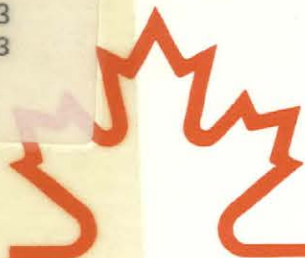


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PULP AND PAPER MODERNIZATION STUDY

VOLUME 2

ONTARIO REPORT

**Program
Evaluation
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**Direction
de l'évaluation
des programmes**



Government
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Expansion

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Expansion industrielle
régionale

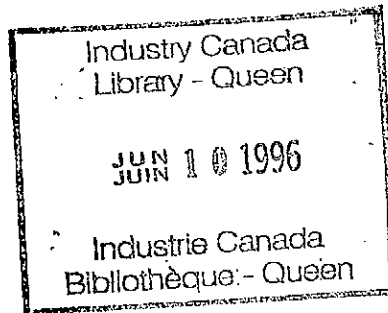
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PULP AND PAPER MODERNIZATION STUDY

VOLUME 2

ONTARIO REPORT



Prepared by
Program Evaluation Branch
ITC/DREE
October 1983

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**PULP AND PAPER MODERNIZATION STUDY
ONTARIO REPORT
EXECUTIVE SUMMARY**

1.0 INTRODUCTION

In January 1983, the departmental Senior Management Committee approved the conduct of a study of the national Pulp and Paper Modernization Program which would provide additional insight into the operation of the program and alternatives for program design beyond the March 1984 expiration of the program.

This interim study focussed on the basic program evaluation issues of improvement and delivery/efficiency leaving impacts and objectives achievement to be evaluated at a later date. The specific study issues included:

- . program alternatives, discussed under Program Design (section 2);
- . negotiation processes, addressed under Program Delivery (section 3);
- . leverage of private investment, the topic of section 4; and
- . Canadian content of investments, discussed in section 5.

The study's findings are derived from consideration of activities undertaken through the subsidiary agreement signed in Ontario, and accounts for 35% of total program funding. Approximately 27 persons were interviewed, representing applicant companies, provincial and federal government officials, labour representatives and machinery/equipment manufacturers. In addition, project files were reviewed for 6 companies, which was over 50% of the assisted companies. The study team included representatives from the Department (H Q and regions) while the provincial government representative served in an observer capacity during the interviews.

This report presents the major findings and recommendations on a provincial basis. Other volumes provide details on the modernization program in Quebec, New Brunswick as well as the National Report.

Findings are summarized in this executive summary as they pertain to program design, program delivery, investment leverage, and Canadian content. Recommendations are presented in bold type.

2.0 PROGRAM DESIGN

The study considered how the basic design of the Ontario portion of the program was received by federal/provincial government officials and industry in Ontario. The topics addressed included the subsidiary agreement mechanism, types of funding instruments, the level and type of assistance, disbursement of funds, eligibility provisions, five year plans and objectives.

The subsidiary agreement was considered an adequate mechanism by most respondents and in particular by government officials for joint (federal/provincial) targetting of assistance which was directed at regional needs and interests. The subsidiary agreement mechanism also facilitated joint partnership with the province (having jurisdiction over wood resources) in a national program directed at a major industrial sector.

In future programs where factors such as federal/provincial jurisdiction, major projects and joint targetting of assistance are a major concern, the subsidiary agreement should be considered as an assistance mechanism.

Companies indicated that tax incentives/changes in regulations would be the preferred form of assistance to the industry. Government officials (both federal and provincial) felt that the incentive grant was an appropriate instrument since a good response to the program from the industry was achieved. In determining the most suitable instrument an assessment of the government's objectives for the sector and future company profitability would have to be made.

Further study should be given to tax incentives as a future funding instrument for the provision of assistance.

The eligibility provisions for the Ontario portion of the program were considered appropriate. However, the exclusion of maintenance projects was seen as a "grey" area and that clarification of this aspect for future programs would be useful.

Guidelines should be established as to what constitutes capital investment as opposed to maintenance and repair investments for future program delivery.

The requirement for company five year investment plans which were an important means for delineating corporate investment intentions served as a major input to the program planning process of the Department. In terms of the overall cash management of the program any significant changes in these plans would have major implications.

In future programs, flexibility in the use of multi-year corporate plans should be maintained so that changes may be dealt with appropriately.

In terms of the project level of assistance companies were split as to the adequacy of assistance. One half the companies interviewed felt that they obtained their "fair share" of the total assistance available under the Ontario portion of the program. In terms of the IRDP maximum levels of assistance for modernization and expansion projects could accommodate greater needs of assistance since assistance levels are at least equal to or greater than those maxima provided under the modernization program.

The type of disbursement of funds provided under the Ontario portion of the program was unique in that provincial monies were paid in lump sum/up front payments which was blended with progress payments by the

federal government. The majority of companies and provincial officials indicated a preference for the disbursement of monies up front. The blending of up front/lump sum payments with progress payments was perceived to have been a major factor in bringing company investment ahead sooner and thereby positively influencing the timing of investments.

In future joint programs consideration should be given to the types of payments to be utilized: up front/lump sum, progress payments or a blending of the two.

A considerable amount of groundwork had been undertaken concerning industry requirements prior to the implementation of the program in Ontario and as such the program's objectives were seen to be consistent across the majority of groups interviewed.

