Cape Breton steel town fears future

Modernized mill necessary for survival, but does market demand it?

Atlantic Canada's steel city is facing a crisis. With the existence of its major employer in doubt, many are questioning whether Sydney is a ghost town in the making.

by JULIAN BELTRAME
Southam News

SYDNEY, N.S. — On a clear day, the orange mushroom cloud over Sydney can be seen from afar, a visible symbol of the double-edged gift steel bestows on the sooty heart of industrial Cape Breton.

Throughout the 20th century, Cape Breton has rejoiced at the sight of the unnatural clouds, tolerating the sting to the eyes and dangerously high cancer rates that rain down on its inhabitants.

For all its aesthetic and physical ills, the unsightly steel works also brought millions of dollars to the depressed island, employed succeeding generations of men, kept the young home and perhaps most important, gave Sydney an identity.

"Sydney has always meant steel," explains Leo Jessome, who has worked for the Sydney Steel Co., called Sysco, under various owners the past 40 years.

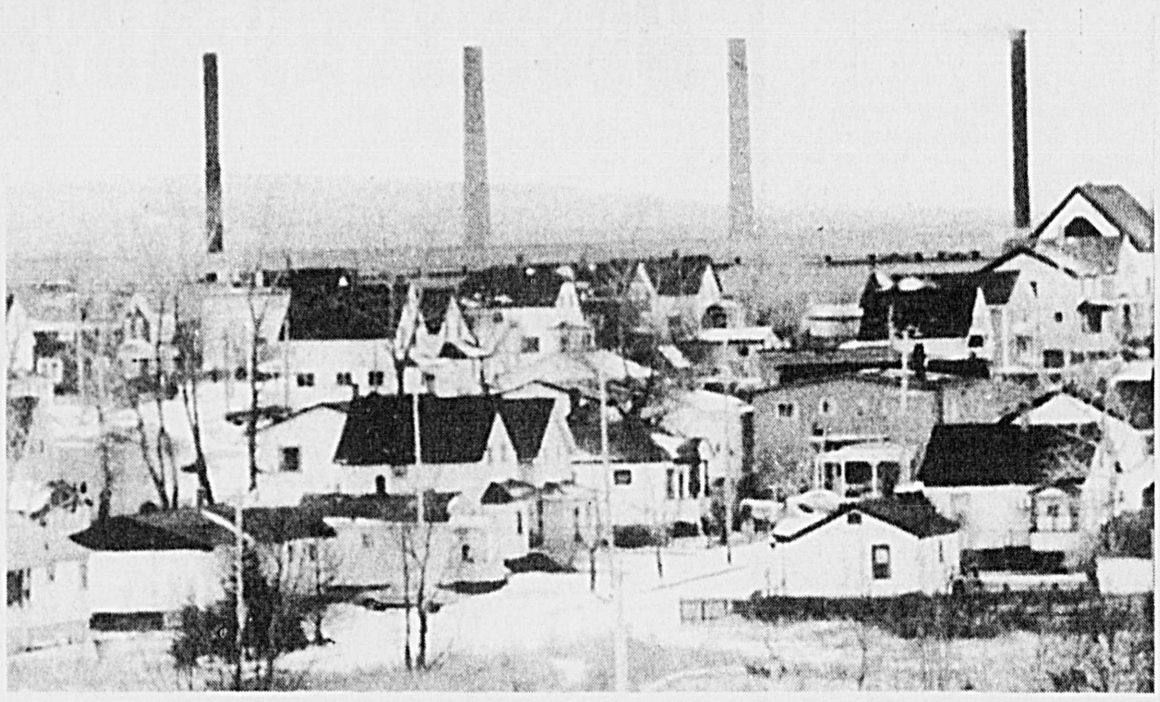
"It was always considered a one-industry town. The whole town lived off steel . . . it was the basis of the economy. Sydney just wouldn't be here without steel."

Given its past, it's perhaps understandable that today, Atlantic Canada's Steel City is undergoing a crisis of identity.

For the first time since Boston tycoon Melville Whitney landed in Sydney Harbor with his dream of creating a Pittsburgh of the North, the town is seriously being forced to consider a future without steel and, frankly, it is afraid.

The signs of panic come from both the usual and some unexpected sources.

The local newspaper, the Cape Breton Post, daily quakes with headlines of Sysco's demise. The steel workers union is drawing plans to march on Parliament Hill. Local politicians have begun boycotting federal job-creation announcements.



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There was even the comic sight of a distraught provincial Tory cabinet minister blurting out that Cape Breton might fare better under a federal Liberal government. Labor minister Brian Young later apologized, admitting his momentary mutiny was wrought out of frustration.

The cause of this spreading alarm is a warning by Premier John Buchanan that an essential $157-million modernization program at Sysco will depend on the result of a market survey conducted by Arthur D. Little Ltd. of Toronto.

Without guaranteed markets, the modernization will be shelved, Buchanan says. Without modernization, Sysco is finished, says the company.

Although the modernization project was announced with much fanfare more than a year ago, prospects have become considerably gloomier for Sysco over the last 12 months.

