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Lundi 9 mai 2011

**Standing Committee on
General Government**

Committee business

**Comité permanent des
affaires gouvernementales**

Travaux du comité

Chair: David Oraziotti
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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

**STANDING COMMITTEE ON
GENERAL GOVERNMENT**

**COMITÉ PERMANENT DES
AFFAIRES GOUVERNEMENTALES**

Monday 9 May 2011

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The committee met at 1402 in committee room 1.

COMMITTEE BUSINESS

The Chair (Mr. David Oraziotti): Good afternoon, everyone, and welcome to the Standing Committee on General Government. We'll get started.

There is a notice of motion that has been filed by Steve Clark, MPP. Pursuant to standing order 126, I'll allow Mr. Clark to make comments with respect to the motion. Members of the committee will have an opportunity. I'd just recommend that, generally speaking, we try to divide the time relatively evenly between all of the members, or all of the caucuses, at about 10 minutes each, but understanding that members may want to have some dialogue in the process, so it might not be 10 minutes consistently or in one time allocation, I suppose.

I'll let Mr. Clark start off and open the floor. You need to just move the motion.

Mr. Steve Clark: Yes, I will. Thank you, Chair.

I would like to move that the Standing Committee on General Government investigate the impacts of higher energy rates as they pertain to mill closures in northern Ontario.

I want to reiterate what you said at the start of the committee, that I'll be using some of my time and I'll be reserving some of it, hopefully, for an open dialogue with other members of the committee. I regret that my colleague the member for Lanark–Frontenac–Lennox and Addington couldn't be here with me today. I know that he has been very concerned, as I have been, throughout our deliberations with the forest tenure act and also, prior to that, with the Far North Act. I wish he could have been here, but unfortunately, that's not an opportunity.

I think it's very important that we take time in this committee to talk about energy rates and prices as they deal with mill closures in northern Ontario. When we had the discussion about forest tenure, I almost felt like higher energy rates were the elephant in the room. We were so immersed in the fact that there had been consultation—the minister had made some comments in January about forest tenure; the bill came through. Unfortunately, we had essentially 40 minutes that was time-allocated to talk about that. There were still people and communities that wanted to be heard, and I can appreciate that the parliamentary assistant may have differing views than I do.

I'm a relatively new member—just elected last March. I can remember the excitement that some of the committee members had in our caucus about the Far North Act and the hearings that we would have had there and the fact that we were planning on having hearings for forest tenure. Notwithstanding the consultation that took place, the fact that we didn't go there was a disappointment for a number of groups.

I wanted to have a discussion today about energy rates. When you look at the fact that there have been over 60 timber mills closed and over 40,000 jobs lost in that industry since this government took office—we've heard a number of issues that have come forward, some that we've discussed as part of forest tenure, issues like access to fibre and tenure reform; we heard some talk about species at risk. But certainly the high energy prices at mills are something that all three parties, as it relates to northern Ontario, need to discuss. Certainly, that sector has been extremely hard-hit because of those hydro increases. Other policies that have been put forward are also a concern. And when we look at issues like Bill 191, that Far North Act that set aside additional lands, again, I think that we have to, as a committee and as legislators, bring forward some discussion.

One other point I want to make on Bill 151 that I think was an extreme disappointment for me was the fact that when the two pilots are completed, we don't have the opportunity for that debate to come back to the Legislative Assembly; that we as MPPs don't have that chance to discuss this. So I think it's important that we take, be it a half-hour, be it 10 minutes for each party, because I really do believe that the sector, which is extremely important for the north—the energy sector is something that we need to talk about.

The one thing that I heard loud and clear during the public debates, the discussions that we had at the hearing, from people that made deputations to us, was that when you talk about economic development in the sector, you need that certainty. I truly believe that by not having that discussion about our energy rates, by not having some dialogue between the three parties on the devastating impact that it has had on the forestry sector, I think we're doing our constituents a disservice.

I'm hoping that we'll have some discussions today. We need to put our minds and legislative resources to making this sector grow and flourish. We need to deal with some of the constraints that they've had and also move forward in a positive manner. I would love to hear

the comments from the government about the fact that we have lost over 60 mills and just the fact that there have been 40,000 jobs—a huge number—that have been lost in the sector over the last seven or eight years.

With that, Chair, I'll just put those comments forward. I look forward to responding to some of the comments that the other two parties will make. We'll continue this dialogue over the time that you've allotted us.

The Chair (Mr. David Orazietti): Does any other member of the committee wish to make comment on the motion? Mr. Hampton, go ahead.

Mr. Howard Hampton: I think this is timely, especially given the situation that you find now, and I think it's especially timely when you look at paper mills. Let me just give you a couple of examples.

