, are there significant differences in performance between firms in corporate pyramids and widely held firms? Is performance associated with a firm's position within a control pyramid? Finally the research will divide pyramids into three subgroups, contingent on the pyramid being controlled by a wealthy family, a state owned enterprise, or a public

corporation. The statistical analysis will be redone on each class of pyramidal groups. The performance measures will incorporate dividend yields, accounting returns, market valuations, tax rates, and co-movement with other pyramids.

### **3. Thomas A. Matthews, School of Business: "Tax Incentives and the Location of Multinational Firms' R & D Activities."**

This project will investigate the effects of tax incentives and non-tax factors on the location of US multinationals' foreign research and development (R & D) activity. It will provide quantitative empirical evidence on how influential various factors are in explaining cross-country variation in the R & D intensity of US multinationals' foreign operations. The research will help develop a better understanding of the relative importance of the factors influencing multinationals' R & D location decisions. The results will be of interest to government policy makers intent on attracting R & D activity to their jurisdictions and to the business decision makers they are attempting to persuade.

The project will examine econometrically the influence of taxes on the R & D intensity of US multinationals' foreign affiliates. Cross-country differences in the R & D intensity (*i.e.* R & D to sales ratio) of foreign operations are hypothesized to be associated with differences in the after-tax cost of R & D, *ceteris paribus*. The other variables included in the analysis will be non-tax factors predicted to influence the R & D intensity of foreign operations.

## **International Trade Policy Fellowships**

Since 1999, Alberta International and Intergovernmental Relations has funded International Trade Policy Fellowships for 3 graduate students to work on various trade policy research projects. The Fellowships have a maximum value of \$9,000 and are open to Ph.D. and Master's candidates in Business, Economics, Rural Economy and Political Science. In 2003, Fellowships were awarded to the following students:

Matthew Saunders (Economics)– May to August of 2003  
Joe Huang (Economics)– September to December of 2003  
Blake Phillips (Business)– January to March of 2004



## Current and Ongoing Projects

### An Examination of Small Business in Western Canada

The WWCER is undertaking a multi year study of the role and practices of small business in Western Canada. *A Portrait of Small Business Growth and Employment in Western Canada* (Information Bulletin 63, 2001) identified the importance of small business and revealed that those enterprises with less than 50 employees accounted for one half of total employment in Western Canada, a figure substantially above that in the rest of the country. It also found that entrepreneurial activity per capita in the West was almost 40% higher than in the rest of the country. The study provided benchmarks on the numbers of small businesses and their growth, and the position of small business as a job creator in Western Canada, in each of the provinces, and in sub-provincial regions.

The prior research provided concrete knowledge of the stock of small businesses and the rate of change in the net stock throughout the West based on SIC and NAIC classifications. The findings of *Portraits* identified a need for further policy oriented research into a number of questions. These concern both the growth and stability in the supply of small business firms, their product demand sources and the channels through which small firms sell their output. The WCER proposes to investigate these aspects of small business.

### Project 1: Western Canada's Small Business Markets: A Survey of Selling

*Portraits* did not examine the markets served by Western Canadian small business, nor the channels through which these enterprises sold their product. It did tell us, however, the importance of small business in the West, and its significance for local communities, particularly those in rural areas. Are small business customers limited to the community in which the entity is located? Is the market limited to the province? Is the market Western Canada? Are there sales across Canada? Is it part of the community's 'export base'? Does the entity have international customers? If the small business is not a direct foreign exporter does it export 'indirectly' through a customer who is engaged in the international market? What is the location of small business enterprises in the supply chain?

The project developed primary data through the application of a survey instrument applied to a sample of 500 to 600 small business firms in the four Western provinces. The survey was administered from March 2003 through October 2003. Questions related to:

- firm size and age
- growth experience
- family ownership
- type of product
- ownership and degree of family involvement
- spatial product markets including local, provincial, national and international
- channels of product distribution
- use of training (human resource upgrading) programmes
- use of business advisory services (private and public)
- research culture

The project is sponsored by Western Economic Diversification Canada and the Centre for Entrepreneurship and Family Enterprise.

