

**Western Centre for Economic Research
Faculty of Business**

Annual Report

January 1 – December 31, 2006



University of Alberta

The Western Centre for Economic Research (WCER)

Michael Percy, Stanley Milner Professor and Dean of the School of Business, relinquished the directorship on March 31, 2006.

Mr. Helmut Mach was appointed director On April 1, 2006. Mr. Mach has 33 years of experience with the Government of Alberta, most recently with the Alberta Ministry of International and Intergovernmental Relations. Mr. Mach was also appointed CN Executive Professor of Canada – US Trade Relations.

In 2006, the WCER continued its study of small business and employment in Western Canada. A new quarterly index of business sentiments was established with the financial support of ATB Financial. The WCER hosted a round table on The British Columbia - Alberta Trade, Investment, and Labour Mobility Agreement (TILMA) and co-hosted Shirley McClellan, Deputy Premier, at an MBA Forum. Analysis of Western Canadian trade performance was again made possible with funding from Alberta International and Intergovernmental Affairs. The Pine Beetle Case study was funded by Alberta Sustainable Resources. The WCER supported the academic community through small grants to enable research on international trade and foreign direct investment, with Trade Policy Fellowships, an ATB Financial award to students, CN Canada-US Trade Fellowships, and student summer employment.

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.business.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 three primary sources: fee-for-service contract work, financial support from the George Cormie Foundation and a pledged endowment by Canadian National Railway Company (CN) for transportation and Canada – US trade research. 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 2006.

No. 86 Revisiting Portraits of Small Business Growth and Employment in Western Canada, by Edward J. Chambers and Wade Church, May 2006

No. 87 Nouveau portrait des petites entreprises de l'Ouest du Canada: croissance et employ, par Edward J. Chambers et Wade Church, mai 2006

This is the fourth report in a series investigating the small business sector in Western Canada. The previous studies underlined the challenges and demands of small business. This report addresses the quantifiable impact of small business on the Western Canadian economy. Portraits Revisited offers a sectoral and provincial breakdown of small business growth. The high tech sector is given special emphasis, due to its perceived significance. The roles of gender, education attained, and age in the composition of the self-employed are also examined.

Three developments are of special importance during the period 1999 to 2004.

1. 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.
2. The growth in Alberta small business enterprises generally outstripped that in the other Western provinces. The energy industry, at the core of the Alberta economy, together with its satellite sectors, provided tremendous growth opportunities for a wide range of small business in Alberta.
3. Small business in Saskatchewan and Manitoba was very much affected in this period by the experiences of the farm sector. Retrenchment in agriculture led to the loss of a substantial number of micro-businesses annually and some of those losses spilled over to micro-business in non-agricultural sectors of the economy.

No. 88 ATB Financial Business Sentiments Index: How is the Alberta Economy Doing? by Edward J. Chambers, January 2006

- The ATB Financial Business Sentiments Index™ is compiled by the Western Centre for Economic Research (WCER), Alberta School of Business, from a survey of over 400 Alberta business firms.
- The Q1 2006 Business Sentiments Index pointed to a very strong economy in the coming months.
- Overall the Index displayed the widespread optimism of Alberta business and indicates a continuation of the current high levels of business activity.
- The business outlook is matched by increased employment opportunities. These opportunities are measured by our Alberta Hiring Intentions Index.
- That strength in sales expectations and hiring intentions is evident across all parts of the province and in the key sectors covered by our survey.

No. 89 The WTO Ministerial Conference in Hong Kong, December 2005: A Multi Disciplinary Discussion of Impacts on Alberta, by Greg Anderson, Linda Reif, Michele Veeman, and Rolf Mirus, February 2006

This Information Bulletin provides an assessment of the results and prospects of the current Doha Development Round of the WTO as they present themselves in the wake of the December 2005 Ministerial Meeting in Hong Kong. The four authors were asked to address the overall political situation (Anderson), the negotiations regarding agriculture (Veeman), the legal implications (Reif), and the implications for non-agricultural market access and trade in services (Mirus).

No. 90 ATB Financial Business Sentiments Index™: How is the Alberta Economy Doing? Quarter 2, 2006 by Edward J. Chambers, April 2006

- The Q2 2006 ATB Financial Business Sentiments Index™ pointed to a continuation of a strong economy in the coming quarter, sustaining the current high levels of economic activity.
- The ATB Financial Hiring Intention Index, derived from the same sample survey, pointed a very strong job market in the coming quarter.
- The very positive business sentiment and increase in job opportunities was apparent across all parts of the province and in all key business sectors surveyed.

