STANDING COMMITTEE

ON

ECONOMIC DEVELOPMENT

ANNUAL REPORT

December 2002

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Hon. Murray Scott
Speaker
House of Assembly
Province House
Halifax, Nova Scotia

Dear Mr. Speaker:

On behalf of the Standing Committee on Economic Development, I am pleased to submit the 2001 - 2002 Annual Report of the Committee for the Second Session of the Fifty-Eighth General Assembly.

Respectfully submitted,

Brooke Taylor, MLA
(Colchester - Musquodoboit Valley
Chairman
Standing Committee on Economic Development

Halifax, Nova Scotia
2002

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Foreward

The report of the Standing Committee on Economic Development was written in accordance with the mandate of the committee.

The report is written under individual topics outlining the concerns and issues brought forth from each group /organization.

Mandate

> For greater certainty, the Economic Development Committee is established for the purpose of considering matters normally assigned to or within the purview of the Department of Economic Development and the Minister responsible for the Department and the Department and Minister of Transportation and Public Works and matters relating to the Technology and Science Secretariat. (1987 R. 60(2); am. 1993; am. 1996)

September 11, 2001

WITNESSES

Nova Scotia Association of Regional Development Authorities
Mr. Frank Anderson - Vice President

BACKGROUND

The Nova Scotia Association of Regional Development Authorities (NSARDA), was officially established in 1999 when it was registered as a provincial association under the Societies Act, and has 13 full operational Regional Develoment Authorities (RDAs) as members. The original RDAs were established in 1994. The NSARDA is made up of 10 business people, municipal people and 22 ex-officio members.

In comparison with other provinces, i.e. New Brunswick, P.E.I. and Newfoundland, Nova Scotia is the only one of the four Atlantic Provinces that has a system whereby the core funding for RDAs is shared equally amongst municipal/federal/provincial governments. In New Brunswick there are only three municipal units participating where Nova Scotia has about 90 per cent of the municipal units involved. In Newfoundland and P.E.I. there is no municipal participation.

At the request of the Minister of Economic Development the NSARDA went through a process in 2000-01 where they were asked to evaluate whether their activities contributed to the growth of the economy of Nova Scotia. The evaluation concluded that the RDAs are effective and credible organizations that have a significant impact upon the Nova Scotia economy. Each year the NSARDA provides a business plan to the province, municipal units and the federal government,through ACOA, to show their current and future projections. They also provide audited financial statements, annual business plans, quarterly reports, and internal reports.

The scope of the RDAs' work goes well beyond the confines of strict economic analysis with concentration solely on job and income creation over the short term. RDAs provide a strategic assessment of the long term effects of forging partnerships and building capacity at the local and regional community levels to positively influence the department dynamic from within. Each RDA continues to make sure they function under the association and collaborate as a single voice.

MATTERS OF DISCUSSION

Although there were a number of issues discussed throughout the meeting, outlined below are the key matters that were discussed by the committee.

— Long-Term Funding. The NSARDA was funded under the former Canada-Nova Scotia Co-operation Agreement which is now ceasing. However, they are continuing to work with the federal and provincial governments and the municipal units for an ongoing process with respect to long-term co-operation funding.

— Short-Term Funding. They have looked, at the short-term, to try to create jobs with all three levels of government participating in their programs.

— Nova Scotia Business Inc. The NSARDA expects no major changes with the creation of NSBI and looks forward to dealing with them.

— Funding for Major Projects. ACOA is presenting a new program called SCIF (Special Community Investment Fund) which will open up doors for new funding and is open to the four Atlantic Provinces. There is also the FRAM program (Fisheries Restructuring and Adjustment Measures) but that is ending on March 31, 2002 for funding approvals, therefore the NSARDA is working very hard to ensure that approved dollars, under this program, are used wisely.

— Investment Tax Credits. NSARDA finds that this is a very good program by virtue of the fact it pays a percentage of that payroll tax a year in arrears. It is a very effective incentive program .

— Operational Expenses. Operational expenses vary from RDA to RDA. Individual RDAs all have core operating expenses and depending on current and ongoing projects, some RDA's have larger budgets that others.

COMMITTEE MOTION

There was a motion made during the meeting that the Committee write to the Department of Economic Development (now called the Office of Economic Development) stating,

> "It is crucial that the long-term funding of the Regional Development Authorities be resolved as soon as possible". [1]

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1. Correspondence regarding Regional Development Authorities.(See Appendix A.)

Reference to, and within, this transcript can be found on line on the Nova Scotia Government website at: http://www.gov.ns.ca/legislature/hansard/comm/ed/ed010911.htm

WITNESSES

Nova Scotia Federation of Agriculture
Mr. Laurence Nason - Chief Executive Officer

Horticulture Nova Scotia
Mr. Greg Webster - Vice President

Nova Scotia Cattlemen's Association
Mr. Charles MacKenzie - President

Halifax East Hants Regional Federation of Agriculture
Mr. John Dillman - President

Growers Water Group
Mr. Richard Melvin - Chairman

Mr. Earl Kidston

BACKGROUND

The Nova Scotia Federation of Agriculture (NSFA) serves as an umbrella organization under which those involved in primary agriculture in Nova Scotia can act together to promote their common interest to both the general public and to governments.

The NSFA was commissioned and has been operating for 102 years in the province. It is organized geographically into 13 regions and by commodity into 24 provincial groups representing 1,850 farm businesses in total. This accounts for well over 90 percent of the agricultural production in the province. The NSFA also maintains active affiliation regionally with the Atlantic Farmers' Council and nationally with the Canadian Federation of Agriculture.

The mission of the federation is to ensure a competitive, sustainable future for agriculture and a high quality of rural life in the province. The principle focus of the NSFA is the development of farm businesses that are financially viable, ecologically sound and socially responsible. The agri-food industry has always been a cornerstone of Nova Scotia's economy. It is the means to sustainable rural communities and the diversity of lifestyle choices historically enjoyed by Nova Scotians.

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CHALLENGES AND OPPORTUNITIES

While the opportunities for Nova Scotia's agricultural economy have never been better, we are entering a period when the outlook for agriculture sector in Nova Scotia can only be described as uncertain. Producers are being called upon to adapt a staggering array of innovations in their operations. The industry is continually buffeted by external forces over which they have little control and is continuously being pressed to take responsibility for problems that extend well beyond the farm gate.

Opportunity abounds for the agricultural sector, however, each opportunity seems to be coupled with some level of constraint that threatens to neutralize any advantage. One of them was limited constraints as adverse weather conditions. Only sound public policy with respect to the protection of farm income and assistance with the adaptation that must take place to counter changing weather patterns can help ease the impact and provide a solid basis for farm business to make the decisions and the investments that are required for a sustainable industry in the future.

The seriousness of the challenges currently being faced by the farm community was outlined in a report by GPI Atlantic. The report predicts the collapse of a number of agriculture sectors if agricultural policy in Nova Scotia is not revamped. As quoted,

> "An inadequate return on investment can produce a wide range of negative social and environmental effects, each of which carries a significant cost. In extreme cases, when farmers cannot make ends meet, prime agricultural land may be sold and converted to other uses, resulting in the loss of a valuable, natural capital asset and a decline in food security for future generations. An inadequate return on investment is therefore not sustainable in the long run
> . . .
>
> Although total farm cash receipts have risen 12% over the past 28 years, all other indicators of economic viability examined here are showing negative trends. If these trends continue at current rates, we are likely to see the virtual demise of several agricultural sectors in Nova Scotia, including apples, vegetables, beef and hogs." [2]

The outstanding debt of farms in the province has increased 49 per cent since 1995. Much of this increased debt can be directly attributed to weather related problems. With the increased cost of irrigation to salvage crops and the cost of purchasing feed and forage to maintain livestock, many family farms have reached their limit in Nova Scotia.

PROACTIVE APPROACH

Collectively the industry has taken several initiatives. They have met with the Nova Scotia Department of Agriculture & Fisheries' staff to assess the extent of the weather-related damage. A meeting has been held with the Minister to seek emergency assistance for those who need it. Requests have been made to the Federal Minister of Agriculture for human resources to assist in addressing water management issues. The federation is an active participant in the Canadian Federation of Agriculture in the lobby for an increase in the safety net funding.

A request had been made to the Departments of Agriculture, Environment and Labour to share engineering resources in a manner which would speed up permitting and improved communications between the departments on water-related issues. An industry water group has actively been searching for solutions to problems associated with access to water. A meeting of the Atlantic Farmers Council has been convened to discuss a pan-Atlantic approach to dealing with Ottawa on farm income problems, soil and water problems.

The industry has partnered with the private sector to establish a forage exchange that will facilitate the sale and purchase of forage throughout the province. The industry has partnered with the private sector and the Canadian Farm Safety Council to reactivate the family farm stress line. The Council of Leaders has established an industry working group to develop recommendations for more responsive safety net program for our producers. The industry has actively supported and committed funding to a new Climate Change Chair at the Nova Scotia Agricultural College in Truro.

WITNESS SUGGESTION

The federation will be asking the provincial government to assist farm families with income problems directly related to adverse weather conditions to take remedial actions to enable farm families to deal with the collateral damage related to the adverse weather conditions and to make a commitment to a long term strategy that will enable farm businesses to adapt to the changing climatic conditions.

The Government of Nova Scotia needs to be committed on a long term basis to the agricultural industry in Nova Scotia.

DROUGHT CONCERNS REGARDING THE FRUIT AND VEGETABLE SECTOR

Approximately 60 to 70 per cent of the fruit and vegetable industry is located in the Annapolis Valley. As a consequence of four years of drought, the fruit and vegetable sector has seen a significant impact. There have been significant increased costs in trying to water crops and to take them to market and significant yield loss on crops. Anything that wasn't watered was suffering crop loss in the range of 50 to 100 per cent, depending on the crop and the soil type. Even irrigated crops in the past year are indicating yield reductions in the 20 to 25 per cent range.

Those who have had adequate water supplies are looking at increased costs of between $400 and $700 per acre on some of the higher value vegetable crops to maintain crop production. Those fields will still be 15 to 20 per cent under what would be considered an average yield with good rain conditions.

The other issue in the vegetable sector, in particular, is that a lot of crop being harvested is undersized, a lot of crop is going to market early. Storage crops are going to be in a much reduced supply compared with previous years, and there is going to be more reliance on imported food product earlier in the winter season than in previous years. This not only impacts the farmer, but it impacts the consumer as well through higher prices.

EFFECTS OF DROUGHT ON THE BEEF INDUSTRY

The Nova Scotia Beef industry is comprised of approximately 1,100 registered farmers spread across every county of the province. The beef industry contributes $22 million in annual farm cash receipts to the province's economy. This represents 5.5 per cent of the total farm cash receipts for the province and results in an expenditure of $17.5 million for operating inputs. This has a direct impact on rural Nova Scotia. This does not include, however, associated income and expenses generated through value added production, and secondary or indirect impact on other industries.

Standard industry on employment multipliers indicates that the Nova Scotia beef industry supports approximately 675 full time jobs. These are substantial, resource based jobs for the province, and because the Nova Scotia beef industry has the resources available to double its current size, this expansion of the industry by 50 per cent to 40,000 cows would create an additional 350 full time jobs.

The Cattlemen's Association was gratified to hear of the announcement of the public funds aiding in the expansion of the Co-Op Atlantic Sydney's processing plant and the creation of 60 new jobs. The investment of the public funds in the beef industry at 10 per cent of this value of the input would create an additional 270 jobs. This is based on the direct farm income from the generation of 37 beef cows.

The Nova Scotia Cattlemen's Association is united in its opinion that there is tremendous opportunity for beef industry production in Nova Scotia. There is an opportunity for growth at all levels of the beef industry, including the cow calf, background, finishing and the value added sectors. There is recognition that the expansion must be market driven. Nova Scotia currently imports over 90 per cent of its beef, based on the competitive advantages available to the cow calf sector through the high quality forage based farms grown in Nova Scotia and relatively cheap land.

WITNESS SUGGESTION

The Nova Scotia Federation of Agriculture looks to the government of Nova Scotia to provide an economic environment that will encourage growth, recognition that all wealth springs from production of food. There is no resource-based industry that has the substantial wealth creation potential of agriculture. Those sectors that value-add Nova Scotia should receive serious consideration when government allots its scarce development resources.

WATER IMPACT

The Growers Water Group deals with water-related issues in agriculture. During the past five years Nova Scotia Agriculture has faced record-setting drought conditions during the growing season.

In 1998 the Growers Water Group was formed to begin to address water challenges faced in agriculture, particularly irrigation issues. It is made up of a group of 12 farmers who have some knowledge and awareness of the issue. The group also has ex-officio participation from staff of the Department of Environment and Labour and the Department of Agriculture and Fisheries in supporting roles. Since 1998 the Growers Water Group has been able to identify numerous issues which need to be addressed around water issues and irrigation for agriculture.

They have been able to develop and/or sponsor numerous research projects and studies. Approximately $400,000 of public funds have been spent on this initiative to date. This has partially laid the groundwork for further development. We are committed to long-term sustainable solutions to water managements not only for agriculture but for the community as a whole.

Unfortunately, in terms of getting viable water solutions in place for agriculture, the group has not been able to move fast enough relative to the climate change the province is apparently facing. It is currently estimated that there are 6,000 irrigated acres in Nova Scotia out of the total of 400,000 arable acres. It is imperative that this irrigation capability be increased dramatically. We need to increase this capability by tenfold over five years. This would cost in the range of $60 to $300 million depending on methods and cost or $12 to $60 million per annum of capital investment. It is difficult or realistically impossible for this to be done without considerable commitment and creativity from industry and government.

One of the implications on agribusiness and relevancies with agribusiness that droughts are starting to cause is in the retail sector. Competing world-wide both within the province and outside the province, marketing domestically or internationally is a highly competitive situation.

The longer the product travels on a truck or by ship the more risks there are, not just for food safety but for economics. When a producer puts a product into a retail chain, that retailer knows that is his only cost for that product. When he brings it from far away, there is lost product along the way and degradation. This cost is absorbed by the retailer, who in turn, pust it into the store at a higher price. That part of business is affected that way, and unfortunately the end result is a higher price for the consumer.

Two, in the hotel-restaurant-institutional trade. There is a competitive environment in the tourist industry and the food sector is only one component. During the time of year that Nova Scotia has the best tourist industry is normally the time of year when there is an abundance of agriculture products from this area.

Three, the infrastructure necessary to maintain an industry of any nature and the critical mass that is necessary to do this. The industry is in real danger now of losing that critical mass. It is going to increase the cost of production which, in turn, will increase the cost of the end product to the consumer.

What this means to the agribusinesses that actually utilize the agriculture products is, that because the majority of these businesses are either national or international, and have plants in different places, they won't keep a plant here if it doesn't compete and return their minimum level of return on investment that they anticipate. However the ultimate problem really ends up being the loss of processing jobs, and increased taxes because these agribusinesses are paying big taxes in the municipalities.

MATTERS OF DISCUSSION

Although there were a number of issues discussed throughout the meeting, outlined below are the key matters that were discussed by the committee.

— Investment in infrastructure. To irrigate 6,000 acres, the average cost per acre for infrastructure is estimated to be $1,000 to $5,000 per acre. Sixty thousand acres times $1,000 would be $60 million and using the higher figure it is $300 million. Over a five year period this would represent an investment of $12 million to $60 million per annum.