## **Project 2: Insights into Entrepreneurship in Western Canada**

*A Primer to Entrepreneurship in Western Canada* is now available. The *Primer* looks at various models describing the process of creating a new venture. High growth companies, networking and the importance of high speed Internet to rural communities are topics covered in the report. Also considered are the lessons provided by successful firms: the high risks, the ideas and processes that are the heart of entrepreneurship, the networking, the capital requirements, and the complexity involved in bundling resources effectively. A final section of the study considers some of the support structures available to start-ups in Western Canada. Besides basic information and targeted support for areas like business plans and market research, the *Primer* considers risk sharing, network availability for those considering a new venture, and the regional support for rapid growth companies. The conclusions of the report assess public policy initiatives directed at small business firms and point to new opportunities.

## Events

### Round Table with John Manley

On January 16<sup>th</sup>, 2003, the WCER hosted a Pre-Budget Consultative Round Table with Honourable John Manley, Minister of Finance and Deputy Prime Minister. The Honourable John Manley addressed economists and students in the Stollery Centre at the School of Business. Dr. Rolf Mirus chaired the ensuing round table where participants offered the Minister the following advice:

- Increase funding for research and student loans
- Avoid deficits
- Lower the corporate income tax
- Phase out capital tax
- Consider national health standards
- Base health expenditure decisions on better evidence of outcomes
- Provide better support for the disabled
- Improve municipalities' opportunities to collect revenue
- Carefully consider implementation of the Kyoto Agreement
- Pursue spending priorities systematically, *i.e.* to cut low priority activities and spend more on high priorities

Participants at the round table were:

Ms. Phyllis Clark, Vice President Finance and Administration, University of Alberta  
Dr. Bev Dahlby, Department of Economics, University of Alberta  
Dr. David Feeny, Department of Pharmacy, Institute of Health Economics  
Mr. Steve Glover, Executive Director, Institute of Chartered Accountants of Alberta  
Dr. Mel McMillan, Department of Economics, University of Alberta  
Dr. Rolf Mirus, Director, Western Centre for Economic Research, School of Business  
Mr. Lorne Priemaza, Student, University of Alberta  
Dr. Andre Plourde, School of Business, University of Alberta  
Dr. Brad Reid, Chair, Department of Economics, University of Alberta  
Dr. James Smythe, Department of Economics, University of Alberta

## **Eldon Foote Lecture in International Business**

The WCER assisted the Centre for International Business Studies in hosting the 2003 Eldon Foote Lecture in International Business. This year's speaker was Dr. Gary Hufbauer, a renowned WTO analyst who holds the Reginald Jones Senior Fellowship at the Institute of International Economics, an influential think tank devoted to trade and finance. Dr. Hufbauer described his topic as a progress report on WTO negotiations, including the current Cancun Round. He complemented his Foote lecture with smaller student and faculty seminars on trade policy in Agricultural Economics, and on dispute settlement issues in the Faculty of Law.

## **Conference Presentations and Public Relations**

The Director of the WCER is regularly asked to participate in conferences and seminars focusing on Western Canada's economy, and to make presentations on the impact of local, national and international policies and programmes on the region's economic performance. Every effort is made to respond positively to these requests. Events at which presentations were made during 2003 included:

- "Is Dollarization For Us?" (Economics Society of Northern Alberta).
- A presentation to the Standing Senate Committee on Canada-US Relations regarding post-9/11 trade and security relations.
- Attending meetings for the Academic Advisory Committee to the Deputy Minister for International Trade (of which the WCER director is a member).
- Attendance of the Pacific North West Economic Region annual summit in Calgary.
- A presentation at the Policy Research Institute/SSHRC Roundtable *Moving Towards a Customs Union* in Ottawa.

The WCER is frequently approached by the media and by others for assessments of economic conditions in Alberta and Western Canada and for commentary on the impact of local, national and international events on the Western economy. Prompt and informed responses are provided when possible.

## **Activities of Dr. Chambers**

Dr. Ted Chambers, Research Associate, chaired sessions for the Canadian Council on Small Business meeting held in November 2003 in Victoria. In addition he reviewed papers for the meeting.

Dr. Chambers is a member of the Advisory Council of the North American Economic and Finance Association.

## **Other**

Many thanks are extended to Dr. E.J. (Ted) Chambers, Jean Frost, Stephen Janzen and Stuart Shaw for their valued contributions and assistance throughout the year.

Respectfully submitted,

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Director  
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