CAT Closure A Blow To Canada Mfg

The Associated Press

OTTAWA — The closure of a locomotive plant in London, Ont., by U.S. heavy equipment maker Caterpillar comes as the latest blow to Canada's struggling manufacturing sector. Facing new competition from low-cost countries, a sluggish economic recovery and no longer able to count on a weak loonie to create a cost-advantage, the sector faces a tough future. Michael Burt, director for industrial economic trends at the Conference Board of Canada, said the manufacturing sector has been improving since the lows of the 2008-9 recession, but noted it faced difficulties long before the downturn. "Before the recession, we saw no growth in broad manufacturing activity for much of the last decade," he said pointing to the rising loonie and China's growing role as the world's factory as two key factors.

Burt said there have been some areas of growth in areas such as food manufacturing, but the more traditional segments such as the auto parts industry have struggled in the face of competition from places like Mexico.

"That's been because we are a higher cost market. That's a function of the strengthening dollar and the unit labour costs in the industry."

Ten years ago, Canada's dollar was worth as little as 61.79 cents US. Now the two currencies are worth about the same, taking away one reason for companies to do their manufacturing in this country.

Caterpillar (NYSE:CAT) subsidiary Progress Rail Services announced Friday it would close the Electro-Motive Diesel plant in London after failing to reach a deal with its workers.

Progress Rail had asked the workers to take a 50 per cent pay cut to help keep Electro-Motive going before locking them out on Jan. 1 after the union rejected the proposal.

The company, which bought Electro-Motive for US$820 million in cash from Berkshire Partners LLC and Greenbriar Equity Group LLC in 2010, said it would move the work to its other plants in North and South America.

In addition to the operation in London, Progress has plants across the United States as well as in Mexico and Brazil.

The latest closure follows a decision last year by Navistar International Corp. to close its truck manufacturing plant in nearby Chatham, Ont., for good, a move that put 1,100 workers out of work.

Thousands of workers in the auto industry were thrown off the job during the restructuring of the big North American automakers, which saw plants closed and others slimmed down.

Prime Minister Stephen Harper had used Electro-Motive as a backdrop in 2008 to promote big tax breaks for industrial capital investments.

NDP MP Robert Chisholm called on the federal government, which has said repeatedly that the Electro-Motive dispute is one between a private company and its workers, to do something.

"The fact is that taxpayers have funded Caterpillar, the growth of Caterpillar in this country," Chisholm said.

"In fact, we're funding the move of Caterpillar to the United States and, so I say, and I think Canadians would agree, that this government has a responsibility to hold that company accountable."

Andrew MacDougall, a spokesman for Harper, challenged Chisholm's claim that taxpayers funded the Electro-Motive plant, adding that he wasn't aware of any government dollars having gone to Caterpillar.

He said the prime minister was disappointed with the outcome of the labour dispute and sympathized with the workers who are now without jobs. But he blamed the provincial government for not being able to mediate a solution.

MacDougall said Ottawa is working on a plan that will generate new jobs and opportunities for those affected by the closure and will also work with Ontario to provide access to benefits and skills training for displaced workers.

The CAW said Friday the closure of the factory did not just affect the plant's 465 workers, but would also hurt an additional 1,700 workers employed in spin-off jobs related to the operation.

The hit comes as the CAW prepares for a new set of contract talks with the U.S. automakers. The union has said it is expecting a difficult round of bargaining.

The CAW has pointed to the erosion of the manufacturing sector in Canada and high unemployment as key challenges for workers across the country — both unionized and non-unionized and in both the private and public sector.

Burt said that the manufacturing growth in Canada in the 1990s was counter to what else was happening the rest of the world as the country benefited from the free trade agreement with the U.S. and a weak loonie.

"A lot of those benefits in terms of NAFTA have now past, we've got a strong dollar, we've got new competitors on the global market and all this means now is we are facing the same problems that our other peers have been facing," he said.

"Most developed countries have seen manufacturing shrinking as a share of their economies for 20, 30 years now."