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PULP AND PAPER MODERNIZATION STUDY

VOLUME 4

NEW BRUNSWICK REPORT

**Program
Evaluation
Branch**

**Direction
de l'évaluation
des programmes**



Government
of Canada

Regional Industrial
Expansion

Gouvernement
du Canada

Expansion industrielle
régionale

Canada

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PULP AND PAPER MODERNIZATION STUDY

VOLUME 4

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**Prepared by
Program Evaluation Branch
ITC/DREE
October 1983**

TABLE OF CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	
1.0 INTRODUCTION	1
1.1 Purpose and Scope of Study	1
1.2 Structure of Report	2
2.0 BACKGROUND	3
2.1 Pulp and Paper Modernization Program	3
3.0 STUDY DESIGN	4
3.1 Selection of Sample	5
3.2 File Review	5
3.3 Interviews	6
3.4 Constraints	7
4.0 PROGRAM ALTERNATIVES	8
4.1 Objectives	8
4.2 Level and Type of Assistance	8
4.3 Disbursement of Funds	9
4.4 Complementarity/Conflict with other Programs	10
4.5 Subsidiary Agreement Mechanism	10
4.6 Five Year Plans	11
4.7 Eligibility Provisions	11
5.0 NEGOTIATION PROCESS	13
5.1 Pace of Negotiations	13
5.2 Treatment of Companies	13
5.3 Postponements/Cancellations	14
5.4 Monitoring of Program	14

	<u>PAGE</u>
6.0 INVESTMENT LEVERAGE	16
6.1 Investment Levels Achieved	16
6.2 Efforts to Increase Levels of Investment	17
6.3 Incrementality	17
7.0 CANADIAN CONTENT	18
7.1 Canadian Content Requirements in the Program	18
7.2 Monitoring of Canadian Content	19
7.3 Efforts to Increase Canadian Content	20

APPENDICES

APPENDIX A - Data Acquisition Guidelines

- Part 1 Company Selection Criteria
- Part 2 File Review Guidelines
- Part 3 Interview Guidelines

PULP AND PAPER MODERNIZATION STUDY
NEW BRUNSWICK 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 with New Brunswick and accounts for 8.2% of total program funding. Approximately 17 persons were interviewed, representing applicant companies, provincial and federal government officials. In addition, project files were reviewed for 4 companies, which represented the majority of the assisted companies in New Brunswick. The study team included representatives from the Department (H Q and regions) and the provincial government.

This report presents the major findings and recommendations on a provincial basis. Other volumes provide details on the modernization program in Quebec, Ontario 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 New Brunswick portion of the program was received by federal/provincial government officials and industry in New Brunswick. 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 viewed favourably by the respondents as a mechanism 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 major projects and joint targetting of assistance and federal/provincial jurisdiction are major factors, the subsidiary agreement should be considered as an assistance mechanism.

Companies indicated that tax incentives 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 tax incentives may not necessarily induce investment when companies are in a period of low profits. 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 type of disbursement of funds provided under the New Brunswick portion of the program represented progress payments to the companies. Companies were evenly split on their preference for lump sum/up front disbursements as opposed to progress payments while government officials felt that the use of progress payments enhanced control over the projects.

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

The eligibility provisions for the New Brunswick portion of the program were considered appropriate by the majority of the companies. Minimal difficulties were experienced with the application of criteria in the exclusion of off-site projects.

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, the requirement for multi-year corporate plans should be mandatory.

Companies and government officials felt that the project level of assistance at the inception of the program was adequate. However, changes in economic conditions and additional new projects have made the present level of program funding inadequate. 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 consistency and clarity of understanding of the overall program objectives across the groups interviewed is attributed to the preliminary groundwork and discussions undertaken by companies and governments before implementation of the subsidiary agreement.

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 monitoring aspects of the modernization program.

One half of the companies interviewed felt that the pace of negotiations was excessively prolonged due to a lack of guidelines on information requirements, while government officials indicated that the initial pace of negotiations was slow due to a lack of understanding of program information requirements on the part of the companies.

