

THE STATE OF THE REGIONS

The Economic Region of Prince Edward Island



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MARITIME Series

THE STATE OF THE REGIONS

The Economic Region of Prince Edward Island

Edited by
Maurice Beaudin



INSTITUT CANADIEN DE RECHERCHE SUR LE DÉVELOPPEMENT RÉGIONAL
THE CANADIAN INSTITUTE FOR RESEARCH ON REGIONAL DEVELOPMENT

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Preface

This is the third in the institute's Maritime Series: The State of the Regions, the purpose of which is to review in some detail the economic circumstances of the three Maritime provinces and the particular challenges they face. The series divides the Maritimes into eleven economic regions as defined by Statistics Canada. In this report, we shall look at Prince Edward Island.

The goal of the series is to promote a greater understanding of our region's economic challenges and opportunities. Today even more than four years ago when the series was launched, we at the institute are convinced that it has the potential to make an important contribution to our region. Presently in a transitional phase in their development, where they are busy redefining their role in society, the three provinces are shaping and being shaped by economic factors. The combined weight and force of this transition will entail far-reaching changes, thereby creating new challenges that the institute is working to help Maritimers to meet.

The participation of the people engaged in the activities under examination is essential if regional studies of this kind are to reflect the real issues. We were fortunate in this regard during our work in Prince Edward Island. The wide range of people and organizations consulted is, we believe, broadly representative of the region. Their involvement in this report is a testament to their commitment to the province, and we are indebted to them for their help. Their names are listed in the Appendix.

In producing this review, the institute was fortunate to have a skilled and dynamic research team. All its members are owed a debt of gratitude for their part in the successful completion of this study. The team was led by Maurice Beaudin, who acted as project coordinator, and included Colette Allain, Samuel Arseneault, Sue Calhoun, George J. De Benedetti, Rodolphe Lamarche, and Eugen Weiss. Thanks are also due to Annie Spears, consultant in economic analysis and econometric research, for her valuable insights and suggestions.

In conclusion, we hope that this review will be of interest to informed observers; the private sector; outside investors; government officials whose task is to design policies for the Maritime provinces; outside parties interested in the economy of Prince Edward Island; students of economics, geography, and public policy; the media; and the general public. Readers are invited to send us any comments they may have on this review and suggestions for future projects.

Donald J. Savoie
Executive Director



Introduction

This third report in the Maritime Series: The State of the Regions examines the economic region of Prince Edward Island. Although an economic region like the other ten, Prince Edward Island is of special importance for a number of reasons. Not only is it the cradle of Canadian Confederation, but it is unique as the only economic region in the country that is also a province. Moreover, it is an island province, whose link to the mainland since June 1997 has been the impressive Confederation Bridge. Although the region neither merits nor receives preferential treatment in this report because of these special features, the analysis has been adjusted to account for these realities and is therefore somewhat more detailed than previous reports.

With a population of barely 135,000, Prince Edward Island is a moderate-sized economic region. It comprises three counties or census divisions: at its centre is Queens County, which includes the capital Charlottetown, the main population centre of the Island; in the west is Prince County, where the province's Acadian minority is mostly concentrated; and in the east is the sparsely populated Kings County, which operates a port of entry (Souris) to the Magdalen Islands, a region under the jurisdiction of Quebec.

This analysis is largely drawn from two information bases. The analytical part, which deals with demography and the economy, relies on census data and other official data from the provincial and federal governments (Revenue Canada tax records, the Labour Force Survey, provincial economic accounts, the Survey of Manufacturing, provincial directories of companies, etc.). Based on this data, a relatively detailed profile of the demography (age pyramid, rural-urban development, migrations), labour market (labour force participation rate, unemployment rate, period of labour force attachment, employment categories, remuneration), and economic structure (employment breakdown by industry and occupation, contribution of different industries and services to the provincial gross domestic product [GDP], evolution of employment by industry) was drawn. For the most part, the profiles have been developed for the region as a whole, with some specific county analyses.

Data were also gathered from the many interviews and field research carried out from April to December 1997. This information was supplemented by a variety of reports and studies from federal, provincial, and regional agencies, which provided insights into many interesting aspects of the region and resulted in a better understanding of the Island economy and society. The interviews and field research enabled researchers to immerse themselves in the Island culture, which served to reveal local perceptions of the region's development. The many contacts with players in a wide variety of fields, particularly in the private sector, have allowed us to form a more objective opinion concerning the issue of the Island's development and to collect information that would otherwise have been difficult, if not impossible, to obtain. These data, which tend to be qualitative in nature, are essential to an objective evaluation of the strengths and weaknesses as well as the prospects of the province, which is now completely integrated into the Canadian Confederation.



Overview of the Region

The counties of Queens, Prince, and Kings on Prince Edward Island make up one of the eleven economic regions of the Maritimes as defined by Statistics Canada. In 1996, the region, which was called Abegweit by the Micmacs, had a population of 134,557 living in a 5,660 km² area, making it the most densely populated province in Canada (23 inhabitants/km²). The provincial capital, Charlottetown, is the region's dominant economic and administrative centre. Prince Edward Island is bordered on the south by the Northumberland Strait and on the north by the Gulf of St. Lawrence. Located between 62° and 64° west longitude and 46° and 47° north latitude, the Island is now linked to the mainland by the 12.9-kilometre-long Confederation Bridge, which was opened in the spring of 1997. The road infrastructure is completed by one seasonal ferry link between Wood Islands and Pictou, Nova Scotia, and another between Souris and the Magdalen Islands.

Two *urban agglomerations*¹ (Charlottetown and Summerside) and five other towns (Montague, Souris, Georgetown, Alberton, and Kensington) make up the Island's urban structure. The recently created towns of Cornwall and Stratford are included in the Charlottetown agglomeration (see map 1).

■ Geography, Habitat, Activities

Although Prince Edward Island occupies a relatively small area, its geography is quite diverse. Three relatively homogeneous landscapes or zones, which are shown on map 2, can be distinguished. The *Gulf and Beaches* and *Strait and Harbours* form the Island's circumference. Their characteristics closely resemble certain landscapes of south-eastern New Brunswick and northern Nova Scotia. In the centre of the Island is the *Hills and Glens* geographical zone, which has a fairly rippled topography. It extends from the community of Bloomfield

1. Census urban agglomeration (CA) is defined by Statistics Canada as an urbanized whole made up of an urban core, a belt or urban suburb, and a rural suburb. The concept of a CA presumes that more than a third of the active population of its rural outskirts is economically and socially integrated (daily commuting) with its centre. Statistics Canada, Cat. 92-320.

on the west to Elmira on the east, and includes the villages of Caledonia, Hunter River, Miminegash, and Wellington.

The north shore of the Island (Gulf and Beaches), undermined by the swell of the Gulf of St. Lawrence, is a zone of fine sandy beaches that attract thousands of tourists every year. Popular tourist attractions include the house that inspired L. M. Montgomery's popular novel *Anne of Green Gables*, sport fishing, whitecoats on ice floes in winter, and whale-watching in the gulf waters in summer. However, the drift on the barrier beaches poses serious constraints on the industrial port development in this zone. Even though Samuel Holland's 1764–65 survey had planned for urban development (Princetown) on Malpeque Bay, groundings and the difficulties in gaining access to the Island through the inlets convinced the authorities to settle instead on Summerside Harbour, on the shore of Northumberland Strait.

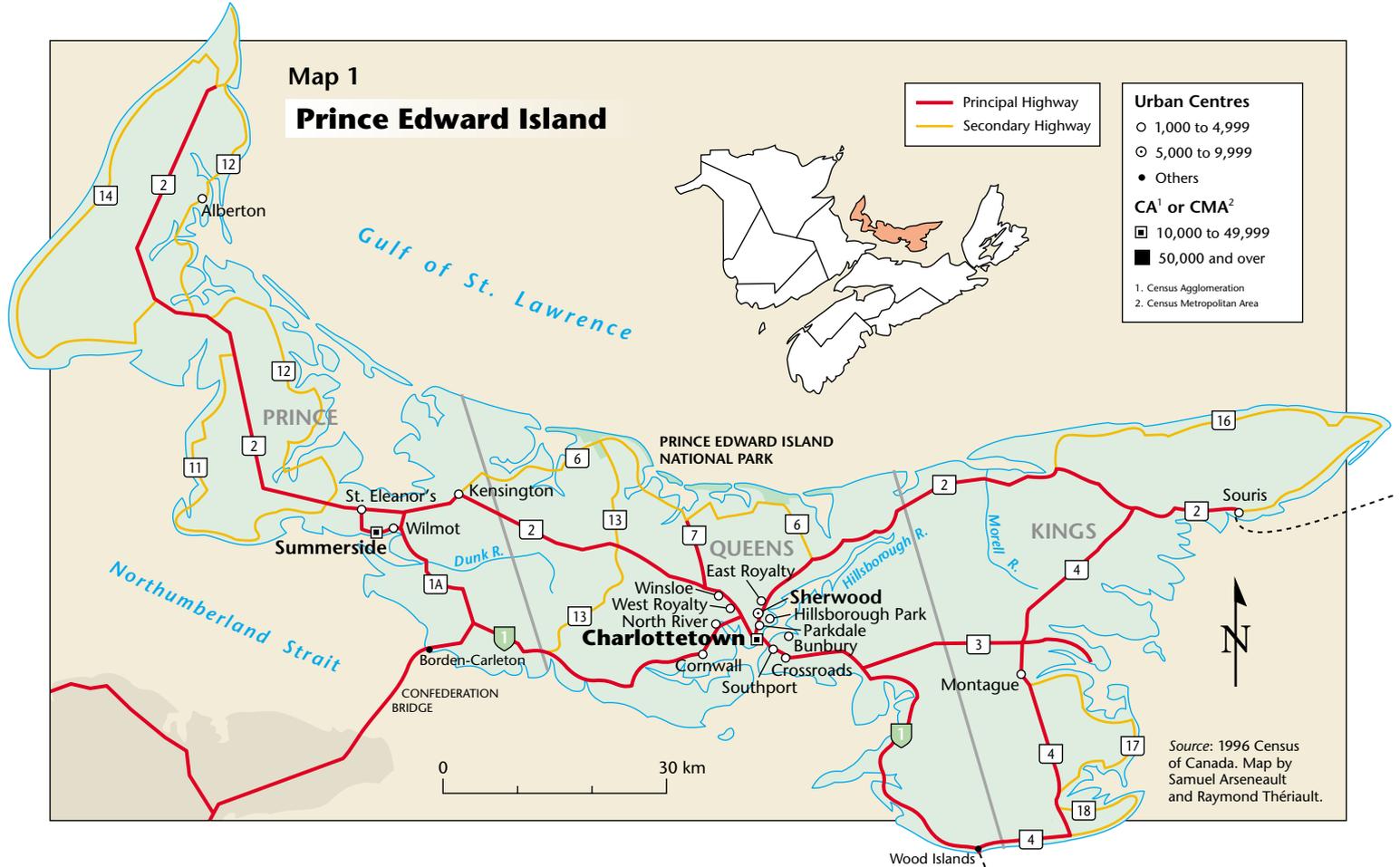
The Strait and Harbours landscape comprises the south shore of Prince Edward Island, which is washed by the waters of Northumberland Strait. This zone extends from North Cape in Prince County to East Point in Kings County. Between North Cape and Cap-Egmont, the coast is more exposed and storm waves hamper the work of fishermen. And between a series of cliffs in the area, there stretch barrier and pre-barrier beaches. Between Cap-Egmont and Point Prim, two well-sheltered harbours provide access to the ports of Summerside and Charlottetown. At one time, these ports served as gateways for travellers to the Island; however, soon after Confederation, this role was transferred to Borden and Wood Islands. Today, agricultural products are still shipped from these ports, which also have marinas, and they are visited by pleasure craft and occasionally by ocean liners.

Between Point Prim and East Point, the bays are less exposed and, with the exception of Cardigan and Colville bays, more favourable to mussel farming. The shipbuilding port of Georgetown, the former county town of Kings, is located on Cardigan Bay, while Souris, home port for the ferry to the Magdalen Islands, is on Colville Bay.

The Hills and Glens area includes higher land in the centre of the Island, which, being mostly cleared, is used mainly for potato farming: the harvests supply the Irving and McCain plants. This area is also used as pastureland for Holstein cows, whose milk is made into cheese and other food products. Many family farms dot the hills and glens of this area, which also has a dense network of roads and highways. The crossroads are frequently the sites of hamlets, each with a church, school, and general store.

Map 1

Prince Edward Island



In Prince and Kings counties, the hilly countryside flattens out somewhat. Much of the land suffers from poor drainage and is less cleared, with the result that farming in these counties is not as prosperous. Woodlots, however, are used for silviculture, and the trees are sold for firewood or processed into timber.

The regional centres are found in these three scenic areas. The foremost is the greater Charlottetown area, situated almost in the middle of the province. As the provincial capital as well as the educational and business centre of the Island, Charlottetown has nearly three times the population of Summerside. The latter suffered the closing of its air force base but has reinvested in a high technology industrial park and has benefited from the federal government's decentralization program. It remains a regional centre for the western part of the Island. In the east, the former county town of Georgetown (732 residents), which is situated on a peninsula, has been surpassed by the many services offered in and around Montague (995 residents), some ten kilometres away. Souris, at the eastern end of Kings, is the only agglomeration in the county with more than a thousand residents. A small fishing port, it also serves as the link to Cap-aux-Meules in the Magdalen Islands.

Map 2

Natural Areas

Prince Edward Island

Gulf and Beaches

The Island's tourism is based on the gulf area, with its ice floes, whitecoats, whales, fishing, fine sandy beaches, and the attractions surrounding Anne of Green Gables.

Regional Centres

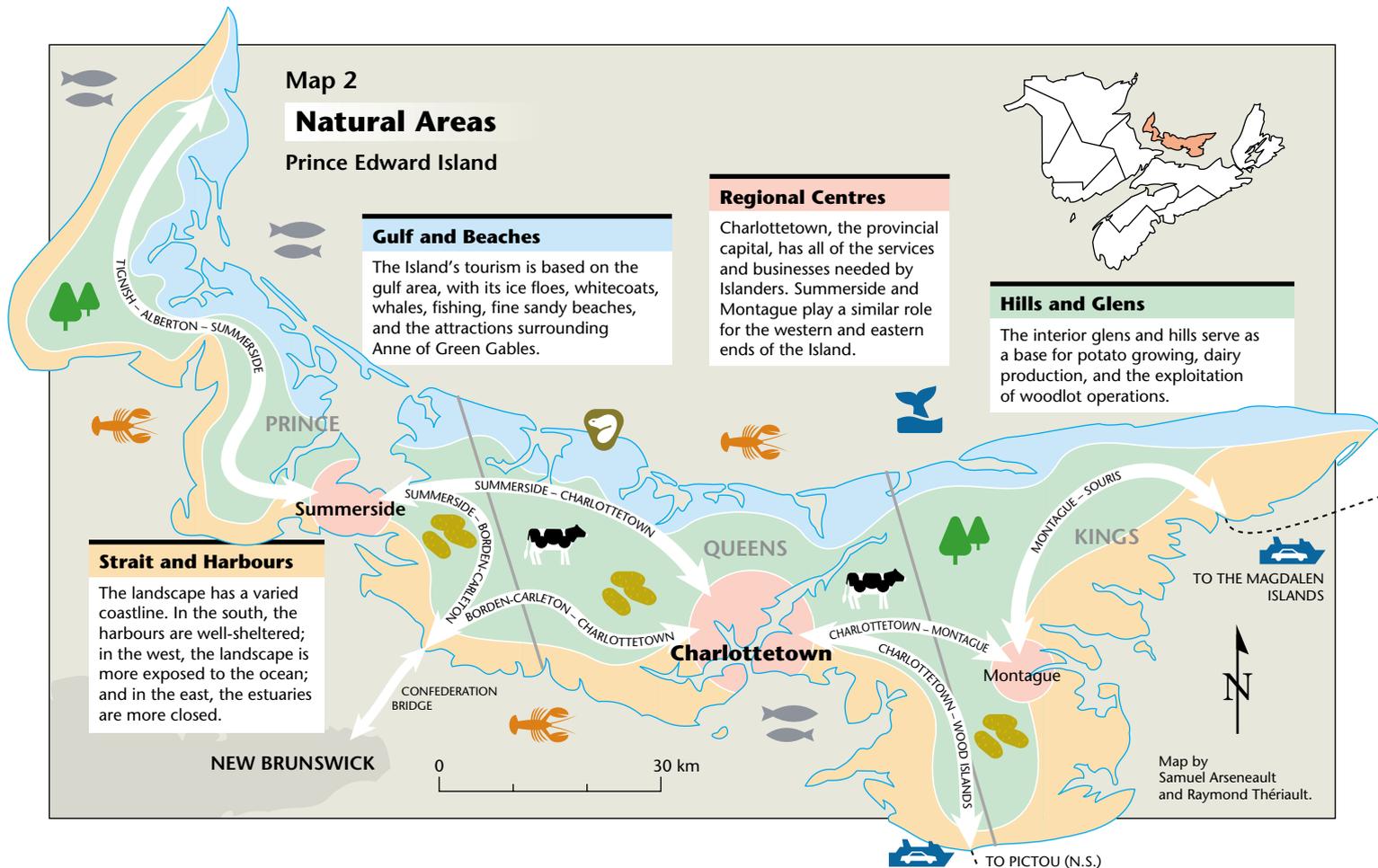
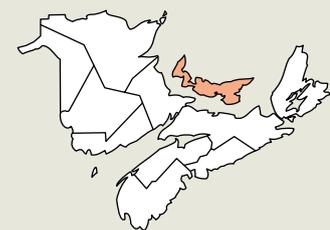
Charlottetown, the provincial capital, has all of the services and businesses needed by Islanders. Summerside and Montague play a similar role for the western and eastern ends of the Island.

Hills and Glens

The interior glens and hills serve as a base for potato growing, dairy production, and the exploitation of woodlot operations.

Strait and Harbours

The landscape has a varied coastline. In the south, the harbours are well-sheltered; in the west, the landscape is more exposed to the ocean; and in the east, the estuaries are more closed.



NEW BRUNSWICK

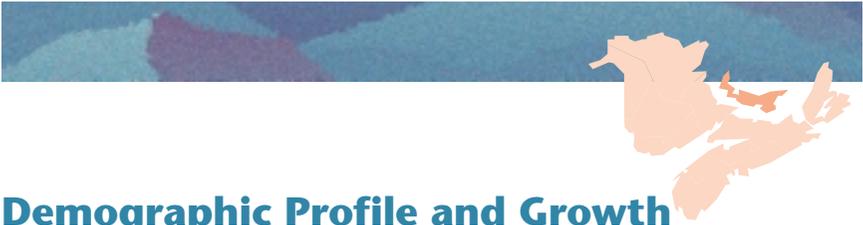
0 30 km

TO THE MAGDALEN ISLANDS



Map by Samuel Arseneault and Raymond Thériault.

TO PICTOU (N.S.)



Demographic Profile and Growth

■ Area Population

Prince Edward Island's population of 134,557 (1996), which is distributed over an area of 5,660 km², ranks seventh out of the eleven economic regions of the Maritimes (see figure 1). Nearly 56 percent of the population lives in rural areas. Of the province's three counties, Queens County is the most populated, with 70,430 residents, followed by Prince County, with 44,566 residents. Kings County, with a population of 19,561, ranks last (see map 3). In addition to the fairly homogeneous, mainly anglophone population, there is a significant francophone minority as well as a few native-Indian communities.

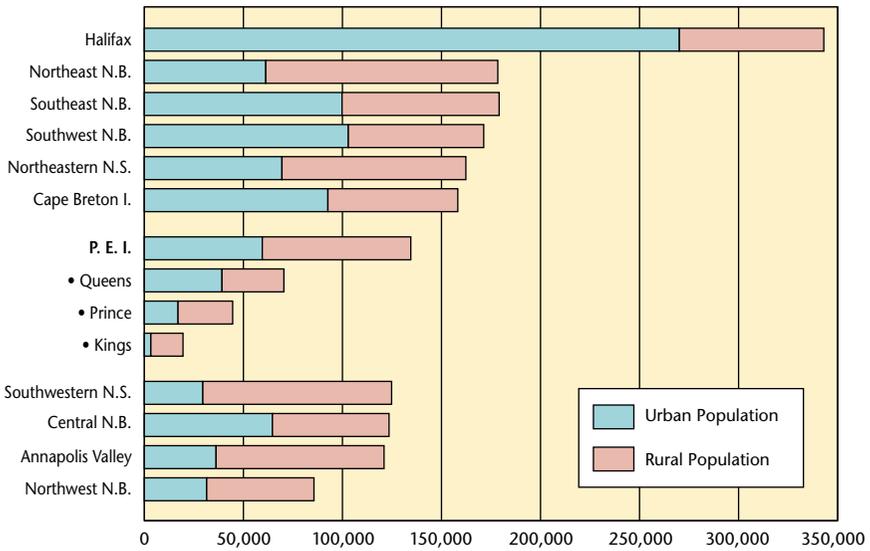
In March 1996, there were 5,550 people in Prince Edward Island whose mother tongue was French. That means that the Island's francophone minority represents 4.1 percent of the total population, and most of them are of Acadian stock. In Prince County, however, where there are three francophone regions, francophones account for nearly 12.5 percent of the residents. The largest concentration is in Abram-Village and the neighbouring communities, where there are more than 1,700 people whose mother tongue is French. Approximately 1,100 francophones live in the Summerside census agglomeration, and there are some Acadian families in the Tignish and North Rustico regions. In Queens County there are approximately 1,200 francophones, most of them living in the Charlottetown area.

The native-Indian population is distributed over four reserves. The largest is on Lennox Island in Prince County (222 residents in 1996), two are in Queens County, and the remaining one is in Kings County.

Besides being the provincial capital, the city of Charlottetown is by far the Island's main urban centre. The Charlottetown census agglomeration (CA) spreads over 818 hectares or 41 percent of the total surface area of Queens County. It stretches from the south to the north of the Island — that is, from the Northumberland Strait to the Gulf of St. Lawrence — and embraces as much as 42.5 percent of the province's population (see figure 2).

Figure 1

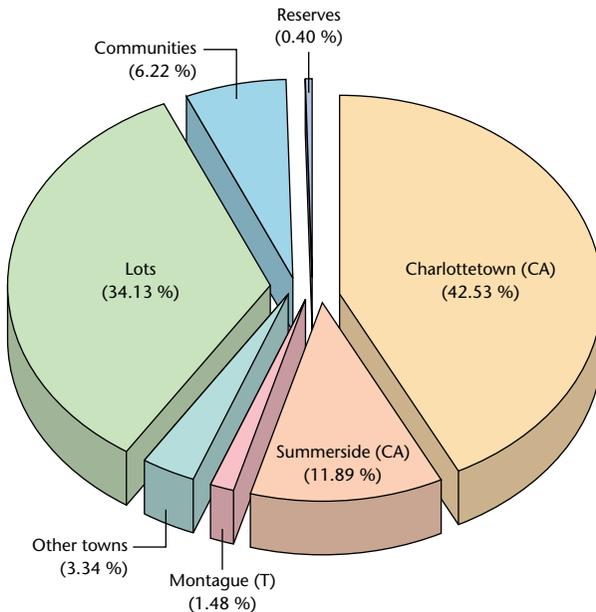
Population of the Eleven Economic Regions of the Maritimes, 1996



Source: 1996 Census of Canada, *A National Overview* (Cat. 93-357-XPB); compiled by Maurice Beaudin and Rodolphe Lamarche.

Figure 2

Population Distribution, 1996

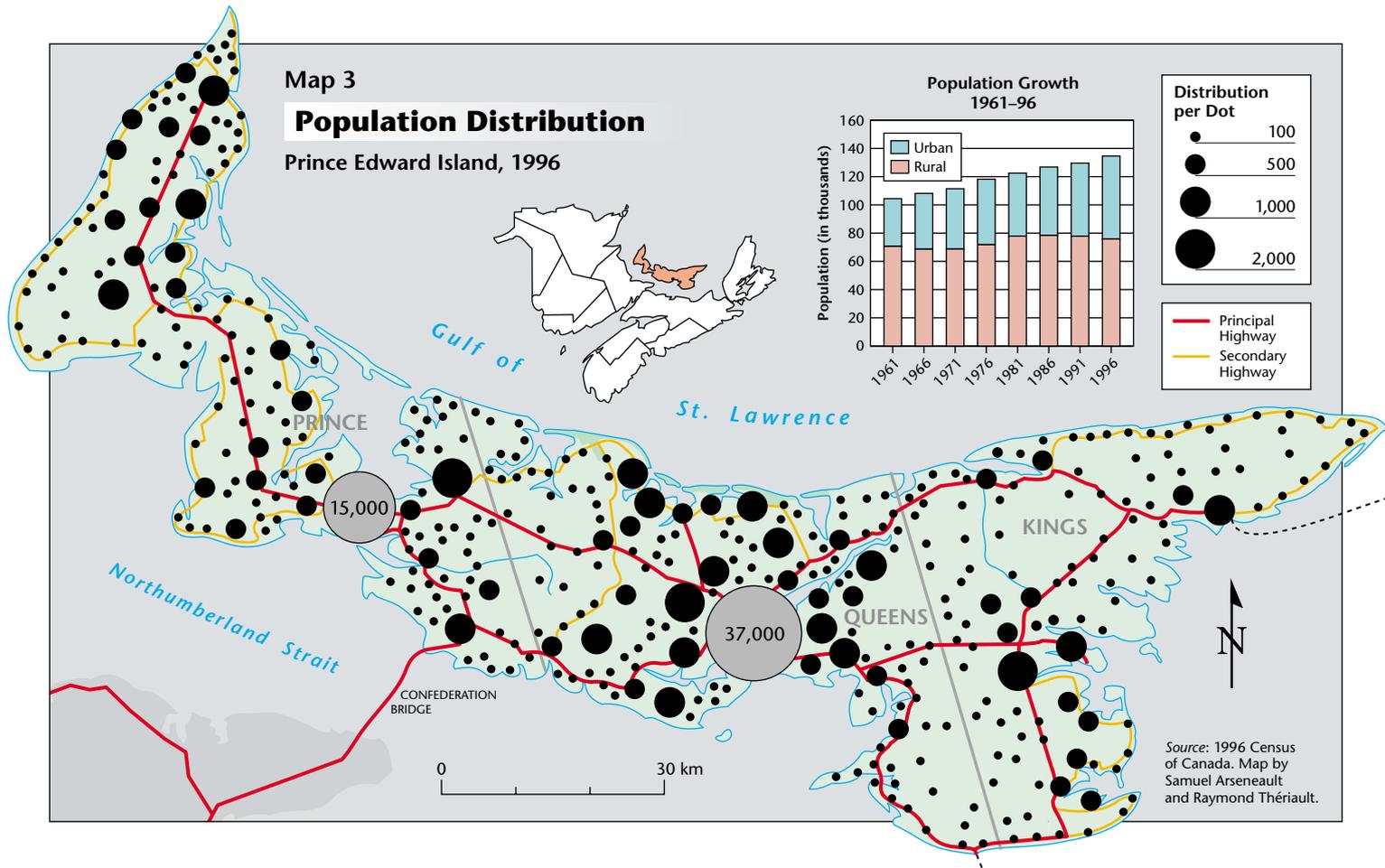


Source: 1996 Census of Canada (Cat. 93-357); compiled by Maurice Beaudin and Rodolphe Lamarche.

Map 3

Population Distribution

Prince Edward Island, 1996



The Charlottetown agglomeration includes three towns: Charlottetown proper, with a population of 32,531, and the much smaller Cornwall and Stratford, with populations of 4,291 and 5,869 respectively. The towns of Cornwall and Stratford were created by the province in the spring of 1995 from the surrounding urban and rural communities. Population growth in the Cornwall region to the west of Charlottetown as well as the influx of a large urban population on the south shore of Hillsborough River prompted the province to reorganize these two regions by granting them town status. Charlottetown (CA) is also made up of several small rural communities. The highest concentrations of people are found in the area around Charlottetown Harbour. The seat of the provincial government and the Island's main commercial establishments are also found here. The residential and commercial areas are scattered throughout the northern part of the agglomeration. It should be mentioned, however, that the fishing harbour at Rustico and the Cavendish tourist area are only approximately 20 km from the agglomeration's boundaries. With a population of 16,001, Summerside in Prince County is the Island's second and only other census agglomeration; the town of Summerside itself has 14,525 residents.

In summary, Prince Edward Island's urban population is distributed over seven centres, namely, Charlottetown (CA), by far the largest, followed by the Summerside agglomeration, and the towns of Montague, Souris, and Georgetown. Alberton and Kensington, two other small towns in Prince County, complete the Island's urban structure. Finally, the vigorous tourist activity every summer in the Cavendish region, seasonal though it is, marks it as an important component of the province's urban structure.

■ Demographic Trends

Prince Edward Island's demographic trends are, for many reasons, different from those observed in neighbouring provinces. The growth rates of the province's population were slightly higher than the overall average for the Maritimes from 1961 to 1996, except for the period 1966–71, when they were lower than those for Canada (see table 1). The gap was particularly wide during the period 1961–71.

Table 1
Comparative Population Growth of Prince Edward Island, 1961–96

	1961	1966	1971	1976	1981	1986	1991	1996	1961–96
Canada	18,238,247	20,014,880	21,568,310	22,992,604	24,343,181	25,399,331	27,297,859	28,846,761	10,608,514
Maritimes	1,439,572	1,481,362	1,537,111	1,624,050	1,666,351	1,711,250	1,755,598	1,781,972	342,400
Prince Edward Island	104,629	108,535	111,641	118,889	122,506	126,646	129,765	134,557	29,928
Kings	17,893	18,015	18,424	18,578	19,215	19,509	19,328	19,561	1,668
Prince	40,894	42,688	42,082	43,237	42,821	43,677	43,241	44,566	3,672
Queens	45,842	47,832	51,135	56,414	60,470	63,460	67,196	70,430	24,588
Growth Rates According to Period (%)									
	1961–66	1966–71	1971–76	1976–81	1981–86	1986–91	1991–96	1961–96	
Canada	9.7	7.8	6.6	5.9	4.3	7.5	5.7	58.2	
Maritimes	2.9	3.8	5.7	2.6	2.7	2.6	1.5	23.8	
Prince Edward Island	3.7	2.9	6.5	3.0	3.4	2.5	3.7	28.6	
Kings	0.7	2.3	0.8	3.4	1.5	-0.9	1.2	9.3	
Prince	4.4	-1.4	2.7	-1.0	2.0	-1.0	3.1	9.0	
Queens	4.3	6.9	10.3	7.2	4.9	5.9	4.8	53.6	

Source: Canada Census data 1961–96; compiled by Maurice Beaudin.

Table 2
Rural-Urban Demographic Change, 1986-96

	Growth Rate (%)			Regional Demographic Load (P.E.I.)				
	1986	1991	1996	1986-91	1991-96	1986	1991	1996
Charlottetown (CA)	53,812	57,420 ¹	57,224	6.7	-0.3	42.5	44.2	42.5
• Charlottetown (C)	15,776	31,541 ¹	32,531	99.9	3.1	12.5	24.3	24.2
• Cornwall (T)	—	4,053	4,291	—	5.9	—	3.1	3.2
• Stratford (T)	—	5,427	5,869	—	8.1	—	4.2	4.4
• Urban and rural suburbs	38,036	16,399	14,533	-56.9	-11.4	30.0	12.6	10.8
Summerside (CA)	15,646	15,237	16,001	-2.6	5.0	12.4	11.7	11.9
• Summerside (T)	8,020	13,636	14,525	70.0	6.5	6.3	10.5	10.8
• Urban and rural suburbs	7,626	1,601	1,476	-79.0	-7.8	6.0	1.2	1.1
Alberton (T)	1,103	1,068	1,084	-3.2	1.5	0.9	0.8	0.8
Georgetown (T)	729	716	732	-1.8	2.2	0.6	0.6	0.5
Kensington (T)	1,105	1,332	1,383	20.5	3.8	0.9	1.0	1.0
Montague (T)	1,994	1,901	1,995	-4.7	4.9	1.6	1.5	1.5
Souris (T)	1,379	1,333	1,293	-3.3	-3.0	1.1	1.0	1.0
Rural localities	50,878	50,758	54,845	-0.2	8.1	40.2	39.1	40.8
Total - P.E.I.	126,646	129,765	134,557	2.5	3.7	100.0	100.0	100.0

Sources: Census of Canada 1991 (Cat. 93-303 and 95-308) and 1996 (Cat. 93-357-XPB, table 8); compiled by Maurice Beaudin.