— Irrigation opportunities. The Growers Water Group's first line of defense is to capture spring runoff from existing rivers and watercourses, extracting water out of those watercourses at a manageable rate and putting it into a reservoir. Second are the groundwater sources. There is a long history of high volume wells in towns, that show, on that basis the level those wells are maintaining has been constant through a period of years. With some reasonable management to ensure that the aquifer is not overdrawn there would be significant groundwater resource available for the short term.

Most in the farming community would prefer to have the infrastructure in place to allow them to deal with drought on an ongoing basis. They shouldn't be spending a lot more time studying this situation. They have to look at whether government has the willpower and the resources to put funding into it. The farm community does not have the dollars to put into in a significant manner because they are trying to survive. They are also dealing with a lot of food safety, environmental concerns that the consumers and governments think are in the best interests of Canadians and consumers. Putting infrastructure in place has to be looked at as a serious investment in the agricultural community in the rural economy.

— Safety Net Programs. The safety net package consists of three basic programs: crop insurance and NISA which is a shared program and CFIP (Canadian Farm Income Program) which is an emergency farm income program. With the NISA (Net Income Stabilization Account) and crop insurance programs, farmers are able to put money away each year related to their income which is matched by government. Farmers can draw those funds out when their incomes decrease. Basically these programs do not work for the farmers. They are national programs designed for a different agricultural economy than what is here in Nova Scotia. They are designed for acute income problems.

A forth program, called Companion Programs, is a block of money that the federal and provincial governments share, that is supposed to allow flexibility within the safety net package and enable each province, in thier bilateral agreements, to design programs that fit their producers better that the national programs. NSFA has recently established a working group to look more carefully at the whole safety net package and the Safety Net Program to try to come up with ways that the program will fit Nova Scotia's agricultural economy and its diversified farms better.

WITNESS SUGGESTION

The Nova Scotia Federation of Agriculture will be asking the government to arrange to work with the agricultural industry; assist farm families with income problems directly related to adverse weather conditions; to take remedial actions to enable farm families to deal with the collateral damage relating to the adverse weather conditions; and to make a commitment to the long-term strategy that will enable farm businesses to adapt to changing climatic conditions.

The Federation needs the Nova Scotia Government to very much influence the people representing Nova Scotia to pressure the federal officials for changes in the programs that they need done in the federal programs; namely, the NISA, the CFIP and crop insurance.

They need the Government to influence the various people to try to obtain some equality in these programs with our competition and to push forward to aid them with water infrastructure.

COMMITTEE MOTION

The Standing Committee on Economic Development passed a motion to move,

> "That an All Party Committee work with the provincial Minister of Agriculture, representatives from each group and the Federation of Agriculture in a cooperative way to help in whatever way we can to move the agenda forward to resolve and see what can be done economically to help the industry".[3]

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2. Section recited from GPI Atlantic Report contained in submission from NSFA, Page 6

3. Letter from the Committee to Department of Agriculture and Fisheries and response regarding agricultural issues.

Reference to, and within, this transcript can be found on line on the Nova Scotia Government website at:
http://www.gov.ns.ca/legislature/hansard/comm/ed/ed010925.htm

Standing Committee on Economic Development Annual Report 2001 - 2002

October 16, 2001

WITNESSES

Department of Economic Development
Mr. Ron L'Esperance - Deputy Minister
Mr. Chris Bryant - Executive Director, Strategic Mgmt. & Rural Development
Ms. Shirley Carras - Executive Director, Program Mgmt. & Operations
Ms. Mary Anna Jollymore - Director of Communications

BACKGROUND

The mandate for the Department of Economic Development (now called Office of Economic Development) is to manage the government activities in support of economic development, emphasizing the partnership with our government partners, with community agencies, RDA's and affiliated agencies like NSBI and Innovacorp, the Film Development Centre and so forth.

The Department of Economic Development has provided the Standing Committee on Economic Development with an overview of the department's plans and objectives. Overall, the context for government support for economic growth and development is very clear. After considerable consultation in the previous year, with communities across the province, with elected and non-elected officials, and stakeholders, the department was able to put together an economic blueprint namely "Opportunities for Prosperity".

Opportunities for Prosperity attempted to set out the role of government in setting directions for the economy. It looked at how to leverage strategic advantages as a province, given the fact that Nova Scotia has a fairly large geographical mass and is on the eastern coast of Canada.

Positioning government as a facilitator and an enabler, and creating the right kind of stimulus conditions under which the economy can grow on the strategic side, on the tax policy side, on the unique ability to attract foreign directed investment, on the ability to prosecute trade agendas in the context of the goods and services offered as a province.

STRATEGIC DIRECTIONS

The directions outlined in the strategy deal with seven key areas: the strategic infrastructure requirements that support Nova Scotia's economy, building regional airports, building Halifax International Airport as a regional hub for the province and being attentive to the issues of the smaller airports throughout the province, and the issue of broadband and digital infrastructure that is required to drive e-business and to create the right kind of capacity for businesses throughout the province.

The Strategy looks at the whole innovation agenda, labour force, the importance of both the demand and supply side of the labour market, looking at investments, growing our export and helping to create regional capacity throughout the province.

OPPORTUNITIES FOR PROSPERITY

The Opportunities for Prosperity document outlined five key areas for growth opportunities and also clearly referenced support for foundation industries. Foundation industries being the things that, in many cases, drive export potential for the province: ocean resources, land resources, agriculture, tourism & culture, and the growth opportunities being broadly the digital economy, energy, advanced manufacturing, learning industries, and life sciences.

The Department of Economic Development has developed two separate organizations, a smaller, much more focused Department of Economic Development (now called Office of Economic Development), designed to be a centre of excellence for public policy and program management in economic development, creating capacity around some key areas that are crucial to the future of Nova Scotia. Some of the things that the office is building into the department includes a much more focused approach on trade policy, i.e. NAFTA, European Free Trade Agreement, the North American and the FTAA - The Free Trade Agreement of the Americas - all of which are issues that need to have capacity to analyze, to understand the implications for economy, to be able to position the economy, and to be maximally effective in a rapidly changing world.

The opportunities that arise from government procurement, whether provincially or nationally or internationally through international financial institutions, provides a tremendous opportunity to maximize and to optimize opportunities for business throughout the province associated with those activities. One of the things the office is doing is building capacity into the department to deal with the whole issue of industrial benefits and the procurement agenda; looking at these both in terms of Nova Scotia's procurement activity with the province, national opportunities as well as international opportunities.

Second is the Nova Scotia Business Inc. This section is the business development arm of government. It is attempting to bring private sector acumen and experience in delivering key business development programs of the provincial government and involved activities, business attraction, the whole trade and investment file. They are adding in that area a brand new program (recognizing that upwards of 85 per cent of Nova Scotia companies are small and medium enterprises) that emulates programs in a number of other jurisdictions called business retention and expansion.

BUSINESS CLIMATE BRANCH

The business expansion and retention program is designed to support indigenous businesses in Nova Scotia, to improve their export prospects, and to improve their ability to work in the e-economy.

The lines of business for the department include a new business climate branch, whose role is to monitor the business climate in the province, to benchmark best practices in other jurisdiction, to offer thoughtful and compelling policy ideas on how to improve the business climate in Nova Scotia.

Labour market demands. To be a place where the private sector can come and offer suggestions and ideas on labour market demand issues to get a dialogue going about the supply and demand side of the labour equation.

The quality of labour supply is a very well educated, universally recognized workforce. However Nova Scotia needs to take the labour force issues seriously, to ensure and to maximize a competitive advantage while continuing to nurture and develop it. Knowledge management is key if there is to be good, competitive intelligence.

Managing strategic projects. There are a number of strategic projects in the aerospace sector.. The department is attempting to develop, nurture and manage complicated projects that involve interlocution with both the private sector, and with other departments and levels of government.

Rural development and communities in transition. The department is positioning itself to work with the RDAs, to support the work of the RDAs in terms of rural development. There has been a working committee established with the RDAs to help sort out roles and responsibilities arising from the restructuring of the department and from the evaluation that has been done on the RDAs in the previous year.

Government relations. The department would work with the Intergovernmental Affairs Department, with the federal government and with the municipal levels of government in terms of dealing with issues impacting the economy and with international governments.

The department also has the potential to manage the Provincial Employment Program and the Economic Diversification Agreement.

NOVA SCOTIA BUSINESS INC.

Nova Scotia Business Inc. (NSBI) is a separate organization. The CEO has been recruited and reports to the board of directors who are responsible to the Minister of Economic Development. NSBI does not report through the department. The department is involved in setting strategic direction and strategic policy directions for NSBI in some key areas that align with government policy. The lines of business are investment attraction and trade expansion. Currently the board is in place and management positions are being filled. A strategic plan is being finalized and they are working through all of the early elements of getting any new organization up and running.

MATTERS OF DISCUSSION

Although there were a number of issues discussed throughout the meeting, outlined below are the key matters that were discussed by the committee.

— Corporate Tax. There is an understanding within the business community of the fundamental importance of Nova Scotia getting its fiscal house in order. Provinces that have been able to achieve a positive cash position (relative to others), and a great deal more flexibility within their economy, have been able to provide tax cuts.

— Film Tax Credits. The department is continuing a dialogue with the Department of Finance about this issue. The Film Development Corporation and its board of directors have been very effective advocates of the tax credits.

— Immigration Action Plan. The Department has been working with all the partners, Metropolitan Immigrant Settlement Association (MISA), Human Resources Development Canada (HRDC), the Canada Immigration Commission and the Canada Customs and Revenue Agency (CCRA) to help all government partners develop a rational plan about immigration. The first step of this process is to get the Provincial Nominee agreement negotiated and signed with the federal government. At the same time, there are ongoing opportunities through regular channels to support people who are immigrating to the province, either business immigrants or otherwise, through the immigrant entrepreneur program.

The Department has been working with the Halifax International Airport Authority, the Canada Customs and Revenue Agency and Canada Customs and Immigration in HRDC, particularly about facilitating access to specialized expertise that is required in the province when new highly technical developments are taking place in industry. In terms of educational marketing, part of the focus of that work is to look at opportunities for family members to broaden the immigration equation and to market the province as a destination. One of the challenges is that sometimes people tend to gravitate to the larger centres because there are larger ethnic communities there or they have family there. The Department needs to work closely with the agencies and organizations that have been set up to support immigrants and to create that kind of nurturing place, so when people come to the province there is a spot for them.

— Payroll Tax Rebates. This is a performance-based incentive whereby the government, through the Department, rebates a portion of the payroll taxes back to the company, based on the company reaching certain agreed upon benchmarks. These are audited in terms of the number of jobs created. There is always a value proposition for the province, since there is never a complete rebate of the payroll taxes for the jobs created, so that there is always an incremental gain.

Of the investment opportunities that the province has had over the past year with the payroll rebate investments, a total of 3,539 new jobs and the maintenance or creation of 1,354 jobs as a result of loan and loan guarantees.

— The Shipbuilding Policy and the Loan Guarantees for Offshore Supply. The whole debate around the shipbuilding industry and capacity in Canada has been a very interesting one, from a policy perspective. It speaks to the issue of globalization because in many ways the Canadian shipbuilding industry cannot compete with the Far East. It speaks to the issue of needing to know competitive advantages and having a trade policy and understanding the impact of global regulatory structures.

The current loan guarantees that are in place will stay in effect in the presence of a shipbuilding policy. Depending on what the final resolve is, what kind of financing arrangements are put in place for vessels, whether there is an opportunity for depreciation on the more rapid basis, whether there is a lengthening of the term of financing and amortization of the financing of vessels and whether, in fact, the shipowner or the shipbuilder is going to be the beneficiary as one or the other or both. Those are all factors of that policy that will impact on how they apply to Nova Scotia yards.

Reference to, and within, this transcript can be found on line on the Nova Scotia Government website at:
http://www.gov.ns.ca/legislature/hansard/comm/ed/ed011016.htm

Standing Committee on Economic Development Annual Report 2001 - 2002

November 6, 2001

WITNESSES

Aliant Inc.
Mr. Harry Connors - Vice President Communications, Public Affairs
Mr. Michael Howard - Senior Advisor, Government Relations

BACKGROUND

Aliant's role in Atlantic Canada can be broken down into a number of different areas. First , it is people. They employ over 9,500 people in Atlantic Canada and with approximately 4,000 retirees in the four provinces. Their total payroll is about $429 million.

Investment. In their capital program in 2001, Aliant spent approximately $438 million on new infrastructure and capital improvements within their organization on such things as cell towers, digital cellular, the rollout of broadband technologies and investment in their transport or their physical plant. Major expansion was made in information technology services such as broadband and high speed internet and the digital television business with their iMagic TV solution.

Business and economic development. A significant investment was put into e-learning, e-government business services, living lab and their research and development investments, wireless R & D program through the Canadian Centre for Marine Communications. Aliant is also involved in the export side of business. They have what is called Aliant Energy Services which has the capability to be involved in the oil and gas sector in Atlantic Canada; they have interests in the Gulf of Mexico as well and are looking to Aberdeen, Scotland for additional opportunities in the oil and gas sector.

Consulting services. Aliant has recently secured contracts with Bermuda Telephone, and have done engagements in New York and Germany through their consulting arm. That is, taking their engineers and technical resources and shipping them around the world and providing consulting services on an export basis. Xwave is involved in geographies across North America. They have opened up offices in Dublin, Ireland. Innovatia has offices through North America and is exploring opportunities in the United Kingdom. Through Prexar Communications, Aliant has become the owner of an Internet service provider in New England.

Social development. Last year Aliant spent about $4million in terms of sponsorships, community events and goodwill type investments. With their pioneer program, they have recycled about 20,000 computers and redeployed those back into schools. There is also a strong focus within Aliant on volunteerism amongst employees.

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IMPACT ON THE ATLANTIC REGION

Keeping skills at home, Aliant is a significant employer of high-tech skills and continues to have strong relationships with DalTech and some of the other technical schools. To support small and medium-sized businesses, Aliant made purchases of about $250 million in goods and services from Atlantic companies. Business activities in Atlantic Canada generate about $70 million in goods and services tax. Aliant Inc., in total, pays about $186 million in corporate taxes annually. Aliant Telecom also contributes about $28 million through its exchange in revenue or utility taxes to the municipalities annually. Employment generates more than $120 million in income taxes.

Aliant Telecom's value-add in Nova Scotia is, through MTT, roughly 3 per cent of Nova Scotia's gross domestic product. MTT contributes between 14 and 16 per cent of the corporate taxes in the province. MTT is the second largest private sector employer with employees contributing about $350 million per year in economic value distributed throughout Nova Scotia.

Aliant is a growth organization despite their recent announcements. The company is very much focused on growth and diversifying their organization publicly acknowledged by such organizations as NovaKnowledge and AIMS and others from an economic development perspective in the whole ICT sector.

Other milestones of Aliant are broadband connectivity to 100 per cent of schools (which is nearly completed), and to museums and libraries for a total of about 420 sites. They also have established what is called a rural university network in conjunction with the federal and provincial governments. The rural university network provides broadband access for the universities that are not based in metro Halifax; that is the University College of Cape Breton, St. Francis Xavier University and also Acadia University. There is also broadband connectivity for the Nova Scotia Community College and the College de l'Acadie, enabling them to have an infrastructure on which they can build and grow.

