SECTORAL REPORT

YUKON DEVELOPMENT STRATEGY

TRADES AND SERVICES

YUKON · 2000

Building the Future

Yukon Government

THE TRADE AND SERVICE INDUSTRIES

1.0 INTRODUCTION

A sectorial workshop for the trade and service industries was not held in recognition of the dependence of trade and service industries on the other sectors of the economy. Furthermore, the diversity of the trade and service industry would preclude consensus on constraints and options. By not holding a workshop, a major sector in the Yukon, in terms of employment and business enterprises, did not have the opportunity to identify its constraints and opportunities. Hence, the reason for this paper; to provide an overview of the trade and service industries in the Yukon and specifically, to identify constraints and opportunities of transportation and trade which are the two largest components of the sector (outside of the hospitality component covered under the tourist workshop). Information presented in this paper is drawn from statistics compiled by the Bureau of Statistics of the Yukon government, preliminary data compiled for the update of Yukon's Economic Perspective by DIAND's and YTG's Economic Development Branch, and interviews with representatives within the two industries.

1.1 A Definition

Defined as a tertiary activity, trade and service industries include the sale of goods and provision of services. In contrast, a primary activity is the harvesting of resources through mining, forestry, agriculture and fishing. Secondary economic activity is the production of goods and services through manufacturing and construction. Within these categories, there is a great deal of overlap.

of Yukon scenic resources or as a component of the service and trade industries. Mining involves the movement of bulk material. To decide at what point the movement of material is a primary or a tertiary economic activity is problematic. Notwithstanding these definitional problems there are groups of industries which perform similar functions and have similar interests. Using Statistics Canada "Standard Industrial Classification" (1980) the following industries are classified as trade and service:

- Transportation and Storage Industries,
- Communications and Other Utility Industries
- Wholesale Trade Industries
- Retail Trade Industries
- Finance and Insurance Industries
- Real Estate Operators and Insurance Agents
- Business Services Industries
- Government Service Industries
- Accommodation, Food and Beverage Service Industries
- Other Service Industries

This paper will discuss the Yukon's private sector trade and service industries in general, and will focus on the constraints and opportunities of the two largest components of the trade and service industries outside of the tourist component. Prior to this review, some general assumptions regarding trade and service in a resource dependent economy were examined.

2.0 TRADE AND SERVICE INDUSTRIES IN A RESOURCE DEPENDENT ECONOMY

In most resource dependent regions, the trade and service industries are underdeveloped. The prevailing view is that the underdeveloped state of this sector stems from its dependency on growth in the export sector of the economy. Consequently, policy makers tend to concentrate on export markets in the belief that a thriving export business will, in turn, generate a healthy service and trade sector.

In an examination of the Alaskan economy, the automatic growth notion of support services was questioned. Lee Huskey (1985) identified two major limitations to the rapid growth of trade and service industries in a resource economy. The limitations are a limited number of entrepreneurs and limited resources available for the entrepreneur.

The limited number of entrepreneurs in a resource region reflects the small population base to draw from, the lack of mobility of entrepreneurs from outside the resource region and little information on opportunities within the region being transmitted to potential entrepreneurs. Huskey also suggest that the type of person attracted to resource areas, by the opportunity for making money through high wages and/or real estate speculation, is generally not interested in starting up a service or trade business.

The limitations on resources for entrepreneurial activity are limited access to capital and financial services, limited access to information on latest trends and products and limited access to the market. The local merchant must combat the tendency for resource firms and employees to dispose of their income in their place of origin. These factors and an awareness of the boom and bust cycle associated with resource dependent economies tend to make entrepreneurs in a resource economy very risk adverse.

The trade and service industries may also have a pro-active as well as a passive role in a resource economy. The development of local trade and service industries will reduce dependence on outside suppliers and, in the long run, reduce the cost of developing the resources of a region. Secondly, a strong service sector contributes strongly to enticing a stable workforce, which further reduces the costs associated with resource development. These points suggest the need to address the constraints holding back the development of the trade and service industries and to identify the opportunities for development. The next section of the paper describes the state of development of the Yukon's trade and service industries.