1. The year's data were adjusted according to the new geographic boundaries.

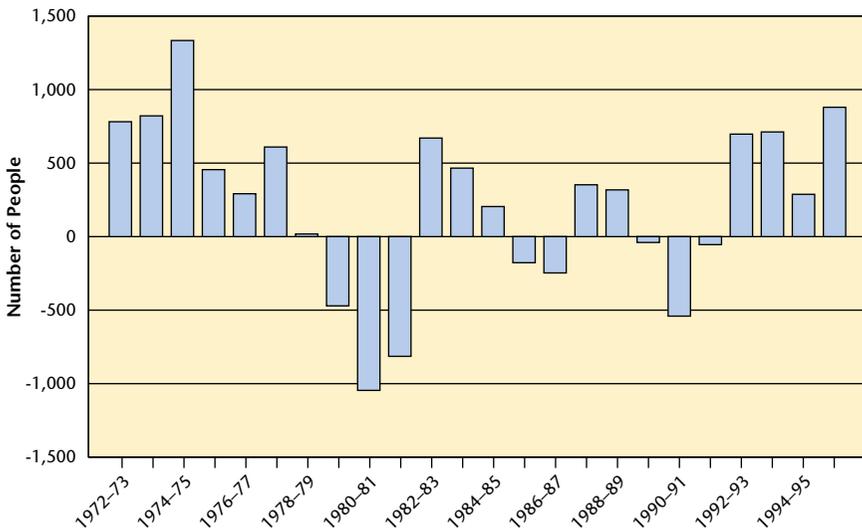
Owing to Charlottetown, Queens County's growth rate was 53.6 percent from 1961 to 1996, compared with an average rate of only 23.2 percent for the Maritimes as a whole. Queens County alone accounted for over 80 percent of the demographic growth recorded on the Island during this period. The demographic load of the Island's different geographical units stabilized over the period from 1986 to 1996. The population distribution changed little during this time: 42 percent in Charlottetown (CA), 12 percent in Summerside (CA), 5 percent in the other five towns, and 40 percent in rural areas (see table 2).

■ Population Mobility

It seems that Prince Edward Island's population mobility is a cyclical phenomenon (see figure 3). In certain periods, the region retains more of its population and even attracts people from outside. That was the case from 1972 to 1979, 1982 to 1985, 1987 to 1989, and 1992 to 1996, when net migration remained positive. These periods of attraction were undoubtedly related to the implementation of new government programs and services, and to the development of industrial projects such as the construction of Confederation Bridge. During the 1972 to 1996 interval, two periods showed a marked contrast, 1972 to 1978 and 1979 to 1982: whereas there was a positive annual average net migration of 715 migrants during the first of these periods, the movement was reversed during the second, with a net migration loss of 777 people. What are the reasons behind these variations? Many researchers hold the view that the 1972–78 positive net migration was mainly due to the 1971 reform of the unemployment insurance program. The new benefit plan allowed seasonal workers to supplement their income during the slack season and eliminated the need to emigrate. The strong increase in the number of departures from 1979 to 1982 is harder to explain, although it is known that a considerable number of these emigrants — 649 out of the 1,171 who departed between 1980 and 1981 (55 percent) — were from Prince County. The positive net migration from 1992 to 1996 is hardly surprising since it was the period when Confederation Bridge was being built.

Figure 3

Interprovincial Balance of Migration, Prince Edward Island, 1972–96



Source: Prince Edward Island, Department of the Provincial Treasury, *Annual Statistical Review*, 1996, p. 12; compiled by Maurice Beaudin and Rodolphe Lamarche.

Throughout this period, the population exchange occurred mainly between Prince Edward Island and, in order of importance, the cities of Halifax, Toronto, Ottawa, Moncton, and Calgary. During the 1990s, however, the attraction exerted by Toronto rivalled that of Halifax (see table 3). Migrants coming from or going to other Atlantic provinces made up 47 percent of total exchanges. Ontario and Quebec attracted 31 percent of migrants, whereas 37 percent of arrivals to the Island originated from these two provinces. Once migrants have decided to move to the Western provinces, they are less likely to return.

As for intraprovincial migrations, total annual migration among the province’s three counties rarely exceeds a few hundred migrants and is nearly always in favour of Queens County. According to data from Statistics Canada’s Small Area Administrative Unit, the total usually holds steady at around 75 to 150 migrants. The capital attracts residents from Prince and Kings counties who come to look for work or to pursue postsecondary studies.

Table 3
Origin and Destination of Migrants
Prince Edward Island, 1990–96

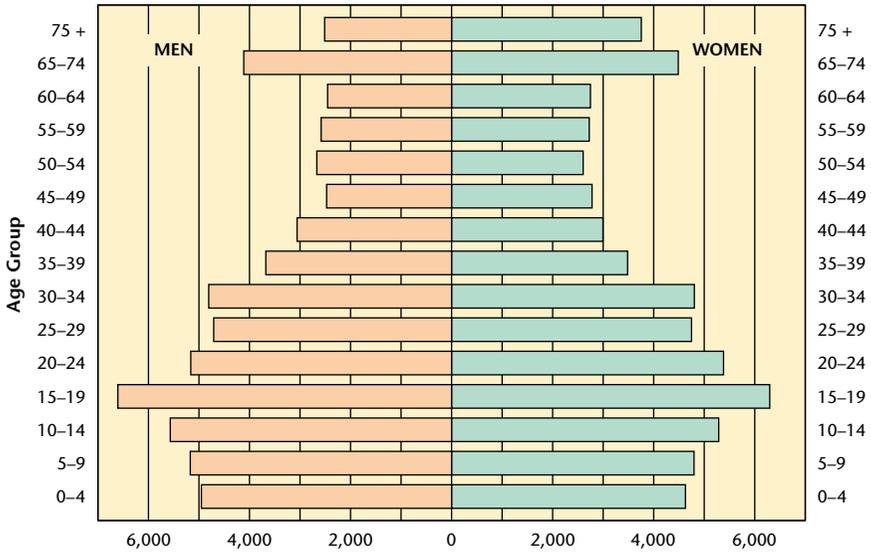
	Origin (Arrivals)		Destination (Departures)	
	Number	Regional Proportion (%)	Number	Regional Proportion (%)
Other Atlantic provinces	8,055	47.2	7,020	46.5
Ontario, Quebec	6,277	36.8	4,706	31.2
Western provinces	2,595	15.2	3,287	21.8
Total (including international)	17,075	100.0	15,098	100.0

Source: Prince Edward Island, Department of the Provincial Treasury, *Annual Statistical Review, 1996*; compiled by Maurice Beaudin and Rodolphe Lamarche.

■ Demographic Structure

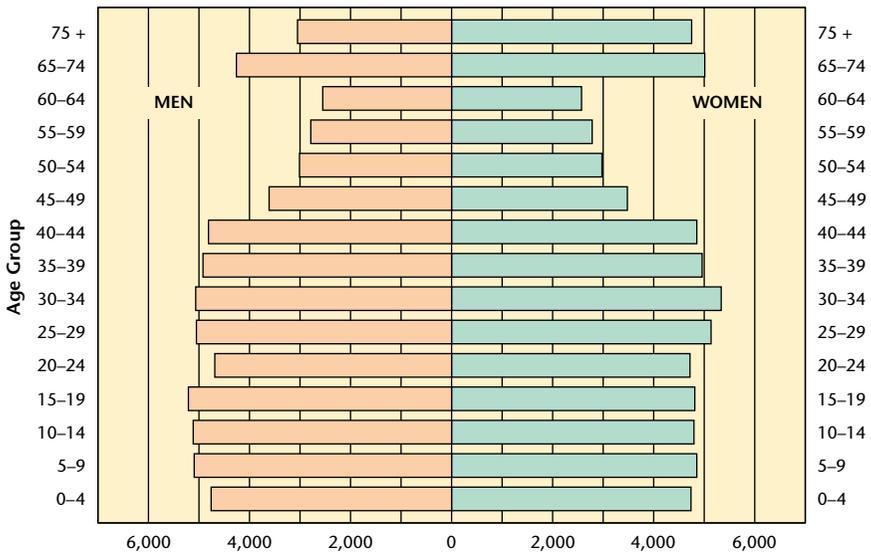
The distribution of Prince Edward Island's population according to age group differs slightly from that of the other Maritime provinces. The proportion of people under fifteen years of age in 1996 was slightly higher in Prince Edward Island (21.2 percent) than it was in New Brunswick and Nova Scotia (19.7 percent). On the other hand, the proportion of the adult population (fifteen to sixty-four years of age) was lower: 65.4 percent for Prince Edward Island and 67.5 percent for the other two Maritime provinces. Moreover, there have been obvious structural changes within the Island's population, as shown by the two age pyramids (see figures 4 and 5). The principal change concerns the age groups ten to fourteen and fifteen to nineteen years old, whose populations, especially in the case of the latter group, decreased considerably from 1981 to 1991. The deficit of approximately two thousand young people (less than twenty-five years old) could be attributed to departures from the Island either for educational purposes (e.g., francophones going to the Université de Moncton) or in search of work. It thus seems that based on data from the 1996 census, many young people leave the province after completing high school, a trend that was observed in 1991.

Figure 4
Age Pyramid, Prince Edward Island, 1981



Source: 1981 Census of Canada; compiled by Maurice Beaudin and Rodolphe Lamarche.

Figure 5
Age Pyramid, Prince Edward Island, 1991



Source: 1991 Census of Canada; compiled by Maurice Beaudin and Rodolphe Lamarche.



The Economy: Structure, Vitality, and Dependence

■ Economic Base

Prince Edward Island is only one of the eleven economic regions in the Maritimes, but it is unique in that it is the only one that is also a province. As a moderate-sized region, it ranks seventh in population behind the economic regions of Halifax; Southeast, Northeast, and Southwest New Brunswick; Northeastern Nova Scotia; and Cape Breton Island. This is the context, therefore, within which its economy, which is regarded as both regional and provincial, should be examined.

Prince Edward Island's economy has had to face considerable change in recent years — change that has been provoked by technological development and market globalization as well as by rationalization in public expenditures. The Island's economy has had to adjust to compression in the primary sectors, agriculture in particular, which is its foremost industry. The number of commercial farms continues to decrease, falling from 4,543 in 1971 to 3,154 in 1981 and then to 2,217 in 1996.² The surface area under cultivation remained the same, however, as a result of specialization in potatoes by larger farms using leading-edge equipment and technology. It goes without saying that investments by the private sector in the field of food processing proved to be a powerful incentive for farmers. The fishery is also undergoing great change. The promising groundfish industry, particularly promising with regard to redfish, saw its hopes disappear with the groundfish crisis. And lobster fishermen (lobster is the backbone of the Island fishery and the source of over two-thirds of landed value) have seen their catches dwindle by 22 percent since the early 1990s. This decline in dock landings has until now been compensated by an appreciable price increase, but the downward pressure on prices is getting stronger (there was an 11 percent drop in unit price in 1995). Still, the aquaculture sector, whose contribution to the Island fishery remains modest, continues to grow, with sales worth \$16 million in 1996. Three-quarters of aquacultural production comes from mussel farming.

2. 1996 Census of Canada.

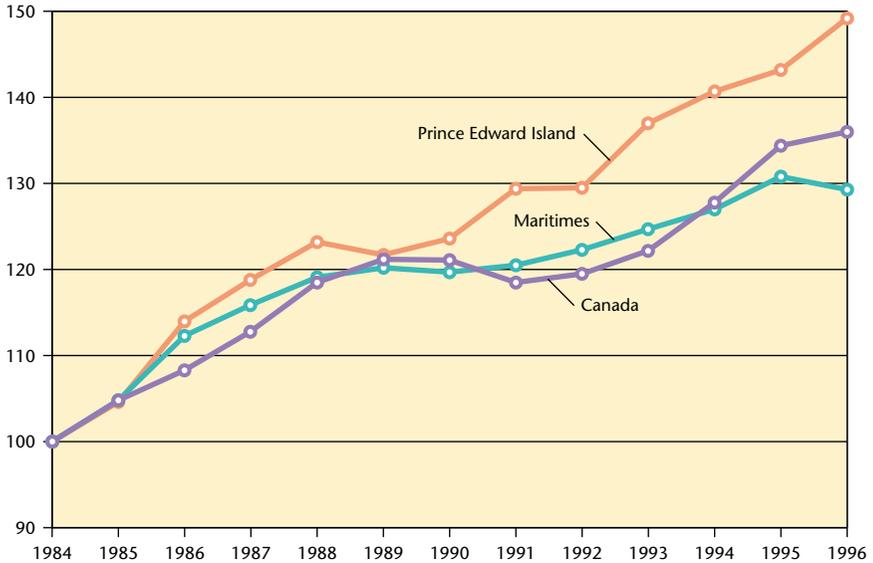
There is good news in the manufacturing sector, in particular in the field of vegetable processing. The opening of Confederation Bridge is encouraging investments by large, well-established firms seeking to broaden their markets. However, the link with the mainland may favour Southeast New Brunswick by facilitating outflows of investment in that direction. Moreover, time will show that expansion of the Island's manufacturing industry is being hampered by limited resources and little diversification.

In the public sector, the reform of social transfers and transfer payments to the provinces, which was launched by Ottawa in the early 1990s under the pretext of fighting the deficit, has forced Islanders to re-examine the distribution of government services while preparing for the federal government's gradual withdrawal from their economy. These challenges are not unique to Prince Edward Island, of course, but the Island is unique in that it has such a limited capacity to deal with them. It is hampered by a low population density and an urban structure that is not highly developed, even though the Charlottetown agglomeration fulfils a role that extends far beyond that of a regional centre. Moreover, the province possesses only limited, and not very diversified, natural resources, and this places serious constraints on the expansion of the manufacturing sector.

Having said this, the economy of Prince Edward Island has fared remarkably well during recent economic cycles, especially since the early 1990s. Over recent years, real GDP growth has held steady and has often even exceeded the national average (see figure 6). The vitality of these last few years can be attributed to the construction of Confederation Bridge (1992–97).

Sustained by growth in domestic production, employment in Prince Edward Island has been progressing satisfactorily since the 1980s — at a faster pace than elsewhere in the Maritimes and even exceeding the national average (see table 4). Very often, however, these new jobs have been seasonal in nature, particularly those in the resource and related activities sectors. The Island's economy was not spared by the 1990–93 recession, when fourteen hundred jobs in agriculture and nine hundred others in the agri-food industries were lost. But the economy soon recovered, and from 1994 onwards, employment has progressed beyond the national rate. Most observers agree that the fixed-link megaproject has breathed new dynamism into the provincial economy, and that it has spread from the industrial sectors (construction, manufacturing) to commercial

Figure 6
Real GDP Growth in Prince Edward Island,
the Maritimes, and Canada, 1984–96
(1984 Index = 100)



Source: Statistics Canada, *Provincial Economic Accounts*, 1996 (Cat. 13-213); compiled by Maurice Beaudin.

(retail trade, business services, real estate) and personal services. The figures confirm this picture: as a percentage of GDP, public and private investment in Prince Edward Island held steady at 12 and 13 percent from 1993 to 1996, a higher rate than in Nova Scotia and New Brunswick. The Confederation Bridge construction project is said to have cost \$900 million — a megaproject in the context of the Island’s economy — and 70 percent of expenses related to the project were incurred in Prince Edward Island.³ At the height of construction, there were twenty-six hundred workers directly involved in the project, and five hundred more were hired by subcontractors.

Although the strong economic recovery in Prince Edward Island has been attributed to the Confederation Bridge construction project as well as to investments made in food processing, the reasons behind this vitality may be more extensive. In fact, the Island’s GDP continues to grow in relation to the Maritime provinces as a whole:

3. Prince Edward Island, Department of the Provincial Treasury, *Annual Statistical Review*, 1996, p. 4.

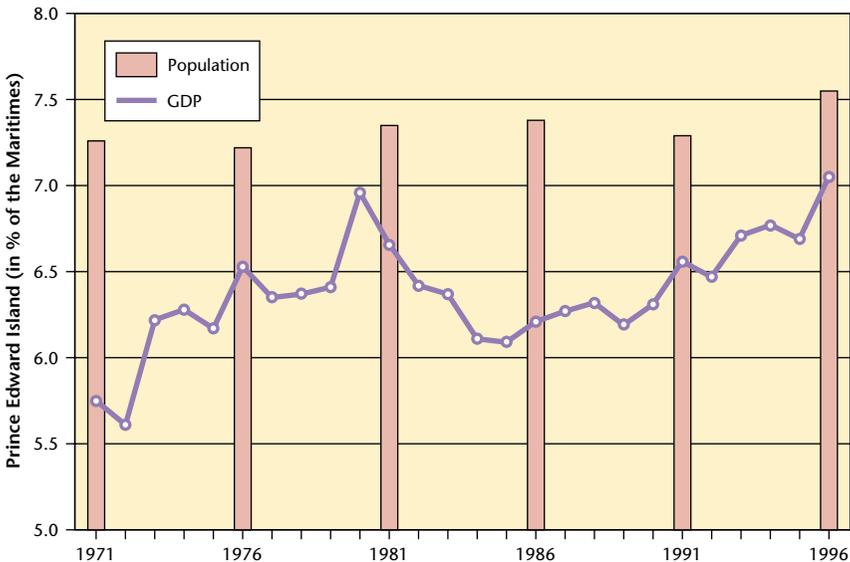
Table 4
Employment Growth (Persons Employed), 1981–96
(Average Annual Growth)

Period	Prince Edward Island		N.S.	N.B.	Maritimes	Canada
	Net Growth/Year	(%)				
1981–86	1,344	2.44	1.08	1.76	1.83	1.45
1986–91	778	1.26	1.09	1.25	1.17	1.67
1991–92	700	1.31	-0.03	1.68	-0.01	-0.01
1992–93	300	0.01	-0.01	0.01	0.00	1.35
1993–94	1,700	3.13	3.12	0.01	2.09	2.13
1994–95	2,600	4.64	1.21	2.28	1.51	1.61
1995–96	1,400	2.39	0.00	0.00	0.01	1.26

Sources: For the 1981 to 1986 and 1986 to 1991 periods, figures represent the experienced labour force (persons employed) and were derived from censuses. For 1986 to 1991, annual data came from Statistics Canada (Cat. 71-201); compiled by Maurice Beaudin.

it increased from 5.75 percent in 1971 to 6.66 percent in 1981, and reached 7.05 percent in 1996. This rate clearly exceeds the growth of its demographic load within the Maritimes, as shown in figure 7.

Figure 7
Prince Edward Island Population’s Share
of Maritime Provinces’ GDP as a Whole, 1984–96



Source: Statistics Canada, *Provincial Economic Accounts, 1996* (Cat. 13-213); compiled by Maurice Beaudin.

These few figures attest to the impressive performance of Prince Edward Island, a small and essentially rural province that has until recently been isolated from the mainland and is unable to depend, as its neighbours do, on a generous supply of natural resources. The surge in exports (\$169 million in 1991, \$260 million in 1994, and \$341 million in 1996) is again proof of the economic dynamism of the Island over the last few years.⁴ It seems simplistic to attribute this dynamism solely to the construction of Confederation Bridge; however, all signs point to the permanent link to the mainland as the beginning of a new era for Islanders, one that is providing a surge of optimism for both the investors and the players in economic development.

Nevertheless, the recent performance of the Island's economy should be qualified. While the world economy is going through great changes and new mechanisms are being developed at the federal level to grant more responsibilities to the provinces and regions and thus provide them with greater autonomy, it is clear that the challenges faced by Canada's smallest province, which until now has been largely dependent on federal resources, are enormous. For example, the end of the Confederation Bridge megaproject could result in a substantial loss of earnings for the Island's economy, unless the private sector is able to capitalize on the possible benefits accruing from the new link with the mainland. Some agri-food firms seem to be positioning themselves to broaden their markets, while others such as the tourism industries are considering more aggressive strategies to increase the added value of their operations. Local firms that participated in the construction of Confederation Bridge — those involved in the production of goods and the provision of specialized services — should be able to take advantage of the expertise they acquired and export their know-how or adapt it to new business opportunities.

What are the Island's economic bases today and what prospects are there for production and employment? In what way does the present economic structure differ from that of the Maritime provinces as a whole? To what extent can the Island's economic players capitalize on the link with the mainland to expand their markets? These questions must all be examined if we are to assess the performance of the Island's economy and its capacity to cope with change.

4. Statistics Canada, *Exports by Country*, Cat. 65-003.

Economic vitality can be measured in many ways. The most commonly used indexes are the level of employment (adult participation rate in the economy), rate of unemployment, and income level. Although these three indexes provide an accurate picture of a region's economic situation, they contribute little in explaining its structural strengths and weaknesses and are of no use in assessing job quality, job content, and the interaction between the various sectors in the economy. For example, which sectors or groups of workers contribute most to the region's vitality and which ones are trailing behind? For a clearer picture, other indexes have to be used, in particular job and income distribution according to industry or type of occupation. These are the types of indexes referred to when dealing with economic regions. Also, because Prince Edward Island is a province, another index, the GDP, can be added. The GDP is the total value of all goods and services produced in the economy during a given period. This index is one of the most revealing about the activity and performance of the different industries. In the following sections, we shall first examine the classical indexes and then, in more detail, the structural characteristics of the Island's economy.

■ **Activity and Unemployment: An Asymmetrical Evolution**

According to Statistics Canada (labour force survey), in June 1997 the total number of people in the labour market in Prince Edward Island was 71,300 — which translates into a participation rate of 66.5 percent, higher than both the Maritimes as a whole (60.7 percent) and the national average (64.8 percent). As impressive as this is it is nothing new, as the Island's rate of adult participation in the economy has been outstripping the Atlantic provinces and the nation for years. One reason for this is that Prince Edward Island has a fairly important public sector in relation to the size of its population. Another is that the province's economy includes significant resource-linked activities, in particular the primary sectors of fishing and agriculture as well as tourism. Apart from being seasonal, jobs in these sectors are neither highly skilled nor well-paying, attracting many workers with little experience, mainly young people from rural areas who can enter the job market and qualify for the national employment-insurance program. This probably accounts for the province's higher participation rate by young people aged fifteen to twenty-four (68 percent). It should be noted that the Island already has a high proportion of young people: the age group fifteen to twenty-four years old makes up 18.4 percent of adults, compared

with 17.4 percent in the Maritimes and 16.8 percent in Canada. Also, the proportion of young people in the Island labour force is higher than elsewhere (see table 5).

Table 5
Selected Comparative Labour Market Data, June 1997

	P.E.I.	N.S.	N.B.	Maritimes	Canada
15+ population	107,218	740,464	602,658	1,450,340	23,648,960
Labour force	71,300	446,500	362,800	880,600	15,330,600
Employed	60,200	388,500	314,200	762,900	13,892,400
Unemployed	11,100	58,000	48,600	117,700	1,438,200
Participation rate	66.5	60.3	60.2	60.7	64.8
Unemployment rate	15.6	13.0	13.4	13.4	9.4
Characteristics of age group 15 to 24 years old					
Labour force	13,400	74,700	61,700	149,800	2,412,600
Employed	10,800	57,800	48,400	117,000	1,997,100
Unemployed	2,600	17,000	13,300	32,900	415,900
Participation rate	68.0	59.2	58.2	59.5	60.8
Unemployment rate	19.4	22.8	21.6	22.0	17.2
Youth's share of labour force	18.8	16.7	17.0	17.0	15.7

Source: Statistics Canada, *Labour Force Information*, July 1997 (Cat. 71-001); compiled by Maurice Beaudin.

The down side of Prince Edward Island's economy is undoubtedly its chronic unemployment, a situation that is the result of the highly seasonal nature of several of its industrial and service sectors. With a seasonally adjusted annual rate of 15.6 percent in June 1997, unemployment in the Island province was higher than that of Nova Scotia (13.0 percent) and New Brunswick (13.4 percent). The rate of unemployment in the Maritime provinces as a whole far exceeded the national average of 9.4 percent. Prince Edward Island's unemployment rate dipped during the last few years — 18 percent in 1992 and 1993 — owing to the vitality of the labour market, which was stimulated by direct expenditures and indirect investments connected with the Confederation Bridge construction. A substantial fall in the province's level of unemployment is also due to the reform of the unemployment insurance program (stricter eligibility criteria, reduction of benefit periods, and a decrease in amounts allocated). This phenomenon is also noticeable elsewhere in the Maritimes. In this

context, and given the high rate of unemployment among young workers across Canada, it is surprising that more young Islanders have not been affected by unemployment: the rate for this age group exceeded the Maritime average by only one percentage point. The factors underlying unemployment in Prince Edward Island and its effects on the general level of income will be examined below.

■ Assessment of Employment since 1981

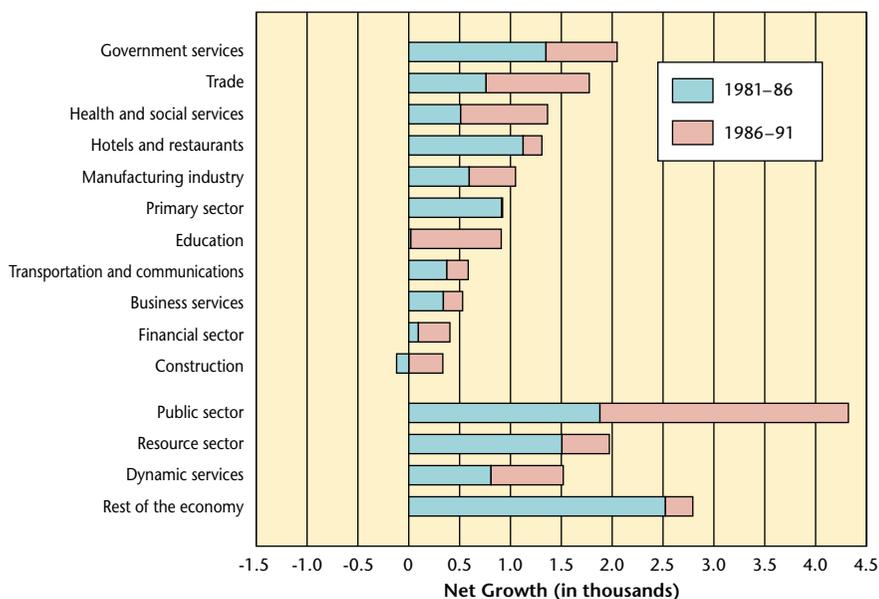
As seen above, although Prince Edward Island's economy is small, it has fared surprisingly well in the context of the Maritimes. This assertion has been borne out in relation to the GDP but has also been confirmed by its record on job creation. During the first half of the 1980s, Prince Edward Island was ahead of the other Maritime provinces and even of Canada in its net annual employment growth (see table 4). This was largely due to the transfer of the Department of Veterans Affairs from Ottawa to Charlottetown. It should be said, however, that the severe recession in early 1980 seriously limited job creation in the usually prosperous regions of the country, and this put the performance of the Maritime provinces in a better light. Prince Edward Island was able to stay ahead of neighbouring provinces from 1986 to 1991, even though it was surpassed nationally. In subsequent years, the net rate of job creation was still high in Prince Edward Island, except for the period between 1992 and 1993.

In which sectors of the economy were these jobs created, and which sectors had the most trouble keeping workers? Since the socio-economic data from the 1996 census are unavailable as this report is being written, we are not in a position to make an assessment of employment by industry in recent years. Provincial data on employment and wages by industry and occupation are regularly published by Statistics Canada (Cat. 71-001, 71-201, and 71-529), but disaggregation by industry may yield incomplete and even erroneous results in the case of Prince Edward Island.⁵ Nevertheless, we will still use them as general indicators for the recent period. For previous periods, we have used the detailed information in censuses.

5. The error of estimate regarding employment in Prince Edward Island is approximately 2,000 for a 95 percent confidence interval and 1,000 for a 67 percent confidence interval. Consequently, estimates for the province's industries required us to exercise caution.

During the 1980s, Prince Edward Island's experienced labour force increased by 10,613 workers, two-thirds of whom or 63 percent were added at the beginning of the decade.⁶ All the major industrial and service sectors contributed to this growth, but on the whole it was sustained by the public service industries with 40 percent of newly created jobs. Their contribution is divided as follows: government services (2,050 additional jobs), public health services (+ 1,365 jobs), and education (+ 920 jobs, the great majority of which were added towards the end of the decade). The other sectors that maintained growth in employment levels are the socio-cultural sector, personal and financial services (+ 1,895 jobs), trade activities (+ 1,780 jobs), the hospitality and catering sector (+ 1,305 jobs), and the manufacturing industry (+ 1,045 jobs, over two-thirds of which were in food processing). The contribution of the primary industries (+ 928 jobs) and of the finance and insurance sector (+ 400 jobs) is also significant. The growth for the two periods involved is summed up in figure 8.

Figure 8
Employment Distribution by Sector
Prince Edward Island, 1981-91



Sources: Census of Canada 1981, 1986, and 1991, special data; compiled by Maurice Beaudin.

6. Employed and unemployed persons having worked during the eighteen months preceding the census.

For the more recent period (1991–96), the data confirm appreciable gains in employment, in particular in goods-producing industries (around 2,000 additional jobs in the manufacturing sector and in construction) as well as in personal and commercial services (+ 3,000 jobs approximately). For the most part, the public sector appears to have maintained the same number of workers, as have the primary, transportation, and communications sectors as well as wholesale and retail trade. In terms of occupation, the number of management and professional jobs seems to have increased most rapidly (+ 2,000 jobs from 1991 to 1996), and those in the sales sector have also done well. It should be noted that the increase in new jobs over the last few years has been equally divided between men and women (see table 6). During the 1980s, in contrast, women were clearly in the lead, having obtained approximately three-quarters of the new jobs. This trend was borne out elsewhere in Canada as well, and was so significant that the proportion of women in the Island's economy increased from 41 to 46 percent between 1981 and 1991.

Table 6
Labour Force Net Growth by Sex, 1981–96

Period	Prince Edward Island			Maritime Provinces		
	Men	Women	Share of Employment Created Going to Women (%)	Men	Women	Share of Employment Created Going to Women (%)
1981–86	2,171	4,551	67.7	18,596	45,442	71.0
1986–91	679	3,207	82.5	8,172	37,488	82.1
1991–96	2,500	2,500	50.0	31,500	39,500	55.6

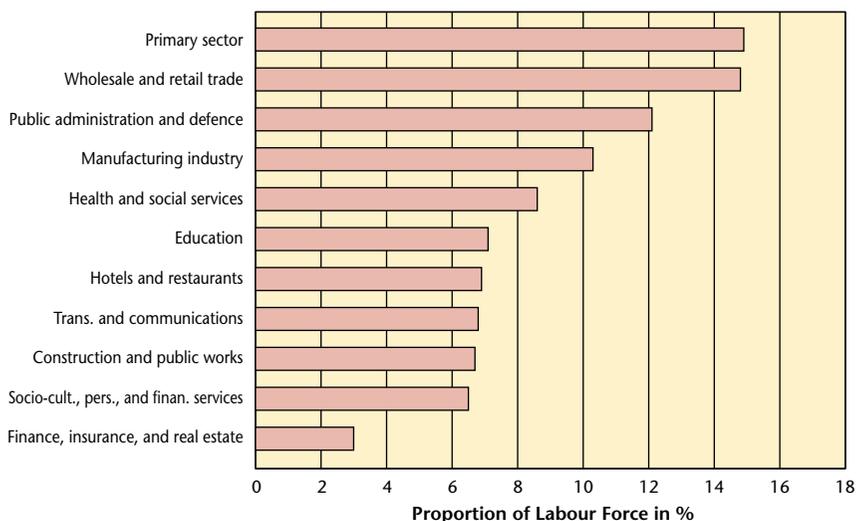
Source: Canada Census and *Labour Force Survey*, 1996 (Cat. 71-220); compiled by Maurice Beaudin.