Specific up front public information forums detailing program initiatives should be considered at the time the program is implemented.

3.0 PROGRAM DELIVERY

Various issues have been identified with respect to program delivery such as the pace of negotiations, treatment of companies, postponements/cancellations and the involvement of labour in the modernization program.

The pace of negotiations was seen to be conducted at a reasonable rate by the companies and the federal/provincial officials associated with the program in Ontario. Factors contributing to the negotiation process included the knowledge of members of the Management Committee concerning the status of the industry, the working relationship between the co-chairmen of the Management Committee and the level of decision making determined to a great extent whether an "agreement in principle" was reached earlier or later in the process of negotiations.

The companies generally viewed equitable treatment as being provided to them under the program. In cases where there were differences in incentive levels applied it was due to the type of project pursued by each company. Government officials indicated they did not see evidence of different treatment of the same company in other provinces.

Labour representatives indicated that there were not adequate measures for labour involvement under the program and assistance for labour adjustment in areas such as the promotion of earlier retirement and the attrition process.

Consideration must be given to more labour involvement in a successor program and the appropriateness of complementary labour adjustment programs.

4.0 INVESTMENT LEVERAGE

One of the primary rationales for the program was to assist companies to undertake modernization and pollution abatement investments. As such, the study has indicated that the program in Ontario has had a considerable impact in bringing ahead the investment plans of the companies and in some cases increased the scope or quality of the projects undertaken.

Total planned investments by the companies participating in the program in Ontario represent \$1.3 billion (1978 dollars). Some of this planned investment was not eligible for cost sharing under the program and represents about 12% of total planned investment. Actual expenditures (as of December 31, 1982) of \$919.2 million (1978 dollars) represent 71% of total planned expenditures of \$1.3 billion.

The Management Committee for the subsidiary agreement placed considerable emphasis on their effort to increase the levels of investment by the companies. A benchmark target investment leverage ratio was used

as a guideline in the determination of leveraged investment and was to reflect the varying portions and importance of modernization, pollution abatement and energy to the total project.

Future programs should consider the use of target investment leverage ratios as guidelines.

5.0 CANADIAN CONTENT

The subsidiary agreement for the Ontario portion of the program and individual company contracts signed under the program contained provisions for Canadian content to be included in projects under the program.

The study has revealed that the majority of the pulp and paper companies and the government officials interviewed for the Ontario portion of the program felt that Canadian content requirements were sufficiently defined. However, some machinery/equipment suppliers in Ontario expressed a need for stronger guidelines with respect to compliance and a clearer delineation of levels of Canadian content to be obtained in categories such as labour, construction materials and machinery/equipment components.

With respect to the monitoring of Canadian content levels a number of sources of data exist. Some pulp and paper companies had internal provisions for monitoring purposes but these varied as to the degree of formality for each company. The semi-annual status report required from each company under the program identifies specific Canadian content on items.

In general equipment/machinery suppliers felt that a rigid monitoring system should be in place and rules concerning Canadian content should be enforced.

There are indications that Canadian pulp and paper machinery/equipment suppliers have benefitted as a result of the program and that without the modernization program some of the projects would not have gone ahead.

Most respondents saw attempts by government to increase Canadian content and the pulp and paper companies indicated that they were made aware of both governments desire to maximize Canadian content. Machinery/equipment manufacturers felt that assistance for first installation projects would be significant in terms of the development for their sector and that the government should notify Canadian pulp and paper machinery/equipment manufacturers as to what developments are forthcoming.

Canadian content requirements should be clearly outlined in the design and implementation stages of future programs; specific guidelines should be established with respect to requirements for monitoring Canadian content; the conditions of monitoring should be made a joint responsibility of both government and program clients. It is also recommended that the significance of the problem raised with respect to the first installation of Canadian-made machinery should be determined.

1.0 INTRODUCTION

1.1 Purpose and Scope of Study

This study was undertaken to provide answers to a number of questions of interest that Departmental Management had regarding the Pulp and Paper Modernization program. Five provinces participated in the program. As Ontario should receive 35% of total available incentives (2nd largest), and because its program is more mature than those in some other provinces, it was one of the three provinces selected for examination.

Four areas of specific interest were identified by Departmental Management and are addressed in this report. These areas are:

- Program Alternatives
- Leverage
- Negotiation Process
- Canadian Content

1.2 Structure of Report

This report (Volume 2) of the Pulp and Paper Modernization Study consists of a regional report related to the Ontario portion of the program. Three other volumes in the study are related to regional reports (Volume 3 Quebec and Volume 4 New Brunswick) and the National Report (Volume 1).

This report details findings and recommendations based upon the portion of the study undertaken for Ontario. Section 2.0 Background briefly details the Pulp and Paper Modernization Program in Ontario. Section 3.0 provides an overview of the Study Design.

Sections 4.0 - 7.0 cover each of the four issue areas and provide findings, conclusions and recommendations based upon the results of analysis and data collection contained in the report.

Appendix A to this report provides more information with respect to data acquisition guidelines.

2.0 BACKGROUND

2.1 Pulp and Paper Modernization Program

The pulp and paper industry is an important element in Ontario's economy. In 1977, the pulp and paper industry directly employed 28,000 workers (mill and woodlands) and produced in excess of 3 billion dollars worth of products. Many northern communities exist solely because of the pulp and paper industry.

In April 1978 the Ministry of Natural Resources issued a report that concluded that Ontario, in order to remain competitive with their American counterparts, should undertake substantial investments.

