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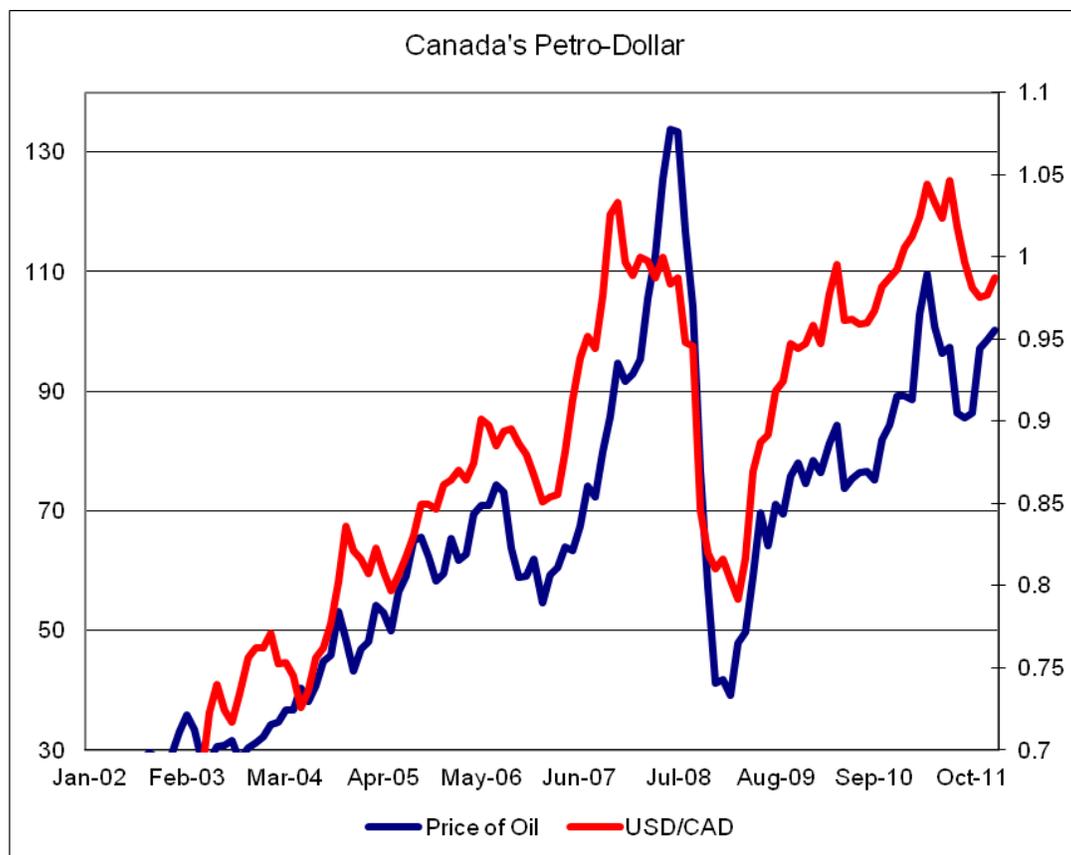
Backgrounder: Dutch Disease and Canada's Manufacturing Sector

Introduction:

Premier McGuinty kicked off a much needed debate this week about the impact that the rising value of Canada's oil exports is having on Ontario's manufacturing sector:

"The only reason the dollar is high, it's a petro dollar, driven by the global demand for oil and gas to be sourced in Western Canada...If I had my preferences as to whether we have a rapidly growing oil and gas sector in the West or a lower dollar benefiting Ontario, I stand with the lower dollar."

With the oil industry poised to triple tar sands production, with the support of the federal government and Alberta, it's essential to understand the impact rising oil exports are already having on jobs elsewhere in Canada.



