

5 Northern Business

This Inquiry heard a considerable body of evidence on the present state of northern business and about the expectations that northern businessmen had formed with respect to the proposed Mackenzie Valley pipeline. On the basis of this evidence, I now advance several recommendations designed to promote the orderly long-term growth of the northern business community and to ensure that it will derive appropriate benefits from the pipeline project whenever it may be built. Some of my recommendations are made to protect existing northern businesses; others are concerned with the promotion of a healthier and more competitive regional business economy.

Northern-based firms are in a poor competitive position relative to firms that do business in the North but whose main operations are in the South. Firms that are exclusively or largely dependent on the North normally operate in small and uncertain markets, and they do not have such a large volume of sales, over which they can spread overheads and other fixed costs, as their southern-based competitors have. Their markets are, moreover, likely to be distinctly seasonal, particularly in construction. Typical northern firms do not earn revenues during as much of the year as do southern firms. Northern firms are less favourably located with respect to suppliers, which means they have higher transportation costs and a more limited choice among suppliers of certain goods or services. Their labour costs are, on the average, higher, and the local labour force is often less skilled and less productive than the labour force in the South. Services that southern firms take for granted are frequently unavailable to northern firms, or available to them only at considerable expense.

Southern firms have generally left the northern market to northern firms when business in the South has been thriving or when projects in the North have not appeared attractive. However, when business has been slack in the provinces, or if a particular project is regarded as attractive, southern firms have vigorously entered the northern market. I do not suggest that existing northern firms can at present handle the full range of business opportunities that may occur in the North.

There are many projects they simply cannot tackle because they lack the necessary resources and experience. However, in certain fields, especially construction, southern-based firms have often been able to underprice northern firms by a considerable margin even on jobs that northern firms could undertake. Southern firms are thus in a position to skim the cream off the northern market, to move in and out as seems favourable to them, to take advantage of only the most rewarding projects, and to avoid the less attractive ones. Northern firms do not have this flexibility; they must work within their limited market and take advantage of whatever opportunities may come their way.

Not all problems faced by northern firms can be attributed to the market and to location. Although there are many competent businessmen in the North, there are some that are relatively inexperienced in identifying investment opportunities and in running a business. Native northerners, whose entrepreneurial traditions are mainly based on trapping, trading and riverboat transportation, do not fit easily into the business sector that is now taking shape in the North.

The northern economy, moreover, is and has always been pervaded by uncertainty, primarily because the region's major resources are sold in distant markets and because there is virtually no control within the North over these markets or over the development of these resources. Most of the decisions that affect the growth and development of the regional economy and that determine, therefore, whether or not its businesses will thrive are taken far beyond the region's boundaries. By the time these decisions have been transmitted to the northern business community, they have often been distorted by rumour and speculation and they generate unrealistic expectations.

My recommendations, therefore, recognize the need to improve the quality of northern management and to increase the range of services that are available to the northern business sector. More generally, they pertain to the growth of the northern economy as a whole because it is important that this economy should develop beyond its present limited

capabilities and capacity if it is to survive the pipeline and, more positively, to benefit from its construction.

The nature and scope of the settlement of native claims will greatly influence the degree to which, and the methods by which, the native people of the Mackenzie Valley and Western Arctic will be able to participate in economic activity related to the pipeline project. It may well be that, as a result of the settlement of native claims, native enterprises, whether they are cooperatives, corporations, or proprietorships, will become an important element in the providing of goods and services in the North. As they evolve, they should enjoy the same advantages that I am recommending for northern resident firms, provided, of course, that this is consistent with the wishes of the native people.

The pipeline will introduce many new elements into the North for which most northern businessmen are, at present, ill-prepared. Not only will the project be one of the largest ventures ever undertaken by private capital, it will bring north powerful international unions. If a negotiated settlement of native claims has by then been achieved, there will also be a much larger native presence in the economic affairs of the region, the nature, scope and effect of which cannot be predicted at present. Thus, within a short time, the northern businessman's world will be reshaped and transformed, and he must be prepared to meet the challenge that these changes pose. My recommendations are aimed to help him in this adaptation.