Recommendations

In future programs specific guidelines concerning information requirements from prospective firms should be established at the start of the program.

Two of the companies interviewed for which the issue of equitable treatment was applicable saw differences in the treatment they received. One company felt it had received a higher level of assistance and had more flexibility in project substitution in another province. The remaining company viewed treatment received in New Brunswick as more equitable than in another province. 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.

A comprehensive monitoring report dealing with many aspects of the New Brunswick portion of the modernization program is provided yearly. Quarterly reports are submitted by companies under the program. However, there are indications that some companies are not providing all the information required in their quarterly reports as per Schedule "B" of the Contract.

Recommendation

Follow up action on information required from the companies should be undertaken in order to bring monitoring reports up to date.

4.0 INVESTMENT LEVERAGE

One of the primary rationales for the program was to assist companies to undertake modernization, pollution abatement and energy related investments. As such, the study has indicated that the program in New Brunswick has had a considerable impact in bringing ahead the investment plans of the companies.

Total planned investments by the companies participating in the program in New Brunswick represent \$432.9 million (1978 dollars). Some of this planned investment was not eligible for cost sharing under the program and represents about 36% of total planned investment. Actual

eligible expenditures (as of March 31, 1983) of \$186.9 million (1978 dollars) represent 68% of total planned eligible expenditures of \$275.96 million.

Government officials perceived no concerted effort on their parts to increase the levels of investment initially proposed by the companies. In future programs if leveraging of investment is a prime consideration the use of guidelines may be beneficial to the process.

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

5.0 CANADIAN CONTENT

The subsidiary agreement for the New Brunswick 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 New Brunswick portion of the program felt that Canadian content requirements were sufficiently defined.

With respect to the monitoring of Canadian content levels a number of sources of data exist, however the federal monitoring system for Canadian content is not yet operational. Each contract does specify that the final level of Canadian content is to be provided at the end of the program.

Most respondents did not see any major efforts by government to increase Canadian content. However, some advice was given to pulp and paper companies concerning the capabilities of machinery/equipment

suppliers and some effort made to ensure that Canadian firms were given an opportunity to bid on projects.

Canadian content requirements should be clearly outlined in the design and implementation stages of future programs; regular monitoring of Canadian content on projects should be initiated through the establishment of a formal operational mechanism. If Canadian content is to be an item of importance in future programs means of identifying and promoting the Canadian content aspect should be established.

1.0 INTRODUCTION

1.1 Purpose and Scope of Study

This study was undertaken to provide answers to a number of questions of interest to Departmental Management regarding the National Pulp and Paper Modernization program and to provide additional insight and information to senior management concerning future program design.

The study does not attempt to estimate impacts and effects (benefits accruing to Canada or the regions) as a result of the implementation of the modernization program. As the specific program segments mature with respect to the completion of investment plans an opportunity will be provided to undertake a detailed examination of the impacts and effects stemming from this initiative.

This study forms one part of a three part study (Ontario, Quebec and New Brunswick). These provinces represent the three largest of the subsidiary agreements on pulp and paper modernization and account for nearly 90% of all public funds involved and 83% of the total share of the program with the majority of pulp and paper companies assisted under the program being in the three provinces selected for study.

As New Brunswick is to receive 8.2% of total program funding (third largest), and because the program is more mature than in some other provinces it was selected for detailed examination in this study.

Four areas of specific interest were identified by the Steering Committee and are addressed in this report. These areas are:

1. Program Alternatives
2. Negotiation Process - undertaken by governments with companies seeking assistance under the program

3. Leverage - the extent to which public sector assistance has levered private investment by selected firms
4. Canadian Content - requirements for sourcing materials, services, machinery and equipment in Canada

1.2 Structure of Report

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

This report details findings and recommendations based upon the study undertaken for New Brunswick. Section 2.0 Background briefly details the Pulp and Paper Modernization Program in New Brunswick. 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 the analysis.

Appendix A to this report provides more detailed information with respect to data collection.