■ Structure of Economic Activity

An analysis of economic structure can be based on major industries (according to Statistics Canada's standard industrial classification [SIC] code) or on occupational groups (occupations). Although these two types of data cannot be used comparatively, by complementing each other they allow us to obtain a much more detailed profile of the labour force and job content. For our purposes, both types of information on the labour force in Prince Edward Island were used, with preference being given to industries, an area for which Statistics Canada provides numerous characteristics.

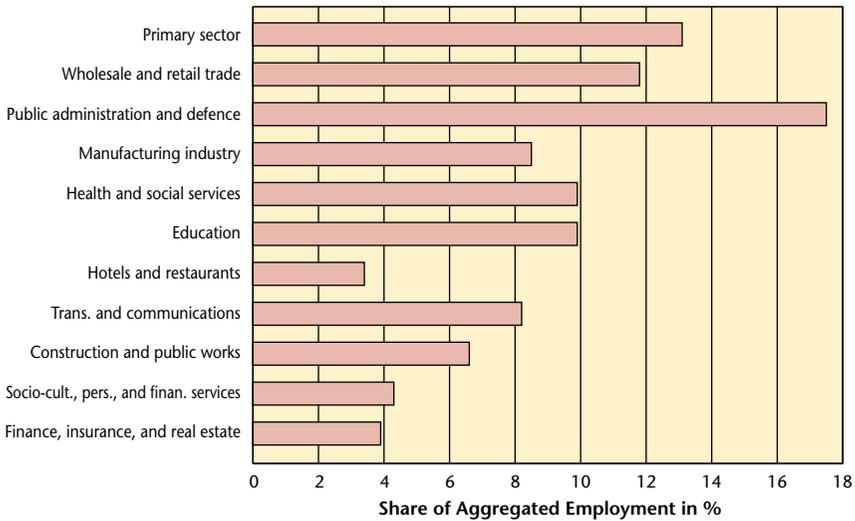
Figures 9 and 10 show the relative contribution the main industries make to employment and earned income. This prompts several observations. Besides the relative importance of each of the industries, a clear distinction can be seen between the proportion of employment and the share of generated income. This is a good indication of the type and quality of jobs. For example, the share of employment income generated by the manufacturing industry is far below the number of jobs it creates. The same applies to the primary sector in general, as well as to trade, the hospitality and catering sectors, and the socio-cultural, personal, and financial-services sector. Together, these five main sectors of activity employ 53 percent of the labour force but contribute only 44 percent of employment income. On the other hand, some industries (public administration, education, health, transportation and communications, finance, and insurance) employ only 37 percent of the labour force but generate nearly half of the employment income. To synthesize further and especially to avoid a case-by-case approach, we will proceed by aggregation so as to focus the analysis on three main groups of activities, namely, the resource and dynamic services sectors and the public sector.

Figure 9
Share of Employment by Sector, Prince Edward Island, 1991



Source: 1991 Census of Canada; compiled by Maurice Beaudin.

Figure 10
Share of Aggregated Employment Income by Sector
Prince Edward Island, 1991



Source: 1991 Census of Canada; compiled by Maurice Beaudin.

■ The Resource Sector: Problem of Diversification⁷

With one-quarter of its labour force operating in the primary and processing activities, Prince Edward Island can truly be said to be a resource economy. And with it go all the attendant consequences — working hours, wages, and productivity in particular. When the various branches of economic activity are examined individually, those in the primary sector dominate in the area of employment (see figure 9). Prince Edward Island is the only economic region in the Maritime provinces where primary activities employ such a high proportion of workers. The primary jobs, of which the overwhelming majority are concentrated in agriculture (5,400 workers in 1991) and the fishery (3,750), account for approximately 15 percent of the provincial labour force — that is, twice the level of the Maritimes as a whole. Given the size and extent of primary activities in Prince Edward Island, we would expect to find here a strong manufactur-

7. Resource activities generally include the primary industries of agriculture, fishing, forestry, and mining as well as the manufacturing sector. It should be stated that in the case of the manufacturing sector, this is especially true of Eastern Canada and British Columbia, where the processing of natural resources holds an important place in overall manufacturing activities.

ing presence. This is not the case, however, as its manufacturing sector is not very highly developed relative to other regions. Processing and manufacturing activities together provide work for only 10 percent of the labour force, as opposed to 12.5 percent in the Maritime provinces and nearly 15 percent in Canada. The type of manufacturing activity found in Prince Edward Island is revealing in that it revolves mainly around food processing. This industry was responsible for two-thirds (66.7 percent) of the Island's delivered manufactured goods in 1995 as well as 64 percent of manufacturing jobs, levels that stand in stark contrast to those in neighbouring provinces and especially to the national average. The predominance of the food industry largely accounts for the gap between Prince Edward Island and the whole of the Maritimes in added value as well as average salary per worker (see tables 7 and 8).

Table 7
Selected Characteristics of the Manufacturing Industry
in Prince Edward Island, 1996

	P.E.I.	Maritimes	Canada
Share of total employment (%)	10.0	11.9	14.8
Share of total GDP (%)	8.9	12.6	18.8
Value-added/employment (\$)	80,110	101,743	125,578
Average salary/employee (\$)	21,103	29,087	34,126
GPM/delivered goods (%) ¹	26.7	26.7	29.0
Productivity index (%) ²	3.7	3.8	3.5

Sources: For shares of employment: *Labour Force Survey, 1996* (Cat. 71-220); for GDP: *Provincial Gross Domestic Product by Industry, 1997* (Cat. 15-203); for other data: *Manufacturing Industries of Canada: National and Provincial Areas, 1995* (Cat. 31-203); compiled by Maurice Beaudin.

1. The gross profit margin (GPM) is obtained by subtracting the total production costs from the value of shipments of goods of own manufacture.
2. Productivity index is the ratio of value-added to salaries in the manufacturing-production sector.

This does not mean, however, that Prince Edward Island's manufacturing firms are less successful than those elsewhere. On the contrary, our data reveal a satisfactory rate of productivity for the Island. And even though the gross profit margin in relation to goods delivered remains lower than in the neighbouring provinces of New Brunswick and Nova Scotia, it is still highly respectable in the Canadian context. Nevertheless, the fact remains that the average salary level in the Island's manufacturing industry is considerably lower than in the Maritimes as a whole. This explains, at least partly, the sizeable profit margin of the Island's firms. In the end, the problem

is not so much a lack of success for the Island's manufacturing industry as poor diversification of the entire manufacturing sector on the Island, as well as the predominance within the food industry of a rather limited range of products (potatoes from the farm and lobster from the sea). The food industry is generally considered to have low added value, and this characterizes the Island's manufacturing industry as a whole, rooted as it is in agriculture (mainly the potato and its by-products) and the fishery (mainly lobster). It must be said that workers in the agricultural-product-processing sector earn higher wages than workers in the fishing industry. The fact that agriculture is for the most part represented by large firms such as McCain Foods Ltd. and Cavendish Farms contributes to the higher average income in this sector. But this does not disguise the fact that there is not a lot of manufacturing activity on the Island. There are few large firms in this generally more lucrative and highly value-added sector.

Table 8
Percentage Share of the Food Industry
in the Entire Manufacturing Sector, 1995

	P.E.I.	Maritimes	Canada
Employment	64.2	32.5	11.0
Salaries	57.3	22.1	9.1
Value-added	60.7	20.3	9.1
Delivered goods	66.7	23.6	11.3

Source: Statistics Canada, *Manufacturing Industries in Canada: National and Provincial Levels, 1997* (Cat. 31-203); compiled by Maurice Beaudin.

Production jobs account for only 42 percent of manufacturing workers in Prince Edward Island as compared with 60 percent in the Maritimes as a whole. Moreover, few products manufactured on the Island can be categorized as highly value-added: those sophisticated high technology products that are found, for example, in the mining, pulp and paper, or shipbuilding industries. This explains the relatively low salary level in this sector (\$20,150 in 1991) as compared with the average salaries in the same sector in Nova Scotia (\$24,653) and New Brunswick (\$23,974). As for the processing sector, it is two-thirds dominated by the food industry, in particular by farm and fish products. While activity surrounding the processing of farm products depends on a few very large and competitive firms on international markets and yields higher added value, the same cannot be said for the processing of sea products, which is depend-

ent on one species only — lobster. This crustacean accounts for the greater share of some \$110 million of exported sea products. On the whole, 80 percent or more of sea products undergo only primary processing, most often only simple preparation — e.g., lobsters shipped live or cooked but not shelled. Overall, fish and farm products accounted for 70 percent of some \$341 million in exported products and services in 1996 (73.7 percent in 1995).

All things considered, even though Prince Edward Island has a range of activities characteristic of a resource region, most of the sectors involved are not highly diversified. Resource extraction and processing employ 25 percent of the Island's labour force and contribute 21.6 percent of employment income but only 19.6 percent of the GDP (see table 9). In the Maritimes and Canada, the share of income generated by the resource sector corresponds more or less to the proportion of jobs that it holds — that is, approximately 20 percent. Resource-related activities are concentrated in the western part of the Island, mainly in Prince County (41 percent of the province's resource-related jobs) and Queens County (32 percent), whereas Kings County has only 27 percent of the province's jobs in this field. It should be noted, however, that resource-related activities in Kings County employ a much higher proportion of the labour force (45 percent).

■ **The Public Sector: Backbone of the Island Economy**⁸

Public sector jobs constitute a job category of fundamental importance to Prince Edward Island. They involve government public administration as well as the public fields of education, health, and social services. It should be noted here that in spite of public sector rationalization and the reduction in federal government transfers to the provinces, the economy of Prince Edward Island owes much of its dynamism to a strong government presence. The public sector employs 28 percent of the Island's labour force, not taking into account related private sector jobs.⁹ Moreover, public sector jobs alone generate 37 percent of employment income. It should also be noted

8. The public sector includes three subsectors: government services (administration and management at the federal, provincial, and local levels), education (public schools), and health and social services. Private health care practices (representing 136,000 jobs in Canada) and private educational services are not included.

9. Private health care services on Prince Edward Island contributed \$46 million to the provincial GDP in 1995 — that is, a proportion equivalent to 38 percent of the GDP generated by public sector health and social services (Statistics Canada, *Gross Domestic Product by Industry*, Cat. 15-203).

Table 9

Share of Employment (1991) and GDP in the Economy by Sector, 1996

	P.E.I.		Maritimes		Canada	
	Share of Employ.	Share of GDP	Share of Employ.	Share of GDP	Share of Employ.	Share of GDP
Agricultural and incidental services industries	8.3	8.0	2.6	1.6	3.6	2.2
Fishing and trapping industries	5.7	2.2	2.2	1.3	0.3	0.1
Forestry industries	0.6	0.3	1.7	1.0	0.7	0.5
Mining, quarrying, and oil wells	0.3	0.1	1.2	1.5	1.4	4.4
Primary sector industries	14.9	10.7	7.7	5.4	6.1	7.2
Manufacturing industries	10.3	8.9	12.5	12.6	14.8	18.8
Resource sector	25.2	19.6	20.2	18.0	20.9	26.0
Transportation and communications	6.8	8.2	7.7	10.5	7.6	8.8
Wholesale trade industries	3.7	4.1	4.5	4.8	5.8	6.3
Finance, insurance, and real estate	3.0	14.9	4.1	15.7	5.8	16.1
Services to businesses	2.2	2.5	3.3	3.2	5.7	4.8
Dynamic services	15.7	29.7	19.6	34.2	24.9	36.0
Government service industries	12.1	10.3	11.5	9.6	7.9	5.7
Educational service industries	7.1	6.3	7.3	6.3	6.9	5.0
Health and social service industries	8.6	5.4	9.7	5.2	9.0	3.8
Public sector	27.8	22.1	28.5	21.2	23.8	14.5
Retail trade industries	11.1	7.4	12.7	7.0	10.9	5.9
Construction industries	6.7	7.1	6.8	6.4	6.6	4.8
Hotels and restaurants	6.9	3.1	6.1	2.3	6.2	2.2
Other sectors	6.6	11.0	6.1	11.0	6.7	10.5
Goods-manufacturing industries	32.4	29.9	28.1	27.9	27.9	34.0
Service industries	67.6	70.1	71.9	72.1	72.1	66.0
Entire economy	100.0	100.0	100.0	100.0	100.0	100.0

Sources: For GDP: Statistics Canada, *Gross Domestic Product by Industry*, 1996 (Cat. 15-203); for employment: 1991 Census of Canada; compiled by Maurice Beaudin.

that this sector alone accounts for 41 percent of the 10,600 net jobs created during the 1980s (see figure 10). Although it was the services related to education and health that mainly made progress in the early 1980s, government services took over in the second half of the decade. (This section provides a more detailed description of the recent period.)

Government jobs have indeed contributed greatly to the Island's economy throughout the period and, owing to their sheer numbers, continue to have a major influence on many aspects of the economy, particularly on internal demand for consumer goods and services. Because public sector workers are more qualified than average and much less affected by seasonal cycles, they enjoy increased buying power. In fact, their income level is 33 percent higher than the average for the entire labour force. Federal government jobs are the highest paid. In 1995 there were approximately four thousand federal jobs in the province (including jobs in federal government business enterprises), with an average salary of \$38,000. The 2,400 provincial employees in the field of education generated an average income of \$37,200. These were followed by the 2,880 employees in local administration, with an average salary of \$35,800; the 7,100 provincial civil service employees (including those in public corporations), with an average income of \$28,300; and employees in the health field (approximately 2,000), with an average salary of \$26,500.¹⁰ With the possible exception of health workers, most of these salaries are well above the average for the entire labour force.

Despite this, it would be wrong to think that Prince Edward Island is much more dependent on the public sector than, for example, the neighbouring provinces of Nova Scotia and New Brunswick. Prince Edward Island's ratio of contribution to employment is similar to that of the Maritimes as a whole; however, the public sector's contribution to income is higher (37 percent) — 35 percent for all of the Maritimes. The average is 27 percent for the entire country. When examined on a regional basis, the relative size of the public sector is greater in the economic regions of Central New Brunswick (Fredericton) and Halifax. In the former case, the public sector contributes 35 percent of jobs and 44 percent of earned income, and in the latter, 33.5 percent of jobs and 41 percent of employment income. The economic regions of the Annapolis Valley and Cape Breton Island are just as dependent on public sector employment as Prince

10. Statistics Canada, *Public Sector Employment, Wages and Salaries*, 1995, Cat. 72-209.

Edward Island. Moreover, in terms of the average income of public sector jobs, Prince Edward Island trails behind at least six other Maritime regions. These differences can be explained by the small size of the Island's urban centres compared with other Maritime centres. In this context, the challenges created by public service rationalization are not unique to Prince Edward Island but apply equally to the other provinces that are strongly dependent on the federal government — provinces such as Newfoundland, New Brunswick, Nova Scotia, and Manitoba. The difference is that the Island's economy lacks room to manoeuvre in fiscal matters because of its small size and especially because its economy is not highly diversified. Moreover, the economies of the only two urban centres, Summerside and Charlottetown, depend heavily on public activities. Although the rural areas are largely dependent on seasonal employment, they still count on public activity to maintain their level and especially their stability of income. Public services contribute 25 percent of employment income in Kings County, 32 percent in Prince County, and more than 42 percent in Queens County. These contributions are excessive, especially in the last case. The public employer thus contributes greatly to economies within the province and has a direct influence on entrepreneurial activity.

■ **Dynamic Services and Resources: Two Highly Interdependent Sectors**

When we refer to services, we usually think of public services, consumer services, or business services. However, dynamic services, which are a group of activities related to business services, deserve special attention.¹¹ As pointed out in a 1990 report by the Economic Council of Canada, "Job Creation in the 1990s will be dictated by the synergies between goods and services (including nonmarket services) and by the competitiveness of the country's service industries, especially in the dynamic subsector."¹² The importance of this strategic industry goes well beyond its direct contribution to employment and income. An interesting point related to the subject of dynamic services is

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11. Dynamic services include four major divisions of industry: two are distribution industries (transportation and storage, communications, public utilities, and wholesale trade), and two are producer-service industries (finance, insurance, and business services). These industries are generally highly value-added and more involved in larger, globally competitive markets. They are also critical ingredients in the production and distribution of goods and are therefore of strategic importance.
 12. Economic Council of Canada, *Good Jobs, Bad Jobs: Employment in the Service Economy* (Ottawa, 1990), p. 4.

that they tend to be concentrated in large urban centres, where there is greater access to a highly skilled labour force. Moreover, these centres tend to offer more ancillary business services (management, banking, business, and research functions), which facilitate access to information and personal contacts. The head offices of large organizations, whether related to goods production or services, also tend to be concentrated in these centres.

Given such conditions, it is reasonable to think that there might be fewer, and especially smaller, dynamic-services firms on Prince Edward Island than, for example, in the Maritime provinces as a whole. And this is true. Examination of the relative size of this sector within the Island's economy shows that it is 20 percent smaller when compared with all of the Maritimes (see table 9). It should be noted that the relative size of dynamic services in the Maritimes is already 20 percent smaller than the national average. On Prince Edward Island, however, the dynamic-services subsector has a higher GDP-to-employment ratio. It contributed 29.7 percent of the provincial GDP in 1996 but employed only 15.7 percent of the Island's workers, giving this subsector a GDP/employment ratio of 1.89. This compares with 1.74 for the Maritimes as a whole (34.2 percent of GDP and 19.6 percent of the labour force) and only 1.44 percent for Canada (36 percent of GDP and 25 percent of the labour force). Although we must be cautious about drawing conclusions from these data, especially in the case of Prince Edward Island, they do confirm the strong presence and important contribution of dynamic services to the Island's economy.¹³

On Prince Edward Island, as in New Brunswick and Nova Scotia, the transportation and storage industries, along with communications and public utilities, provide the largest number of dynamic-services jobs. These industries have been stimulated in the region through large, essentially private investments made between 1994 and 1996. During these three years alone, more than \$400 million was invested in transportation and storage, including \$81 million on new machinery and equipment. At the same time, \$137 million was invested in the communications and public-utilities industries, including \$92 million on new machinery and equipment.¹⁴ These

13. It should be noted that estimates of provincial GDP for small economies such as Prince Edward Island's contain a certain margin of error, which is naturally magnified when the data are broken down by industry.

14. Statistics Canada, *Private and Public Investment in Canada*, 1997, Cat. 61-206.

are very large investments considering the size of these sectors, and this trend augurs well for productivity gains in the years to come.

The finance and insurance sector maintains a strong presence in Prince Edward Island, despite the fact that it tends to be located in the major centres. Naturally, the relative size of this sector is larger in the neighbouring provinces, which include several urban centres that are bigger than Charlottetown and Summerside. In this regard, it should be emphasized that several of the dynamic services established in urban centres justify their presence through direct access to a captive domestic market — that is, the surrounding rural and semi-rural areas. On Prince Edward Island, this market is limited by the sparseness of the population outside the capital. Moreover, rural residents are dispersed practically all over the Island, which increases the costs of market penetration for enterprises in specialized services. That is why business services, like wholesale trade, are less developed on the Island. Wholesale and retail trade should be distinguished, since their importance to the provincial economy is not the same. The retail sector is considered to be a secondary sector in that it depends more on the general level of disposable income. Wholesale trade is regarded as more of a driving force in the sense that it directly influences the dynamism of the regional economy. Moreover, the enterprises in wholesale trade are large and often based abroad, which ensures large investments. As the average weekly earnings per worker in wholesale trade are more than double those paid in retail trade (\$601 and \$297 respectively), it is easy to understand the importance of this industry to the economy.¹⁵ Considering that the province is small and lacks a real urban network, the share of jobs and GDP generated by wholesale trade is satisfactory in the context of the Maritimes, but nevertheless modest when compared with national standards. On average, one employee in four working in trade on Prince Edward Island is in wholesale trade, a slightly lower proportion than in Nova Scotia and New Brunswick.

The employment breakdown by sector in the subregions of Prince Edward Island is very different from the provincial profile. For example, the resource sector dominates the labour market in Kings County (45 percent of jobs), while the public sector is much larger in Queens County (32.5 percent of jobs). Dynamic services are more equitably represented, although the proportion for Queens County is slightly higher (see table 10).

15. Statistics Canada, *Employment, Earnings and Hours*, August 1997, Cat. 72-002.

Table 10
Comparative Economic Structure, Prince Edward Island, 1991

	Percentage of Employment (%)				Index for Maritimes = 1.00 ¹			
	Kings	Queens	Prince	P.E.I.	Kings	Queens	Prince	P.E.I.
Resource sector	45.2	15.5	31.8	25.2	2.24	0.77	1.57	1.25
Primary sector	25.5	9.0	19.5	14.9	3.31	1.17	2.53	1.93
Agriculture	9.2	6.8	10.1	8.2	3.48	2.58	3.81	3.11
Forestry	1.1	0.4	0.7	0.6	0.65	0.27	0.42	0.38
Fishing	15.0	1.7	7.9	5.7	6.89	0.78	3.63	2.61
Mining	0.2	0.1	0.7	0.3	0.13	0.06	0.62	0.25
Manufacturing industry	19.7	6.5	12.3	10.3	1.58	0.52	0.98	0.83
Dynamic services	9.5	13.2	11.2	15.7	0.63	0.87	0.74	0.80
Transportation and communications	6.4	6.5	7.4	6.8	0.82	0.84	0.95	0.88
Finance, insurance, and real estate	2.1	3.7	2.4	3.0	0.53	0.90	0.59	0.74
Services to businesses	1.0	3.0	1.4	2.2	0.31	0.89	0.43	0.66
Wholesale trade	n.a.	n.a.	n.a.	3.7	n.a.	n.a.	n.a.	0.77
Public sector	20.6	32.5	23.7	27.9	0.72	1.14	0.83	0.98
Education	5.6	8.5	5.8	7.2	0.76	1.15	0.79	0.98
Health and social services	6.3	10.1	7.3	8.6	0.65	1.04	0.76	0.89
Public administration and defence	8.7	14.0	10.6	12.1	0.76	1.22	0.92	1.05
Trade	10.8	15.8	14.8	14.8	0.63	0.92	0.86	0.86
Hotels and restaurants	3.4	8.7	5.7	7.0	0.57	1.43	0.94	1.15
Construction	4.8	7.0	6.9	6.7	0.71	1.03	1.02	0.98
Other services	5.2	7.3	5.9	6.5	0.85	1.19	0.96	1.06
Total	100.0	100.0	100.0	100.0				

Source: 1991 Census of Canada; compiled by Maurice Beaudin.

1. A sector with an index value greater than 1.00 (which appears in boldface in the table) indicates that compared to the Maritimes as a whole, a larger part of the region's labour force is concentrated in this sector.

■ The Effects of Structure: Prince Edward Island Losing Out in the Context of the Maritimes

On the whole, Prince Edward Island's economic structure is less favourable than the economic structure of neighbouring provinces or even that of other economic regions in the Maritimes. To better visualize these structural effects, we determined the share of employment and income of each of the main occupational groups for each of the economic regions. In the Maritimes as a whole, 52.7 percent of jobs are in the *superior* range — that is, jobs for which the average income per worker is above the average for all workers. In the Maritimes, these jobs represent average earnings of \$27,650 per worker and generate 67 percent of total employment income. The situation in Prince Edward Island is quite different. Only 47 percent of jobs are in the superior category, and they generate slightly less than 62 percent of employment income. The average earnings for these jobs are \$24,700, or 11 percent less than the average for the same jobs in the Maritimes as a whole. These structural effects can be derived from the data presented in table 11. Prince Edward Island ranks tenth among the eleven economic regions in the Maritimes, an unenviable position that confirms the preceding analysis.

To what can this unenviable position be attributed? There are several factors which, taken together, provide glimpses of the profound structural problems undermining both productivity and wages. These include the closed nature of the Island economy, which until now has amplified the problem of an already small domestic market; the reluctance of outside investors to come to the Island because of its geographical isolation (a constraint that has diminished somewhat since the opening of Confederation Bridge); and the limited diversification of existing natural resources. Undoubtedly, however, the basic problem is the seasonal aspect of many industries that employ a large part of the labour force, a problem that is a serious hindrance to the productivity of many firms in the Maritime provinces. The primary, processing, and construction sectors are generally more affected, as are certain traditional services, particularly those related to the tourist industry. Moreover, the more intense or widespread the seasonal aspect, the greater its influence on a variety of sectors. The highly seasonal nature of certain activities in the resource sector, for example, reduces the period of work in sectors generally viewed as dynamic or driving forces, since the latter survive in part by meeting the needs of seasonal industries. This is particularly true of business services and the transportation industry.

Table 11
Impact of Structure on the Economy of Prince Edward Island
(Based on the Entire Economy of the Maritimes)

	Occupations with Incomes > Average			Average Employment Income Index of Maritimes (Entire Economy = 100)
	Share of Employment (%)	Share of Employment Income (%)	Average Employment Income (\$)	
Canada	53.9	67.4	32,267	118.9
Maritimes	52.7	67.2	27,654	100.0
Halifax (ER)	58.5	72.3	31,285	116.7
Central N.B.	55.5	69.2	28,772	106.4
Annapolis Valley	54.9	69.2	26,028	95.1
Southwest N.B.	53.3	66.7	29,212	107.6
Southeast N.B.	52.8	68.7	27,289	96.6
Northeastern N.S.	51.3	67.0	26,827	94.6
Northwest N.B.	50.8	65.7	24,884	88.7
Cape Breton Island	49.7	63.3	25,680	93.0
Northeast N.B.	49.4	63.5	24,459	87.7
P.E.I.	47.2	61.7	24,708	87.0
Southwestern N.S.	45.4	56.7	25,242	93.2

Source: 1991 Census of Canada; special compilation by Maurice Beaudin.

A cursory examination of the composition of the Island's economic activity soon reveals certain structural deficiencies, the causes of which should be sought in the highly seasonal nature of its economy. In fact, 26 percent of its labour force is employed on a seasonal basis, compared to 17 percent in the Maritimes and 10.5 percent in Canada.¹⁶ Moreover, the intensity of the seasonal problem tends to increase because of the depletion of resources on the one hand and the growing use of new technologies on the other. The seasonal impact on the economy is greater in only one other

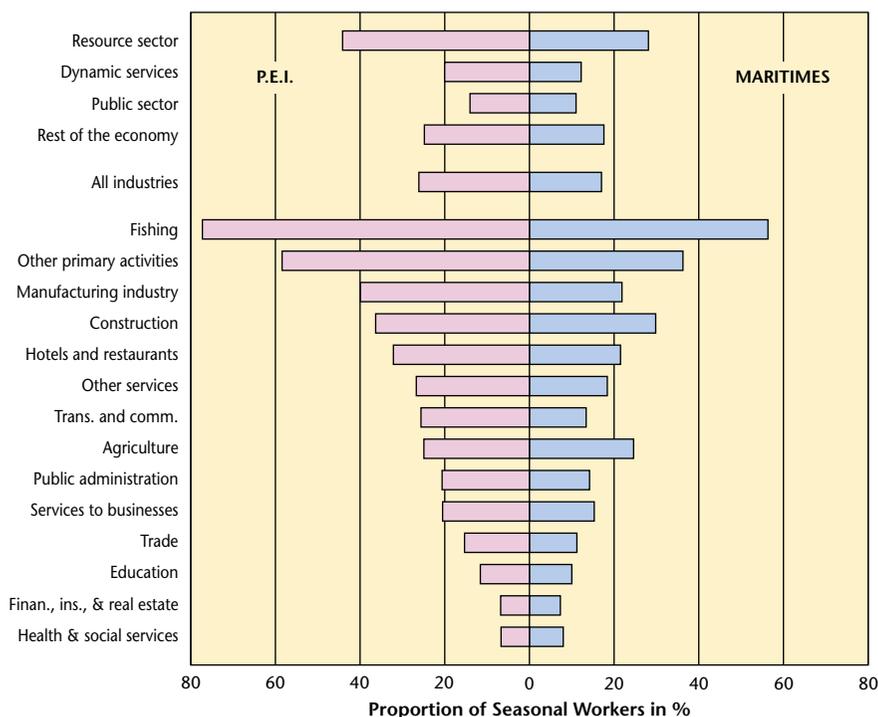
16. Seasonal work is not recorded as such in the economy. Statistics Canada divides up the labour force according to work period, distinguishing between full-time (a subgroup of those who have worked more than twenty-seven weeks and one of those who have worked twenty-seven weeks and less) and part-time workers by using the same subgroups. It is impossible to determine the number of seasonal workers precisely, since the nature of seasonal work is not clearly defined and can manifest itself in many ways. Thus, we are restricting ourselves to the category of full-time workers who have not worked more than half the year. Since this definition applies to all the regions considered in our analysis, the economy's seasonal context can be evaluated in each region, and interregional comparisons can be made.

region: Northern New Brunswick, where 31 percent of the labour force are seasonal workers, although a larger proportion of it is concentrated in resource activities. However, Prince Edward Island is ahead of Cape Breton (23 percent seasonal workers), Northern Nova Scotia (17 percent), Southwest Nova Scotia (16 percent), and Northwest New Brunswick (20 percent), all regions that depend heavily on natural resources.

What is the nature of seasonal work in Prince Edward Island? Is its effect on the various activity sectors as intense as the effect of seasonal work in the Maritimes as a whole? Given their strong presence in resource activities, are male workers affected more than female workers? To answer these questions, the resource sector should first be examined. Already at a disadvantage because of a low level of diversification, this sector is highly seasonal, much more so than in the Maritimes as a whole. The resource sector employs 25 percent of the Island's labour force but 43 percent of the Island's seasonal workers. In the Maritimes and Canada, the resource sector employs approximately 20 percent of the working population but a much smaller proportion of seasonal workers (33 percent in the Maritimes and 25 percent in Canada). This first frame of reference for examining the resource sector indicates serious structural problems in the Island economy. The structural imbalance within the Island's manufacturing industry has already been described above, with emphasis on its lack of diversification and the dominance of the processing sector to the detriment of the generally more lucrative manufacturing sector, which is highly value-added.

However, seasonal work is an enormous problem not only in the resource sector. The proportion of seasonal workers in Prince Edward Island is less than that of the Maritimes as a whole in only two of the fourteen economic sectors shown in figure 11. The relative difference between the Island and the Maritimes in total is particularly acute in the transportation sector (the seasonal rate for the Island is 90 percent higher than the average for the Maritimes), the manufacturing industry (at least 80 percent more seasonal workers on the Island), and in construction and hotels and restaurants (the proportion of seasonal workers in P.E.I. is 50 percent greater than the average for the Maritimes).

Figure 11
Seasonality by Industry
Prince Edward Island and the Maritimes, 1991



Source: 1991 Census of Canada; special compilation by Maurice Beaudin.

Thus in most sectors, the problem of structural imbalance in the economy is compounded by a high proportion of seasonal workers. For example, as compared with the Maritimes as a whole, the proportion of seasonal workers in Prince Edward Island is 44 percent higher in public administration and 35 percent higher in wholesale and retail trade. Why this is the case is hard to explain; however, the fact remains that the magnitude of the problem of seasonal employment in Prince Edward Island has repercussions in practically every economic sector. There are negative implications for income levels and, ultimately, for the region's overall economic vitality. In fact, the considerable impact of seasonal work is reflected in the annual income of seasonal workers, which is only 44 percent of the average income of the labour force as a whole. It is not so much that seasonal workers are not as well paid (they earn the equivalent of 70 percent of the average wage of regular workers) as that they work for

shorter periods.¹⁷ Thus, it is not hard to see the serious loss of income that results when the proportion of seasonal workers in the Island economy is one and a half times greater than the average for the Maritimes. In fact, 26 percent of the labour force (the proportion of seasonal workers) is underemployed and contributes only 12.6 percent of wages. In other words, a quarter of the economy is underproductive, which has a damaging effect on the productivity and competitiveness of Island firms. Seasonality influences investment decisions (e.g., the acquisition of fixed assets or new equipment) and affects the labour force, which is employed only intermittently or during peak periods and remains inactive the rest of the year, living on passive income-support programs.