3.0 TRADE AND SERVICE INDUSTRIES IN THE YUKON

In terms of number of businesses and number of employees, trade and service are by far the largest sector of Yukon's business community. Twenty-two per cent of the workforce is employed in retail trade, 14 per cent in accommodation (primarily a tourist oriented activity) and 12 per cent in transportation. From a study (Economic Perspectives paper; 1986), comparing the breakdown of Yukon's business community with other resource regions of Canada, some interesting results emerge. Generally, the Yukon economy is somewhat less reliant on manufacturing and somewhat more reliant on public administration. As a whole, the Yukon economy is significantly weaker in the industrial, or goods producing, sector when compared to the average for the other Canadian resource based regions the labour force and stronger in the tertiary or service producing sector.

The Yukon's sizeable service sector is most likely a reflection of Yukon being a distinct political entity. If public administration is removed from the equation, the Yukon's trade and service industries are comparable to, or slightly less, than other Canadian resource regions. This conclusion is surprising for several reasons: the Yukon has a sizable tourist trade, an excellent road system exists which facilitates the transportation industry, there are many small producers in tourism and mining who (one would assume) depend more on local services than a region dominated by one large producer, and Yukoners, on the average, have high incomes. However, two factors which might account for the current level of services are; the Yukon has a very low level of industrial activity and consequently, limited direct sales to industry. And secondly, there are few strictly tourist facilities.

Most businessmen servicing a tourist market are also servicing a local market.

Another difference between Yukon's trade and service industries and those in other areas is the pattern of development. Given the dependency of the service and trade industries on the primary and secondary sector, one would expect the service and trade industries to follow market trends in the primary and secondary sector. Slightly different results have occurred in the Yukon. Between 1981 and 1985 there were approximately 1300 jobs lost from the goods producing industries while only 850 jobs were lost from the service producing industries and there was some growth in the accommodation industry. The largest contributing factor to this trend is the dependency of the service industries on government and growth in tourism..

3.1 Constraints and Opportunities for Trade and Service Industries

It goes without saying that the biggest constraint to growth in the trade and service industries is the limited market size. This includes Yukon's goods producing industries, especially the manufacturing sector, and the limited population base. Nonetheless, there would appear to be room to foster the development of the trade and service industries through encouraging entrepreneurial activity and reducing institutional constraints. The "risk adverse" nature of entrepreneur would seem to be one area government could address by demonstrating a commitment to a more diversified economy. Other suggestions are raised in the following review of constraints and opportunities faced by the transportation and the trade industries.

4.0 CONSTRAINTS AND OPPORTUNITIES: THE TRANSPORTATION INDUSTRY

The transportation industry accounts for 11.7 per cent of the labour force and 7.8 per cent of the business establishments. The firms are primarily locally based and generally have fewer than five employees.

The trucking component of the industry was especially hard hit by the recent recession, in particular, the mine closures. Between 1981 and 1983/84 there was a 90 per cent drop in tonnage hauled by for-hire (from 554,000 tonnes to 45,000 tonnes). A small mitigating factor was the closure of the railway which provided a small boost for the transportation industry. In comparison to some other Yukon industries, transportation has a high degree of local ownership. Yukon based firms tend to focus on specialized trucking with most of the general freight being hauled by non-Yukon firms. Currently, the industry is very competitive and the suspicion is that many firms geared up in anticipation of the pipeline boom which never occurred. With the re-opening of Faro, this year should be a good in terms of tonnage hauled.

The motorcoach industry is closely related to the tourist industry as opposed to the mining industry. Consequently, it has been improving since 1981.

The air transport component of the transportation industry was also hit hard by the 1981 collapse of the mining industry. The component of the industry is slowly rebuilding with government and some tourism providing its main market.

4.1 Constraints to Air Transportation

The Yukon based air carriers primarily operate charters. It is arguable that inexpensive and regularly scheduled flights between Yukon communities is required for social and economic reasons. Better air service would facilitate tourism and the movement of people between communities. Yet there has been only limited success in the past at providing schedule service between Yukon communities. The major constraint to scheduled air service between communities is a limited market. Other constraints are discussed below.

Capital Costs; The capital cost to purchase a plane which could economically service the communities is seen as too high for a regional carrier to finance.

Airport Infrastructure; Current infrastructure is viewed as reasonable and the move to Territorial government control of Yukon airports is viewed as a positive step by the Yukon Transportation Association. However, it was suggested that there should be more input from the user groups into airport planning.