Definition of a Northern Resident Firm

For the purpose of this chapter, I accept the definition of a territorial firm offered in *Report of the Task Force Formed to Study Problems Encountered by Northern Businessmen in Obtaining Federal Contracts*. The government of the Northwest Territories applies this definition to determine whether or not a firm is eligible for favourable treatment with respect to bid differentials. It requires the head and the administrative offices of a firm to be located in the Northwest Territories, that more than half of its business be carried out in the Territories, and that 50 percent or more of its capital assets be located there. Although this definition has given rise to certain problems and should be re-examined, it is in principle a sound one.

1. *Northern resident firms should be defined as those whose head administrative offices are located in the Northwest Territories, who carry out more than half of their business in the Northwest Territories, and who have at least 50 percent of their capital assets located there.*

The definition of a northern resident firm is less of a problem than its application. If government seriously wants to create a viable northern business sector, it must be prepared to deal with resident firms on a preferential basis and should make exceptions to rules, such as the residency requirements, only when there are very special reasons to do so.

Bid Differential

The territorial government has maintained for some time a bid differential in letting contracts for construction. Late in 1976, the federal government announced that it would continue to follow this practice, but it has since retracted this statement. All contracting firms that meet the criteria set by the Task Force on northern business in its definition of a northern resident firm are given a 10 percent preference on territorial government contracts under \$500,000 and a five percent preference on contracts over this amount. Preference here means that the bid of a northern resident firm can be higher, up to the relevant percentage, than the lowest bid by a southern firm. Thus far, only construction firms that are able to meet the residency criteria set by the Task Force on northern business are eligible for this preference.

2. *The federal government should establish a bid differential and extend it to all northern resident firms that bid on government contracts or on contracts with private sector projects that require government approval. This change should be made soon so that it will have had a real impact in strengthening northern business well before the pipeline is built.*

3. *During pipeline construction, the bid differential should apply to the construction of all project facilities, as well as to those contracts defined above. However, to prevent a situation of permanent or potentially damaging dependence on measures such as bid differentials, there should be a thorough review of the subject both before and after construction of the pipeline project. The review before construction should focus on the adequacy of the measures that have been taken to that time. The review after construction should examine the need for the continuation of a bid differential.*

Regional Purchase of Goods and Services

Industrial and commercial growth usually depends on the ability of a few key industries to grow rapidly and to create capital and income for additional growth. For this reason, governments have typically encouraged the growth of leading industries and sectors of the economy by a variety of incentives and by market protection.

In any regional economy, the leading industries are usually those associated with exports from that region. In some cases, they include industries that are particularly vulnerable to shifts in market forces or that are under the control of external decision-makers who have little interest in the region beyond its resources. The result is that, instead of the relatively smooth growth that can be predicated on economic models, growth takes on an unpredictable character. This kind of growth has certainly been characteristic of the northern economy, where economic activity has been cyclical.

The purchase by the pipeline company of goods and services from firms resident in the Northwest Territories

should not lead to a situation in which, by the time that the pipeline project is over and the regional purchasing programs have ended, a large proportion of the region's commercial and productive capacity depends solely on the pipeline project.

4. The regional purchase of goods and services requires careful planning by the Company, all levels of government, and the regional business community. Well before the final design phase, the Company and regional businessmen should hold a series of meetings to determine the details of the procedures the Company will use for local purchases.

Planning should focus not only on how some firms may benefit directly from the Company's purchases of goods and services, but also on how other firms may benefit from performing services for each other. Planning should also consider how the pipeline project might contribute to the growth of regional capacity and the quality of regional services, without making the northern business sector unduly dependent on the pipeline.

In planning the purchase of goods and services from resident firms, care should be taken to ensure that the volumes these firms undertake to supply are realistic. Resident firms should not undertake to supply goods and services to the Company in volumes that are likely to create shortages in local markets.