What has changed is that Sysco's only domestic customer, Canadian National Railways, has drastically cut back on rail purchases. In 1984, CN bought 125,000 tons of Sysco rails, but only 40,000 tons in 1985 and 31,000 so far this year.

This puts Sysco's operating loss before depreciation from $6.4 million in 1984-85 to over $20 million in this fiscal year.

The future doesn't appear any brighter. CN chairman Maurice Leclair told a parliamentary committee this month rail purchases will decrease in the future and he does not plan to buy Sysco rails merely to stockpile them.

The Arthur D. Little market survey won't be completed until near Christmas, but Jay Gordon, a Toronto steel industry analyst with McLean, McCarthy and Co., has few reservations in predicting what the study will find.

In the face of a world-wide slump for steel, "Sysco is a dead letter," Gordon said. "It's an economic catastrophe and a social disaster. The sooner they recognize that fact the better for everybody concerned."

This is not the first time Sysco has been handed a pink slip from out-of-province experts.

But it may be the first time the dire warnings are being taken seriously among those with the power to sever the flow of taxpayers' dollars, which for 20 years sustained the town and its 30,000 blue-collar residents.

On Oct. 13, 1967, "Black Friday" as local newspapers termed it, foreign-owned Hawker Siddeley unveiled plans to close the antiquated steel works, putting 3,000 steelworkers on the street.

With one-in-four of Sydney's jobs tied to steel, few believed the mill would be closed. And it wasn't. The province quickly stepped in to rescue the plant and the town.

Since 1967, however, Nova Scotia has poured $337 million into Sysco. During the same period, Ottawa pumped in another $118 million. Still, Sysco rang up a $465-million debt that provincial development minister Roland Thornhill admits "we'll have to pick up."

"That money ($920-million) is history," Thornhill told Southam News. "The market survey is needed to find out if we should spend another $157 million. You can't continue to produce what you can't sell."

In a meeting with the steel union last week, Premier Buchanan tipped the government's hand and the Arthur D. Little study's anticipated findings. Sysco's future is dependent on CN guaranteeing an annual rail order of 80,000 tons, he told the union.

"Canadian National is a Crown corporation. Over the years the public has poured millions into CN, therefore it's almost immoral that it would not buy all its rail from Sysco," the premier reasoned.

Buchanan said in an interview, Prime Minister Mulroney will simply have to order CN to fill all its rail needs from the Sydney manufacturer, economics aside. Currently, CN has been buying superior head-hardened rail, which Sysco does not make, from Europe and the Far East and another quarter of its rail from Algoma, because it can be delivered cheaper.

Even if CN capitulates and modernization proceeds, Thornhill admits Sysco is unlikely to show a profit. The best that can be hoped for is that the steel plant will not continue to be a drain on already stretched provincial funds.

Sysco spokesman Harvey MacLeod doesn't agree. He said with the $157-million modernization, which involves replacing the dated open hearth furnace with electric arc, followed by installation of a $100-million universal furnace to produce other steel products, Sysco "will be able to show a modest profit after depreciation.

"First we need what we had in the past (85 per cent of CN's rail purchases) and the modernization. Then the mill would have the ability to replace its assets . . . in other words, operate at better than break even," he said.

To Sydney Mayor Manning MacDonald and local union head John Callaghan, hypothetical discussions about whether the steel works can ever again show a profit beg the point.

Last year, Sysco's payroll funneled $37.5 million into the local economy. Pension payments added $10 million and the plant paid another $2.5 million in municipal taxes, 10 per cent of the city budget. It would be unthinkable to shut down Sysco, they say.

"Why is it that when Quebec or the West gets a government handout, it's in the cause of national unity, but when Cape Breton gets it, it's a moral issue?" MacDonald fumed. "Maybe (ordering CN to buy from Sysco) is another form of a handout. I'm not going to apologize for that."

Callaghan contends closing Sysco dooms Sydney to a "ghost town" existence.

"You take it away and the city's gone. If you take away that $50 payroll and those 1,200 jobs, who will buy the cars? Who will have the money to support the stores and buy the services? You can't just have a city living on welfare, stores and government offices."

Touring the town that steel built offers few clues of decline or fall. Instead, despite an estimated jobless rate of 25 per cent, Sydney appears poised on the brink of a modest second-wave of prosperity.

On George Street, city workers string Christmas decorations over the fast-flowing stream of shoppers. At the newly-built Centre 2000, a long line forms to purchase tickets for a Dec. 6 game involving a Soviet hockey team. On Esplanade, posters trumpet the arrival of two major hotels. A new $17-million hospital is in the works.

Building permits issued by the regional government add substance to the impression. After hovering around the $10-million mark for years, 1985 and 1986 saw a doubling in the value of residential and commercial construction.

These and other signs auger well for Sydney's future, with or without steel, reasons William Gallivan, an economist with the University of Cape Breton. Rather, he adds, Sydney might be better off today if the province had taken the hard decision in 1967 it is contemplating today.

"A fundamental role of government is to facilitate the economic adjustment process," he argues.

"Instead we've had a government policy to retard the adjustment process to a different economy and that's a shame. We may never recover."

