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ISBN: 0-612-93035-1
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Regional Economic Development by Crown Corporation: The Case of Cape Breton

By

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A thesis submitted to the

School of Graduate Studies

in partial fulfillment of the

requirements for the degree of

Master of Arts

Department of Political Science
Memorial University of Newfoundland

September 2003

St. John's Newfoundland and Labrador

Abstract

Cape Breton Island provides a clear case of economic expansion, contraction, and diversification throughout the last half of the 20th century. During this time, both the Government of Canada and the Government of Nova Scotia used Crown Corporations (state own enterprises) to implement a series of policies to promote economic development in a climate of growing unemployment with declining resource-based industries.

There has been uncertainty as to whether Crown Corporations have helped or hindered the diversification of Cape Breton's economy. Some Crown Corporation where better at this task, while others provided limited benefits to the economy and squandered critical government funds with no return on investment. Using various theories on regional economic development, the role of Industrial Estates Limited, the Cape Breton Development Corporation, the Sydney Steel Corporation, and Enterprise Cape Breton Corporation is examined.

Acknowledgments

My years of study at St. Francis Xavier University provided inspiration for studying the plight of Cape Breton Island and what really happened to its industries. When the opportunity presented itself to switch academic programs, I combined this inspiration with my studies. I want to thank all my friends from Cape Breton Island who drew my attention to the plight of their communities.

I want to thank Dr. David Close of Memorial University of Newfoundland, and his graduate committee for accepting my application into the Master of Arts program in Political Science. Dr. Peter Boswell acted as my thesis advisor, and to him, I am forever indebted. Dr. Boswell has been superbly patient, a wonderful editor, and opened my mind to alternative models of economic development that I would never have considered. Dr. Christopher Dunn has also provided me with world class advice, providing me with new perspectives and the proper tools to strengthen the work. Ms. Ruby Banfield, the department secretary, has also been of great assistance in her administrative role printing and distributing my work for review. I would also like to thank Memorial University of Newfoundland for providing a research fellowship during the time of my studies.

I would also like to thank my interview subjects for providing information and perspectives that really closed a lot of gaps in the work. These include Roger Angel, Gary Fancey, Ronald Lawrence, Robert W. Manuge, Ken Montgomery, D.A. Landry, and Dennis Wallace.

Thanks also goes out to the Angus L. MacDonald Library at St. Francis Xavier University for providing me with access to rare documents in the papers of Rev. Andy Hogan, the first NDP Member of Parliament from Nova Scotia.

Lastly, I would like to thank my parents, Albert and Marita Jackson, and my aunt and uncle, Cathy and Robert Parsons. They provided me a firm grounding and encouragement to continue with the difficult work necessary.

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Abbreviations

ACOA	Atlantic Canada Opportunities Agency
ADA	Area Development Agreement
AECL	Atomic Energy of Canada Limited
CBC	Canadian Broadcasting Corporation
CEO	Chief Executive Officer
DCL	Deuterium of Canada Limited
Devco	Cape Breton Development Corporation
Dosco	Dominion Steel and Coal Company Limited
DREE	Department of Regional Economic Expansion
DRIE	Department of Regional Industrial Expansion
ECB	Enterprise Cape Breton
ECBC	Enterprise Cape Breton Corporation
IDD	Industrial Development Division
IEL	Industrial Estates Limited
OPEC	Organization of Petroleum Exporting Countries
NDP	New Democratic Party
RDIA	Regional Development Incentives Act
Sysco	Sydney Steel Corporation
UCCB	University College of Cape Breton

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Chapter 1

Introduction

Crown Corporations are but one of many policy instruments a government can use to promote regional economic development. This enquiry examines the use of Crown Corporations to promote economic development on Cape Breton Island. This paper contends that Crown Corporations have both succeeded and failed in diversifying the economy of Cape Breton Island. By determining whether employment was created, if the jobs remained for a lengthy period of time, and whether the Crown Corporations achieved the objectives they were assigned will determine whether the Crown Corporations succeeded or failed in diversifying the economy.

Four Crown Corporations were selected for this study to determine whether they succeeded or failed in contributing to the diversification of the Cape Breton economy. Each had an overall goal of fostering economic development even though their mandates were quite different. Industrial Estates Limited (IEL) was mandated to diversify the economy of Nova Scotia through the sponsoring of industrial parks and industrial infrastructure construction. The Cape Breton Development Corporation (Devco) was set up to phase out Cape Breton coal production and take the necessary steps to develop replacement industries. The Sydney Steel Corporation (Sysco) was established to keep a steel plant operating to prevent certain economic catastrophe if it were to close. Enterprise Cape Breton Corporation (ECBC) was given broad powers to develop the Cape Breton economy and assumed the responsibilities of other economic development organizations. IEL and Sysco were provincial government Crown Corporations, whereas Devco and ECBC were federal government Crown Corporations.

Crown Corporations are defined as being corporations in which the government has a controlling interest and which provide goods or services directly to the public on a commercial or quasi-commercial basis.[1] It is when policy instruments like taxation, spending, and regulation put a legal limitation on the outcome of the desired policy objective, or when a requirement to minimize political liability exists, that governments turn to Crown Corporations for solutions.[2]

There are several alleged benefits for the use of Crown Corporations. When multiple policy objectives need to be coordinated, such as was the case with Devco, a Crown Corporation can provide the structure and cost benefits needed for success.[3] The structure of an industrial sector will also be a deciding factor whether a Crown Corporation should be involved, particularly if there is an absence or presence of a competitive market, or whether other policy instruments will support a private sector industry.[4] The establishment of a Crown Corporation also implies symbolism to a community, telling people that the government is committed to a particular cause or set of values; thereby building confidence in the community.[5] Community development, nation and province building activities also lie in the realm of Crown Corporations, as do income stability, economic transition, and the security of supply.[6] These suitable situations will be demonstrated in this study.

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[1] M.J. Trebilcock, R.S. Prichard, D.G. Hartle, D.N. Dewees, eds. *The Choice of Governing Instrument* (Ottawa: Minister of Supply and Services Canada, 1982), 74.

[2] Ibid., 79.

[3] Ibid., 77.

[4] Ibid., 77.

[5] Ibid., 79.

[6] Ibid., 83.

Crown Corporations demonstrate other advantages as well. According to Trebilcock et al., Crown Corporations set out to maximize policy objectives in addition to, or in spite of, profits.[7] For instance, the Canadian Broadcasting Corporation (CBC) provides radio and television services and content. This could be provided by the private sector, but the CBC provides uniquely Canadian content and acts as an instrument of national unity by showing Canada to Canadians, in spite of profits in some of its business units. It is the taxpayers who cover the losses a Crown Corporation incurs in light of the policy objectives pursued. This feature permits Crown Corporations to adopt a social conscience in communities where community commitment policy objectives are being exercised.[8] Crown Corporations also provide a degree of separation from their political masters, in contrast to departments and agencies. Whereas ministerial accountability comes into play with ministers directly responsible for a department of government, ministers can effectively employ selective responsibility through Crown Corporations, distancing themselves where there is a negative political return, and take credit when the outcome is positive. Similarly, if ministers want to be perceived as reducing the size of government, off loading some responsibilities of a government department into a Crown Corporation provides that symbolic perception.[9]

On Cape Breton Island, Crown Corporations were employed by the federal and provincial governments to foster economic development (see Appendix A). Economic

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[7] Elaine Kirsch, *Crown Corporations as Instruments of Public Policy: A Legal and Institutional Perspective* (Ottawa: privately printed, 1985), 5.

[8] Brett Fairbairn, *Balancing Act: Crown Corporations in a Successful Economy* (Centre for the Study of Co-operatives, University of Saskatchewan, 1997), 13.

[9] Trebilcock et al. 82.

development is the raising of the general level of welfare by creating new jobs where man-year productivity is above the national average.[10] No single regional economic development theory can explain the entire situation in Cape Breton, but when combined with each other, and with Crown Corporations, an intricate picture emerges. These theories have affected the policies that have driven the Crown Corporations towards their various economic development goals. Geographic theories like growth poles and staples theory may compliment each other, but exclude external factors of influence presented in neo-Marxist theory.

Geographic economic development theories come into play on Cape Breton Island. The idea of growth poles (or growth centres) holds that some small and medium-sized cities can serve and act as a source and diffuser of innovation. Growth poles are a source of dynamism in the economy and generate spin off benefits outside of the pole, but not necessarily in the same local geographical region as the growth pole.[11] If this theory were applied to Cape Breton, it would be found that the Cape Breton Regional Municipality (the area from Sydney Mines to Glace Bay) is the dominant growth pole for the island. The Strait of Canso area (Mulgrave, Port Hawkesbury, Point Tupper) can be considered another growth pole. When the federal government's Department of Regional Economic Expansion was practicing growth pole theory in the 1970s, it decided to designate Halifax and the Strait of Canso as growth poles. The Sydney area, where

[10] Benjamin Higgins and Donald J. Savoie, *Regional Development Theories & Their Application* (New Brunswick: Transaction Publishers, 1995), 22.

[11] Benjamin Higgins and Donald J. Savoie, "Conclusions," in *Regional Economic Development: Essays in honour of François Perroux*, eds. Benjamin Higgins and Donald J. Savoie (Institut canadien de recherche sur le développement régional, 1988), 379.

unemployment was rampant and new investment desirable, was excluded.[12] It must also be remembered that any new industry just simply cannot be told where to start up so government can create a growth pole. Some rationale needs to be involved to determine the new economic engine to be established and to manage the supporting industries and services for this economic development engine.[13]

Another geographical theory of regional economic development that has implications for Cape Breton is the staples theory. There are a few variants on staples theory. Harold Innis uses staples to explain the history of Canada's economic, political and social institutions. In this case, however, W. A Mackintosh's staples approach to economic development through exports is employed.[14] According to this theory, development is tied to the production and export of staples based on a region's natural resources. Underdevelopment, as a result, is based on a failure to exploit a region's resources within the limits established by geographic and technological factors.[15] Cape Breton certainly has been a staples-based economy, relying on coal mining, fishing, farming, forestry, and primary steel production to provide a livelihood. Regions that lead under the expansion of natural resource exploitation will eventually lag as the natural resources decline. Regions without vast natural resources need to concentrate on human

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[12] James P. Bickerton, *Nova Scotia, Ottawa, and the Politics of Regional Development*, The State and Economic Life (Toronto: University of Toronto Press, 1990), 243.

[13] Benjamin Higgins, "François Perroux," in *Regional Economic Development: Essays in honour of François Perroux*, eds. Benjamin Higgins and Donald J. Savoie, (Institut canadien de recherche sur le développement régional, 1988), 46.

[14] W. T. Easterbrook and M. H. Watkins, *Approaches to Canadian Economic History*, (Toronto, 1967), x.

[15] Henry Veltmeyer, "The Capitalist Underdevelopment of Atlantic Canada, " in *Underdevelopment and social movements in Atlantic Canada*, eds. Robert J. Brym and R. James Sacouman (New Hogtown Press, 1979), 17.

resource development. This means that technical, managerial, scientific, and entrepreneurial skills need to be developed.[16] In areas where the private sector does not invest in the human resources available, the state must step in to prime the pump. Having people who want to work is not enough; they have to be trained, educated, and skilled.[17]

Geographical theories may be a simple explanation for regional disparities, but the culture of a people will also factor into the regional economic development equation.[18] The Maritime Provinces have been described as having a regional parochialism and conservatism that has resulted in a lack of entrepreneurship, initiative, and a resistance to change.[19] For places like Cape Breton Island, changing the culture of work is vital to its economic survival.

Another theory that helps explain the Cape Breton situation is a neo-Marxist theory of development that can be referred to as the metropolis-hinterland model. This theory argues that capitalists exploit the resources of the hinterland, amassing capital that accrues to the metropolis. In this case, Cape Breton represents the hinterland, while London, Toronto, Montreal, and Halifax are metropoles. If development and underdevelopment are two sides of the same coin in the process of accumulating capital, then two, non-mutually exclusive explanations of the situation are clear. First, underdevelopment occurs in the hinterland due to a number of factors: the hyper-exploitation of labour, a massive capital drain that prevents the creation of value added production (secondary and tertiary industry), limitations to the internal market, the

[16] Higgins and Savoie, *Theories & Their Application*, 22.

[17] Ibid., 19.

[18] Ibid., 20.

[19] Ibid., 27.

creation of chronic unemployment, and the marginality of the surplus population. Secondly, capitalism on the periphery accelerates the production of relative surplus value (value added production), and expands the forces of production and their corresponding relations. If capitalism generates unemployment and poverty under conditions of economic contraction, it absorbs labour power under conditions of economic expansion, the result being unemployment and absorption, poverty and wealth, coexisting.[20] These two explanations of the metropolis-hinterland model for the Cape Breton situation are persistent throughout this examination.

This study will take into account events starting in the 1950s to the present day. The 1950s represent the start of modern day regional economic development in Nova Scotia as well as a ten-province Canada. Four variables are used in this study: regional economic development, communities (voluntary sector), the private sector, and government. Regional economic development will be defined as a dependent variable as it is dependent upon government, the private sector, and the community involved. The private sector is an intervening variable, as is the community, as government can assist the private sector or a community-based group to promote economic development. At the same time, community groups can entice private industry to establish within a region, without the aid of government. Government is an independent variable as it can act directly to create economic development, or partner and act through an intervener. For this investigation, economic development represents the creation of long-term, gainful employment. The closure of a government-assisted enterprise, resulting in jobs lost, is an indication of failure to provide solid economic development. Seasonal lay-offs will not

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[20] Veltmeyer, *Capitalist Underdevelopment*, 18.

be considered as a failure of an enterprise, given the seasonal nature of the Cape Breton economy, but do represent a weakness in the long-term stability of the Cape Breton economy. The unemployment rate (see Appendix B) will be used to demonstrate the improvement, over time, of the economic conditions with decreases in the unemployment rate as new initiatives take hold.

Literature by academics and government documents regarding Crown Corporations, regional economic development, and the Cape Breton case were reviewed for this study. Statistics from Statistic Canada were factored in where warranted. In situations where information was scarce or ambiguous, newspapers, as well as interviews with people involved with the Crown Corporations were used.

Chapter 2 Industrial Estates Limited

2.1 Introduction

The first Crown Corporation to be examined is Industrial Estates Limited (IEL). This chapter will assess IEL's effect on the Cape Breton economy. This will be done by examining IEL's method of operation, its investments in Cape Breton firms, and a comparison of the level of financial assistance and the success of firms in Cape Breton in relation to mainland Nova Scotia. This chapter will demonstrate that IEL had little to no impact on the Cape Breton economy in comparison to the rest of Nova Scotia.

The desire to encourage economic development across Nova Scotia was identified as early as 1956 in the Conservative Party's election platform.[1] The following year, the Conservative government of Robert Stanfield introduced a bill to found IEL to fulfill the economic development goal.

The motivation to establish this Crown Corporation came after the visit of Major General Kenelm C. Appleyard, chairman of a trading estate in England, and acquaintance of agriculture minister E.D. Haliburton and Nova Scotia industrialist R.A. Jodrey.[2] The result of Appleyard's advice to the government convinced Robert Stanfield that Industrial Estates Limited was the best proposal to bring industry to Nova Scotia.[3] IEL's mission

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[1] Roy E. George, *The Life and Times of Industrial Estates Limited* (Institute of Public Affairs, Dalhousie University, 1974), 3.

[2] James P. Bickerton, *Nova Scotia, Ottawa, and the Politics of Regional Development,* The State and Economic Life. (Toronto: University of Toronto Press, 1990), 147.

[3] George, *Life and Times*, 6.

was to promote, diversify and develop industrial activity in Nova Scotia.[4] Essentially, IEL had a free hand to conduct economic development activity throughout the province.

2.2 The Plan of Operation

A group of Nova Scotia businessmen would be the Board of Directors and run IEL on a part time basis as unpaid volunteers.[5] Led by supermarket magnate Frank Sobey,[6] their strategy was to use IEL to attract industry to Nova Scotia by borrowing money from the province to buy lands. IEL would then construct factories and buildings to add value and increase the investment potential of the properties. These properties were then leased or rented to industrial tenants who were willing to locate in the province.[7] The location of multiple industries into group sites (industrial parks) was preferred to single industry, isolated sites even though the legislation permitted isolated sites. Problems with municipalities in providing services to group sites caused an early policy shift to favour the isolated, single industries.[8]

In the search for tenants, only three restrictions were legislated on IEL, but these could easily be overridden with the approval of the Minister.[9] The first restriction was that IEL could not knowingly help an industry establish in Nova Scotia that would be in

[4] Ibid., 7.

[5] Bickerton, *Nova Scotia*, 146.

[6] Harry Bruce, *Frank Sobey: The Man and the Empire,* (Toronto: Macmillan of Canada, 1985)

[7] George, *Life and Times*, 34.

[8] Ibid., 35.

[9] Robert W. Manuge, former general manager of Industrial Estates Limited, interview by author, 16 January 2002, by telephone.

direct competition with a business already operating in Nova Scotia.[10] The second restriction required IEL to consult with government departments that had previously given financial assistance to companies that were in talks with IEL. The final restriction required IEL to obtain written permission from the Minister of Trade and Industry before an extra group site or estate was started.[11]

Another part of the stipulations of operation was that IEL would concentrate on light and secondary industries; the provincial government would involve itself with resource development and heavy industry.[12] Although this limited the scale of economic development IEL could conduct, the pitch to foreign and American firms boasted a cheap, available, and stable workforce in Nova Scotia.[13] The Board of Directors also had preferences in the types of businesses they wished to attract. Subsidiaries were unwanted, as hard times would mean their head office dictating the closure of operations in Nova Scotia. The ideal candidates should be those with a shortage of working capital as a result of aggressive growth at a young age.[14]

Whereas governments can obtain loans at a lower rate of interest than an industrial enterprise, IEL was well positioned to pass on the interest savings to its clients. Although IEL was mandated to break even on the returns of its rentals, there was no provision for defaults and vacancies by its clients. This often meant the mandate to

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[10] George, *Life and Times*, 9.

[11] Ibid., 10.

[12] Bickerton, *Nova Scotia,* 147.

[13] Ibid., 148.

[14] Ibid., 148.

attract industry outweighed fiscal fitness;[15] after all, the government could always provide more money.

Changes in federal taxes and programs would force IEL to change its incentives in 1964. Federal incentives under the Area Development Agreement (ADA) and the Regional Development Incentives Act (RDIA) required companies to own their own building.[16] This made IEL's leaseback arrangements less attractive. At the same time, these federal programs were favoring companies in rural Nova Scotia as opposed to Metropolitan Halifax.[17] IEL changed its incentives to allow companies to receive their land and buildings through 100% mortgage financing as opposed to the previous lease-purchase agreement or a loan. Financing of 60% could also be provided to purchase machinery. Loans could be made for up to 30 years with no penalty for early repayment. Negotiations with municipalities would also take place to obtain tax breaks for new IEL sponsored industries.

Sometimes assistance was more generous. Loans for 80% of the cost of machinery were made.[18] Other times there were loans to provide working capital, but this action was highly discouraged. In cases where working capital loans were provided, the policy was to charge the firm the same interest rate that was being charged the government, plus one percent to cover the administration costs at IEL.[19] For areas of

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[15] George, *Life and Times*, 36.

[16] Atlantic Provinces Economic Council, *The Atlantic Economy, Seventh Annual Review* (October 1973), 44. This will be referred to as APEC in the rest of this chapter.

[17] George, *Life and Times*, 36.

[18] APEC, *The Atlantic Economy*, 44.

[19] George, *Life and Times*, 37.

chronically high unemployment, IEL was permitted to use special incentives to lure industry.[20] The move to loans represents a significant departure away from the intent of IEL's mandate. No longer was it solely in the real estate business; it had also become a lending agency. If IEL was lending money to entice economic development, did Cape Breton Island receive its fair share of IEL investment? Was the distribution of IEL-supported companies spread out evenly across the province?

2.3 Distribution

Not all areas of Nova Scotia had the same employment levels. Consequently, it might be expected out of moral obligation that areas of higher unemployment and economic uncertainty would receive more investment from IEL. From 1957 to 1971, IEL attracted no less than 77 firms to the province; the majority of these after it started providing loans. For Cape Breton Island, five companies which received IEL funding set up in Cape Breton County. The other three counties of Cape Breton Island: Victoria, Inverness, and Richmond, did not have any of the 77 IEL funded companies establish within their boundaries.[21]

As all counties have a different population base, and not every county received the same number of IEL funded industries, comparing the counties on a per capita basis seems logical in determining the spread of funding. Done by Roy E. George using the 1957 to 1971 figures and 1971-dollar values, these calculations reveal some surprising facts. Despite only having five IEL funded firms, Cape Breton County received the largest share of funding from IEL at $46.3 million over 14 years. This was due largely to

[20] APEC, *The Atlantic Economy*, 44.

[21] George, *Life and Times*, 68.

an unpleasant investment in one client, Deuterium of Canada Limited.[22] The per capita level of investment for Cape Breton County, however, was only $358.[23]

In comparison, Pictou County, the home of Frank Sobey, received ten IEL funded industries, devouring $34.4 million of IEL's money. This included two large investments: Clairtone and Michelin. The per capita investment in Pictou County works out to $773.[24] This represents over twice as much as was received by Cape Breton County. When the populations of the other three counties of Cape Breton Island are factored in, it is clear that Cape Breton Island did not receive a proportionate amount from the IEL economic development funds when compared to Pictou County.