5. The pipeline company shall instruct its prime contractors to ensure payment within 30 days to northern resident firms. This promptness is necessary because, among other things, northern subcontractors may have to meet conditions in their collective agreements that could impose strains on their cash flow position.

Local purchase procedures for the pipeline may be complex and difficult to work out; the more experience that northern businesses have with such procedures before the pipeline is built, the easier it will be to apply them when the construction of it begins.

6. Before the pipeline is built, government should establish and adhere to a local purchase program, and it should require large private companies in the North to do the same. Government should be flexible and willing to experiment with such programs, although not in a manner that would impose costs or confusion in the private sector.

7. Regional purchasing and other programs, including education programs, should encourage innovative solutions, such as the joint venture, in which two or more firms combine to provide goods or services or to bid on a particular contract. Joint ventures between northern firms, and between northern and southern firms, should be encouraged both in the long and the short term. They could provide the means of securing the risk capital that will be needed to complete special projects of limited duration, and they could facilitate the participation of northern resident firms in development projects.

8. Crown corporations, such as the Northern Transportation Company Limited, when they perform services for the pipeline company, should ensure that they involve local private firms to the maximum degree. In the meantime, and well before the pipeline is built, crown corporations should contract to northern resident firms some of the services they currently provide for themselves so that adequate local services, such as trucking, can be developed before construction of the pipeline begins.

Tendering Procedures

Construction and the supply of materials are key activities in the North. Firms active in these fields provide considerable employment and income in the larger communities of the Mackenzie Valley and Mackenzie Delta. They could, moreover, be one way whereby significant numbers of northern residents could find their way into pipeline-related employment without being employed directly by the pipeline company or its major contractors. Excessive reliance of northern resident firms on the pipeline would be undesirable, but nevertheless assistance to northern suppliers and contractors is necessary to give these firms a position of equality with their southern-based competitors.

9. Before pipeline construction begins, the pipeline company and its major contractors should prepare a list of goods and services they will require. This list should be developed with the assistance of the Government of the Northwest Territories and representatives of northern businesses and should be made available to northern suppliers and construction contractors.

Where possible, this list should be broken down into increments or lots that coincide approximately with the scale and volume at which the northern firms can operate. It should also indicate how exacting the tolerances for a particular item or service may be and what substitutes may be allowed.

10. All contractors and suppliers, whether they are based in the North or in the South, should be required to submit bids FOB point of use rather than FOB point of supply; that is, full transportation costs should be included in all bids.

11. Contracts that are compatible with the capacity of resident northern businesses should be tendered first in the locality in which the goods and services in question are to be consumed. To facilitate this recommendation, a list of pre-identified, registered northern resident businesses should be compiled by locality.

12. Standard procedures for tendering should be developed. All notices for tenders that are within the capability or competitive range of northern resident firms should be published in the North.

Bid Depository

A bid depository is usually operated under the auspices of a contractors' association. Tenders are submitted before a specified time, and they are opened before an impartial committee. Strict rules ensure that all bids are submitted and opened by identical procedures. The cost of operating a bid depository is not great, and it should be financed through the sale of envelopes to contractors.

A bid depository has been in operation in Whitehorse for a number of years, but there are none in the Northwest Territories. The bid depository most frequently used by contractors in the Northwest Territories is in Edmonton, and that is another reason why contractors resident in the Northwest Territories are at a competitive disadvantage, relative to non-resident firms, in bidding on contracts for construction projects within the Northwest Territories. This competitive disadvantage is enhanced by the distances between contractors and their suppliers. Because the suppliers' bids are usually not available until moments before the bid depository closes the northern contractor must often travel to the bid depository to submit his bid on time. If bid depositories were located in the major communities of the Northwest Territories, they could be used, as well as those in southern centres, for the deposit of bids for major development projects in the North.

13. One or more bid depositories should be established in the Mackenzie Valley. During pipeline construction, bid depositories should be operating in all of the major centres within the Mackenzie Valley.