Aliant also provides connectivity to the regional children's Telehealth Network and that provides connectivity into some of the other provinces. They have Telehealth, continuing medical education and remote medicine infrastructure that is in place and have connectivity for all hospitals, health boards with hosted e-mail and web applications available to the health sector.

In the wireless business, the long distance business, there is fierce competition. The high speed service is a mixture of infrastructure providers and Internet service providers, and there is less competition in the local area, in rural and remote areas predominately. As the incumbent, Aliant tends to be the dominant carrier in those areas, but do see growing competition in some of the major centres. Local competitors would be AT&T Canada, Eastlink; and Group Telecom (formerly Cable Atlantic of Newfoundland).

Of these competitors the concentration of their customers tends to be geographically centred as well. Fifty percent of their customer base tends to be around major cities. Bundling continues to be a competitive strategy as competitors are closing the value differentiation gap. They are catching up in terms of the services that they are able to provide and although Aliant does have strength in traditional telephone, they are trying to evolve into a new growth company and that requires significant calls for cash and for investment.

The technology is enabling businesses to reduce costs and augment serving customers with electronic channels and personalization. But that technology does require ongoing and continuous investment which puts tremendous strains on their capital requirements.

ALIANT'S RATING SUBMISSION TO THE CRTC

Aliant's proposal is directional, not a rate application. They have been asked, by CRTC, to provide input to a national process in terms of providing information. This is a complex hearing covering the framework for competition in local service, including the rates to be applied and how subsidies are to be addressed. The pricing model must continue investment in rural areas by the private sector. There has to be a model that enables ongoing investment in rural Canada and that is what the CRTC has been tasked with doing and that is what Aliant's submission is about.

There is competition in Atlantic Canada with competitors focused on the more attractive investment areas – the larger centres. Differentiated rates are not new and are inevitable in a competitive environment.

REGULATORY OVERVIEW

In 1992, the Government of the day made a public policy decision to open up telecommunications to competition. Regulatory policies were designed to rebalance over time. The long distance rates have fallen by over 60 per cent as a result of competition. Local rates have risen more slowly, but are still below the cost of providing service. All local services are subject to tax at the federal and provincial level, including 911 services.

Within the regulatory environment, Aliant is still a regulated company, although certain areas of their business are wide open for competition. However, there area constraints on incumbents; Aliant had to provide their network to competitors at discounted rates. The latest proposal, as submitted by their competitors, asked for a 70 per cent discount. Aliant is price regulated and cannot price below their actual costs. They cannot engage in predatory pricing; other industries do have that flexibility, and Aliant is required to serve all customers and that is mandated by CRTC.

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Some highlights of their proposal note that Aliant has been on record saying that they would not be opposed to regional hearings, but this was a national process and the head office for the CRTC is in Hull, Quebec. All the industry players were asked to make submissions and it is the CRTC's decision about where those hearings are to be held. Aliant's proposal is a framework for rate changes over the next four years, not a one-year hit. They realize that there are going to be impacts for rural customers should their rate increases be approved in subsequent applications, so they have chosen to stagger that adjustment over a four year period.

There is a cross-subsidy mechanism, initially designed to create a provincial or regional pool and revenues from long distance to subsidize the cost of local service. Long distance carriers paid a fixed rate per minute of long distance into each pool; however in 2001 the cross-subsidy was determined on most telecom services at a rate of 4.5 per cent and a national pool will now replace the previous provincial or regional pools.

The CRTC introduced new bands or high-cost areas. In 2001 the rate fell from 4.5 per cent to 1.5 percent so that pool of money for reinvestment in local service has declined. In 2000, $66 million in cost subsidy was no longer available to Aliant to subsidize that local service in the rural and remote areas. In 2002, Aliant expects to pay $20 million into the pool and anticipates receiving $20 million back in subsidy from this arrangement, or a net benefit of zero, so there is no longer a pool to reinvest in local service in rural and remote areas.

To encourage competition in higher-costs areas, the CRTC is providing a subsidy from the cross-subsidy pool. This subsidy is based on the CRTC assigned cost minus Aliant's price in higher-cost areas. This leads to possible cherry-picking within high-cost areas.

There will be increased competition in the cities and towns and the rates will drop in response. Aliant will be left with the high-cost portion of the region. So what will remain in the region will be two carriers, one of which is not prepared to invest in the entire area and one of which cannot afford to invest and that is the dilemma faced by the telecommunications carriers and it is the dilemma also being faced by the CRTC in terms of how to stimulate competition while making sure that there is still a model that encourages investment in rural Canada.

GEOGRAPHICAL RATES

The Atlantic Canada submission (as proposed by Aliant) mentions that after a four year period, Atlantic Canada will have a rate of $29.95 per month, which is in line with most of the other regions. Alberta and B.C. have chosen to do a significantly higher jump in their submission. Saskatchewan is a crown corporation (namely Sasktel), so some other subsidies are at play within that organization that could well enable the ability to keep it at a lower rate. The non-incumbent carriers have proposed significantly higher rates than what Aliant has submitted.

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There is a requirement for the public and private sector to work together on rural sustainability in the competitive marketplace and Aliant is quite willing to work with government at all levels to try to come up with appropriate models with respect to continued investment and growth in rural and remote areas.

WITNESS SUGGESTION

Financial stimulation of IT sector. Continued emphasis on direct programs for some of the start-up companies, i.e. capital gains, and tax credits for research and development.

Export and import of intellectual property in research and development. There are opportunities to explore legislation around intellectual property and to make sure that it becomes commercially viable. There are tremendous opportunities for all levels of government to embrace and leverage the use of information and telecommunications technologies to deliver services.

Enabling infrastructure. This is a requirement, whether it is wireless or wire line. The telecommunications networks are the highways, the railways, the ports of the new era. It is important that enabling infrastructure continue to receive investment. It is a model that would have governments act as anchor tenants and look at models in the public policy on investment in rural and remote areas. There are also opportunities on Atlantic synergies in focus across sectors, having the governments work together on an Atlantic basis.

MATTERS OF DISCUSSION

Although there were a number of issues discussed throughout the meeting, outlined below are the key matters that were discussed by the committee.

— Aliant's Proposal to CRTC. Aliant has been asked to provide a means of covering costs. The CRTC has identified and defined what their costs are in different areas. The model that it is going forward with is that Aliant will not be able to price their services below the cost as defined by the CRTC. Aliant was asked to submit a pricing model which allows for recovery of those costs. Although Aliant has asked for an inflation index in their low-cost serving areas, clarification of high costs will be the same, but it has not been approved by the CRTC.

If approved it would be throughout all of Nova Scotia. Applications require a separate and independent application which would require a hearing. The CRTC would presumably look at all factors affecting the company at that time.

— Rural Service. Aliant has recognized that there needs to be continued investment in the telecommunications network in order to maintain service standards, which is something that the competitors have not chosen to do at this stage. Aliant does recognize the need for high quality services throughout the region and recognizes the need for high quality investment. The model that they are putting forward attempts to enable them to sustain investment through their operating territory to all areas and not just in some areas.

— Sustainable Development. Aliant's interest is in being able to operate in a competitive market place, being able to sustain investment in areas where the cost of that investment is substantial and in achieving a return on that investment. What Aliant sought in Canada and the United States was to have universal service. They established a telecommunications system using a series of subsidies: urban to rural, business to residential; long distance to local service. In 1992 the government of the day made a policy decision that there should be competition in telecommunication services which was the long distance subsidy. Since then, there has been an erosion of that subsidy. In a free marketplace all subsidies have to be removed in order for businesses to compete effectively with each other. So what is now being seen is the outcome of that very long process which has taken place over the last decade to try to establish a fully competitive model in Canada. Atlantic Canada and the Government of Nova Scotia as well as the political parties in Nova Scotia should take an active interest in national policy as it affects the region. It is important to abide within the framework and to try to make this model work.

— Employee Layoffs. Many of the layoffs within the company have been in the high-tech industries, i.e. Innovatia, Xwave and Stratos Global. Many of these people are brought in on work contracts which, when completed have meant that they have to be let go. Contracting out is a viable management tool. Aliant looks at the cost of service delivery, to the cost of operating the business and if contracting out appears to be a viable option, then they will investigate it.

Contracting out does not affect their employees, in fact their employee numbers are actually growing despite a layoff of some of their employees in Nova Scotia.

The greatest rate of employment is Aliant's telecommunications business. That core business has always been well developed in the Nova Scotia marketplace. Aliant Inc. was started in May 1999 with 8,600 employees; about 600+ employees were retired through an early retirement program throughout Atlantic Canada. To date there are 10,700 employees, of those 9,000 - 9,500 are located in Atlantic Canada. Employment has actually grown in all three areas and throughout the lines of business.

In Nova Scotia, of the fourty-eight layoffs that were initiated, twenty of those actually received early retirement packages. However, Aliant does anticipate the need to take out another 300 positions. The fact that their telecom employment is about 60-65 per cent, 200-220 of those would be in the telecom industry. They will also look at the variety of means available; that is, temporary positions and retirement options.

— Competition. There is a contribution expected from some of Aliant's competitors for some of their poles and infrastructure. The percentage of contribution varies. Aliant was told to provide access to their infrastructure for their competitors and the percentage rate is set by the CRTC. Aliant have always been much more in favour of facilities-based competition, where each of the players is required to invest in infrastructure and facilities.

Reference to, and within, this transcript can be found on line on the Nova Scotia Government website at:
http://www.gov.ns.ca/legislature/hansard/comm/ed/ed011106.htm

Standing Committee on Economic Development Annual Report 2001 - 2002

November 20, 2001

WITNESSES

Christmas Tree Council of Nova Scotia
Mr. Shawn Lacey - President
Mr. Len Giffen - Coordinator

BACKGROUND

The Nova Scotia Christmas tree industry has felt that it would be severely hampered by some of the proposals to eliminate the specialists on the staff in the Department of Natural Resources, as well as other cuts affecting the seed nursery, research funding and a reduction in services from the entomology facility in Shubenacadie. All of these services have played a major role in helping the industry to develop into the major economic force of the $32 million annual industry that it represents today in Nova Scotia.

Over 1.8 million trees are harvested each year by approximately 3,000 growers, from some 30,000 acres across the province. Since 95 per cent of that harvest is sold outside the province, this represents a major source of new dollars into the provincial economy and a significant level of seasonal employment for the 2,500 Nova Scotia workers, as well as the 500 permanent jobs for those involved in the year-round plantation operations.

The Nova Scotia Christmas Tree Council had initiated a series of meetings with government officials over a period of months, and are pleased to report the re-establishment of these services by the Department of Natural Resources and the establishment of a much closer working relationship between the industry and the Department of Natural Resources. Currently the Council has direct input into the department's annual priority planning process and is able to respond quickly to factors that impact the industry. The Christmas tree levy legislation has provided the Council with a stable source of income from the growers themselves, to enable the council to provide a wide range of educational, technical and promotional services to the industry. It is truly a leader in Canada and is looked to by growers in other provinces Canada as well as a number of American state organizations as one worthy of emulation.

As a result of this renewed co-operation between the Council and the Department of Natural Resources, the Council has recently harvested some 50,000 enhanced-quality seeds from the seed nursery, and these will be ready in two years for trial across the province. In addition, these seedlings will be grown in a variety of container sizes and formats to determine the optimum conditions for future growth and seedlings adapted to the variety of soils and geographic conditions in Nova Scotia.

Substantial progress has also been made on identifying optimum conditions and products for treatment of insects pests which impact the Christmas tree industry. The industry will have an at-a-glance visual chart available to all growers in the province for insect control as part of a completely updated grower's manual to be distributed to all members in the next several months.

The wreath and brush components of the industry are continuing to grow rapidly and the Council has offered its services to growers and manufacturers, many of whom are already members in their capacity as Christmas tree growers. They are also pleased to note that the Department of Natural Resources has undertaken to provide regular and timely information on a number of important issues to their members on its Web site.

This past spring the Nova Scotia Christmas Tree Council was accepted as a full charter member of the National Christmas Tree Association (NCTA) of the United States. Since over 90 per cent of their exports are shipped to the United States, it is critical that the Council is fully aware of all issues in America that may impact growers and shippers here in Nova Scotia, and this membership gives them a seat on the NCTA Board of Directors and a voice at the table to address problems and concerns as they arise.

Growers in the province are anticipating good sales this year and each year many more of them are using e-commerce to do more of their own brokering. There is some uncertainty over possible delays at the boarder crossings due to recently increased security; however, they are encouraging their shippers to allow a bit of extra time and are working with colleagues in New Brunswick to provide contingency services should truckers be required to unload their trees for detailed examination or inspection.

The Council has concerns over the suggestion by Agriculture Canada that all of Nova Scotia was to be declared a gypsy moth infected area rather than only the western part of the province. Such a declaration would mean additional expense and a major complication for growers and shippers in areas where this insect has never been found. The Council appreciates the support that the Nova Scotia Government is giving them to ensure the change is not carried out.

Members of their Lunenburg association continue to work with the Departments of Economic Development, and Tourism and Culture to provide trees to the Nova Scotia Legislature, the City of Boston and the Canadian Embassy in Washington annually. These are all important public relations initiatives for the industry and they hope to further capitalize on these events through the promotion of their membership in the National Christmas Tree Association.

MATTERS OF DISCUSSION

Although there were a number of issues discussed throughout the meeting, outlined below are the key matters that were discussed by the committee.

— Entomology Center in Shubenacadie. Although substantial progress has been made on identifying optimum conditions and products for treatment of insect pests which impact the Christmas tree industry, the Council is still concerned about the very heavy workload at the entomology centre which is further stretched by the extensive work resulting from the brown spruce longhorn beetle infestation in the Halifax area. It is hoped it will be possible to add additional resources to this very important service to the forest industry as a whole and to the Christmas tree industry in particular. The concern is the ability to have enough money to be able to do proper evaluations / research.

— Tree Specialist. There are assurances regarding the continuing with tree specialists and that the position will be filled.

— Agriculture Canada. Agriculture Canada was looking to declare a gypsy moth infected area in all of Nova Scotia. It is really the lumber business versus the Christmas tree business. The gypsy moth is not a native to Nova Scotia. In the western part of the province where there is a lot of tourist trade there is a lot of gypsy moths, and the area is closer to the United States, or it is blown in or came in via trucking. It has not been found in the eastern parts of the province. The gypsy moth likes deciduous trees, particularly oak. It is the western part of the Province, closer to the U.S., where ther are a lot of gypsy moths. Eastern parts of the Province have been free of gypsy moths and there has never been a gypsy moth egg mass found on a Christmas tree.

Now that it is in the province, Agriculture Canada is saying

> "instead of doing an inspection based on the lobby from the lumber groups, why don't we just quarantine the whole province so we can freely move logs back and forth". [4]

To the Council that is really a no-go because the people in the gypsy moth area have to have protocols set up saying this is how they monitor, how they control it , et. al. What the Council is trying to do is maintain the lines -- keep the status quo.