How does the phenomenon of seasonal work vary between subregions of the province? It is easy to imagine that Queens County, which includes the capital Charlottetown, would have an economy that is less seasonal than the neighbouring counties of Kings and Prince. Although Queens County has a lower proportion of seasonal workers (17.5 percent), it is still higher than the level for the Maritimes as a whole. In Kings County, where economic activity largely revolves around the resource sector, the proportion of seasonal workers is 40 percent. With the exception of Cape Breton's Victoria County, this is the highest rate of seasonal workers in the Maritimes' thirty-six census divisions. And while the situation is less alarming in Prince County, where seasonal workers make up 33 percent of the labour force, it is still surpassed by only three census divisions — Victoria in Nova Scotia, and Kent and Gloucester counties in New Brunswick.

Is the effect of seasonal work the same for women as for men? In general, the proportion of seasonal workers is quite similar for both groups. In Prince Edward Island, the difference is barely two percentage points in favour of women; that is the same difference as found in the Maritimes as a whole. In New Brunswick, where the difference is greater, the proportion of seasonal workers is three percentage points higher for men than for women.

Self-employment in Prince Edward Island is another area of economic activity that should be examined. It is often thought that a region with a high proportion of self-employed workers is more dynamic — that is, in the entrepreneurial sense of the term. Such regions are also less dependent on income transfers. An examina-

17. According to Statistics Canada, *Perspectives on Labour and Income*, vol. 9, no. 4, Winter 1997, Cat. 75-001.

tion of the situation on Prince Edward Island shows that there is a higher proportion of self-employed or independent workers than elsewhere in the Maritimes or Canada.¹⁸ Tax records for 1992 indicate that 11,430 tax filers, or 16.8 percent of the employed labour force, reported income from self-employment. This compares with 11.5 percent for the Maritimes and 14 percent for Canada. Another indicator that reveals the importance of self-employment to the Island economy is that this type of activity contributed 11 percent of employment income, compared with only 6 percent for the Maritimes and Canada.

We know that the majority of self-employed workers are men (74 percent on Prince Edward Island and 73 percent in the Maritimes, but only 67 percent in Canada) who are employed in traditional industries related to the resource sector. However, self-employment is growing and expanding to nontraditional sectors. On Prince Edward Island, among the 11,400 workers who reported earnings from self-employment, there were 1,910 farmers, 1,410 fishermen, and 590 self-employed professionals (accountants, physicians in private practice, engineers, artists, and so on). But there were also 2,950 owners of businesses in a wide variety of fields (construction, transportation, wholesale and retail trade, insurance and real estate firms, operators of services, etc.) and a large number of owner-investors. This is far from a monopoly by fishermen and farmers, although the profile of the self-employed worker still reflects the reality of the Maritimes. On Prince Edward Island, the fisheries and farming sectors continue to generate a high proportion of income from self-employment (45 percent).

Before concluding this section on the structural aspects of the economy, one point relating to the quality of human resources should be clarified. In Prince Edward Island, the adult population participates massively in the labour market. The unemployment rate is very high, which is a direct result of the seasonal variation in employment. The quality of any labour force can be evaluated using a variety of indicators — for example, work experience, vertical (within the firm) and horizontal (between different economic sectors) flexibility, as well as the mobility of workers. There is little information

18. Three official sources of information on self-employment should be distinguished here: census data, data from the labour force survey, and tax records. The last source of data was used here since it provides a detailed and more precise profile of self-employed workers. It should be pointed out, however, that merely reporting income from self-employment does not necessarily mean that that is the respondent's main activity.

on these indicators for Prince Edward Island, nor is there much that is pertinent and readily available on the subject for the country as a whole. Generally speaking, however, it is known that emigration continues to weaken the quality of the labour force as the more skilled, better educated, and, therefore, more mobile workers are attracted to regions with greater employment possibilities. The brain drain phenomenon has been thoroughly described in the literature, and it is only too familiar to Atlantic Canadians. This said, Prince Edward Island recorded a migration surplus over the past few years, and with the exception of the period from 1980 to 1982, losses in this area have been exceptional and small. It seems, therefore, that the brain drain is a thing of the past.

Educational attainment provides yet another measure of labour force quality. Indicators of educational level are both accessible and relatively precise. Based on Statistics Canada's labour force survey, the educational level of Prince Edward Island workers is lower than that of workers in the other Maritime provinces. For example, 28.5 percent of Island workers have not completed high school, compared with 23 percent in New Brunswick and 22.5 percent in Nova Scotia. In Canada 20.8 percent of the labour force falls into this category (see table 12). When it comes to university education, 12.9 percent of the Island's active population have a university degree, compared with 14.4 percent in New Brunswick, and more than 17 percent in Nova Scotia and in Canada as a whole.

Table 12
Labour Force Educational Attainment (in %)
Prince Edward Island, 1996

Educational Attainment	P.E.I.	N.S.	N.B.	Maritimes	Canada
Less than grade 9	7.1	4.8	7.3	6.0	5.2
High school not completed	21.4	18.7	16.7	18.1	15.6
Completed high school	18.6	14.8	22.3	18.2	21.6
Partial postsecondary	8.6	9.1	8.8	8.9	9.6
Postsecondary certificate or diploma	31.4	35.5	30.5	33.1	30.7
University degree	12.9	17.1	14.4	15.6	17.3

Source: Statistics Canada, *Labour Force Survey*; estimates according to level of education, 1996 annual averages; compiled by Maurice Beaudin.

The generally lower educational level of the Island's work force cannot be attributed to the effects of emigration. Rather, it can be explained by a combination of factors, including the rural lifestyle of Islanders, the structure of their economy, and the lack of competition in the labour market because of isolation, although, as has already been pointed out, the opening of Confederation Bridge should go some way towards answering the problem of isolation.

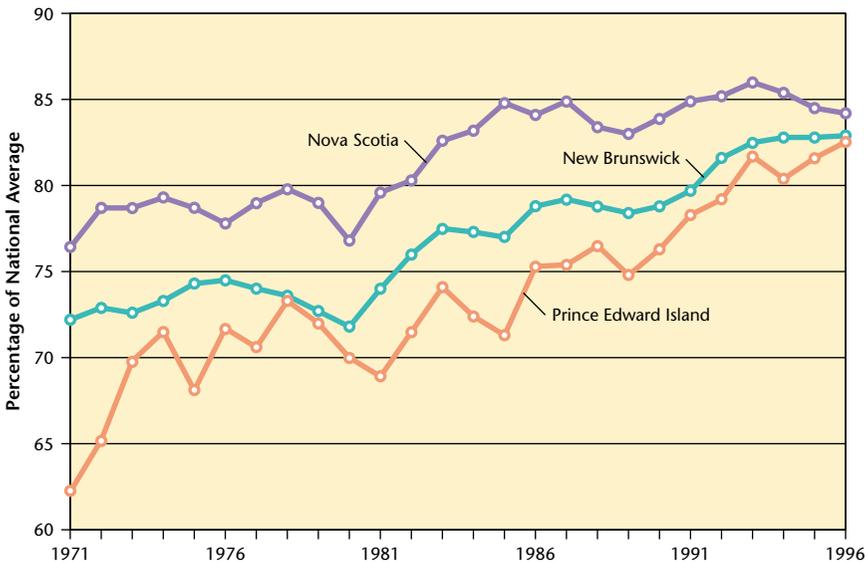
Although differences between the Maritime provinces do not appear to be great, in the case of Prince Edward Island they correlate with other structural indicators that have been analyzed above. And to the extent that these various indicators are interrelated, they reflect the overall dynamism of the region. A more educated labour force generally has more employment opportunities, works for longer periods during the year, and, as a result, generates higher income. These indicators may vary according to regional contexts or even to cyclical economic circumstances, but they are not misleading. The rate of participation in the labour market, income levels, and the frequency and length of unemployment are closely related to educational attainment. Thus, according to the 1991 census, the rate of unemployment among Island workers who had not completed grade nine was 19 percent, for those who had completed high school it was 15 percent, for those with a trade-proficiency certificate it was 12 percent, and for those with a university degree it was only 6 percent. Regardless of their size or field of activity, all firms need workers who are capable of adapting to the changing work environment. The experience and mobility of workers are assets, but in most cases it is qualifications, expressed in terms of educational level, that make the difference. The higher the educational level, the better a worker can adapt, particularly to complex and changing tasks relating to the information economy. It must be said that Prince Edward Island has made enormous progress in this field; the proportion of workers who had not completed high school in 1991 was around 30 percent. But other regions have also improved, which leaves the Island still trailing behind. Substantial advances in this field are expected, just as they are in manpower training. Many new jobs are highly technical or involve increased contact with customers, so a solid base of training is crucial to meeting the challenges of these jobs.

Income and Economic Dependence

Having outlined the structure of economic activity in Prince Edward Island and discussed the extent of the seasonality problem, we will now examine income levels, sources of income, and the degree of dependence on transfers. We will attempt to bring out the dominant features based on selected indicators.

It should be mentioned at the outset that since the 1970s, total income per capita in Prince Edward Island has increased considerably. From 62 percent of the national level in 1971, it increased to over 70 percent in 1976, and has fluctuated greatly since then. From 1985 onwards, the income level rose again, allowing Islanders to get even closer to the national average, reaching 82 percent in 1995 (see figure 12). The other Maritime provinces have also continuously improved their relative position in terms of personal income, but not as much as Prince Edward Island has; from 1981 to 1996 personal income increased by 6 percent in Nova Scotia, 12 percent in New Brunswick, and 20 percent on Prince Edward Island.

Figure 12
Change in Personal Income per Capita
Maritime Provinces, 1971–96



Source: Statistics Canada, *Provincial Economic Accounts, 1996* (Cat. 13-213); compiled by Maurice Beaudin.

This increase in personal income is certainly a reflection of real growth in the Island's economy in the context of the Maritimes. To find out to what extent these gains are attributable to the region's economic dynamism, we should examine earned income or income from employment. In this respect, annual tax records are an excellent source of information.¹⁹ What they reveal is a very poor performance by the Island's economy as measured by employment earnings, which in 1992 reached only 69 percent of the national average; New Brunswick's level was 80 percent and Nova Scotia's was 86 percent of the Canadian average.²⁰ Prince Edward Island shared its unenviable position with the north and northwestern regions of New Brunswick.

The lower level of earned income on Prince Edward Island is not that surprising given the structural weaknesses discussed above. In fact, employment earnings (income from employment) as a share of overall income is lower on the Island (64 percent) than in the Maritimes (68 percent) and Canada (72 percent). These data cast a shadow over the performance noted earlier in terms of GDP and job creation. It goes without saying that the GDP and employment indicators reflect the improved standard of living. However, in Prince Edward Island, perhaps more than anywhere else, the standard of living is greatly influenced by federal transfers, whether direct transfers to the provincial administration (equalization and shared-cost programs in education, health insurance, and social services) or transfers to persons. This fact is confirmed when we look at the extent of seasonal work and the contribution of unemployment benefits to the Island's economy. The number of monthly unemployment insurance recipients rose continuously from eight thousand in the early 1980s to sixteen thousand in 1993. The total number of weeks paid to the unemployed has increased even more, from 416,000 to 850,000. More than \$213 million was paid to the unemployed on Prince Edward Island in 1992, whereas contributions from the province's workers totaled approximately \$26 million. To sum up, unemployment insurance income represents 17.6 percent of the Island's

19. Information drawn from tax records is processed by the Statistics Canada Small Administrative Data Unit. In the case of Prince Edward Island, we examined two main mail-sorting areas: the COA area comprises the entire eastern half of the Island, including Charlottetown's urban postal codes (C1A to C1E); the western part of the Island comes under code COB and includes the urban code C1N for Summerside. In total, there are more than fifty rural mail-sorting areas and fifteen or so urban sectors on the Island.

20. This represents the average of employment earnings of all tax filers who reported employment income.

employment earnings, compared with 10.2 percent in the Maritimes and only 5 percent in the country as a whole. Lastly, the unemployment rate is markedly higher. Nearly 45 percent of Prince Edward Island's tax records reporting employment income included unemployment insurance earnings, which compares with an average of 36 percent in the Maritimes and 24 percent in Canada. Prince Edward Island's rural areas are obviously highly dependent on unemployment insurance transfers, although urban areas are also greatly affected, as shown by the indicators in table 13.

Table 13
Selected Employment and Income Characteristics
by Mail-Sorting Area, 1992

	Average Employ. Income		Employ. Income/ Total Income (%)	U.I. Income/ Employ. Income	Unemploy. Rate ¹
	in \$	Can. = 100			
Canada	25,166	100.0	72.0	5.0	24.1
Maritimes	20,542	81.7	67.8	10.2	36.2
Rural areas ²	16,041	63.8	60.3	20.9	51.0
Urban areas ²	21,234	84.4	68.9	9.0	33.9
Nova Scotia	21,665	86.1	68.4	8.2	32.6
New Brunswick	20,038	79.7	67.6	11.5	38.4
P.E.I.	17,300	68.8	63.8	17.6	44.8
Kings	13,973	55.5	57.6	33.3	62.0
Queens	19,844	78.9	68.4	9.9	34.6
Prince	14,768	58.7	59.1	25.4	53.2
Rural areas	13,767	54.7	58.1	29.4	56.8
Urban areas	18,051	71.8	65.4	14.8	41.9

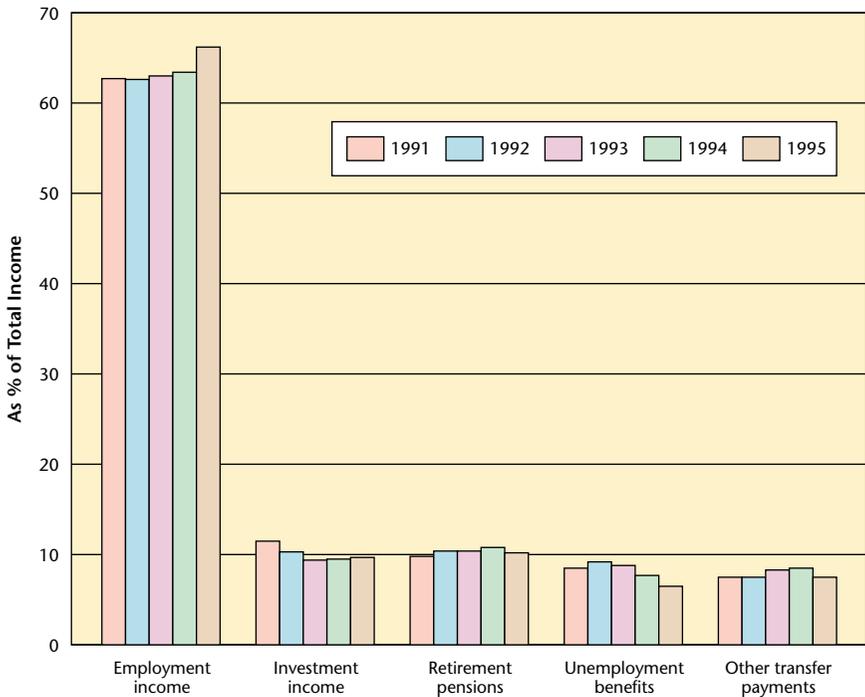
Source: Statistics Canada, Small Area Administrative Unit, *Labour Force Income Profile, 1992*; special compilation by Maurice Beaudin.

1. Rate of unemployment is the proportion of those who earned employment income and also reported having received unemployment benefits (according to tax records).
2. Rural areas are those so defined by Canada Post; they are generally areas whose population does not exceed a thousand. Certain less-populated areas may still be classified among urbanized areas, provided that they are close to an urban centre.

To conclude this examination of the sources of income on Prince Edward Island, it should be noted that the recent trend towards an increase in the share of employment income in the economy is a positive sign (see figure 13). It made up 66 percent of total income in 1995, after having held steady at 63 percent during previous years.

It is also worth noting that investment income no longer ranks second as a source of income for Islanders, its relative share having decreased from 11.5 percent in 1991 to 9.7 percent in 1995. This is comparable to the situation in New Brunswick, where income from investments is 9.4 percent of total income, and in Nova Scotia where it is 10.3 percent. This said, income in the form of interest or investments contributes no less than \$250 million a year to Islanders; that is more than unemployment benefits or combined pension income (excluding government employee pensions).

Figure 13
Source of Income, Prince Edward Island, 1991–95



Source: Statistics Canada, *Provincial Economic Accounts*, 1996 (Cat. 13-213); compiled by Maurice Beaudin.

Pension income (old age security, government employee pensions, war veteran pensions, Canada Pension Plan) now represents the second most important source of income on Prince Edward Island — that is, 10.2 percent of personal income. Two types of pensions account for a large share of it: the Canada Pension Plan, whose payments increased from \$62 million to \$90 million between 1991 and 1995, and public servant retirement pensions (from \$24 million to

\$35 million). These trends, which can also be seen elsewhere, result from two tendencies: the aging population and staff rationalization in several sectors of the economy (government services and other public services as well as some industrial sectors); the latter is reflected in an increase in early retirements. The trend is the reverse for unemployment benefits, which decreased from \$210 million to \$167 million between 1993 and 1995 but which nevertheless account for 6.5 percent of personal income in Prince Edward Island. In the last few years, Islanders have definitely been less dependent on transfers, a direct result of an overall improvement in the economy but also of the federal government's cutback in transfers to provinces and persons. It should be noted that a decrease in the flow of direct transfers to the provinces — equalization or shared-cost programs (health insurance, postsecondary education, and social welfare) — indirectly affects the level of personal income, insofar as the provincial government's spending and investment power is also reduced. In this context, the Island's economy is still vulnerable to the current reform of social programs, since 24 percent of the population depend on federal transfers for their income. In this respect, however, Islanders are not an exception. Newfoundlanders are more dependent on federal transfers than Islanders — the people in the remaining Atlantic provinces slightly less so (New Brunswick 23 percent, Nova Scotia 22 percent).



An Overview of Economic Development

Prince Edward Island is a beehive of activity. Everywhere, in all of the Island's regions and sectors, there is a ceaseless energy as people search for ways to create employment and build the infrastructure necessary to support economic development. To gauge the extent of that activity, we interviewed many activists, planners, and entrepreneurs, all engaged in a broad range of pursuits (see Appendix). Many of the people interviewed were given a detailed questionnaire to answer: the entire exercise usually lasted about ninety minutes. Others were contacted by telephone, faxed the questionnaire, and then interviewed about the issues most pertinent to them and their experience. Still others, mostly business people, were approached in a less structured way to learn about their businesses, how they were doing, and something of their constraints and opportunities. From those conversations we were also able to gain a sense of how Islanders view the regions and their prospects. What is presented in this section is our reading of those views. It was not possible, of course, to verify all statements by respondents, nor could we undertake detailed feasibility evaluations. In some cases, follow-up interviews were arranged to clarify issues or to reconcile seemingly conflicting statements. In the end, we were left with the strong feeling that how people perceive facts is just as important as — sometimes more important than — the facts themselves, and that there is a certain value in knowing the views and attitudes that give rise to planning and action.

We came away from this exercise with a strong sense that both the communities and the private sector are strongly committed to building on the Island's traditional pursuits in new and creative ways and, when necessary, are ready to strike out in new directions in response to fresh challenges and opportunities. It was impossible, of course, to talk to everyone who has a hand on the helm of Prince Edward Island's future development, but based on our research we are convinced that in almost all areas, people are working hard to develop goals best suited to the changing times. On the face of all the available evidence, there is no sign that passivity or fatalism has been allowed to cloud the Island's economic spirit.

That is not to say that there are no challenges facing the Island economy, or that the opportunities attainable in one area or region are necessarily within the reach of any other. The urban economic solutions being pursued in the aerospace industry in Summerside or in the life sciences cluster in Charlottetown cannot be replicated in every hamlet. In the following section, we shall examine the visions and plans being worked on in the more rural areas of the province; in the first part of this section, we shall consider such developments as the aerospace industry and the life sciences cluster. Then in the second section, entitled “Economic Development Agencies,” we shall describe the important economic development agencies on the Island as well as some recent restructuring taking place in economic development institutions.

■ Economic Development Perspectives and Priorities from within the Regions

The first thing noticed by today’s visitor arriving in Prince Edward Island via Confederation Bridge would be the tourism infrastructure in the Borden-Carleton area. While tourism in this area has not replaced the hundreds of ferry jobs that disappeared in 1997, the development of Gateway Village,²¹ which houses the PEI Tourist Bureau and several shops, is the first visible sign of a transformation taking place in the local economy. At the terminus of the bridge, a new 66-acre business park is ideally situated for distribution activities.²² The Central Development Corporation (CDC), the umbrella development corporation for the area, plans to expand the business park and its Borden-Carleton Industrial Mall from thirty thousand to fifty thousand square feet of space. The Borden Area Development Corporation (BADC) is eyeing the two ports in Borden — the Marine Atlantic Property and the Strait Crossing Terminal — for development.²³ BADC hopes to turn the Marine Atlantic Terminal into

21. Gateway Village (built by Gateway Village Inc., a subsidiary of Enterprise PEI) is not a unique showcase: several other tourism developments have been undertaken throughout the Island, many of them more costly and imposing.

22. The land was formerly owned by the federal government and transferred to Borden-Carleton Holdings Ltd. for development.

23. The BADC was created out of P.E.I.’s \$9 million share of the \$15 million redevelopment fund established by the federal government to overcome the adverse effects on Cape Tormentine, N.B., and Borden, P.E.I., of the changeover from the Marine Atlantic ferry service to Confederation Bridge. BADC’s mandate was to develop initiatives in the Borden-Carleton area for future development, to help increase the local tax base, and to create jobs for displaced Marine Atlantic workers. BADC was under the umbrella of the CDC before the opening of the bridge; it is now under the jurisdiction of the Borden-Carleton community.

an aqua-complex and marina for pleasure craft, and to use the Strait Crossing Terminal as a deep-water industrial port. There are also 125 acres of space currently held by Strait Crossing Incorporated that should eventually become available to BADC for development. Another project being initiated by BADC is a provincial pavilion facility on the former railway tracks in the Borden-Carleton area. Walking trails and boardwalks through the scenic area along the railway roadbed and waterfront would make it an attraction for ecotourism.

The area between Summerside and Charlottetown, like the Borden-Carleton area, has been a corridor for tourists en route to Summerside, the national park, and Charlottetown. The CDC and the many development organizations under its umbrella are initiating several projects designed to attract tourists to the area. At the Victoria Wharf, there are plans for the construction of a floating marina to accommodate pleasure craft. In South Rustico, the Farmers' Bank of Rustico building, a national historic site, is being restored. In Strathgartney, the historic Strathgartney Inn, its outbuildings, and surrounding property are being renovated into commercial space for the tourism sector and marketed as a tourist attraction. As well, the horse stables have been converted into a 125-seat theatre. The Cape Traverse Historical Society intends to preserve the history of the cape's legendary iceboat service by developing a winter iceboat festival. CDC is also applying for funds to complete sixty-one of the seventy-six kilometres of the Confederation Trail through central Prince Edward Island, and to finish the North Rustico Promenade and possibly extend it into the national park.²⁴ The South Shore Marketing Co-op was established to develop a cohesive regional tourist package for people over forty years of age travelling in the shoulder seasons. Specialty-retail craft shops should be encouraged to take advantage of short-term visits over Confederation Bridge,²⁵ although we learned that accommodations would have to be increased and amenities improved to provide for overnight tourists. In this connection, we would caution that planners carry out prudent market studies so as not to create capacity ahead of demand, which can lead to overcapacity and bankruptcy for tourist operators.

24. Central Development Corporation Ltd., *Annual Report*, 1997.

25. Baker Consulting, *Economic Development Strategy for Central Prince Edward Island*, 25 July 1996, pp. 23–24.

In those parts of the central area where agriculture and food processing are strengths, there is a potential for the development of value-added products beyond potatoes, such as baby carrots and onions, and the introduction of high-value crops, such as garlic. For the large number of hog producers in the area, liquid-feeding stations and the development of cheese and potato by-products as feed could be encouraged.²⁶ In the manufacturing and food-processing industries, authors of the strategic plan for the area recommend the seafood packaging and processing of breaded marinated mussels, marinated herring, and specialty Island foods. For the fishery, the plan's authors suggest the aquaculture of bar clams, quahogs, oysters, and bay scallops.²⁷

In the Evangeline area, the Société de développement de la Baie acadienne (SDBA) has made business and community economic development its primary objective. The related activities are marketing assistance, new business development, business advisory and mentoring services, and training and human resource development.²⁸ The region's strategic plan identified lack of marketing as a weakness and suggested a twofold strategy as a remedy. The first step is to promote the region as a good place to do business, and the second is to encourage existing businesses to promote and market their products. With Confederation Bridge providing easier access to franco-phone markets in Southeastern New Brunswick, it is even more important that producers in Evangeline put more effort into advertising and selling their products. Traditionally, firms in the region have been adept at producing goods, but they lacked the marketing skills to sell outside their immediate geographic area.²⁹ Addressing this problem is an encouraging sign.

Perhaps the greatest strength of the region in the area of new business development is its knowledge-based resource, the Société

26. Ibid, pp. 43–47. We recognize that as with tourism, jobs in the food-processing industries are often seasonal and low-paying and that such employment is not a panacea for economic development. Nevertheless, in the absence of other opportunities, additional employment from increased activity in the food sector could capitalize on the strengths of the area; this has been suggested in the Baker report's development strategy.

27. Ibid.

28. Enterprise Management Consultants, *Evangeline Region Economic Development Plan*, prepared for the Société de développement de la Baie acadienne, October 1996, pp. 14–32. The SDBA is promoting four broad development themes: business and community economic development, tourism development and marketing, infrastructure development, and [resource] sector development.

29. Maurice Beaudin, René Boudreau, and George De Benedetti, *New Canadian Perspectives: The Socio-economic Vitality of Official Language Communities* (Canadian Heritage, 1996), p. 80.

éducative de l'Île-du-Prince-Édouard. Until its establishment, there was no postsecondary institution for francophones on the Island. The education centre provides access to the curriculum of the Collège de l'Acadie in Nova Scotia, which makes available adult education via the Internet. Already, their expertise in providing multimedia distance education, especially in the French language, is being exported to the rest of the Island and elsewhere in Canada. And with it goes the transfer of new technology. Many people in the Evangeline region are taking advantage of the opportunities provided by distance learning through the Collège de l'Acadie. It not only enhances the community's education in its own language, but it also teaches computer mastery — often to people at an early age, thus preparing them for life in the world of high-tech.³⁰

The Société éducative de l'Île-du-Prince-Édouard is continually innovating and expanding its frontiers. It is now cooperating with the Community College in Dieppe on a project called Télétravail. In partnership with the Centre collégial de formation à distance at the Collège de Rosemont in Quebec and the Collège des Grands Lacs in Ontario, the Société éducative de l'Île-du-Prince-Édouard is producing an educational CD-ROM called *Peuples et cultures du monde*. Using ATM (asynchronous transfer mode) in the development of both its content and courseware, the Société éducative de l'Île-du-Prince-Édouard is aiming its educational software development at twelve firms specializing in educational software.³¹ As well, the Société éducative de l'Île-du-Prince-Édouard is creating a virtual francophone community on Prince Edward Island through its project Télécommunauté insulaire francophone, using information technology as an economic development tool. The facets of the project are education, training, and economic development.³² The Société éducative is also developing French language library-training software.

The Evangeline region was the main overnight destination of approximately 23,800 tourists in 1997. Although the number of overnight visitors has grown 61 percent from approximately 14,800

30. Ibid., p. 103.

31. From an interview with Mr. Aubrey Cormier, general director of the Société éducative de l'Île-du-Prince-Édouard, Wellington, August 1997. Mr. Cormier stated that the ATM broad band used in Prince Edward Island is one of the most sophisticated in Canada. The ATM in this courseware development provides the highest level of efficient technical interactive collaboration over the Internet: the transfer of data, including visual material, is done at very high speed.

32. Project *Télécommunauté insulaire francophone: plan stratégique* (Wellington, PEI), June 1997.

in 1996, the 1997 number still accounts for only a relatively small provincial share (2 percent).³³ Among the proposals to attract more visitors to the region is an eighteen-hole golf course, which is now in the planning stage.³⁴ Four reproductions of prominent buildings that once stood in Wellington have been built and are linked by a boardwalk at Day's Corner. These buildings are leased to merchants in the tourist industry, whose greater visibility beside Highway 2 has stimulated the demand for Acadian crafts.

By way of infrastructure development, the authors of the Baie acadienne plan suggested capitalizing on the bilingual workforce and knowledge of information technology to attract back-office operations in telecommunications.³⁵ In resource sector development, the plan recommended expanding the number of species fished and processed; aquaculture development, especially in trout farming; cranberry development; and increased forestry, potato, blueberry, and cole crop production.

In West Prince, Crop Diagnostic Services Incorporated was established in 1995 by the Western Development Corporation (WDC) as a profit-seeking company, when the federal government privatized the testing for bacterial ring rot in the potato industry. Crop Diagnostic Services Incorporated does tests for potato producers in Prince Edward Island, Nova Scotia, New Brunswick, and Alberta.³⁶ Work began on Leisure Village at Mill River in 1996. It is hoped that seniors will be attracted to this retirement village by the proximity of the recreation facilities around the Mill River resort: the golf course, Aquaplex, tennis courts, cross country trails, etc. A model home has been completed, and arrangements are under way with Century 21 to market the homes. Also, the WDC took responsibility for the Ellerslie Fisheries Station in Bideford, believing that the facilities could become economic contributors. The corporation provided support for the renovation of several buildings (including five motel units) associated with the Holland College Aquaculture Program and the former federal Department of Fisheries Shellfish Hatchery. As well, the Ellerslie Shellfish Museum was given a facelift.³⁷

33. Enterprise PEI, *Economic Impact: Tourism 1997*, pp. 3, 55.

34. The Evangeline Tourist Bureau, the Société de développement de la Baie acadienne, and the Baie acadienne Venture Capital Group submitted proposals to the Department of Economic Development and Tourism in April 1995.

35. Enterprise Management Consultants, *Evangeline Region Economic Development Plan*, op. cit.

36. Western Development Corporation, *1996-97 Activity Report*, p. 3.

37. *Ibid.*, p. 1.

Confederation Trail, a rails-to-trails conversion, is almost complete at this western end of the province. WDC leased the 78 kilometres of abandoned rail lines from Tignish to Northam. The corporation is also considering developing a nature trail out to Elephant Rock, and with Tignish Initiatives it has attracted a call centre to West Prince.³⁸ The Cogsdale Corporation's call centre, which specializes in marketing software packages, opened for business in Tignish late in 1997.³⁹ This is an opportunity for West Prince to prove it can compete with other call centres by capitalizing on its bilingual workforce.

Tignish Initiatives was formed in 1993 to assume control of community assets. A former convent was converted into the Heritage Inn. Tignish Initiatives also took over the Dalton Annex Centre, which was built in 1966 and abandoned by the province in 1989. Holland Island Productions, which manufactures and sells crafts at the wholesale and retail level, is located in the centre.⁴⁰ The company creates piece-ceramics featuring Island structures such as lighthouses, the Confederation Centre, etc. To encourage out-of-province sales, it is working on the depiction of subjects from other parts of the country, such as the old clock tower on Citadel Hill in Halifax. Tignish is getting ready for the Tignish Bi-Centennial in 1999. Since this project requires many partners, Tignish Initiatives could play a coordinating role. Some of the tourist attractions in the Tignish area are in North Cape, where thirty to forty thousand tourists a year pass through the Interpretative Centre to see the Atlantic Wind Test Site, the second-longest reef in North America, a walking museum, the Wind-Reef Restaurant, the Sea Weed Pie Café, and the Irish Moss International Centre at Miminegash.