Because the initial volume of envelope sales will be low, the Government of the Northwest Territories should provide seed funding to a territorial construction association to develop a bid depository.

Labour Relations

It is federal policy, as stated in the Pipeline Guidelines, that any work that is directly associated with the construction of the proposed pipeline and its related facilities will be subject to collective agreements between prime contractors and a number of unions representing workers in the pipeline and building and construction trades. This regulation will, of course, have important implications for northern workers, who will have to join unions to be eligible for direct pipeline employment. The northern businesses that seek contracts associated with pipeline project construction will also be affected, because there will be provisions in collective agreements that stipulate that all subcontractors working on site for prime contractors are to be bound by the provisions of the collective agreements. In other words, the northern firm will have to pay the wages, offer the benefits, and provide the working conditions that are outlined in collective agreements.

With a few exceptions, this will be a new and perhaps trying experience for northern businesses.

A report prepared by Manforce Research Associates, *Trade Unions and the Northern Business Community*, suggests that the presence of unions in the North and the stipulations of collective agreements could significantly alter the hiring practices of northern businesses. Businesses directly associated with the project will have to ensure that the members of their work force meet union entry requirements. The increased expectations arising from union-negotiated wage-and-benefit packages could make it difficult for northern businesses to attract or to keep workers during the period of pipeline construction and to maintain worker satisfaction after it is completed. The report also indicates that administrative and bookkeeping chores are likely to increase: most collective agreements stipulate, for example, that workers must be paid on a weekly basis, that a cheque-cashing service must be provided, and that dues must be deducted from wages and forwarded to the union.

To the extent that construction of the pipeline will stimulate continued development of hydrocarbon resources in the Western Arctic and promote the growth of infrastructure in its larger communities, the stronger union involvement in the North will become. Representatives of the northern business community, in their submissions before the Inquiry, expressed concern over the impact that trade unions and collective agreements could have on their present operations and on their ability to obtain contracts associated with pipeline construction.

14. In preparing for pipeline construction, the Government of the Northwest Territories, in consultation with the northern business community and the trade unions representing workers in pipeline construction, should undertake a comprehensive review of trade union practices and their potential impact upon business operations in the North.

15. Before construction of the pipeline begins, a program should be created to inform northern businesses more fully of federal government policy with regard to unions and collective agreements. A similar program should be established to inform the trade unions about business conditions in the North.

Information and Forecasting

Many uncertain and unpredictable elements in the North affect the course of economic life in the region and make it a very difficult place in which to operate a business. These uncertainties are particularly strong in the region's major communities; their dependence on the hydrocarbon industry, the mining industry, and on government projects and activities has in the past led to large variations in activity. This problem has two aspects. First, northern businesses need better information about the plans and prospects that are now affecting the behaviour of industry and government both in

the North and elsewhere. Secondly, better forecasts of what is likely to happen in the future are needed.

Large corporations and government have always been very selective in choosing the information they wish to make available to northerners, and they have tended to release only the information that could help them achieve a particular end. When they believe that no information is likely to further their interests, no information is made available. Not surprisingly, such behaviour has had a whole range of negative consequences. It has led to the excitement of great expectations about projects such as the Mackenzie Valley pipeline, which in turn has led to the misallocation of regional labour and capital resources.

It is very difficult to forecast with any degree of accuracy for a region such as the North, but it should be possible to separate out from the enormous range of events that might occur those that are most likely to occur. Even the roughest indications of what the likely course of events is going to be could give businessmen and potential investors something on which to base their decisions. Such crude forecasts would not only be helpful to the business community, all northerners could also benefit from their availability. However, they would have to be conducted in a responsible and professional manner to be of any real usefulness.

It is therefore appropriate to make recommendations with respect to the degree to which both government and large corporations should supply more and better information to an interested public. Fuller access by the public to such information will probably come about only with time and, even then, probably only with legislation.