2.0 BACKGROUND

2.1 Pulp and Paper Industry - New Brunswick

New Brunswick's single most important industry is pulp and paper. In 1977, New Brunswick's 11 paper mills employed 5800 people (mill employment), paid out \$103 million in direct mill salaries and produced \$500 million in value shipments. Several communities exist solely because of the pulp and paper industry.

In the late 1970's it became evident that without major capital investments New Brunswick's pulp and paper industry would no longer be cost competitive with its American counterparts.

On August 27, 1980, the Canada/New Brunswick Pulp and Paper Subsidiary Agreement was signed, providing for \$42.25 million in grant incentives with assistance split on a 80:20 federal/provincial basis. The subsidiary agreement terminates on March 31, 1984.

In order to address the improvement in the industry's cost competitive position the program was aimed at improving the viability and efficiency of the pulp and paper industry in New Brunswick. As such, three general areas of investment were identified as pollution abatement, modernization, and energy conservation.

3.0 STUDY DESIGN

The approach taken in the study relied heavily upon the comment, opinions and perceptions of officials in the private and public sectors who are or had been closely associated with the modernization program. The two major thrusts of the methodology involved interviewing these officials and undertaking a review of relevant files both at Headquarters and the regional offices and/or provincial government offices.

The information obtained from interviews and file searches formed the basis for subsequent analysis. The major activities involved in developing the study design and conducting the analysis consisted of:

- ° a review of literature, reports pertaining to the pulp and paper sector as well as evaluation frameworks for the individual program segments under study
- ° development of file review guidelines and questions for interviews of both these instruments.
- ° determination of specific target groups - government departments federal/provincial, pulp and paper companies, and the identification of individuals within each group for interviews
- ° collection of data from both regions and Headquarters with respect to each target group for the provincial program segment
- ° aggregation of data first on the basis of each target group, followed by provincial aggregation.
- ° analysis of both interview and file review findings on an individual provincial segment basis.
- ° wrap up of findings, conclusions, recommendations

3.1 Selection of Sample

Pulp and paper companies which were clients of the program and operated in at least one of the study regions represented the population for which companies were chosen for inclusion in the target group.

Given the rather small number of pulp and paper companies in the total population for each provincial segment a sample size of approximately 50% or more of total program clients were used. In New Brunswick four companies represented the sample size. Further information on the criteria used to select companies will be found in Appendix A part 1.

3.2 File Review

The data for the file search was obtained primarily from three sources; a review of company files maintained by Federal and Provincial governments and a report entitled Canada/New Brunswick Pulp and Paper Subsidiary Agreement Monitoring Report published by DREE/ITC, Moncton, June 30, 1983. This file search was carried out for the four companies in the target group. 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 re leverage issue

To facilitate and ensure consistency in data gathering file review guidelines were developed. These guidelines met Statistics Canada's paper burden and statistical review requirements. An example of the file review guidelines are contained in Appendix A part 2.

3.3 Interviews

The interviews for New Brunswick were held with individuals closely associated with the modernization program; company officials of the four firms in the sample, two Federal government officials and two Provincial government officials were interviewed. The four companies were selected for the interviews since their investment programs were well underway at the commencement of this study with the four contracts of the companies representing approximately 78% of total incentives available under the New Brunswick portion of the program.

The New Brunswick interview team was comprised of personnel from ITC/DREE headquarters/regional offices and the provincial government. Interviews were held over a one week period.

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 meaningful comparability a set of points for discussion specific to each target group and to each of the four issue areas was developed. The guidelines met with Statistics Canada's statistical and paper burden review requirements. An example of the points for discussion is contained in Appendix A part 3.

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 constraints dealing with data acquisition are related to non-standardization of units for energy costs, a lack of reporting of actual ineligible expenditures in the case of companies and a lack of current efficiency variables and pollution conditions.

4.0 PROGRAM ALTERNATIVES

4.1 Objectives

All respondent groups were consistent in their identification of the overall objective of the modernization program as improving the competitive position of the industry.

The consistency and clarity of understanding of the overall objective is attributed to the preliminary groundwork and discussion which was undertaken by companies and governments before implementation of the subsidiary agreement in the province.