— Christmas Tree Council, levies and legislation. There are 800 producers that represent about 95 per cent of the industry who are required to be registered with the Council. Compliance with this piece of legislation falls under the Forests Act and the Christmas Tree Levy. The amount of levy is legislated to be 1 per cent of the road side value.

— Education, Technical and Promotional Ability. At the present time the Council is trying to find ways to raise money, although they do get some printing support through DNR and through Forestry Canada, but they are always looking for funds. A lot of the work is done by volunteers. At present the Council is running an entire office, advertising ,etc. for a $32 million industry on $55,000.

— The Brown Spruce Longhorn Beetle. The Council have lent support to the activities to control this insect. They do support anything that may possibly - whether remotely or not - damage their industry.

— Markets/Competition. In Central and South America the market is growing, and the U.S. market is quite saturated between real and artificial trees. What the Council is trying to do is expand the market, to enable Nova Scotia to capture part of the Central and South America market. Presently they are shipping trees to El Salvador and are working on the Venezuelan market, and it is understood that there are trees going to Japan this year. Europe would also be a strong market for the industry. Nova Scotia can be competitive. It has one of the greatest seaports in North America as well as other competitive infrastructure.

— U-Pick Business / Signage. The Council is currently having some discussions on the most effective way to post business signage along Nova Scotia Highways. The council is working with the Department of Transportation and Public Works to ensure that they are going to be able to get signs for the U-Pick s on the 100-series Highways and to assist their people who have U-Picks to be able to identify themselves on all the highways in the province. It is hoped that at the first of the year they will be able to progress with that.

Part of the new legislation that was passed the previous summer states that a person has to be in business so many months of the year in order to qualify for one of these signs. The industry that the Council is in does not qualify.

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COMMITTEE MOTION

The Standing Committee on Economic Development has passed several motions to,

> "Write to Agriculture Canada in support of the Christmas Tree Council's case in maintaining the status quo in regard to the gypsy moth and not pursue classifying the whole province as a gypsy moth zone."[5]
>
> "Write to the Minister of Transportation and Public Works in support of this initiative to allow the Christmas Tree Counci of Nova Scotia and their partners to be eligible to place signage of their U-Pick operations along Nova Scotia provincial highways."[6]

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4. Standing Committee on Economic Development Hansard Transcript, Page 10
5. Letter and response to the motion regarding the Canadian Food Inspection Agency. (See Appendix A.)

6. Letter and response to the motion regarding the Department of Transportation and Public Works. (See Appendix A.)

Reference to, and within, this transcript can be found on line on the Nova Scotia Government website at:
http://www.gov.ns.ca/legislature/hansard/comm/ed/ed011120.htm

Standing Committee on Economic Development Annual Report 2001 - 2002

December 4, 2001

WITNESSES

Cape Breton Growth Fund Corporation
Mr. Rick Beaton, CEO
Ms. Wendy MacMullin

BACKGROUND

The Cape Breton Growth Fund Corporation (referred to as the Corporation throughout the report) is a federal Crown Corporation and was established in August 2002 based on extensive consultation. It is a full parent of the Enterprise Cape Breton Corporation (ECBC) and is responsible for the delivery of the economic adjustment fund established by the Governments of Canada and Nova Scotia in the wake of initial downsizing and privatization of the coal mines in Cape Breton.

This is a very unique partnership among ECBC, Human Resources Development Canada and the Province of Nova Scotia. The Corporation has the same flexible, broad powers as ECBC does and its own separate board of directors who reports to Parliament independently of ECBC. The Corporation will ceased to exist when all the funds are committed – not necessarily spent – but as soon as the last funds are committed on paper.

OBJECTIVES

The objectives of the corporation are to promote and assist, alone or in conjunction, with any person, the Government of Canada, the Province of Nova Scotia or any agency of either of those governments, the financing and development of industry on Cape Breton Island -- to provide employment outside the coal producing industries and to broaden the basic economy of Cape Breton.

The Corporation was established to make investments that complement existing programs to foster sustainable economic growth and job creation. It is not there to replace existing government programs of the federal or provincial governments.

ADVISORY COMMITTEE

The Corporation has established an advisory committee that should provide the Board of Directors with feedback that is representative of what the community is saying, including all Cape Breton and Mulgrave. The committee has a staff of six people and a memorandum of understanding established with ECBC which provides due diligence and review of the files.

Enterprise Cape Breton Corporation does the due diligence on the files and is a more cost effective way for the Growth Fund to operate. As well there are memorandums of understanding with ECBC, HRDC and the province of Nova Scotia on the staffing component and what they will contribute to the process.

Originally the fund was $80 million; $68 million from the Federal Government and $12 million from the Provincial Government. Seven million dollars of that initial $68 million was committed to EDS (Electronic Data Systems) Sydney prior to the announcement of the Growth Fund. In May 2001, the Government of Canada announced an increase of another $18 million as a result of the closure of the last working mine in Cape Breton. The total available under the fund is now $98 million.

The priority areas of the growth fund are the knowledge based sector, oil and gas development, tourism development, environmental remediation, arts and culture and strategic initiatives which could be an investment attraction or infrastructure development.

If this fund is to be successful, then it is necessary to ensure that other sources of funding are leveraged. It is important to ensure that the ACOA programs, the ECBC programs and others come to the table as they normally would.

The focus is very much on long term sustainable growth, economic benefits and job creation. Some of the objectives within those priority areas are: increased trade; industrial benefits; research, development and commercialization; access to capital; direct investment; and infrastructure.

Within the advisory committee, five of their members chair various task forces on these priority sectors. They have about 40-50 people in Cape Breton who volunteer their time for no remuneration, in terms of trying to grow those sectors. What they are trying to do is pick individuals within each of those sectors who have expertise and can add value in how to grow those industries in Cape Breton.

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COMMITMENTS

In terms of some of the results so far from the expenditure of money, EDS in Sydney has created 900 jobs, and received $7 million from the Corporation, $6 million from ECBC, $7.2 million from the Province and EDS Canada itself is putting in $122 million. EDS in Port Hawkesbury has received $4.5 million from the province and $51 million from EDS Canada, $2.5 million from the Corporation, and $2.0 million from ECBC for the creation of 450 jobs. Upsource Inc. in North Sydney has 71 jobs, $475,000 repayable contribution from the Corporation, $125,000 from the Community Business Development Corporation "NEDAC" and Upsources Inc. is putting in $1.4 million. Stream International in Glace Bay has 900 jobs, the Corporation put in $10 million, HRDC has committed up to $2 million and Stream International are putting in $143 million. Co-op Atlantic has created 60 jobs, the financing there was $800,000 from the Corporation, $3.7 million from the Province and $3.7 million from Co-op Atlantic.

The total Growth Fund commitments to date are just slightly over $20 million and the remainder for distribution is $77.225 million. One thousand sustainable jobs have been created. Fifty million in new incremental export sales and tourism receipts; $10 million in incremental sales to oil and gas and environmental remediation industries; $5 million in new incremental expenditures in research and development; 15 new business startups; five new export-oriented businesses were attracted to Cape Breton; and $50 million in incremental direct investment.

MATTERS OF DISCUSSION

Although there were a number of issues discussed throughout the meeting, outlined below are the key matters that were discussed by the committee.

— Commitment of $20 million to date. With the EDS projects it is performance based ; they have committed to 900 jobs for Sydney and 450 for Port Hawkesbury. If those jobs are not there then according to the penalty clause the client pays the Corporation back. The penalty clause is a clawback provision within the contract that if the company does not fulfil its obligations at the end of five years then they are obligated to return the funding to the Corporation.

— Strategic Investment. During the consultation process, people made it clear that what they were looking for was jobs. The Cape Breton Growth Fund Corporation made a very conscious decision in the first year to concentrate on attracting as many jobs as they could to Cape Breton, and the opportunity was there. Presently the Corporation is concentrating on other key sectors. They now have task forces and a call for proposals going to consulting firms to create a road map under tourism to create a 50 per cent increase in tourism visitations by the year 2007, i.e. kinds of infrastructure, attractions, accommodations and other things necessary to obtain this increase.

— Oil and gas. The Corporation has commissioned a study to look at the Ports of Sydney and the Strait of Canso to see what the niche is, the strengths and weaknesses of both and what realistic opportunities Cape Breton would have to attract oil and gas companies to its area. Under environmental remediation, they have done an industrial benefits strategy. The task force has produced a strategic document and some key recommendations that can go forward in terms of how Cape Breton can benefit from the remediation of the tarponds and the coal mines on Cape Breton.

— Knowledge Based Industries. The Corporation is currently doing an inventory of exactly what is present on Cape Breton Island in term of goods and services that are produced and how many people are in that sector. They have also looked at the concept of an expansion of a Silicon Island facility that would have some space for mentorship and development of youth.

— Application Process. The Corporation would have itinerant services that would enable them to go into the community and be available to meet with clients who have an idea and want to follow it up. There are various programs and services, and the Corporation can help a client who wants to foster and look at an idea in more depth. The client will fill out an application and present it along with a business plan. Then due diligence will take place on that review, looking at everything from the individual and their background and experience, to the type of project they want to do, the financing they have in place and sufficient equity to put in place for marketing plans, etc. With existing programs, CBGF can provide interest-free loans for up to a 10 year period which makes it more attractive than a traditional bank. After the due diligence process is complete a determination will be made as to whether CBGF is in a position to offer the client assistance.

With the Growth Fund, all projects go to the board for approval or rejection. To date there have been about 10 applications of which two have been rejected. Existing programs have to be in place as well. The bulk of the projects that will come across their desks will fall under existing programs.

— Long–Term Commitments. The Corporation has six chartered accountants on staff; however, they can contract out areas of expertise where they do not have it to ensure that the projects proposed are good projects and makes sense for Cape Breton and will be there for the long-term. The Corporation is very much committed to doing projects that will be there for the long-term. It is a difficult task at the best of times. With the long-term commitments, in terms of financial obligations, those too would be transferred to Enterprise Cape Breton Corporation who would then finish paying out the balance of the files, or recover whatever funding was owed back to both the Government of Canada and the Province of Nova Scotia after the Corporations' four year period.

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— Roles of Cape Breton County Economic Development Authority and Strait - Highlands Regional Development Authority (RDAs). RDAs do play an essential role particularly CBCEDA. They are working with the Corporation now in terms of community revitalization of plans for Sydney and Glace Bay and working on other initiatives as well. Right now the Strait-Highlands RDA is looking for a new executive director , but they do have a significant opportunity to play a key role in the development of that area. RDAs are significant as a kind of grassroots community, people working with a number of communities and organizations.

Reference to, and within, this transcript can be found on line on the Nova Scotia Government website at:
http://www.gov.ns.ca/legislature/hansard/comm/ed/ed011204.htm

Standing Committee on Economic Development Annual Report 2001 - 2002

February 28, 2002

WITNESSES

Insurance Bureau of Canada
Mr. Don Forgeron - Vice President, Atlantic Region

Royal & SunAlliance
Mr. Frank Mumford - Regional Manager

ING Halifax
Ms. Aileen Thomson

CGU Insurance Company
Mr. Freeman Walsh

BACKGROUND

The Insurance Bureau of Canada (IBC) represents private general insurance companies, who underwrite about 90 per cent of the auto, home and commercial insurance business sold in Canada. IBC has a membership of about 120 member insurer groups; almost 200 companies.

OBJECTIVES

There has been much talk and much written recently about the rising cost of insurance to consumers. IBC would like to share their sense of why costs have gone up, and the research that they have done with respect to this. They would also like to dispel some myths about rising insurance costs. There are many things being said and written which do not necessarily accurately reflect what has happened in the industry. In the land of myths is some issues about road safety and the financial results as an industry and some other factors that are also responsible for increasing costs.

IBC claim costs (1996 to 2000), went up by 46 per cent. Currently, on average, rising at the rate of 9 per cent a year. There are some insurers whose costs are increasing at a much higher rate. This is an industry average. Frequency and severity is really how many and how expensive these claims are both of those indicators are up quite significantly over that same period of time. At the same time premium growth is up by 10 per cent.

Bodily injury claims and claims frequency. For the period 1990 to 2000 the number of claims on a calendar year basis has gone up by 45 per cent. The average cost of those claims has gone up by 83 per cent over the course of the 1990s.

Industry premium, that is the premium that the industry has earned on an annual basis, is $125 to $275 million. For a couple of years in the mid-1990's the industry actually was profitable on auto insurance, but there is no way that they can overcome these rising costs. They are already paying out more in claims than they are taking in premiums.

In the face of all of those rising claims costs, IBC set out to find out which types of claims and which types of payments were causing the problems. The significant numbers from Nova Scotia are 70 per cent of the claimants had only soft tissue injuries and received 56 per cent of the settlements. The other significant number is that 67 per cent of all the dollars that were paid out in claims costs for bodily injury claims went to pain and suffering awards. The numbers for Newfoundland are very similar - 67 per cent had only soft tissue injuries. New Brunswick and Manitoba, again very similar, 61 per cent in New Brunswick had soft tissue, 61 per cent were for pain and suffering awards. Similar results in Manitoba and B.C. Ontario and Quebec had similar conclusions and the research around the world shows exactly the same types of conclusions.

ROAD SAFETY

Those who are opposed to making any types of changes to the system have always come back to the fact that the solution to this problems is road safety. “If we can just reduce the number of accidents we can solve this problem”, that is perhaps one of the biggest myths that is floating around right now.

National figures show that since 1990 the number of injuries and fatalities across the country have steadily declined. While these injuries and fatalities were declining, the number of claims have actually gone up and the cost per claim has also increased over the latter part of the 1990's for bodily injury and accident benefits. The average claim has continued to increase during the course of the

1990's to the point where Nova Scotia now has the highest average claim costs in the country.

IBC agrees that road safety is important, and have a long track record of supporting road safety initiatives in this country. Currently IBC has now turned its attention to the issue of aging drivers and how they can help those drivers stay on the road as long as possible. It is important and they will continue to support it. The number of collisions have been reduced but not the number of claims.

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VEHICLE REPAIRS

Another myth is the costs of repairing vehicles and the other types of claims that are causing costs to increase. This is not the case. The cost of settling bodily injury claims far outstrips, in fact it is more than doubled, the cost of settling collision and comprehensive claims.

Over the course of the 1990's, the accident rate in Nova Scotia has gone down by 20 per cent. In New Brunswick, it is gone down by almost 50 per cent. At the same time,the cost of settling bodily injury claims had gone up and is increasing. It is just not consistent to say that if the number of accidents were reduced it would solve this problem. The number of accidents were reduced quite considerably right across the country, but yet the cost of settling these claims has continued to go up.

FINANCIAL RESULTS FOR THE INDUSTRY

In 2001 the return on equity fell to 2.8 per cent. Part of the problem has been premium growth. There has not been a lot of premium growth in the industry. What this has meant for automobile insurers in Atlantic Canada, is that 1994 and 1995 were the only two years that the industry was profitable in Nova Scotia. The trend is going to more losses each and every year. If insurers cannot make a profit, they only have a couple of choices. One is to leave, the other is to raise their rates. That is the result of a system that has gotten too expensive.