Source: Monthly Cushing, OK WTI Spot Price - Energy Information Administration (<http://tonto.eia.doe.gov/dnav/pet/hist/rwtcM.htm>); Canada/US exchange rate - Bank of Canada (<http://www.bankofcanada.ca/rates/exchange/monthly-average-lookup/>)

- Parts of Canada are being affected by “Dutch Disease” – a term coined in the 1970s to describe the hollowing out of manufacturing in the Netherlands following the discovery of a large natural gas field that drove up the country’s currency, pricing its manufacturing products out of international markets.
- A 2008 OECD study warned that Canada was at risk of Dutch Disease and needed to ensure vulnerable sectors like manufacturing were not ‘crowded out’ as a result of the rise of commodity exports.ⁱⁱ
- A recent study from the University of Ottawa that examines the impact of resource exports (e.g. oil) on the dollar and manufacturing jobs finds that Dutch Disease has a big impact in Canada. It estimates that 42 per cent of manufacturing job loss in Canada due to rising currency has been a result of Dutch Disease stemming from growing oil exports.ⁱⁱⁱ
- Canada’s geography presents a unique challenge in dealing with the impacts of Dutch Disease.^{iv} While Alberta reaps the majority of the job benefits of tar sands development, it’s Ontario and Quebec that feel the pain of jobs lost in the manufacturing sector. Seventy-five per cent of Canada’s manufacturing industry is located in these two provinces.^v Between 2004 and 2008, Quebec and Ontario lost 86,700 and 198,600 manufacturing jobs respectively.^{vi} B.C., New Brunswick and Nova Scotia also lost a combined 35,000 jobs.^{vii}
- The Government of Ontario estimated in its fall 2010 Economic Update that, for every 5 cents appreciation of the dollar, the province’s GDP shrinks by up to 0.8% in the first year and 1.2% in the second year, or \$4.6 billion and \$6.9 billion respectively.^{viii}
- Desjardins has warned that “Dutch disease” will resurface as an issue during this period of economic recovery as oil prices rise, driving up the value of the Canadian currency and hurting the manufacturing sector in central and eastern Canada.^{ix}
- The Canadian Automotive Partnership Council cited the rising dollar as a concern and reason for Ottawa to provide assistance.^x Canadian Manufacturers and Exporters also identified a Canadian dollar above parity as a major risk factor for the economic outlook of the manufacturing sector.^{xi}
- To date, Canada has not had a debate about how to manage the impacts of rising oil exports. But, it doesn’t need to be this way – Norway adopted policies to minimize the impacts of Dutch disease, and as a result has built up a \$450 billion wealth fund.^{xii}

For more information, contact:

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ⁱ <http://www.ctv.ca/CTVNews/Canada/20120228/redford-disappointed-mcguinty-oilsands-stance-120228/#ixzz1ngjORObD>

ⁱⁱ OECD Economic Surveys: Canada. 11 June 2008.

ⁱⁱⁱ Coulombe et al. *Does the Canadian Economy Suffer from Dutch Disease?* Tinbergen Institute Discussion Paper (2009). <http://www.tinbergen.nl/discussionpapers/09096.pdf>

^{iv} Célestin Bimenyimana and Luc Vallée. “Curing the Dutch Disease in Canada”, Policy Options. November 2011.

^v Célestin Bimenyimana and Luc Vallée. “Curing the Dutch Disease in Canada”, Policy Options. November 2011.

^{vi} Andre Bernard. Trends in Manufacturing Employment. Statistics Canada — Catalogue no. 75-001-X. February 2009.

^{vii} Andre Bernard. Trends in Manufacturing Employment. Statistics Canada — Catalogue no. 75-001-X. February 2009.

^{viii} The Hon. Dwight Duncan, Minister of Finance. Ontario Economic Outlook and Fiscal Review. 2010. Background Papers. http://www.fin.gov.on.ca/en/budget/fallstatement/2010/paper_all.pdf

^{ix} Desjardins Economic Studies. Economic and Financial Outlook. Volume 14, Winter 2010.

http://www.desjardins.com/en/a_propos/etudes_economiques/previsions/financieres_trimestrielles/pef0912.pdf

^x <http://www.theglobeandmail.com/globe-investor/auto-executives-to-seek-ottawa-help/article1912245/>.

^{xi} Jason Myers. Economic Outlook for 2011. Canadian Manufacturers and Exporters. <http://www.cme-mec.ca/download.php?file=gihfznwu.pdf>

^{xii} For a full discussion of Norway and Dutch Disease, see Erling Larsen, “Escaping the Natural Resource Curse and Dutch Disease?” Research Department of Statistics Norway Discussion Paper no. 377 (2004).