In the Tyne Valley, the Tyne Valley and Area Development Association has renovated and now operates Britannia Hall, a theatre that is open from April to November and features concerts and plays. A summer theatre camp for children might be considered to capitalize on the presence of the theatre. Such a facility might keep some parents in the area as overnight tourists. As well, the association leases a restaurant to a chef who is captain of the Canadian Culinary Team. The restaurant is ranked twelfth in a Canadian where-to-eat publication. Other tourist attractions in the Tyne Valley are its many

38. *Ibid.*, p. 7.

39. *The Journal Pioneer*, 12 December 1997, p. 2.

40. Established by Tignish Initiatives in 1995.

educational trails: the Bugwalk, a trail through a peat bog; Paths from the Past, an historical trail off the Confederation Trail in the Ellerslie area; the Brig Myra Trail,⁴¹ which features shipbuilding and navigation; and the West County Heritage Drive, a driving trail featuring landscapes sculpted in the English manner. The Tyne Valley's proximity to Summerside is both an asset and a liability: on the one hand, visitors to Summerside are attracted to the Tyne Valley, and on the other, local merchants lose business to Summerside when valley residents work and shop there. With the runway at Mount Pleasant, the tourist sector could create a niche market by catering to tourists with private planes.

The natural beauty of Kings County, its underutilized land base, its major port facilities, and the Souris Food Park are identified as strengths in the development plan for eastern Prince Edward Island. Tourism, agriculture, and food processing are targeted as the sectors with the highest potential for growth.⁴² Another eighteen-hole championship golf course⁴³ and a nine-hole executive par-three course are planned for the Brudenell area.⁴⁴ In Montague the Waterfront Development Corporation wants to build a hotel and marina on the waterfront. We were told that overnight accommodations in addition to the Brudenell resort are required in the area. Souris also wants a waterfront development consisting of a major resort hotel with boardwalks, shops, marina facilities, and parkway systems linked to the downtown core in Souris.⁴⁵ The extension of the national park at Greenwich Peninsula near St. Peters is another tourist project. The Greenwich Peninsula has approximately nine hundred acres of sand

41. The Brig Myra was the largest ship built in the area.

42. Deloitte & Touche and MacIsaac Younker Roche, *A Five Year Economic Development Strategy for Eastern Prince Edward Island*, 31 March 1995, pp. 4, 7. This plan was drawn up just before the birth of Opportunities East Incorporated (OEI). Although the Atlantic Canada Opportunities Agency (ACOA) commissioned the report, it was adopted in consultation with OEI's board.

43. Putting another eighteen-hole course here could take advantage of economies of scale, because the basic elements of a course (the building, parking lots, etc.) are there, and a professional is already in place. This would save an estimated half-million dollars in capital costs and \$100,000 a year in operating expenses when compared with creating a golf course elsewhere.

44. Whether these additional golf facilities will ultimately be created in Brudenell depends largely on the provincial government's golf tourism strategy, which is still evolving. In early 1998, the provincial government announced that it was expanding the Brudenell course from eighteen to thirty-six holes.

45. Deloitte & Touche and MacIsaac Younker Roche, *A Five Year Economic Development Strategy for Eastern Prince Edward Island*, op. cit., p. 61. The plan suggests the construction of a sixty-to-seventy-five-room hotel with resort amenities, professionally managed by a quality operator and with an international reservation system.

dunes, wetlands, woodland, and fresh saltwater plants that are unique to the area. The sand dunes form a parabolic system that is recognized internationally for its ecological importance. On-site work has begun in the St. Peters area.

Basin Head, a surprisingly beautiful and quiet tourist attraction, has been developed in Eastern Kings in the Souris area and is a fast-growing attraction on the Island. The facility in Kingsboro has a fisheries' museum, beach facilities around an abandoned wharf, and several structures that include shops and a cannery on the beach.⁴⁶ More work needs to be done at Basin Head: the wharf, under the jurisdiction of the Department of Fisheries and Oceans, needs upgrading, and the footbridge over the harbour entrance, under the jurisdiction of Transport Canada, is structurally unsound.⁴⁷ It could be in Opportunities East's interest to help liaise between the various levels of government and support the project financially, since it has all the earmarks of a success story and fits in well with the strategy outlined in the development plan for Eastern Kings.

The Road to Rollo Bay is another tourist attraction in Eastern Kings. The organizers bring in concerts, such as Great Big Sea, Natalie McMaster, and others. And on Saturday nights in the summer, they set up a stage in a field approximately six kilometres west of Souris. The organization, which bears the same name (Road to Rollo Bay), wants to restore the Matthew MacLean House as a museum and develop a Dutch Canada garden. The garden project is supported by the Credit Union, which donated six acres of land to the project.

In Georgetown, the Windsor Auditorium, developed by the Georgetown and Area Development Corporation (GADC), employs about fifteen people in its summer theatre program.⁴⁸ There is also a small botanical garden near the theatre approximately six acres in size. GADC wants to make the garden a tourist attraction and is trying to attract funding from private sources. Developing the tourist sector in Georgetown is important because Georgetown lost much

46. The development was undertaken by the Eastern Kings Development Corporation (EKDC), whose existence predates OEI. This \$550,000 project had funding from ACOA and the provincial Department of Economic Development and Tourism. The project employs twelve people from May to October and receives about \$60,000 a year in operating funds. EKDC would also like to operate Red Point Beach and Campbells Point on behalf of the provincial government so that it could finance other projects and infrastructures needed at these facilities and at Basin Head.

47. The federal government announced on 20 February 1998 that it was relinquishing control of the wharf and the footbridge to the government of Prince Edward Island.

48. The corporation was helped by the Windsor Foundation, which donated ten thousand dollars to the project.

of its economic base with the closure of the Nickerson fish plant. Shopping is now done in Montague, the service centre for Southern Kings. In the public sector, only a highways centre for the Department of Transportation remains in Georgetown.

Elsewhere in Kings there are other tourist attractions, such as the Kings Castle Provincial Park, featuring fairytale characters; mini-golf and water-slides at Murray River; an indoor water-slide in Montague; and a rails-to-trails project from Mount Stewart to Souris (seventy-seven kilometres have already been completed), with a spur trail to Montague.

Besides the many tourist attractions, there are several business opportunities identified for Kings. The economic plan developed for Eastern Kings proposes the building of three refrigerated potato-storage facilities. Even with the Irving potato-storage facility in Pooles Corner, the authors of the plan estimate that the area could use three additional facilities, each with a fifty-million-pound capacity. The construction of such facilities, primarily for independent producers, would require government assistance.⁴⁹ Potato producers might consider the alternative of forming producers' cooperatives to operate additional storage facilities. Generally, there are opportunities in the wood products industry because of the ample supply of wood in the county. Already there is some integration of activities in hardwood. Royalty Hardwood in Pooles Corner produces hardwood flooring and display planks for its biggest customer, Atlantic Store Decor, a maker of display units for Loblaws and other retailers. Furniture making has been suggested as a complementary activity. A centralized reservation call centre for ferry services could be considered for Eastern Kings. Northumberland Ferries Ltd., operator of the Wood Islands to Caribou ferry, also operates through a sister company, the Fundy and Gulf of Maine ferry services; the two services were formerly operated by Marine Atlantic. One call centre in the area could handle reservations for these ferries and the ferry service from Souris to the Magdalen Islands.

There are challenges in Kings for the public sector as well. The highway system in Kings needs upgrading. Two million hundred-weights (cwt.) of potatoes will be going to the potato granules plant in Souris, and 1.2 million cwt. of products will be coming out. The highway system was not designed to carry such loads. For the seven

49. Deloitte & Touche and MacIsaac Younker Roche, *A Five Year Economic Development Strategy for Eastern Prince Edward Island*, op. cit., pp. 56–57.

thousand or so truckloads a year, the highways will need to be improved. Uncertainty about the future of the Wood Islands ferry is of concern to the southeastern part of Prince Edward Island. Should the ferry be shut down, it would result in a depressed tourist sector in the region and the loss of jobs.

And what of province-wide development initiatives, strategies, and issues? The leading focus of economic development issues in Prince Edward Island over the last year has been the work of the provincial Round Table on Resource Land Use. Both the process leading to the issuance of its report and the public and legislative debates since its release have engaged many sectors of the Island economy — chiefly agriculture, tourism, marine industry (aquaculture), and forestry — while also affecting other issues such as the urban and rural development of housing and industry as well as the protection of the environment.⁵⁰ Discussion of the possible regulation of land use practice and development rights touches on issues that historically have been at the core of economic and political development in Prince Edward Island, namely, land ownership and the security of property rights.

The round table was convened to address growing conflicts between farmers and residential neighbours concerned about the drift of farm chemical sprays and livestock odours. It tried to strike a balance between the economic use of land for farming and aquatic resources, forestry, and fishery and the spread of the Island's urban population into rural areas where farming has predominated. As well, a growing environmental movement on the Island has found some common ground with the economically influential tourist industry. Rapid deforestation resulting from the exploitation of mature stands of timber has become a concern of the aquaculture industry (because of increased siltation) and of the tourism sector (because of the aesthetic degradation of Island viewsapes). The fact that the report remains at centre stage of public discussion on the Island can be attributed to the clarity of its definition of a broad range of inter-related issues and to its presentation of moderate and achievable policy options. It did this without alienating critical producer communities; an earlier royal commission on land use, whose report was quickly shelved, stressed formal regulations in its recommendations. By contrast, about half of the eighty-seven recommendations of the round table report were addressed quickly by a committee of the

50. *Cultivating Island Solutions*, Report of the Round Table on Resource Land Use and Stewardship, August 1997.

legislature and are in various stages of implementation. Other more knotty issues, such as financial assistance for waste abatement improvements, land use zoning and development controls, and the related possibility of right-to-farm legislation, are still being discussed.

The round table issues are so broad that their continuing discussion can be seen, among other things, as taking on the function of an economic development forum that is working both on defining strategic priorities and on devising practical solutions. One cannot yet say that development of the province's economic development strategy, which has been undertaken by the premier's office, has similarly become part of the province's economic discourse. This may in the end be prudent timing, since any focus on community economic development, expected to be a centerpiece of the premier's policy, will to a large degree depend on the resolution of land use policy issues.

Another issue of both land use and development strategy has also moved to centre stage in Prince Edward Island. The development of golf courses and ancillary facilities such as resorts and retirement communities has become a controversial issue on the Island, not least because of the decision to make major public investments in recreation at the expense of other more pressing needs. In the view of many, the development of golf courses on public land can only result in low tourist expenditures, low employment multipliers, and, therefore, low returns on public investment; the contrary view holds that the attraction of golf will bolster the hospitality, retail, and cultural industries. Every region has golf facilities, and there are hopes and plans for more. Abrupt shifts in priority and decisions that many believe are coloured by rewards to partisans of the provincial government have made golf a hot issue on the Island.⁵¹

Politics is also an issue in the effort to help the Island's fish-processing industry. Conservatives charged that the previous Liberal government had neglected the majority of fish processors on the Island in favour of large new plants built in mid-decade in Tignish and Souris. The Conservative government has decided to support the development of a marketing consortium of processing companies, which include the Souris plant.

51. Late in 1997, the government transferred to Golf PEI Developments Inc. about 450 acres of land adjacent to the province's existing golf course at Brudenell for construction of a premium course. Together with a golf-training academy and cottage development, the total price tag is estimated to be as high as \$20 million.

The downloading of costs as a result of government cutbacks and continuing efforts to achieve public sector economies is also a subject of debate on the Island. The transportation sector has been the one most affected. The federal decision to stop subsidies to the Northumberland ferry service between Wood Islands and Caribou, Nova Scotia, before the end of the decade may imperil the operation. The future management of the Charlottetown airport, and particularly the level of airport usage fees, remains an unresolved issue. Even the federal government's decision in 1997 to invest \$5.6 million in the ports of Summerside and Charlottetown has settled little, since the investment neglects the ports of Souris and Georgetown and provides only interim assistance pending Transport Canada's planned transfer of all ports to the private sector, the provinces, or to communities by the year 2002. The imposition of various cost-recovery fees on farmers, fish processors, and truckers (for pest inspection and disinfectant washing) is yet another major concern of the Island's food industry.

Following recent government cuts in health spending, other contentious issues have arisen surrounding the maintenance of hospital services in rural areas and problems recruiting physicians needed to maintain the operation of emergency departments of rural hospitals such as in Western Prince County. This affects not only the existing population but also seniors who are being attracted to the Island to take up residence in the retirement villages whose construction is part of a policy of economic diversification. There is already evidence of development in this direction, such as the present project at Mill River, a similar golf and residential development contemplated in the Evangeline region, and a retirement village proposal made earlier for the Brudenell area of Kings County.

One of the crucial priorities for many of the growing number of value-added manufacturing companies operating on the Island is being able to find and keep qualified staff. This is particularly important in the biotechnology industries, which need employees with high-level skills, and in the province's growing aerospace industry, which requires a staff that is skilled in such areas as fine-tolerance machining and materials handling. These finished-metal industries face some competition from other aerospace companies, both globally and also regionally from similar companies in Nova Scotia (Amherst and Halifax). Two factors working in favour of these industries are, first, the determination of Islanders not to go abroad if they can find reliable and rewarding work at home and, second, the

Island's ability to recover trained emigrants for work in such industries.⁵² In the biotechnology industry, which requires some personnel with doctoral-level scientific expertise, the fact that UPEI is primarily an undergraduate university is seen as a serious constraint.⁵³ That said, both of the province's postsecondary training institutions have made strides in achieving their goal of providing the training and knowledge demanded by these industries as they do for others: Holland College's aerotech training arm produces qualified graduates as do UPEI and the Atlantic Veterinary College, the latter two by means of a diverse set of linkages and subsidiaries primarily focussed on supports to agriculture, aquaculture, and companies specializing in areas of the life sciences such as vaccines and diagnostic services.

Prince Edward Island lives by its divisions and distinctions, though observers claim that this is less so now than in the past, when even the schools, universities, and health care system were divided between Protestants and Catholics (they no longer are). The defeat of the former Liberal government in 1996 led to firings from the top of the civil service down to road crews, and to the movement of numerous rented government offices. In the debate over amendments to the province's Human Rights Act regarding discrimination on the basis of political belief, all parties⁵⁴ professed a distaste for the politics of patronage. But many Islanders would regard the end of political patronage as improbable — as limiting the range of topics available for Island conversation and even as a denial of the same principle that underlies crop rotation.

The close involvement of governments in most aspects of the Island economy is an important element in economic development — an element that can be a positive force for development, quite beyond the immediate effect of patronage. Even for the development of export-oriented industries, adherence to a party (or even neutrality) exposes a firm to the risk that a government of another stripe might support a competitor that is one of its allies. Consequently, the mere possibility of a shift in political winds adds one more constraint to business development. This is not to say that patronage is

52. It should be noted that in general the Island appears to have fared rather better than many other regions of the Maritimes in retaining graduates of institutions of higher learning. In the case of the University of Prince Edward Island (UPEI), its president, Dr. Elizabeth Epperley, told us that of the eight thousand students the university has graduated, some five thousand have remained on the Island.

53. From an interview with Dr. Regis Duffy, president of Diagnostic Chemicals Limited.

54. The New Democratic party now has a seat in the legislature and to some extent has been de-marginalized.

absent in other provinces and jurisdictions, but the smallness of the Island economy makes it more visible here than elsewhere.

Despite the routine involvement of both senior governments in the affairs of the Island, it is important not to exaggerate their power. Prince Edward Island is a province with strong public, private, and voluntary sectors. Most areas of the private sector have done well in recent years. Retained earnings in the agricultural, tourism, and manufacturing sectors have given these industries the strength to choose their own paths of growth and development. The Island's well-developed voluntary sector and the strong tradition of its citizens standing up for themselves and their communities are powerful assets in the development process. Prince Edward Island may be small and it may be shaped by its insular history, but there is abundant evidence that its people will not tolerate the status quo. Though the Island is linked, its course is not fixed.

■ Economic Development Agencies

Over the past few decades, there has been an evolution in government policies and programs designed to strengthen the Island's economy. The federal and provincial governments directed their development efforts on Prince Edward Island through such regional development agencies, funds, and departments as the Agricultural Rehabilitation and Development Act (ARDA), the Fund for Rural Economic Development (FRED), the Department of Regional Economic Expansion (DREE), the Department of Regional Industrial Expansion (DRIE), and ACOA, and by supporting the many initiatives undertaken in successive cooperation agreements. At the local level there were and continue to be a host of local and subregional development agencies throughout Prince Edward Island. In the 1990s the emphasis shifted more toward local or community economic development and away from national programs. This change in direction was driven both by a decline in federal spending and by a desire to adopt a new approach to development. This new approach is reflected in the recognition by both levels of government of the need in all the Atlantic provinces to do more at the local level and to support the numerous development agencies while keeping a tight rein on spending.

In September 1995, six cooperation agreements on economic development between the federal government and the government of Prince Edward Island were consolidated into a single agreement,

the Canada/Prince Edward Island Cooperation Agreement on Industrial Development (Consolidated). This agreement has a combined value of \$17.5 million and is cost-shared — 70 percent by the federal government and 30 percent by the provincial government. As part of the agreement, sixty programs were reduced to eight: infrastructure, tourism product development, strategic opportunities, micro-business development, market and trade, prospecting, training, and community economic development.⁵⁵ ACOA and the provincial Department of Economic Development and Tourism are mainly responsible for administering and planning economic development under the consolidated agreement. The day-to-day operation of development programs in Prince Edward Island is carried out by four newly created rural development corporations: Enterprise PEI, two urban development corporations, the Cooperative Movement, and Human Resources Development Canada (HRDC). In the following sections, we will briefly discuss the activities of each of these agencies.⁵⁶

Rural Development Corporations

As part of the reorganization of regional economic development in 1995, the Department of Economic Development and Tourism in cooperation with ACOA created four new community development corporations: the Western Development Corporation, the Société de développement de la Baie acadienne, the Central Development Corporation, and Opportunities East Incorporated. These bodies were given start-up and operational funding by the department and ACOA. Under the Cooperation Agreement on Economic Development, the operating costs of the development corporations are financed by the federal (70 percent) and provincial (30 percent) governments. The four development corporations cover all of the rural areas of Prince Edward Island. Each rural development corporation has its own board and bylaws, all similar to each other. Board members, one-third of whom are appointed by the provincial government and two-thirds at the community level, come from the various sectors of the Island economy and from the subgeographic areas within the jurisdiction of each corporation. As well, each corporation has a five-year strategic plan, with annual plans and audits. When the rural develop-

55. Prince Edward Island, Department of Economic Development and Tourism, *Annual Report 1995–1996*, p. 6.

56. Other federal and provincial line departments do play a role in Island development, but since their responsibilities are usually sector specific, we will overlook them in our discussion in the interests of brevity.

ment corporations were established, it was envisioned that each would have a development arm and a small business lending arm. In practice, however, only the board of Opportunities East Incorporated oversees both a development and a lending arm.

The rural development corporations act as umbrella groups for many other economic development agencies in the regions, but they do not provide core financing to these other agencies. They do, however, help these other agencies in obtaining funding. Normally, government funding, such as from ACOA, is funnelled through the umbrella corporations. The four rural development corporations sometimes deliver programs for ACOA and HRDC. For example, they administer the self-employment assistance program for HRDC, and for ACOA they administer the SEED Connexion Program, which is designed to provide loans of up to fifteen thousand dollars to young entrepreneurs.

Serving the western end of the Island (West Prince: from the Tyne Valley to North Cape) is the WDC, which is an amalgamation of the former West Prince Industrial Commission (active in project development) and West Prince Community Futures (active in planning).⁵⁷ The new WDC, whose office is in Bloomfield, operates several tourist facilities. These include the Mill River Fun Park, the Mariner's Galley Restaurant, the North Cape Complex, and the Aquaplex at Mill River. As well, WDC owns Tri-West Holdings, Crop Diagnostic Services Incorporated, Western Destination Inn, and ATO Properties; the last company provides affordable housing in West Prince. Other aspects of WDC's work include small business support, through entrepreneurial development and small business counselling, and human resource development (in cooperation with HRDC), through five community-based learning centres in Alberton, Ellerslie, O'Leary, Palmer Road, and Tignish. These centres provide services and support in health information, labour market information, learning opportunities, and a variety of other resources.

West of Summerside there is a francophone enclave, mainly of Acadian descent, known as "the Evangeline region," which comprises Wellington and the surrounding communities of Abram-Village, Mont-Carmel, Cap-Egmont, St-Chrysostome, St-Philippe, Baie-Egmont, St-Hubert, St-Gilbert, Urbainville, Maximeville, St-Timothee,

57. It was originally envisaged that West Prince Ventures, a lending agency, would also be part of WDC. However, West Prince Ventures chose to remain separate, and is presently a self-sufficient agency. Similarly, the self-sufficient East Prince Development Corporation chose to remain separate from the Central Development Corporation and the SDBA.

and St-Raphaël. The SDBA office in Wellington serves the needs of the Evangeline region. These communities have a certain cohesion because of their common language and culture, and a tradition of cooperating in local development.⁵⁸ In order, therefore, to meet the needs of the francophone population, the Evangeline area was allowed to have a development corporation separate from the other rural development corporations. The SDBA promotes cultural tourism, and like the other rural development corporations, it cooperates with HRDC in human resource development and education.

Serving the rural area between the cities of Summerside and Charlottetown (excluding the resort municipality of Cavendish) is the Central Development Corporation. The corporation, whose office is in Central Bedeque, owns and manages East Prince Holdings Ltd., a seventy-thousand-square-foot industrial mall in Central Bedeque, and manages Victoria Wharf Development Ltd., a summer tourist attraction with two buildings, five shops, and a restaurant in Victoria Harbour. CDC plays a significant role in the development of the Borden-Carleton area. Borden, the terminal for the Via ferry, was largely dependent on the ferry service for employment (650 workers). CDC's activities in the further development of P.E.I.'s gateway have been discussed earlier.

At the eastern end of the Island is the last of the four rural development corporations, Opportunities East Incorporated — created in 1995 by ACOA and the provincial Department of Economic Development and Tourism to serve Kings County. OEI, with its office in Montague, is an amalgamation of the Souris Industrial Commission, the Three Rivers Industrial Commission, and Eastern Ventures; Eastern Ventures was the lending arm. OEI's board oversees Opportunities East Development Incorporated, which develops existing noncommercial ventures, and Opportunities East Lending Incorporated, which can lend up to seventy-five thousand dollars to businesses unsupported by conventional lenders.

Opportunities East did not get off to a good start. There is a general perception that the corporation is not working well, a view that is shared by a number of federal and provincial development agencies, the press, and the population at large. Various parties we interviewed thought that there was too much of a top-down approach

58. Maurice Beaudin, René Boudreau, and George De Benedetti, *New Canadian Perspectives: The Socio-economic Vitality of Official Language Communities* (Canadian Heritage), op. cit., p. 54.

taken in the establishment of the organization. Board members were appointed by both levels of government without, it seems, sufficient local consultation or acceptable subregional representation. The Souris Industrial Commission, one of the amalgamated organizations, was not a popular or well-functioning institution in East Kings before OEI's creation. Since OEI's inception, there have been organizational difficulties concerning its board and general manager.

There continue to be many development agencies in Kings, especially in Eastern Kings, with competing interests. Because of the organizational problems within the new umbrella organization and the historical rivalries between communities and development agencies in the region, not only is Opportunities East suffering a confidence problem, but development efforts in the region are lagging, even despite the potential in Kings.⁵⁹ ACOA and the Department of Economic Development and Tourism have established a transition team (consisting of the vice president of ACOA for Prince Edward Island, the manager for community development in the Department of Economic Development and Tourism, and two members of the current board of OEI) to restructure the Opportunities East Development Corporation. The path for Kings is not yet certain. Does reform lie in further centralization and consolidation of authority and decision-making, or does it lie in decentralization, acknowledging that Eastern Kings and Southern Kings would rather go their separate ways for the purposes of development?

Urban Development Corporations

The Charlottetown Area Development Corporation (CADC) was established in 1974 and incorporated in 1975, and serves the city of Charlottetown as defined in the 1994 amalgamation. The corporation is owned 85 percent by the province and 15 percent by the municipality. The return on investment is the additional property tax and employment generated by the corporation. The province appoints seven directors to the board and the city appoints two. CADC does not receive any core funding from the province: it is self-sustaining, principally through revenue from its rental properties.

59. See Deloitte & Touche and MacIsaac Younker Roche, *A Five Year Economic Development Strategy for Eastern Prince Edward Island*, op. cit., p. 7, where cautious optimism is expressed: "Provided there is a willingness to change... Eastern Prince Edward Island has the potential to lead the entire province in terms of economic growth over the next five years and into the twenty-first century."

The initial objectives of the corporation were “to revitalize and repopulate the provincial capital area; to improve the waterfront area, its accessibility, attractiveness and utilization; to retain whenever possible, historic street scapes and buildings of architectural merit; to promote and encourage commercial expansion in the Charlottetown Core area; and generally to improve the economic and social life in the provincial capital.”⁶⁰ CADC has met these objectives over the years and is largely responsible for the blend of attractive commercial and residential space at Harbourside, which is bounded by Pownal, Water, and Queen streets; the development at Peake’s Wharf; the boardwalk along the waterfront; and the downtown revitalization, as realized by projects like the conversion of a city block into a multistory mall complex. In larger urban areas, these types of projects are normally undertaken by real estate developers in the private sector. Where the private sector is small in Prince Edward Island, CADC has as its mandate to bring together various levels of government and the private sector to initiate development projects and effect urban renewal, which typically happens in situations where either the government sector or private enterprise is reluctant to act alone. This explains the corporation’s activity in real estate development. The CADC also does some prospecting for firms, although this task is mainly undertaken by Enterprise PEI.

The Summerside Regional Development Corporation (SRDC) was formed in 1971 to encourage economic development in the Summerside area. Like the CADC, SRDC is self-sustaining. The corporation is owned 75 percent by the province, 15 percent by the city of Summerside, and 10 percent by the Chamber of Commerce. It operates with a nine-person board: six directors are appointed by the province, two by the city, and one by the Chamber of Commerce.

The SRDC has acted as a catalyst to both the private and the public sectors. In 1974 it built, and continues to operate, Waterfront Place Mall. The corporation owns two office buildings, the Summerside Golf Club (purchased in 1973), and Spinnakers’ Landing (built in 1991). The most recent project, completed in June 1996, is the Wyatt Centre. Located on the Summerside waterfront, the centre houses the 527-seat Harbourfront Jubilee Theatre (operated by SRDC), Eptek Centre (operated by the PEI Museum and Heritage Foundation), and, opening in spring 1998, the PEI Sports Hall of Fame

60. Charlottetown Area Development Corporation, *CADC Mandate*. Undated monograph.

(operated by an independent board). As well, SRDC continues to be involved in many community-based activities.

Enterprise Prince Edward Island

Enterprise PEI is an important provincial agency in the development of the Island economy. It is a Crown corporation under the aegis of the Department of Economic Development and Tourism. Enterprise PEI supports small business initiatives, takes equity positions, administers a loan program, provides counselling services, and prospects new firms for the Island. The corporation has regional development officers in the West Prince Regional Service Centre in O'Leary, the East Prince Service Centres in Souris and Montague, the Canada Building Service Centre in Charlottetown, and also in Summerside. The operational strategy of Enterprise PEI is much like that of New Brunswick, where development officials try to customize a package to suit the needs of the potential new investor, avoiding fixed programs as much as possible. Still, Enterprise PEI has some older structured programs, such as the Equity Investors' Incentive Program, the Rental Incentive Program, and the Venture Capital Program.

An offshoot of Enterprise PEI is the Trade Development Centre in Charlottetown, which was started in 1995. The federal government is a partner through the Department of Industry, the senior trade commissioner, ACOA, and Agriculture Canada. The role of the centre is to assess trade opportunities for core industries such as agriculture technology, aquaculture technology, and services, education, and training. The centre provides information, intelligence for businesses, network development, and leadership for trade missions.

Under a management contract with Enterprise PEI, Island Investment Development Incorporated, another Crown corporation, manages the PEI Government Economic Development Fund. One beneficiary of the fund was the potato granules plant in Souris. Enterprise PEI's investment strategy for development is sector-focussed: food and agri-food, aerospace, information and communication technology, light manufacturing, biotechnology, and pharmaceuticals.

Enterprise PEI is not the sole provincial agency responsible for economic development. Such line departments as Agriculture and Forestry, Fisheries and Environment, and Economic Development and Tourism also have their own programs and initiatives for economic development.

The Cooperative Movement

The cooperative movement has always been very strong in Prince Edward Island, with its credit unions, caisses populaires, and various forms of producer, service, and retail cooperatives. This is especially true in Evangeline, where the region has the highest co-op density in Canada. There are seventeen cooperatives in Evangeline, which serve the various needs of the people, ranging from the making of sports and children's clothing to a community-operated funeral parlour. The cooperatives in Evangeline employ more than 350 people and boast sales of more than \$50 million.⁶¹ Young people too are interested in forming cooperatives, even in the schools. There is also a high concentration of cooperatives in the Tignish–Palmer Road area. It should be noted that cooperatives are not confined to the francophone regions of the province but are found in many anglophone areas as well. A significant development in the movement is the amalgamation of the Credit Union Central of Prince Edward Island, Co-op Central of Prince Edward Island, and the Conseil de la Coopération de l'Île-du-Prince-Édouard.⁶²

The increasing integration of Atlantic Canadian Credit Unions is creating the potential for new community development projects. In 1996 the Credit Union Central of Prince Edward Island, with the Credit Union Centrals of New Brunswick and Nova Scotia, Co-op Atlantic, the Mouvement des caisses populaires acadiennes, and the Co-operators Insurance, created the Regional Co-operative Development Centre (RCDC). Its goal is to enhance prosperity in Atlantic Canada by fostering cooperation among cooperatives and to move cooperatives into nontraditional areas.⁶³ "RCDC believes that the key to future progress for the co-op sector lies in the interconnecting and networking of existing and new co-operative businesses. A networked co-op sector has the infrastructure, expertise and the community credibility to be a major force in addressing issues of community health and prosperity in a sustainable and effective manner."⁶⁴ The RCDC appointed a community economic development officer for the Island: his office is in the Credit Union Central in Charlottetown.

61. Enterprise Management Consultants, *Evangeline Region Economic Development Plan*, op. cit., p. 9.

62. Credit Union Central of Prince Edward Island, *Annual Meeting, 1997: Delegate Workbook*, p. 52.

63. *Ibid.*, p. 51.

64. From an interview with Mr. David Daughton, community economic development officer, RCDC, Charlottetown, July 1997.

Human Resource Development

Human resource development is an important activity on the Island and is undertaken by various agencies at the federal and provincial levels. HRDC is only one player, but it is responsive to local needs and is effective in seeking partnerships with provincial line departments and with federal and provincial agencies to create employment on Prince Edward Island. The managers of the HRDC offices try to coordinate department programs with the needs of the new development agencies established in 1995 by ACOA and the provincial Department of Economic Development and Tourism. Under part 2 of the Employment Insurance Act, HRDC is proactive — mainly through wage subsidies — in supporting job initiatives in both the nonprofit and private sectors.

An area of cooperation that seems unusual in human resource development is the one that exists between HRDC and the provincial Department of Health. In Prince Edward Island, the Department of Health takes an active role in promoting economic development, believing that health costs and the health of Islanders are adversely affected by high rates of unemployment, and, therefore, that an expenditure in personnel resources to promote development is a worthwhile investment. The HRDC centres are the delivery arm for labour and market services and are in partnership with the health department's Employment Enhancement and Income Support Program. The agency is client-based, and its aim is to encourage self-sufficiency and lower dependence on social programs. The enhancement program is loosely structured to permit early interventions that might persuade young people especially to strive for more productive long-term employment. Group interventions, income support, employability assessment, and job-focus-type workshops are features of the program.

Although not specifically geared to long-term human resource development, the Employment Development Agency (EDA), which was established in 1993 under the umbrella of the Department of Economic Development and Tourism, provides grants to nonprofit organizations so they can hire Islanders whose employment insurance benefits (EI) have run out or are about to run out. The EDA, with an annual budget of \$4.1 million, places approximately fifteen hundred people per year. Without such support from the EDA, many development projects undertaken by the nonprofit organizations would not exist. Considering the important work done by volunteer organizations on the Island, the EDA makes a meaningful contribution to economic development.

