

**Notes Regarding a Strategy for Manufacturing Jobs
OFL Jobs Conference
Keith Newman CEP - October 25, 2006**

1 – We must first stop our current manufacturing jobs destruction policy : the dramatic jump in the value of the Canadian dollar against the US currency over the last four years.

Since January 2002 the Canadian dollar has climbed from 62.5 cents US to more than 86 cents US today, a 38% increase. There are two ways of looking at the significance of this appreciation – excluding other factors, the costs for Canadian industry have jumped 38% in US dollar terms or the sales revenue from export sales are now worth 38% less than they were a few years ago.

The main reason for this is the increase in the value of our exports of oil and natural gas. As a result the Canadian dollar is now viewed by many as a «petro-currency».

We export large quantities of natural gas to the US, more than 50% of our annual production, and have been doing so since the mid-1990s. While at one time this represented a substantial, but manageable export in dollar terms, it now represents a huge export since the price of natural gas has increased between 2 and 4 times in the last few years.

Canada is also a net exporter of crude oil and the value of crude has tripled over the last few years adding to this energy export surplus.

The tens of billions of dollars following into Canada from these exports has pushed up the value of our currency. Indeed the increase in the value of our dollar has more or less tracked the increase in the price of oil and gas.

And this trend will get worse. 100 billion dollars of projects have been announced to expand our exports of crude oil from the tar sands over the next ten years. So there is little prospect the value of our dollar will drop to a more reasonable level unless oil and gas prices collapse.

What can we do about this?

First we must ask why Canada is exporting more than half its natural gas to the United States when we know we are running out of cheap conventional gas for ourselves?

Natural gas is the main feedstock for the petrochemical industry in Canada. In Ontario industrial users face shortages and already a plant in Sarnia is closing as a result. In Alberta another plant (Celanese) closed a year ago and a third faces imminent closure. The main reason is that we don't have enough gas for them.

For several years the industry association, the Canadian Chemical Producers Association, has complained it can barely get enough gas to run its existing facilities let alone expand them. Yet we would have plenty if we didn't export more than half of it.

What should be done? It's pretty simple. We should re-institute the 25 year rule for oil and gas export. We used to have a rule that natural gas exports would only be allowed if we had reserves equivalent to 25 years of use. Today that rule is no longer in effect and we have about 7 years of reserves. Natural gas exports need to be phased out.

The tar sands are another area of incoherent policies. There is currently a project before the National Energy Board to convert a natural gas pipeline carrying gas to Ontario, into a pipeline that will carry 400,000 barrels per day of raw, unprocessed bitumen to the United States.

This is a good example of a job destroyer. First the money flowing into Canada from the proceeds of the sale of huge quantities of raw bitumen will push up the value of the Canadian dollar, causing job losses elsewhere in the economy, particularly in exporting industries. Second, less pipeline space will be available for Ontario and probably restrict natural gas supply to the province. And third, virtually unbelievably, we'll be exporting the raw bitumen to plants in the US where it will be processed and refined, creating a large number of jobs.

CEP hired Informetrica, a respected economic modeling firm, to evaluate the jobs that will be lost as a result of this export. Informetrica calculates that 18,400 jobs will be lost to Canada if this quantity of raw bitumen is exported from Alberta to the US. Most of those jobs, 14,000, will be lost outside of Alberta, mostly in Central Canada, as the building materials and sophisticated equipment needed for the upgraders and refineries are manufactured elsewhere. These are good, high paying jobs, with good benefits, that we are throwing away. It makes no sense.

CEP is providing evidence before the National Energy Board in late November asking that it disallow this misuse of our resources. The Ontario government is slated to appear before the Board as well but its position is unclear. Ontario should demand that jobs for Canadians, for Ontarians and others, take priority over the short term interests of oil and gas companies.

In fact we must take back control of our oil and gas industry. It is entirely under private control and serves short term private interests. This has been a disaster for hundreds of thousands of workers and their communities. The time has come to take back the control we have relinquished. Twenty years ago the Mulroney government removed the 25 year rule for oil and gas reserves. It's time to re-impose it.

In addition we must take action on the ownership structure of this industry. Fully one half of our industry is under foreign control. Would any other industrialized country allow this? Would England allow BP to be taken over by foreign interests? Would the United States allow foreign interests to take over ExxonMobile or Chevron? The Canadian government has the responsibility to ensure energy and economic security for Canadians. Accordingly, it should selectively nationalize foreign holdings in the Canadian oil and gas industry.

2- We also need to help our industrial sectors that are in transition. The forest products industry is in difficulty as a result of the increase in the value in the Canadian dollar and eroding demand for its products.

Workers and manufacturers need help.

Hydro costs are high in Ontario. Manufacturers will not want to stay, expand or locate in the first place in Ontario if hydro costs substantially more than in other jurisdictions. We need a policy to give job producing manufacturing plants a break on hydro costs.

Trees should also be tied to jobs and investment. Canadian pulp and paper manufacturers have invested in the southern US, South America and Asia. If they fail to invest here and shut operations their timber allotments must be taken away and be put under local control.

Finally, there is a problem with the structure of many of our manufacturing industries. The forest products industry in Northern Ontario produces mostly basic commodities: dimension lumber, newsprint, woodpulp. More than 90 percent of all forest industry workers in the North are employed making these products.

We need to change the structure of this industry. Far more people would be employed if the government had taken an active role in the past. It should have insisted on more value-added industry in exchange for the wood it allowed businesses to harvest. We need to manufacture high quality lumber and boards, doors, window frames, furniture, prefabricated homes, ready-to-install building materials, factory-built housing systems such as wall units, trusses, and engineered wood products.

It's not too late to start. The Ontario government should provide active leadership to diversify the industry. A strategy needs to be worked out that will re-create it. The forest tenure system should be overhauled and brought closer to our communities. Wood should be allotted to firms that create high value-added jobs.

3 – As part of a strategy to develop manufacturing jobs we should look at our advantages. It is odd that Canada has one of the largest pulp and paper

industries in the world yet manufactures virtually no equipment for the industry. Sweden and Finland do.

We need an active government strategy to develop industry. The private sector is not doing it on its own.

To assist industrial development the Ontario government should establish a sector development bank that invests in new industries. The Bank could be funded by pension funds and other sources, with a government guaranteed rate of return equivalent to long term bonds.

An obvious area of investment is environmentally friendly industry. An example is wind power. It is an industry just beginning to take shape in our country and the future for it is enormous. Why not develop an Ontario-based wind power industry initially supported by Ontario Hydro procurement. In Europe many thousands of people work in this industry. Why not in Ontario?