One factory down and how many more to go
QUARTER, JACK
The Globe and Mail (1936-Current); Feb 5, 1988; ProQuest Historical Newspapers: The Globe and Mail
pg. A7

One factory down and how many more to go?

BY JACK QUARTER
Mr. Quarter teaches community psychology and community development at The Ontario Institute for Studies in Education.

THE RECENT closing of Lapp Insulators Inc., a Hamilton plant that manufactured ceramic insulators for the heavy-duty electrical industry, merits more than the usual condolences.

At the time of its closing, Lapp had only 47 employees; unlike Firestone or Goodyear, it was not exactly a household name. But Lapp has an interesting history, one that speaks directly to the current debate about control of the Canadian economy.

Lapp was set up two years ago as a subsidiary of a larger manufacturer of ceramics insulators with a head office in LeRoy, N.Y. The parent company had bought the assets of Canadian Porcelain Ltd., a company that had been operating in Hamilton since 1912 until it went into receivership in 1984.

Before the purchase, Lapp was known to Canadian Porcelain. Lapp and some other firms were convicted in 1985 by a federal government anti-dumping tribunal of price suppression and price erosion. The tribunal concluded that "dumping contributed significantly to the eventual inability of the company (Canadian Porcelain) to sell its products or meet its contract commitments."

Guilt, in this case, meant about as much as a two-minute elbowing penalty in hockey. It was a very minor infraction in a roughly played corporate game.

But why did Lapp buy the Hamilton plant when its goal seemed only to drive it out of business and to capture a portion of the Canadian market for its U.S. operation? This is where the story becomes interesting.

Lapp, it seems, was encouraged to purchase Canadian Porcelain's assets because the workers — members of the Aluminum, Brick and Glass Workers Union — had formed a worker co-operative (a business owned in total by its workers, each holding one voting share) and were negotiating with the receiver (Peat Marwick, representing the Royal Bank) to buy and operate the plant.

The buyout involved more than just the workers. It involved the people of Hamilton and Ontario's co-operative sector coming together to say they were going to help the plant become a success again.

Just when negotiations between the co-operative and the receiver were approaching their final phase — the co-operative offering $1.1-million and the receiver requesting $1.5-million — Peat Marwick accepted a $1.25-million offer from Lapp.

The co-operative was surprised to learn of Lapp's last-minute bid and astonished that the receiver would not permit it to make a better offer. In a press release shortly after Peat Marwick accepted the Lapp offer, co-op president Bill Thompson stated: "We never knew another offer was presented; we were summarily informed that they had a deal and goodbye."

The sale was appealed to Sinclair Stevens, the federal industry minister at the time, on the grounds that it violated the last remnants of Canada's foreign investment policy and that, in view of its previous dumping practices, Lapp had no lasting commitment to the Hamilton plant.

Hamilton alderman Bruce Charlton, among the many community leaders who voiced support for the co-operative, was prophetic: "Down the road, not very far down the road, I suspect, the company is going to do something we've heard before . . . corporate rationalization. Because the Canadian operation is only one-tenth the size of the American plant, they're going to say it's not economically viable for us to keep the plant in Hamilton."

Pleas from the workers and Hamilton community leaders fell on deaf ears. Mr. Stevens, it seemed, did not have sufficient confidence in the workers' offer of purchase and was impressed by Lapp's many promises, including the hiring of 96 employees and the modernization of the plant, which previous owners had permitted to become rundown.

"We could not convince ourselves that if we said no to the American proposal, the Candian workers could indeed purchase the assets and set up what they were hoping to set up," said Mr. Stevens.

He held to this view in spite of Lapp's past dumping practices and despite the fact that the worker co-operative's financial offer was backed by a syndicate consisting of the Ontario Credit Union Central, the Co-operators and CUMIS insurance companies and the Hamilton-Wentworth Credit Union.

Lapp's flirtation with Canadian Porcelain is now history. There is talk of another attempt at a buyout but it's uncertain whether anything will come of it. Although it is probably too late for the workers at this Hamilton plant, their struggle — and the struggle of their community — will not have been in vain if it can inform government policy.

The Canadian Porcelain story speaks very clearly about the risks involved in eliminating protection for small Canadian industries. In the absence of a federal government prepared to fight for the national interest, many other Canadian industries could be vulnerable to the type of game Lapp played.

The Canadian Porcelain saga also points to the weakness of Ontario's plant-closure legislation, as amended in June. Because Lapp's Hamilton plant had fewer than 50 workers, its closing is not covered by the new legislation.

Lapp does not have to justify its actions; it does not even have to sell the Hamilton plant's assets. Lapp's asking price of $11.4-million ($10-million more than was paid two years ago) would suggest that it would prefer to discourage a sale.

In principle, Ontario is committed to preventing closings and to supporting "creative options" such as worker buyouts. However, the shutdown legislation lacks any muscle and the province has so far declined to establish a fund that would assist buyouts.

There is a bitter irony to the Canadian Porcelain story. Governments — federal and provincial — are tripping over each other to encourage entrepreneurship as a means of revitalizing the economy. Here, at this small Hamilton plant, were 60 ordinary working people prepared to take the financial risk of owning and operating the factory that provided their livelihood.

The worker co-operative they proposed was not a traditional form of entrepreneurship. It involved equal and shared risk and democratic control. Even though there are many successful examples of this model, the federal Government seemed unprepared to favor it over more traditional branch-plant ownership.

The irony was summarized in a Hamilton newspaper editorial: "By opting for an old solution in this case, the Mulroney Government sent a negative message to a whole new breed of Canadian risk-takers. But we hope that they look at the experience as a learning process."

Industrial Hamilton: attempt at co-operation stymied.