What Lies Ahead?

The consolidation of cooperation agreements on economic development by the two levels of government and the creation of rural development umbrella corporations have streamlined the delivery of services and funding. More autonomy and responsibility have been given to the umbrella corporations at the subprovincial level in local development. Ultimately, it is people who make things happen, and when people can associate with being part of the development plan for their area, they take pride in what they do and their objectives are more likely to be realized. Three of the four newly created rural development corporations seem to be working well; plans and projects are coming to fruition. It is true, as previously mentioned, that Opportunities East is having difficulties getting established and gaining the confidence of the people of Kings, but both levels of government realize this and are trying to turn the situation around.

There are still too many development agencies for the size of Prince Edward Island. For each rural umbrella group there are numerous other development corporations, tourist associations, chambers of commerce, fishers' associations, agricultural associations, etc. At the western end of the province, there are at least sixteen such organizations separate from the umbrella agency, the WDC; at least eight others in the Evangeline region separate from the SDBA; at least nineteen others in the central region separate from the CDC; and at least twenty-three others at the eastern end of the Island separate from OEI. The danger is that when everyone is in charge of economic development, no one is in charge. Both levels of government should tread the fine line between trying to bring more agencies into the umbrella organizations and jeopardizing the initiatives undertaken by existing agencies. This challenge is most acute in Kings.

In November 1996 Islanders elected a new government. Part of its platform was to give more emphasis to community development, in particular by strengthening the rural areas. The Binns government has been developing a new model for citizen participation in development, the details of which have yet to be released. Nevertheless, the policy advisor to the premier on community development has revealed to us a few features of what the government is calling "the new partnership in community development."

The outline of the government's thrust is to develop communities rather than regions through a holistic approach to community economic development. Each community would have a rural devel-

opment plan and elect a nonhierarchical citizens' committee to bring cohesion to the various groups interested in the development of that community. Three line departments — education, economic development, and health — would be mandated to facilitate a community's development by helping it take advantage of the new-knowledge economy. These departments would deliver their programs in a less sectoral way — that is to say, in a more comprehensive manner — through the rural development partnership. In Charlottetown, there would be a Community Economic Development Bureau with a provincial director and six regional directors appointed for Eastern Kings, Southern Kings, Central, East Prince, Evangeline, and West Prince. As well, each region would have a Facilitators' Group, consisting of the senior managers of HRDC and the Departments of Health and Education, to coordinate the delivery of these line departments within each community's holistic plan. The Senior Management Group, comprising all of the provincial deputy ministers,⁶⁵ would meet periodically to ensure that there is an interdepartmental commitment to help seed and support economic development initiatives in the communities.⁶⁶

There are still many aspects of the program to be worked out. For example, how will the rural umbrella development corporations created in 1995 by ACOA and the Department of Economic Development fit into the new scheme? Will the effect of the Community Economic Development Bureau and its supporting infrastructure be to centralize more decision-making power in Charlottetown, resulting in a top-down approach to development rather than the bottom-up approach inherent in community economic development? And will these new institutions simply add to the excessive number already in existence and do nothing more than increase competition in the field of economic development? Only time will tell.

65. Under each deputy minister there would be a subcommittee responsible for community economic development within the ministry.

66. From an interview with Mr. Bill Buell, the premier's advisor on community economic development, 5 January 1998.



The Private Sector

Private sector development in Prince Edward Island has been shaped both by its natural resources and by its society's progress beyond various forms of rural insularity, which have been hampering its growth, in favour of the development of a mixture of manufacturing and urban service industries.

The province's total gross domestic product (GDP) for 1996 was estimated at \$2.65 billion, about three-quarters of it coming from the private sector.⁶⁷ The largest private sector contribution to that total was made by agriculture, beginning with farm cash receipts of nearly \$300 million. The landed value of fish totaled just over \$100 million, with an additional \$14 million in aquaculture production. Some, but not all, of the primary food production was included in the \$640 million of manufacturing activity on the Island. Other manufacturing — including aerospace, finished metal goods, and pharmaceuticals — was worth \$190 million in 1996. Tourist spending had grown steadily until the opening of Confederation Bridge, and then shot up by an estimated \$90 million over the 1996 receipts of \$170 million (see tables 14 and 15).⁶⁸

Beyond what it has made of its primary farm and fish products, the Island has no significant recent history of commodity production or of manufacturing based on local supplies. Its forests surrendered their prime timber to shipbuilders more than a century ago, and now supply chiefly low-grade saw logs and pulpwood to Nova Scotia mills. Prince Edward Island has no mines and indeed must import gravel. Nor has it any proven energy resources, save perhaps the wind, and its electricity rates have long been the highest in the Maritimes.

67. Prince Edward Island, Department of the Provincial Treasury, *Annual Statistical Review*, 1996, pp. 3, 25. In the interests of readability, many of the figures in this chapter have been rounded off.

68. *Economic Impact: Tourism 1996 and 1997*, op. cit. See p. 3, both documents. These figures are derived from a survey of about three thousand visitors a year and cover only the period from mid-May to the end of October.

Table 14
Production by Some Leading Sectors
of the Prince Edward Island Economy

	1995	1996
Total GDP (in millions of current \$)	2,591	2,648
Primary industries		
Agriculture (farm)	315	294
Fishing (landed value)	116	105
Aquaculture	12	14
Forestry	28	25
Manufacturing industry		
Processing	n.a. ¹	642
Other (aerospace, metal, bioscience)	n.a. ¹	451
Tourism industry ²	178	171

Source: Prince Edward Island, Department of the Provincial Treasury, *Annual Statistical Review*, 1995, 1996.

1. No breakdown was provided in the 1995 report. As well, the 1995 review estimates manufacturing at \$687.5 million. 1996 offers no direct figure for a revision. A graph on p. 6 suggests that the original estimate was lowered to ~\$610 million.
2. From *Economic Impact: Tourism 1996* and the same compilation for 1997. The total for 1997 was \$263 million. Statistics are based on exit surveys and cover only the period from mid-May to the end of October. The decline from 1995 to 1996 (from \$31.4 million in 1995 to \$11.1 million in 1996) is based on a sharp drop in receipts from business travel, whose relative share held through 1997. Pleasure-visit receipts were estimated to have risen by \$14.5 million from 1995 to 1996.

Table 15
Other Sectors of the Prince Edward Island Economy
(At Factor Cost, 1986 \$)

	1995	1996
Transportation and storage	57.1	54.7
Other utility	54.7	58.8
Wholesale trade	71.9	75.8
Communication	88.2	98.1
Construction	142.5	133.3
Retail	134.0	138.0
Finance, insurance, and real estate	267.5	278.9
Community business and personal services	209.8	216.0

Source: Province of Prince Edward Island, Department of the Provincial Treasury, *Annual Statistical Review*, 1996, table 17, p. 25.

Above all this has stood the issue of the Island's access to both markets and inputs. Until the opening of Confederation Bridge, ship transport was its only surface link with the mainland. Compared to today, even a well-timed ferry trip to or from the mainland imposed a time penalty of at least an hour, often longer during times of high traffic, foul weather, and thick ice. The historic higher cost in time and inconvenience of surface-freight service, together with high energy costs and a narrow selection of domestic inputs, helped shape the development of various Island industries. Many have compensated for these constraints by developing products that add a high degree of value.

The opening of the bridge seems to have had more positive effects than negative. The negative effects that have been identified — beyond the loss of five hundred jobs by Marine Atlantic ferry workers — appear to have been twofold. The main one has been the severe effect on local retailers of the increased number of Islanders shopping in Moncton. This cross-border shopping phenomenon rivals the experience of New Brunswick retailers in the early 1990s, when the high Canadian dollar and aggressive marketing by Maine retailers captured much of that province's discretionary consumer spending. A second though lesser effect has been the bidding up of lobster prices by buyers from New Brunswick, limiting the supply and inflating costs for provincial fish processors. The positive effects include more reliable transportation, controllable shipping costs, quicker access to imported inputs, and, as already noted, increased tourism.

The province's business sector has a significant advantage over the business sectors in the other economic regions in the Maritimes in that it has the undivided attention of the provincial government in the application of its economic planning and investment powers. This is not to deny the existence of competition and jealousy on the Island or to assume it will ever be easy to foster economic growth at its western and eastern ends. But in New Brunswick and Nova Scotia, the business sectors are each divided into five statistical zones, and there is heavy competition among them for the attentions of the provincial governments in addressing economic needs and priorities. Island business people usually agree with this observation and add that it is easy to get the attention of both the provincial bureaucracy and political leadership. The result may not always be satisfying, they say, but the people who make crucial decisions are usually accessible. Disappointing as the results of government attention

may be from time to time, this accessibility can be an important advantage for the Island's private sector, since it depends heavily on government decisions and initiatives on a broad front, including regulation, investment, training, and industrial recruitment.

It should be noted at the same time that Prince Edward Island's private sector is not everywhere well organized. Though many provincial associations exist, there are overlaps and gaps.⁶⁹ There is no provincial chamber of commerce, nor is there a broadly representative organization for the retail industry. We heard of cases of sectoral association directors divided by parochialism and suspicion, substituting discord and strife for the cooperation needed to develop and pursue common goals. In other cases, though, we saw evidence of open and diligent leadership striving for broadly inclusive consensus.

It cannot be said that Prince Edward Island has achieved a utopian state of accord on the question of goals, but it has been largely successful in marshaling its renewable, human, and planning resources. There are many examples of good initiatives being pursued, and the province appears to have considerable room for growth.

■ **Agriculture: An Intensified Focus on Potatoes**

The main pursuit of Prince Edward Island's private sector remains what it has always been, the production of food. The province has an important potato industry and is a significant producer of meat, milk, and grains. Farm cash receipts in 1996 were \$294 million. Recently, the agricultural industry has grown substantially as a result of McCain Foods Ltd. and Cavendish Farms, a part of the Irving group, having established and expanded their processing facilities for french fries. Led by potatoes, farm prices increased by more than 40 percent from 1986 to 1995, and the capital value of farms increased from less than \$740 million in 1986 to more than \$1.4 billion in 1996.⁷⁰

The Island's farms are decreasing in number but growing in size. The total number of farms reporting income declined from twenty-eight hundred in 1986 to twenty-two hundred in 1996; over the

69. The province's manufacturers association was until recently a subsidiary concern of the New Brunswick office of the Alliance of Manufacturers and Exporters (formerly the Canadian Manufacturers Association); the new PEI Food Processors Association is competing for membership with the Seafood Processors Association.

70. Prince Edward Island, Department of the Provincial Treasury, *Annual Statistical Review*, 1996, table 40.

same period the number of farms reporting sales above \$250,000 nearly tripled, from 150 to 390. Profitability in recent years has been strong. In 1995 net income from all operations was \$102 million, a record for the decade. However, the industry is subject to wide variations: farm profits in 1993 were only \$13 million,⁷¹ and in 1996 profitability declined sharply because of lower prices for table potatoes caused by good crops in the United States and higher costs for blight control.⁷²

While strong growth in the industrial transformation of potatoes gets much attention, the sale of table potatoes still accounts for a greater volume of production. In 1995 more than 13 million cwt. went into table markets, compared to just under 10 million cwt. for processing and seed; the increase in table market volumes was three times that for industrial use. Table potatoes are a major export item. In 1995–96 just over half the Island table potatoes were exported internationally; the Island accounted for two-thirds of Canadian table potato exports in 1996.⁷³ Most went to the United States, but Algeria, Trinidad, Puerto Rico, Venezuela, Norway, and even Switzerland were important buyers.⁷⁴ The international export of certified seed potatoes is also significant. A number of washing and sorting plants are located throughout the Island, packaging varieties into bags and boxes by the sizes sought by retailers and the hospitality industry. A local equipment industry providing equipment for such plants, and for modern farm storage, is starting to export its systems and skills.

There has been a noticeable consolidation among dairy and hog producers, with the number of dairy farms declining from 585 to 335 over the past decade, and hog operations from 220 to 100. The number of cattle operations declined less radically, from 650 to 590. The number of poultry producers increased from 28 to 37. This compares with a gain of just over 100 percent in prices for potatoes, and 75 percent for all crops. There are some signs that livestock production may come back into balance: major new hog farm operations are planned, and the most recent annual report on hog prices indicated that prices in 1996 had gone up by about 25 percent.⁷⁵

71. *Ibid.*, 1996, table 36. The 1994 profits were \$65.4 million; the previous high for the decade was \$66.6 million in 1989. Final figures for 1996 are not in.

72. *Budget Paper B*, "Economic Review and Outlook," 1997, p. 5.

73. Prince Edward Island, *Agricultural Statistics*, 1996, table 38.

74. *Ibid.*, table 37.

75. *Ibid.*, table 20. Farm value of milk and cream sales (table 22) was \$47.5 million, up \$2.2 million.

This kind of production growth runs counter to the traditional pattern of Island agriculture, where the balance has never been as heavily tilted towards potato production as it is now. The norm for a given field is that it runs on a three-year rotation cycle: one year in potatoes and two years in alternate crops such as grain or hay, which are generally used to feed livestock.⁷⁶ The increased acreage devoted to potatoes, and an overall reduction in the period before land is replanted in potatoes, has had side-effects. These include a greater use of chemical fertilizers and antifungal sprays, the reclamation for agriculture of land once surrendered to forest, as well as the soil-risking use of steeply sloped land for potatoes. Such practices are the subject of considerable discussion not only among farmers but among people living in adjoining urban areas and rural strip housing, workers in the tourism industry, and others such as aquaculturists with a stake in the quality of water downstream from farms.

Vegetable production is relatively low on the Island, but its prospects are being re-examined. There is a medium-sized producer of mushrooms near Summerside, and a large garlic farm is part of the development of new crops. There has also been widespread experimentation with emus as a new form of livestock. The Island once had a strong fox fur industry, but it has nearly disappeared. Tobacco used to be an important crop in the eastern part of the Island, but none is grown now. Some farmers have converted their tobacco greenhouses to grow dried onions, and a few to grow grapes. Cranberry bogs have also been developed, but no one has yet produced a commercial crop.

■ Fisheries and Aquaculture: Less Nature, More Nurture

Prince Edward Island also has a moderate-sized but highly seasonal fishery, whose development is limited by a restricted territory and by an abundance of stocks that for the most part have been of only limited value to processors; some species, such as herring and mackerel, are of relatively low value. Fall lobster processing is subject to a combination of high purchase and production costs. While the fishery takes a back seat to agriculture in the value of food production, it

76. From 1991 to 1996 the total farm acreage in crops rose by 10.6 percent or just over forty thousand acres: about half of that difference came as a result of land being taken out of pasture use and summerfallow, and most of the rest by an addition of about fifteen thousand acres of land converted to agriculture. Most of the increase in acreage went to potatoes, up by more than thirty thousand acres from 1991 to 1996.

is a major employer, particularly in outlying areas. Industry profits are extremely volatile: landings over the last five years have varied from a low of \$74 million in 1993 to a high of \$119 million in 1995, with a drop to \$105 million in 1996.

Lobster accounts for about two-thirds of the fishery's landed value; it has been fetching about four dollars a pound at the dock over the last three years. Lobster catches have declined in recent years, from 22.8 million pounds in 1991 to 17.5 million in 1996. Other major contributors to fisheries income are snow crab, herring, mackerel, tuna, and scallops. Groundfish was important in the early 1990s but is now of only minor significance.⁷⁷ The value of seaplant production has also fallen.

The decline of the wild fishery over the years has been a stimulus to aquaculture production, and indeed this sector has shown substantial growth during the 1990s. The leading product has been mussels (in 1996 mussels accounted for more than three-quarters of the \$14 million in aquaculture sales), followed by cultured oysters and finfish (trout and charr).⁷⁸ The aquaculture industry is receiving active support — with facility development, hatchery service, equipment manufacture, and product-development assistance — and is considered one of the Island's economic frontiers. Significant producers include Atlantic Aqua Farms (thirty-five jobs in Orwell Cove), Atlantic Mussel Growers Co-op (seventeen jobs in Murray River), Hidden Valley Charr (eleven jobs in North Wiltshire), and PEI Mussel Farms Inc. (forty jobs in Morell).

■ Food Processing and the Push for Added Value

Food processing, whether from farm or fishery, is the Island's largest source of exports — worth \$451 million in 1996. The largest component of this sector is the potato-processing industry, which has three (soon to be four) large players and concentrates on the production of frozen french fries and related products. The largest of these is Cavendish Farms, an Irving-owned company, which has a major plant near Kensington that employs 700 people. Next is McCain Foods Ltd. with a french fries operation in Borden that employs 160 people. Small Fry has recently opened new facilities at Summerside's Slemon Park to produce potato chips and employs 75 people. And

77. The annual value is just over \$7.5 million. Prince Edward Island, Department of the Provincial Treasury, *Annual Statistical Review*, 1996, table 45. See also tables 46–47.

78. *Budget Paper B*, "Economic Review and Outlook," op. cit., pp. 6–7.

on the eastern end of the Island, a \$39 million potato-granulating plant is set to open in 1998; it will employ 119 people and maximize the returns on cull potatoes, which are used mainly as animal feed.

There are fourteen medium-to-large fish-processing plants on the Island, mostly adding various degrees of value to lobster. This ranges from packaging tails and producing “popsicle” packs of whole lobster frozen in brine to more advanced products such as vacuum-packed frozen lobster, both green and cooked. More products are in development by companies acting both individually and in cooperation with the province’s Food Technology Centre (FTC). Other existing products include processed snow crab, rock crab (an area of recent growth), as well as herring and mackerel. During peak times, the industry employs about three thousand people in processing; at some more advanced plants, operations continue for most of the year and, in a few cases, year-round. A few plants import groundfish for processing. As well, one processor — pushed by New Brunswick competition for local catches — trucked in a million pounds of lobster from Maine in 1997.⁷⁹ In response to market pressures, a group of six Island seafood processors have agreed to an amalgamation for purchasing, processing, and marketing, a development that has aroused some resistance among fishers. The companies plan to operate as a new entity, Polar Seafoods International. The merger was accomplished through the assignment of \$14 million of assets, the investment of \$7 million by the province (in preferred shares), and the borrowing of \$11 million, with an additional line of credit for \$33 million.

The dairy industry is led by the Amalgamated Dairy Limited group, which employs 160 people in four locations and in four smaller operations. There is also a medium-sized meat-processing plant, Garden Province Meats in Charlottetown (100 employees), as well as four smaller specialty meat processors. And Seaman’s Beverages, a Charlottetown soft drink bottler protected by a provincial ban on disposable bottles and cans, employs 100 people.

There is also a small but growing business concentrating on adding value to a variety of imported and local specialty inputs: pizza, smoked salmon, and preserves and coffee among others. Some notable examples include Fine Food Investments Ltd. in DeSable, makers of Little Christo’s pizza (the company began as a sideline to a restau-

79. Baxter Simms, CEO, Royal Star Foods Limited, Tignish.

rant, up-scaled to 45 employees and a new factory, and is winning national markets); Atlantic Fish Specialties Ltd., Charlottetown, employing 30 people and selling smoked salmon, trout, mackerel, herring, and scallops, largely to the United States; and Prince Edward Island Preserve Co., New Glasgow, employing up to 40 people and making gourmet preserves, mustards, and fruit vinegars. There are also numerous small companies engaged in the development and initial marketing of various products. Examples include Caledonia House, a custom coffee roaster and blender with a Maritime market, as well as producers of sauces, bean and lentil products, baked dishes, sausages, and specialty honeys. Room for further growth remains in this field.

■ **Advanced Manufacturing: The Quest for Specialized Niches**

In 1996 nonfood manufacturing industries contributed \$191 million to Island GDP. The greater part of this came from advanced manufacturing, much of it involving machined and finished metal goods, as well as significant production in the area of biotechnology: chemicals and vaccines for human and animal health.

There are two major centres of advanced manufacturing in Prince Edward Island. The more established of the two is the West Royalty Industrial Park in Charlottetown. The more recent is Slemon Park, an aerospace centre established at the former Canadian Forces Base (CFB) Summerside. Both centres offer ample evidence of the Island's industrial ambition and its capacity to produce specialized goods and services with high added value.

Manufacturers located at West Royalty include Diagnostic Chemicals Limited, Padinox Inc., Diversified Metal Engineering (DME), and Tube-Fab Ltd. Diagnostic Chemicals began as a summer project for chemistry students at the University of Prince Edward Island and grew over twenty-eight years into a \$15+-million-a-year business. It employs 150 people producing enzymes and other reagents used in clinical diagnostic equipment and is developing a line of throw-away units for routine tests on health indicators. The company also has a United States marketing subsidiary in Connecticut, which employs twenty people. A smaller company also involved in biotechnology, Aqua Health Ltd.,⁸⁰ employs fourteen people making vaccines for

80. Acting General Manager Walter Parker. The company was started in 1985 with local backing and was later bought by Cobequid Life Sciences. In 1993 CLS obtained a \$1.55 million investment from Working Ventures Canadian Fund for new equipment in Charlottetown to back an Asian market development initiative.

the aquaculture industry and works closely with the Atlantic Veterinary College and Agriculture Canada. Padinox is a producer of high-end stainless cookware for homes and restaurants. It employs sixty-five people and has sales estimated at more than \$10 million a year. DME, which employs a hundred people, is known chiefly for the turnkey equipment packages it built for more than a hundred brewpubs and microbreweries in the United States and Europe.⁸¹ Tube-Fab employs forty people and makes finely machined ducts and fittings for aircraft engines as well as the insulin injectors pioneered by Advanced Medical Technologies, an ongoing subsidiary function.⁸²

The closure of CFB Summerside, announced in 1989, led to a concerted federal-provincial effort to find replacement employment to cushion the loss of twelve hundred military jobs and a payroll of \$50 million a year. One early response was to locate a GST processing centre in Summerside; another was to continue the base's former aircraft maintenance function for the private sector. This led to the creation of Slemon Park Corporation, dedicated to creating a complex of companies active in the manufacture, maintenance, and renovation of aircraft components.

The aerospace centre has about 6.5 acres of hangar space and is home to four companies: Atlantic Turbines Inc., a turboprop engine renovator that employs 150 people and is expanding; Allied Signal Aerospace Canada, a specialist in aircraft accessories and control-systems refits, employing 60 people; Testori Americas Corporation, manufacturer of fabric seat covers and moulded body panels for aircraft and subway systems, employing 75 people; and Wiebel Aerospace (1995) Inc. (a subsidiary of Testori), manufacturer of components for, and overhauler of, aircraft-landing systems, employing 20 people. Slemon Park and the province are prospecting for a company that would do complete airframe inspection and renewal on aircraft needing *C-* or *D-*level work.⁸³

Besides the facilities and the training help offered in getting employees ready for work, one of the decisive factors in attracting the companies was a twenty-year suspension of provincial sales, property, and corporate income taxes until the year 2012. The most significant of these is the provincial income tax, since virtually all pro-

81. Peter Toombs, president of Diversified Metal Engineering.

82. Mark Booth, manager of Quality Assurance and Engineering.

83. Interviews with Roger Coffin and Mike Everett.

duction is exported. Aerospace developers point to \$110 million in income last year and talk of doubling that within five years. Slemon Park is also a centre for Holland College training programs; the college has ambitious plans for their development. The principal one for the moment is its Justice Institute (a staff of seventeen); its Aircraft Maintenance Institute accounts for five jobs but may well grow to serve the aerospace industry in Nova Scotia as well as in Prince Edward Island. A total of 627 people worked at various enterprises at Slemon Park in August 1997: other major employers include Emily Productions (eighty-five people) and Small Fry (seventy-five people).

Beyond West Royalty and Slemon Park, there is relatively little in the way of a major manufacturing industry. The one exception is East Isle Shipyards in Georgetown, which was upgraded at a cost of \$3.5 million by the Irvings and both senior governments. It employs 100 people (it expects that number to rise to 150) and has a steady business making tugs as well as ship modules for the Halifax Shipyard, another division of Saint John Shipbuilding. Another manufacturer that fits the apparent tendency to satisfy advanced manufacturing niches is Swan Speakers, a small company of eight employees making premium speakers.

■ Tourism: A Challenge to Widen Appeal and Lengthen the Season

Tourism was the one area of the Island's private sector economy most quickly and visibly affected by the opening of Confederation Bridge on 1 June 1997. At year's end, the province estimated that the number of visitors during the prime tourist period from mid-May to the end of October had grown from 788,000 in 1996 to 1.24 million in 1997.⁸⁴ As a result, tourism strengthened its contribution to the Island's GDP by attracting an estimated \$262.7 million in visitor spending, compared with \$171.2 million over the same period in 1996.⁸⁵ The number of visitors from the Maritimes and farther away surpassed even the most optimistic expectations of the bridge's impact. Balancing this traffic was the greater than expected use of the bridge by

84. *Economic Impact: Tourism 1997*, p. 3. The period covered is from 14 May to 31 October.

85. The province's heavy statistical reliance on extrapolations from a survey of some three thousand visitors over the twenty weeks during which leaves are on the trees necessarily understates the impact of the industry on the Island economy, missing entirely off-season pleasure and convention travel. Since the development of off- and shoulder-season tourism has become a high priority, creation of a more complete statistical base upon which to measure results should be regarded as urgent — for the industry, its lenders, and its planners.

Islanders, both for business and (to the chagrin of retailers) shopping. Growth in traffic is expected to continue, though less rapidly: the provincial target for 1998 was set at 1.4 million visitors.

The 1997 experience followed the general pattern of Island tourism and led to congestion in Charlottetown, historically visited at least once per trip by more than three-quarters of Island tourists, and in Cavendish, the best-developed rural destination for tourists. The greatest proportional gain in tourist income was reported in rural areas because of the high occupancy rate in previous years for accommodations in Charlottetown and Summerside. Across the Island, demand for accommodations increased by about 60 percent, as the number of overnight person-stays went from 3.2 million in 1996 to 5.1 million in 1997; the number of overnight visits to Charlottetown went up by 33 percent, to Summerside by 16 percent. The gain in overnight visits to rural areas was 83 percent, led by the South Shore (where stays more than tripled) and Cavendish, West Prince, and Southern Kings (where they nearly doubled).⁸⁶

The largest component of visitor spending was restaurant meals (31 percent), followed by accommodations (27 percent) and crafts and souvenirs (13 percent). The greatest number of Canadian visitors come from the Maritime provinces, though they spent less than visitors from Ontario (\$57.1 versus \$71.4 million). The amount of purely business travel to the Island has been in decline, with a sharp drop in 1996 and only a marginal recovery in 1997.⁸⁷

International tourism is a major component of the Island industry, though its proportion shrank from 35 percent in 1996 to 22 percent in 1997. This proportional shift resulted from the surge in Canadian visits to the Island, since aggregate United States visits were up only slightly (263,000 in 1997 versus 259,000 in 1996), although their spending was up more (\$67.1 million in 1997 versus \$53.5 million in 1996). Another 3 percent of visitors came from overseas, and both visits (up 6 percent to 31,400) and revenues (up 26 percent to \$11.7 million) increased, despite a 35 percent decline in Japanese tourism attributed to that country's recent economic woes.

86. The Cavendish area accounted for nearly half (46 percent) of overnight stays by people in nonurban areas.

87. *Economic Impact: Tourism 1996 and 1997*. The totals were 47,300 in 1996 and 49,300 in 1997, compared to 91,100 in 1994 and 94,700 in 1995. Business-visitor spending rose from \$11.1 million in 1996 to \$16.8 million in 1997.

Accommodations

Providing tourist accommodation is big business on the Island, though it is concentrated largely in Charlottetown, Cavendish, and Summerside. On an annual basis, all available space is far from being occupied, even in centres where hotels and the like stay open year-round.⁸⁸ Nevertheless, there are suggestions that Charlottetown may need another major hotel — in addition to the recently built Prince Edward CP Hotel — in order to compete for conferences in the traditional off-seasons. New hotels have been and are being built in Summerside, supporting a new complex of attractions that include a theatre, a museum, and summer boutiques. At the western and eastern ends of the Island, there is little available accommodation. The largest hotel operation on the Island, Rodd Inns, employs about five hundred people during peak seasons and operates resorts at Mill River (west) and Brudenell (east), in addition to both the owned and market-group hotels in Charlottetown and Summerside.

There has also been a marked increase in the development of inns and bed and breakfast operations in various corners of the Island. Most provide only a few rooms, though some are larger buildings that have been converted or restored, such as a former convent turned into an inn in Tignish and a historic hotel restored by the Inns on Great George in the heart of Charlottetown. The greatest number of operations are small and seasonal motels, bed and breakfasts, and cottages; the provincial tourist guide for 1997 listed nearly 670 sources of rental accommodation.⁸⁹

As with rooms, most restaurants that are open year-round are found in urban areas. During peak seasons, they are supplemented by more than eighty (mostly rural) operations that offer dining or lobster suppers. Most seasonal operations provide only rudimentary comforts, since the limited income generated in a peak season of less than twelve weeks (and a peak period of just seven weeks) deters owners and bankers from investing heavily in them.⁹⁰ This helps account for the high number of tourist operators for whom the business is an income supplement or a pursuit of semiretirement.

88. Travel by sports fans, particularly by fans of amateur hockey, is a big contributor to the wintertime success of the hospitality sector. There has also been recent work to develop special packages for snowmobile, skiing, and dog sled activity.

89. In addition, there are thirty-three private and thirteen provincial government campgrounds as well as those within the Island's national parks. There is only one houseboat rental operation, and it is in Charlottetown.

90. According to Don Cudmore of the Tourist Industry Association of PEI, banks have a rule of thumb that requires 50 percent owner equity on any loans to rural restaurants; in Charlottetown it is 25 percent.

Creativity and Tourism

To all appearances, tourists are lured to Prince Edward Island by little more than sandy beaches and Anne of Green Gables. In fact, however, there are many facets to the Island's tourist industry, all acting together in mutually reinforcing ways. Two important facets in the area of culture are arts and crafts, the former embracing musical and dramatic performances as well as the visual arts.

There are 170 outlets on Prince Edward Island where crafts are sold, sometimes by stores offering a variety of producers' products, sometimes directly by individual producers seeking to avoid the merchants' overhead. There are hundreds of craft producers on the Island, most of them pursuing their trades as second careers or as income supplements. About a hundred are active in the PEI Craft Council, which selects its members and their work by a jury of their peers and offers some business and creative mentoring.⁹¹ Many in the crafts industry received their training through a school of visual arts, which has since closed. There is concern now that the crafts community is aging and that losses are not being made up by young people coming into the profession — this in a field where supply is already outstripped by demand.

One of the anchors of the Island's tourist industry is the Confederation Centre of the Arts, whose Charlottetown Festival includes a large art gallery, a main stage that is home to the long-running musical *Anne of Green Gables* and other major musical productions, and the MacKenzie Theatre, a small stage used for more intimate and daring presentations. The opening of Confederation Bridge had little effect on the festival's box office receipts in 1997. The problem is that Canadian winters keep the large audiences at home, and bridge or no bridge, their numbers in winter cannot be expected to rise much above the centre's core market of thirty-five to fifty thousand.

Product renewal is a priority for centre managers. It has been some time since a production achieved a great success and went on to tour North America the way productions like *By George* have done in the past.⁹² The goal of the centre is to make the summer festival as big a draw for family-oriented musical theatre as Ontario's Shaw and Stratford festivals are.⁹³ To achieve this, fresh new material must

91. Irene Arsenaault, general manager of the PEI Crafts Council. There is some hope of developing an apprenticeship plan that would help pass on skills.

92. A musical review based on the Broadway show tunes of George Gershwin.

93. Curtis Barlow, executive director and CEO, Confederation Centre of the Arts.

be developed for the musical theatre, which can only be done under the right conditions — conditions created by a good theatre offering solid musical entertainment.