No. 91 Food Safety and Quality International Trade: The Role of Codex Alimentarius by Michele Veeman and R. MacKay White, April 2006

The Codex Alimentarius is a mechanism for supporting the development of food standards and for overcoming technical barriers which was created for the general purpose of protecting consumer health without restricting trade. The specific purpose of the Codex process is to formulate consensus-based international standards for food safety that will both contribute to food safety and quality and facilitate international trade in safe foods.

It is apparent from assessing a sample of Codex processes, as we have done in this paper, that its current structures and procedures can be ineffective and inefficient. Although the Codex and the Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) Agreements may have encouraged modifications of some technical barriers to trade, these are a growing issue in international trade for agriculture and food. There will continue to be situations where food quality standards differ among nations due to political and economic pressures. Consensus becomes impossible when governments have entrenched differences of opinion or vested economic interests. These situations will constitute continuing challenges for Codex operations, although it is evident that there numbers of feasible ways in which these operations may be improved in the short and medium term.

No. 92 ATB Financial Business Sentiments Index™: How is the Alberta Economy Doing? Quarter 3, 2006 by Edward J. Chambers and Matthew Nichols, June 2006

- The Q3 2006 ATB Financial Business Sentiments Index™ found that the Alberta economy would continue its strong growth in the coming quarter.
- A substantial majority of Alberta firms anticipated increased sales during the quarter with Northern Alberta leading the way.
- All sectors would participate with sentiment particularly strong in the energy industry.
- The ATB Financial Index of Hiring Intentions indicated that these favourable business sentiments would be accompanied by a strong job market as most firms planned to increase their employment levels.

No. 93 The Alberta and Western Canada Export Experience under the Free Trade Agreements, 1988-2005 by Kamren Farr, Michael A. Padua, Mary Ballantyne, August 2006

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.

90% of Alberta's merchandise exports went to the United States and Mexico in 2005, compared with 80% in 1993, the year before the NAFTA came into effect. Record high commodity prices and increased demand for oil and natural gas drove an increase in exports, with Alberta's energy exports to the NAFTA region growing by 372% since 1993. The value of Alberta's global merchandise exports has risen by 509% since 1988. Alberta's share of total Western Canadian global exports has risen from 33% in 1988 to 57% in 2005. The export of value-added products from Alberta continues to grow, with a 437% increase in the value of exports of machinery and equipment, while chemical and plastics products have grown 347% over the same period. Exports of live cattle are beginning to recover after trade restrictions due to BSE have largely been lifted and exports reached a value of \$273 million in 2005 compared to \$637 million in 2002 before the restrictions.

No. 94 Alberta Tariff Reduction and Elimination Priorities 2002-2005 by Hak-Beom Kim, October 2006

The report provides an overview of Alberta's top exports from 2002 to 2005 and the tariff barriers that these products face when entering other countries. This information is intended to assist in the identification of product categories whose exports are hampered by restrictive tariffs. Thus, this report will assist in prioritizing Alberta's tariff reduction or elimination objectives in multilateral trade negotiations at the World Trade Organization or in bilateral agreements between Canada and its major trading partners

No. 95 ATB Financial Business Sentiments Index™: How is the Alberta Economy Doing? Q4 2006 by Edward J. Chambers and Matthew Nichols, October 2006

- The Q4 2006 ATB Financial Business Sentiments Index™ found that the Alberta economy would continue its extremely strong performance in the final quarter of 2006.
- • The Index for Q4 2006 exceeded even the very high levels recorded in previous quarters.
- • A substantial majority of Alberta firms, both in the North and the South, expected to increase sales in the coming quarter.
- • These expectations were evident across all sectors.

Grants Awarded in 2006

The following are the 2006 WCER/CIBS international-business related research proposals. Proposals focused on:

- international trade
- foreign direct investment
- related management concerns
- commercial and regulatory policy
- implementing international standards
- challenges to Canadian firms in international markets
- international conditions which have an impact on Western Canada
- Canada - US trade prospects under the Security and Prosperity Partnership
- past and current impact of, and future trends in, the application of trade remedy laws between Canada and the US.

The Small Grants Programme was made possible by funding from the Royal Bank and the George M. Cormie Endowment Fund.

Roy Suddaby, Department of Strategic Management & Organization “Institutional Impediments to Internationalization: Professions in Emerging Economies”

This study examines the institutional impediments to internationalization in the context of the international migration of western professional service firms to emerging economies in Eastern Europe. By focusing on this unique context the study will isolate and examine the interaction of institutional impediments to international expansion that originate both from the target country and the migrating firm.