4.2 Level and Type of Assistance

Companies and government officials generally felt that the project level of assistance at the inception of the program was sufficient. Changes in economic conditions and additional new projects have made the present level of program funding inadequate. The companies identified tax incentives or a blended tax/grant scheme as the preferred type of assistance.

Federal and provincial officials indicated that grants as opposed to tax incentives, were the appropriate funding method since tax incentives may not necessarily induce investment when companies are in a period of low profits.

In summary while assistance was seen to be adequate at the inception of the program by all target groups additional new projects and changed economic conditions have created a need for an increase in the program funding level for the New Brunswick portion of the program.

Tax incentives may be an alternative form of assistance to companies in the pulp and paper sector. This type of assistance may address the need to have follow-up to the modernization program in that incentives would provide for longer term investment on a continued basis.

Recommendation

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

4.3 Disbursement of Funds

Companies were evenly split on their preference for lump sum/up front payments versus progress payments. Those in favour of lump sum/up front disbursements cited improvements in their borrowing positions would be gained. Of the two companies preferring progress payments one cited difficulties with paybacks being greater with lump sum/up front disbursements.

Government officials felt that the use of progress payments enhanced their control over the program and would facilitate recovery actions in the event of non-compliance on the part of the companies. Provincial officials voiced concern that up front/lump sum payments may lead to administrative problems and a lack of control over projects.

In summary, progress payments were preferred by government representatives over lump sum/up front payments due to inherent control features provided by the method of disbursement.

In terms of disbursement of funds under the present program there is insufficient evidence by which to determine the preference of one type of disbursement over another.

Recommendation

For future joint programs further study should be given to the type of payments to be utilized: up front/lump sum, progress payments or a blending of the two.

4.4 Complementarity / Conflict with Other Programs

Government officials and companies interviewed perceived no conflict between the New Brunswick portion of the modernization program and other government programs.

Forestry Industry Renewable Energy Program (FIRE), Atlantic Provinces Energy Conservation Retrofit Program (APECRP) and Canada / New Brunswick North East Subsidiary Agreement were identified as complementary to the modernization program. Project segments assisted by the FIRE Program are considered ineligible for incentive calculation under the Canada/New Brunswick Subsidiary Agreement on Pulp and Paper.

In summary, no conflict between government programs was identified by the respective groups. The most program complementarity was identified with the Forest Industry Renewable Energy Program which provides support to capital projects as does the modernization program.

4.5 Subsidiary Agreement Mechanism

The subagreement mechanism was viewed favourably by both companies and federal/provincial officials. Through the subsidiary agreement joint funds were made available to the companies while providing a basis for joint negotiations between government and the companies. As such, this mechanism was seen to facilitate a sectoral approach to funding across regions.

The subsidiary agreement mechanism enabled the participating province to provide direct input into a federal program thereby affording an opportunity for regional needs and aspects in the provincial domain (eg. wood supply) to be taken into consideration in the design and delivery of the program.

Recommendation

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

4.6 Five Year Plans

The request for five year plans was viewed as reasonable by the companies concerning the modernization program. These five year plans form the basis for the determination of assistance levels to the companies and represent the investment levels contemplated by the companies under the program.

The requirement for the five-year plans is an important aspect of the program since it provides a basis to determine the amounts of funding required by the company and the areas in which investments will be made (e.g. pollution abatement, energy). As such, the five year plans play an important role in the cash management of the program.

Recommendation

In future programs the requirement for multi-year corporate plans should be mandatory.

4.7 Eligibility Provisions

Three of the four companies felt that the eligibility criteria were appropriate. Minimal difficulties were experienced with the application of criteria in the area of the rationale for exclusion of off-site projects.

Some companies also identified transportation infrastructure costs and extraordinary costs of training/downtime as possible additional areas where assistance could be provided.

Federal and Provincial officials felt that the project selection eligibility criteria were appropriate.

The majority of companies and government officials interviewed indicated that eligibility criteria were appropriate in the program. The broadening of the eligibility criteria is not warranted in the opinion of the study team due to insufficient evidence.