PROPERTY CASUALTY INDUSTRY

Some other factors that have caused rates to go up are the property casualty industry. This is the most heavily taxed sector of the economy, but that always and ultimately gets passed through to the consumers in the form of higher premiums. In Nova Scotia the insurance industry pays a premium tax of 3 per cent on their policies. That represents $24 million per year. Next is the health care levies. The government is entitled to recover the health care costs for innocent motor vehicle accident victims. Whatever health care costs are expended to fix the injured person is recovered from the injurer by the government. The government sues the injurers' insurance company and recovers whatever they have spent on health care costs. Back in the early 1990's, the industry and government got together to provide a better way of recovery. The previous method was very expensive administratively and it was not very efficient. Together they came up with what is called the levy. It is fairly predictable and it has worked reasonably well. Back in 1993 the government was collecting about $6.7 million, in 2000 they were collecting $12.7 million. The industry feels the government is recovering more than needs to be recovered for the health care costs of innocent motor vehicle accident victims, and this contributes as well to the increasing cost of insurance.

INSURANCE FRAUD

A lot has been said about the effect of insurance fraud on the cost of product, whether it is auto or property. Ten to fifteen per cent of all premiums paid go to pay for fraudulent insurance claims. This translates into over $1 billion per year.

Insurance fraud prevention is also an issue and that the industry will have to tackle to both reduce the number of fraudulent claims and to penalize only those who perpetrate fraud.

A system has to be designed where costs are going to be controlled so insurers can sell the product at a price that can be affordable, and also design a system to attract as many insurers as possible to the province, which will further reduce the cost to consumers and make it more widely available.

The system must be acceptable to as many of the stakeholders as possible. IBC's focus, and their recommendations to governments in Nova Scotia and elsewhere, is that there has to be focus on the factors that have caused costs to go up.

WITNESS SUGGESTION

Government has to provide a clear process that will allow consumers and all stakeholders to come forward to voice their views on how this problem can be fixed. Government should decide what kind of an auto insurance system that they want to provide for the people of the province. If that formal process is an effective one and consultation is wide open, there can be legislative change that will benefit consumers in this province.

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MATTERS OF DISCUSSION

Although there were a number of issues discussed throughout the meeting, outlined below are the key matters that were discussed by the committee.

— Premium Increases. Errors and omissions is an area that represents a very small segment of insurance business, which means that there is a lot of unpredictability in that insurers do not have a lot of large numbers working to their advantage. All of these things have to be experience-rated so if insurers' experience in errors and omission over time is significantly increased then that particular type of operation will see an increase in their cost of insurance.

It only takes a few large claims in a province as small as Nov a Scotia to increase the cost for those people who are buying that particular product. In Nova Scotia on auto insurance, there are no profit margins so insurers are not even covering the cost of the product.

IBC is not in the business of setting rates. They have no authority to direct their members to do anything in terms of how they run their business. The reason insurers are increasing their rates is that they cannot afford to run their businesses at a loss. In terms of dealing with public policy issues such as this, the bureau does have a role to play. The IBC has done a tremendous amount of work telling people that they saw this issue coming. They have been dealing with it in Newfoundland since the early 1990's and knew it was only a matter of time before it came to Nova Scotia. The IBC has a role to play in dealing with public policy issues such as the increased cost of insurance.

— Profitability and Investments. The auto insurance industry is not highly profitable over the long term. They are one of the lower performing industries. Investing in an insurance company today in Canada, in a general insurance company, is not a highly profitable business line. They are not getting returns on investment income in the same way as other companies.

In the year 2000, profit for the industry was $1.1 billion. Of the 112 insurer groups that represent

IBC, that works out to $9.8 million in profit per company and it is $1.1 billion for all lines of business, not just for automobile insurance. Industry return on equity numbers are below 3 per cent for the year 2000 which was actually the year where the profit level for the entire industry was $1.1 billion.

— Seniors Rates. Rate increases seem to be going anywhere from 50 per cent, 100 per cent, etc. There seems to be no consistency. The lack of consistency is another word for competition. Competition has kept the rates down to the level that they are now. Seniors are not being treated any differently than anybody else. All are being asked to put more into the pot. The essence of insurance is everyone is going to put money into this pot so that money, in terms of a claim, will be there. However there are more people taking more money out of the pot than ever before.

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— Auto Insurance Fraud. Insurance companies have special units of their own that investigate suspicious claims and to try to make sure that the claims that they pay are legitimate claims only. IBC has an industry organization, a division of the IBC - an investigative services division - that has investigators right across the country that insurers use to investigate suspicious insurance claims.

These investigative units have done a tremendous amount of work trying to combat insurance fraud. They want to try as best they can to treat customers in a manner that they want and to treat everyone as suspicious is certainly not going to be welcome. It is very difficult. The basics of insurance, the premise is utmost good faith.

There are two types of fraud. One is a hard fraud, when someone is actually attempting to purposely perpetrate fraud. Then there is the soft fraud, where some people attempt to inflate a claim, a legitimate claim that has occurred but inflate quality and quantity.

— Rating System. Over the last couple of years many of the companies have introduced a new rating system, especially for collision comprehensive that takes into account the cost, based on statistical evidence that has been gathered over a great number of years, of repairing vehicles, of the frequency with which they are stolen etc. Some companies over the last couple of years have introduced these changes, which for some consumers have seen their premiums go up, while many others have seen that portion of their premium go down.

— No-Fault Insurance. No-fault insurance has actually increased premiums in other parts of Canada, however IBC would like to see a process whereby they can involve consumers, government, stakeholders and the industry to try to arrive at a solution. They have stated several times that they have not been lobbying government, nor are they lobbying government, for no-fault automobile insurance in Nova Scotia. It is only one of many options available to them. But contrary to what some groups have done, they have not precluded any of these options before they get started. If the people of the province decide, after a period of consultation, that they do want a no-fault product of one form or another, then why not give it to them. But if they do not then let's not, but let's solve the problem.

There are many groups that say no to no fault and they have precluded a whole host of opinions without even considering what the problem is or an analysis. What IBC is saying, is put everything on the table and let the people of the province decide.

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— Pain and Suffering. In order to control the cost of automobile insurance, the cost of claims must be controlled. IBC have identified which type of claim is driving up rates, that has caused rates to go up over the last little while. The vast majority of soft tissue claims incur very little economic loss. It is not the economic loss portion of these claim that is causing the problem, it is all the pain and suffering awards.

Reference to, and within, this transcript can be found on line on the Nova Scotia Government website at:
http://www.gov.ns.ca/legislature/hansard/comm/ed/ed020228.htm

Standing Committee on Economic Development Annual Report 2001 - 2002

March 7, 2002

WITNESSES

Town of Canso
Mr. Frank Fraser - Mayor
Mr. Finley Armsworthy - Deputy Mayor
Mr. Troy Jenkins - Chief Administrative Officer
Mr. Vincent Cohoon - Councillor

Canso Trawlermen's Co-op
Mr. Patrick Fougere - Manager
Mr. John Armsworthy - Vice President

Economic Renewable Task Force
Ms. Janet Peitzsche - Councillor, District of Guysborough

CAW
Ms. Judy Smith
Ms. Kathy Dorrington

Clergy Representation
Rev. Daniel Boudreau - Star of the Sea Parish
Rev. Ian Wissler - All Saints Anglican Parish

BACKGROUND

Since 1990 when National Sea Foods left Canso – and the Town was in a major crisis at the time because they did not have an operator for their major employer Seafreez Foods – the area of Canso, surrounding communities and the whole eastern end of Guysborough County have had their ups and downs.

The delegation who spoke before the Standing Committee expressed quite passionately, that they would like to build Canso and area into an environment the people would like to live and work in. The Town of Canso was at one time one of the wealthiest, most prosperous communities in Nova Scotia. It had a strong inshore fishery, fish processing and salting factories, and all sorts of small operations. Today, all of these industries have gone. Seafreez Foods has been closed since October 2001 with no announcement as to the date of opening, although the Town is still hoping and awaiting a pending decision by the federal government on stocks and quotas for the plant.

People are panicking. They are depending on the Town Council and surrounding councillors and the Community Task Force to do something to make government stand up and see that more must be done than just talk. Government must implement alternatives, options for the people of Canso, commercial wise, industrial wise and particularly, employment wise. The Canso delegation has asked members of all parties to listen, to understand and to empathize with the people of Canso.

Although there was an announcement Wednesday, March 6, 2002 to continue with RDAs for another three years, something more must be done than the administration of RDAs. The Town and municipalities must be given the tools to work with, and to continue on from there.

People are running out of Employment Insurance (E.I.) Benefits. Between March and May 2002 the majority of plant workers in Canso will have run out of E.I. with no further claims available to them because of lack of hours and contributions .

The Town has been working and co-operating with both levels of government through discussions and such, but they need more than that. They need to move on to the next step to where they are creating jobs, and creating the environment so that people can go to work.

As quoted,

> " Canso can and will only survive on fish. Other things that we have to look at as a community in rural Nova Scotia is the diversity of people; to look at community economic development as a stepping stone towards our future. We have to continue our efforts in terms of economic development by His Worship Fraser and the Council of Canso to continue to bring things into the community. We must have a mainstay and we must have a lifeline, that lifeline is the fishing industry".
>
> ". . . the Province of Newfoundland has a stranglehold on the fishery like no other province in this country. The Nova Scotia Government must take a stand against the policies and the implementations that are being forced by the Province of Newfoundland, in order to give fishermen in rural Nova Scotia an opportunity to get

back what is rightfully theirs." [7]

Article 3 of the Fisheries Management Plan states that allocations and quotas will be issued based on the adjacency to the resource and dependancy on the coastal community. It was suggested to the Nova Scotia Government to

> "Implement Article 3 of the Fisheries Management Plan for Nova Scotia the same as they are doing for Newfoundland." [8]

With a quota or with allocations to the Canso Trawlermen's Co-op other businesses would begin to increase in work through direct and indirect employment.

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UNION BENEFITS

Presently Seafreez has 315 unionized workers. Out of those 315 workers, 120 did not receive enough hours to qualify for E.I. in either 2002 and 2001. Many of those who did qualify for benefits have already lost their E.I. After May 2002, 69 people of the 315 will be receiving E.I. Benefits, however those 69 will start losing because they do not have any hours to continue their E.I. Grants were applied for to top up the benefits, but, the only grants that are coming up are E.I. top offs, which do not pay hours for employment. They have applied for grants to top up E.I. benefits. Some people need 15 hours, some need 30 hours and some need 40 hours to file another claim.

People are now facing the issue of whether to stay in a dying community or pack up their families to leave. Those who have an education are young enough to be retrained, however there is no one at Seafreez under the age of 20 years old working. The Union has over 200 employees between the ages of 40 - 50; and 83 over the age of 50 years making it impossible to retrain and hire these people.

A pension to help those people over the age of 50 to move from the fishery is necessary as they are the mainstay of the community. The Union feels that a pension for older workers, an adjustment program or some type of pension for workers over the age of 50, will provide the opportunity for other people to perhaps come into the plant to work. The Town needs their young people to stay in the community, whether it is going to be at the fishery or some other type of economic development. As quoted,

> " If rural Nova Scotia is going to survive the crises that it is now in, we need all the assistance that we can receive from all levels of government to make it a viable community."[9]

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MATTERS OF DISCUSSION

Although there were a number of issues discussed throughout the meeting, outlined below are the key matters that were discussed by the committee.

— Government Assistance to Canso Crisis. The one thing the Town did receive was confirmation from the Federal Minister that within seven days they would have an announcement on Seafreez and the fishery in general. As well, the Town of Canso does have a number of people working with them and for them, but they do not have any guarantees.

However, as quoted by Mayor Fraser,

> " The one fundamental disagreement on the matter of enterprise or community quotas, allocations is back in 1990, when National Sea hauled out of Canso, they took their quotas, and draggers and left Canso emasculated with the fishery . . . Minister Thibault stood at a meeting recently and said, 'I don't believe in community quotas.' So enterprise quotas may be acceptable in certain terms if there is conditions on it." [10]

— Redfish Allocations. 3-0 redfish is presently underutilized by Canadians and over-utilized by foreigners, with a larger degree of the allocations in 3-0 being harvested by European countries. This is a Canadian resource, but it is being allocated to a number of companies that are underutilized. The biomass of redfish out there is in the millions and million of pounds why not increase the TAC. From 1960 to the year 2000, 88 per cent of the total catch in that area was caught by foreign nationals, countries such as Estonia, Portugal, Spain, Japan, Russia and St. Pierre and Miquelon, and the Canadian Government allocated the quota of the allocations being fished by foreign fleets because these fleets are under the jurisdiction of NAFO.

— Retraining/Opportunities. Diversity and training people is a good idea if there is something to train them for. The matter of retraining has been with the Town since 1990. The Town is still talking with community colleges trying to stimulate similar projects that they can initiate as they had done with the LPN training program back in the ‘90s. However what the community colleges have been doing for the last few years was retraining people for export. The colleges are retraining them and the people are moving out. Over the long term it is actually harming the community because the people must move on to get jobs they are being retrained to do.

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— Government Funding. The Town of Canso is aware that there is a regional plan. They have been dealing with ACOA, the Department of Economic Development, NSBI, and the Department of Tourism. They also have a number of projects awaiting a decision. The FRAM (Fisheries Restructuring and Adjustment Measures) is not helping them. The Town does not have the resources available that would enable them to provide their portion of the funding (these programs are in place and they are meant to serve areas like Canso) everything is based on one-third federal/provincial/municipal. Canso cannot come up with the funds in many cases to provide the programs that they want to provide.

— Equalization / Transfer Payments. Equalization is something the Canso has been working on for the past year and it has to happen. Within the province itself, the Towns are saying

> “why can’t we have equalization within the province?” If there was an equalization program set up, there would have to be federal, provincial and municipal sharing of income tax. Then it would resolve many of the problems present today. Canso needs that equalization to exist.” [11]

— Offshore Opportunities. The Town of Canso has not benefitted whatsoever from the offshore. They do not have tax sharing opportunities and have been after the provincial and federal government citing that they have to have tax sharing of mega-projects that come ashore. This resource belongs to the Canadian people and particularly the offshore of Nova Scotia to Nova Scotians. All Nova Scotians should benefit directly from that asset.

As far as the Municipality of the District of Guysborough is concerned, some of the trawlermen and ex-fishermen have been lucky enough to be retrained and have gotten jobs on the rigs , but other than that, all the area of Guysborough has gotten from the Sable project is a low tax base and a few other things. But they will die, as well as the town of Cano, without the fish plant.

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COMMITTEE MOTION

Within the course of the meeting the Standing Committee on Economic Development passed a motion stating,

> " All Members of the Nova Scotia Legislatures Economic Development Committee urge the Federal Minister of Fisheries & Oceans to recognize his obligations to alocate fish quotas to the Town of Canso, and to do so immediately; we urge this in recognition of the principles of historical dependency, and also in recognition of the crisis in the town." [12]

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7. Standing Committee on Econmic Development Transcript, Page 5

8. Standing Committee on Econmic Development Transcript, Page 6

9. Standing Committee on Econmic Development Transcript, page 8

10. Standing Committee on Econmic Development Transcript, Page 14

11. Standing Committee on Econmic Development Transcript, pages 25-26

12. Letter from the Standing Committee on Economic Development to the Minister of the Department of Fisheries and Oceans regarding the Canso crisis (see appendix A)

Reference to, and within, this transcript can be found on line on the Nova Scotia Government website at: www.gov.ns.ca/legislature/hansard/comm/ed/ed020307.htm

Standing Committee on Economic Development Annual Report 2001 - 2002

April 9, 2002

WITNESSES

Halifax Port Authority
Ms. Karen Oldfield - CEO
Mr. Dennis Creamer - Vice President, Finance and Administration

Sheet Harbour Port Representative
Mr. Malcolm Swinemer - VP, Marketing, North Atlantic Marine Terminals Ltd.