Gallivan points out that since the province took over Sysco, employment in the mill has dropped from 3,500 to 1,200. This alone suggests that Sydney's crisis may be more psychological than real.

"Steel here is not just a manufacturing plant, it's a way of life. People here just can't think in terms of no steel mill. Their minds can't cross that threshold."

In all likelihood, the residents of Sydney will soon be required to contemplate their town as something other than Steel City.

Most observers believe CN will be ordered to guarantee some Sysco purchases and that modernization will proceed. But the era of steel's dominance is at an end.

Even with modernization, MacLeod predicted significant layoffs. Depending on market demand, MacLeod estimated the electric arc furnace and rail mill could be operated with between 400 and 700 workers, meaning as many as 800 jobs will disappear.

And if the mill is still not profitable, as many suspect, the political risks of finally closing the doors on Atlantic Canada's only steel mill won't seem nearly as high.

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Much tried, with little success

Stories
by JULIAN BELTRAME
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SYDNEY, N.S. — Cape Bretoners mockingly call it "the announcement industry" and over the past 20 years it has cost taxpayers $4 billion while keeping this island's 130,000 residents the most impoverished in the country.

Since 1967, when Dominion Steel and Coal company gave up on industrial Cape Breton, a long line of federal and provincial politicians have made the trek to the island, money in pockets, promising salvation at every ribbon-cutting, jobs at each press conference.

The list of announcements is impressive. The failures and miscalculations monumental.

- The Sydney Steel Co. (Sysco), a provincial Crown corporation, has cost taxpayers $920 million since 1967. Now Sysco is asking for another $157 million and $34 million have been allotted for cleaning a polluted pond caused by Sysco. During that period, employment at Sysco has declined from 3,500 to 1,200.
- The Cape Breton Development Corp. (Devco), a federal Crown company, has cost about $1 billion in keeping the area's coal mines open and in make-work projects. Yet the number of miners has dropped from 5,000 to about 3,000.
- Two heavy water plants, finally closed last year, have cost the federal government about $1.5 billion. When they closed, 700 people were put out of work.

While it is difficult to match the big three losers of heavy water, steel and coal, numerous other industry transplants and rescues have fared no better.

- Lured by federal grants and provincial manufacturing space, Hustler Corp. decided to build the Jigger, an all-terrain vehicle. It went bankrupt.
- Canadian Automobile Industries went into production in the early 1970s, assembling Toyota Corollas. It lasted a couple of years.
- General Instruments hired 1,000 people to make radio tuners for large North American cars. After three years, the firm moved to Mexico, idling 1,000.

There were other, wilder, projects; everything from a plastic coffin factory that sold one coffin before it was mercifully buried this year, to the airlift of Scottish sheep on a BOAC 707. The sheep were diseased and nearly killed off the island's mutton industry.

The result of these and many more? More than $4 billion spent, yet unemployment skyrocketed from an estimated 5 per cent in 1967, to the between 20 to 25 per cent of the past two years.

Keith Brown, a director of Devco and the newly-minted Enterprise Cape Breton (ECB), admits bad policies and worse luck undermined much of what naive politicians attempted to create in Cape Breton.

But he insists that after 20 years, politicians finally have it right with a system of tax and investment inducements that emphasize smaller, home-grown industries.

The past mistakes had a common denominator, he said. They involved outsiders with little business coming to the island except to collect government grants.

"Now there's no more Band-Aid solutions and quick fixes from outside," Brown explained. "For the first time, somebody asked Cape Bretoners what should be done."

The proof of the pudding can be seen in what has occurred on the island since Finance Minister Michael Wilson's 1985 budget, which offered generous tax credits and investment grants under a half-dozen programs.

At the top end, an investor could get 84 cents for each 16 cents he invests, although few qualify for the maximum benefits.

To date, the Department of Regional Industrial Expansion (DRIE) and since May, ECB, has fielded 22,000 investor inquiries.

There have been 350 offers accepted with a potential of 1,278 jobs under the Atlantic Enterprise Program. In addition, there's been 300 applications for tax credits and already 10 projects have received credits, which means the projects are in operation. Furthermore, in the past six months, ECB has seen 12 projects start up with 201 jobs and made offers on another 12, worth 301 jobs.

The most promising statistic, adds Brown, is that investors have made applications on another $525 million in projects with a potential of creating 7,000 jobs.

"Not all of these will go ahead, but it's encouraging that people have confidence in the future of Cape Breton," he said.

Brown's optimism is reflected in the employment statistics. Cape Breton's jobless rate in October was 20.5 per cent, three points less than October, 1985. And there are 3,000 more people working on the island this year than last.

Of course, anyone familiar with the island's endemic unemployment problem has heard the rosy projections before.

Island economist William Gallivan wonders if history will not repeat itself with the current system of handouts, which he says distort economic realities.

"My own sense is that the investments would be wiser if they went into the fishing and forestry sectors indigenous to the region, rather than manufacturing that has no logical, economically defensible reasons for being here."

He might have been talking about Canadian Tennis Tech, which is receiving about $300,000 in grants and tax credits to develop an electronic line-calling system for tennis officials. Some lessons are hard to learn.