Other counties received funding above and beyond the four counties of Cape Breton. Lunenburg and Queen's Counties together received eight IEL clients, an investment of $36.4 million of IEL's money. The local per capita rate of investment was $744, almost as much as Pictou County. The huge investment required to lure Michelin can explain the per capita figure for these counties.[25] Colchester County was the only other county to outperform Cape Breton. The home of Conservative strongmen Robert Stanfield and George "Ike" Smith, Colchester County had eight IEL clients with a total funding of $16.7 million, representing a per capita investment of $467.[26] In contrast, Metropolitan Halifax, being the largest populated area in the province, received the most

[22] More on this will be discussed later.

[23] George, *Life and Times*, 68.

[24] Ibid., 68.

[25] Ibid., 68.

[26] Ibid., 68.

companies, 22. Total investment, however, was quite low at only $13.8 million or $56 per capita (see Appendix B).[27]

2.4 Good, Bad, and Really Bad Investments

As previously stated, of all the industries attracted and assisted by IEL during the Stanfield years, five ended up in Cape Breton County.[28] Although other companies in Cape Breton were assisted by IEL after the departure of Robert Stanfield, information on these firms is marginal and incomplete.

Angel Manufacturing and Supply Company was a small foundry operation in North Sydney that received $66,000 in help from IEL in 1960.[29] This was to assist the firm after a fire destroyed the property.[30] Employment numbers fluctuated throughout the five decades of operation at Angel. When the company folded in 1999, there were 14 employees.[31]

Three firms were established in Cape Breton County during 1967. General Instruments of Canada opened in Sydney to make radio and electronics parts, providing 941 jobs.[32] IEL was able to grant $2,900,000 worth of assistance to this firm.[33] General

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[27] Ibid., 68.

[28] See Appendix C

[29] George, *Life and Times*, 93.

[30] Roger Angel, Director of Angel Manufacturing and Supply Company, interview by author, 22 January 2002, by telephone.

[31] Ibid.

[32] Geoffrey Stevens, *Stanfield* (Toronto: McClelland and Stewart Limited, 1973), 130.

[33] George, *Life and Times*, 93.

Instruments closed shop in 1974 and moved to Mexico after unsuccessfully trying to get funding from the government of Gerald Regan to import parts from Chicago.[34]

An abrasives company named Pyrominerals opened in Point Edward and received $2,300,000 in assistance.[35] Employing no more than 45 people,[36] Pyrominerals was a major contributor to air pollution in the Sydney area. Had emission legislation been introduced earlier, Pyrominerals would not have gone into production.[37] Subsequently, Pyrominerals was closed in 1971.

The Japanese automobile company Toyota decided to set up an assembly plant in Point Edward as well. Canadian Motor Industries, as it was known at the time, received $1,400,000 in assistance from IEL.[38] Canadian Motor Industries created a degree of controversy as some viewed the firm in violation of the first restriction placed on IEL regarding competition. A prior commitment in 1963 brought the Swedish carmaker Volvo to establish an assembly plant in Dartmouth (later moving to Halifax).[39] IEL had committed a $1,000,000 towards Volvo. IEL interpreted the competition restriction on the grounds of two different groups of automobile purchasers,[40] hence no competition. In defence of IEL's actions, Frank Sobey stated to the Industry Committee of the

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[34] Robert W. Manuge, former General Manager of Industrial Estates Limited, interview by author, 16 January 2002, by telephone.

[35] George, *Life and Times*, 93.

[36] Gary Fancey, a former manager with the Cape Breton Development Corporation, interview by author, 16 January 2002, by telephone.

[37] George, *Life and Times*, 108.

[38] Ibid., 93.

[39] Ibid., 95.

[40] APEC, *The Atlantic Economy*, 48.

Legislature that the main market for both types of automobiles was outside the province.[41] Besides, Volvo and Canadian Motor Industries were large exporting firms bringing employment and income to the province and the government could waive the competition restriction.[42] Canadian Motor Industries employed 170 people and wanted to import equipment from Japan to expand operations. However, the Liberal government of Premier Gerald Regan refused the company's request to subsidize the new equipment. Hence, Canadian Motor Industries left Nova Scotia in 1975 for Ontario.[43]

The largest and most costly enterprise attracted by IEL was Deuterium of Canada Limited (DCL). Atomic Energy of Canada Limited (AECL), a federal Crown Corporation, needed to purchase 200 tons of heavy water per year. In the search for a Canadian company, a partnership was struck between IEL and an American company, Deuterium Corporation, to form DCL. IEL would finance \$12 million, Deuterium Corporation Limited would finance \$18 million,[44] and IEL would control the company with 25,001 of the 50,000 shares to ensure that the company was Canadian.[45] After intense political lobbying by Stanfield and winning federal cabinet support from Jack Pickersgill, Allan J. MacEachen, and even Prime Minister Lester Pearson, DCL was awarded the contract and Glace Bay was the site chosen for the plant.[46] This was to be a

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[41] George, *Life and Times*, 41.

[42] Ibid., 10.

[43] Robert W. Manuge, former General Manager of Industrial Estates Limited, interview by author, 16 January 2002, by telephone.

[44] George, *Life and Times*, 77.

[45] Ibid., 83.

[46] Bickerton, *Nova Scotia*, 235.

blessing to the local economy. There would be 200 permanent jobs,[47] but the rumoured 2,000 construction jobs for the two-year construction period from 1964 to 1966 amounted to only 400 jobs.[48]

Construction moved ahead slowly. This was partly due to a shortage of sufficiently skilled labour from Cape Breton contractors. Work on a project of this scale was new ground for small time welders, electricians, and mechanics. The need for skilled labour caused local unions to get upset when outsiders were brought in to help.[49] In all, there were twenty-four strikes in the first two years. Delays added to the increasing cost and in 1966, the Government of Nova Scotia assumed control of the project from DCL and IEL after DCL had stopped raising money.[50] That same year, AECL offered to double the order of heavy water if the plant would double production capacity. The cabinet agonized over the decision and pressure mounted from Gerald Regan and the Liberal opposition to proceed. In the end, the cabinet gambled and agreed to proceed.[51] Another $135 million to finish the project followed.[52] On the official opening date of May 1967, heavy water had yet to be produced. It turned out that design changes to use salt water in the process were corroding the stainless steel pipes and other equipment. In October of 1971, Ottawa, through AECL, undertook the reconstruction of

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[47] Ibid., 235.

[48] Paul MacEwan, *Miners and Steelworkers, Labour in Cape Breton* (Toronto: Samuel Stevens Hakkert and Company, 1976), 331.

[49] George, *Life and Times*, 82.

[50] Ibid., 78.

[51] Ibid., 79.

[52] Bickerton, *Nova Scotia*, 236.

the plant for the price tag of $95 million.[53] Ten years behind schedule, the heavy water plant went into production in 1976 at a cost to taxpayers over a quarter of a billion dollars. Clearly, IEL was in over its head. If there was a silver lining, General Electric decided to construct its own heavy water plant in Cape Breton at Port Hawkesbury in the late 1960s.[54] The Port Hawkesbury plant was not an IEL venture, but was eventually taken over by AECL as well.[55] With the subsequent decline in demand for nuclear reactors, AECL closed both plants in 1985, slashing 700 jobs in an area of 25% unemployment.[56]

Although most IEL ventures in Cape Breton failed, the rest of Nova Scotia would not be spared the embarrassment of IEL failures, including Pictou County. The attraction of Clairtone Sound Corporation to Nova Scotia was labeled a major coup by IEL. The electronics and hi-fi stereo corporation was attracted to set up on one of IEL's properties in Stellarton with an $8 million loan, with interest forgiven for the first three years. The plant began full operations in 1966.[57] The initial results were good, but the decision to produce colour television sets would prove disastrous. Losses began to accumulate from 1967 to 1970. Clairtone went back to IEL in 1967 looking for $2 million. The money was given, on the condition that IEL would be given the controlling stake in the

[53] George, *Life and Times*, 78.

[54] Ibid., 81.

[55] Benjamin Higgins, *Entrepreneurship and Economic Development: The Case of Cape Breton*, in *Les provinces maritimes: un regard vers l'avenir / The Maritime Provinces: Looking to the Future,* eds. Donald J. Savoie, and Ralph Winter (Moncton: Institut canadien de recherche sur le développement régional / The Canadian Institute for Research on Regional Development, 1993), 142.

[56] James Bickerton, "Old Wine into New Bottles? Federal Development Agencies in Cape Breton, 1984 – 1989" (Annual Meeting of the Atlantic Provinces Political Studies Association, 1990), 7.

[57] George, *Life and Times*, 86.

company. By 1972, Clairtone was closed and the Nova Scotia government purchased the company from IEL for $26 million.[58]

The turbulent years of the late 1960s clouded the success of the largest firm attracted by IEL, Michelin. The French tire maker was attracted to Nova Scotia in 1970 by a passive, non-unionized work force and low wages.[59] The public invested about $82.8 million in Michelin,[60] of which IEL provided two loans for $50 million and $14.3 million respectively, and a grant of $7.6 million. Two plants were established, one in Granton, Pictou County, and one in Bridgewater, Lunenburg County. Employment was predicted to be 2,500 jobs.[61] Michelin, being paternalistic and anti-union, would not establish a plant in communities where there was known union activity. Having a strong union history, Cape Breton did not benefit from Michelin.[62] In 1979, the Buchanan Conservatives introduced the infamous Michelin Bill requiring all Michelin plants in the province to request union certification at the same time, or not at all.[63] Many viewed this legislation as an attack on organized labour and government pandering to big business. The subsequent result of the legislation was the construction of a third Michelin plant in

[58] Doug Letto, *Chocolate Bars and Rubber Boots, The Smallwood Industrialization Plan* (Paradise: Blue Hill Publishing, 1998), 86.

[59] Bickerton, *Nova Scotia*, 236.

[60] George, *Life and Times*, 111.

[61] Ibid., 91.

[62] MacEwan, Paul, *Miners and Steelworkers, Labour in Cape Breton* (Toronto: Samuel Stevens Hakkert and Company, 1976)

[63] Bickerton, *Nova Scotia,* 283.

Waterville, King's County, the expansion of the Granton and Bridgewater plants, and 1,850 additional jobs for the province.[64]

2.5 End Game

By 1970, after some spectacular failures and successes, the election of Gerald Regan and the Liberals caused IEL to go into decline. Having spoken out against IEL on numerous occasions while in opposition in the legislature, Regan pledged to end the subsidization of industry by the province during his tenure. Though not disbanded, IEL's role in economic development for the province was significantly reduced.[65] There was restructuring at IEL in the Board of Directors, and in the way money was handed out.

Money was broken down into two new categories: a Small Business Loans Program and General Development. From 1971 to 1976, 75 businesses with almost 1,000 employees took advantage of $3,197,000 through IEL's Small Business Loans Program.[66] The General Development Program on the other hand, spent $89.5 million on 45 projects, creating or maintaining 5,828 jobs over the same time period.[67] Although this period of investment marks a significant increase in the number of assisted firms in comparison to the Stanfield/Sobey era,[68] the change in the political climate marked the decline of IEL.

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[64] Twenty-third Annual Report, Industrial Estates Limited, 31 March 1980.

[65] Bickerton, *Nova Scotia*, 237.

[66] Atlantic Provinces Economic Council, *Industrial Incentives Programs in the Atlantic Region* (October, 1976), 66.

[67] Ibid., 67.

[68] Robert Stanfield left provincial politics in 1967 to become leader of the federal Progressive Conservative Party. While Ike Smith was Premier, Frank Sobey resigned as President of IEL in 1969. M.G. Taylor, Finlay MacDonald, Dean W. Salsman, and W. Leslie Single went on to become Presidents of IEL during the decline.

The year 1978 saw the province commence the transfer of control of its industrial parks in Amherst, the Annapolis Valley, Springhill, and Debert to IEL. Infrastructure improvements to these parks such as roads and sewer were then carried out by IEL as well as the construction of incubator industrial malls and warehouses.[69] By 1987, IEL was responsible for 14 industrial parks in the province. Curiously, no industrial parks in Cape Breton were assigned to IEL until 1987 when IEL picked up the Mulgrave Marine Industrial Park on the Strait of Canso and became the rental agent of AECL for the heavy water plant properties in Port Hawkesbury and Glace Bay.[70]

The recognition of the importance of small business development by the province in 1981 resulted in the creation of a Small Business Development Corporation under the umbrella of the provincial Department of Development. IEL's Small Business Financing Program and staff were transferred to this new body.[71] The following year, the Department of Development also assumed the role of promoting IEL.[72] IEL was again restricted to the general development business and responsibility for the province's industrial parks. IEL was completely absorbed into the Department of Development in 1987.

2.6 Conclusion

It seems that when IEL departed from the business of industrial real estate to that of providing loans and grants, the company began experiencing problems. There is

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[69] Twenty-First Annual Report, Industrial Estates Limited, March 31, 1978, 3.

[70] Thirtieth Annual Report, Industrial Estates Limited, March 31, 1987, 4.

[71] Twenty-Fourth Annual Report, Industrial Estates Limited, March 31, 1981, 3.

[72] Twenty-Fifth Annual Report, Industrial Estates Limited, March 31, 1982, 2.

always the risk of losing on an investment when it comes to economic development, but it seems that this risk was increased when IEL decided to become part owner in companies. When the reach exceeded the grasp, the IEL investment capitulated.[73]

In theory, IEL was a good industrial development strategy; a Crown Corporation able to borrow low interest money from government lenders to develop properties and lease the property to industry at a cost lower than what industry would have originally spent. The switch to low rate mortgage financing was resourceful, but led IEL to new forms of lending, a significant departure from the original development strategy.

In practice, over 13,000 jobs were created or maintained throughout IEL's thirty years of operation in the Province of Nova Scotia.[74] Unfortunately, Cape Breton Island did not share proportionally in the employment and investment created by IEL. IEL only created 220 or so long term jobs in Cape Breton, and 1,161 short-term jobs in the 1967 unemployment crisis. When these two figures are combined, they represent only 10% of all the jobs IEL created. Mainland Nova Scotia received the lion's share of the benefits created by IEL activities.

Financially, IEL spent over $300 million investing and attracting firms to Nova Scotia. When money from the Province of Nova Scotia to cover Deuterium and Clairtone is factored in, the figure exceeds half a billion dollars. Although the intention was to recover much of the money loaned, IEL continually ran large deficits that were covered by the province. By 1983 the Province no longer covered the full deficit for IEL. In retrospect, had the Board of Directors been employed on a permanent basis, and had

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[73] Bickerton, *Nova Scotia*, 236.

[74] See Appendix D

sufficient qualified staff been hired to assist in the determination of good and bad investments, mistakes like Clairtone and Deuterium might have been avoided.

In terms of a responsibility to create employment, Angel Manufacturing and Deuterium may have provided long-term employment, but the heavy water gamble did not live up to the promises that were presented. In large part, this can be attributed to the decline of the nuclear power industry after the Three Mile Island nuclear incident in the United States in 1979.

The actions of Canadian Motor Industries and General Instruments clearly conform to the capitalist behavior described by neo-Marxist underdevelopment theories. These two ventures exploited the available cheap labour from thousands of unemployed citizens, drained the area of financial capital from both primary production and government subsidies, and when the government funding was exhausted they vacated the hinterland to Ontario and Mexico respectively.

The IEL experience shows that government, through Crown Corporations, can independently foster economic development. In terms of policy instruments used by IEL (which is itself an instrument of the government), infrastructure provision is the independent action of the government, through its Crown Corporation, to directly create long-term gainful employment or indirectly, by using infrastructure to lure private sector investment. Crown Corporations can also act through the intervening variable, the private sector, by using other policy instruments in the form of loans, mortgages, grants, and subsidies, as well as by actively campaigning the private sector and marketing locations and growth poles. The IEL experience also shows that just because a business locates at a growth pole (Sydney/Glace Bay or the Strait of Canso), this does not mean the business will succeed. The fate of DCL's quarter billion dollar heavy water plant in Glace Bay and General Electric's similar plant in Port Hawkesbury are evidence of this.

In terms of policy objectives, IEL was a tool to foster economic transition, province building through industrialization, and subtle intervention in the economy for its betterment. IEL also provides a warning to economic developers to beware of large, financially unsound operations that require subsidies. These firms conform to the neo-Marxist model of capitalist underdevelopment. Based on these assessments, it is clear that IEL's role in the economic development of Cape Breton Island was less effective than it was in the rest of Nova Scotia.

Chapter 3 Cape Breton Development Corporation

3.1 Introduction

For almost three centuries, coal mining and steel making have been the industrial staples of the Cape Breton economy. The last of the private companies to be engaged in this activity in Cape Breton was Dominion Steel and Coal Company Limited (Dosco). The largest employer east of Montreal, with 10,500 employees in Cape Breton in 1965,[1] employment stability with Dosco had been questioned since the period following the First World War due to rising coal subsidies. This chapter recounts the demise of Dosco and the federal government's attempt to foster economic development through the Cape Breton Development Corporation (Devco). This chapter will clearly show two phases of economic development policies, and three phases of coal mining policies executed by Devco and examine the cause and effects of these changes in policy. Finally, Devco will be shown to have simultaneously helped and hindered the economic development of Cape Breton by having an overreaching mandate, artificially propping up the economy, and departing from its original mandate.

3.2 The Decline of Dosco

In the first six months of 1957, Dosco recorded a profit of $7,563,355.13.[2] That same year, aircraft manufacturer A. V. Roe Canada purchased the controlling stake in

[1] J.R. Donald, *The Cape Breton Coal Problem* (Ottawa: Queen's Printer, 1966), 1.

[2] Harry Bruce, *Frank Sobey: The Man and the Empire* (Toronto: Macmillan of Canada, 1985), 211.

Dosco. At the pithead, mines were being exhausted and closed, equipment was aging, and new investment was needed. Underground and submarine mines, such as those in the Sydney coalfield, were more costly to operate than open pit strip mines. Federal subsidies ensured the competitiveness of Cape Breton coal, something unheard of in the United States's coal industry.[3] The Royal Commission on Coal in 1960 (Rand Report) noted the rise of other sources of fuel such as oil, gas, hydroelectric, and nuclear power against which Cape Breton coal had to compete in an international marketplace. In February 1959, Prime Minister Diefenbaker announced the cancellation of A.V. Roe's top project, the supersonic Avro Arrow. As stock prices fell, Hawker Siddeley purchased A.V. Roe and the Dosco assets. In 1962 A.V. Roe became known as Hawker Siddeley Canada Limited.[4] With Hawker Siddeley unable to re-invest in the Cape Breton coal industry, rehabilitation could only come from external intervention.

In 1965 Dosco announced it would no longer mine iron ore from the submarine iron mines of Bell Island, Newfoundland, throwing the tiny island into economic chaos. This announcement meant the steel plant in Sydney had lost its primary source of ore. That same year, Dosco enlisted British experts to evaluate and advise on the future of coal mining in Cape Breton. The result was a demand for $25 million from the federal government to rehabilitate the collieries and open a new pit at Lingan. Ottawa shot back with its own study, *The Cape Breton Coal Problem* by J. R. Donald. Before the Donald

[3] I.C. Rand, *Report of the Royal Commission on Coal* (Ottawa: Queen's Printer and Controller of Stationary, 1960), 12.

[4] Bruce, *Sobey*, 216.

Report could be released in August 1966, Dosco announced in April it was getting out of the coal mining business.[5] Although good business sense dictated that closure of the coalmines was the right thing to do, social consciousness indicated this was an irresponsible action. All levels of government could not allow the shutdown of the largest employer in the Cape Breton economy. Something had to be done.

The Donald Report evaluated numerous proposed plans and brought about recommendations for the aging industry. One recommendation was the establishment of a Crown Corporation with $150 million in funding over 15 years "to strengthen and stimulate the Cape Breton economy through the exploitation of its resources and the promotion and establishment of industry."[6] Another recommendation was to establish a second Crown Corporation to acquire Dosco assets and manage the collieries. Donald also warned against the establishment of a new coal mine at Lingan.[7] Rather, Donald wanted a fifteen-year phase out of the coal industry.[8]

The federal government's reaction to the crisis was to create a single Crown Corporation, the Cape Breton Development Corporation. Devco, as it came to be known, would conduct both economic development and take over the operation of the collieries in spite of the Donald Report's recommendations to separate the two objectives. Devco would in effect replace the federal subsidies to the Cape Breton coal industry and become

[5] James P. Bickerton, *Nova Scotia, Ottawa, and the Politics of Regional Development,* The State and Economic Life. (Toronto: University of Toronto Press, 1990), 199.

[6] Donald, *Coal Problem*, 35.

[7] Ibid., 35.

[8] Bickerton, *Nova Scotia,* 199.

the principal employer, keeping thousands of people off welfare. It was instructed to promptly reduce the workforce through an early retirement plan and then phase out the four mines by 1981.[9] Devco was projected to operate at a loss throughout its fifteen-year life span. Amazingly, Devco would go on to operate for 34 years. Not only that, Devco would go against the Donald Report's recommendations and open three new mines, and prepare for a fourth.

3.3 The Start of Devco

Devco was structured so there would be two separate divisions, one for coal production, and one for industrial development. Each would have separate allocations of funds, budgets, and vice-presidents, and neither fund allocation could be interchanged with the other division.[10] As such, the Industrial Development Division received $20 million from Ottawa and another $10 million from the Province of Nova Scotia to create an industrial base in Cape Breton to replace the coal industry.[11] The Coal Division was allocated $25 million to rehabilitate the mines.