On May 15, 1979, the Ontario/Canada Pulp and Paper Subsidiary Agreement was signed, providing for \$150 million in grant incentives (amended on December 13, 1979 to \$180 million). The subsidiary agreement terminates on March 31, 1984. This assistance was split on a 2/3 : 1/3 provincial/federal basis.

The stated objective of the program was to assist in meeting the costs of conforming to pollution-abatement standards, to improve the viability and competitiveness of the pulp and paper industry in Ontario by accelerating and maximizing private sector investment in modernization, and to promote policies which are supportive of good forest management, pollution abatement and modernization.

3.0 STUDY DESIGN

Two basic methodologies were used in gathering data for this report; a file review and interviews.

3.1 Selection of Sample

The four target groups, Federal/Provincial officials, pulp and paper companies, unions, and machinery and equipment suppliers, were identified as areas of interest by the Steering Committee.

The six pulp and paper companies selected for the target group were chosen using such criteria as location in more than one province and maturity of implementation of investment plans. Appendix A Part 1 gives details of the criteria used.

3.2 File Review

The data for the file review was obtained from files located at the Ontario Development Corporation (ODC), DREE/ITC regional office Toronto, Provincial Department of Treasury and Economics, and DREE/ITC headquarters. The file search was carried out for six companies comprising fourteen mills.

The following types of information to be obtained included:

- % completion of investment plans
- minutes of meetings/decisions taken
- evidence of changes in plans, purchases
- results achieved to date
- specific problems/problem areas
- information related to issue/questions such as financial information regarding the issue on leverage

To facilitate and ensure consistency in data gathering a file review data sheet was created. This data review sheet met Statistics Canada's statistical and paper burden review requirements. An example of this collection instrument is provided in Appendix A Part 2.

3.3 Interviews

The interviews for Ontario were held with officials from six pulp and paper companies, Federal government officials (2), Provincial government officials (6), machinery and equipment officials (5) and union officials (3).

The Ontario interview team was comprised of personnel from Departmental headquarters and regional offices with the provincial government representative attending interviews in an observer capacity.

The type of information that was to be collected through the interviews included the following:

- information on operational matters such as Canadian content, company needs, the negotiation process and program delivery;
- perceptions and opinions pertaining to program alternatives, the negotiation process, Canadian content, and investment leverage; and
- verification of information collected through the file search.

To ensure consistency and ease of comparison a set of questions specific to each target group and to each issue area was developed. The questionnaire satisfied Statistics Canada's statistical and paper burden review requirements. An example of the questionnaire is provided in Appendix A Part 3 to this report.

3.4 Constraints

This study of the Pulp and Paper Modernization Program is restricted to four major issues and is based mainly upon the perceptions and opinions of the program clients and program administrators. Specific limitations in dealing with data acquisition include mixed dollar figures which were not always clearly indicated as dollars for a specific year. Energy cost data was difficult to aggregate due to the lack of standard reporting units.

4.0 PROGRAM ALTERNATIVES

The purpose of this section is to consider some aspects of the pulp and paper modernization program which contributed to or inhibited the achievement of program objectives. The section begins with an analysis of the perception of the objectives followed by a consideration of the level and type of assistance, complementarity with other programs, the subsidiary agreement as a mechanism, the utilization of five year plans, eligibility provisions and the disbursement of funds.

4.1 Objectives

The objectives were seen to be consistent across the interview groups. The primary objective identified was to improve the competitive position of the industry, while the stabilization of the employment base was also seen as an objective across target groups interviewed with the exception of labour.

A considerable amount of preliminary work had also been done concerning requirements of the industry prior to the implementation of the Ontario portion of the program (eg. benchmark report and task force report) which probably contributed to the understanding of objectives for the most part.

Recommendation

Specific up front public information forums detailing what the program is about especially those programs dealing with productivity improvement/ rationalization of industry sectors and associated job reductions/ stabilization effects should be considered at the time the program is implemented.

4.2 Level and Type of Assistance

Companies were split as to their responses, with three companies perceiving the level of assistance as being adequate. In those cases

where companies saw the project level of assistance as adequate, the major influence was seen on the timing of investments (bringing investment forward). Half of the client companies interviewed perceived that they obtained their "fair share" of total assistance available in the Ontario portion of the program. Federal and provincial government respondents saw the level of assistance as adequate.

Three out of five companies indicated tax incentives or changes in taxation/regulations as the preferred type of assistance. Both Federal and provincial officials felt that the present type of assistance of an incentive grant was appropriate since there was a good response from the industry in the initial stages of the program. Union representatives viewed the grants as a "giveaway" and felt that companies should have been undertaking plant modernization as the normal course of business.

As an alternate form of assistance grant incentives blended with tax incentives/changes in regulations might be seen as an appropriate type of assistance. The grant portion would provide the initial impetus to investment (with respect to timing) while the tax incentive portion may provide for the continuance of modernization investments over the longer term.

Recommendation

Further study should be given to tax incentives as a future funding instrument for the provision of assistance.

4.3 Complementarity/Conflict with Other Programs

The companies and federal/provincial officials saw the program as complementary with other programs such as the Forest Industry Renewable Energy (FIRE) program as well as the Forestry Management Subsidiary Agreements. No major conflict was identified with respect to other government programs.