16. *There is, at present in the North, a great need for better information so that the people there can comprehend the implications of a vast undertaking such as the proposed pipeline. Procedures to supply this essential information should be formulated and implemented as soon as possible.*

17. *The Government of the Northwest Territories should continue its efforts to assemble northern businesses into regional associations so that it will be easier to supply information to individual businessmen and to provide a forum in which the problems of the businessmen themselves can be discussed with representatives of government and industry. These organizations may require initial government support.*

18. *With assistance from the Government of the Northwest Territories, these regional business associations together could operate a business information centre, which should work closely with the impact information centres I recommend in Action Communities. The business information centre should be staffed by persons who are familiar with northern business and with the operation of both the territorial and federal governments. Under the direction of the business community, the centre should serve as a liaison with government and industry and inform businessmen of developments that are*

likely to affect their operations, review forecasts and maintain statistics.

Skills of Management and Enterprise

Although northern businesses have economic and geographical problems, the calibre of northern entrepreneurship and management is not always high, and these qualities could be improved in the long term by educational and management development programs, especially in the more isolated communities.

Several programs related to the development of managerial skills are now available to northerners through the Government of the Northwest Territories and the Federal Business Development Bank. The territorial government has designed a series of teaching modules on small business management. It may be difficult to persuade owners and managers of small businesses to set aside the time required to complete the sections of the course that are relevant to their own specific needs. A small businessman may be busy just making ends meet and he may be reluctant to undertake work that he considers merely academic. And, even with good management, probably many small northern businesses will not become more successful because of the geographical and market difficulties facing the northern economy. The northern businessman must, therefore, be persuaded of two things: that his business has a better chance of survival in the long run if he learns to run it more efficiently and that the management development course will be of real use and benefit to him.

Some incentives could be provided to induce the northern businessman to take a course to improve his managerial skills. For example, employees at the management level could be given bonus pay for successfully completing business management courses that their employers think may be useful to them. In addition, individuals could be reimbursed for course fees and costs.

19. *Businessmen should be encouraged to take advantage of the courses on management that are already available in the Northwest Territories, and new courses covering subjects that would prove useful in the event of pipeline construction should be devised and made available.*

20. *The government should assist northern firms to procure better management expertise. This could be done by providing funds to hire persons with management skills who could work with the resident owner and operator for a period of time, or by placing young northerners who show promise of business ability in management trainee positions in the South, to obtain management expertise through on-the-job experience.*

21. *Northern businessmen seeking contracts will require knowledge of a variety of special techniques and arrangements that are peculiar to industry, such as preparing bids, tendering procedures, bonding applications, job costing and*

labour relations. An advisory service for these procedures should be available within the Government of the Northwest Territories.

Availability of Loan Capital

Loan capital is essential to the operation of a small business to ensure that sufficient funds are available for the acquisition of assets, the provision of working capital, and the financing of inventories, which must necessarily be larger in the North than in the South because of isolation and transport cost. Although there is now a special Agricultural and Rural Development Act (ARDA) program for the North, through which grants are made available to northern businessmen, loan capital will still be needed for equity and bridge financing until enough work has been accomplished to meet the requirements under which ARDA grants are made. The expansion of loan funding is important to the development of a healthy business community in the Mackenzie Valley. In the long term, and in anticipation of the construction of a pipeline, it is essential that sufficient funds are available for the establishment of new resident northern businesses and for the expansion of existing businesses.

At present, there are five major sources of capital available to residents of the Northwest Territories. The chartered banks and credit unions supply only limited loan capital because they have stringent collateral requirements and, in the case of credit unions, loan capital is in short supply. The Federal Business Development Bank is a major lender for the purchase of fixed assets in the Northwest Territories. The Small Business Loan Fund of the Government of the Northwest Territories lends capital for the purchase of fixed assets and the financing of inventories. This fund allows limited guarantees and limited grants. Upon being transferred from the federal government to the Government of the Northwest Territories, it was restructured, and the ceiling on loans was raised from \$50,000 to \$100,000. The fund will be replenished by \$600,000 annually to a maximum of \$5 million. Loans are amortized over a maximum period of 15 years at an interest rate set by the Federal Business Development Bank. The fund is now administered by a board made up of four businessmen and two government officials. The Eskimo Loan Fund provides financing to Inuit for risk and inventory capital at an interest rate well below the prevailing bank rates, and the Indian Economic Development Fund, which is administered federally, provides financing for risk and inventory capital for Indian and white entrepreneurs active in native economic development.