After carefully examining the situation with each mine in 1968, and the funds required to maximize output in light of future coal policy, management decided to invest the $25 million into the creation of a new mine in the Lingan area. The plan called for

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[9] Tom Kent, " *The Cape Breton Development Corporation: One Canadian Case of Planning on the Spot,* " in *Canadians and Regional Development at Home and in the Third World*, ed. Benjamin Higgins and Donald Savoie (Sackville: Tribune Press, 1988), 93.

[10] Bickerton, *Nova Scotia,* 247.

[11] Second Annual Report, Cape Breton Development Corporation, 31 March 1969, 12.

the production of two million tons of coal, in conjunction with Number 26 colliery, but a vastly reduced work force.[12] So right from the start, even though the plan was to phase out coal mining, plans for a new mine were being prepared. This is in stark contrast to the recommendations of the Donald Report that warned against such a move.[13]

Over at the Industrial Development Division (IDD), similar questions were being raised. Noting the crumbling social infrastructure in the Cape Breton County area, Devco's IDD invested in the construction of an apartment complex.[14] Although this was not a new industry, economic development cannot occur unless the proper infrastructure is in place, hence the spending decision.

These two examples demonstrate one point: with Devco established, Ottawa and Halifax did not have to worry about the socio-economic problem in Cape Breton; the problem belonged to Devco. Devco was free to undertake whatever was necessary to achieve its industrial development goals. Although this is not necessarily a bad thing, further assistance from the federal and provincial governments in terms of guidance, backing, and further intervention might have been welcomed.[15]

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[12] Ibid., 7.

[13] The rationalization of this decision is discussed later.

[14] Second Annual Report, Cape Breton Development Corporation, 31 March 1969, 13-15.

[15] Bickerton, *Nova Scotia*, 247-8.

3.4 Money down the pit

The mood of uncertainty hanging over Cape Breton Island due to the inevitable closure of the mines meant Devco had to get new industry up and running as soon as possible. Within the first two years of operation, the Industrial Development Division spent close to $10 million on nine new industries and several smaller projects. Seven of these industries left once their funding expired.[16] Two of the more memorable projects Devco funded were on the other end of the island at the Strait of Canso, far from the coal mine problems. Devco provided funding, in conjunction with the province of Nova Scotia, for the Stora pulp and paper mill to expand in Port Hawkesbury.[17] The other project was the development of a deep-water dock for Gulf Oil to offload Middle-Eastern oil for refining in Point Tupper.[18]

The arrival of Tom Kent as President of Devco in 1971 fundamentally changed the direction of Devco's Industrial Development Division. Schemes to bring in large industrial projects took a back seat to the development of traditional industries, local resources, and talents in Cape Breton. The five year plan, proposed in 1972, did not rule out attracting external investment, but Kent recognized that external industrial intervention alone would not be the savior for the Cape Breton economy.[19]

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[16] Bickerton, *Nova Scotia*, 249.

[17] Kent, *Planning on the Spot*, 94.

[18] Ibid., 93.

[19] Ibid., 96.

One assessment was that the Cape Breton economy lacked the entrepreneurial spirit due in part to the early presence of big business looking after all interests. As such, Devco's Industrial Development Division set about various development plans for the tourism sector and primary industry. Devco viewed its role in the tourism sector as being to make the island's natural and historic attractions more available and more interesting to visitors.[20] To accomplish part of this goal, strategic loans were provided to carefully selected homeowners for renovations to provide bed and breakfast accommodations for the tourist sector.[21] By 1980, 55 homeowners had taken part in the bed and breakfast program.[22] Devco also got into the construction of key tourist infrastructure. This included four tourist booths in co-operation with the Cape Breton Tourist Association, restaurants, motels, and chowder houses where needed. Other firms with tourist infrastructure received loans for their restaurants and motels, as did a ski hill in Cape Smokey.

Devco also undertook the operation of a historic tourist railway between Sydney and Glace Bay. Initially a very successful profit generator, Devco made the mistake of relaying abandoned track and expanding to two trains early in its operation. Profits quickly evaporated due to high overhead from a unionized work force and once the

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[20] Seventh Annual Report, Cape Breton Development Corporation, 31 December 1973, 41.

[21] Kent, *Planning on the Spot,* 97.

[22] Ibid., 106.

novelty for local patrons wore off. In hindsight, the railway might have been a long lasting tourist attraction if it had not grown so quickly.[23]

Primary and cottage industries also had their share of investment from Devco. Since Cape Breton has a dominant Scottish heritage, the traditional Scottish industry of sheep farming for wool and lamb was identified as a potential recipient of Devco assistance. Started in 1972, by 1975 sheep numbers on the island had tripled to 9,000 head, 1,500 of which arrived from Scotland through airlift in 1975.[24] Agriculture overall was to profit from investment by Devco. Fruit and vegetable growers were encouraged to feed the whole island, beef cattle were being raised, overgrown farm land was reclaimed, grains planted, as well as the construction of food processing facilities.

Aquaculture also received recognition as a potential growth industry. Oyster farming was started in Baddeck on the Bras D'Or Lakes.[25] Mussel, trout, and salmon farming soon followed. Not surprisingly, it was not long before the fish plants throughout the island began receiving loan assistance for structure and wharf rehabilitation.[26]

As can be noted from the strategy detailed above, the industries started were largely seasonal with a small workforce. Despite this reliance on traditional, seasonal industries, new full time employers involved in boat building and modular home

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[23] Ibid., 106-7.

[24] Ninth Annual Report, Cape Breton Development Corporation, 31 March 1976, 26.

[25] Sixth Annual Report, Cape Breton Development Corporation, 31 December 1972, 19-26.

[26] Sixth Annual Report, Cape Breton Development Corporation, 31 December 1972, 19-26.

construction established in Cape Breton. One such firm was the boat builder Cabotcraft. The partnership between Devco and Marketing Dynamics Limited of Toronto was to result in the construction of motor-sailor pleasure boats at a Point Edward facility and employ 60 people.[27] The first few years were difficult, and Devco investment topped $1.4 million,[28] but by 1977 the company was experiencing a backlog of orders and a production rate of 29 vessels a year.[29] Design diversification resulted and sales remained strong, but signs of trouble for the fiberglass and wooden boat builder began in 1978 with the rising costs of the Cabot 36 model. Also, an American firm had identified the niche market the Cabot 36 would occupy, and soon created a comparable craft at a lower price.[30] By 1979, Cabotcraft was closed by Devco and the assets sold to a new company, which commenced production of 20 foot fishing boats.[31]

If anything, the 1970s initiatives of the Industrial Development Division were to strengthen the traditional economy with limited employment opportunities being largely seasonal. Large-scale economic development from fly-by-night operations through grants was discouraged. The tourism industry received the largest benefits and this investment has resulted in a legacy of attracting people to drive the Cabot Trail, sail the Bras D'Or Lakes, or take in the rich history of Fortress Louisburg. However, the plan

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[27] Seventh Annual Report, Cape Breton Development Corporation, 31 December 1973, 29-30.

[28] Ninth Annual Report, Cape Breton Development Corporation, 31 March 1976, 23.

[29] Tenth Annual Report, Cape Breton Development Corporation, 31 March 1977, 16.

[30] Kent, *Planning on the Spot,* 112.

[31] Twelfth Annual Report, Cape Breton Development Corporation, 31 March 1979, 21.

was really directed towards the development of sparsely-populated rural areas and was not sufficient to foster the development of urban industry.[32]

3.5 More mines

The mid 1970s witnessed the true power of the world's oil producers. As the Organization of Petroleum Exporting Countries (OPEC) increased the price for oil, inflation ensued and demand for cheaper energy increased. The world had become dependent on oil and was rudely awakened to that fact. Coal was once again seen as a viable option.

Devco was supposed to be phasing out the collieries, but had made the conscious decision in 1968 to develop a new mine at Lingan, despite the recommendations of the Donald Report. The rationalization for this decision was that Lingan would be like a cushion: as mines closed forcing some miners to retire, other miners would be shifted to Lingan until retirement. The shock to the Cape Breton economy would not be as abrupt as an immediate phase out of all mines. This would be more gradual, and could be used to buy time until new industry established. The oil crisis would change this thinking.

By 1972, the phase out of coal was no longer an option according to Tom Kent; modernization became the preferred course of action.[33] With the strategic decision made and Lingan under development, new coal deposits had to be exploited to replace the aging workings of the Princess, Number 20, and Number 12 collieries. The Number 12

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[32] Bickerton, *Nova Scotia,* 250.

[33] Kent, *Planning on the Spot*, 114-5.

colliery was closed earlier than expected in 1973 due to an underground fire.[34] Number 20 also closed in 1972 due to safety considerations.[35] The 99 year-old Princess colliery became the last of the old mines to close. Citing poor geological conditions, the decision was made in 1974 to phase out Princess, and relocate the miners and equipment to a new mine to be developed in the vicinity that would become the Prince mine in Point Aconi.[36] In February of 1975, Don Jamieson, Minister for the Department of Regional Economic Expansion (DREE) announced loan financing for the mine on behalf of the federal government.[37] Miners from the three old mines took their retirement, went to work at Lingan, or were redeployed in the development efforts for Prince.

The coal strategy called for the production of two million tons from the Lingan, Prince, and Number 26 mines.[38] The one thing Devco needed now was a buyer for the coal, and Nova Scotia Power Corporation obliged. Nova Scotia Power began construction of a coal-fired electrical generating station, practically beside the Lingan colliery. Completed ahead of schedule, 10% under budget and online by 1979, the plant would consume 1.5 million tons of coal a year, employ 175 highly skilled workers, and

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[34] Eighth Annual Report, Cape Breton Development Corporation, 31 March 1975, 10.

[35] Fifth Annual Report, Cape Breton Development Corporation, 31 December 1971, 6.

[36] Eighth Annual Report, Cape Breton Development Corporation, 31 March 1975, 10.

[37] Ibid., 9.

[38] James Bickerton, "Old Wine into New Bottles? Federal Development Agencies in Cape Breton, 1984 – 1989" (Annual Meeting of the Atlantic Provinces Political Studies Association, 1990), 4.

have a capacity of 600 megawatts of electricity.[39] The remaining coal from the strategy would be destined for international export and to Sydney Steel for coking.

The number of miners was cut in half by the middle of the 1970s. This would mark another significant departure, the hiring of new miners. The rising demand for coal, and the development of new mines with miners retiring necessitated this move. It would not be until the middle of the 1980s that employment figures returned to the mid 1970s level, and then entered into permanent decline (see Appendix E). The peak of this new hiring spree at Devco coincided with a second oil crisis, which caused Devco to consider adding three new mines to increase production to 10 million tons.[40]

A confidential commercial document found among the papers of Rev. Andy Hogan, a Roman Catholic priest and the first NDP Member of Parliament from Nova Scotia, indicates a desire among Devco management to commit the corporation to billions of dollars in capital expenditures and a return to 1967 employment levels.[41] Citing expansion as the only means to bring about financial viability and commercial competitiveness, the document assessed the viability of the proposed mines at Phalen, Donkin, and Glace Bay. Assessed on the amount of risk, the return on investment, and the economic benefits, the Phalen mine seemed to be the safest investment with the least amount of risk, and the largest return on investment. Donkin had already been under development by this point despite having the largest amount of risk, the lowest return on

[39] Kent, *Planning on the Spot,* 101.

[40] Bickerton, *Old Wine*, 4.

investment, but the highest amount of economic benefits. Under the new strategy, Phalen would come on stream first in 1985, followed by Donkin in 1991.[42] Donkin was estimated to have 1.8 billion tonnes of coal, half of which would be recoverable. In 1982, this was the largest known reserve in North America.[43] There would be one problem with this plan: Number 26 colliery.

Number 26 was slated for closure in 1992 as the new Glace Bay colliery was brought into production. However, a fire in April of 1984 would change the course of action at Devco; Number 26 was forced to close permanently, throwing 1,200 miners out of work.[44] In a way, the fire at Number 26 was a blessing in disguise. Devco was facing increasing deficits due to its reliance on Nova Scotia Power as its primary customer, which paid below-market prices for the coal produced. Department of Regional Industrial Expansion (DRIE) minister Ed Lumley placed a moratorium on Devco's ambitious expansion plans until a new contract with Nova Scotia Power could be signed. The fire and death of one miner at Number 26 became a catalyst for Devco and Nova Scotia Power to negotiate. Once the deal was signed, DRIE lifted the moratorium within a month and approved $342 million for expansion.[45]

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[41] Cape Breton Development Corporation, *Strategic Overview 1982 – 2007 "A Plan for Corporate Growth"* September, 1982. This document was found among the papers of Rev. Andy Hogan.

[42] Ibid., 5.

[43] Ibid., 8.

[44] Bickerton, *Old Wine*, 5.

[45] Bickerton, *Nova Scotia,* 293-4.

3.6 Identity Crisis

The outgoing federal Liberal administration sent Devco a parting gift: a new Chairman of the Board named Joe Shannon. Shannon set about clearing house with layoffs in senior management and a desire to run Devco in a more business-like manner. Coal operations were to be put on a sound commercial basis. This would be accomplished through increased production, improved financial performance, management accountability, and a restoration of confidence with all the stakeholders.[46] Also, the Industrial Development Division would be scaled back.

Changing the ways Devco conducted business meant upsetting the apple cart in Cape Breton. This was played out when Devco stopped buying products from local fabrication shops, opting for external purchases. This was followed by the layoff of 480 miners. Such actions had Devco accused of being heartless and forgetting the social implications of its decisions.[47] For Cape Bretoners, Devco represented all things to all people. No one person could give an accurate answer if asked what Devco's role was. The dual role of coal producer and industrial developer was causing an identity crisis. The new leadership decided Devco would no longer be an undefined, unfocused, experiment with regional economic development. This also coincided with the paradigm shift in regional development policy after the election of the Brian Mulroney

[46] Ibid., 294.

[47] Bickerton, *Old Wine*, 6.

Conservatives in 1984. Devco was on its way to becoming a market driven coal producer, dropping the social and economic welfare role.[48]

The paradigm shift in Ottawa meant changes in the way regional economic development would be conducted. Starting in May of 1986, Enterprise Cape Breton (ECB) would be a new development agency in Cape Breton to administer the Cape Breton Investment Tax Credit and to act as a one-stop shop for DRIE programs for Cape Breton. Hence, there were two parallel agencies mandated to assist the Cape Breton economy, Devco's IDD and ECB.[49] Soon there would be a third. In June of 1987, the Mulroney government announced a new agency to alleviate the worsening economic situation in Atlantic Canada. The Atlantic Canada Opportunities Agency (ACOA) would have a budget of $1 billion over 5 years. Once the legislation was introduced, however, ACOA would assume responsibility for ECB and Devco's IDD.[50] IDD would be stripped from Devco and transformed into a separate Crown Corporation known as Enterprise Cape Breton Corporation (ECBC) responsible for industrial development on the island. Joe Shannon and Senator Allan J. MacEachen objected to this move, warning the social and economic mandate entrusted to Devco would be at stake if the IDD was removed and placed under ACOA in the form of ECBC.[51] Nonetheless, the new relationships were

[48] Bickerton, *Nova Scotia,* 294-5.

[49] Bickerton, *Old Wine*, 8.

[50] Ibid., 15-16.

[51] James Bickerton, "Looking Back Before Going Forward: Assessing the Regional Development Aspects of the Devco Closure" (Atlantic Provinces Political Studies Meeting, 2001), 8.

finalized in 1989; ECB and ECBC would overlap in the programs and services delivered, and report to ACOA, reducing Devco to a Crown owned coal producer.[52]

3.7 Profits and Phase Out

The 1990s would prove to be the "make or break" decade for Devco. In the sole role as coal producer, Devco would have to prove its profitability, or be closed. The same question that faced the collieries in 1967 faced it again over twenty years later. The difference this time was the number of people dependent on the industry for a livelihood. There were only 3,000 employees in 1990 compared to 6,600 in 1967. By 1991, Devco was breaking even and recorded a profit for five years from 1993 to 1998.[53] However, the change to being strictly a coal company meant the end of Devco being a socially - conscious employer, despite having this social purpose written into its statute.[54]

The Phalen mine went into production in the 1987 - 1988 fiscal year, two years behind schedule.[55] The Donkin mine, once viewed as the replacement for the Prince mine, was mothballed indefinitely. Circumstances would change in 1993 when Devco closed the Lingan colliery early, citing higher operating costs.[56] The same fate would befall Phalen four years later when rock falls, roof collapses, and flooding forced most of

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[52] Bickerton, *Old Wine*, 19.

[53] Cape Breton Development Corporation, *Annual Reports*, March 1990 to 2000, see Appendix E

[54] Tom Kent, *Cape Breton provides pointers for the adjustment programs required by the decline of the old economy,* Working Paper 14. (School of Policy Studies, February 2001), 6.

[55] Annual Report, Cape Breton Development Corporation, March 1988, 2.

[56] Annual Report, Cape Breton Development Corporation, March 1993, 4.

the mine to close.[57] Although Devco had achieved the goal of self-sufficiency, geology had turned the tables on the corporation. At the same time, Ottawa's sentiment on the matter had turned to apathy about the three decades-old problem.[58] The federal Liberal government of Jean Chrétien was fighting a deficit and unloading unnecessary government operations. Devco seemed to fit the divestiture criteria.

With losses mounting again, the Government of Canada announced the "winding up" of Devco in 1999.[59] The intention was to privatize Devco's profitable Prince mine and sell the other assets. Severance packages were offered to some miners while others were left high and dry. This move forced the United Mine Workers Union into a wildcat strike. Picket lines went up at the Prince mine and miners descended into the pit for a hunger strike. Blockades were set up to prevent the delivery of coal to Nova Scotia Power. With Nova Scotia Power running low on coal reserves, the possibility of no electricity was a reality. The strike forced the hand of the federal government into providing a better severance package for the miners, even though some would still be left out. As was the case with coal mining in Cape Breton, an appropriate private buyer for the Prince mine could not be found. The last shift at Prince was worked in late

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[57] Annual Report, Cape Breton Development Corporation, March 1998, 4.

[58] Kent, *Cape Breton*, 7.

[59] Bickerton, *Looking Back*, 8.

November of 2001.[60] The regional development and social welfare experiment was finally over.

3.8 Conclusion

Where labour is paid a sustenance wage and where people can be hired and fired at will is an indication of hyper-exploitation of labour. Dosco was ready to lay off 10,500 people at once. In 1967, the Montreal-based Dosco represented a metropolis capitalist enterprise engaged in the hyper-exploitation of labour and the exportation of capital from the hinterland. Added to the grievance was an already serious unemployment problem, and an inability to provide a value added product with coal. In order to prevent a grave economic situation from getting worse, Devco was created to alleviate certain social disaster. The Crown Corporation would go on to cost the federal government $1.5 billion over the next 34 years.[61] Almost immediately from start up, Devco went wrong on the economic development front. In the first phase of economic development policies, Devco committed the same economic development sin as Industrial Estates Limited did in Cape Breton: the provision of corporate welfare to unsound businesses with large payrolls. Of course with government-assisted businesses failing in Cape Breton, the private sector was reluctant to set up shop.

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[60] Cape Breton Coal, Fighting for Life Available from http://www.cbc.ca/news/indepth/capebreton/index.html Internet: accessed 31 March 2002.

[61] Ibid.

The second phase of economic development policies provided Devco a reprieve during and after the presidency of Tom Kent. Concentrating on home-grown traditional industries and entrepreneurship, some success was obtained in sectors like tourism and aquaculture, which has since flourished. These economic development benefits should not be downplayed. In particular, Devco's involvement with the University College of Cape Breton on various programs has been able to instil an entrepreneurial spirit and a sense that people will have to help themselves and make their own work, or otherwise leave the island.

On the coal side of the operation, the departure from intentions to phase out coal production into the policy of opening new mines in response to the petroleum crisis was a questionable decision, if taken only to reduce unemployment. The Donald Report clearly stated the case for Cape Breton coal in 1966. Having ignored many of the Donald Report recommendations, Devco became a means of delaying the inevitable for thirty years. As far as employment was concerned, what few jobs Devco created were far outweighed by the continual downsizing and expense incurred in modernizing the collieries. Devco regained its focus after the IDD was turned into ECBC. This permitted Devco to concentrate on profitable coal operations or the shut down of the industry (the final phase of coal policy). Geological conditions forced Devco to close the collieries in 1999. Naturally occurring events will wreak havoc on the best of plans and cannot always be controlled for.

Devco, as an instrument of the federal government, was used to coordinate multiple policy objectives. Devco was set up to provide for economic transition from the reliance on one industry to many. Devco also provided income stability, allowing life in the households of miners to proceed as close to normal as possible. Devco was also a commitment to the community, a commitment that the government had not given up on them and that new employment was on the horizon. Having commitment built confidence in the community and encouraged people to stay, seeking employment or becoming entrepreneurs in their own right. Once the oil crisis hit in the mid 1970s a new objective was added to Devco's responsibilities: the security of an energy supply. This in turn, led to province and nation building in one form or another, such as the coal fired power plants on the island.