4.4 Subsidiary Agreement as a Mechanism

The subsidiary agreement was deemed adequate by the majority of the companies and federal/provincial officials interviewed as a mechanism for making funds available to companies and negotiating with governments.

The subsidiary agreement mechanism as utilized in the Ontario portion of the program is an agreement between the federal and provincial governments, and accommodates factors such as joint (federal/provincial) funding and joint targetting of assistance to a specific industry sector. This mechanism enabled direct input from the participating province into a federal program and as such, provided an opportunity for regional needs and aspects in the provincial domain (e.g. wood supply) to be taken into consideration both in the design and delivery of the program.

Recommendation

In future programs where factors such as federal/provincial jurisdiction, major projects and joint targetting of assistance are a major concern, the subsidiary agreement should be considered as an assistance mechanism.

4.5 Five-Year Plans

All companies saw the request for five-year plans as being reasonable concerning the modernization program in the mills. The contract signed with the companies provided some flexibility in that project substitutions within their programs could be made. However, four of the six companies indicated that there was not enough recognition given to the fact that plans may change over a 5 year period due to external factors such as an economic recession or market conditions changing.

Recommendation

In future programs flexibility in the use of multi-year corporate plans should be maintained so that changes may be dealt with appropriately.

4.6 Eligibility Provisions

All companies interviewed felt that project selection/eligibility criteria were appropriate.

Government officials saw criteria as appropriate and not burdensome; however, the exclusion of maintenance projects was seen as a "grey" area and they felt that more specific guidelines could be developed for this aspect of the program eligibility provisions. There was some question raised by provincial officials as to the appropriateness of excluding newsprint capacity increases (eligible costs were prorated with respect to capacity increases on newsprint) since it was felt that the capacity increases could be controlled through constraints on wood harvesting levels.

Recommendation

Guidelines should be established as to what constitutes capital investment as opposed to maintenance and repair investments for future program delivery.

4.7 Disbursement of Funds

The majority of companies indicated a preference for lump sum/up front payments and cited the positive impact on the borrowing position of the firms as the rationale for this type of disbursement.

Federal officials saw a blending of up front payments (Provincial) with progress payments (Federal) as an appropriate method for the disbursement of funds since project control would still be retained through the progress payment feature. The provincial officials interviewed had a mixed reaction as to whether the blending of up front/lump sum progress payments was the best route to go. However, all provincial government respondents indicated a preference for disbursement of monies up front.

Generally, the up front/lump sum payments were seen to positively influence the timing of investments (bringing investments forward) and to demonstrate good faith on the part of the government.

In summary, the blending of up front monies/progress payments was seen to have had a positive impact on the timing of investments while progress payments were seen to provide a control feature for the program.

Recommendations

In future joint programs consideration should be given to the types of payments to be utilized: up front/lump sum, progress payments or a blending of the two.

5.0 Negotiation Process

The purpose of this section is to consider the negotiation process utilized in the Ontario portion of the program and highlight those aspects which might be useful for future programs. The negotiation/delivery process is considered from the point of view of the pace of negotiations, treatment of companies, postponements/cancellations and the involvement of labour.

5.1 Pace of Negotiations

Negotiations were seen to be conducted at a reasonable pace by the companies and federal/provincial representatives. Government officials identified a number of factors which they felt contributed to the pace of negotiations as follows:

- (i) The Management Committee had access to a report (benchmark) on the status of mill conditions in Ontario.
- (ii) A good working relationship between the Co-chairmen of the Management Committee contributed to the process.

- (iii) The quality of a company's total investment package (submission) could either facilitate/constrain the pace of negotiations.
- (iv) The use of a target investment leverage ratio.
- (v) The level of decision making determined to a great extent, whether an "agreement in principle" was reached earlier or later in the negotiation process.
- (vi) The use of "levers" (timber rights as an example) to move negotiations along.

Companies generally saw the program delivered in a speedy and efficient manner. There was a minimum of red tape involved due in part to the availability of up front funds which was felt to have facilitated the delivery process.

In summary, the front line negotiating team should be knowledgeable (have homework done) before the negotiation process commences. Decision making authority at least for an "agreement in principle" should be available during discussions. While recognizing that general guidelines were in place which contributed to the speed and manner in which the program was delivered, an attempt should be made to ensure consistency in information for monitoring and evaluation purposes. As an example standard reporting units should be utilized in recording energy cost data and where possible expenditures reported in constant dollars (appropriate deflation/inflation factor identified).

5.2 Treatment of Companies

Companies generally saw equitable treatment provided to them under the program, however, there were some differences in terms of the types of projects pursued by each company and hence a difference in incentive levels applied. Government officials saw very little evidence of different treatment across other provinces although one respondent

indicated that the application process and paper burden was more prolonged and greater in another province than in Ontario.

5.3 Postponements/Cancellations

The presence of a legal contract was seen by government officials as a good provision for dealing with postponements/cancellations since it secured a commitment from companies to proceed with their modernization plans.

Although a few difficulties were experienced with respect to a delay of projects for some companies, substitution of projects within company modernization programs could be made. Overall the incidence of postponements was low. In conclusion, postponement/cancellation provisions were seen to be adequate for the Ontario portion of the modernization program.

5.4 Labour

As part of the study team's approach to obtain comments and perspectives from individuals/groups associated with the modernization program in Ontario, discussions were held with labour representatives. In general labour expressed a strong desire to be involved in the negotiation process leading to a joint three party agreement - industry, labour, governments. These representatives indicated that there were inadequate measures for labour adjustment under the modernization program in areas such as the promotion of earlier retirement and assistance in the attrition process.