Linda C. Reif, Faculty of Law

“Canada and Foreign Direct Investment in the Americas: The Evolution of an International Law Framework”

It is timely to examine the international and domestic law protections for Canadian FDI interests in the Americas. In particular, rather than focus on the Canada-U.S. relationship, this study will pay particular attention to legal

coverage of Canadian FDI in Latin America and the Caribbean. The study will analyze issues such as the foundational policies underlying Canadian international and domestic law covering FDI in the Americas, the contents of existing laws, dispute settlement arising out of these relationships, the gaps that exist in the legal framework and the effectiveness of these laws. In the absence of a multilateral FDI legal regime in the Americas, the study will explore the ramifications of the proliferation of networks of bilateral and trilateral FDI treaties throughout the Americas, especially given the changing legal and political landscape and the increasingly vocal concerns of civil society.

International Trade Policy Fellowship

The purpose of the fellowships is to undertake trade policy research covering the WTO, NAFTA and other regional arrangements. The work will include developing reports on Alberta's tariff priorities, Alberta's experience under free trade agreements, and research into the export potential of Alberta industries. Preference is given to applicants whose programs reflect some of these interests.

The fellowships are open to Ph.D. and Master's candidates in Business (MBA International), Economics (International), and Rural Economy (International) and to Law students. The fellowships are sponsored by Alberta Agriculture.

In 2006, three International Trade Policy Fellowships were awarded, two for the period from May through June and one for the period August through December.

In 2006, three International Trade Policy Fellowships were awarded:

- Kamren Farr (Business)
- Hak-Beom Kim (Business)
- Yanqin Chang (Economics)

ATB Financial Student Award

One student award per term is given to an undergraduate student. The student will help develop the quarterly ATB Financial Business Sentiments Index™. The current award holder is **Matthew Nichols** (Economics).

CN Canada-US Trade Fellowships

The purpose of the fellowships is to undertake trade policy research covering the WTO, NAFTA and other regional arrangements. This is the first of the new initiatives sponsored by Canadian National Railways Co. and focused on Canada-US trade issues. The work will include developing reports on Canada-US goods and services trade including dispute settlement mechanisms, ongoing trade irritants, transportation and the legal structure of NAFTA. Fellowships were awarded as follows:

Trent Mercier

"A Standardized Weight Restriction Regime for Cargo Shipments Moving Overland in North America."

Allison Henning

"The Softwood Lumber Game."

Kamren Farr

"Open Skies in Western Canada: The Potential Economic Impact of Canada-US Trade Liberalization in Aviation Services."

Projects

ATB Financial *Business Sentiments Index*TM

The Western Centre for Economic Research has constructed a new Alberta based, forward looking quarterly survey of business confidence. 400 businesses across Alberta and across industry sectors are surveyed quarterly to determine their outlook for future demand, employment needs, pricing and inventory levels. An index of business sentiments is developed based on survey results. To a considerable degree, the survey follows the EU format, an established and successful model.

Not only does the index provide a business barometer but it also 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. The index is presented on the WCER web page and published in the Alberta Venture.

Managing the Economic Impacts of Mountain Pine Beetle Outbreaks in Alberta

The recent outbreaks of Mountain Pine Beetle in Western Canada are having a dramatic impact on the forest environment and on those who live and work within these forestlands. The British Columbia Interior has already experienced a devastating infestation and the Mountain Pine Beetle has now quickly spread westward beyond the Rockies and into Alberta. The WCER undertook a case study representing an early attempt to examine and measure the economic, social and environmental impacts of the Mountain Pine Beetle infestation within Alberta, utilizing the Foothills Model Forest which encompasses the Hinton Wood Products Forest Management Area. Output from the SELES MPB Landscape Scale Mountain Pine Beetle Model was utilized to estimate potential mountain pine beetle spread rates within the Hinton Wood Products Forest Management Area (HFMA) of the Foothills Model Forest. Three scenarios, dependant upon spread rates of the beetle, were investigated. Results will be published in an Information Bulletin in 2007.

Budgeting in Alberta:

A Certified General Accountants/MBA Forum presented by Deputy Premier and Minister of Finance, Shirley McClellan, November 22, 2006

The Western Centre for Economic Research took great pleasure in bringing Minister Shirley McClellan to the CAG/MBA Forum. Minister McClellan spoke on the budgeting history and process of the Government of Alberta.

Minister McClellan stated the Alberta Budget had grown from \$1.4 million dollars in 1906 to over \$30 billion in 2006. Through prudent financial decisions, Alberta has obtained financial independence and is the envy of other provinces. Under the leadership of Ralph Klein, the Progressive Conservative government made difficult decisions in the early 1990s, beginning the process to eliminate the provincial debt. With “insightful fiscal decisions” and leaving the marketplace to look after itself, that goal has now been achieved.

Ministerial Round Table

The British Columbia - Alberta Trade, Investment, and Labour Mobility Agreement (TILMA), November 15, 2006

The Western Centre for Economic Research hosted a consultative discussion regarding the B.C. – Alberta TILMA, signed in April 2006, with Honourable Gary Mar, Alberta Minister of International and Intergovernmental Relations and his British Columbia counterpart, Honourable Colin Hansen, Minister of Economic Development.