The Devco experience reminds economic developers to concentrate on development on the home front, not to rely on external intervention alone. This means reducing the dependence on staple industries by reinvigorating these industries and introducing new ones to take up the slack from the decline of older ones. It also means human resource development, education and training in entrepreneurship. Once this is done, further encouragement through policy tools such as grants, loans, tax concessions and other supports are necessary for entrepreneurs to take root and succeed.

Having mined coal for over 300 years means a culture developed around the coal industry. Changing a culture does not happen overnight; patience for a generational shift needs to be factored in. Unfortunately, Devco departed from its intentions to phase out the industry and created a new generation of coal miners. In doing so, the coal-based economy was kept alive, delaying the inevitable, and misdirecting development dollars. Juggling economic development with continuing coal operations created a state of ambiguity and confusion that could have been avoided. Devco succeeded in providing a measure of economic development, but failed for not doing more to fulfill its primary mandate: the diversification and revitalization of Cape Breton's economy.

Chapter 4 Sydney Steel Corporation

4.1 Introduction

The purpose of this chapter is to argue that the Sydney Steel Corporation (Sysco) severely hindered the economic development of Cape Breton. With the provincial government and the people of Cape Breton stuck in a mindset that the steel plant must continue to be the economic anchor of the island's economy, billions of dollars were spent with one agenda in mind: keep steel-making alive and maximize employment, no matter what the cost. This chapter takes a historical perspective and recounts the modernization process and the search for a private sector buyer. It will also be demonstrated that Sysco's fate can be explained by various theories of regional economic development, including approaches based on geography, culture, and neo-Marxist analysis.

While the Cape Breton economy was reeling from the announcement of the closure of the Dominion Steel and Coal Company (Dosco) collieries in 1967, Premier Robert Stanfield had an impending election. With Ottawa securing the fate of Cape Breton coal with the Cape Breton Development Corporation (Devco), Stanfield sought assurances from Dosco that the Sydney Works steel plant would continue operating. With assurances in hand, Stanfield called an election for the 30th of May 1967. The people of Nova Scotia returned him to power with 40 of 46 seats. The six Liberals elected were scattered throughout the province. By September, Stanfield had been chosen federal Progressive Conservative Party leader. It did not take Dosco long to drop the ball. On October 13th, a day that became known as "Black Friday," Dosco announced plans to close Sydney Works by the end of April 1968.[1] Like the coalmines, the federal and provincial governments were called upon to save 3,000 jobs.[2] Dosco clearly behaved as profit-maximizing capitalists in the neo-Marxist metropolis-hinterland model of economic development. In this case the parent company made its profits by exploiting Cape Breton's readily-available labour and running down the infrastructure of the steel plant.

The Federal Cabinet was made aware of the closure the day before the announcement was made.[3] Ottawa made its intentions clear that it would not bail out the steel plant, leaving the community to turn to the provincial government for help.[4] Stanfield's successor, Premier Ike Smith, announced on 23 of November 1967 the Province of Nova Scotia would assume the operations of the steel plant at least until April of 1969. Premier Smith expressed his reservations about the province going into the steel business.[5] Smith also knew that acquiring the steel plant would limit the province in its attempts to do other things that should be done.[6] However, the presence of such a large industry was expected to act as a growth pole in its geographical area to attract secondary and tertiary industries to use the steel produced. This was the sentiment

[1] James P. Bickerton, *Nova Scotia, Ottawa, and the Politics of Regional Development,* The State and Economic Life. (Toronto: University of Toronto Press, 1990), 200.

[2] Joan Remple Bishop, "The Sydney Steel Plant, Government Policy and Public Ownership" (M.A. diss., McGill University, 1984), 79.

[3] National Archives of Canada, Cabinet Meeting Minutes, RG 2, Vol 6323.

[4] Bickerton, 201.

[5] Ibid., 251.

[6] Bishop, 84.

expressed by members of the Nova Scotia Legislative Assembly in the December 1967 debate on the creation of the Sydney Steel Corporation.[7]

4.2 The Options

Assuming the operation of the steel plant was a huge responsibility for the financially strapped Province of Nova Scotia. Ottawa would not integrate the steel plant into Devco's operation. Allan MacEachen, Minister of National Health and Welfare, and a Member of Parliament from Cape Breton Island, stated in the House of Commons that the Sydney steel plant was part of the growing steel industry in Canada and it would be unfair to single out one plant for public funding.[8] This was despite the fact that West Germany had decided to subsidize one of its plants.[9] MacEachen also argued that the constitutional and jurisdiction case favoured the province.[10] On a national level, there were no policy objectives that a nationalized Sydney Works could further. The national steel industry was strong, and a supply of steel did not have to be obtained for the country. However, the nationalization of the steel plant would represent a commitment to the community and the maintenance of employment. Since the provincial government is closer to the community, responsibility was pressed on them. Devco also represented a

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[7] Nova Scotia. *Debates and Proceedings of the House of Assembly.* December 1967.

[8] Bishop, 81.

[9] Nova Scotia. *Debates and Proceedings of the House of Assembly.* December 1967.

[10] Bickerton, 201.

commitment to the community, but in the case of Sydney Works, elements in Ottawa wanted to limit Ottawa's involvement through state-run enterprise.[11]

Nova Scotia could have let Dosco close the Sydney Works. To prove the social cost of closure, the province prepared a report indicating just as many secondary business workers would lose their jobs if the steel plant closed. Of these 6,000 or so newly unemployed, half would not be able to find employment and would cost Ottawa immensely with the Unemployment Insurance fund for a year. Applications to the province's welfare system would blossom. Half of the steel plant workers would need to be retrained and there would be a mass exit of 2,500 families from the island.[12] With such high social costs for an area already experiencing high unemployment, and no private investor on the horizon, the provincial government was left to defend the jobs of the steel plant workers.

Luckily for the Province of Nova Scotia, Ottawa agreed to pay two million dollars to keep the plant operating to the end of April 1968. In December 1967, the government of Ike Smith legislated into being the Sydney Steel Corporation and purchased the assets and property from Dosco. Initially valued at \$13.5 million, with Ottawa donating two million dollars and Devco acquiring the coke ovens, the cost to the province was reduced to \$4,692,000.[13] Expropriation was ruled out so as to ensure a market for Sysco products at Dosco's Contrecoeur, Quebec facility.[14] Sysco was given broad powers

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[11] Bickerton, 202-203.

[12] Bishop, 79.

[13] Ibid., 83.

> ...to do every act and exercise every power and expend every sum of money that he [Governor in Council] considers necessary or incidental to continue the operations of Sydney Works for a sufficient time to assess the long-term future of Sydney Works;...[15]

Now that the plant would operate until the long-term future could be assessed, decisions had to be made on a clear timeline of provincial operation. The province would have to decide if it would move to phase out the plant or modernize it as well as explore private sector solutions.

Under authority of the province, auditors estimated that it would take $60 million to modernize the existing operation. Some put the cost as high as $75 million in 1967.[16] Operating costs for Sysco were high, not just on the production side, but also in terms of the number of employees required and the cost associated with shipping finished products to the central Canadian market.[17] The auditors warned that modernization would not necessarily bring about the profitable operation of the plant but they did spell out that the long-term future of the plant had to be decided as soon as possible.[18] Although studies

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[14] Bishop, 82.

[15] Nova Scotia, *An Act Respecting Sydney Steel Works, The Statutes of Nova Scotia 1967 (Second Session) and 1968* (Halifax, Nova Scotia: Queen's Printer, 1968), 3.

[16] Rev. Andrew Hogan, "The Sydney Steel Crisis," *a Teach In at King's University, Halifax, Nova Scotia, 23 November 1967.*

[17] Bishop, 86.

[18] Ibid., 88.

would be carried out, action for the long-term would wait until 1973 under the Liberal government of Gerald Regan.[19]

4.3 Profits and Losses

Dosco bosses were adamant about closing the plant. In front of the Law Amendments Committee of the House, Opposition Leader Gerald Regan asked why Dosco had not asked the province to buy the plant. Parent owner Hawker-Siddley's chief council Arthur Pattilo retorted, "We had to make an economic decision and we made it."[20] Dosco President T.J. Emmert was asked why they had not requested further government aid. His response, "I have no stomach for operating industry this way."[21] Questioning on the operating losses incurred at the Sydney Steel Works under Dosco resulted in Emmert responding, "We do not reveal the financial reports of separate components within our company."[22]

Despite what Hawker-Siddeley or Dosco management may have stated, the steel plant made $1,660,000 in 1966. What forced the steel plant into the red was a $2,500,000 management fee imposed on the operation by Dosco's parent company, Hawker-Siddeley.[23] To ensure the early profitability of Sysco, management consciously

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[19] Bickerton, 251.

[20] Paul MacEwan, *Miners and Steelworkers, Labour in Cape Breton* (Toronto: Samuel Stevens Hakkert and Company, 1976), 349.

[21] Ibid.

[22] Ibid.

[23] Rev. Andrew Hogan, "The Sydney Steel Crisis," *a Teach In at King's University, Halifax, Nova Scotia, 23 November 1967.*

decided to maximize production and profits at the expense of the plant's assets.[24] To assist in the profitability of the plant, municipal taxes for the city of Sydney were placed on a five-year, declining agreement. The steel workers also agreed to continue working under their old contract until 1972, thereby providing cheap labour and a production record with over a million tons of steel in 1969.[25] Devco was subsidizing Sysco by operating the coke ovens and supplying coke to the steel plant below production cost.[26] This was combined with an upswing in the market for steel and an agreement with Sidbec to purchase steel for its mill in Quebec.[27] In fact, Sysco made money for the first four years of provincial ownership under these hidden subsidies.[28] The good times were short as there were no long run objectives established, or accountability imposed on the Crown Corporation. The government-appointed management was left in complete control of the operation.[29] Labour strife in 1972 ended the wage subsidization,[30] and the sale of the coke ovens from Devco to Sysco in 1974 for $10 million added more operating costs.[31]

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[24] Bickerton, 251.

[25] Bishop, 106.

[26] Ibid., 107.

[27] Bickerton, 251.

[28] Bishop, 112.

[29] Ibid., 92.

[30] MacEwan, 350.

[31] *The Chronicle-Herald* (Halifax), 28 February 2002.

4.4 Modernization, Part 1

Although the intentions for modernization at the Sydney Steel Corporation may have been genuine, the first attempt proved to be a fiasco. Sysco management moved to close the rod and nail mills in 1969[32] and attempted to close the bar mill in 1972.[33] Such actions limited the product line of Sysco, ensuring a drop in revenue and attractiveness to any future buyers, if any.

Premier Smith announced a $94 million, self-financing, modernization plan in 1970, but action on this plan did not occur until Premier Regan's first term in 1971.[34] The plan omitted the critical replacement of the blast furnaces.[35] In 1972, No. 1 blast furnace broke, cutting production in half. Another $50 million was authorized to purchase a new blast furnace.[36] So began the long march into debt for Sydney Steel with high interest payments.

Despite a provincial modernization plan, Sysco management decided to enact its own modernization plan. This meant replacing what was most urgently needed.[37] The worst decision was to delay the replacement of the open-hearth furnaces with proven basic oxygen furnaces. Sysco's plan meant keeping the old open-hearth furnaces and

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[32] Bishop, 96.

[33] Ibid., 101.

[34] Ibid., 114.

[35] Ibid., 115.

[36] Ibid., 111 – 116.

[37] Ibid., 118.

modifying them for use in an unproven submerged injection technique developed by Sysco in 1971.[38] Although an initial cost saver, this move bought time before the open-hearth furnaces had to be replaced, thereby increasing the cost down the road. The Sysco plan also saw the installation of continuous casting equipment, an oxygen plant, and vacuum degaussing equipment. Unfortunately, this equipment was obsolete without oxygen furnaces.[39] Monies allocated towards the oxygen furnaces had been spent instead on repairs to other equipment and training of personnel. Mismanagement reigned and accountability did not exist. Throughout this, sales were dropping, not because of markets, but due to a lack of production.[40]

It would not be until 1973 that a study into the future of steel making in the province would be conducted.[41] Given that the first modernization had failed, this study by Davy Ashmore recommended a two-phase approach to modernization, costing a total of $715 million.[42] Sysco could not raise such a large amount of money. All heads turned to Halifax for financing, which in turn, looked to Ottawa. The proposed solution was a Department of Regional Economic Expansion mega-project known as Cansteel. A new modern steel plant would be build in Cape Breton on a new site with deep-water port access and designed to produce four million tons of semi-finished steel for international

[38] Ibid., 120.

[39] Ibid., 121.

[40] Ibid., 125.

[41] Bickerton, 251.

[42] Bishop, 126.

export. This was based on predictions of a worldwide expanding steel market.[43] Cracks in the plan soon surfaced, however, with a life expectancy on Sysco put at five years in 1975, and eight years to first production from Cansteel. A downturn in the market for steel also occurred, thereby ending all talks on Cansteel, and renewing calls for investment into Sysco.[44]

4.5 Modernization, Part 2

The election of Progressive Conservative Premier John Buchanan in 1978 breathed new life into Sysco. By this time, Sysco was losing $1 million a week and one of two things was going to close the plant: equipment failure or financial ruin.[45] Over $100 million was being covered by operating grants from the province since 1975 to this point.[46] An early agreement in 1977 between DREE and the Nova Scotia government provided $19.5 million for Sysco, but according to Sysco President of the day, Tom Kent, this was a delay or holding action at best.[47] Three new studies were conducted on Sysco and all three dissented on a plan of action. Some wanted the complete conversion to the oxygen furnaces; others wanted to convert to an electric arc furnace.

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[43] Bickerton, 252.

[44] Bishop, 132.

[45] Bickerton, 295.

[46] Bishop, 133.

[47] Bickerton, 296.

The oxygen furnace strategy would employ the most people and prove to be the most costly. It would require coke from the coke ovens that, at this time, had an estimated five-year life span.[48] The first signs of serious environmental hazard with the coke ovens and tar ponds also emerged in this period.[49]

The electric arc furnace would mean downsizing from 3,000 to 900 workers, the end of the notorious coke ovens, and a smaller but manageable production of steel. In effect, Sysco would become a mini-mill ready for sale to an investor. The electric arc furnace meant Sysco would no longer be a means of economic development, but a tool for the protection of industry in Cape Breton.[50]

The 1980 federal election campaign had the federal parties on side and ready to invest in Sysco. Meanwhile, the wrangling continued with cabinet and bureaucrats at both levels on the proper plan of action. The $350 million oxygen furnace and modernization plan went ahead as the wrangling continued. Added on to this was a $40 million blast furnace.[51] Sysco had the equipment for an integrated steel works, but was only producing railway rails for the Canadian National Railways and Third World customers with only 1,200 employees.

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[48] *The Chronicle-Herald* (Halifax), 28 February 2002.

[49] *The Chronicle-Herald* (Halifax), 28 February 2002.

[50] Bickerton, 296 – 297.

[51] Bickerton, 297.

4.6 Last Chance for Hope

The next part of the Sysco saga occurs in 1987 with the decision to abandon integrated steel-making and go with an electric arc furnace "mini-mill" fueled by scrap steel. Within two years, the coke ovens and the open-hearth oxygen furnaces were closed. By this point, Sysco had cut so many products from its operation in its search for profitability, that it was essentially a specialist in the production of railway rails. Only 700 workers were employed at this point (Appendix G shows the employment levels from 1967 to 2000).[52] Finally modernized, but radically downsized, 22 years after acquiring the operation, Premier John Buchanan decided to write off Sysco's $785 million debt.[53]

Before long, private investors came to Nova Scotia looking to buy Sysco. The Japanese had been sizing it up, as had Kholberg and Co. in New York. A deal was reached with the Chinese firm Minmetals in 1993 to jointly operate the plant, and assume operation of Sysco in the fall of 1997. Minmetals pulled out of the deal to purchase in 1996. Talks continued with Minmetals through 1997, but to no avail. Then the Mexican Grupo Acerero Del Norte came looking to buy Sysco. By this time, Liberal Premier John Savage had paid off an additional $279 million in Sysco debt to make the mill more

[52] David Johnson, "Industrial Policy and the 'New Economy': Cape Breton Confronts an Uncertain Future," *Proceedings of the Cape Breton in Transition Conference, October 20-21, 1995*, 3.

[53] *The Chronicle-Herald* (Halifax), 28 February 2002.

attractive.[54] A memorandum of understanding with the Mexicans was signed, but this deal fell through later in 1998.[55]

In 1999, Progressive Conservative Leader John Hamm vowed to close Sydney Steel if a buyer was not found before the end of 1999. In a provincial election later that summer, Hamm's Conservatives replaced the Liberal minority government of Russell MacLellan, forming a majority government (and reducing the Liberals to third party status in Nova Scotia). The only constituency on Cape Breton Island to elect a Conservative was in rural western Cape Breton, far removed from the Sysco fiasco.[56]

A new attempt to purchase Sysco came from an Ohio firm called Reserve Group. However, once Reserve Group saw the finances, it declared Sysco was nowhere near break even and cancelled plans to visit in October of 1999.[57] The next potential buyer was to be Rail Associates from Michigan. They expressed an interest around New Year's Eve 1999. The Conservatives continued the operation of Sysco into 2000, despite a promise to the contrary.[58] When the deal with Rail Associates failed, the Swiss firm Duferco came calling. Just when a deal seemed imminent, a pension dispute with labour at Sysco ruffled feathers at Duferco.[59] Then the world market price for steel took a

[54] *The Chronicle-Herald* (Halifax), 12 July 1998.

[55] A list of funding announcements and elections is contained in Appendix F.

[56] Election Statistics: Elections from Confederation and on [statistics on-line]; Available from http://www.gov.ns.ca/elo/elections/ele_summary.pdf; Internet: accessed 5 December 2001.

[57] *The Chronicle-Herald* (Halifax), 1 November 1999.

[58] *Canadian Press Newswire*, 4 January 2000.

[59] *The Chronicle-Herald* (Halifax), 31 January 2001.

nosedive, and a deal for cheap electricity from NS Power did not materialize.[60] Duferco called off the deal in January of 2001.[61] Despite all these problems with trying to sell Sysco, other firms continued to show interest in the mill.

Premier Hamm had had enough of Sysco by now. Already a year overdue in his promise, orders to commence the liquidation went out. The slow death of Sysco was finally complete with 200 workers let go in April 2001.[62] The steel plant continued to be in liquidation as of May 2003 with steel making equipment still for sale and much of the plant reduced to rubble. The total costs to the taxpayers for the 34-year Crown Corporation has been estimated at over 3.2 billion dollars.[63]

4.7 Conclusion

The publically-owned Sydney Steel Corporation, much like Devco, picked up the pieces left by metropolis capitalists who drained the hinterland of capital, exploited the local labour force, and failed to re-invest in the industrial infrastructure. Initially Sysco repeated this pattern in a short-term bid for profitability, draining capital at the expense of the plant's assets by running the plant into the ground. Sysco then ended value-added production lines, further limiting the potential of the steel-making operation. While Sysco was contracting, steel production was expanding in the country at Contrecoeur, Quebec and Hamilton, Ontario. Hence, as anticipated by neo-Marxist theory, wealth and

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[60] *Canadian Press Newswire*, 3 April 2001.

[61] *Halifax Daily News*, 1 March 2001.

[62] Parker Barss-Donham, "Sysco plant euthanasia overdue." *Canadian Dimension* 35, no. 2 (March/April 2001): 7.

poverty were co-existing in Canada, with growing wealth in the metropolis (at other steel plant locations) and increasing poverty in the hinterland (at Sysco). In addition, the geographical location of the steel plant posed further challenges for Sysco in the form of distance to the central Canadian market. Economic development, in this case, relied directly and heavily on state intervention, through Sysco. All subsequent attempts to engage the intervening variable, the private sector, failed.

Sysco never fostered real economic development in Cape Breton after it was acquired in 1967, despite hopes it would act as a growth pole by generating related industrial activity. Rather, Sysco raised hope in the community that government would solve the steel plant woes (a political objective of the use of Crown Corporations). In retrospect, Sysco represents a cancer that attracted available development money from both levels of government and provided false hope for the citizens of Cape Breton. Were this money spent on core development infrastructure like schools, highways, and entrepreneurial development, the long-term impact would have been dramatically different.

The Sysco balance sheet does not lie, and prospective buyers noted Sysco's non-viability; hence, the numerous failed attempts to attract a buyer. The exploitation of labour and the thirty years of uncertainty about the plant bred a suspicious labour movement, further complicating the sale of the plant. Much like the coal industry, a labourist culture had developed at the steel plant that takes a generation shift to change.

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[63] *The Chronicle-Herald* (Halifax), 12 July 1998.

Blatant mismanagement and a lack of accountability were the hallmarks of early Sysco management. The 1980s choice on modernization using the oxygen furnace indicates the perversion of good sound business decisions with political and bureaucratic agendas to save jobs. Nine years after the oxygen furnace decision, the furnace was closed in favour of a different technology employing a much smaller workforce.

Political considerations got in the way of good business and economic development practices at Sysco. With this in mind, and $3.2 billion later, Sysco is a prime example of what not to do when trying to restructure an economy dependent upon a declining industry.

Chapter 5 Enterprise Cape Breton Corporation

5.1 Introduction

The rise of the federal Progressive Conservative government of Brian Mulroney meant a change in the regional economic development paradigm. Building on the experiences gained from past regional economic development experiments, this chapter will argue that the Enterprise Cape Breton Corporation (ECBC) has brought about significant benefits for the Cape Breton economy. This was done by making a commitment to the community, taking a leadership role, and coordinating multiple policy instruments in light of the failure of an agency to do so.