Recommendation

Consideration must be given to more labour involvement in a successor program and the appropriateness of complementary labour adjustment programs.

6.0 Investment Leverage

The purpose of this section is to report on the effect of government assistance (under the Ontario portion of the program) on the amounts and timing of company investments. A description of the companies' investment over time is provided followed by an examination of the efforts on the part of the two governments (federal and provincial) to influence the companies' investment. Finally, the degree to which government efforts and assistance were able to bring about incremental investments by companies are assessed.

6.1 Investment Levels Achieved

Evidence available from file reviews indicates that the program has impacted favourably upon investment levels. Actual expenditures (as of December 31, 1982) of \$919.2 million (1978 dollars) as a percentage of total planned expenditures of \$1.3 billion is 71%.

The degree to which non-eligible projects are going ahead has not been sufficiently monitored to adequately address this item although there is some indication that ineligible projects of the standard maintenance type as well as woodlands investments have gone ahead. Total planned ineligible investment of \$155,793,000 (1978 dollars) represents about 12% of total planned investment.

6.2 Efforts to Increase Levels of Investment

Both federal and provincial groups saw a concerted effort to increase levels of investment (due to the efforts of the Management Committee) under the program and to focus the investment. This group also viewed major changes/shifts in position as taking place during the initial stages of plan formulation and the negotiation process with the companies. Two cases were cited in which investment levels were doubled and tripled respectively during the initial stages of plan formulation. In a few other cases some shift has taken place due to revised/better estimates

regarding financial data. During the period between formal plan submission and final approval some adjustments were made to accommodate environmental considerations which resulted in some changes in dollar amounts and project scope.

Government officials interviewed indicated that a target investment leverage ratio of \$7:\$1 (company/government) was utilized as a benchmark in negotiations with the companies in the present program. Estimates indicate that should total planned investments (as at December 31, 1982) go ahead then the ratio of total planned investment to total planned incentives would be \$7.4:\$1. The use of a benchmark (target investment leverage ratio) may prove useful as a guideline in future programs particularly in cases where increases are being sought in the levels of investment initially proposed by program clients.

Recommendation

Future programs should consider the use of target investment leverage ratios as guidelines.

6.3 Incrementality

In general the program in Ontario has had a positive influence on the timing and scope of investments.

Companies interviewed indicated that the most significant influence of the program has been on the timing of investments in that they occurred sooner as a result of the program than they would have otherwise.

In the Ontario portion of the program the use of up front/lump sum provincial payments was seen as providing an impetus to investment as well as demonstrating to companies "good faith" on the part of government.

7.0 Canadian Content

Canadian content is considered in this section from the viewpoint of Canadian content requirements in the Ontario portion of the program, the monitoring of Canadian content requirements achievement and government efforts to increase Canadian Content in the program.

7.1 Canadian Content Requirements in the Program

The requirements for Canadian content under the Ontario portion of the program is outlined in the subsidiary agreement (Section 11-1) and more specifically in each contract signed with the companies. Each contract specifies a percentage to be secured for all services, materials, and equipment in connection with the program from Canadian suppliers provided "they are able to meet timely availability requirements and are competitive with other potential suppliers in quality, delivery, price, performance and servicing".

Overall the majority of pulp and paper companies and government officials considered Canadian content requirements as sufficiently defined in the contracts. Companies in Ontario generally saw the percentage of Canadian content specified in their contracts as being reasonable. However, companies did indicate that the imposition of a high level (90%-95%) of Canadian content as a condition of assistance would be viewed as unrealistically restrictive. Two companies specifically indicated that they would not have gone ahead with their projects had a high level been imposed upon them.

Interviews held with machinery/equipment suppliers in Ontario indicated that Canadian content guidelines should be stronger with respect to compliance and more specific concerning certain aspects of the program such as the levels to be obtained in the labour, construction material and equipment/machinery components. In conclusion, the experience of the Ontario portion with regard to Canadian content appears to be positive.

Future programs of the Department could possibly benefit from a clear delineation both in program design and in program implementation concerning Canadian content requirements.

Recommendation

Canadian content requirements should be clearly outlined in the design and implementation stages of future programs.

7.2 Monitoring of Canadian Content

The majority of the pulp and paper companies interviewed indicated that internal provisions were established to monitor Canadian content levels. This monitoring took the form of contract clauses with suppliers and specified requirements for the identification of sourcing. The companies also identified the requirement for a status report to be sent to the Province as identified in the individual contracts signed with the companies under the program.

Federal government officials felt there was an apparent lack of adequate "hands on" monitoring with respect to Canadian content. Follow up on the monitoring of compliance was seen as not as adequate or as rigorous as it could have been particularly in the earlier stages of the program. From the provincial viewpoint, the monitoring of Canadian content was not as strict initially as it was later on in the program. Provincial officials did indicate that random audits were undertaken and that there was a requirement for semi-annual reports from companies of which Canadian content was a specific item.

In general the equipment/machinery suppliers interviewed in Ontario felt that a rigid monitoring mechanism should be in place and strict rules concerning Canadian content should be enforced. Overall these suppliers indicated that they have benefitted as a result of the program with one company identifying orders in excess of \$19 million. This company felt that without the program some of the projects would not have gone ahead.