5.0 NEGOTIATION PROCESS

5.1 Pace of Negotiations

Half of the companies felt that negotiations were excessively prolonged due to a lack of guidelines on information requirements.

Government officials indicated that the initial pace of negotiations slowed somewhat since parties to the negotiations were on a "learning curve" with respect to the modernization program implementation and that there was a lack of understanding of the program information requirements on the part of the companies.

The Management Committee established a working committee that evaluated and analyzed each proposal and gathered the necessary information. The Management Committee usually met with the client companies to iron out final details and to discuss the amount of financial contributions.

The lack of specific guidelines regarding information requirements did not facilitate the negotiation process.

Recommendation

In future programs specific guidelines concerning information requirements from prospective firms should be established at the start of the program.

5.2 Treatment of Companies

The question was only applicable to two companies in the sample interviewed and these companies were split in terms of treatment received. One saw better treatment (higher level of assistance) and more flexibility with respect to project substitution in another province. The remaining

company viewed treatment in New Brunswick as being more equitable than in another province.

Equitability in treatment of companies across the other two provinces in the study is difficult to determine since many projects varied considerably in terms of size and type.

Federal officials had some awareness of what was going on in other provinces with respect to the same company but could not be explicit as to whether there was equitable treatment or not. Provincial officials offered no comments on this aspect of the program.

5.3 Postponements / Cancellations

Although postponements/cancellations have not been identified as an issue Federal officials have indicated that an increase in the program funding level is required to accommodate additional new projects. Within the confines of the contract and the subsidiary agreement adequate provisions have been made for project substitution as long as projects may be completed with respect to the timing and funding levels of the contracts. In conclusion, postponement/cancellation provisions were seen to be adequate for the New Brunswick portion of the modernization program.

5.4 Monitoring of Program

A comprehensive monitoring report touching on many aspects of the program is provided yearly. Details of progress are identified in the monitoring report on company expenditures to date (eligible/ineligible) by program element (modernization, pollution abatement and energy conservation).

Quarterly reports are submitted by companies with schedule B of the contract specifying that information must be provided on eligible/ineligible expenditures, mill employment totals and estimates of

construction man hours. However, evidence suggests that quarterly reports submitted by the companies are not always meeting the requirements as per schedule B of the contract with sporadic reporting on Canadian content.

In conclusion monitoring of the program is fairly comprehensive however, there are some instances where information is not being provided under Schedule B of the contract.

Recommendation

Follow up action on information required from the companies should be undertaken in order to bring monitoring reports up to date.

6.0 INVESTMENT LEVERAGE

6.1 Investment Levels Achieved

The companies were split on their opinion as to the program influence on investment. Two companies viewed the program as having a positive effect on investment with respect to scope, timing and planning efforts; the other half viewed the program as having no effects on their investment plans. Two companies did not see either timing or scope of investment plans as being positively influenced by the program. One of these companies cited adequate return on investments (without the grant factored in) as being an important factor of whether the projects went ahead or not. For the other company the decision to invest had been taken a year before the program was implemented.

Federal and Provincial officials felt that the most significant effect of the program was on the timing of investments in that investments were made sooner rather than on the scope of projects.

Actual eligible investment as of March 31, 1983 is \$186.9 millions in 1978 dollars (68% of planned eligible investments).

All companies indicated that non-eligible projects were going forward but to varying degrees. Provincial officials felt that non-eligible projects were being undertaken on normal replacement items however, specific information on ineligible projects is not available for some of the companies.

Non-eligible projects are not being monitored to any great extent with respect to whether they are going ahead or not.

6.2 Efforts to Increase Levels of Investment

Government officials perceived no concerted effort on their parts through the negotiation process to increase the levels of investment initially proposed by the companies.

Evidence from file reviews indicates the companies did increase total investment by \$124.8 million. The increases in investment from the initial plan submission to finally agreed upon plans was most likely attributable to improved engineering estimates and financial data than negotiations per se.