With the arrival of Joe Shannon at the Cape Breton Development Corporation (Devco), a new regional development agency was established in 1985 as an experiment to administer two new Department of Regional Industrial Expansion (DRIE) programs: the Cape Breton Investment Tax Credit and the Cape Breton Topping-Up Assistance program. This agency would be known as Enterprise Cape Breton (ECB).[1] Almost immediately, ECB began making the same mistakes that Devco's Industrial Development Division (IDD) had made early on: sponsoring footloose industries and fly by night operations.

ECB was an initial step by the new government to solve the economic development problem, but changes would soon occur. DRIE was being viewed as an

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[1] James Bickerton, "Old Wine into New Bottles? Federal Development Agencies in Cape Breton, 1984 – 1989," *to the Annual Meeting of the 'Atlantic Provinces Political Studies Association', 20-21 October 1990*, 15-16. Please note, ECB and ECBC are not the same bodies. ECB was an agency with ministerial control, ECBC was a Crown Corporation at arms length from the Minister.

inefficient, uneconomic organization that overlooked the peripheral provinces and concentrated on Ontario and Quebec industrial concerns. This caused the federal Progressive Conservative government to dismantle DRIE in favor of the creation of regional development agencies in Atlantic Canada and the West. The Atlantic Canada Opportunities Agency (ACOA) was established in 1987 with a mandate to stress entrepreneurial development. A new Crown Corporation also arrived, Enterprise Cape Breton Corporation (ECBC). Reporting to ACOA's President, ECBC would take over Devco's IDD and responsibility to promote industrial development on the island, thereby broadening the economic base of Cape Breton. ECB would work in cooperation with ECBC.[2]

The redefinition of Devco as a coal producer and the creation of ECBC to look after the industrial development of the island was a contentious issue in Cape Breton. Devco bosses and Cape Breton politicians expressed their concern on the issue in front of the Parliamentary committee devised to examine the new legislation. The separation of the mandates, however, would provide clear definitions of each other's roles and responsibilities.[3] ECBC would represent a commitment to the community to diversify the economy, and Devco would be a commitment to the community to ensure employment in the traditional coal industry continued.

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[2] David Johnson, "Industrial Policy and the 'New Economy': Cape Breton Confronts an Uncertain Future," *Proceedings of the Cape Breton in Transition Conference, October 20-21, 1995*, 7.

[3] Bickerton, 18.

5.2 The Difference

Federal initiatives for region-wide economic development through the Department of Regional Economic Expansion (DREE, 1969-1981), and later by DRIE (1981-1987), were viewed as failures for Atlantic Canada. Over the years, funding was often used not to alleviate regional economic disparity, but to prop up Ontario and Quebec industry.[4] In 1986, Prime Minister Mulroney sought advice from Université de Moncton specialist Donald Savoie on what to do for Atlantic Canadian economic development. Savoie advocated the better use of funds and programs through eliminating programs that discriminated against Atlantic Canada, assisting small business in the region with marketing as well as research and development efforts, and having an organization that would not operate in a top-down bureaucratic fashion.[5] The result was the creation of the ACOA. To address the Cape Breton's particular economic crisis, ECBC was set up, with a mandate

> *...to promote and assist, either alone or in conjunction with any person or the Government of Canada or 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 industry and to broaden the base of the economy of Cape Breton Island.*[6]

Other responsibilities would be added later. Unlike previous Crown Corporations on Cape Breton Island (IEL, Sysco, Devco), decisions on what plan of action to take would

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[4] Bickerton, 15-18.

[5] Donald J. Savoie, *Rethinking Canada's Regional Development Policy: An Atlantic Perspective,* Maritime Series Monographs (Institut canadien de recherche sur le développement régional / The Canadian Institute for Research on Regional Development, 1997), 16-17.

[6] Enterprise Cape Breton Corporation Act (R.S. 1985, c.41 (4th Supp.)).

not necessarily come from distantly-located politicians and bureaucrats. There would be a role for the local community to play in its own future.

Mr. Dennis Wallace, former President of ACOA and CEO of ECBC, concurs with the assessment of a largely community based strategy with ECBC. ECBC was designed such that Cape Bretoners could use the Crown Corporation to mobilize their communities in the economic development effort. ECBC also could partner with the Province of Nova Scotia on larger strategies. However, with regards to the Nova Scotia offshore oil and gas industry, which involves large multinational corporations, ECBC took a top down approach in promoting development on the island. One feature of this sectoral strategy was ECBC funding for oil and gas training at the University College of Cape Breton.[7] The ECBC model provides the necessary flexibility and autonomy from political and bureaucratic elites to more effectively exploit and capitalize on opportunities for local economic development.

5.3 Growing Pains

At ACOA's outset, ECB (1985) and ECBC (1987) would report to ACOA. Having two separate agencies with similar names and overlapping mandates caused confusion among business and the ordinary person. Aside from this, ECB was proving it could repeat the regrettable history of regional development in regards to project funding. In its first five years of operation, ECB assisted 356 firms to the tune of $200 million. A

[7] Mr. Dennis Wallace, President of the Atlantic Canada Opportunities Agency and Chief Executive Officer of the Enterprise Cape Breton Corporation, interview by author 21 December 2001, Moncton, New Brunswick.

study commissioned by the federal government (the Brait Report) found that the best project success was among the small-scale initiatives; of 52 large-scale projects, only 29% succeeded. The Brait Report also criticized the lack of a regional development plan, poor management, and questionable decisions. If a silver lining could be found in the report, it was the fact 1,800 jobs were created out of a possible 3,700.[8] To correct the problem with ECB and eliminate the confusion with ECBC, responsibilities for ECB's programs were assumed by ECBC in 1991.[9]

ECBC had growing pains of its own. The early years of operation saw ECBC continue with the promotion and development of staple industries: agriculture, fishery, forestry, tourism and crafts.[10] These were ideas imported from the development vision at Devco's IDD dating back to the days of Tom Kent in the 1970s. In 1991, the federal Auditor General criticized ECBC for not paying attention to ACOA guidelines on commercial viability assessments and failing to conduct market and feasibility studies on proposals.[11]

To make matters worse, the federal government attempted to merge ECBC into ACOA and privatize Devco through an Omnibus Bill. This bill would have made changes to numerous federal programs that were completely unrelated. Cape Breton Liberal Members of Parliament David Dingwall and Russell MacLellan naturally

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[8] Johnson, 8.

[9] Johnson, 9.

[10] Johnson, 9.

[11] Johnson, 10.

protested this action. When the proposed legislation arrived in the Senate, the two Cape Breton Liberal Senators, Al Graham and Allan J. MacEachen, also opposed the bill. It would be parts of the bill unrelated to ECBC and Devco that would garner the necessary opposition from the Senators to defeat the bill on a tie vote.[12]

5.4 Employment

From 1990 to 2001, ECBC estimates that over 6,000 jobs were created in Cape Breton through its efforts.[13] When these numbers are compared to Sysco employment at given points in time, the figures show that ECBC (if its claims are valid) had a role in creating twice as many jobs as Sysco had in 1970, and ten times Sysco's diminished total in 1989. In comparison to Devco, ECBC employment initiatives almost equaled employment levels at the coal producer in 1968, and about three times the level of employment at Devco in 1990 (see Appendix H).

All development and incentives come at a cost however. Figures obtained from ACOA indicate that close to $200 million was allocated by the federal government to ECBC over 13 years. Of that, $120 million was spent on assistance to business, making the average cost per job created roughly $20,000.[14] The remaining funds went into

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[12] Johnson, 11. In the Canadian Senate, votes on legislation that end in a tie are declared defeated by the Speaker.

[13] Summary Report, produced for the President of the Atlantic Canada Opportunities Agency and Chief Executive Officer of the Enterprise Cape Breton Corporation, 13 December 2001.

[14] Summary Report, produced for the President of the Atlantic Canada Opportunities Agency and Chief Executive Officer of the Enterprise Cape Breton Corporation, 13 December 2001.

programs to market the island as a place for business and tourism. Infrastructure spending in the tourism sector, trade development, and youth initiatives also occurred.

ECBC continued to be involved with the development of the resource sectors of forestry, agriculture, and the fishery. As important as investment and re-development of resource industries is, repositioning and attracting new industry to Cape Breton is key to the island's economic well being. ECBC has targeted the east coast oil and gas industry as a potential new employer for the area. The Sydney area has a large deep-water port with easy road and rail access into the Sydport industrial park where the fabrication and servicing of oilrigs and ships could easily occur. The port also lies in close proximity to the offshore oil and gas deposits in the Laurentian sub-basin and the Sable Offshore Natural Gas Project.[15] This is coupled with the oil refinery and petrochemical plant at Point Tupper, near Port Hawkesbury and the Canso Causeway.

When a sector-by-sector breakdown is done, employment is greatest in the service sector, which currently employs over 70% of the workforce in Cape Breton.[16] This includes the tourism, culture, and entertainment industry, as well as knowledge-based industries. In fact, technical support call centres represent over a third of the new employment in Cape Breton fostered by ECBC.

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[15] Annual Report, Enterprise Cape Breton Corporation, 1998-1999

[16] Ken Montgomery, Director General of Development, and D.A. Landry, Director of Communications & Advisory to the Vice President, Enterprise Cape Breton Corporation, interview by author, 18 December 2001, Sydney, Nova Scotia.

5.5 Towards a Knowledge-based Economy

ECBC set out early in its existence to develop local high-tech firms and attract others to Cape Breton.[17] In the 1970s, Devco was involved in merging the community college, a technology institute, and St. Francis Xavier College into the unique education and training powerhouse known as the University College of Cape Breton (UCCB).[18] Building on this heritage, numerous Memorandums of Understanding were signed between ECBC and UCCB to encourage growth in the knowledge-based sectors and to provide the education and training the highly skilled workers required. Firms now partner with UCCB to use laboratories for research and development. The collaboration between ECBC and UCCB recognizes that the most important resource for the island is an educated and skilled human resource.[19] On the home front, an incubator facility known as MEDIAfusion was started with 20 small firms initially, with a steadily increasing number of firms joining to develop high tech and multimedia tools for world export.[20] Two more anchor facilities would join MEDIAfusion in 1999, Silicon Island Art and Innovation Centre, and the Technology Enterprise Centre at UCCB.[21]

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[17] Annual Report, Enterprise Cape Breton Corporation, 1989, 7.

[18] Tom Kent, *The Cape Breton Development Corporation: One Canadian Case of Planning on the Spot*, in *Canadians and Regional Development at Home and in the Third World*, ed. Benjamin Higgins and Donald Savoie, (Sackville: Tribune Press, 1988), 113.

[19] Annual Report, Enterprise Cape Breton Corporation, 1990-1991, 9.

[20] Annual Report, Enterprise Cape Breton Corporation, 1994, 8-9.

[21] Annual Report, Enterprise Cape Breton Corporation, 1998-1999, 10.

ECBC's efforts in developing knowledge industries resulted in the establishment of technical support call centers. These large employers provide customer service and support for various high tech products worldwide. In March 2000, Prime Minister Jean Chrétien came to town to announce the opening of an EDS Canada call centre employing over 900 people in the Sydney area. Arriving in time to cushion the closure of Devco's operations, call centres provide a very safe, clean, and healthy work environment when compared to the coal mines. EDS would receive close to $13 million in assistance from ECBC as well as $8.4 million from the Province of Nova Scotia in the form of payroll rebates.[22] Some people are concerned, however, about the long-term reliability of employment with these multi-national employers. Cape Breton had a negative experience with high-tech firms in the 1970s with General Instruments of Canada Limited. When government funding expired, and no new money was made available, General Instruments of Canada Limited closed shop and moved south of the border.[23]

Notwithstanding the skepticism, there is a growing confidence in Cape Breton about the long-term future of the area's economy. Once considered a dying town, Glace Bay welcomed Stream International Inc. in August of 2001. Employing 900 people at its technical support call centre, Stream received $10 million from Human Resource Development Canada as well as $2 million[24] from the Cape Breton Growth Fund[25].

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[22] EDS Canada to Create 900 Jobs in Sydney, Nova Scotia [Press Release on-line]; available from http://www.ecbc.ca/e/newsreleases/20000331.asp Internet: accessed 7 April 2002.

[23] See Chapter 2 on Industrial Estates Limited.

[24] Stream to Establish 900 Job Centre at Glace Bay [Press Release on-line]; available from http://www.ecbc.ca/e/newsreleases/20010810.asp Internet: accessed 7 April 2002.

Community confidence grew such that the large supermarket chains Sobeys and Loblaws re-invested in the town by renovating and expanding their supermarkets. As well, Port Hawkesbury has been the site for another call centre. EDS Canada became the largest employer in Cape Breton when it decided to add 600 more jobs to its Cape Breton operations, 300 to the Sydney centre, and 300 in Port Hawkesbury, with $13 million in assistance from ECBC and the Cape Breton Growth Fund.[26]

5.6 Conclusion

ECBC, as the policy tool of the government, has taken multiple policy instruments and provided success where others have failed. These include tax incentives, grants, loans, financial underwriting, program delivery, entrepreneurial assistance, and other forms of support. The range of assistance is due to the coupling of ACOA's programs and service delivery with ECBC. The other Crown Corporations in this study did not even come close to this number of policy instruments at their disposal to foster economic development.

The ECBC experience can be explained in part by the lessons learned at IEL and Devco's IDD about businesses that operate in keeping with the metropolis-hinterland model. These businesses started operations in Cape Breton only to vacate once the public

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[25] The Cape Breton Growth Fund Corporation (CBGF) was established 25 August 2000 to dole out $61 million in federal and $12 million in provincial funding to offset the impact of the closure of Devco's coal operations. CBGF reports to ECBC. Available on-line: http://www.tbs-sct.gc.ca/report/CROWN/01/cc-se-01-1_e.html

subsidies were exhausted. They did not create long lasting stable employment. ECBC recognized this kind of parasitic drain on capital and resources and moved to stem the outflow by encouraging the development of value-added industries with a wide range of policy instruments. ECBC also recognized the need for developing Cape Breton's human resources potential and entered into various agreements with UCCB to develop these human resources and to provide the critical infrastructure needed for employment training, as well as research and development activities.

Stable, lasting employment is the goal of economic development policy. Traditional seasonal industries (fishery, forestry, and agriculture) will continue to play a role in the economy, but the tourism and hospitality industry likely will be the major player of these former economic mainstays. The oil and gas sector is a long-term investment and will take some time to develop. It is also a non-renewable natural resource industry and will go the way of coal in the distant future.

Had knowledge-based industry been targeted earlier, Cape Breton could have been further down the road to recovery than it is today. The important point is that the potential of this sector and the skilled people it requires has been recognized and the industry has been given a footing. The true test of this footing will be if the island can recover from the closure of its new, large call centres. The continued partnering of UCCB, industry, and government should provide a unique competitive advantage for the island in the future. ECBC has made a significant shift in approach to meeting the

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[26] EDS Canada Announces 600 Jobs [Press Release on-line]; available from http://www.ecbc.ca/e/newsreleases/20020314.asp Internet: accessed 7 April 2002.

challenge of improving the Cape Breton economy, and the results so far amount to at least a modest success, with reasonable prospects for further success in the future.

Chapter 6 Conclusion

Throughout this examination, evidence has been presented that demonstrates both successes and failures for the use of Crown Corporations in Cape Breton to foster economic development. Although all four Crown Corporations produced economic benefits for Cape Bretoners, some have been more successful than others in advancing the Island's long-term economic future.

Robert Stanfield's Industrial Estates Limited held much promise for the future. Mandated to diversify the economy and reduce unemployment, IEL pandered to the capitalists who wished to exploit labour and extract capital, but little was noted in the use of staple industries. IEL also attempted to introduce new keystone industries with Cape Breton initiatives like Deuterium of Canada Limited (heavy water) and Canadian Motor Industries (Toyota), as well as mainland Nova Scotia initiatives like Clairetone electronics and Michelin tires. Unfortunately, the industries IEL attracted to Cape Breton have since departed or faltered leaving no long-term benefits to the community. Even though Cape Breton received more than its fair share of investment funding from IEL, the number of start-ups was small compared to smaller population centres like Pictou and Lunenburg Counties. With the departure of Frank Sobey as President of IEL and the election of the Liberals under the leadership of Gerald Regan, IEL shifted to favouring home-grown, small and medium sized enterprises as well as entrepreneurship. Although this is a sound long-term strategy, voters and politicians would prefer immediate results, tied to large employment-creation figures. Lessons were learned from the dangers of subsidizing large capital and payroll intensive operations, notably the failed experiments with General Instruments of Canada Ltd. and Deuterium of Canada Ltd. The heavy water fiasco also shows the dangers of gambling with the public purse on unproven design modifications to a known industrial process. IEL-sponsored development produced similar benefits for Cape Breton that other parts of Nova Scotia experienced. Nova Scotia's Department of Economic Development has assumed control of Industrial Estates Limited's activities.

The problems with the Cape Breton Development Corporation (Devco) began at the start of its operations. The foreign-owned Dosco had exploited the island's labour and resources, and extracted capital from the island with little provision for secondary or tertiary industry. The people were marginalized with a severe dependence on the coal industry, which fostered a predominantly labourist culture.

Devco became a symbol to the community and breathed hope into the lives of Cape Bretoners. Devco would provide both income stability and the economic diversification that was needed. With this mandated social conscience, Devco attempted early on to attract large employers with little success and significant financial losses. This led to Tom Kent's innovative, home grown, long-term strategy to set Cape Breton back on its feet through small business development (such as tourism and crafts), and the development of the resource-based staple industries. Meanwhile, Devco's social conscience also was evident in the operation of the coal sector. Instead of heading towards a phase out by 1981, new mines and employment arrived, keeping at bay the unknowns related to the complete shutdown of the industry. The energy crisis, and the need for a secure supply of cheap energy, reinforced the operation of the collieries, though at a loss to the taxpayer.

The change in the federal government in 1984 brought forth a changing policy environment. Coupled with the waning of the energy crisis, the gradual phase out of the coal industry resumed. Enterprise Cape Breton Corporation was spun out of Devco's Industrial Development Division and subsumed under ACOA in 1988. With Devco left as a coal producer, the social conscience mandate could then be shifted to ECBC, which took over Devco's economic development role. Profitable years for Devco were ahead in the 1990s, but unfortunate geology would erode the profitability of coal operations, leading to the final closure of Devco in 2001, after a long decline in employment. Devco's total cost to the taxpayers of Canada was over $1.5 billion for its 34-year life span.

Sydney Steel would prove to be the most costly and fruitless venture to the taxpayers. With no other employment in sight, though there were hopes that Devco would eventually solve that problem, Sysco was kept operating to prevent an economic catastrophe, and to keep Nova Scotia politicians elected. Sysco was born out of the necessity to clean up the mess left by Dosco. Like the coalmines, the steel mill was a symbol to the community and contributed to the labourist culture of the island. It was intended that Sysco would provide the economic stability and confidence needed during a phase out or sale of the steel-making operations. Unfortunately, geographical and global market factors were working against the steel plant, coupled with homegrown problems.

Profits were made initially by the new Crown Corporation at the physical expense of the plant. When modernization was finally forced upon the plant, management proceeded by cutting revenue-generating products, and purchasing equipment that could not be used. This caused incompatibility of the equipment, breakdowns, delays in product delivery, and a loss of profit. Money was tight, but made available at election time. In the 1980s, the politicians were still debating jobs versus profitability in a final modernization attempt. Employment gradually declined after the closure of the notorious coke ovens (which are to blame for much of the pollution in the area) and the conversion to an electric arc furnace. Sysco had many courtiers once it was unburdened of its debt (by taxpayers) and turned into a primary rail producer, but ultimately no buyers. The money kept flowing into Sysco from the provincial coffers until the 1999 election of John Hamm who openly ran on a promise to end the ongoing Sysco fiasco. Over 34 years, Sysco cost the Nova Scotia taxpayer (and to a lesser extent, the Canadian taxpayer) over $3 billion.

The silver lining in all of these Crown Corporations seems to be Enterprise Cape Breton Corporation. ECBC was born out of Devco's IDD and the start of ACOA, and later took on Enterprise Cape Breton's (ECB) responsibilities. Although there were some initial growing pains, ECBC pursued a strategy of promoting small and medium sized business and continuing to develop the entrepreneurial leadership Cape Breton requires. The global high-tech sector and other information industries have been actively sought by ECBC as one means of diversifying the island's economy. The petroleum industry has been another, though has yet to return substantial benefits. The biggest success has been customer service jobs through technical support call centres, now the largest sector of employment in Cape Breton. As well, Through various partnering agreements with UCCB, ECBC has opened up government facilities for the use of industry in research and development. This has created opportunities for Cape Breton's youth to actively train and work in Cape Breton. With the decline of the steel and coal industries, human resource development has become key to the economic development future, and ECBC is providing leadership on that front. ECBC has a greater diversity of resources, more flexibility, and less political interference than Devco ever did. As such, ECBC should stay the economic development course that it has set and continue to implement the policy objective of creating a new, long-term economic base for Cape Breton. Current initiatives may be twenty years late in delivery, but it took the phase-out of the old resource industries to finally confirm the current path of economic development.