Government Contracting Policy; Since the downturn in the mining industry, government contracts account for a substantial portion of the charter business. For this reason, there is a concern expressed by some that the awarding of contracts should reflect the principle of contributing to the local community. Currently, all bids are tendered in Whitehorse enabling non-Yukon based firms to bid on work in the outlying communities. Community based companies would be more competitive if bids were tendered out of the communities.

4.2 Constraints to Road Transportation

The biggest constraint to development of road transportation is a weak mining industry. In addition to this overriding constraint, there are several institutional constraints which erode the industry's competitive advantage vis a vis non-Yukon firms. These are:

Driver Training; There are no truck driver training schools in the Territory. Prospectis drivers must borrow a truck to learn how to drive and to take their driver's tests.

Open Range; In addition to all normal road hazards, trucks travelling Yukon roads must contend with wandering livestock.

Infrastructure; There was general agreement that Yukon roads are in excellent shape. It was also noted that resource roads in the past had been helpful in encouraging development, and that serious attention should be given to the construction of additional roads. The lack of major equipment suppliers also increases costs of doing business in the Yukon.

Road Ban; The British Columbia government imposes weight restrictions on its portions of the Alaska highway. The required reduction in load often means the difference between profit and losing money. It is felt the government of Yukon should lobby against the imposition of road bans.

Insurance; Carriers in British Columbia have cheaper liability insurance rates than Yukoners due to the existence of the Insurance Corporation of British Columbia.
The suggestion was made that the government should explore options to assist in covering liability insurance.

Financial Services; Yukoners, in general, suffer from having to deal with bank managers with limited authority and who are, in general, "risk adverse". Without trust companies or equipment finance companies there are few options for obtaining financial assistance.

De-regulations and Licences; The Yukon Transportation Association is neutral on the question of de-regulation. They do not support or oppose it. Their concern is that as an infant industry they do not want to lead the way. A general concern is that too many licences are being granted each year eroding the economic base of the industry. A cited example was the granting of permission to carriers hauling to NWT to deliver to Whitehorse. Subsequently, the trucks travelling to Inuvik are using Whitehorse bound cargo as filler and can undercut Yukon carriers.

Wages; The salary levels of government secretarial staff makes it difficult for companies to keep good office staff. The concern was expressed that it made economic sense to move office functions to Edmonton or Vancouver.

4.3 Opportunities for the Development of the Transportation Industry

The transportation industry has several opportunities for growth which have policy implications.

Air Transportation; A regional airline is required to service the communities, industry and the tourist market. To facilitate this, by overcoming the capital constraints, one suggestion is for government to purchase the appropriate airplane and then lease it to the air carrier who can guarantee a certain level of service and price. Ontario instituted a similar program in Northern Ontario with success.

Road Transportation; In accessing Yukon markets, it is suggested that Yukon firms have an advantage by being closer to the market. This makes it easier to identify and contact clients. It would seem opportunities to build on this proximity also exist for southwest Alaska. What is required is more information on the size of the market and requirements to access it. Opportunities for backhaul must be explored; for example, packaged firewood to Vancouver. The largest and most consistent backhaul to Vancouver has been asbestos from Cassier and ore from Canada Tungsten.

5.0 CONSTRAINTS AND OPPORTUNITIES: THE TRADE INDUSTRIES

Retail and wholesale trade account for the largest number of employees and businesses in the Yukon (22% of the businesses and 25.4% of the employees). Wholesalers primarily service the mining industry and government. Consequently, between 1981 and 1985, employment in wholesale trade declined dramatically from 480 to 210. In contrast, employment in retail trade grew slightly from 1981 to 1985 and appears to have grown substantially in 1986 judging by the number of new outlets in Whitehorse. The retailers' major markets are households and tourists. The significance of the tourist market varies with the type of retail outlet. Clothing stores cater almost exclusively to locals, whereas some gift shops obtain more than 50 per cent of their sales from tourist. It is questionable if there would be significantly fewer retail outlets with a reduced tourist market. Most stores serve both the local and the tourist market with the tourist markets providing a cushion against a slow winter.