Thus limited risk capital is available through the Federal Business Development Bank, the Eskimo Loan Fund and the Indian Economic Development Fund. All other financing is limited to the purchase of fixed assets and, in the case of the Small Business Loan Fund, to the financing of inventories. There is a serious need, particularly in the construction

industry, for loans to finance working capital. If a diversified service sector is to be developed in the North, it is absolutely essential that such capital be made available. Moreover, to the extent that business risk is a function of poor management, that problem can be met by providing incentives to businessmen who are willing to couple their borrowing with management training.

22. *When pipeline-related activity begins, the Small Business Loan Fund should be expanded and the ceiling on loans should be raised to allow for the financing of the expansion of businesses so they can participate in primary and secondary pipeline activities. Such funds should be directed particularly toward activities that are likely to remain important in the pattern of regional employment and income base following completion of the pipeline.*

23. *Offices to administer the various northern loan funds should be set up in the main communities of the Mackenzie Valley and Mackenzie Delta, and perhaps throughout the North, to ensure that all regional businessmen have access to them.*

24. *The Federal Business Development Bank should be directed to locate and staff one or more regional offices in the Mackenzie Valley and Mackenzie Delta.*

Bonding

Northern contractors who testified before the Inquiry stressed the difficulties they have encountered in obtaining bonding from surety companies. Bid bonding is usually required on tenders above a minimum value of between \$5,000 and \$10,000. This requirement is based on the need for owners and prime contractors to be assured that a contract will be completed in the time and manner specified in the contract. It is a form of prequalification of bidders in an industry that has long been troubled by defaults and bankruptcies. Owners obtain their protection through the bonding of prime contractors, and they in turn require the same protection from their subcontractors. A contractor who can obtain a bid bond will have no difficulty in obtaining the required performance and material bonds, therefore a bid bond has come to be regarded as a means of separating qualified from unqualified bidders.

Surety companies examine the applications for bonding to ensure that the contractor is not only in a financial position to complete the contract, but also that he has the capability and expertise to perform the work in a satisfactory manner. Applications must be supported by financial statements, summaries of experience on previous contracts, references from suppliers and bankers, and any other information that will persuade the surety company that the contractor has the experience and resources to fulfil his contractual obligations.

The northern contracting industry is still young and it shares the problems inherent in new business operations. Many contractors lack experience and management expertise, and they cannot provide the necessary assurance of their

capability to execute a contract properly. Moreover, the contracting industry in the North is very competitive and has grown rapidly, thereby placing a greater demand on the surety industry to finance bonds. Competition for a limited amount of bonding capital places an additional obstacle in the way of new northern-based contracting firms. Furthermore, the surety companies do not have bonding agencies throughout the Territories, and they are not familiar with the special problems of northern contractors.

25. *Pipeline contractors should use regional contractors, so far as possible, without requiring them to obtain bonding, provided that the pipeline contractor believes that commitments can be met and provided that those commitments will not place undue strain on the regional firm.*

Bonds are not insurance, and a surety company has the right to recover from a contractor the full extent of its loss on a defaulted contract. The contractor should not, therefore, be bonded on contracts that are larger than he can handle.

Pipeline and Economic Problems

I have already said that the effects of the pipeline will intrude heavily into all aspects of economic life in the Mackenzie Valley and Mackenzie Delta. Major problems that may take years to resolve could arise out of the introduction or the extension of such massive new forces as large corporate interests, big unions, and unprecedented government intervention into the northern economy. Locally, these new forces could lead to permanently higher cost structures, price inflation, particularly in rents, and shortages of skilled labour. To counter such effects, I could recommend such measures as the subsidization of some costs, the indexing of incomes, and the establishment of rent control boards, but I am not convinced that these measures would be effective or beneficial. However, some problems can perhaps be modified or made less severe if action is taken now along the following lines.