Brian Crowley of the Atlantic Institute for Market Studies believes the end of steel and coal has been the catalyst to turn Cape Breton around.[1] Innovation was being stifled by the government funding of steel and coal and the continued false hope of better days for theses industries "just around the corner". People are now being forced to make their own work. Labour force participation is up 4% since 1993, when there were still 3,000 people in the collieries. Even though unemployment remains at the high figure of 17% across the island, the Port Hawkesbury area on the Strait of Canso has an unemployment rate of only 2%.[2] New construction, a petrochemical facility, an

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[1] *National Post* (Toronto), 8 February 2002.

[2] *National Post* (Toronto), 8 February 2002.

expansion at the pulp and paper mill, and the arrival of new call centre jobs are fueling this area's economy.

Despite the rise in the number of people employed, recent figures indicate that the drop in the unemployment numbers may be due in part to out-migration. A Human Resources Development Canada Labour Market Review shows that the labour force has actually declined by 2,625 people between 1995 and 2000. In 1997-98 alone, 2,021 people left Cape Breton. The numbers are very high among the youth of the island with 50% of those under age 25 leaving.[3]

As demonstrated throughout this examination, geographical theories on economic development are a factor in Cape Breton on many fronts. Firstly, there is the distance to the central Canadian market place and the cost of shipping a global commodity. This played an important part in the demise of Sydney Steel. Secondly, there is the staples theory. Cape Breton was limited to the fishery, forestry, agriculture, and coal mining; staple industries that were tied to Cape Breton's geography and geology. Since these industries were declining, Cape Breton fell behind on the economic development front. Geology played in heavily on the coal resource, as the coal seams were submarine and subterranean making the coal difficult to access. Later on, the coal fell prey to this geology, creating an expensive and unsafe work environment, and ultimately ending the operation. Thirdly, when growth pole theory was put into practice by the federal government, Port Hawkesbury and the Strait of Canso were the only growth poles in Cape Breton recognized by Ottawa. The Sydney-Glace Bay area, where most Cape

Bretoners lived and worked, was ignored during a time of economic upheaval. Another factor of Cape Breton's economic development lies with the culture of the people involved. Since the people of Cape Breton were described as lacking entrepreneurship, initiative, and resisting change, human resource development strategies had to be employed to educate and train the Cape Bretoners for other work and to take on the entrepreneurial role of helping themselves. This culture was shaped by the marginalized steel and coal workforce, and the labour relations of those industries.

This leads us to the neo-Marxist theory of economic development. The underdevelopment of the island occurred with the exploitation of surplus labour. This was noted under Dosco's regime at the collieries and the steel plant. Underdevelopment continued with the draining of capital and the failure to add value to the products produced. Dosco failed to take the profits and reinvest them into the coal and steel operations, running the mines and steel plant down. Similarly, Sysco eliminated its value-added production lines in an attempt to save costs on repairs and replacing the equipment, thereby cutting its revenue generation. IEL brought General Instruments of Canada and Canadian Motor Industries to Cape Breton to take advantage of the surplus labour. These firms packed up and left once government subsidization ended.

When examining the variables defined at the start of this investigation, there is definitely more than one way for a Crown Corporation to create economic development (see Appendix A). The advantages of Crown Corporations to foster economic development depend greatly on the policy instruments granted to it by government. In

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[3] Labour Market Review, 2000/2001 Cape Breton Island, Human Resources Development Canada, 3.

the case of ECBC, a wide variety of policy instruments were available (taxation, grants, programs). This is placed in stark contrast to Sysco, which had very few policy instruments (provision of wages) at its disposal. Along the way to the objective of economic development, secondary objectives and advantages are realized. Whether these advantages are a commitment to the community, separation from the political masters, the ability to operate at a loss, or the provision of income stability depends greatly on the policy instruments (or lack thereof) given to the development agencies (such as Crown Corporations, themselves an "instrument") by government.

There have been huge sums of money sunk into the failing Cape Breton economy over the past 35 years. Simple estimates can put that figure at over $5 billion. One benefit has been the preservation of a unique part of Nova Scotia. New businesses have come and gone, but some have stayed. Sysco, IEL, and Devco had very limited success, whereas ECBC appears to have overcome this historical legacy of policy failures. Sysco was the least successful and demonstrates the worst aspects of political interference in public enterprise. Devco shows that a Crown Corporation can only do so many things and cannot hope to be all things to all people. Imagine trying to phase out the coal industry by opening new mines as old mines closed ahead of schedule, while simultaneously maximizing employment and developing new employment opportunities, with the additional expectation of being profitable. That is a very difficult task to accomplish. IEL and ECBC are better examples of how to conduct economic development, though IEL's benefits to Cape Breton were far less than Devco's. Sysco and Devco may have been economic development bodies, but their primary legacy was to delay the inevitable for 34 years. The social welfare and votes of those employed (or hoping to be employed) were more important than creating a place in the new global economy. It must be remembered that there is always going to be some risk in developing new industry and business and there will be failures. However, it is imperative that development agencies learn from these failures.

Cape Breton "bottomed-out" economically in the 1990s, and is now on the climb to recovery. The island on the east coast of Canada is no longer the economic basket case it was for three decades or more. Cape Bretoners did not abandon the island to a sorry fate, though many were driven away to search for new employment. As new development initiatives take hold for the information age, new jobs and local entrepreneurship are beginning to flourish. The hard experience of the past three decades have chastened governments and tempered the people, leaving both better prepared for the future.

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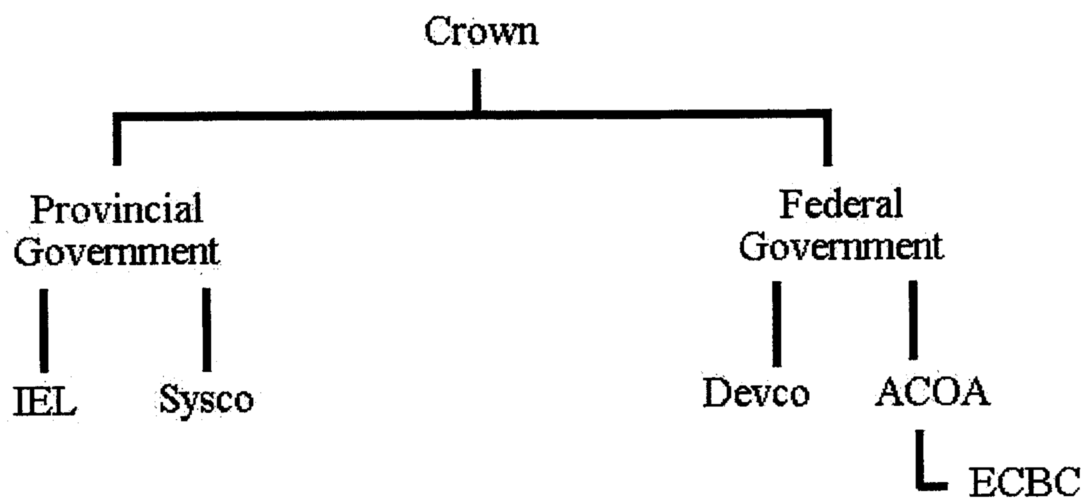
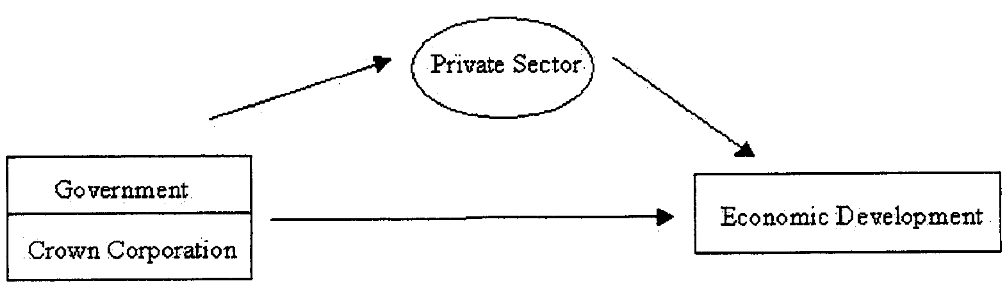
Appendix A

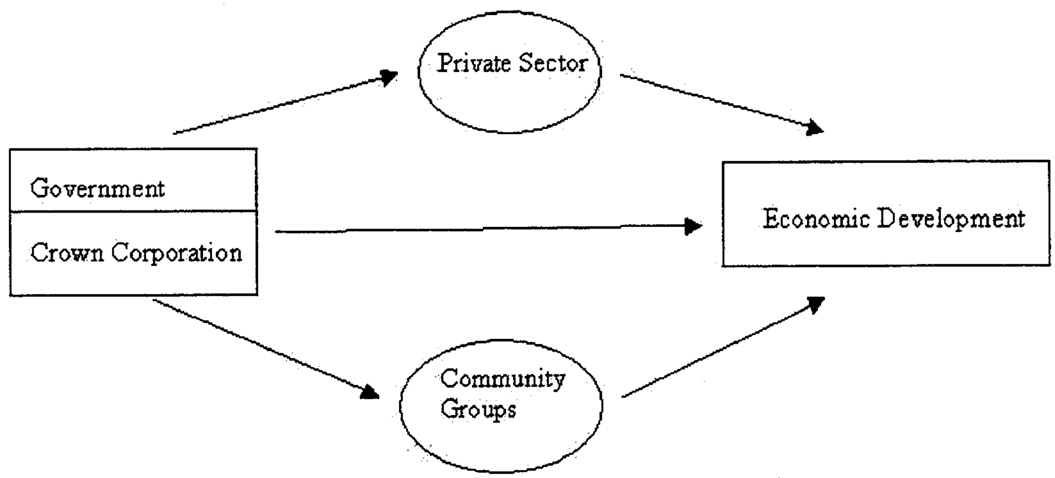
Institutions and Variables



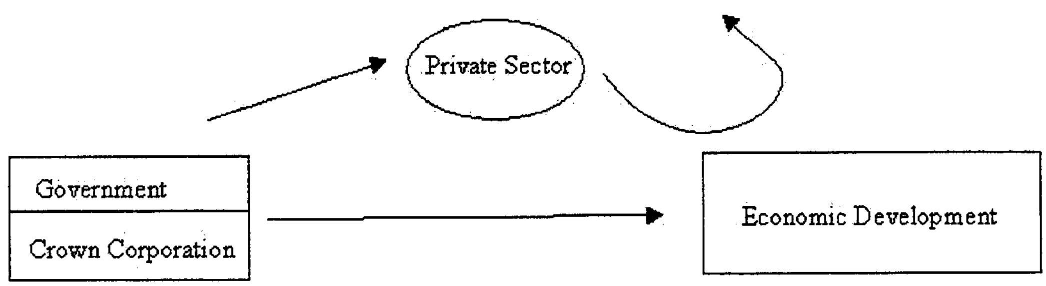
Industrial Estate Ltd. Model



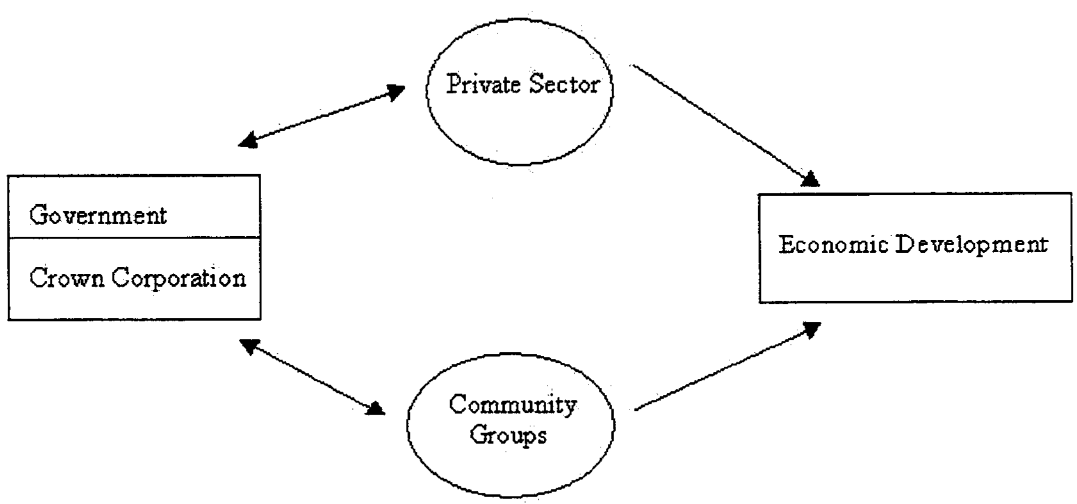
Devco Model



Sysco Model



ECBC Model



Appendix B

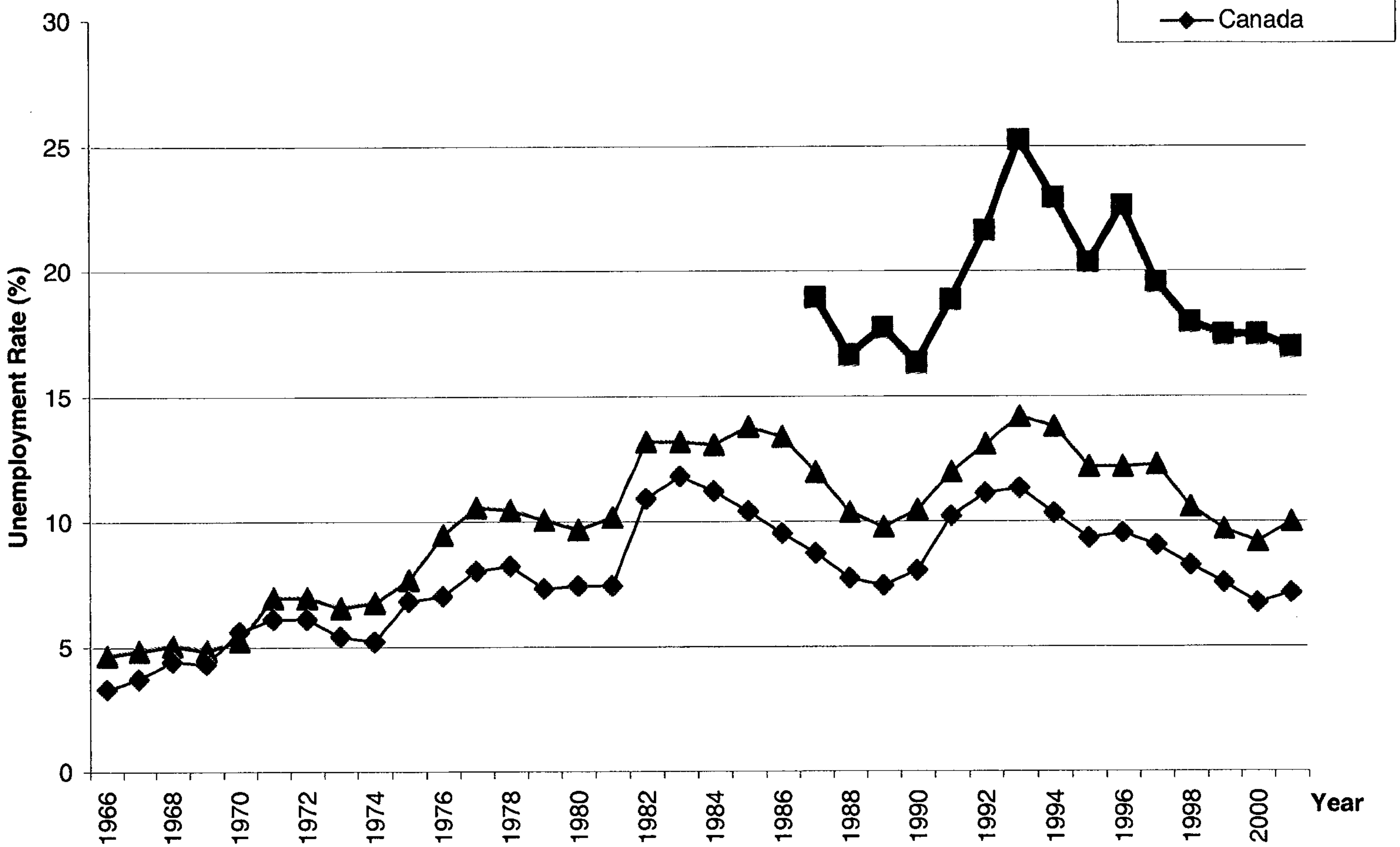
Table 1.1 - Unemployment Rate Comparison

Year	Cape Breton	NS	PEI	NB	NFLD	MB	Canada
1966		4.7		5.3	5.8	2.8	3.4
1967		4.9		5.2	5.9	3.0	3.8
1968		5.1		5.7	7.1	3.9	4.5
1969		4.9		6.7	7.4	3.2	4.4
1970		5.3		6.3	7.3	5.3	5.7
1971		7.0		6.1	8.4	5.7	6.2
1972		7.0		7.0	9.2	5.4	6.2
1973		6.6		7.7	10.0	4.6	5.5
1974		6.8		7.5	13.0	3.6	5.3
1975		7.7	8.0	9.8	14.0	4.5	6.9
1976		9.5	9.6	11.0	13.3	4.7	7.1
1977		10.6	9.8	13.2	15.5	5.9	8.1
1978		10.5	9.8	12.5	16.2	6.5	8.3
1979		10.1	11.2	11.1	15.1	5.3	7.4
1980		9.7	10.6	11.0	13.3	5.5	7.5
1981		10.2	11.2	11.5	13.9	5.9	7.5
1982		13.2	12.9	14.0	16.8	8.5	11.0
1983		13.2	12.2	14.8	18.3	9.4	11.9
1984		13.1	12.3	14.9	20.5	8.3	11.3
1985		13.8	12.9	15.2	21.3	8.1	10.5
1986		13.4	13.0	14.4	20.0	7.7	9.6
1987	19.0	12.0	12.0	13.2	18.1	7.3	8.8
1988	16.7	10.4	12.7	12.0	16.6	7.6	7.8
1989	17.8	9.8	13.4	12.0	15.3	7.4	7.5
1990	16.4	10.5	14.7	12.2	16.9	7.2	8.1
1991	18.9	12.0	16.8	12.7	18.1	8.6	10.3
1992	21.7	13.1	18.2	13.1	19.8	9.1	11.2
1993	25.3	14.2	17.7	12.5	18.6	9.4	11.4
1994	23.0	13.8	17.5	12.6	20.2	8.8	10.4
1995	20.4	12.2	15.2	11.3	18.6	7.2	9.4
1996	22.7	12.2	14.7	11.5	19.0	6.6	9.6
1997	19.6	12.3	15.6	12.8	18.9	6.6	9.1
1998	18.0	10.6	14.0	12.3	18.0	5.5	8.3
1999	17.5	9.7	14.6	10.4	17.2	5.6	7.6
2000	17.5	9.2	12.1	10.1	16.5	5.0	6.8
2001	17.0	10.0	12.3	11.6	16.8	5.1	7.2

sources:
HRDC Labour Market Review 2000/2001
Statistic Canada CANSIM II Tables 279-0007, 279-0003
Fairley, Bryant, Colin Leys, and James Sacouman, eds. *Restructuring* and Resistance from *Atlantic Canada*. Toronto: Garamond Press, 1990, page 88

Appendix B

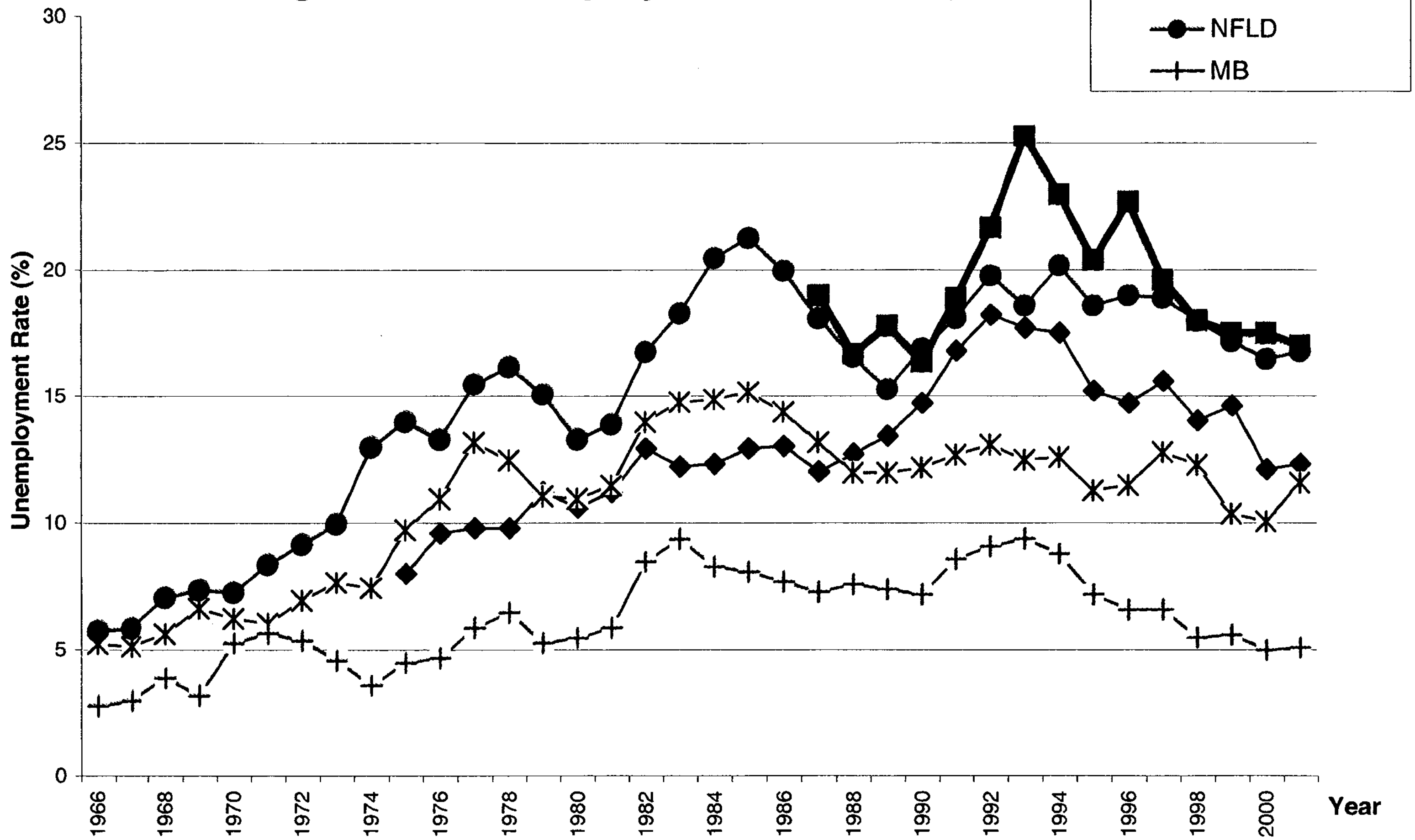
Figure 1.1 - Unemployment Rate Comparison



sources: HRDC Labour Market Review 2000/2001; Statistic Canada CANSIM II Tables 279-0007, 279-0003 ;
Fairley, Bryant, Colin Leys, and James Sacouman, eds. *Restructuring and Resistance from Atlantic Canada.* Toronto: Garamond Press, 1990, page 88

Appendix B

Figure 1.2 - Unemployment Rate Comparison



sources: HRDC Labour Market Review 2000/2001; Statistic Canada CANSIM II Tables 279-0007, 279-0003 ;
Fairley, Bryant, Colin Leys, and James Sacouman, eds. *Restructuring and Resistance from Atlantic Canada.* Toronto: Garamond Press, 1990, page 88

Appendix C

Table 2.1 - Distribution of IEL Funds 1957-1971

County	Number of Clients		IEL Investment (1971 dollars)		Per Capita Investment
	actual	percent	actual	percent	(1966 dollars)
Cape Breton	5	6%	$46.3 million	29%	$358
Pictou	10	13%	$34.4 million	22%	$773
Lunenburg & Queens	8	10%	$36.4 million	23%	$744
Colchester	8	10%	$16.7 million	11%	$467
Halifax	22	29%	$13.8 million	9%	$56
Cumberland	12	16%	$4.2 million	3%	$116
Hants & Kings	5	6%	$2.2 million	1%	$31
Yarmouth & Digby	7	9%	$4.7 million	3%	$108
Total	77	100%	$158.6 million	100%	$210

Note:

1. The Total **Per Capita Investment** is based on all counties in the province, including those who were not assisted by IEL funds.
2. The figures for Cape Breton County do not include investments in Victoria, Richmond, and Inverness Counties. When Inverness, Richmond, Victoria, and Cape Breton Counties are factored together, the Per Capita Investment for Cape Breton Island as a whole becomes significantly lower.