BACKGROUND (HALIFAX PORT AUTHORITY)

The vision statement for the Port of Halifax is to be a leading, viable North American Gateway. The Halifax Port Authority is a federal entity under the Canada Marine Act. The Canada Marine Act was enacted as a federal Statute in 1998 and the Halifax Port Authority was formed under that Statute in 1999. Under the Canada Marine Act, port authorities are required to be financially self-sustaining, so the Halifax Port Authority in terms of being a viable port, must be a financially self-sustaining port.

Some of the natural advantages for the port of Halifax is that fact that it is strategically located close to the major shipping lanes, it has an ice-free harbour with minimal tides and no currents. It has very deep water by international standards, with 60 feet in the main channel and 45 to 50 feet at berth. It has on-dock rail service, daily double-stacked departures and a very good labour force.

The depth of the harbour is an important part of post-Panamax, of being able to have post-Panamax vessels come to Halifax. Post-Panamax vessels require between 45 to 50 feet to actually come alongside and dock. Compared to ports in the northeastern United States, including New York and Baltimore, they have to undertake very expensive dredging programs to dig out their harbours to get to a depth that Halifax has naturally.

The jurisdiction of the Halifax Port Authority consists of Halifax Harbour, Bedford Basin, and Northwest Arm, however their jurisdiction does not extend to the Port of Sheet Harbour even though Sheet Harbour is in the Halifax Regional Municipality (HRM).

In becoming a port authority under the Canada Marine Act, the port is responsible for building and maintaining its own port facilities.

Their dollars come from operations that they generate at the Halifax Port Authority. The Authority leases to the terminal operators, namely Cerescorp and Halterm. Cerescorp leases the container terminal know as Fairview Cove; Halterm leases the container terminal down by Point Pleasant Park. Those properties, the physical land, is actually owned by the Port Authority. It enables Halifax to have a combined capacity, between the two terminals, of approximately 400,000 containers per year.

The Autoport in Dartmouth does not come specifically under the jurisdiction of the Halifax Port Authority, however, in terms of calculating overall port volume, the port authority does include the cargo that is moved through Autoport. Similarly, Imperial Oil and a number of other private companies, such as National Gypsum, their volumes, in terms of the cargo that they move through their facilities, are included in total port volumes.

ECONOMIC IMPACT

Four main areas the Halifax Port Authority wanted to emphasize are the economic impact to the Province of Nova Scotia and the Port of Halifax; container cargo, rail and the burgeoning cruise industry. As noted in the Port Authority's economic impact study, the gross domestic product (GDP) is defined as the measure of income paid to owners of labour and capital used to produce the goods and services. The GDP and the income are used interchangeably. The effect is $670 million on the Province of Nova Scotia. Of that amount , $480 million is local and $190 million would go to the rest of the province.

The total employment impact of the Port of Halifax on the Province is 9,090 jobs. The direct expenditures are $578 million. The direct expenditures are defined as the gross revenue of all businesses and government agencies providing goods and services directly to the vessel in the movement of cargo, where the GDP is the effect of all activity related to the Port of Halifax.

Containers are by far the most important cargo handled at the Port of Halifax. It is in excess of 80 percent of the cargo. The Port is primarily a trans-shipment point for containers. About 20 per cent remains locally and the rest goes to other destinations inland.

A breakdown of the GDP shows that of the $670 million, $250 million is direct income, and $420 million of that $670 million is spinoff activity. The direct income would be the salaries paid to the local labour force and the spinoff effect, which is over 100 per cent more, in spinoff and secondary spending, which would give the total impact of $670 million. Of the 9,090 jobs created, 3,460 of those jobs are direct employment, that would be waterfront workers, agents, terminal management, government departments, CN workers, and such. The spinoff effect is 5,630 jobs. All of the direct jobs would be in Halifax, so that 3,460 jobs are in the HRM area. Of the spinoff jobs, 3,570 would be local and the balance, 2,060 would be for the remainder of the province for a total of 9,090 jobs.

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CARGO TRADE

The overall increase from 1997 in container traffic going through the Port of Halifax is 20 per cent. In 2001 just over 550,000 TEUs (20 foot equivalent units). This is a very significant thing for Halifax. World growth trends for containerized cargo shows that back in 1999 there was projected to be a 10 per cent increase, which was obtained; 12.5 per cent in the year 2000 and a big dip to 4.3 per cent, in comparison to 12.5 per cent, but still an increase over all in 2001. Then 2002 there is projected to be a 5.6 per cent increase. World Container Capacity, shows in the year 2001 quite a few ships came onstream and in the year 2002 there are projected to be quite a few more ships, resulting in an overall container capacity having a 14 per cent projected increase.

In terms of port rankings, Halifax is ranked in the top 100 ports in the world. In the year 2000, as a result of the TEUs which came through the Port of Halifax, Halifax ranked 84th. This was up over the year 1999, at which point Halifax was ranked 90th out of the world ports. One of our competitors, the Port of Montreal, was ranked 59th in 2000, and 54th in 1999.

RAIL

Sixty-five per cent of the boxes coming off the vessels calling at Halifax move out of Halifax and out of the Province by rail. Seventeen per cent of the total port TEUs move out of Halifax into the U.S. Midwest. The over all competitiveness of the Port is that rail costs here account for up to 85 per cent of the cost of moving a container through the port. It is very important to them and to the province to have an excellent partnership and relationship with CN. That is one of the strategic objectives that has to be pursued as well as with provincial, municipal and private sector partners.

CRUISE

The Port Authority has seen a fairly significant growth in the cruise business. A five year snapshot of cruise calls at the Port of Halifax since 1997 shows an increase in the year 2000-01. In 2001 there were 98 cruise vessels calling at the Port of Halifax. That number is forecast to be down a little bit for the year 2002, but the number of cruise ships calling is only part of the equation; the other part is the number of people on the vessels. The number of cruise passengers has increased fairly significantly year over year since 1997. In 2001 just under 160,000 people visited Halifax through cruise ships business. The actual number of passengers coming onshore will be roughly about the same in 2002.

The cruise season in Nova Scotia starts in June, but the bulk of it is really August, September and October. One of the Port's objectives is to extend the season. There were nine inaugural call vessels last year in 2001 (that is nine new vessels, 14 different cruise lines). There was a new port record for passengers coming off the vessels and a very important number which is the economic impact to the province in the fact when people come to shore they spend approximately $95 per passenger on traveling, food, drink, souvenirs and so forth. In 2002 the port is forecasting 10 inaugural calls out of a total of 87; they are also looking at, again, approximately 160,000 passengers.

BACKGROUND (SHEET HARBOUR PORT)

The Sheet Harbour Terminal is approximately 10 years old, constructed between 1987 and 1989 with the full intention of being able to take advantage of the pending oil and gas development off the coast of Nova Scotia. Ten years later, overlapping 1998 and 1999, the Sheet Harbour Terminal has handled the Sable Gas Project, Phase I which was an extremely interesting project and one that had a tremendous impact on the local community. There were 130 to 150 jobs created up through the Shaw & Shaw program and that ran for approximately six months. The terminal had probably at least 40 people the following year for its load out phase and that created a lot of spin-off as well for the stevedores on the terminal.

Some of the current activity in Sheet Harbour, the types of cargoes and the mix of cargoes moving across the dock are woodchips, copper slag, and barite; those are all bulk commodities. Rebar is one the terminal has been up and down with, project cargoes, general break bulk , and the offshore, Sable Gas project, both inbound and outbound cargoes. An indication of what is foreseeable just over the next month or two, through April, May, is two vessels scheduled in Sheet Harbour to kick off the Sable Phase II. Both the iron ore and the pipe that is required for that line will be arriving. Later, in the month of April, they have a CSL vessel coming in discharging wood chips. The terminal has a shipment of rebar scheduled at the end of April.

In May they expect to see at least two more wood chip carriers, and another shipment of rebar. So in the next month or so there certainly seems to be a bit of an upswing and they hope that will continue.

POTENTIAL BUSINESS

Some commodities that either have moved though Sheet Harbour in the past -- or have continued as ongoing conversations with the people involved in those commodities - i.e. lumber, fish meal, roundwood, fibre optic cable are potential business. The terminal has done a vessel-to-vessel transfer, and during that transfer had created between 6,000 and 7,000 man-hours in about 9 day period which resulted in a positive spin-off in the local community.

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The outlook for short to medium term shows there are a few commodities that have established themselves as regular movers; those being the wood chips and the barite that is brought in for the offshore. That has created additional spinoffs because it gets trucked to Upper Musquodoboit and the Mosher Limestone Company gets to process that material before it comes back to the city.

COMMODITIES

There are a couple of commodities that the terminal has had some ongoing problems with, those being rebar and steel products in general. In 2000 the terminal saw increased shipments. In 2001 manufacturers were planning to triple the traffic and Sheet Harbour was suppose to handle about 17,000 to 18,000 tons; however, a very effective lobby by the steel producers in Upper Canada convinced the government that some of this product was being dumped on the market and duties were increased anywhere from 25 to 45 per cent overnight. The tonnage went from $17,000 budgeted to zero; and that certainly had a negative impact on the terminal's longshoremen and the spin-offs as local truckers did not get to haul 700 truckload of product.

In regard to lumber, ultimately some of that traffic can and will move over to Sheet Harbour. The ongoing dispute with Canada and the United States on the softwood lumber issue has certainly kept this in turmoil. The terminal was very close to getting the regular shipments going, and the prices dropped by about 50 per cent within a month or two.

With products like lumber, there is not enough base cargoes in the immediate area that the terminal can get ships to come in on stand-alone calls. The Sheet Harbour Terminal has worked very closely in the past year with some people who were operating a service out of Beldune, New Brunswick, but were looking for additional traffic. That option is still out on the table and they will twin with them if they can, and combine Sheet Harbour and Beldune on a service that will run down to the U.S.

On the rebar side, the terminal has just confirmed two shipments for May, and prospects for another one in June, but there are also a few dark clouds. There is a safeguard action that the government is putting in place; whether it causes additional duties and kills the business again, is unknown.

Due to some recent actions by the U.S. Government on import duties and quotas on steel out of the United States, the Canadian concern is that a lot of that surplus capacity out there for tonnage that was earmarked for the United States could find its way into the Canadian market, and if that happens the federal government, with their safeguard action, could take the projected shipments for rebar for the balance of the year and put it back to zero again.

In regard to offshore, the terminal has developed a very good track record, both from a productivity level and people like Shaw & Shaw and the caliber of people trained in Sheet Harbour for these projects.

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CHALLENGES AND OPPORTUNITIES

Some key issues in Sheet Harbour is the emphasis on rail. When looking at small ports and the attempt to try to attract cargo, without a rail connection that port is already taken out of the loop for a lot of cargoes, and it has a very direct impact on a more diverse cargo base. Highways are another major issue. The port is trying to put a positive spin on that emphasizing that there are improvements coming and there will be gradual upgrades, but in the short term it is an issue. Physical limitations, the port does not have a 60-foot channel nor do they have 45 feet on the berth, but they do have 34 feet or 10.2 metres, and that is quite acceptable for a small port. Another issue that the terminal has to continually deal with is the lack of industry in the area. Aside from Northern Fibre, there is no natural draw for cargo for Sheet Harbour.

On the wharf side, the possibility of cribbing in that side wharf and allowing supply vessels that serve the offshore to come and go unrestricted is one thing that the terminal seriously has to look at as well if they are to be successful with some cable contacts that they have been working on. To be able to guarantee people 24 hour service, seven days a week is absolutely essential, particularly in the offshore. In the short-term the port can get by, but in the long term a permanent solution is necessary.

On the positive side, it is continually mentioned that the Sheet Harbour Port has no congestion, there is ample backup land, they have quite a good area on their main wharf, plus there are 6,000 acres on the peninsula for expansion. The terminal also has very competitive labour rates, and the manning requirements are very flexible. Plus the port fees are very low with minimal changes in those over the last five years.

WITNESS SUGGESTION

Federal and Provincial Governments need to assist as far as improvement to infrastructure, particularly the highways. As a local port , or any local port, the key is to be a low-cost operator. It is an absolute must.

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MATTERS OF DISCUSSION

Although there were a number of issues discussed throughout the meeting, outlined below are the key matters that were discussed by the committee.

— Sheet Harbour Future Improvements. As far as future improvements, the terminal is wide open on that.

— Negotiations with rail and the carriers currently that are working out of the port of Halifax. ACL had been pondering whether it would actually remain in Halifax. However, the negotiations that took place were successful. The Halifax Port Authority was involved collaterally with the negotiations, and were involved as a facilitator of the negotiations that took place at that time.

The issue of navigational aids is actively being pursued by the shipping federation, (the local shipping association), and one of their arguments is the contracting out of navigational aids at higher prices for Atlantic Canadians. The port has discussed this issue specifically with their local shipping association and there have been letters of support written specifically on the issue.

— Cruise Ship and Tourism Industries Partnerships. The Port of Halifax would like to, and is actively engaging in striking partnerships because they cannot and should not try to do everything themselves in terms of these different lines of business. One of the key components to the success of the Port has to be based on a partnership approach. It is multi-faceted in the sense that the Port, itself, has had discussions with the Department of Tourism including an extension of the cruise season.

— Security Measures. Security is the number one priority at Halifax Port Authority to ensure that they have a safe and secure port. They have done a number of stakeholder briefings around the local port community with regard to the measures which have already been put in place. The port is very much partnering with both private and public sector stakeholders as security is a key issue which requires partnership. The partnership includes Customs, Immigration, Transport Canada terminal operators, police, intelligence officers and so on and so forth. There are many private sector companies who ship goods through the port that need to know and want to know what the port is doing and also are doing things on their own in terms of securing their own businesses.

Very shortly after 9/11 the Halifax Port Authority struck a port security committee. The port security committee consists of the stakeholders previously mentioned. Port security committees are mandated in the United States. They are not mandated in Canada, but it is a good way of facilitating, bringing together the people who obviously have a part to play in ensuring that they do have a safe and secure port.

Some of the things that the security committee has done include increased perimeter fencing, particularly around the cruise area, increased surveillance equipment throughout the property. They have also started to work with other stakeholders, including the MEA (Maritime Employers Association) and the ILA (International Longshoremen's Association), as well as other stakeholders, both private and public, on the whole issue of credentialing which would require photo Ids to persons who have business on the property.

The Port of Halifax was very pleased to welcome the U.S. Immigration officials/Customs officials in assisting with different issues of security measures. One issue deals with the business of getting cargo from A to B. The Port is particularly keen to ensure that the Customs officials understand how they do their business so that at the end of the day the cargo gets where it needs to go on time with the minimum of delay and /or cost difficulties.