Government officials perceived more leverage under the modernization program than in other programs. Provincial officials indicated that there was no planned target leverage ratio with respect to pre implementation of the program. Companies have received between 13.5% to 14.2% grant incentive based on eligible costs. Federal officials indicated that they were aware of the leverage ratio used in Ontario (approximately 7:1) and that this was kept in mind when assessing company proposals.

Recommendation

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

6.3 Incrementality

The program has had a positive influence on investment by pulp and paper companies in the province. The timing of the investment (bringing investment ahead sooner than otherwise) was seen to be the major influence of the program.

7.0 CANADIAN CONTENT

7.1 Canadian Content Requirements in the Program

The majority of the companies saw the Canadian content requirement as being clearly defined and were able to negotiate Canadian content based upon the requirements. They also felt the Canadian content clause was reasonable and allowed some flexibility regarding changes. The companies identified the need to keep the "equal values aspect" of delivery, price, quality and service in mind when comparing Canadian equipment with foreign equipment.

Government officials felt that it was important to have a requirement for Canadian content in order that companies do not have a completely free hand to purchase foreign equipment and that such a requirement draws the companies' attention to the Canadian content aspect of their projects.

The delineation of specific Canadian content requirements in the contracts signed with the companies made them aware of this aspect of the modernization program.

The imposition of a high level of Canadian content as a condition of receiving assistance was seen as not being realistic by the companies since all the required machinery/equipment is not available in Canada. Also some companies felt that the level of Canadian content with respect to machinery/equipment items depended upon the type of project.

Government officials felt that the Canadian content requirement of 85% was feasible to enforce provided that machinery/equipment items were available in Canada.

In summary both company and government officials felt the Canadian content requirements were reasonable.

Recommendation

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

7.2 Monitoring of Canadian Content

At present the Federal monitoring system for Canadian content is not operational but the provincial government receives a list of company purchases identifying the source of suppliers.

The majority of companies have indicated that monitoring/follow up on the part of the governments is virtually non-existent. Evidence suggests that monitoring on Canadian content is minimal with two cases where companies are not supplying information on Canadian content.

Schedule C of each contract stipulates that a statement on the final level of Canadian content is to be provided at the end of the program. Without proper monitoring it would be difficult to ascertain validity of the statement. As well, a "30 day" notice requirement is part of the contract in which companies are to provide notification to the Management Committee 30 days in advance of a foreign purchase (equipment machinery) in excess of \$250,000.

There is an indication that some companies are not meeting requirements with respect to disclosure of Canadian machinery and equipment purchases.

In summary, some provincial monitoring is in place with respect to Canadian content however, on the federal level no operational monitoring system is in place as yet. Apart from Schedule C of the contract, monitoring is sporadic with minimal reporting of Canadian content taking place.

Without a monitoring system in place and operating, difficulty will be encountered in determining the validity of the statement on final level of Canadian content and in determining actual progress towards the 85% requirement level. As such adjustments to be made may not be identified early enough in the program.

Recommendation

Regular monitoring of Canadian content on projects should be initiated through the establishment of a formal operational mechanism as soon as possible.

7.3 Efforts to Increase Canadian Content

The majority of companies saw no attempt being made by the government to increase the Canadian content requirement through the negotiation process and companies indicated that to do so would not be reasonable. The companies felt that a high Canadian content beyond the 85% level is not always possible due to the non-availability in Canada of state of the art equipment on some items.

A company (pulp and paper)/suppliers session was held in Moncton approximately 2½ years ago which provided some exposure to local contractors/fabricators resulting in some new business for them.

Government officials did not see any major efforts taking place to promote Canadian content other than advising pulp and paper companies of the capabilities of Canadian firms. Some effort has been made to ensure that Canadian firms were given an opportunity to bid on projects.

Recommendation

If Canadian content is to be an item of importance in future programs, means of identifying and promoting the Canadian content aspect should be established.

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)

	<u>Incentive</u> <u>for year</u> <u>(Constant \$)</u> <u>planned (*actual)</u>	<u>% of Total</u> <u>Investment Plan</u>
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 Visibility 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?