Source:

George, Roy E. *The Life and Times of Industrial Estates Limited*, Institute of Public Affairs, Dalhousie University, 1974, page 68

Appendix D

Table 2.2 - IEL assisted companies in Cape Breton

Name	Agreement	Closed	Jobs	Money	Location
(Frank Sobey Era)					
Angel Manufacturing and Supply Company	1960	1999	< 50	$66,000	North Sydney
General Instruments Limited	1967	1974	941	$2,900,000	Sydney
Pyrominerals Limited	1967	1971	< 50	$2,300,000	Pt Edward
Canadian Motor Industries	1967	1975	170	$1,400,000	Pt Edward
Deuterium of Canada Limited *	1964	1985	200	$250,000,000	Glace Bay

(*figure includes all money invested by both levels of government and IEL)

sources:

George, Roy E. The Life and Times of Industrial Estates Limited,
Institute of Public Affairs, Dalhousie University, 1974, page 93

Angel, Roger, Director of Angel Manufacturing and Supply Company.
Interview by author 22 January 2002.

Fancey, Gary, a former manager with the Cape Breton Development Corporation.
Interview by author 16 January 2002.

Manuge, Robert W., former general manager of Industrial Estates Limited.
Interview by author 16 January 2002.

Appendix E

Table 2.3 - IEL, 20 Years of Deficits

Year	Deficit	Covered by Province	Jobs	IEL Financing
1967	$1,145,200	$1,145,200	**Years 1958**	**Years 1958**
1968	$1,470,000	$1,470,000	**To 1982**	**To 1982**
1969	N/A	N/A		
1970	N/A	N/A		
1971	N/A	N/A		
1972	$3,120,168	$3,120,168		
1973	$4,450,667	$4,450,667		
1974	$8,708,385	$8,708,385		
1975	$3,396,300	$3,396,300		
1976	$3,129,700	$3,129,700		
1977	$3,047,200	$3,047,200		
1978	$2,743,000	$2,743,000		
1979	$2,863,000	$2,863,000		
1980	$1,963,655	$1,963,655		
1981	$1,378,793	$1,378,793		
1982	$1,276,900	$1,276,900	11000	$270,000,000
1983	$2,836,464	$570,781	N/A	$7,021,490
1984	$9,450,990	$886,665	934	$9,434,700
1985	$1,471,981	$1,008,188	350	$2,304,624
1986	$3,703,186	$1,740,988	300	$6,361,910
1987	$7,660,774	$1,864,342	407	$7,499,000
Approx Total	**$63,816,363**	**$44,763,932**	**12991**	**$302,621,724**

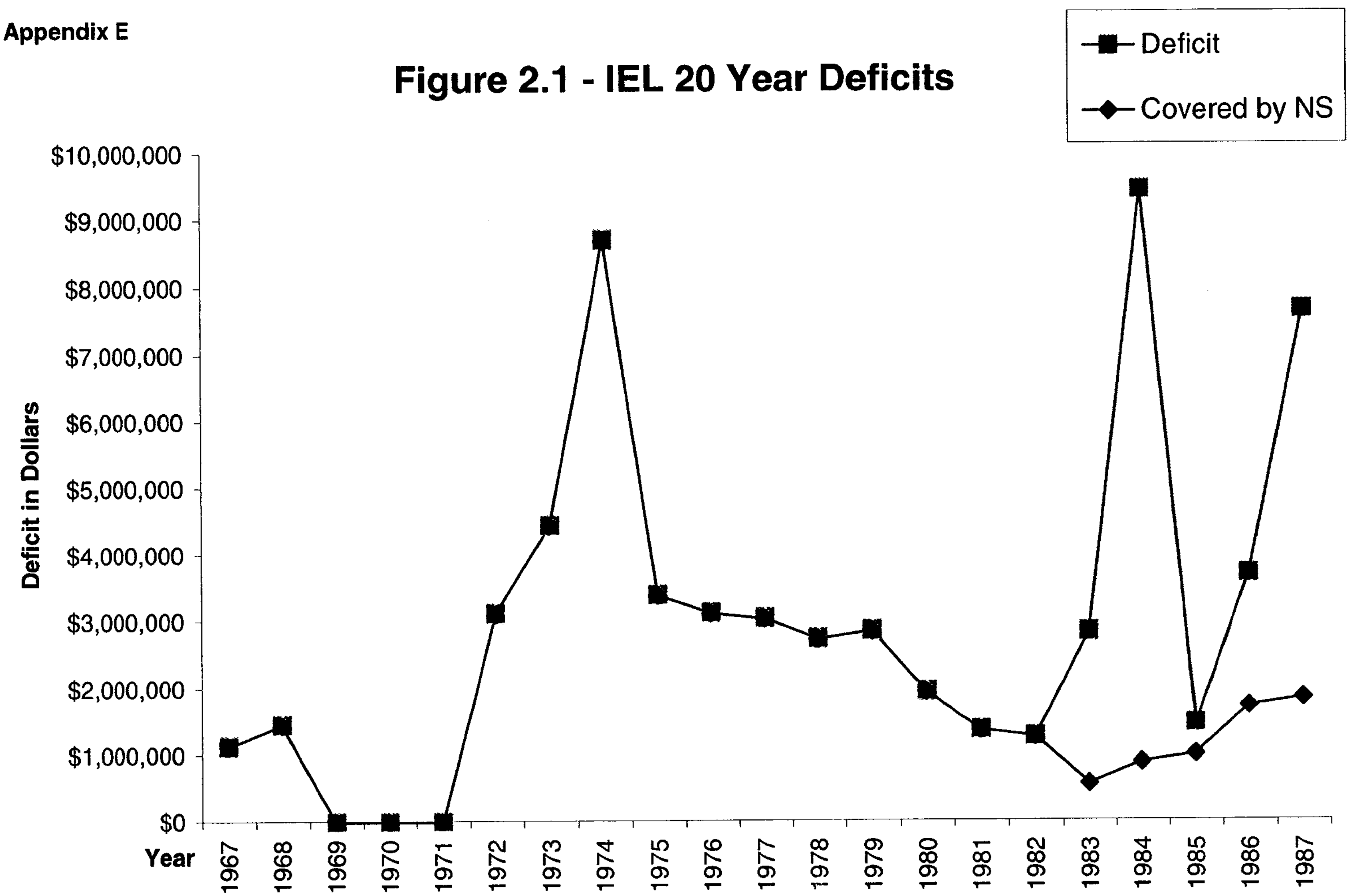
sources:

The Annual Reports of Industrial Estates Limited 1967-68, 1972-1987

George, Roy E. *The Life and Times of Industrial Estates Limited*, Institute of Public Affairs, Dalhousie University, 1974

Appendix E

Figure 2.1 - IEL 20 Year Deficits



sources: The Annual Reports of Industrial Estates Limited 1967-68, 1972-1987
George, Roy E. The Life and Times of Industrial Estates Limited, Institute of Public Affairs, Dalhousie University, 1974

Appendix F

Table 3.1 Devco Facts and Figures

Year	Employees	Loss (Profit) on Coal Production	Conversion (2002 dollars)	Money Spent on Industrial Development Division	Conversion (2002 dollars)
1967	6600	-$55,108	-$305,953	$10,415	$57,823
1968	6278	-$17,100,169	-$91,071,941	$1,195,353	$6,366,201
1969	4948	-$21,935,092	-$112,250,449	$4,828,873	$24,711,233
1970	4441	-$25,778,377	-$126,421,457	$3,782,328	$18,549,167
1971	4263	-$28,830,059	-$139,069,588	$2,090,261	$10,082,939
1972	4083	-$32,594,705	-$149,276,139	$2,972,334	$13,612,596
1973	3531	-$31,459,028	-$136,129,691	$3,809,819	$16,485,871
1974 X		-$5,954,330	-$23,360,821	$695,750	$2,729,659
1975	3752	-$29,018,620	-$102,567,315	$5,220,236	$18,451,104
1976	3780	-$13,995,909	-$45,256,002	$4,883,021	$15,789,329
1977	3858	-$28,305,759	-$85,206,850	$6,126,848	$18,443,223
1978	4162	-$11,459,526	-$31,736,146	$8,493,038	$23,520,719
1979	4297	-$12,563,739	-$31,869,657	$6,455,419	$16,375,061
1980	4270	-$18,260,488	-$42,391,705	$7,042,970	$16,350,248
1981	4509	-$10,545,236	-$21,736,852	$7,200,156	$14,841,653
1982		-$22,328,383	-$41,256,683	$11,064,051	$20,443,309
1983		-$46,518,516	-$80,164,412	$8,218,732	$14,163,174
1984	3975	-$49,622,754	-$81,801,094	$11,873,357	$19,572,747
1985	3495	-$10,032,963	-$15,936,299	$11,406,643	$18,118,244
1986	3580	-$16,935,853	-$25,820,595	$6,516,903	$9,935,745
1987	3651	-$17,685,203	-$25,889,905	$7,239,540	$10,598,182
1988	3435	-$1,672,000	-$2,348,382	$6,336,000	$8,899,131
1989	3301	-$29,693,000	-$39,895,732	$6,720,000	$9,029,041
1990	2983	-$9,396,000	-$11,994,677		
1991	2852	$125,000	$150,128		
1992	2554	-$1,907,000	-$2,255,818		
1993	2335	$5,898,000	$6,846,101		
1994	2279	$10,671,000	$12,361,975		
1995	2203	$10,227,000	$11,596,512		
1996	2091	$5,678,000	$6,346,634		
1997	1894	$3,468,000	$3,800,592		
1998	1700	-$8,831,000	-$9,588,641		
1999	1635	-$29,469,000	-$31,675,811		
2000	1312	-$55,624,000	-$58,040,291		
	Total Lost:	**-$551,504,817**	**-$1,524,216,965**	**$134,182,047**	**$327,126,399**

Sources:

X = Change in calculating the fiscal year

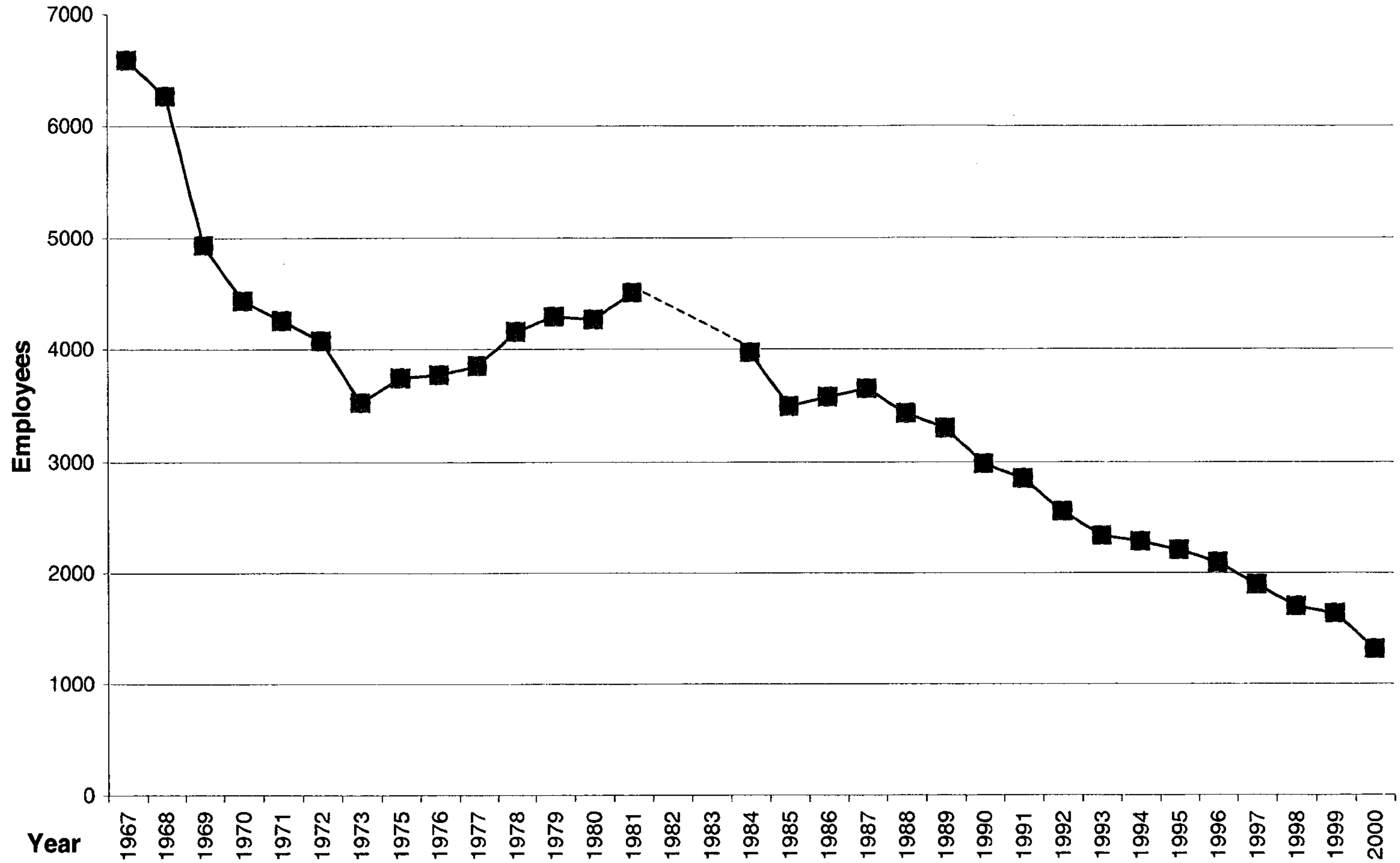
Annual Reports, Cape Breton Development Corporation, 1967 to 2000

Bickerton, James, to the Annual Meeting of the "Atlantic Provinces Political Studies Association", 20-21 October 1990, Old Wine into New Bottles? Federal Development Agencies in Cape Breton, 1984 – 1989

Bank of Canada's Inflation Calculator http://www.bankofcanada.ca/en/inflation_calc.htm