Probably the most modern paper mill complex in Canada was located in Dryden, Ontario. It was a complex that had had, I think it's fair to say, over \$5 billion of new investment in about the last 15 years. Seven years ago, that complex employed 1,000 people. It was a sawmill, pulp mill and two paper machines. It produced white paper. This is white paper. You use it in your photocopier, your computer copier—basically, office paper. That mill—the paper machines are now closed. It's gone from over 1,000 people working there to about 330. All it does now is produce pulp.

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The irony for the people who used to work there, though, is that if you go 150 kilometres to the south, to International Falls, Minnesota, at the directly competing mill, which also produces white paper, the two paper machines there continue to operate and they continue to employ about 500 people.

Another example: The Cascades mill in Thunder Bay produced what's called glossy coated paper. It's the kind of paper that if you went into your car dealership and saw these nice, glossy pictures of new cars, that's exactly the kind of paper they produced at Cascades. Cascades is now closed, with the loss of 500 jobs.

But again, I think, for people who used to work there, what sticks in their minds is that the directly competing mill in Grand Rapids, Minnesota, which is only about 200 kilometres away, continues to produce the same kind of glossy coated paper. The two paper machines there continue to run, and it continues to employ over 500 people.

Another example: The Smurfit-Stone mill in Thunder Bay produced packaging paper. It's the kind of packaging paper that you'd see in paper bags, or perhaps if you went to the Liquor Control Board store this weekend, you'd find sort of the brown cardboard that liquor bottles would come wrapped in. There was the Smurfit-Stone mill in Thunder Bay, which employed about 150 people, and then, just a little up the road was the Domtar mill, in Red Rock, which also produced packaging paper and employed about 350 people—altogether, about 500 people in those two packaging mills.

They are now closed, but 200 kilometres to the south, in Duluth, Minnesota, two paper machines continue to

operate which produce packaging paper, directly in competition with the mills that closed in Thunder Bay and Red Rock.

I can tell you, what people are increasingly asking is: Why are these operations closed here in Ontario—in this case, northwestern Ontario—but only 150 kilometres away, 200 kilometres away, 225 kilometres away, in the neighbouring state of Minnesota, the directly competing mills continue to operate, continue to sustain jobs. I think the thousands of people who have lost their jobs in this sector, many of whom now are really struggling, deserve an explanation.

There is a follow-on or knock-on effect of this. To a large degree, the economics of sawmilling depends on two things: (1) being able to sell your lumber, and (2) being able to sell your residual material. If you take a round log and you saw out two-by-fours, there's going to be some left over that you can't saw into two-by-fours. Typically, that gets chipped and it gets sent to paper mills or pulp mills and gets made into paper. Sawmill economics depends upon having a paper mill where you can send your residuals, your chips, and sell them; and being able to sell your lumber.

But if all the paper mills are gone, it very much affects sawmill economics and makes it that much more difficult for sawmills. That has been a knock-on effect. In the northwest, we now have one, two, three, four, five, six, seven—we now have, in Thunder Bay and west, seven sawmills that are closed. I would argue that part of the reason they're closed is because there is no paper mill to send your residual chips to. And if you can't sell your chips, even if you can sell your lumber, you can't make a profit.

The third thing that seems to be happening is that the pulp mills, while the paper machines are shut down, are running. But what the pulp mills seem to be doing—and my hometown is an example of this: The pulp mill is turning out pulp at a faster rate than ever before, but the pulp is increasingly being shipped to the paper mills in the United States, where the paper is now being made. What's involved there, though, is the export, literally, of thousands of highly skilled jobs. To run a paper machine, you have to have instrument mechanics, you have to have computer technicians, you have to have millwrights, you have to have pipefitters and you have to have machinists, and those are the jobs that are being lost.

To run a pulp mill—I mean, a pulp mill is essentially a big cooker. You take the wood fibre, you throw it in a big digester, you crank up the heat and you cook it. So it's essentially the semi-processing of the wood fibre, and the pulped wood fibre or cooked wood fibre is now being increasingly sent to the United States, where it's turned into paper.

I think people deserve an explanation as to why this has happened, because it has literally wiped out the economy of dozens and dozens of communities. If we think we can go from here without giving people an explanation of what's gone on, I think we're sorely missing the point and not doing our jobs.

The Chair (Mr. David Oraziotti): Thank you, Mr. Hampton. Further comment? Mr. Brown, go ahead.

Mr. Michael A. Brown: Well, I would be the last to disagree that energy prices have had an effect on the northern economy in general, and particularly on the forestry industry, whether it be sawmilling, pulp and paper or any of the other products we may gain from the forest. What I think about this motion, however, is that it is extraordinarily narrow in its focus. One might think that a 40% appreciation of the Canadian dollar, or perhaps even a 50% appreciation of the Canadian dollar over this period of time, may have made our products, in general, that much more expensive. It may have at least some small explanation as to what is going on here.