Participants included over a dozen academics and several provincial government and private sector officials.

After the Dean of the University of Alberta's School of Business, Mike Percy welcomed the ministers and invited guests, an hour long open exchange provided reaction and input to the B.C.-Alberta TILMA. In general the comments and questions from around the table were strikingly positive.

Some of the topics covered:

- Existing barriers to internal trade
- The TILMA's inclusion of compliance assessments and penalties
- How dispute panels might function
- The national context for such agreements
- Labour mobility and foreign credentials
- Potential affect on other Canadian and sub-national agreements
- International comparisons (ex. Australia)
- Exemptions and how they are deemed so
- How Alberta and BC professions might cooperate on reconciliation of standards and regulations

Alberta's Trade Relationship with Europe Since 1990

The WCER was retained by the Wirth Institute, University of Alberta to examine Alberta's exports to large economic unions and to individual countries. Export data was also examined by product type. The trend of Alberta's exports to Europe mirrored that of Canada as a whole and of Alberta's total global export during the period. Exports to Europe accounted for approximately 2% of Alberta's total global export but Europe was Alberta's third most important

trading partner. Over 75% of all Alberta's exports to Europe were destined to the European Union. The research was undertaken by Matthew Nichols.

Activities

Director, Mr. Helmut Mach

Helmut Mach was appointed CN Executive Professor of Canada – US Trade Relations in April of 2006, assuming the directorship of the WCER, which had temporarily been in the hands of Mike Percy, Dean of the School of Business. Mr. Mach comes to the WCER with 33 years of experience with the Government of Alberta. Most recently he was with the Alberta Ministry of International and Intergovernmental Relations where he was the Alberta Trade Representative responsible for trade policy and negotiations, co-ordination and dispute management, and for both international and internal trade agreements and matters. He represented and pursued Alberta's interests in the negotiations for the Canada-US Free Trade Agreement, the NAFTA, the Uruguay Round of Multilateral Trade, the World Trade Organization Doha Development Agenda, and the Free Trade Agreement of the Americas.

In April he delivered a presentation at a Canada – US Mobility Forum sponsored by the Association of Professional Engineers, Geologists, and Geophysicists of Alberta (APEGGA). Mr. Mach participated in a workshop on trade remedy law negotiations with the WTO, hosted by Perrin Beatty, Canadian Manufacturers and Exporters, and the Canadian Chamber of Commerce. He also participated in the annual WTO Symposium on WTO negotiations in Geneva, Switzerland, where he reported developments and the issues and concerns identified by private sector stakeholders, the implications these issues and concerns will have on future Canada – US trade developments and their implications for Alberta and.

Mr. Mach is a fellow of the University of Alberta Institute for United States Policy Studies (IUSPS) which was officially launched in May. Throughout the year Mr. Mach participated in a number of IUSPS functions including the a conference on IUSPS/CSIS Energy Cooperation in the Western Hemisphere, an authors workshops and a Governing Council meeting.

Mr. Mach attended the opening of the Alberta exhibit at the Smithsonian Institute in Washington D.C. While there, he participated in a number of conferences on subjects such as North American Energy Security, Cross Border Forum on Agricultural Interdependence and New Leadership in Canada US Relations. In the fall, Mr. Mach returned to Washington, D.C. to attend meetings with the Institute for International Economics, the Canadian Embassy, Arnold and Porter, as well as various trade counsel and sector organizations to discuss and evaluate directions and prospects of NAFTA, Canada US trade relations, WTO negotiations and the impacts these could have on Canada – US trade relations.

Research Professor, Dr. Edward Chambers

Dr. Chambers has been actively involved in the ongoing ATB Business Sentiments project. He has worked with some of the WCER's fellowship students in analyzing the survey data and developing indices that are then published in Alberta Venture. The Business Sentiments project has provided valuable information on the performances and expectations of Alberta's various industries throughout 2006 and will continue to do so in 2007.

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.

Research Professor, Dr. Rolf Mirus

Dr. Mirus rejoined the WCER in the latter half of the year. A professor emeritus of the School of Business, Dr. Mirus provided supervision of the Trade Fellows and academic support for various WCER projects. He also serves on the Board of the Hans and Eugenia Juetting Foundation.

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 inquiries.

Internal Management

Many thanks are extended to Dr. E.J. (Ted) Chambers, Dr. Rolf Mirus, Jean Frost, and Stephen Janzen for their assistance and valued contributions throughout the year and to our summer student, Matthew Nichols.

Respectfully submitted

A handwritten signature in black ink, appearing to read 'Helmut Mach', written in a cursive style.

Helmut Mach
Director