In summary, company internal provisions for monitoring Canadian content were present but varied as to the degree of formality for each company. Apart from the semi-annual status report there appeared to be sporadic monitoring of Canadian content in general. Canadian content became more of an issue later on in the program as a result of a higher profile created by some purchases of foreign made machinery and equipment.

Recommendation

For future programs specific guidelines should be established with respect to requirements for monitoring Canadian content. Conditions of monitoring should be made a joint responsibility of both government and program clients.

7.3 Efforts to Increase Canadian Content

Most respondents felt that there were government attempts to increase Canadian content. Companies (pulp and paper) indicated that they were made aware of both the governments desire to maximize Canadian content. Machinery and equipment manufacturers did not see the government playing an active role in getting the companies and suppliers together and that they were only generally aware of the modernization program. The machinery and equipment manufacturers did not see the federal government assisting much in domestic trade but where exports are involved it plays a major role.

Government officials felt there were sufficient efforts made to increase Canadian content levels in the program but that they did not push the companies. The "best effort" clause and the "thirty day notice" requirement were seen as the most likely means by which Canadian content levels would be obtained.

Half of the pulp and paper companies interviewed mentioned an equipment manufacturers show held in Thunder Bay to promote Canadian content, but generally felt the show was not really needed. Only one machinery/equipment supplier identified the trade show in Thunder Bay but felt that

it was not significant in promoting Canadian content. Government officials on the other hand felt this show provided an opportunity for pulp and paper companies to indicate their needs to Canadian equipment manufacturers.

One of the machinery/equipment manufacturers interviewed indicated that pulp and paper companies prefer machinery that is already operating in Canada (e.g. proven technology) which tends to limit the possibility of developing more Canadian machinery. As such, there are difficulties in getting "first installation" of Canadian machinery/equipment into the pulp and paper mills. Another machinery/equipment manufacturer felt that the government should notify Canadian manufacturers as to what government developments are forthcoming or are being considered.

In summary, some effort was seen to have been made by government to increase and promote Canadian content. There were mixed reactions on the part of company and government officials as to the benefit of a trade show in promoting Canadian content of the program.

Recommendation

The significance of the problem raised with respect to the first installation of Canadian-made machinery should be determined.

APPENDIX A - DATA ACQUISITION GUIDELINES

PART 1. CRITERIA FOR SELECTION
OF COMPANIES

PART 2. FILE REVIEW GUIDELINES

PART 3. INTERVIEW GUIDELINES

APPENDIX A PART 1

PULP AND PAPER MODERNIZATION STUDY

Criteria for selection of Companies

To facilitate company selection for consultations and departmental file searches the criteria, are proposed as follows:

1. Interprovincial Representation

Companies will be a candidate if they have been assisted in two or more of the three provinces selected for the study.

2. Maturity of Investment Plans

The degree of maturity of the investment plan implementation/completion will be considered in identifying companies.

3. End Products

Companies may be selected on the basis of their end products e.g. Kraft, newsprint.

4. Exceptional Cases

Where exceptional cases have arisen these may also be given priority.

5. Geographic Location

Geographic location of mills will be taken into consideration.

It is anticipated that approximately one half of existing Program clients in each of the three Provinces (Ont., Que., N.B.) will be covered in the study. (e.g. Ont. - 5, Que. 11-12, N.B. 2-3)

PULP AND PAPER MODERNIZATION STUDY

ANALYST: _____ DATE: _____

REVIEWER: _____ DATE: _____

BASIC INFORMATION

Company name

Mill name

Location

Project identification:

Company: _____ Department: _____

Time from application submission to approval

- Date of application submission
- Date of contract approval by committee
- Time elapsed
- Amendments: date of application
date of amendment approval by committee
elapsed time
- Evidence of negotiations:

Type of product and process being supported

1. Five-year Investment Plan (Constant \$)

	<u>Initial</u>	<u>Revised (*actual)</u>
Total amount:		
Amount by year:		
1. (1979):		
2. (1980):		
3. (1981):		
4. (1982):		
5. (1983):		
6. (1984):		
7. (1985):		
8. (1986):		
9. (1987):		

2. <u>Projects by</u> <u>Classification</u>	<u>Eligible</u> <u>Investment</u>	<u>Ineligible</u> <u>Investment</u>	<u>Total</u> <u>Project</u> <u>(*actual)</u>
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(Source: Management Committee Minutes/file)

Pollution

- initial

- revised

Modernization

- initial

- revised

Energy

- initial

- revised

Other

- initial

- revised

TOTAL

- initial

- revised

Recommended Incentive

- initial - Prov. _____

- Fed. _____

- Total _____ % of eligible investment: _____

- revised - Prov. _____

- Fed. _____

- Total _____ % of eligible investment: _____

3. Incentive
(over 5 years)

Incentive
for year
(Constant \$)
planned (*actual) % of Total
Investment Plan

Year 1: (1979):

initial:

revised:

Year 2: (1980):

initial:

revised:

Year 3: (1981):

initial:

revised:

Year 4: (1982):

initial:

revised:

Year 5: (1983):

initial:

revised:

Year 6: (1984):

initial:

revised:

Year 7: (1985):

initial:

revised:

Year 8: (1986):

initial:

revised:

Year 9: (1987):

initial:

revised:

4. Project objectives:

MODERNIZATION PROGRAM

	1.	2.	3.	4.	5.	6.	7.	8.	9.
5. PROJECT EXPENDITURES (CONSTANT \$) <u>(Projected/*actual)</u>									
5.1 <u>Production Equipment</u>									
Initial									
Revised									
5.2 <u>Pollution Equipment</u>									
Initial									
Revised									
5.3 <u>Energy Equipment</u>									
Initial									
Revised									
5.4 <u>Other Expenditures</u>									
Initial									
Revised									

	2. PLANNED (upon completion of modernization program)	
	<u>Initial</u>	<u>Revised</u>
6. PROJECT GOALS <u>(Projected forecast of 5 years)</u>		
6.1 <u>Employment:</u> (a) Mill		
(b) Woodlands		
(c) Sawmills		
6.2 <u>Employment</u> (manhours per tonne)		
6.3 <u>Production Capacity</u>		
(a) Newsprint, and groundwood specialties production tonnes		
(b) Market pulp production tonnes		
(c) Fine paper		

	2. PLANNED (upon completion of modernization program)	
	<u>Initial</u>	<u>Revised</u>
1. PRE-MODERNIZATION PROGRAM (YEAR 0)		
6.4 <u>Production cost</u> (\$ constant per tonne of production)		
6.5 <u>Energy Cost</u> (\$ constant per tonne of production)		
6.6 <u>Annual Wood Consumption</u>		
Cubic metres consumed		
or		
\$ Constant per tonne of product		
6.7 <u>Percent Market</u>		
Export Sales		
Domestic Sales		

	1. PRE-MODERNIZATION PROGRAM (YEAR 0)	2. PLANNED (upon completion of modernization program)	
		<u>Initial</u>	<u>Revised</u>
7. <u>CANADIAN CONTENT</u>			
Total:			
\$ _____			
a) _____ % of total investment			
b) _____ % of eligible investment			
<u>Qualitative Assessment</u> (re: Canadian content)			

8. Technical Feasibility Assessment

9. Commercial Viability Assessment

10. Socioeconomic Benefits Assessment

11. Environmental Assessment

(a) Pollution Abatement

<u>PRE</u>	<u>POST</u>	<u>REGS</u>
<u>MOD'N</u>	<u>MOD'N</u>	<u>REQMT.</u>

- 11.1 BOD5
(megagrams per tonne of production)
- 11.1 Suspended solids
(megagrams per tonne of production)
- 11.3 Toxicity
(pass/fail)
- 11.4 Air

12. Assistance From Other Programs
(from commencement of modernization program)

Government:

Program:

Amount:

STUDY OF THE PULP AND PAPER MODERNIZATION PROGRAM

Points for Discussion

II. Departmental Officials (HQ and Regions) and Provincial Government Officials

A. Program Alternatives

1. What do you perceive to be the objectives of the program?
2. Were other types of assistance considered for the pulp and paper industry? (Tax credits, accelerated depreciation, loan guarantees or others)
3. Will the companies receive other forms of assistance or credits for their investments? If so, what is the source and what are the amounts?
4. Has the subsidiary agreement complemented or conflicted with other government programs?
5. Are subsidiary agreements a good umbrella under which to make such funds available to companies and to negotiate with (a) the other government? (b) the companies?
6. Is the level and type of assistance provided adequate? Why/why not?
7. Have adequate provisions been made for dealing with project postponements or cancellations? Please describe them.
8. What would be the implications of amending the program either in terms of time, funding levels, or eligibility criteria?

B. Governments-Company Negotiation Process

1. Who was responsible for the negotiations with the companies? Did this influence the negotiations?
2. What steps were followed in negotiating with the companies?
3. At what level (corporate, plant, project) were the negotiations conducted? On what basis (corporate, plant, project) was assistance granted?
4. Were the negotiations conducted at a reasonable pace? If not, why not? How could they have been improved?
5. Was there a concerted effort to increase the levels of investment initially proposed by the company?
6. (Dept.-regions and Prov. Govt. only; not Dept. HQ) Did the positions of the company and the government change significantly from the initial submission of the five-year plan to final project approval?
7. Are/were the project selection/eligibility criteria appropriate?
8. What were the different approaches to the disbursement of public incentive funds (e.g. lump sum/up front or progress payments)? Is any one approach better than the others? Why/Why not?
9. Was different treatment given to the same company in different provinces? If so, in what manner? Why/why not?

C. Degree of Public Fund Leverage of Private Investment

1. Did the agreement influence the level of private investment in the industry (in terms of timing, amounts, and planning efforts)?
2. To what extent have investments taken place (or are they likely to take place) in accordance with the investment plan submitted and with respect to timing, location and scope of the projects?
3. Was there a planned or target leverage ratio? Did the actual leverage ratio meet expectations? Is this a meaningful indicator to use?
4. Is the level of incentives appropriate? To what extent were variations among firms and provinces rationalized?
5. (Dept.-region and Prov. Govt. - not Dept. HQ) To what extent have investment projects not eligible under the program gone forward (or are they likely to go forward)?
6. Is there more or less leverage under this program than other programs?