The government has responded to the large industrial users of electricity, for example, in northern Ontario with the northern pulp and paper electricity transition program, which disbursed \$123.9 million in electricity relief to major mills in Ontario. The northern industrial energy rate program, the new program, is \$150 million annually over three years to assist the pulp and paper industry in managing their expenses and finding new and interesting ways to do things.

But I might want to point the members to some of the good news that's happening in the forest industry today. I was pleased to be with the Minister of Northern Development, Mines and Forestry in Sault Ste. Marie, at an event that my colleague Mr. Oraziotti chaired, when we announced a wood allocation to a company called Rentech. Rentech is a company based in California that has a technology that, amongst other things, converts biomass into aviation fuel.

This is an exciting project. It will mean an investment in the community of White River in the hundreds of millions of dollars—hundreds of millions of dollars. It will create, over the two years it'll be under construction, about 1,000 jobs in the construction sector alone in the small community of White River. It will have regional impact on places like Wawa, Hornepayne and Dubreuilville. It is exciting—Marathon will also be a beneficiary. It's a partnership between Pic River First Nation and the company, Rentech.

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It is exciting in that aviation fuel from biomass is something that is going to be increasingly in demand. The EU has regulations which will mean that the planes flying into the EU have to have a certain percentage of biomass or low-carbon fuel in their tanks. The company, Rentech, that is, has already spoken to—we probably will hear some announcements in the near future—some of the major airlines that have shown great interest in this. So some of the energy increases that we've seen are also good things for our economy, because it would be hard to believe that, without some increase in price, this product would be viable in the world.

I am very excited about this project. There are others. The member for Sault Ste. Marie—for example, St. Marys Paper has just been awarded a contract by the

OPA for a 30-megawatt biomass plant which will help sustain St. Marys Paper with a source of energy of their own, and they will be able to sell excess into the grid. That's a very important part of our new industrial complex. We need to look forward. We need to look to a different mix in the forest industry from the one we've had before. It just seems like what we need to do or we will follow the cycle of boom and bust in forestry, as we often do in mining; it's part of the northern experience, and what we can do to change that is to make sure that our industries are as insulated as possible from world events.

Mr. Hampton talked about softwood lumber. He's right; I don't argue with him. But one of the major problems with softwood lumber has been a huge decline in our major market. Our major market is the US. The US, in case no one on this committee has noticed, has lost thousands and thousands and tens of thousands of housing starts, which means they're not consuming the kind of softwood lumber they would in normal times. That market has yet to recover.

One of the problems is price point. Mr. Hampton points to how mills in northern Minnesota have an advantage. Sure they do; they have a 40% to 50% dollar advantage. They can buy our products for 40% or 50%—the raw material from us, the pulp; it's not totally raw material, but the pulp, and transform it in Minnesota far less expensively. It is just a reality. Those are issues I think we should address. We need to have a look at how we might go forward on those issues.

To narrow this to electricity is only one component of a major problem, and we need to think out of the box; we need to think of companies like Rentech that are providing and will provide huge opportunities for northern Ontario people, and will be sustainable over time. Not anyone in this room, or probably in this province, believes that energy prices for petroleum products are going to go down significantly in the near future. The opportunity for companies that will provide alternative fuels to that seems very apparent.

What I'm suggesting to members is that we won't be supporting this because of the focus of it. The focus is on one small part. We look to our sister province of Quebec, which has amongst the lowest electricity rates in the world, I would say. Why do they have that? Because of their abundance of hydroelectricity from the James Bay projects. That's why. They built those 25 years ago, or whatever time frame it is; they have a huge surplus, inexpensive electricity, and they have lost more forest workers and more mills than the province of Ontario.

So to make the issue all about electricity, I think, is a mistake, I would say to my friend from eastern Ontario. It is about a lot of factors. Electricity is a component; nobody argues that, but to talk about it in isolation from all the other things going on in the economy, the government thinks, I think and northerners think is the wrong approach. The right approach, if we are to move forward, would be to have a look at the entire sector, the eco-

nomics of the entire sector; to look at ways to move us forward. Companies like Rentech, companies that will see future markets in a sustainable way that will keep us and our people employed in northern Ontario, provide real value-added and will not be dependent upon governments doing this, that or the other thing. They will be able, in a free-market situation, to do extraordinarily well. I'm very pleased that we're doing as we have done as a government: trying to move us on to a new generation of forest products while sustaining those in the old industry—the traditional industries would be the way to say it, I guess—that have opportunities.