In addition to the Charlottetown Festival, a number of other communities are also home to theatre and music, including the Harbourfront Jubilee Theatre in Summerside, the King's Playhouse in Georgetown, and the Victoria Playhouse. Numerous musical events also take place annually, including the Summerside Highland Gathering, bluegrass and fiddling events at Rollo Bay, the Indian River Festival (classical), and the Island Blue Folk Festival in Roseneath. Other musical events are scheduled weekly throughout the summer and as part of many local and thematic festivals. Finding a way to spread the activity over a longer period has been the subject of much discussion in the arts and tourist communities. The Island is also rich in museums and historically based attractions and thematic displays. With the exception of a few with aggressive marketing campaigns, most rely on drive-by traffic or mentions in the provincial tourist guide. Marketing of the provincially owned museum, which has numerous locations, has been constrained by limited funds.⁹⁴

The fine arts component of the cultural industry has faced an ongoing struggle for developmental funding, and the provincial council of the arts complains of shrinking financial support from the province as well as from federal institutions such as the Canada Council and Heritage Canada. A study released by Heritage Canada in 1998 reported that the cultural sector as a whole, including arts, crafts, and technical support to theatres, contributed as much as \$64 million to Island GDP in 1995 and employed twenty-four hundred people.⁹⁵ The province has released a report on the arts sector, and legislation and planning for a new provincial arts board and funding foundation were being developed this spring.⁹⁶

Activity-based Tourism

The province has twelve golf courses that have been rated as largely good to outstanding as well as a few rudimentary par-three courses. The large courses have been increasingly busy in the peak season. The Island terrain of gently rolling hills and picturesque views of the

94. Judy MacDonald, executive director, PEI Council of the Arts.

95. *The Health and Vitality of the Culture Sector in Prince Edward Island*, November 1997. Prototype report. M. G. Durand, Statistics Canada.

96. Don LeClair, PEI Department of Education, March 1998.

sea presents many opportunities for suitable development. The provincial government has made a strong effort to develop golf on the Island, most notably by opening the highly rated Links at Crowbush Cove early in this decade. There has also been a commitment by the private sector to establish, extend, and improve courses with the opening of nine holes at Belfast, the expansion of Clyde River to eighteen holes, and improvements to the Rustico, Glen Afton, Stanhope, and Belvedere courses. Further course development is planned in the Wellington and Tignish areas at the western end of the Island.

Late in 1997, the province gave land for a second course at Brudenell to a group called Brudenell River Developments, which plans to spend from \$6 million to \$8 million on course and golf-training facilities. The new course, together with the province's own existing Brudenell course and those at Crowbush Cove and Mill River, will be managed by a new government-owned company called Golf Links Prince Edward Island. This represented a shift in development priorities, with plans for a premium course — to be built at an estimated cost of from \$6.5 million to \$7.5 million on the site of the provincial Cabot Park, north of Kensington (meant to complement Crowbush Cove) — moved to the back burner.⁹⁷

The opening of Confederation Bridge has significantly increased the use of Island courses in 1997. Development of golf traffic in the shoulder seasons, during which course use averages 50 percent or less, is likely to attract even more players. The shorter hours available for play in the fall season make the provision of night golf a priority, a challenge for courses remote from accommodations and services that remain open late in the year. Most golf marketing has been aimed at the Maritimes and Ontario; little effort has yet been made to attract Quebec golfers. The New England market has not been targeted because of high advertising costs. Women golfers have been approached through magazines: the success of local pro Lorie Kane on the Ladies Professional Golf Association tour has helped raise the profile of Island golf.

With tracks in Charlottetown and Summerside, there is a strong tradition of harness racing on the Island. The industry contributes an estimated \$15 million a year to the economy and accounts for

97. According to Golf PEI Executive Director Grant MacRae, the fact that Cabot Park land was committed to a Boy Scout jamboree in 2001 impedes immediate development of the course.

about 180 jobs.⁹⁸ In recent years, however, it has suffered a decline as attendance of both competitors and patrons has fallen off and better support has shrunk — the latter because of an aging clientele and young people turning to other pursuits. The hope now is that the industry will be revitalized by fans from Moncton, whose track closed early in the decade and who now have easier access to the Island via the new bridge. But the bridge made little difference to harness racing in 1997, although this is attributed to a lack of marketing.⁹⁹ The task of reviving the industry has been turned over to the Atlantic Lottery Commission.

A lot of effort has gone into creating facilities and services for the growing eco-tourism sector. Walking and interpretive trails and access to good birdwatching sites have been developed around the Island, both inland and shoreside. This sector is well-supported by locally produced maps and guidebooks. And various stores, bike shops, and kayak outfitters now cater to nature tourists.

The rapid development of Confederation Trail, a rails-to-trails conversion of the 350 km of track abandoned in the 1980s, is noteworthy here. The trail is well-developed both to the east and west: one can cycle on surfaced paths from Kensington in the centre of the Island to Tignish in the northwest, and from Mount Stewart (northeast of Charlottetown) to Elmira in the northeast. The trail leading from Mount Stewart to Cardigan is being developed, whereas branches already link Cardigan, Montague, and Georgetown. The challenge now in realizing the trail's potential is to fill in the centre, particularly from Charlottetown to Kensington and Borden. Bicycling across the central region from the bridge to the capital requires either sharing the TransCanada Highway with heavy traffic or taking overland routes whose straight lines on the map conceal daunting climbs and harrowing descents.

■ Retail: A Cross-Border Challenge to Merchants

The Island's retail community and its business practices have long been conservative and reactive. Shopping centres and supermarkets, opposed by established merchants, were late in coming to the Island,

98. Smith Green Management Consultants, *Final Report — P.E.I. Harness Racing Industry Viability Study*, 19 September 1996, p. 37. It should be noted that for the most part this sector is only recycling Island money; only a fraction of gate and parimutuel income comes from the pockets of bettors from the mainland.

99. Interview with John Eldon Green, 19 November 1997.

and one still finds a major reliance on downtown shopping in many communities. The annual inundation of tourists has long spelled success for Charlottetown merchants, whose incentive to innovate is therefore limited.

The retail industry has a number of segments that are affected to different degrees by the bridge. Food retailers have little to fear from it. Merchants who sell tourist souvenirs, T-shirts, and books stand to prosper. The most endangered sector is the one that depends on local buyers of its merchandise — e.g., clothing, computers, and furniture.

Island merchants dependent on Island consumers of their goods face a cross-border shopping problem of major proportions — a problem that the retail industry was ill-equipped by advance planning to deal with. There was a flurry of interest in discussing the possible effects of the bridge as the work on it neared completion, but similar discussions a year earlier were poorly attended. In the event, the assumption by many retailers that they knew their customers was mistaken. Summerside merchants used to serving Acadians living on the west end of the Island are now watching as many of them drive by, headed for what they see as the more welcoming retail and social environment of Moncton. But they were not alone. Everywhere on the Island, leakage of merchandise spending to Greater Moncton proved to be intense. It is only in the past year that there has been an intense effort by merchants to recapture customer allegiance.

In response to a small new group of retail leaders, the province dropped the hundred-dollar limit on its retail sales tax exemption on all clothing and footwear, leaving them subject only to GST. It was hoped that this would help retailers attract shoppers to the Island for major clothing purchases, or that they would at least add tax-free clothing to their other reasons for visiting. Another initiative by some merchants set on combating Moncton's marketing push has been to pay their customers' bridge tolls.

The retail sector has also taken some shocks. Eaton's decided in 1998 to close its store in downtown Charlottetown, on the grounds that despite its profitability, it was too small to accommodate the kinds of changes the chain is planning at larger outlets elsewhere in Canada. The K-Mart in Charlottetown was converted to a Zellers store as a result of the sale of the former chain to the Hudson's Bay Company. In addition, convenience stores were facing a major threat

to their viability because of a government decision requiring them to remove their video lottery terminals (VLTs). The province plans to compensate such stores by doubling the commission paid for the handling of lottery tickets; the compensation is to decline over the years as the stores make the transition.

■ **Transportation: Easier by Road**

The transportation sector in Prince Edward Island saw substantial changes with the opening of Confederation Bridge. Its effects have been noticed most in the trucking industry, previously subject to more delays than cars because of the limited truck capacity of ferries. These delays were aggravated by summer and weekend traffic peaks, and by heavy winter ice. It was common for trucks to arrive at either of Marine Atlantic's ferry terminals and have to wait for two or three boats before being able to cross. This put a transportation premium on both imports and exports and helped push primary, secondary, and higher industries to produce travel-hardy products and to maximize their added value.

For some operators, the opening of the bridge has meant significant economies. For a trucker delivering livestock to the Hub meat plant in Moncton, the Borden-Moncton round-trip time of three hours makes feasible two and even three deliveries in a day, whereas before it was rarely possible to make two complete round-trips within hours-of-service rules for truckers.¹⁰⁰ Though high winds often cause the bridge to be closed to empty trucks, this is seen as mitigated by the fact that backlogged trucks can move en masse once conditions allow, with only minor delays being experienced at the Borden scales.

Potato shippers say they now find it easier to get backhaul service from carriers seeking loads to pay the way for the trucks they dispatch to Central Canada to pick up goods for the Atlantic region. Nonetheless, they also report that rates for shipments have remained nearly constant. It has been observed that while the bridge may have moved the Island closer to the mainland, the abolition of the federal freight subsidies on intra-Canadian exports in 1995 effectively moved Toronto farther away.¹⁰¹

For manufacturers dependent on out-of-province components and on markets that are chiefly out-of-province and international, the

100. Lowell Hogg, owner and president of J. L. Hogg Transport, Cornwall.

101. Rod Nicholson, general manager of Mid-Isle Farms, Borden.

opening of the bridge has had an even greater impact. Components that sometimes took days to arrive are now often received within a day; the need to maintain (and finance) an inventory of parts and materials sufficient to cover transport delays has been reduced. Manufacturers benefit as well from quicker responses to service calls to mainland suppliers. Shipments to the port of Halifax no longer require a trucker to arrive on the Island the night before to pick up a container for export the next day. To give one example, reliable speedy access to the mainland enables a specialty carrier based in Summerside to assure same-day delivery of rebuilt turboprop aircraft engines from Slemmon Park to Connecticut.

Changes in federal transportation policy are likely to affect both air and shipping service to the Island. There is one airport on the Island (Charlottetown) with regular passenger service, and although it is scheduled for transfer to local control, that transfer is not likely to go smoothly. Since Charlottetown is a provincial capital, it is one of twenty-six federal airports considered "national," which means that Transport Canada expects the local authority to pay for capital maintenance and improvements out of airport revenues. Non-national airports with similar passenger volumes, such as Sydney, Nova Scotia, are being transferred for a nominal fee of one dollar, with capital grants available for facilities.¹⁰² In the case of Charlottetown, the air passenger revenue base that would generate capital funds has been shrinking for years, and declined by a further 8 per cent in the last year.¹⁰³ The greater ease of ground travel now afforded by the bridge and by improved roads in New Brunswick and Nova Scotia is seen as a major threat to air service on the Island, particularly given the \$300 difference in return air fares between Toronto and Charlottetown (\$1,180) and Toronto and Moncton (\$880). High fares — a return business trip to Halifax costs \$540 — also deter air travel.

102. Gerry Gallant, transition coordinator, Charlottetown Airport Authority Inc., 26 November 1997. There is little cargo or courier activity at the Charlottetown airport. Some thought is being given to using the airport as an export centre for the mussel industry. The transfer may have some long-term benefits, particularly since about a hundred acres of land beyond airport requirements could be used to ease the Charlottetown area's shortage of usable industrial land. But this benefit is unlikely to match the higher operating costs expected to result from the devolution of airport facilities.

103. *Ibid.*; Prince Edward Island, *Annual Statistical Review*, 1996, table 63. Total arrivals and departures declined from 212,492 in 1989 to 192,085 in 1996, a difference of 20,407 (-9.6 per cent).

In the shipping industry, there is concern that the federal government may cease its operation of all four ports on the Island. Two of the four are pre-eminent in both movements and tonnage, with Charlottetown leading over Summerside. Souris and Georgetown trail behind; Georgetown had only three ship movements in 1995. Operational subsidies are one concern, but the cost of dredging is also significant, particularly in Summerside, the Island's leading port for potato exports. Imports of fuel and other commodities are important, especially in Charlottetown.¹⁰⁴ Late in 1997 Transport Canada announced it would spend \$5.6 million on improvements to the ports of Charlottetown and Summerside, but made no change in its plan to divest itself of all port operations by 2002.

The remaining federally subsidized ferry service, operated by Northumberland Ferries Limited (NFL) between Wood Islands, Prince Edward Island, and Caribou, Nova Scotia (near Pictou), now appears to be in jeopardy. The federal government has said that it plans to eliminate its \$3-million-a-year subsidy before the year-2000 sailing season. Despite the presence of the bridge, NFL service maintained its share of trucking business in 1997, chiefly of wood exports to Nova Scotia mills. Traffic volumes for cars dropped by about 20 percent, however, which prompted the service to negotiate a new fee schedule (effective July 1997) to make it more competitive with bridge tolls. The new fare for a carload crossing the strait is a flat forty-five dollars. The company plans to deal with its drop in tourist business by extending partnerships of the kind that saw cross-promotion of East-Isle and Pictou County tourism in the summer of 1997.¹⁰⁵

104. *Ibid.*; Prince Edward Island, *Annual Statistical Review*, 1996, tables 61–62. Table 26 lists export markets by dollar value: of \$341 million in exports, \$262 million went to the United States, followed by Japan (\$11.4 million), France (\$10.85 million), Venezuela (\$6.65 million), and Trinidad-Tobago (\$4.55 million). Agricultural and fishing products (\$239 million) led the way; among identified categories (i.e., outside of “special transactions,” whatever they may be), machinery and equipment came second (\$32 million).

105. John Cormier, vice president of Northumberland Ferries Limited. NFL operates two ferries, the *Confederation*, built a few years ago in Pictou, and the *Holiday Island*, formerly a Marine Atlantic summer ferry. Operations are from May to late December; peak employment is 185. This number is well below NFL's former employment total of 300+, largely through consolidation of its fleet from its former four ships to the present two. While employment on the company's traditional run has declined, there has been some head-office gain through the creation of a sister company, Bay Ferries, which now runs Marine Atlantic's former Digby-Saint John and Yarmouth-Bar Harbour ferry services.

■ **Communications: Quick Steps toward Electronic Commerce**

While the Island has moved closer to the North American mainland with the opening of Confederation Bridge, it has also made major strides in its connection to the world through telecommunications. Most significantly, the provincial telephone company, Island Tel, has, in less than five years, scrapped its former analog switching systems and installed an entirely digital system, with two fiber-optic links to the mainland and a fiber ring of forty-eight to seventy-two strands around the Island. Employment at the company has grown moderately, from 325 in 1993 to 350 in 1997. Though some retired, others who had been working with analog switches have been retrained and redeployed within the company, and still others have been hired. It has also set up a telecommunication systems subsidiary, Island Advanced Solutions, with 12 employees.

The existence of the system helped persuade Watts Communications Inc. of Toronto to establish two call centres on Prince Edward Island, one in Charlottetown and a second in Summerside, each employing about 250 people. This recruitment was aided by the existence of major federal offices — Veterans Affairs and Revenue Canada in Charlottetown, and the GST centre in Summerside — and by the prior development of local technical and training support.

Island Tel's conversion to digital switching has allowed it to eliminate party line service and broaden local-calling areas throughout the Island. Schools, libraries, and government sites are all connected to the Internet, with 128 k/s access the slowest speed. Most rural communities now have Internet access services seeded by Industry Canada's Community Access Program. While Island Tel offers its own access to the national Sympatico Internet service, the company maintains it is open to third-party Internet service providers (ISPs) as part of its commitment to recruit people and businesses into the communications industry. Some businesses have started Internet catalog sales operations, and there are several Internet page design and hosting businesses throughout the Island. There is considerable activity in applying Internet technology to distance learning, with a major initiative involving UPEI and Holland College, among others.

Not all Internet business experiences have been happy ones, as the province itself can attest. It established Internet information access and its administrative network through a local company, PEInet, which was taken over by Cycor and then Hookup Communications,

a national ISP that sought bankruptcy protection late in 1997. In the process, service to the government suffered, and the province lost its \$500,000 investment in Hookup common shares.

■ Knowledge, Training, and Expert Systems Supports

Prince Edward Island's private sector has access to a number of institutions and facilities that support product and standards development, and that play important roles in workforce training and in helping identify and develop new opportunities.

Much of the knowledge support system on the Island is dedicated to helping its food producers and manufacturers. The FTC, a subsidiary of Enterprise PEI, offers a variety of health-testing, product development, and systems innovation services. Recent efforts under R & D contracts with industry have focused on adding value to low-rated fall lobster and the development of mussel products. The FTC has also supported the development of grading-glove technology for aquaculture and has helped explore and develop markets for the export of potato-handling and storage systems to technology-starved Eastern European farmers.¹⁰⁶ The Atlantic Veterinary College is a regional institution that has grown rapidly in size and reputation and has added aquaculture development to its more traditional role of treating farm animals. It has ties to both aquaculture producers and biotechnology manufacturers.¹⁰⁷ Agriculture Canada, which operates a research centre and two farms, is a source of expertise for the agricultural industry and has helped with the development of gene-spliced potatoes that are resistant to beetles. It is also a key part of the complex of institutions concerned with diagnosis and research involving other crop, livestock, and aquaculture disease issues. Its food production and inspection services are essential to the province's food exporters.

UPEI is increasing the number of areas in which it is involved with the private sector — to become, in the words of its president, Dr. Elizabeth Epperley, more an oasis than a fortress of learning. Its major concern is to act as a bridge to various academic centres

106. Tools originally used to spot hollow cores in potatoes were adapted to select sea urchins full of roe.

107. For a more detailed examination of the activities of the biotechnology sector of Prince Edward Island and the challenges biotechnology initiatives generally face, see Fabrice Rigaux, *Industrial Biotechnology in the Atlantic Provinces: From Emergence to Development?* (Moncton: Canadian Institute for Research on Regional Development, 1998).

working on economic and community-service development issues (including such topics as investment, business law, and health) while maintaining and extending its mission of fostering academic excellence. One of its main contributions in a provincial knowledge-based industry partnership is to adapt a knowledge assessment methodology developed by the United States National Research Council in order to assess the degree to which Prince Edward Island either has or lacks the conditions necessary to support information-technology business development and the improvement of community services. The university's concern with community issues is also served by the continuing investigations by the Institute of Island Studies, in cooperation with the community, into other aspects of the Island's economy.¹⁰⁸ It is also central to a long-term interdisciplinary project with researchers and planners in various North Atlantic island jurisdictions to share information on various economic issues common to the islands.

The staffing needs of sophisticated biotechnology and aerospace companies have been met to varying degrees; senior people often have to be recruited from out-of-province, particularly in biotechnology. Those with aerospace skills tend to be mobile within the region, often drawn away by Nova Scotia manufacturers in the field. However, most staffing demands of the aerospace companies in Summerside have been met by on-site training programs offered to local workers by Holland College's Aviation Maintenance Institute at Slemmon Park, which envisions expansion to meet the Maritime demand for trained aerospace workers. This would follow the pattern set by the creation of Holland College's Atlantic Tourism and Hospitality Institute affiliate and its Justice Institute of Canada division, both of which attract many students from other provinces.¹⁰⁹

Holland College is a general-curriculum community college that is also building on its reputation for responding quickly to training needs, developing just-in-time training systems and in-service programs and methods suited to people in midcareer who are remaining with their employers but who need to become qualified in new management and quality assurance systems.¹¹⁰ It has just established an Information Technology and Education Centre and expects to act as a small-scale incubation centre for information technology

108. Harry Baglole, institute director.

109. Nova Scotia recently decided to train its own police recruits, having formerly sent them to Summerside.

110. Bill MacPherson, director of planning and development, Holland College.

business, initially involving a Halifax company undertaking a multi-media development project.

■ Investment Supports

Private business ownership, supported by services of all the major chartered banks of Canada as well as an active credit union movement, is strong in the province. There are few publicly traded companies: the chief ones are Maritime Electric (Fortis) and Island Tel (Maritime Tel), both of which encourage local minority-share ownership. Recently, Aquilium Software Corporation, a small Charlottetown company developing software, went public, selling \$2 million in shares through the Alberta Stock Exchange.¹¹¹ The principals of other companies told us they are contemplating making their own initial public offerings within a few years; we leave it to them to disclose their intentions should they decide to go ahead with their plans. Also worthy of note here is the move by CHC Helicopter Corporation, a public company headquartered in Newfoundland, to spin off its Atlantic Turbines Inc. subsidiary in Summerside and join two other aircraft maintenance subsidiaries to form a new public offering under the name Vector Aerospace Corporation.¹¹² The new company expects to increase the number of aircraft engines it is licensed to service and counts on the availability of three acres of hangar space still open to it at Slemon Park.

There are a wide array of federal, provincial, and regional business support services, including lending and investment functions, available to Island businesses and to individuals seeking to establish enterprises. (These are considered in some detail in the section "Economic Development Agencies.") Local informal investors also exist, but they tend to invest in sectors they know (e.g., agriculture) and, like informal investors everywhere, keep their privacy carefully guarded. But some, such as those who initially backed Aquilium and other businesses we visited, do back innovation.

111. The company has developed database and billing software (Windows NT) aimed at a market of water, light, and gas utilities in mid-sized markets (fewer than a hundred thousand connections). The software includes a company-developed solution to the year-2000 coding issue. Money left over after conversion of warrants sold earlier to local informal investors is to be used to open marketing offices in several cities in the United States (company prospectus, 24 November 1997).

112. Vector Aerospace Corporation, *Preliminary Prospectus*, 24 April 1998. Neither the number of shares to be issued nor their price is set out in the document, and indeed it states that none of the proceeds of the initial stock sale would flow to the new company. ATI accounts for just over 30 percent of the sales of the three entities to be merged into Vector; the others are based in B.C. (helicopters) and the U.K. (European aircraft engines).

PEI Capital Inc. (a small fund put together by eight local informal investors, Working Ventures Canadian Fund, and ACOA) is looking for low-level venture capital placements for its pool of \$1.4 million, and started early in 1998 with a \$40,000 investment in a security-door manufacturer. Institutional venture capital companies have not had a big impact on the Island. Working Ventures has raised nearly \$13 million through share sales to Islanders but has invested only a small fraction of that sum in the province, whose government has put a moratorium on tax credit support to purchasers of shares in all labour-sponsored venture capital companies.¹¹³ The outside investment support most used by Island business has been immigrant investor funds raised from prospective immigrants. These funds are lent at low interest rates for five years. The busiest actor on this stage has been PEI Opportunities Funds, a private company that raised \$150 million starting in 1986 but has been barred from the field — along with all other private fund promoters — by a change in federal regulations.¹¹⁴ Provinces can still use the immigrant investor program, and the government of Prince Edward Island has raised \$56 million through three Island funds and recently set out to market a fourth.¹¹⁵

■ The Challenge of New Connections

Prince Edward Island's private sector has tried, often successfully, to deal with its disadvantages in transportation and energy costs and the relative scarcity of locally available inputs by adding value to those commodities within reach and by diversifying to produce finished goods and industrial components with a high degree of added value.

There may be no better example of this than the extraordinary range of uses Island business has made of the province's fictional

113. \$1.55 million to Cobequid Life Sciences (Aqua Health); \$700,000 to Atlantic Video Lottery Inc., Summerside; and \$147,000 to PEI Capital Inc., for a total of \$2.4 million.

114. Interview with Mr. Mike Arnold, president, 15 December 1997. He said that funds went to borrowers in virtually every sector of the economy, even (while this was allowed) real estate. There were no defaults. The company still manages loans issued a few years ago and continues in the investor-prospecting business under contract to the government of New Brunswick.

115. Lennie Kelly, Enterprise PEI. The list of investments supported by immigrant investors' term loans through the province includes Crowbush Cove and Brudenell Resort, \$7.5 million each; Charlottetown waterfront redevelopment, \$8.5 million; Master Packaging (Irving – Borden-Carleton redevelopment), \$9 million; Testori Americas, \$4 million; Loyalist Country Inn, Summerside, \$2 million; Lank Farms, \$1.23 million; Watts, \$4.03 million; and Agra West granulating plant, Souris, \$11 million.

native daughter, Anne Shirley: Lucy Maud Montgomery's novel *Anne of Green Gables* is the basis for a musical that over the years has drawn an audience of millions, her "home" is at the heart of the tourism business in Cavendish, and her name and likeness on plates, dolls, and bonnets leave the Island in the luggage of tens of thousands of tourists each year. A hunger for tales from a simpler time, which Anne represents, led a film company to shoot a television series based on *Emily of New Moon*, another Montgomery novel, and in the process to create eighty-five jobs in Summerside.

The Anne who was prone to complain of a lack of scope for the imagination would doubtless be surprised by the creativity of the business community in finding ways to exploit the enormous popularity of Montgomery's novels: providing marriage services at Cavendish, offering tours of schools where the author taught, even selling green-gable prefabricated houses to fans a world away. She would be equally surprised, one feels certain, by the imaginative scope that has developed generally in Island society as it approaches the millennium, finding expression not only in the creative arts but also in the very real world of commerce.

The concrete span of pillars and arches snaking across the Northumberland Strait is the bridge most Islanders are talking about today, both as an engineering marvel and as a symbol of the Island's link with the mainland and beyond. But there is another more important bridge they might consider — the one joining the nineteenth century to the modern world, which Islanders have crossed with the help of education and increasing urbanization (even of rural culture) and by forging commercial ties with the rest of the world. Island business has continued to follow traditional paths, but a growth in creative energy has led to the development and nurturing of a wide range of new economic activities. These rapid changes in Island society — its growing flexibility and new willingness to open up to and connect with the world at large through trade missions and telecommunications technology — have made the Island an economic laboratory in which the process of globalization can be observed operating at accelerated speed. How well have Islanders fared under these conditions? On the strength of all available evidence, many are showing that they can survive and even thrive in this brave new world.



The Public Sector

The role of government in the Prince Edward Island economy expanded significantly during the 1970s and 1980s. The first major expansion began in the early 1970s with the signing of the Comprehensive Development Plan, a federal-provincial agreement on economic development that was implemented between 1969 and 1984 and was accompanied by increased provincial spending on health and education. One report noted that federal expenditures on goods and services increased by almost 11 percent per year (in constant dollars) between 1971 and 1976.¹¹⁶ A second period of expansion in public administration occurred from 1981 to 1985, and is largely attributed to the transfer at this time of the headquarters of the federal Department of Veterans Affairs to Charlottetown. As well, Economic Regional Development Agreements (ERDA) were renegotiated.

By 1990, public administration was a major component of the Island economy. The following are some indications of its importance:¹¹⁷

- Public administration and defence as a percentage of GDP was 17.5 percent in Prince Edward Island, the highest in the country, compared with 13.3 percent in Nova Scotia and 6 percent in Canada.
- Direct federal transfers to the province represented 46 percent of provincial revenues.
- Almost one in three employed persons on the Island worked for the public sector.
- Unemployment insurance payments to Islanders were valued at \$140 million (in a province where current expenditures on goods and services equaled \$275 million).

116. Prince Edward Island, *Economic Overview of Prince Edward Island*, November 1990.

117. Conference Board of Canada.

Government spending throughout this period pumped a lot of money into the provincial economy and no doubt helped bring Islanders' incomes, and the services they enjoy, closer to the national average.

Beginning in the early 1990s, however, as provincial and national economies slowed down and as the federal government began to wrestle with its deficit as well as its debt, provincial governments throughout the country began facing cutbacks. Prince Edward Island saw a drop in equalization payments for three years in a row and cuts in federal transfers for health, education, and social services. In addition, the CFB Summerside air base, a major employer on the Island, was closed, federal investment in the region decreased, and total current expenditures by the federal government as a percentage of provincial GDP dropped from 81 to 69 percent between 1990 and 1995.

The 1990s are the first time the provincial government has had to deal with serious deficits, caused to a large extent by reductions in federal transfers. It has had to face the reality that the public dollars that fuelled the economy of the Island for two decades are being significantly withdrawn, and that it has no choice but to become more self-reliant.

In this section, we present a brief overview of the importance of the public sector to Prince Edward Island and how that relative importance has changed during the 1990s. We then look at how the provincial government has responded.

■ Importance of the Public Sector to Prince Edward Island — Trends

Federal government spending can be divided into three general categories: direct federal functions (current expenditures on goods and services, including wages and salaries of federal employees), transfers to provincial and local government operations, and transfers to individuals and businesses. The following table provides an overview of federal government spending on Prince Edward Island during the past decade:

Table 16
Federal Government Expenditures on Prince Edward Island
(In Millions of \$)

Current expenditures	1987	1990	1993	1995
Goods and services (current)	229	263	261	280
Transfer payments				
To persons	281	325	448	414
Subsidies, capital assistance	44	69	55	46
To province	240	322	289	324
To local government	2	4	5	5
Interest on public debt	135	197	180	213
Total current expenditures	931	1,180	1,238	1,282

Source: Statistics Canada, *Provincial Economic Accounts*, Annual Estimates, 1996, table 6 (Cat. 13-213-PPB).

In 1995 the distribution of federal spending among these broad areas on Prince Edward Island was as follows: current expenditures, \$280 million or 26 percent of the total for the three categories; transfers to provincial and local governments, \$329 million or 31 percent; transfers to persons and businesses, \$460 million or 43 percent. As shown, the largest percentage of federal transfers is to individuals and businesses (in the following sections, these three categories of expenditures will be described in greater detail).

Table 17 provides an overview of the Island government's revenues and expenditures for the same period. It will be noted, for example, that the \$324 million federal transfer to the province in 1995, shown as a federal expenditure in the preceding table, is reported as a provincial revenue in table 17. This table shows that federal government transfers represented almost 46 percent of provincial revenues in 1990 and 39.7 percent in 1995. Today, that figure is closer to 37 percent. The proportion of provincial revenues that come from the federal government has decreased significantly in the 1990s.

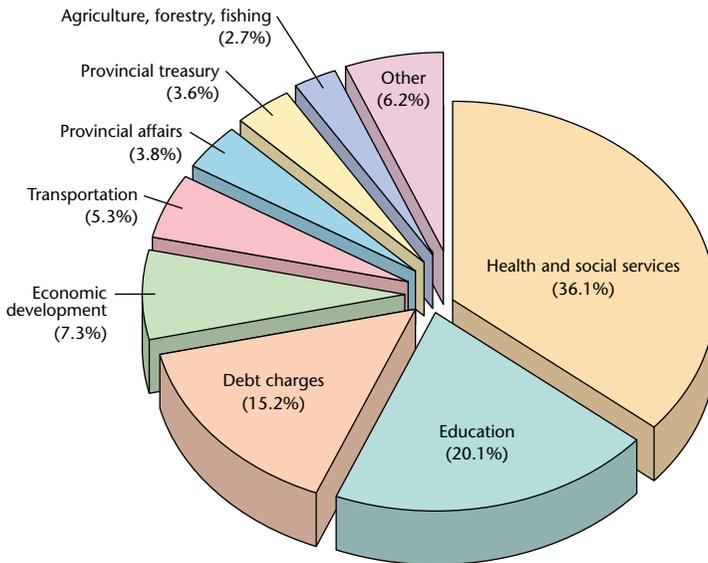
Table 17
Prince Edward Island Government Revenues and Expenditures
(In Millions of \$)

	1987	1990	1993	1995
Revenues				
Direct and indirect taxes, other transfers from persons	253	321	365	398
Transfer payments — federal government	240	322	289	324
Investment income	45	62	86	95
Total revenue	538	705	740	817
Federal transfers of provincial revenue (%)	44.6	45.7	39.0	39.7
Current expenditures				
Goods and services (current)	189	275	308	288
Transfer payments				
To persons	83	106	119	117
Subsidies	29	37	32	35
To other levels of government				
Local government	85	106	124	115
Hospitals	65	72	87	76
Interest on public debt	63	83	107	115
Total current expenditures	514	679	777	746

Source: Statistics Canada, *Provincial Economic Accounts*, Annual Estimates, 1996, table 7 (Cat. 13-213-PPB).

The largest provincial expenditure (\$288 million in 1995) was on current goods and services. This basically supports the operation of the provincial government, including the public payroll. Figure 14 shows the distribution of total current expenditures by department and in order of importance for the fiscal year 1995–96. It will be noted that more than one-third of the provincial budget goes to health and social services. Education is the second most important expenditure, followed by debt charges.