In comparison to retailers on a national basis, the Yukon has high representation in general merchandise, tire and battery stores, gasoline service stations, motor vehicle dealers, men's clothing stores, jewelry stores and liquor stores. The size of retail operations is polarized into a large group of owner operators and a number of larger sized establishments selling a wide product line. While the size of the Yukon market is limited, Yukon based merchants do have a captive market, with a fairly high disposable income.

5.1 Constraints to the Growth of the Trade Industries

The primary constraint is a limited local market which is dependent on growth in the goods producing sector. However, there appears to be some room for import substitution, especially in the tourist market, and there are several institutional constraints which can be addressed. The identified constraints are as follows:

Southern Competition; The major source of competition for Yukoner's disposable income is southern merchants who can offer a wider variety of products at lower prices. Many people use catalogues for shopping or save their major purchases until they can obtain a trip to a southern city. It has been suggested that the government policy of providing one trip out per year encourages this shopping pattern. On the other hand, one merchant interviewed thought that long term Yukoners consciously support local merchants.

Financial Services; The acquiring of capital is a problem for all small businessmen and especially difficult for rural based operators. Most government assistance programs do not apply to retailers and wholesalers.

Risk Adverse; The sentiment has been expressed that Yukoners are "risk adverse" having experienced the downturn of 1981.

Yukon's Dual Market; There are two distinct Yukon markets; Whitehorse and rural Yukon. Whitehorse is viewed as the main market with its high percentage of government employees. Other Yukon communities are viewed as being more vulnerable and, consequently, service in many goods is limited to mail and phone orders. The exception is the tourist oriented trade which likely makes up a much larger part of rural based services than in Whitehorse.

Few Local Products: A common concern is the lack of local products for sale. Every merchant interviewed felt there was a demand for local products (especially from the tourist traffic) if the continuity of supply and quality of products could be maintained at reasonable price. The ability of local craftspeople to meet these criteria was questioned.

Whitehorse Infrastructure; The prime shopping area in Whitehorse is downtown between 2nd and 4th avenues. Within this area there is a shortage of floor space and parking space. It was felt that the Main Street improvements have improved business and that the next area for work was the waterfront.

Government Wage Rates; There is a concern that government wage rates make it difficult to attract and maintain staff. On the other hand, merchants recognize that it is government employees who form a main component of the Whitehorse market.

5.2 Opportunities for the Growth of the Trade Industries

Expanding the Market; Outside of expanding the economic base, the major opportunity identified is enticing tourists to extend their stay in the Yukon. Suggestions to accomplish this include business district beautification, renovating the Whitehorse waterfront, and a general upgrading of infrastructure. Another identified opportunity is Southeast Alaska. The year round opening of the South Klondike Highway and the favourable exchange rates suggest more could be done to encourage Juneau residents to travel to Whitehorse, and other Yukon communities, especially during the winter.

Import Substitution; There appears to be a demand for Yukon manufactured crafts. Items identified include snowshoes, freighter canoes and ceramic goods. The major limitation identified was essentially, poor business skills. To overcome this barrier one suggestion is the establishment of a marketing board for Yukon Crafts. A concern expressed with this approach is that previous experience suggests the potential for the marketing board using government money to compete directly with established retailers.

Wholesale Markets; In some areas, assistance is required in identifying and contacting export markets. For example, there seems to be a demand for jewelry in Germany and Japan.

6.0 SUMMARY AND RECOMMENDATIONS

The focus of this paper has been the transportation and the trade component of the trade and service industries specifically, and trade and service in general. The premise of the paper is that trade and service are dependent on the goods producing sector of the economy. This has largely been demonstrated to be true. However, the importance of the government payroll in supporting trade and service was indicated and several factors were identified which were constraints to the expansion of trade and service within the existing economy and environment. Opportunities to expand the market through import substitution and servicing Alaska were also identified.

Government was seen as having two roles in supporting the development of this industry. The first role is essentially the development and implementation of policies which support the long term development of Yukon's economy and, thereby, lessen the risks facing entrepreneurs and financiers. The second role is the implementation of specific policies to support local merchants. These include; the continuation and development of a local purchase and contracting policy, maintenance and development of civic infrastructure, avoiding competition with the private sector and exploration of options to 1) assist local producers get their product to market in a businesslike fashion and 2) help local merchants and wholesalers enter new markets.