D. Canadian Content

1. Is it feasible to define Canadian content in such agreements? Were such requirements clearly defined in this agreement?
2. Is it feasible to enforce any Canadian content requirements agreed to - do these agreements do so?
3. Were specific goals or levels identified as targets to be achieved with respect to Canadian content?
4. (Dept.-region and Prov. Govt. - not Dept. HQ) Is there a Canadian content monitoring system or mechanism in place? If so, is it operational?
5. What was the percentage of Canadian content? What is it likely to be on completion of the projects? Could it be/have been higher?
6. Is it reasonable to expect firms to acquire state of the art machinery and equipment from Canadian sources? Was it reasonable for the Department to press the companies to insist that Canadian suppliers meet their demands for machinery and equipment made in Canada?
7. To what extent and in what manner have Canadian manufacturers of pulp and paper machinery and equipment been affected by the agreement?
8. Have any problems arisen with respect to the Canadian content requirements of the subsidiary agreement?
9. Was there an attempt, through the negotiation process, to increase Canadian content?
10. Were any specific actions taken (other than the requirements in the agreement) to promote Canadian content?

STUDY OF THE PULP AND PAPER MODERNIZATION PROGRAM

Points for Discussion

III. Pulp and Paper Company Officials

A. Program Alternatives

1. What do you perceive to be the objectives of the program?
2. Has the program complemented or conflicted with other government programs?
3. Are you taking advantage of other government programs and, if so, in what areas? What amounts are you receiving? From whom?
4. Is the level and type of assistance under this program adequate? Why/why not? What changes (if any) would be beneficial to your company?
5. Are/were there other types of assistance, besides the program, that, in your view, would be/have been useful?
6. What do you think of the mechanism chosen by the governments to make funds available to companies and to negotiate with them?
7. Was it reasonable to ask for a five-year plan from the companies? Were the deadlines set for the companies reasonable? If not, why not?

B. Government Company Negotiation Process

1. Were there negotiations with the government to determine the terms of the contract? (If so, ask questions 2. to 9. If not, skip questions 2. to 7.).
2. What steps were followed in the negotiation process with the government?
3. At what level (corporate, plant, project) were the negotiations conducted? On what basis (corporate, plant, project) was assistance granted?
4. Were the negotiations conducted at a reasonable pace? If not, why not? How could they have been improved?
5. Should any parts of the negotiation process be changed if a similar program and approach were to be used again?
6. Did the positions of the company and the governments change significantly from the initial submission of the five-year plan to final project approval?
7. Were/are the project selection/eligibility criteria appropriate?
8. What is the best means of dispensing government funds - in a lump sum up front, as a project progresses, or in other ways?
9. (Where applicable) Did your company receive the same treatment in different provinces? If not, how did it differ?

C. Degree of Public Fund Leverage of Private Investment

1. Did the subsidiary agreement encourage you to invest more or sooner in the industry than you would have otherwise?
2. Has the program influenced the level of private investment in your company (in terms of timing, amounts, and planning efforts)?
3. If more or less investment took place than called for in your investment plan, was it with respect to location, scope or timing of projects?
4. Do you feel that you were treated equitably under the program? Please explain your answer.
5. To what extent have investment projects not eligible under the program gone forward (or are they likely to go forward)?

D. Canadian Content

1. Were the Canadian content requirements in the program/contract clearly defined?
2. How would you have reacted if the governments had imposed, as a condition for receiving assistance, a high level (say 90-95%) of Canadian content?
3. Were specific goals or levels identified as targets to be achieved with respect to Canadian content? If so, were they reasonable?
4. Are there any provisions in your company for monitoring Canadian content levels in your investment projects? Do the governments, to your knowledge, follow-up on these Canadian content levels?
5. What was the percentage of Canadian content in your projects? What is it likely to be on completion of the projects? Could it have been/be higher?
6. Is it reasonable to expect state of the art machinery and equipment from Canadian sources?
7. To what extent did you press your suppliers to provide Canadian machinery and equipment?
8. To what extent was Canadian content a factor in the selection of machinery and equipment in the context of your investment projects?
9. Was there an attempt, on the part of the governments, to increase the level of Canadian content in your projects?
10. To what extent and in what manner have Canadian manufacturers of pulp and paper machinery and equipment been affected by the program?
11. Have any problems arisen with respect to the program requirements for Canadian content?
12. Were any specific actions taken (other than the program requirements) to promote Canadian content?

STUDY OF THE PULP AND PAPER MODERNIZATION PROGRAM

Points for Discussion

IV. Suppliers/Manufacturers of Pulp and Paper Machinery and Equipment

A. Canadian Content

1. Are you aware of the program's Canadian content requirements?
2. Is it reasonable to expect firms to acquire state of the art machinery and equipment from Canadian sources?
3. Have pulp and paper companies pressed you to meet their needs for Canadian machinery and equipment?
4. Did you make any effort to promote Canadian-made machinery and equipment with pulp and paper companies?
5. Has the Government made any effort to assist you in meeting the pulp and paper companies' demand for Canadian machinery and equipment?
6. To what extent and in what manner has your company been affected by the program?
7. Have any problems arisen with respect to the Canadian content requirements of the program?
8. Were any specific actions taken (other than the requirements in the program) to promote Canadian content?

STUDY OF THE PULP AND PAPER MODERNIZATION PROGRAM

Points for Discussion

V. Labour Representatives

A. Program Alternatives

1. What do you perceive to be the objectives of the program?
2. How are/were adjustments to employment dealt with under the program?
3. What is your opinion of the level and type of assistance provided?
4. Has the program complemented or conflicted with other government programs.
5. Are/were there other instruments, besides the program, that, in your view, would be/have been useful?