Figure 14
Provincial Expenditures by Department
Prince Edward Island, 1995-96



Source: Prince Edward Island, *Public Accounts*, 1996.

Public Sector Employment

According to Statistics Canada, the public sector of Canada includes all organizations, both commercial and noncommercial, under the control of a government body. The two main components are government and government business enterprises.¹¹⁸ Tables 18 and 19 show public sector employment on Prince Edward Island for the years 1991 to 1995: table 18 shows the number of jobs and table 19 the wages and salaries (employment data are annual averages; wages and salaries are annual totals).

118. Government includes the three levels of government together with their departments, agencies, boards, commissions, and special funds; public educational institutions; cultural facilities; health and social agencies; and bodies administering social security plans. Excluded are universities, lay and religious residential care facilities, Newfoundland school boards, and First Nations and Inuit. Government business enterprises are organizations engaged in commercial operations (they are similar to private enterprises but are controlled by government).

Table 18
Public Sector Employment for Selected Categories
Prince Edward Island, 1991–95

	1991	1992	1993	1994	1995
Government, all levels	13,530	12,907	12,780	12,926	12,723
Federal government	3,122	2,629	2,670	3,152	3,032
Provincial government	7,544	7,411	7,142	6,866	6,809
Public hospitals	2,252	2,229	2,104	1,977	1,966
Local government	2,863	2,868	2,968	2,907	2,883
School boards	2,410	2,406	2,500	2,416	2,368
Government business enterprises, all levels	1,487	1,408	1,311	1,339	1,179
Federal government business enterprises	1,144	1,119	1,006	1,050	891
Provincial government business enterprises	343	289	305	289	288
Total public sector	15,017	14,315	14,091	14,265	13,902

Source: Statistics Canada, *Public Sector Employment and Wages and Salaries, 1995* (Cat. 72-209-XPB); compiled by Maurice Beaudin.

Table 19
Wages and Salaries for Selected Categories
Prince Edward Island, 1991–95 (In Millions of \$)

	1991	1992	1993	1994	1995
Government	410	409	413	419	412
Federal government	119	108	108	121	117
Provincial and territorial	195	200	202	195	194
Public hospitals	52	52	51	50	52
Local government	96	101	104	104	102
School boards	84	88	91	90	88
Government business enterprises, all levels	43	42	44	43	39
Federal government business enterprises	35	34	35	35	32
Provincial government business enterprises	8	8	8	7	7
Total public sector	453	451	457	462	451

Source: Statistics Canada, *Public Sector Employment and Wages and Salaries, 1995* (Cat. 72-209-XPB); compiled by Maurice Beaudin.

Statistics Canada reports that total employment on Prince Edward Island was 53,000 in 1991 and 59,000 in 1995. This means that 28 percent of employed people on Prince Edward Island worked for the public sector in 1991, dropping to 23.6 percent in 1995. Nationally, public sector workers in 1995 represented 21 percent of total paid workers.

In Canada overall, public sector employment peaked in 1992 and has been on the decrease since. The reason for this is government attempts to cut costs and deal with deficits. Federal wages and salaries have also been declining, albeit at a slower rate than the number of jobs because of the effect of severance packages.

Prince Edward Island experienced a 7.4 percent decrease between 1991 and 1995 in the total number of public sector employees. The reduction in employment has been slower in the federal government than in the provincial government: 3 percent federally (from 3,122 to 3,032) compared with 10 percent provincially (from 7,544 to 6,809).

The largest federal employers on the Island are the Department of Veterans Affairs, with more than 850 employees in 1997 and an annual payroll of \$38 million, and the GST processing centre, with 700 employees and an annual payroll of \$18 million. The latter opened in late 1993, established on Prince Edward Island as partial compensation for the closing of the CFB Summerside air base, which employed 600 people. In table 18, the reduction shown in federal government employment from 1991 to 1992 reflects the closing of the air base; the increase from 1993 to 1994 reflects the opening of the GST centre. The reduction again in 1995 is a result of the 1995 federal budget, which announced a severe reduction in the number of civil servants country-wide. Other federal government employers on the Island include Transport Canada, the Canadian Coastguard, Employment and Immigration, the national park, the Royal Canadian Mounted Police, and ACOA.

On a provincial level, the reduction in the number of public employees reflects a general downsizing of government over the last number of years, in particular in 1994. We will see more of this later. In addition to the civil service, provincial employers include the University of Prince Edward Island, Holland College, seven hospitals throughout the province, and government-owned nursing homes.

As table 19 indicates, the value of wages and salaries has shown only a slight decrease between 1991 and 1995, despite an overall decrease in job numbers.

■ Federal Transfers to the Provincial Government

Current provincial revenues are made up of federal transfer payments as well as own-source revenues (such as direct and indirect taxes). Table 20 provides a breakdown of federal transfers to the provincial government for 1990–91 and 1995–96.

Table 20
Federal Transfers to the Prince Edward Island Government
(In Millions of \$)

	1990–91	1995–96
Equalization transfers	206.2	187.9
Established Programs Funding	48.4	52.4
Canada Assistance Plan	28.5	36.4
ERDA/cooperative agreements	14.0	13.8 ¹
PUITTA ²	1.4	0.0
Canada Employment	2.9	1.7
Other federal revenues	10.2	16.1
Total federal revenues	311.6	308.3
Total provincial own-source revenues	366.0	436.0
Total current provincial revenues	677.6	744.3

Source: Prince Edward Island, Department of the Provincial Treasury, Compilation of Fiscal Framework Material, *Budget 1996–97*, December 1996.

1. Includes \$5.2 million from the Federal-Provincial Infrastructure Program.
2. The Public Utilities Income Tax Transfer Act.

By far the largest source of federal revenues for the province is equalization transfers, which represented 66 percent of total federal transfers in 1990–91 and more than 60 percent in 1995–96.¹¹⁹ Equalization transfers are unconditional grants designed to raise the revenue capacity of poorer provinces. The objective, as defined in the Canadian Constitution, is to ensure that all provincial governments have sufficient revenues to provide reasonably comparable levels of public services at comparable levels of taxation.

119. Equalization entitlements are determined by a complex formula that measures a province's ability to raise revenues from taxes and other own-source revenue in approximately forty areas (sales tax, liquor tax, oil royalties, etc.). To the extent that a province has no oil royalties, for example, the federal program tops up the revenue from that source to the standard, using a national-average tax rate for that revenue. The current equalization standard to which poorer provinces are raised is the average per capita revenue-raising capacity of five provinces: Ontario, Quebec, British Columbia, Manitoba, and Saskatchewan.

To the extent that a province's economy improves, its equalization entitlements drop. Since equalization is a per capita grant, it is also affected by population changes. Revenues from the equalization program are spent entirely at the discretion of the province.

Equalization is extremely important to offset the impact of low incomes and the lack of a resource base in generating provincial revenues. On a per capita basis, Prince Edward Island and Newfoundland are the most dependent upon equalization of all the provinces. Such dependence is high throughout Atlantic Canada.

The two other most important federal transfers to the province are the Established Programs Funding (EPF), which was designed to support health care and postsecondary education, and the Canada Assistance Plan (CAP), which provides cost-shared funds for eligible provincial social welfare programs. As of 1996–97 these two programs have been replaced by the Canada Health and Social Transfer (CHST). With the elimination of CAP, welfare costs are no longer cost-shared.

While table 20 shows that economic development transfers were worth almost \$14 million in both years, these transfers actually peaked in 1994–95 at \$19 million. PUITTA was worth \$2.3 million to the Island in 1994–95 but was eliminated in the 1995 federal budget.

■ Federal Transfers to People and Businesses

Federal transfers to people on Prince Edward Island were valued at \$414 million in 1995, and transfers to businesses were worth \$46 million (see table 21).

Federal transfer payments to people on Prince Edward Island are dominated by unemployment insurance (UI) benefits and old age security payments. Unemployment insurance payments were worth \$167 million in 1995, representing 40 percent of the total transfers to people. This figure peaked at \$210 million in 1992–93 and has been dropping since. Old age security payments, at \$119 million, represented 29 percent of total personal transfers.

Government transfers to Islanders are an extremely important source of income. Federally and provincially, they totaled \$487 million in 1990, representing 23 percent of personal income on the Island that year (the province also makes direct transfers to individuals in the form of social assistance). In 1995 transfers to people

Table 21
Federal Transfers to People and Businesses
Prince Edward Island (In Millions of \$)

	1990	1995
Unemployment insurance	140	167
Old age security payments	106	119
Pensions to government employees	21	35
Family allowances	14	—
War pensions	13	15
Veterans allowances	6	7
Miscellaneous personal transfers	25	71
Total federal transfers — people	325	414
Agricultural subsidies	14	42
Other subsidies	37	28
Adjustment to accrual basis	5	-38
Total federal subsidies	56	32
Federal Capital Assistance	13	14
Total federal transfers — business	69	46
Total transfers	394	460

Source: Statistics Canada 1996, tables 15–16 (Cat. 13-213).

were \$621 million or almost 25 percent of personal income.¹²⁰ Comparable figures for Canada were 14.5 percent in 1990 and 17 percent in 1995.

Of total transfers to people in 1990, UI represented 28.7 percent; in 1995 it represented 26.9 percent, a slight decrease. This means that while transfer payments as a percentage of personal income increased during the 1990s, UI as a percentage of total personal transfers decreased.

Federal transfers to business through subsidies fall into three general groups: agricultural support, subsidies to specific businesses, and losses of government enterprises. In Prince Edward Island, for example, agricultural subsidies have been important for dairy, hog, and potato producers. It will be noted that agricultural subsidies increased significantly between 1987 and 1995, but dropped dramatically in 1996.

120. Statistics Canada, 1996, tables 15, 19, Cat. 13-213.

■ Provincial Government Reaction to Cuts

In the late 1980s the government of Prince Edward Island incurred annual deficits of less than \$20 million. In general, this was because of a strong national economy and strong provincial economies elsewhere, which increased equalization payments to the province. Beginning in the early 1990s, however, provincial and federal economies began to slow down: Canada's real GDP fell by 0.2 percent in 1990 and 1.8 percent in 1991. Although the Island's real GDP at market prices increased by 0.9 percent in 1990 and 1.2 percent in 1991, after inflation total provincial revenues in the fiscal year 1991–92 actually decreased by 0.13 percent, while expenditures grew by 4 percent.

In 1991–92, for the first time, the Island's provincial government faced a deficit that it considered serious. The deficit peaked in 1992–93 at \$82.5 million, continued until 1995–96, when the province reported a surplus of \$3.9 million, and was incurred again in each of the two subsequent years. These deficits were due mainly to continued revenue shortfalls from the federal government, in particular of equalization payments.¹²¹

Figure 15 shows the relationship between Island revenues over expenditures and federal equalization payments to the Island during the 1990s.

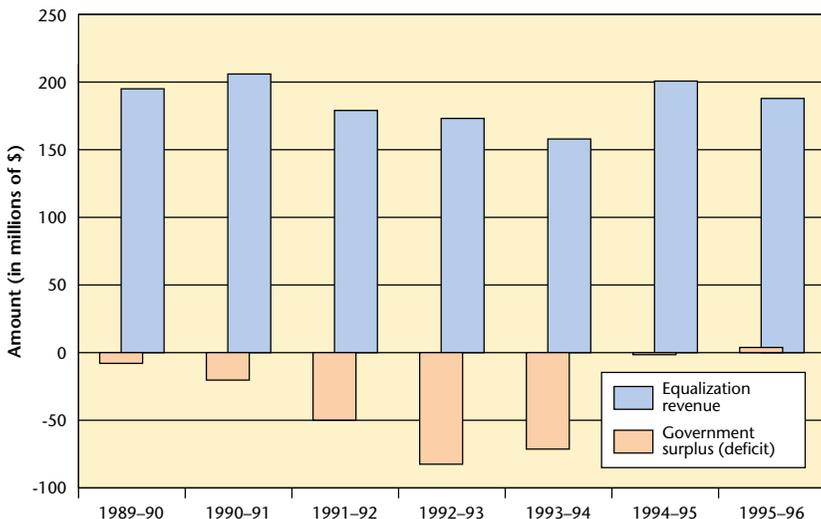
Provincial documents reveal that equalization payments were reduced for three years in a row as a result of an unusual combination of two important negative factors. One was population revisions by Statistics Canada, which seriously eroded the Island's population share. These revisions arose from the 1991 census results as well as from one-time changes to the population definition. There was also a significant loss of population because of the closing of CFB Summerside.

The second reason was the Canadian recession. The recession reduced the level of Canadian provincial revenues (which is what is equalized), hitting hardest in Central Canada, with the result that the Island's relative situation improved. Since equalization compensates for relative economic deficiencies, Prince Edward Island's entitlement was reduced.

The province concluded that it could not continue with deficits of this magnitude both because of the potential effect on its access to credit and because over the long term it would undermine its ability to deliver programs. Funds would have to be diverted from social programs or from economic development in order to service

121. In the fiscal year 1993–94, revenues from federal sources were actually less than they had been in 1988–89.

Figure 15
Federal Equalization Payments vs. Net Provincial Expenditures
Prince Edward Island



Source: Prince Edward Island, Department of the Provincial Treasury, *Compilation of Fiscal Framework Material, Budget 1996-97*, December 1996.

debt costs. The province recognized that if it is to maintain adequate education and health care systems, it must gain greater self-reliance in revenue generation as well as continue to rationalize spending.

As a result, provincial governments have taken a number of fiscal measures during this decade.¹²² The most dramatic, perhaps, came on 1 April 1994 when the Island government rolled back salaries of all civil servants by 7.5 percent (later changed to 3.75 percent for those making less than \$28,000). This saved \$23 million in salaries that year; the province also reduced program spending by \$29 million. Largely because of these two measures, the deficit went from \$71.5 million to \$1.5 million in one year. In 1993 and 1994 there was also a major downsizing of government. In five years, the provincial civil service has been reduced by 735 people.

There have also been structural changes to streamline government. Electoral boundaries were changed for the first time in a hundred years, reducing the Legislative Assembly from thirty-two dual-member seats to twenty-seven single-member seats. Under Catherine Callbeck (elected 29 March 1993), the number of ministries was reduced from fourteen to eight, and the size of the cabinet to nine members (one without portfolio).

122. Both the Liberal government under Catherine Callbeck and the Conservative government, elected in November 1996, under Pat Binns have adopted these measures.

Major health reform was also undertaken. Faced with cuts in federal support for health care (health care represents approximately one-third of the provincial budget) and an aging population, the focus of reform was to encourage public ownership of the health care system on the Island and to shift the emphasis from acute care to prevention. Before reform, services were delivered through three major administrative structures: the Department of Health and Social Services, the Hospital and Health Services Commission, and the Addiction Services. The reform process, in effect, decentralized the system, drastically reducing the size of the Department of Health and Social Services (its role became one of policy and planning) and creating a Health and Community Services Agency, whose role is to provide the overall leadership and direction for the delivery of health services. Five regional boards were created to deliver services for the agency.¹²³

At the same time, the number of school boards in the province went from five to three, two English and one French. The province considered public-private partnering to build a new school in Summerside, but because of the urgency of the situation (the existing school was causing health problems), it undertook the construction itself. There are only isolated examples so far in Prince Edward Island of public-private partnering for the delivery of what would normally be considered government services (e.g., the Hillsborough Bridge in Charlottetown was built in partnership with Strait Crossing International). In principle, however, the government believes that this approach is best for the province.

In the 1995 federal budget, a number of measures were announced that further reduced federal transfers. Replacement of the EPF and CAP with the CHST meant \$17 million less for social programs in Prince Edward Island in 1996–97 and a further reduction of \$12 million in 1997–98. This money had to be made up from provincial own-source revenues. The budget also eliminated subsidies for Atlantic freight rates, which provided about \$7.3 million to Island industry; eliminated the feed freight assistance subsidy, which represented about \$2.3 million to the industry; reduced dairy subsidies; eliminated PUITTA; and cut funding for ACOA as well as for other federal government departments.

The federal budget also included major changes to the unemployment insurance system, which will affect the Island economy in particular because of the seasonal nature of its employment. These changes were being phased in at the same time that the construction

123. The Health and Community Services Agency was later re-absorbed into the department under the Binns government.

of Confederation Bridge was winding down and Marine Atlantic was closing its operation; their full impact has yet to be felt.¹²⁴

Despite a strong economic performance over the last few years, Prince Edward Island still ended up with a \$6.9 million deficit in 1996–97 (even after it cashed in its crown building fund for a one-time revenue of \$10 million), largely attributed to overspending by health and social services. An economic slowdown was being forecast for 1997–98 and, along with it, another provincial deficit, mainly because of the completion of Confederation Bridge (although it is hoped that a resulting increase in tourism will pick up the slack). Provincial operating expenditures were cut by \$21 million in 1997–98, a decrease of 8.4 percent in all areas except health and social services and education, which were reduced by 0.3 percent. According to the province, health and education have remained a priority, despite fiscal problems.

The high level of federal support to the province of Prince Edward Island means that federal programs have a considerable macroeconomic effect on the economy. Upswings and downturns in the federal economy and in spending have been one of the major determinants of upswings and downturns in the Island's economy during the 1990s. In general, federal restraint and reductions in transfers have posed serious challenges to the provincial economy.

The effects of federal cutbacks have been felt everywhere in the economy. There has been less money available for public-private partnerships, and that has affected job creation and economic development. And yet one provincial spokesperson believes that the cuts have led to greater efficiency and have demanded more originality in the approach to problems (health reform is only one example). Generally speaking, provincial self-reliance — as measured by the percentage of its budget that comes from federal transfers — has no doubt increased.

The worst may now be over. One document notes that Prince Edward Island is set to present balanced budgets through to the fiscal year 1999–2000.¹²⁵ Since the province's economy is forecast to grow moderately over the next five years, its equalization payments should be relatively stable and its expenditures are not expected to rise significantly. Maintaining balanced budgets will still be a challenge, but as one document puts it, it won't be as difficult as the exercise entailed in getting to this point.

124. There is now an Employment Insurance Enhanced Research Project under way, which is based on the UPEI campus and funded through HRDC.

125. Prince Edward Island, Department of the Provincial Treasury, Fiscal Management Division, *Compilation of Fiscal Framework Material Budget 1996–97*, December 1996.



Conclusion

We have noted that the Island has a high rate of labour force participation and a higher proportion of young adults in its population than the Maritime average. These are positive signs, as is the fact that per capita income has risen relative to the national average. Nonetheless, Islanders' earned income still trails that of all but one of the eleven regions of the Maritime provinces. The cause of this is endemic to the Island — the highly seasonal nature of its employment.

The province has a higher degree of employment in the public sector than most other regions of the Maritimes, and the income derived from it tends to push up the average per capita income. However, much more of this employment than normal is of a seasonal nature, which reflects government support of the tourism, transport, and primary industries. The recent decision to convert some GST-processing jobs in Summerside to part-year work means that not even relatively new federal government employment is immune to the problem of seasonality that burdens the economy generally.

The issue of seasonal employment and economic activity generally has to be addressed by various sectors. To some degree, of course, seasonal work is unavoidable: farmers cannot plow in winter nor can fishers set traps under the ice. But the gravity of its effect on the Island economy can be reduced, and in some sectors this is already happening. On the farm, mechanization has reduced the need for seasonal workers, and most farmers and those who assist them have work to do year-round. As well, the employment that has become available in potato processing and some other value-added food production (e.g., making pizzas) is only rarely seasonal. The exception here has been the fish-processing industry, which is now in the midst of a difficult transition. Aside from potential growth in the aquaculture of shellfish and finfish, most of which is shipped fresh to the market, this industry is constrained by limited access to the resources of the sea. Seasonality here can be reduced, however, by refrigeration, which allows for a steady pace of processing, and by the addition of such ingredients as vegetables, sauces, and spices to produce ready-to-serve products. Much development along these lines has already been undertaken by the industry and by the FTC.

The effect on employment, however, is that in an industry with only a modest potential for the addition of more resources, there will be an inevitable tendency towards the greater use of technology in production — e.g., machinery that will ream out the bodies of lobsters and place special stuffings in the cavities — and a consequent reduction in the number of people required to operate the plants. This runs counter to the tradition of the fish-processing industry, where a UI/EI-supported labour pool has long been used as a substitute for capital (in contrast to some other resource-processing industries such as pulp and paper, where capital has long been used to replace labour). The upshot is that some fish plants will modernize — adopting costly new tools, facilities, and marketing programs — while others will close.

The result of this trend will be disruptive for the communities where employers and employees will be dislocated, but that it is inevitable is not seriously disputed by anyone. The problem then is to consider the alternatives for the individuals and communities that face such disruption. At least in the short term, the transition will mean that some people will have to commute to work or relocate, although employment for everyone can neither be decreed nor guaranteed. Retraining will help, of course. Some plant mechanics can work instead on aircraft, and some line workers can trade their hairnets for headsets. In the end though, the challenge of creating alternative employment for those in the fish-processing industry who wish to remain in the workforce will fall to many sectors, and success cannot be guaranteed for all individuals or for the communities in which they now live. This is a central issue to be faced by the province's planners for community economic development and by the various regional development corporations, which need to work more effectively to meet these challenges.

The development of the tourist industry is an area in which opportunities appear to outnumber obstacles. The industry is assuming that the volume of traffic generated in 1997 can be maintained and exceeded, an assumption that is supported by the relatively low proportion of visitors (13 percent) whose primary reason for coming to the Island was to view and cross Confederation Bridge.¹²⁶ The development of inter-related pursuits and attractions that would draw

126. *Economic Impact: Tourism 1997*, op. cit., p. 9. We have observed that the predictions are based on more or less well-defined statistics involving a methodology with certain evident weaknesses.

more visitors in the traditional off-seasons would permit the industry to moderate the variations between its peaks and troughs of activity. There is clearly a potential for increasing convention business in the off-peak months, probably best targeted to Maritime groups because of the problem of air travel to the Island. Visits by hockey fans are already well-established, and there are possibilities for exploiting participation in winter sports. Even dormant periods have potential: late fall for goose-hunting excursions and the spring for birders. Completion of Confederation Trail as an all-season route giving access to various outdoor activities should also be a priority.

Seasonality in the construction industry could also be effectively reduced with the success of initiatives that build on the facilities and human skills that remain on the Island from the construction of the bridge. Finding markets for large pre-fit modules for major construction projects could well result in substantial and relatively nonseasonal employment. Is it possible then that manufacturing and exporting bridge components may one day rival the Island's reputation for growing potatoes?

And if bridge components, why not turnkey microbreweries? Why not biochemical powders and fish vaccines? Why not fine smoked salmon, utility-billing software systems, styled modular house kits, aircraft engine parts, complete farm storage systems? In fact, Islanders are making and selling all of these and much more to the world. The export of goods and services with a high degree of technical sophistication and content is clearly within reach of proven Island competence, and the creation of a steadier and more remunerative economic environment can best be achieved by the active pursuit and support of more opportunities like them.

The examples cited above are all very practical demonstrations of the ubiquity of the knowledge-based economy, in which human skill is added to the traditional media of wood and metal, earth, sea, and food as one more way to satisfy the needs and wants of people far away. The export of expertise in agriculture, aquaculture, food processing, and bioscience is also an area where promise is beginning to be realized and one that is therefore worthy of further pursuit. We find it significant as well that provincial planning for the knowledge-based economy is balancing the development of sophisticated export industries with a consideration of the ways information technology can help strengthen the Island society and economy by facilitating the ready import of information and tools that will help individuals, corporations, and public services attain their goals. A well-informed

citizenry is capable of making decisions and setting complex courses, and we can think of no better example of this than the work of the round table on land use and the implementation either of its recommendations or of refinements of them. The blend of awareness and engagement demonstrated by that exercise will likely move the province closer to a sustainable accommodation of various interests. One hopes for comparable levels of engagement in the knowledge economy and in the planning process for cultural policy development that is now underway.

Part of the resolution of land use issues is widely expected to be the provision of financial support to farmers as part of a complex arrangement of such things as right-to-farm legislation, buffer zone regulations, and farm practice standards. This is a popular government strategy, inasmuch as tax expenditure is an important component of a number of Island initiatives. But the fact that tax incentives must be applied with care is illustrated by experience: the twenty-year tax holiday for the aerospace industry at Slemon Park appears to be having good results, whereas the performance of labour-sponsored venture capital funds, which have benefited from provincial-tax-supported investment, has been disappointing. The decision to compensate convenience stores for the loss of VLT income by doubling their commissions on the sale of lottery tickets is another example of tax concessions at work, as is the waiving of provincial sales tax on the sale of clothing and shoes.

Regarding the latter, we suggest that there may be room to extend that exemption to the products of the cultural sector. Since many of those products originate in the region, the multipliers attached to them — to arts and crafts in particular but also to music and books — are more likely to be distributed locally. Such a step could be an integral part of a policy that crosses over to boost tourism, a sector in which there is evidence of a rising taste for cultural spending, and reaches beyond to support the creation of new seasonal activities. In an earlier study we suggested that the development of tourism and cultural industries has broader benefits in other quite unrelated areas — that a combination of a rich cultural heritage and leisure activities helps any community recruit and retain people with valuable skills. This applies equally to Prince Edward Island. Culture, together with health facilities and services, is also important to the development of retirement communities and a resident tourist niche generally. (And again, this is a sector with income possibilities, including renovation and home care.) An increase in

provincial support of French-language education will also help generate not only local culture but also tourism and other employment possibilities in commerce and administration.

Many sectors of the provincial economy have suffered from the effects of a reduction in government spending, including public servants and parts of the private sector facing new or higher service fees. The damping effect this has had on the economy appears to be lessening as the province's accounts come into balance, but there will still be a need to adjust to cuts whose full effects have yet to come to light. The government's ability to invest, or support investment, in new industry is understandably limited, but we suggest that its policy in this area needs some attention.

The fact that in the last year a relatively small software company (Aquilium Software Corporation) was the first Island enterprise to go public in sixty-nine years should not be treated as an exception but rather as a sign of things to come. The creation of community and province-wide investment mechanisms would be a vital support to the province's ongoing effort to prospect around the world for industries as well as for business credit under the federal immigrant investor program. The heavy subscription of shares (\$13 million) in Working Ventures, even though their local purchase was subsidized by the province, suggests that there is money in the region available for investment, and that the development of new business enterprises on the Island need not be mediated entirely by distant and doubtful investment bureaucracies.

The enlistment of local financial resources can only be helpful to the efforts now being pursued to promote economic and business development in many communities around the Island. From what we have observed, those efforts are supported by much skill and determination as well as good judgment. Further help to this end is being provided not only by the University of Prince Edward Island and Holland College, who have shown an evident willingness to become involved in the process of economic growth, both directly and through their subsidiaries, but also by the federal government and the province, who are supplying research and development support.

Based on the evidence we have seen during the course of our examination of the economy of Prince Edward Island, we are convinced that its citizens have every good reason to face the future with hope and confidence. In many communities around the

province, we witnessed enough energy and activity in the business sphere and in the economy generally to give the lie to the popular image of the Island as little more than a quiet rural retreat, an escape from a busy world bent solely on the pursuit of profits. But while the economic and social climate of the province shows many signs of growth and evolution, it still has obstacles to overcome on the road to economic parity with the rest of the country and the world beyond.

■ Appendix: People Consulted

Mr. Richard Ablett, Executive Director
PEI Food Technology Centre

Mr. Gar Andrew, Director
Administration and Finance
Department of Education

Mr. Mike Arnold, President
PEI Opportunities Funds

Mr. Amand Arsenault, Administrator
Centre de services régional Évangéline

Mr. Gerard Arsenault, President
Eastern Kings Business Association

Ms. Irene Arsenault, General Manager
PEI Crafts Council

Mr. Jean-Paul Arsenault, Executive Secretary
Round Table on Resource Land Use and Stewardship

Ms. M. L. (Peggy) Arsenault, Account Manager
Community Economic Development
Atlantic Canada Opportunities Agency

Mr. Ray Arsenault, Vice President
PEI Federation of Agriculture

Mr. Wilfred Arsenault, Executive Director
Société de développement de la Baie acadienne

Mr. Larry Avery, Project Development Officer
Eastern Kings Development Corporation

Mr. Harry Baglole, Director
Institute of Island Studies

Mr. Curtis Barlow, Executive Director
and Chief Executive Officer
Confederation Centre of the Arts

Ms. Brenda Beaton, Acting Director
Partnerships and Strategic Planning
Human Resources Development Canada
PEI Regional Office

Mr. Jerry Bidgood, Manager
Summerside Seafood Supreme

Ms. Paula Biggar, Director
Tyne Valley and Area Development Corporation

Mr. Mark Booth, Quality Assurance and Engineering Manager
Tube Fab Ltd. (Machine Products Division)

Mr. Roger Bruce, President
Bruce Farms Inc.

Mr. Walter Bruce, Director
Eastern Kings Development Corporation

Mr. Bill Buell, Advisor to the Premier
Community Economic Development

Mr. Bill Bustard, Manager
Employment Development Agency

Mr. Mike Butler, President
PEI Union of Public Sector Employees

Ms. Maureen Campbell-Ross, Proprietor
The Platter House Restaurant

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Bay Ferries Limited

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Mr. Chris Cudmore, General Manager
Henderson and Cudmore (Retail)

Mr. Don Cudmore, Executive Director
Tourism Industry Association of PEI

Mr. David Daughton, Director
Community Economic Development
Regional CO-OPERATIVE Development Centre

Dr. J. Regis Duffy, President
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Mr. Raymond Hanley, Vice President Marketing
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Tignish Initiatives Corporation

Mr. Rob Henderson, Director
Tyne Valley and Area Development Corporation

Mr. Ted Henderson, General Manager
Summerside Regional Development Corporation Ltd.

Mr. Lowell Hogg, Owner and President
J. L. Hogg Transport

Mr. Bruce Howatt, Manager
Network Operations
Island Tel

Mr. Brian W. Keefe, General Manager
Borden Area Development Corporation

Mr. Lennie Kelly, Executive Director
Island Investment Development Inc.
Enterprise PEI

Mr. Todd W. L. King, Coordinator
Eastern Kings Business Association Inc.

Mr. Mike Kohler, Architect

Ms. Ann Little, General Manager
PEI Food and Beverage Processors Association

Mr. Jack MacAndrew, Columnist
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Mr. Shawn McCarvill, President
PEI Capital Inc.

Mr. John J. MacDonald, Manager
Greater Summerside Chamber of Commerce

Ms. Judy MacDonald, Executive Director
PEI Council of the Arts

Mr. Gordon MacKay, Director
Child, Family and Community Services Division
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Mr. Birt MacKinnon, Manager
Community Development
Department of Economic Development and Tourism

Mr. Harvey MacKinnon, General Manager
Greater Charlottetown Area Chamber of Commerce

Mr. Wayne MacKinnon, Communications Officer
Department of Agriculture and Forestry

Mr. Alan MacPhee, Proprietor
Home Hardware

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Mr. Grant MacRae, Executive Director
Golf PEI

Mr. Charles Martell, Chairman
Georgetown and Area Development Corporation

Ms. Carol A. Mayne, Director
Policy and Planning Division
Department of Economic Development and Tourism

Hon. Patricia Mella, Provincial Treasurer
and Chair of Management Board

Mr. Ron Mullins, Executive Director
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Mr. Steven Murray, Director
International Trade
Enterprise PEI

Mr. Rod Nicholson, General Manager
Mid-Isle Farms

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Employment Insurance Enhanced Research Project
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Mr. Baxter Simms, Chief Executive Officer
Royal Star Foods Limited

Mr. Roy Spence, Director
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Mr. Dennis M. Stang, Manager
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Mr. Grant Sweet, Manager
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Mr. Michael Thususka, Economic Development Officer
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Mr. Peter Toombs, President
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Ms. Arlene Van Diepen, Manager
Human Resources Development Canada

Ms. Joanne Wallace, Community Development Officer
Western Development Corporation

Mr. Phillip Watts, Comptroller
Slemon Park Corporation