26. *In every possible way, government must ensure that unrealistic expectations are not built up in the minds of northern residents around the idea of the pipeline project.*

In the early 1970s, the federal government's promotion of the Arctic Gas project, at a time when gas reserves in the Mackenzie Delta were questionable and the environmental and social impact of the proposal had not been subjected to independent scrutiny, led to great expectations of growth and expansion among businessmen of the region, expectations that have not been fulfilled. The proposals that I have already made with respect to the provision of fuller information and to forecasting would help to avoid disappointments in future. Other steps include an information program that would describe the negative as well as the beneficial aspect of the proposed pipeline and continued research on the probable local effects of the project. By placing local people in direct

communication with union officials and corporate executives and by ensuring that their questions are properly answered, much confusion can be avoided. It will also be useful to report on conditions in regions, such as Alaska and later, the Yukon, that have experienced the construction of a pipeline.

I recognize that postponing the construction of a Mackenzie Valley pipeline has created hardship for some northern businessmen who may have believed that the project was imminent and who may have made investments they would ordinarily not have made. Of course, those who invest with a view to making a profit must expect to bear losses when they occur. So there is little that government can be expected to do directly about the problems of these firms. However, indirect measures could alleviate their plight and that of the local labour force that may have come to depend on them. Some local construction programs, proposed for the future, could perhaps be undertaken now to ease the transition for northerners who had expected the pipeline to be built almost immediately. I am not advocating unnecessary projects nor a round of pump priming for a pump that does not work. Such local projects should make sense in terms of the ordinary community and regional growth and renewal.

27. *Procedures should be established to avoid, as far as possible, the bunching of major projects during peak pipeline construction. If they are not taken in advance of pipeline construction, various public works that government would normally undertake should be deferred, if possible, until the pressures generated by the pipeline have passed. Private ventures should be discouraged in the region during peak construction.*

To some extent, this process will occur automatically: there will be severe shortages of labour and industrial capacity while pipeline construction is underway, and the resultant higher costs should discourage any but the most immediately profitable or, in the case of public works, the most necessary projects from going forward. Some public and private projects may have to proceed, despite their possibly disruptive effects and high costs. If, for example, there is a severe housing shortage, more houses will have to be built, and it may be impossible to postpone the construction of badly needed municipal structures.

28. *Government should always be fully informed about when and where additional capacity exists in the Canadian economy so that, if necessary, it can draw quickly on goods, services and expertise. Where practicable and in keeping with other recommendations made in this report, the development of such capacity should be fostered in the North.*

There is a widespread view, well-grounded in economics and law, that procedures such as northern preferences and bid depositories restrict the free functioning of industry and commerce and that they inhibit rather than enhance the operation of the market system. I agree with this view. No

restrictive measures should be adopted — indeed, they should not be necessary — in a mature market where competitors are in a position of approximate equality. But the northern market is not such a market.

Northern businessmen, although they affirm their belief in free competition, insist at the same time on government assistance and enforced preferences. I do not see how they can do otherwise. Firms that must operate exclusively or largely in the North are at serious disadvantage in comparison with firms that do only a part of their business in the North. Northern-based firms operate at much higher levels of uncertainty and cost, and they do not generally have the same

access to institutions of government, such as administrative tribunals, or to private professional services, such as lawyers, consulting engineers, and management consultants, as firms that are based in the South.

Because of this disadvantage, I feel that northern businesses require assistance in the form of protective and supportive measures of limited duration. The purpose of such assistance is to give the northern businessman a reasonable chance of surviving the pipeline project and to continue to serve in the private sector of the northern economy in the future. In other words, this assistance is primarily directed toward businessmen who are able to demonstrate that they have a long-term commitment to the region and its economy.