Appendix F

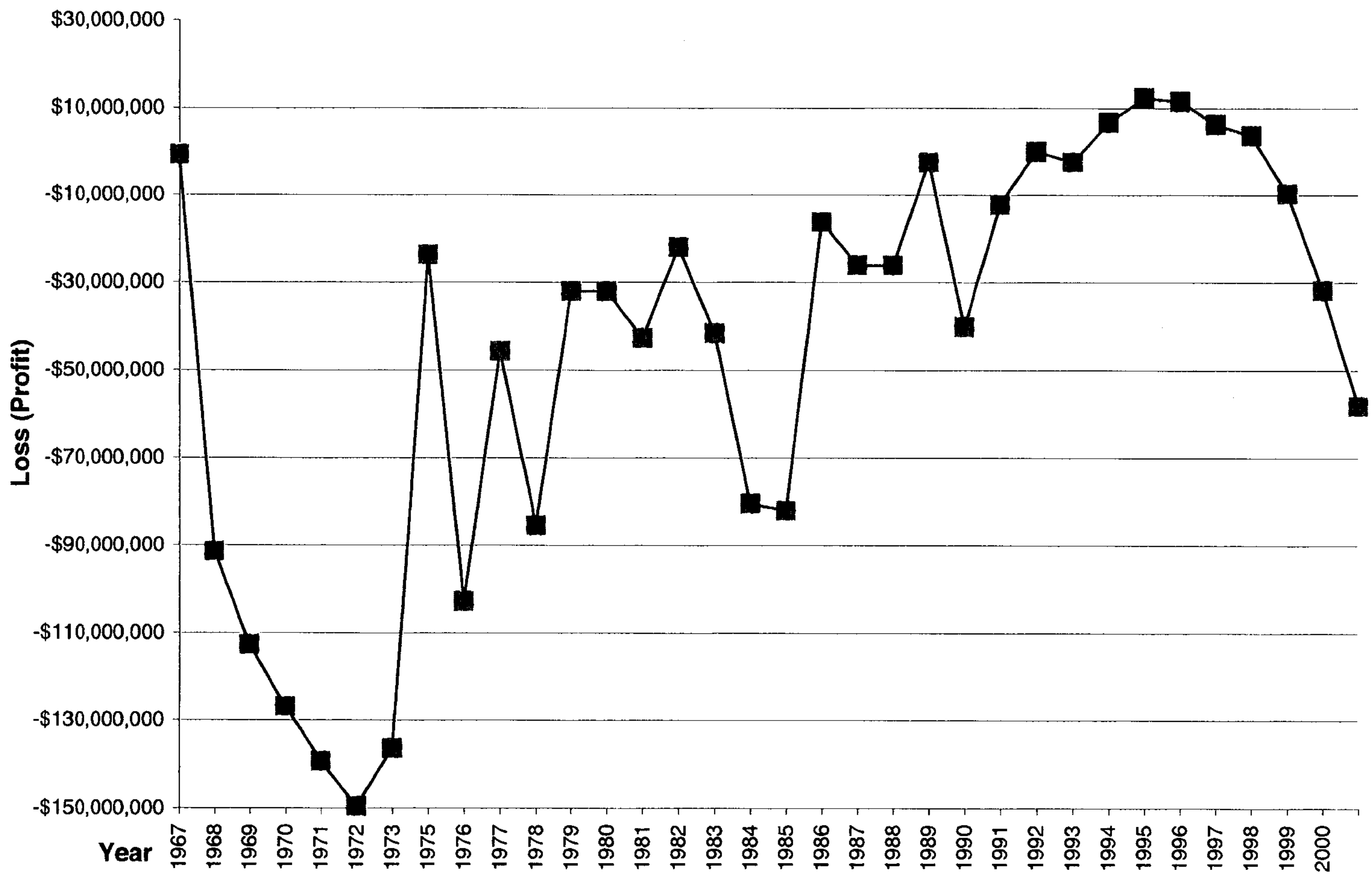
Figure 3.1 - Employment at DEVCO



Source: Annual Reports, Cape Breton Development Corporation, 1967 to 2000

Appendix F

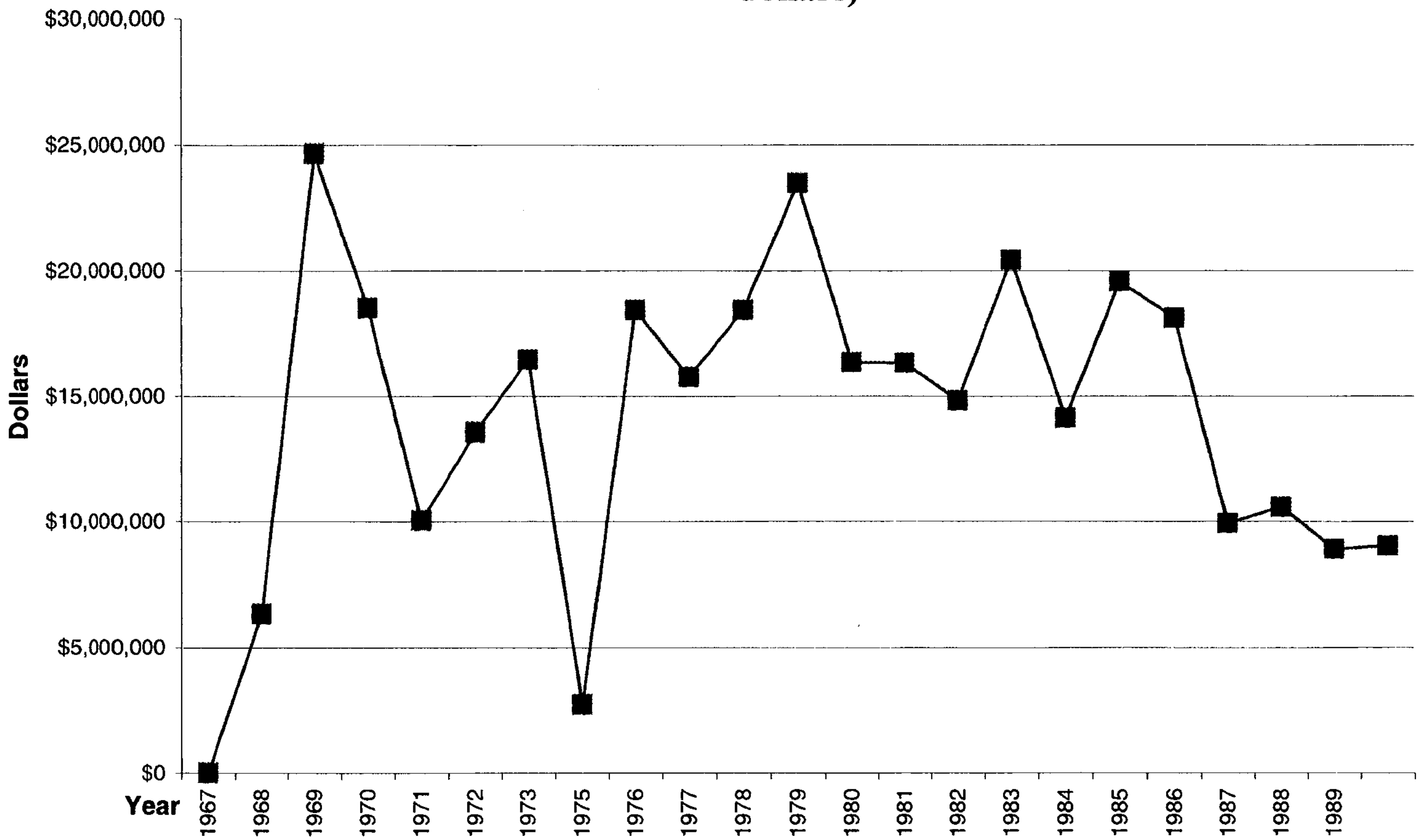
Figure 3.2 - Loss (Profit) on Coal Production (2002 dollars)



sources: Annual Reports, Cape Breton Development Corporation, 1967 to 2000
Bank of Canada's Inflation Calculator http://www.bankofcanada.ca/en/inflation_calc.htm

Appendix F

Figure 3.3 - Money Spent on the Industrial Development Division (2002 dollars)



sources: Annual Reports, Cape Breton Development Corporation, 1967 to 2000;
Bank of Canada's Inflation Calculator http://www.bankofcanada.ca/en/inflation_calc.htm

Appendix G

Table 4.1 - SYSCO Funding & Announcements in relation to Elections

Year	Original amount	2002 Dollars	$ Source	Party	Next Election	Information
1967	$3,700,000	$20,541,981	Ottawa	Libs	Fed 1968	for docks and handling facilites
1967	$50,000,000	$277,594,340	Halifax	Cons	Prov 1970	purchase price
1970	announcement		Halifax	Cons	Prov 1970	$94 million offered for modernization
1971	announcement		Halifax	Libs	Minority	$94 million re-anounced modernization plan
1972	announcement		Ottawa	Libs	Fed 1972	$70 million loan guarantee
1974	$1,800,000	$7,062,000	Halifax	Libs	Prov 1974	operating losses
1974		announcement	Halifax/Ottawa	Libs	Fed/Prov 1974	DREE/Halifax CANSTEEL plan
1975	$73,000,000	$258,021,021	Halifax	Libs	Prov 1978	auditor general's report on modernization
1975	$11,100,000	$39,233,333	Ottawa	Libs	Fed 1979	refurbishing
1975	$21,400,000	$75,639,039	Halifax	Libs	Prov 1978	refurbishing
1977	$19,500,000	$58,699,488	Halifax/Ottawa	Libs	Prov 1978	DREE/Halifax capital works
1980	announcement		Ottawa	All	Fed 1980	Federal parties make promises for SYSCO
1981	$80,000,000	$164,903,678	Ottawa	Libs	Fed 1984	Federal modernization money, phase I
1981	$20,000,000	$41,225,919	Halifax	Cons	Prov 1981	Provincial modernization money, phase I
1981	$100,000,000	$206,129,597	Halifax	Cons	Prov 1981	assumed operating debt
1985	$150,000,000	$238,259,109	Halifax	Cons	Prov 1988	modernization, phase II
1988	$100,000,000	$140,453,461	Halifax	Cons	Prov 1988	modernization cost overruns
1990	$785,000,000	$1,002,109,544	Halifax	Cons	Prov 1993	assumed operating debt
1991	$130,000,000	$156,132,653	Halifax	Cons	Prov 1993	guaranteed operating line of credit
1992	$25,000,000	$29,572,864	Halifax	Cons	Prov 1993	loan against plant
1993	$279,000,000	$323,849,112	Halifax	Libs	Prov 1998	operating losses
1996	$85,000,000	$95,009,497	Halifax	Libs	Prov 1998	increases to line of credit
1997	$25,000,000	$27,397,579	Halifax	Libs	Prov 1998	payment to top up pension fund
1998	$100,000,000	$108,579,336	Halifax	Libs	Minority	outstanding liabilites, contigent on sale
1999	announcement		Halifax	Cons	Prov 2003?	Government moves to close or sell SYSCO
Total Loss (2002 dollars)		**$3,270,413,553**				

sources:

The Chronicle-Herald (Halifax), 28 February 2002

The Chronicle-Herald (Halifax), 12 July 1998

Bickerton, James P. *Nova Scotia, Ottawa, and the Politics of Regional Development.* The State and Economic Life. Toronto: University of Toronto Press, 1990.

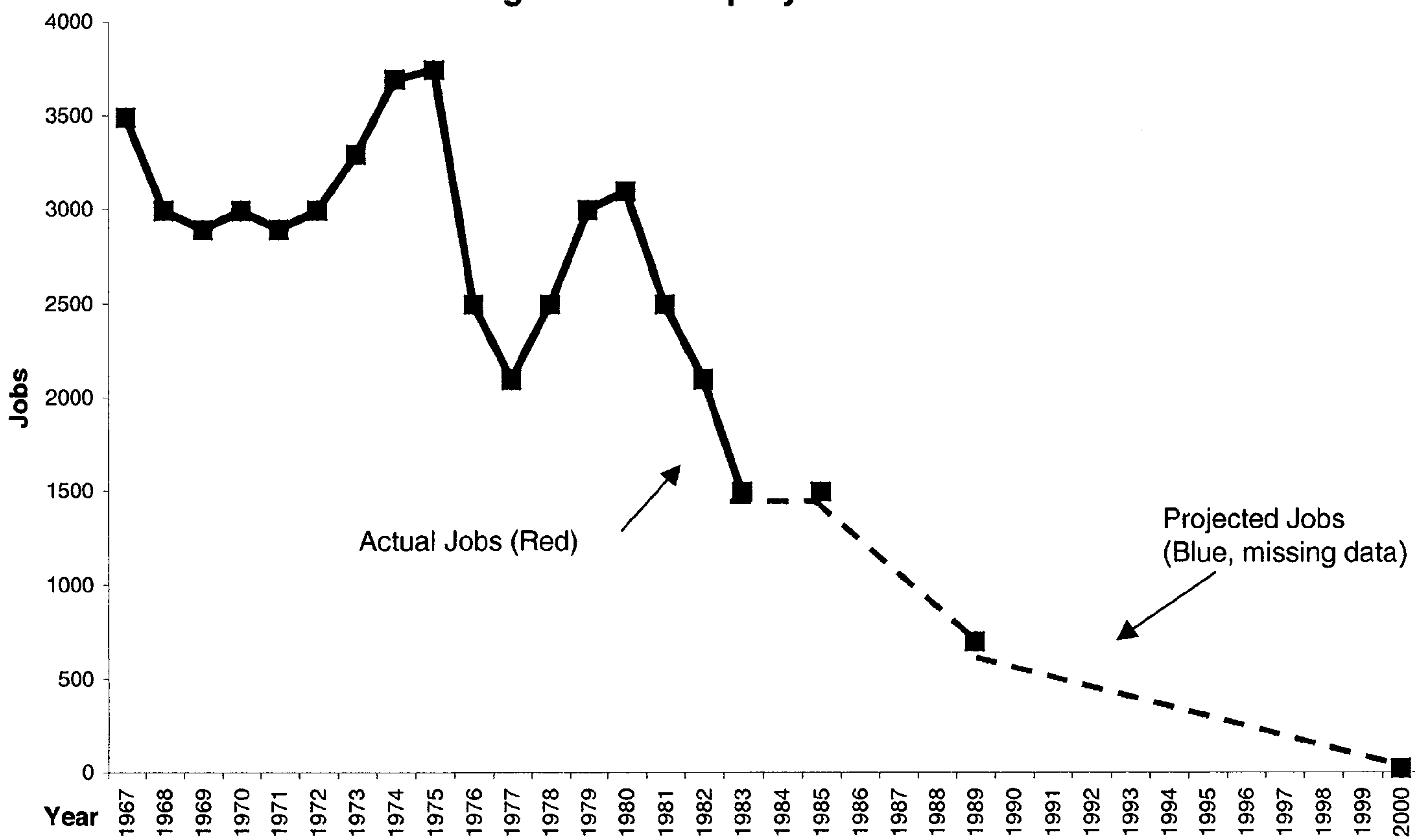
Bishop, Joan Remple. "The Sydney Steel Plant, Government Policy and Public Ownership." M.A. diss., McGill University, 1984.

Elections Nova Scotia http://www.gov.ns.ca/elo/elections/index.html

Bank of Canada Inflation Calculator used to convert dollar figure to 2002 Canadian Dollars http://www.bankofcanada.ca/en/inflation_calc.htm

Appendix H

Figure 4.1 - Employment at SYSCO



Sources:
Johnson, David. "Industrial Policy and the 'New Economy': Cape Breton Confronts an Uncertain Future." *Proceedings of the Cape Breton in Transition Conference,* October 20-21, 1995; Bishop, Joan Remple. "The Sydney Steel Plant, Government Policy and Public Ownership." M.A. diss., McGill University, 1984.

Appendix I

Table 5.1 - Enterprise Cape Breton Corporation Facts and Figures

Year	Appropriation	Jobs Created	Cost Per Job	Contracts	Assistance			
1988	$3,420,000		n/a	602	$4,305,109			
1989	$7,300,000		n/a	990	$3,865,615			
1990	$10,560,000	274	$26,652.45	1005	$7,298,178			
1991	$10,400,000	276	$26,652.45	1477	$7,363,946			
1992	$10,050,000	296	$26,652.45	1148	$7,881,928			
1993	$9,825,000	269	$26,652.45	985	$7,168,389			
1994	$15,561,900	459	$26,652.45	1510	$12,220,236			
1995	$15,038,000	346	$22,543.50	302	$7,800,050			
1996	$14,700,000	308	$30,276.94	387	$9,325,296			
1997	$9,786,720	376	$15,105.96	401	$5,679,842	**(Cape Breton Growth Fund)**		
1998	$8,400,000	135	$38,190.51	75	$5,155,719			
1999	$8,565,720	1428	$12,667.27	37	$18,088,864	Appropriation	Jobs Created	Cost per Job
2000	$33,614,000	469	$15,848.28	38	$9,932,845	$15,000,000	235	$10,638
2001	$39,574,000	167	$19,247.87	27	$14,532,395	$25,000,000	969	$11,680
Total/Avg	$196,795,340	4803	$20,537.95	8984	$120,618,412	$40,000,000	1204	$11,477

Notes:

ECBC's Appropriation in 2000 and 2001 also includes the Appropriation for CBGF

1988 figures are for four months

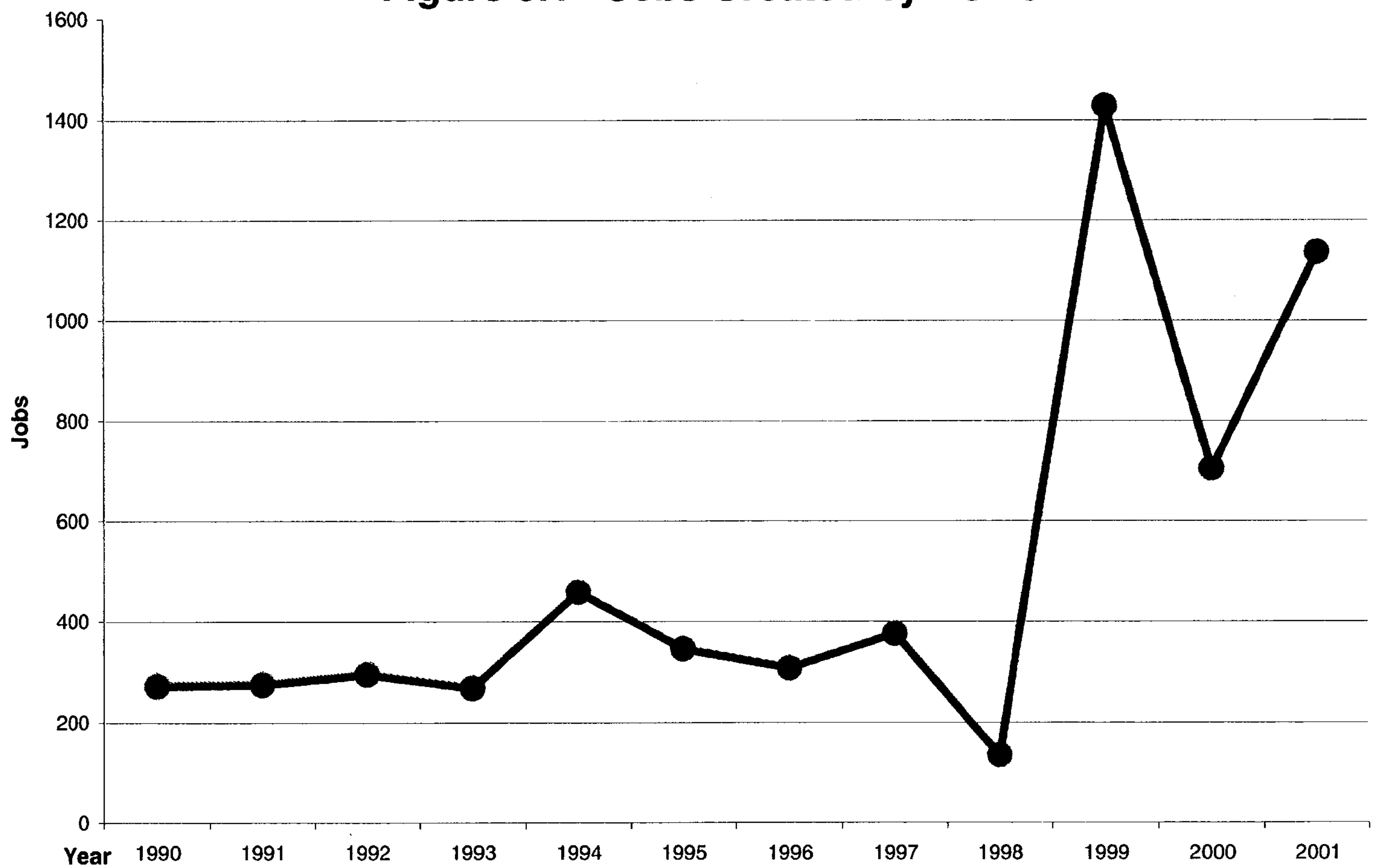
Contracts and Assistance includes the figures of the CBGF

Source:

Summary Report as requested by researcher from the President of ACOA/ECBC, 13 December 2001

Appendix I

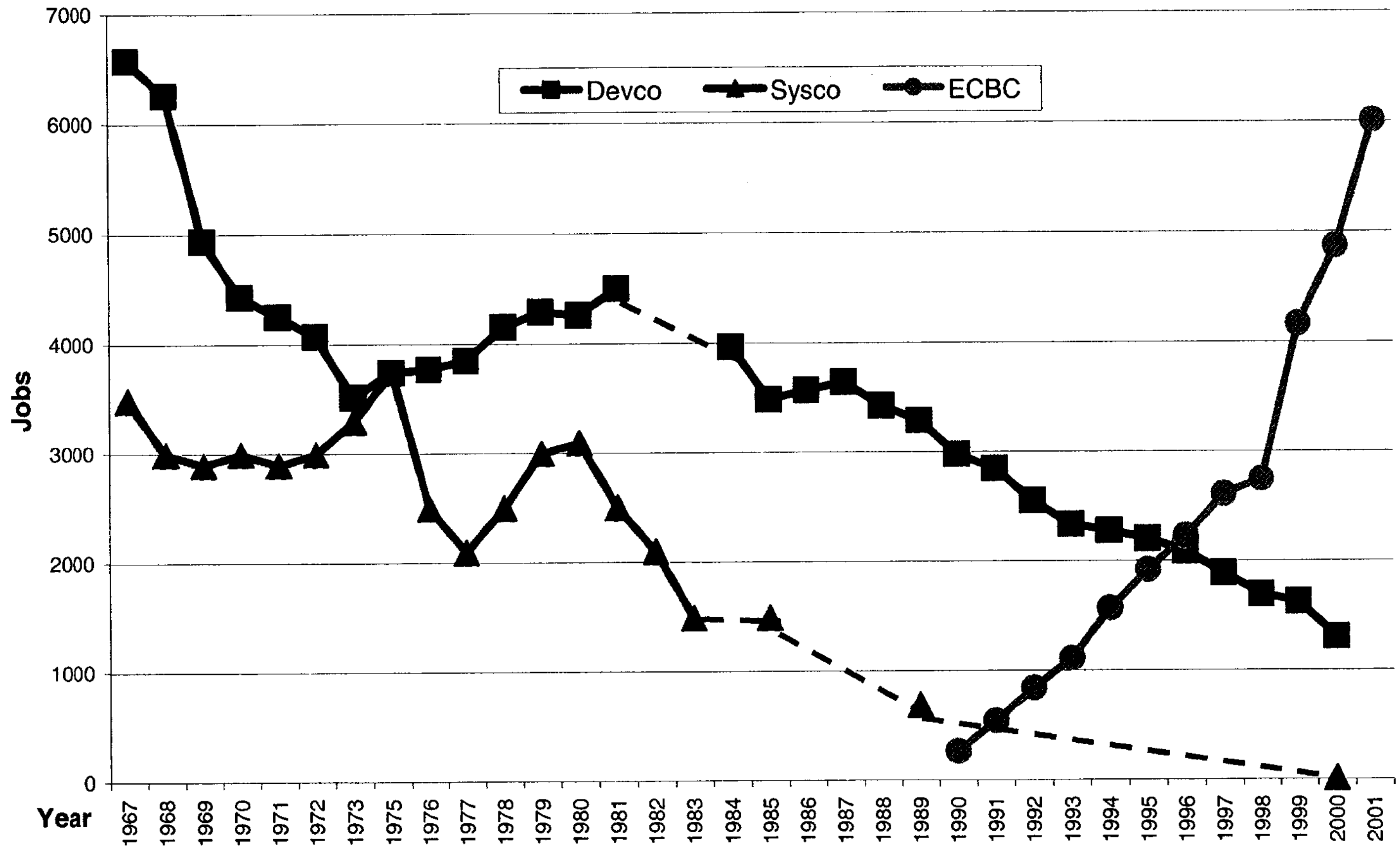
Figure 5.1 - Jobs Created by ECBC



Source: Summary Report as requested by researcher from the President of ACOA/ECBC, 13

Appendix I

Figure 5.2 - Employment Comparisons



Sources: Summary Report as requested by researcher from the President of ACOA/ECBC, 13 December 2001; Annual Reports, Cape Breton Development Corporation, 1967 to 2000; Johnson, David. "Industrial Policy and the 'New Economy': Cape Breton Confronts an Uncertain Future." Proceedings of the Cape Breton in Transition Conference, October 20-21, 1995;Bishop, Joan Remple. "The Sydney Steel Plant, GOvernment Policy and Public Ownership." M.A. diss., McGill University, 1984.