— Success of Cerescorp in Halifax, but not in Sheet Harbour. Cerescorp does not have cargo. When they discharge boxes at the Fairview Cove Container Pier, the shipping line gives them a manifest for containers to come off the ships or to load on the ships. Cerescorp have no manifest as to what is in any of those containers other than a rail distribution – where that cargo may go. The same as with Sheet Harbour. As a terminal operation, they facilitate the movement of cargo on or off a ship. Terminals do not own cargo and have no control over cargo. They have to try to set the climate to make it attractive.

Reference to, and within, this transcript can be found on line on the Nova Scotia Government website at:
www.gov.ns.ca/legislature/hansard/comm/ed/ed_2002apr09.htm

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April 23, 2002

WITNESSES

Yarmouth Area Industrial Commission
Mr. Frank Anderson - General Manager
Mr. Dave Whiting - Port Manager, (Port of Yarmouth)

Shelburne Port Authority
Mr. P. G. Comeau - Chairman

BACKGROUND (SHELBURNE PORT AUTHORITY)

Shelburne Port Authority will be assuming ownership of the former government wharf around mid-May . It is vital that they market and expand this facility. Their anchor tenant, Clearwater, has a 20 year lease which is transferable to the Port Authority when they take over the facility. The Authority have made application under the infrastructure program to provide fresh water to that facility.

Shelburne Port Authority did put in a request for some funding from FRAM to do a business development plan, unfortunately that $20,000 request was denied and now they are looking for other means to fund their development plan.

The port would like to expand. They have acquired and are about to acquire additional lands to join the wharf. They did negotiate a 300 metre water lot around the entire perimeter, which will provide an area for expansion without going through a lot of criteria to do that down the road. They are also working on a truck route to circumvent the Town of Shelburne, not only to provide quick service to the wharf, but to the hospital and to service the industrial park.

Historically, the Department of Transport did own the wharf which was transferred over to DFO and Small Crafts and Harbours. The wharf has 26 feet of water at low tide and a T-section on the other end. It is 15 metres wide including the stem. The wharf stem is 130 metres in length, and the "T" is 163 metres. The wharf is at the predominant south end of the town. As well there is a very deep channel into the harbor which gives them in some places 42 feet of water at low tide.

The port is ice free; there is no requirement for pilots and they do provide a stevedoring service with competitive rates. It has a crane to handle containers, to stack them and also a reefer. They are reputed to be the third best natural harbor in the world and there is no dredging required.

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Initially the wharf was about 80 per cent fishery related, but that has reversed almost 180 degrees over the last couple of years and now they do 80 to 90 percent commercial work with a lot of traffic from the Green Line and Eimskip. They also host the tuna fleet and the inshore and offshore fishery.

Potential clients, Black Bull Resources, would be shipping a significant amount of quartz and, later on, Kaolin. El Passo is looking at landing a gas line in the Shelburne/Queens area. The Port also would like to court the offshore supply ships when the gas lines are up and running and are looking at an $8 to $10 million expansion to that facility.

The Port of Shelburne is looking at an agent to ship granite from Shelburne to Bermuda and the Carolinas in the U.S. and also some factory ships related to the fishery. Then there is the high-speed ferry from Massachusetts to Shelburne that the Port is progressing very positively on, which would make a tremendous impact. Shelburne hosts some mega yachts at the wharf, but basically with the smaller yachts, they are looking at a marina about one-third of a mile north of the existing wharf where they will provide berthing, fuel, pump-outs and all things that go with a marina and the operation of a yacht club.

As far as land transportation goes, Shelburne has had a distinct disadvantage due to their geographical location, but they have great potential to increase their container shipping from Shelburne and hope to work very strenuously on that to promote the wharf. They have also been pursuing the cruise ship trade and hope to have a cruise ship in the area by the year 2003. Presently they can accommodate cruise ships up to 1,000 passengers.

BACKGROUND (YARMOUTH AREA INDUSTRIAL COMMISSION)

In December 1995 the national policy was to sell, and to divest the ports - the basic statement was, much of Canada' s marine system is overbuilt and overly dependent on government subsidization. Canada's marine system must be more responsive to the needs of its users, Canadian taxpayers can no longer afford the status quo.

The South West Shore Development Authority, acting with the approval and encouragement of the

Town of Yarmouth and the Municipality of Yarmouth, commenced a process of due diligence, looking at the three wharves in Yarmouth for the divestiture of wharves to the community. The Yarmouth Area Industrial Commission (YAIC) entered into an agreement with the federal government to do this due diligence and on November 16, 2001, the transfer of the three public wharves in Yarmouth to the YAIC was complete. Along with the asset they received $4.65 million in cash as an operational subsidy to run the facilities.

The YAIC is made up of 12 individuals, four from each of the three municipal units of Yarmouth County. It, in turn, set up a committee of users and stakeholders, and this committee provides policy and direction to the YAIC who runs the day to day operations. To date there have not been any major changes since November 2001 to the port. The YAIC have taken a wait and see attitude and are trying to learn from the whole process. They are learning of the expenses that are required. Sometimes these expenses are a little different than documents they receive from the federal government.

The YAIC invested the $4.65 million that was received from the federal government. These dollars must be invested in AA minus bonds or better. It is the only thing the YAIC is allowed to invest in. The $4.65 million must be spend over the next 10 years. If not, that money will be returned to the federal government. At the same time, the individual goal – the goal set up by the commission for the community – is that they will spend the $4.65 million on the facility in the 10 years and at the end of 10 years still have $4 million in the bank. The revenue from this process is allowed to be kept by the Community.

Over the next number of years the YAIC will be looking for new sources of revenue for the port. The port now brings in between $80,000 - $100,000 in revenue, which definitely does not cover the ongoing costs of the port.

WITNESS SUGGESTION

The Yarmouth Area Industrial Commission believes that the provincial government, along with the federal government should look, as they are now doing in PEI, at a regional port system for the province. This regional port system would involve the divested ports of Yarmouth, Shelburne, Port Hawkesbury, Sydney and Sheet Harbour.

MATTERS OF DISCUSSION

Although there were a number of issues discussed throughout the meeting, outlined below are the key matters that were discussed by the committee.

— Transfer of wharf to Shelburne. The transfer of the deed is in Shelburne's hands and they will not become full owners until they record the deed. The Port is holding off for a few weeks because of a recent environmental study that the government has conducted on that site. But, they did receive $435,000 as part of the package deal but feel that they should have received about $2 million.

— Transfer of wharf to Yarmouth. The deal commenced in 1997 and concluded on November 16, 2001. YAIC took their time, did the due diligence and the federal government did pay 50 per cent of that due diligence. In the end the community paid the other 50 per cent. The community of Yarmouth would much rather have the federal government continue running the regional port that is there. The negotiations, the amount received ($4.65 Million), was not what they originally requested, but it was a negotiation process and at the end of the day it was felt that was about as good as they were going to get.

— Ferry Terminals. When Yarmouth started in 1997 to do the divestiture process they looked at the three wharves and the ferry terminal, which is the jewel in the process because it has a revenue generating base. In 1999 Transport Canada removed the ferry terminal from the negotiation process and left Yarmouth with the three wharves. YAIC, in turn, negotiated and had a right of first refusal from the federal government in the divestiture process. Presently until 2007, the terminal is leased to Bay Ferries. If that leasing situation stops or they go to divestiture, it would be offered to the province who would then offer it to the community. The community has stated quite clearly that if the terminal comes up for divestitures, the community will be the owners of that facility.

— Scotia Prince and Bay Ferries. In 2002, the lease between Scotia Prince and Bay Ferries was coming up. The two companies commenced negotiations in 2001 to renew this lease, and Scotia Prince was feeling that the amount requested by Bay Ferries was exceedingly high compared with international rates for renting a facility of that type. They got into a stalemate and the community was the pawn in the middle of this process because the two ferries, which bring hundreds of thousands of people to the Province's door, looked as though one was going to stop the other one from docking in Yarmouth because they were not going to pay the new rent increase.

In this particular case the federal government did step in and put a mediator in play. At this point in the process an agreement was made between Scotia Prince and Bay Ferries for the next five years. Yarmouth wants those two ferries, and even more ferries, to come to their community, to the province, but when one is controlling the destiny of the other of docking there by charging rents, it hurts the community as a whole.

Yarmouth is in a situation now for the next five years to wait and see what the federal government's move will be on the divestiture of that ferry terminal.

— Advantages for the local economy to have an international ferry coming into Shelburne. Shelburne is looking at tapping into the more densely populated areas. They do not feel that they will be a competitor to the two ferries out of Yarmouth, they feel perhaps the three of them will enhance each other by promoting round trip excursions between Canada and the U.S.

— Shelburne Wharf Improvements. At times the Port could use another "T" on the wharf to accommodate freighters and container ships. That is why they are looking at an \$8 million to \$10 million expansion for additional berthing, holding and marshaling areas. The commercial traffic has increased dramatically over the last two and a half years.

Also the Port has acquired additional lands just to the north of the wharf and have an option on other lands that are presently being leased until an environmental assessment is completed. When the Port negotiated the wharf takeover they did negotiate the water lot, which they feel a value cannot be put on because without that, expansion would be impossible. By acquiring the land under the water, a perimeter of 300 metres around that existing facility, that will give the Port an easy way in for land in-fill situations there. They will be the up-land owner which controls the water lot as well. In all, the Port certainly does have the area to accommodate ore, container traffic and offshore development.

— Process of Divestiture. From the federal divestiture process, the federal government stated that they were going to get out of the port business in a lot of areas, and they have over the last five or six years. Because of this YAIC visualizes the need for a regional port system. Looking at the Ports of Yarmouth, Shelburne, Sydney, Port Hawkesbury and Sheet Harbour, if there was a regional port system put in place, it would be a lot more efficient than having the five harbours all run individually.

— Marinas/Yachting. Shelburne can accommodate about 290 visitors a year. However, they do not have a marina as such at present. That is in the plans to develop this summer and they hope to have a yacht club come in and partner with them. At that time the Port will have water, fuel, berthing and pump out stations; and hope to more than triple the number of visitors. They have also been active over the last few years with the international sponsoring of visits to Shelburne. They have up to 32 yachts at one time coming in just for a two-day visit.

Yarmouth does have a marina system. The Town of Yarmouth over the last number of years has spent a lot of money building its waterfront up and building a marina system. One of the major attractions is the international yacht race which comes in on Labour Day weekend .

— RDAs Development of Long-Term Strategies. The RDAs did attempt to assist Shelburne in their struggle to lever more money from the federal government. Shelburne does not particularly support regionalization, but competition is healthy. They see themselves operating on their own and not being regionalized, even though Yarmouth proposes that the province take a leadership role in setting up a regional port system. They feel that looking regionally and sharing best practices and so forth would be a smart thing to do, to make ports more efficient.

— Infrastructure Improvements. In Shelburne a truck route is essential, and the wharf will require about $100,000 worth of repairs over the next few years. In Yarmouth repairs to wharves need to be done and they plan to use some of their federal money on an ongoing process to get a lot of the work done.

— Employment and Spin offs. In Shelburne as far as the commercial traffic goes, they have a stevedoring force of about 30-40 contracted out from Continental Seafoods. Those people would be deployed at least two or three days per week when the container ships and the freighters are in. There are other spinoffs from that, there are truck drivers and the other support things such as fuel, food and accommodations. When the tuna fleet is in port they spend a lot of money at motels and on provisions. There will be an expansion in the fishery fleet as far as factory ships go and that will increase the workforce at Continental Seafoods.

Yarmouth does not have the container traffic that Shelburne has. Yarmouth is a fishing port, and a tourism port from April to October with two ferries running. The remainder is the commercial fleet. YAIC is now looking at more commercialized traffic, or what is possible for Yarmouth, allowing for the restrictions of their turning radius and the depth of the harbour.

— Role of the Ports in the Development of the Offshore. Shelburne has been meeting with El Paso and have other meetings scheduled with potential pipeline developers. The Port sees it as vital, but would like to make the stipulation that if natural gas is to land on Nova Scotian shores, then they want the natural gas before it is sent on to the U.S. markets or other markets in Canada.

Offshore development is essential in revitalizing the community colleges. The community college (in Shelburne) at this time is in danger of closing due to the lack of classes in trades being taught there. The offshore development organizations have indicated that would like to use the community colleges in Shelburne and Yarmouth to train people for these jobs. This would revitalize the community colleges and would give more arguments for truck routes and infrastructure programs for the wharves.

From both wharves point of view, Shelburne has exploration for the next eight years. It goes down the coast of Nova Scotia to western Nova Scotia. Shelburne has the facilities in play supplying all the materials and needs of these rigs and sits positioned very well by virtue of the fact that they are the closest to where the rigs are going to be drilling, and the harbour is easy in and easy out.

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COMMITTEE MOTION

During the meeting the Standing Committee on Economic Devlopment has passed a motion to,

> "Write a letter of support, on behalf of Shelburne, to the federal minister supporting the Port Authority of Shelburne in their endeavor in acquiring federal funding for the extension of their public wharf."[13]

13. Letter of support written by the Standing Committee on behalf of the Shelburne Port Authority. (See appendix A)

Reference to, and within, this transcript can be found on line on the Nova Scotia Government website at:
www.gov.ns.ca/legislature/hansard/comm/ed/ed_2002apr23.htm

Standing Committee on Economic Development Annual Report 2001 - 2002

May 7, 2002

WITNESSES

Cape Breton & Central Nova Scotia Railway
(A Division of Rail America Inc.)
Mr. Peter Touesnard - General Manager

BACKGROUND

The Railways Act of Nova Scotia was proclaimed into law at the end of November 2001. That legislation involves the Utility and Review Board in their business. When Cape Breton & Central Nova Scotia (CBCNS) was first formed in 1993, it was the first railroad that Nova Scotia had that was not a federal railroad since about 1927. There was no legislation in place to manage or to put a framework around their business. At that time, they were advised that Nova Scotia would undertake to establish a Railways Act and , in the interim, they agreed to operate under federal regulations. By and large, the Nova Scotia Railways Act, in terms of safety regulations, in terms of commercial regulations, mirrors a lot of what happens on the federal scene.

IMPACT OF THE DEVCO CLOSURE

In 1996, 38 per cent of CBCNS freight revenues and 38 per cent of their carload volume was generated by coal. In 2002, coal continues to be a major source of revenue for them, (that volume has remained constant at 38 per cent), but their revenue has actually dropped to 25 per cent. Nova Scotia Power (Emera) has been importing coal from the United States and South America and they have been transshipping that coal over the Martin Marietta Materials Facility on the Strait of Canso, resulting in a shorter haul for their railway. As a result, lower revenues.

IMPACT OF THE SYSCO FACILITY

1995 was the biggest year in CBCNS history with the Sydney Steel Corporation (Sysco). Sysco shipped over 2,100 cars with CBCNS in that year and represented 11 per cent of CBCNS freight revenue. Sysco, probably more so than Devco, kind of sustained some smaller business on the rail line - scrap business, propane suppliers and so on; those businesses have essentially become non-entities as far as the railroad is concerned with Sysco's closure. As a result, that volume has decreased to zero.