I represent Espanola; the Domtar mill in Espanola has not missed a shift through all of this. They have done it because of their ability to be self-sustaining in energy, their concentration on products the world wants to buy and their concentration on being able to change products so they can do relatively small orders economically. They have certainly experienced their challenges but have been able to do those kinds of things.

I think we need to think about competitiveness. We need to think about the future. We need to think about this resolution in the context of all those other factors. So I appreciate Mr. Clark bringing this to us because it's important. I'm not arguing it's not important. But it's only one small piece of a very large puzzle.

The Chair (Mr. David Oraziotti): Mr. Clark, you've got a couple more minutes if you want.

Mr. Steve Clark: Again, I just appreciate the comments that were made, and I especially want to thank Mr. Hampton for his comments about sawmill economics. It's important.

Regardless of how many jobs have been lost in Quebec or the operations that, for example, Mr. Hampton talked about in Minnesota, we've lost a significant amount of jobs in the forestry sector. When I looked at the figures and saw that—I said it was over 60; it's probably closer to 70 mills that have closed in the last several years. I can appreciate that there are a number of factors, but my God, if we're going to look at a different mix, surely to goodness, some of these operations—energy prices are definitely a factor. We heard a lot of issues during Bill 151 and Bill 191.

I just think we're doing a disservice to the people of the north by not working harder and not doing a better job. To use the comments from my friend Mr. Hampton, people deserve an explanation. For us to sit here and have those two discussions on those two bills and not talk about the importance of energy prices and the fact that it is such a critical issue to the forestry sector, I think, again, we're doing our constituents and the people of Ontario a disservice. There still is uncertainty in the sector. I think that we need to do a better job.

The Chair (Mr. David Oraziotti): Mr. Clark, that's your time. Mr. Hampton, you have a couple of minutes if you'd care to wrap up.

Mr. Howard Hampton: I think what we're in danger of missing here is this: No one disagrees that the de-

preciation of the American dollar may have a negative effect on the forest sector going forward. The closures we're concerned about are the closures that have happened in the last couple of years, before there was significant depreciation in the value of the American dollar.

When Cascades closed their mill in Thunder Bay, they issued a press release, and they were very clear. They said, "The cost of electricity is too high for us to continue producing in Ontario."

When Abitibi closed their Mission mill in Thunder Bay, they issued a press release saying, "The cost of electricity is too expensive for us to continue producing in Ontario."

When Domtar shut down their two very new, very modern, large, high-speed paper machines in Dryden, they issued a press release saying, "The cost of electricity is too high. We can run the pulp mill because the cooking process doesn't run on electricity—it runs on natural gas—but running paper machines is too expensive."

When Abitibi closed their three paper machines in Kenora, seven years ago now, they were very clear. They issued a press release. They said, "The cost of electricity in Ontario now and projected into the future is too high for us to continue making paper in the province."

When you talk with folks at the Dryden complex and you point out to them that the white paper mill in International Falls, Minnesota, only 150 kilometres away, continues to make white paper, they say, "Look, their electricity rates which power their paper machines are a lot less than ours." Similarly for the coated paper mill in Grand Rapids, Minnesota, and similarly for the packaging mills in Duluth, Minnesota: Their electricity rates are just a lot lower than ours.

Companies can hedge against the valuation and devaluation of currencies; they do that all the time. They have all kinds of ingenious mechanisms for hedging, such as buying ahead and so on. These companies, many of which have been in the business for decades, do that all the time. What they're saying they cannot do is, they cannot stay in business when their costs of production are constantly rising because of the cost of electricity, which is the prime mover of their paper machines.

Quebec, yes, has lost some jobs, but I invite you to go to the website of any one of these companies, whether it's Domtar, Abitibi, Cascades or Kruger. What you'll find is that they're operating far more paper machines in Quebec and far more paper machines in the United States than they're operating in Ontario now. In my part of the province, seven years ago we had three operating paper machines in Dryden and three in Fort Frances—that's six; two in Dryden is seven and eight; three at Cascades is 11; two at Red Rock is 12 and 13; one at Mission is 14; and three at the AbitibiBowater mill—what are we up to now, 18?—and one at the Smurfit-Stone—

The Chair (Mr. David Oraziotti): Your time is—

Mr. Howard Hampton: —and we're now down to three paper machines. I think people deserve an explanation on that.

The Chair (Mr. David Oraziotti): Thanks. We appreciate you wrapping up.

Folks, that's all of the time by all of the parties used for the motion. Mr. Clark's motion is on the floor. I assume you will want a recorded vote?

Mr. Steve Clark: Yes.

Ayes

Clark, Hampton, Ouellette.

Nays

Brown, Brownell, Kular, Levac, Mangat.

The Chair (Mr. David Oraziotti): The motion is lost. Thank you, members. That's committee business for today.

The committee adjourned at 1432.

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