The cumulative impact of both of those closures was really the loss of CBCNS' anchor business east of Port Hawkesbury. Freight levels east of Point Tupper are expected to drop about 800 carloads this year -- that is from a high at one time of 13,000 - 14,000 carloads. At one time that represented about 54 per cent of CBCNS total revenue base; this will result in a drop to about 5 per cent of their total revenue in this year.

OPERATING LOSSES

Presently the company is experiencing approximately $40,000 per month on operating losses. They are operating two trains a week currently beyond Port Hawkesbury, and serving local customers two days a week; they also maintain their own infrastructure and the cost of maintaining rail structure is approximately $8,000 per mile on average in Canadian dollars. The actual section that CBCNS is talking about beyond Port Hawkesbury is about 98 miles, which amounts to $784,000 per year that they should be putting into that rail line.

The company has not been spending that level of money on that rail line. With lower traffic volumes, they did not feel that it was necessary to do that . As a result, the rail line is not in as good a shape today as it was two or three years ago, but it is not in a state of deterioration either. It would probably take a bit more money today than it would have taken two years ago to bring this railway up to its' former condition.

REVENUES

In 1996, 38 per cent of CBCNS revenue was coal, 19 per cent was paper and scrap paper (largely involving StoraEnso and Kimberly Clark) and 16 per cent was the Sydney Steel Business. In 2002 the paper business is anticipated to grow to 31 per cent. Twenty-two per cent will be the influx of the business from Sable Offshore Energy with the movement of propane and butane. Coal volumes have dropped to 25 per cent.

EMPLOYMENT

CBCNS operates the railway with about 52 employees; the other 20 employees are in a regional role, looking after the administration and customer service functions for three railroads in Ontario. This accounts for a total employment base of 72 employees. The average earnings of those employees in 2001 was a little over $47,000. The wage increases since the inception of the rail-line in 1993 was 39.3 per cent. Thirty-four of the 72 employees are unionized under the Brotherhood of Locomotive Engineers and are in the throes of negotiating a first contract with those employees after having just come through a 52-day strike.

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CHALLENGES

Number one challenge of today is sustaining the rail line beyond Point Tupper. That has been an ongoing discussion since the Fall of 1999 with the federal and the provincial governments at that time; looking at the closure of Sydney Steel and Cape Breton Development Corporation. CBCNS approached government and indicated that if the closures of Sysco and Devco came about, there was a strong likelihood that the company would have to discontinue their rail operation beyond Port Hawkesbury. CBCNS has made application to the Utility and Review Board for discontinuation and abandonment of the rail line. They see this as a procedural step. If unsuccessful in securing an anchor customer for that section of line, the company does not want to find themselves in step one of the process three or four or six months from now. It is recognized that by taking this step it focuses attention on it and with operating losses in the neighborhood of $40,000 per month, that is something that CBCNS wants to stem.

IMPACTING GOVERNMENT POLICY REGARDING TRANSPORTATION ALTERNATIVES

There are a lot of transportation alternatives to be looking at as government meets holds discussions on these issues. Unfortunately, about a year and a half ago, CBCNS was in negotiations with Georgia-Pacific to move gypsum from a location in Cape Breton to Point Tupper. However the company was unsuccessful in those negotiations as their costs were slightly more expensive than trucking.

At the time, CBCNS did approach government to look for some funding for a section of new rail line that would have to build and were unsuccessful in securing that funding, as a result about 75,000 truckloads will probably be operating between Melford, Cape Breton and Point Tupper through the communities of Port Hastings and Port Hawkesbury. CBCNS feel that this will have a detrimental effect on the highway system through there, let alone safety; and that it was probably in the Province's best interests to consider CBCNS' proposal.

Providing a safe world class service to their customers and the public, is very high on everyone's minds. The company takes a lot of pride in operating a safe railroad, and feel it is very important to the public, to their customers. CBCNS is very fortunate to have wonderful customers on their rail lines. It is important to have a reliable transportation system. That is something that they think is key to their future and growing their business in the future.

OPPORTUNITIES

Saving the rail line beyond Point Tupper is important. CBCNS is working with Emera and others to build a business case that will hopefully accomplish that. One thing that must be realized is that it has to be a business case for Emera, and it has to be a business case for Cape Breton and Central Nova Scotia Railway. To subsidize or force an organization to do something that is financially unsound is a short-term solution. CBCNS is working very diligently in trying to find other customers and to attract them to Cape Breton for all the right reasons.

In addition, CBCNS is working on some intermodal business with Canadian National, supplying services to and from Newfoundland. They are looking to the future to petroleum and offshore supply potential in the Cape Breton area with the development of the Laurentian Sub Basin. As well, very large volumes of gypsum will be moving from the Melford location. That is also a long-term project and although the trucking industry has been successful in securing that business, they are hopeful that in the future that can be redressed and perhaps the developing of the former Sysco site is something that government is taking a very active role in. CBCNS is is beginning to see some opportunities coming out of that and are very hopeful that is going to build, but recognizing and saying all that the company still needs to find an anchor customer beyond Point Tupper to sustain that growth.

Building business on the Strait of Canso does provide for great potential. A petrochemical industry has certainly been discussed as gas reserves being developed off the coast of Nova Scotia. As stated,

> "We're not looking to take business away from Halifax, but it is important for everyone to recognize that there is another ice-free deep water port in the province and that we need to take advantage of that natural resource." [14]

The Guysborough Regional Development Agency has been very aggressive in trying to attract business to that area and have commissioned a rail study as well to get rail into the Goldboro area. CBCNS have played a low key role at this time in that development, but certainly are hopeful that will be something they can play a more active role in the future. StoraEnso is experiencing some very challenging market conditions at present and are working on those issues. CBCNS is working with them on that through their partner, Canadian National and are hopeful that there will not be a reduction in the size of StoraEnso. The other industry that CBCNS serves currently that has been experiencing some major market challenges is Trenton Works. Traditionally CBCNS handles between 2,000 - 3,0000 cars for Trenton Works annually. However, Trenton Works is currently in a temporary shutdown mode and are probably looking at producing about 750 cars in 2002. That is another industry that CBCNS are watching very closely and are very hopeful that Trenton is going to be successful into the future.

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CBCNS has been successful, they serve a lot of businesses that are important to the economy. In achieving that into the future, the company needs to continue being successful. It is very important that people realize that CBCNS is not a public utility. They do not receive funding from government. They want to be a successful business in their own right and have the right business drivers in place, helping them grow their business.

WITNESS SUGGESTION

As mentioned earlier it is no longer the Department of Highways, it is the Department of Transportation, and CBCNS would like government to build on the changes that have been made in the Department of Transportation and Public Works and have more consideration for other modes of transport as government goes forward.

MATTERS OF DISCUSSION

Although there were a number of issues discussed throughout the meeting, outlined below are the key matters that were discussed by the committee.

— CBCNS involvement in Devco and Sysco Closures. CBCNS was certainly very much involved in that process. With both of those customers generating abut 54 per cent of their volume and revenues through that time, CBCNS were certainly talking to governments that were involved and they appreciated the economic impact that would have on the region and the railroad.

— Government funding for Spur Line. The total funding project to construct that railroad was about $11 million. The funding that CBCNS was looking for was in the neighborhood of $2 - 3 million. However, the government was not in the position where they could afford that expenditure.

— Business Decrease. CBCNS lost a large volume of business east of Point Tupper. Its rail line handled about 30,000 carloads per year since CBCNS purchased it in 1993 from Canadian National. In 1997, the rail line took its' first dip in revenue; and hit its lowest ebb in 1998. The company built up the business somewhat from 1998 with the expansion of Stora Enso and with the gas coming on with propane and butane coming on in the Port Hawkesbury area. But, by 2000 , with the complete demise of Cape Breton Development Corporation as a coal producing entity and the complete demise of Sydney Steel as a steel producing entity, traffic between Sydney and Port Hawkesbury had dropped to about 800 carloads. CBCNS has 98 miles of railroad and between operating expenses and capital expenditures on that rail line, it is well over $2 million a year to operate.

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About five per cent of the company's revenues are generated by the balance of the business that they have in Sydney today. Those businesses continue to ship, but the volume is not sufficient to justify the continued operation of the rail line. It is costing CBCNS more to operate that line than the revenues that are being generated today by those 800 carloads.

— Rail America expectations of its railroads. CBCNS is one of approximately 50 railroads that RailAmerica owns in North America. Every railroad is a profit centre unto itself and every railroad is expected to make its budgets. To that extent, CBCNS would receive no more or no less pressure than any of the other 49 railroads that the company has in North America.

The abandonment of the rail line is certainly a problem, or a challenge that has drawn some attention from their parent company. RailAmerica would like to see CBCNS fix the problem and the fix is either that they generate sufficient business to generate a profit on that end of their rail line or they discontinue the service and utilize the assets elsewhere.

— Employment Levels. Business between Port Hawkesbury and Truro has expanded and in order to continue a high level of service to those customers, it was necessary for CBCNS to increase their total number of employees, but recognize that some of those increases have come in as a result of regionalization of its customer service and administration.

— Potential Business. CBCNS have had some very positive discussions with Emera and other potential businesses regarding that section of rail line. To date, those discussions are just discussions. They have not signed a contract, but certainly there appears to be a willingness in government, and a willingness in industry to look at the situation very seriously and to try to find a positive outcome. There are businesses that CBCNS feel they can have there again if they have the anchor customer for Sydney and for their rail line.

— DNR Transfers of Devco Leases. The Department of Natural Resources (DNR) has not discussed with CBCNS the impact and length of time of these negotiations; however, CBCNS have had discussions with interest groups in the Sydney area, people who have an interest in development of the Donkin Site. The environmental issues are one of the questions that have to be addressed.

— Partnership between Railway & Trucking. There is an interest, but by and large in the short-line business, CBCNS find themselves competing with trucking companies. Class 1 railroads like Canadian National extend their reach in three ways through strategic partnerships with trucking companies, through strategic partnerships with short line railroads and the marine industry. CBCNS is a strategic partnership with the Class 1. So they are seen as some competition for the local trucking industry. On the other hand, CBCNS would be able to provide the trucking industry with kind of value-added option to moving their trailers around the country.

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15. Standing Committee on Economic Development transcript, Page 5 .

Reference to, and within, this transcript can be found on line on the Nova Scotia Government website at:
www.gov.ns.ca/legislature/hansard/comm/ed/ed_2002may07.htm

STATEMENT OF SUBMISSION

All of which is respectfully submitted to the House of Assembly
this ___ day of ____________, 2002

____
Mr. Brooke Taylor, MLA (Chairman)
(Colchester - Musquodoboit Valley)

I concur	I concur
______________________________	______________________________
Mr. William Dooks, MLA (Eastern Shore)	Mr. Russell MacKinnon, MLA (Cape Breton West)
I concur	I concur
______________________________	______________________________
Mr. John Chataway, MLA (Chester - St. Margarets)	Mr. Michel Samson, MLA (Richmond)
I concur	I concur
______________________________	______________________________
Mr. Frank Chipman, MLA (Annapolis)	Mr. Frank Corbett, MLA (Cape Breton Centre)
I concur	I concur
______________________________	______________________________

Mr. Jon Carey, MLA
(Kings West)

Mr. Howard Epstein, MLA
(Halifax Chebucto)

(The original Statement of Submission has been signed by all Members of the Committee and is presented in hard copy)

<u>Standing Committee on Economic Development Annual Report 2001 - 2002</u>

Committee Membership

During the Second Session of the 58th General Assembly of the House of Assembly, the Standing Committee on Economic Development was comprised of the following members:

Mr. Brooke Taylor, MLA (Chairman)
(Colchester - Musquodoboit Valley)

Mr. Brian Boudreau, MLA
(Cape Breton the Lakes)

Mr. William Dooks, MLA
(Eastern Shore)

Mr. Don Downe, MLA
(Lunenburg West)

Mr. Richard Hurlburt, MLA
(Yarmouth)

Mr. Frank Corbett, MLA
(Cape Breton Centre)

Mr. Frank Chipman, MLA
(Annapolis)

Mr. William Estabrooks, MLA
(Timberlea - Prospect)

Mr. Kerry Morash, MLA
(Queens)

During the session the following changes to the Committee membership were as follows: Mr. Jon Carey, MLA (Kings West) replaced Mr. Kerry Morash, MLA (Queens); Mr. Bill Langille, MLA (Colchester North) replaced Mr. Richard Hurlburt, MLA (Yarmouth); and Mr. Howard Epstein, MLA (Halifax Chebucto) replaced Mr. William Estabrooks, MLA (Timberlea - Prospect); Mr. Russell MacKinnon, MLA (Cape Breton West) replaced Mr. Done Downe, MLA (Lunenburg West), Mr. Michel Samson, MLA (Richmond) replaced Mr. Brian Boudreau, MLA (Cape Breton the Lakes) and Mr. John Chataway, MLA (Chester-St. Margarets) replaced Mr. Bill Langille, MLA (Colchester North).

Committee Meetings

The Standing Committee has been meeting on Tuesdays since its establishment, and all meetings are open to the public. During the Second Session of the 58th General Assembly the Standing Committee on Economic Development has met on the following dates:

September 11, 2001
September 25, 2001
October 16, 2001
November 6, 2001

November 20, 2001
December 4, 2001
January 8, 2002
January 22, 2002
February 28, 2002
March 7, 2002
April 9, 2002
April 23, 2002
May 7, 2002

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Notices

Notices of committee meetings are sent to all members of the Committee, support staff of the caucus and legislative offices, the House of Assembly Press Gallery, the government wire services and is published on the internet.

Transcripts

Transcripts of the Committee meetings are available from the Legislative Committees Office, 3rd Floor, Dennis Building, 1740 Granville Street, P.O. Box 2630 Station M, Halifax, NS B3J 3N5 or from the provincial government web-site: www.gov.ns.ca/legislature/COMMITTEES/index.htm.

Annual/Interim Reports

All reports of the Standing Committee on Economic Development are compiled by the Legislative Committees Office and forwarded to the committee members for consideration. Once the report is finalized it is then distributed as follows:

> The Speaker/Clerk of the House of Assembly; all Members of the Legislative Assembly; all presenters who made presentations before the committee; all Legislative Assemblies and Legislative Libraries across Canada, including the Territories, and the media. The report is also available to all persons interested in obtaining a copy from the Legislative Committees Office or through the Legislature web-site.

Acknowledgments

The Standing Committee on Resources wishes to extend its gratitude to the following for their time and cooperation:

> The Nova Scotia association of RDAs; the Nova Scotia Federation of Agriculture;

the Office of Economic Development; Aliant Inc. the Christmas Tree Council of Nova Scotia; the Cape Breton Growth Fund Corporation; the Insurance Bureau of Canada and its' affiliates; the Town of Canso; the Halifax Port Authority; the Sheet Harbour Port; Yarmouth Area Industrial Commission; Shelburne Port Authority; and the Cape Breton & Central Nova Scotia Railway (RailAmerica Inc.). Many thanks and gratitude to Mr. Robert Kinsman, Editor of Hansard; Hansard Staff; to Mr. Don Ledger, Co-ordinator of Legislative Television and Broadcasting; Legislative Television Staff; to Mr. Michael Laffin, Co-ordinator, House of Assembly Operations; House of Assembly Staff; and to Margaret Murphy, Legislative Librarian and Librarian Staff.