



THE GLOBE AND MAIL

TUESDAY, MAY 3, 2011

SECTION B

# Report on Business

**ROSSEAU**  
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EDITOR: ELENA CHERNEY

**S&P/TSX**  
13,934.51 (-10.28)

**DOW**  
12,807.36 (-3.18)

**S&P 500**  
1,361.22 (-2.39)

**DOLLAR**  
105.17 (-0.49)

**GOLD**  
1,557.10 (+0.70)

**OIL**  
113.52 (-0.41)

**GCAN 10-YR**  
3.195% (unch.)

## ECONOMY CANADIAN AUTO PRODUCTION

# Honda's output cut hits home

GREG KEENAN  
AUTO INDUSTRY REPORTER

Supply of the Honda Civic, the best-selling passenger car in Canada for the past 13 years, will be "severely restricted" for the next several months as Honda Motor Co. Ltd. slashes production in Alliston, Ont., in a move that will ripple throughout the Canadian economy.

Amid a shortage of parts from earthquake-battered Japan, Honda will trim output of cars and crossover utility vehicles in Alliston, about 90 minutes northwest of Toronto, to three days a week – a cutback that arrives just as the spring selling season heats up and the auto maker introduces a redesigned 2012 model-year Civic.

"While dealers will continue to receive product, supply will be severely restricted with limited availability of certain models," Honda said in a statement Monday. In addition, the launch of the redesigned CR-V crossover model will be delayed one month and there is likely to be "very limited supply" of vehicles imported from Japan such as the Fit subcompact, Insight hybrid and Civic hybrid, as well as two Acura cars.

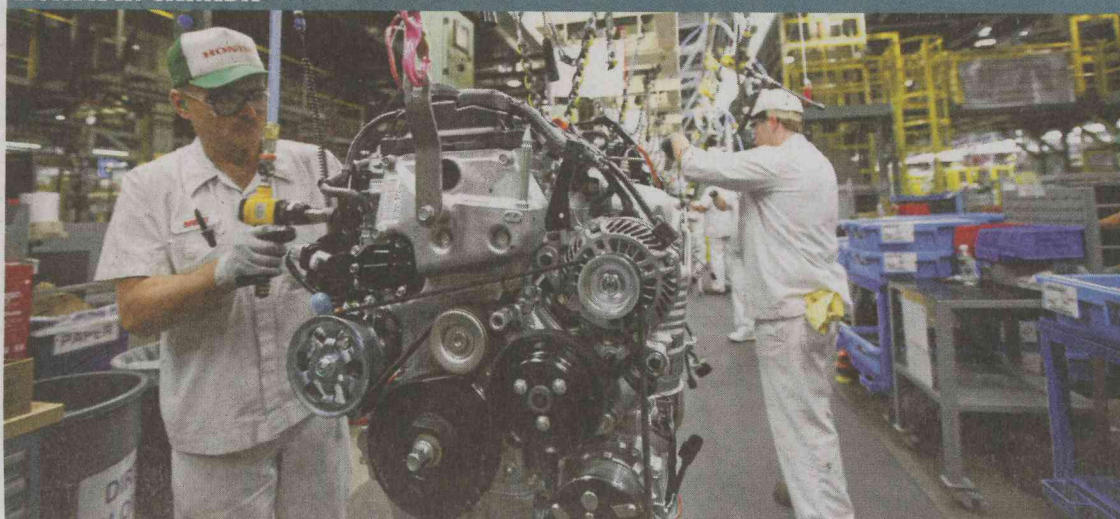
The announcement is a blow to the Canadian manufacturing sector, which is still recovering from the historic downturn in auto production in 2008-09. Bank of Nova Scotia economist Carlos Gomes said cuts by Japan-based auto makers in Canada will reduce economic growth in the second quarter by half a percentage point. Industry analyst Dennis DesRosiers has reduced his forecast for overall Canadian vehicle sales because of the decline in Civic production and a limited supply of other vehicles from Japan-based auto makers.

Those forecasts underline how crucial the Civic is in the Canadian automotive market and, in turn, how important the auto industry is to the Canadian economy. With production at normal levels, Canada's economy would be expected to grow by about 2.7 per cent this quarter, Mr. Gomes said.

Honda, Page 4

**Auto jam »** Vehicle production by Japanese auto makers in Canada suffers as parts remain in short supply after the March 11 earthquake and tsunami

### HONDA IN CANADA



#### Closures

Honda expects shortages of the Civic and other models as it cuts production through the summer. Normal production may not resume until the end of the year.

#### Monthly vehicle production

January	25,087
February	23,245
March	18,683

#### Production losses

For March through June, Honda's Alliston, Ont. facility will lose an estimated 13,125 units of production, according to J.D. Power.

### TOYOTA IN CANADA



#### Closures

Toyota plans to close its two Canadian assembly plants for the week of May 23 and its U.S. plants the week of May 30, following shutdowns from April 15-25.

#### Monthly vehicle production

January	51,193
February	41,768
March	39,579

#### Production losses

For March through June, Toyota's Cambridge, Ont. facility will lose an estimated 31,891 production units, and Woodstock, Ont. will lose 16,693, says J.D. Power.

## NATURAL GAS DRILLING

# 'Fracking' lawsuit spurs legal worries in oil patch

JEFF GRAY TORONTO  
NATHAN VANDERKLIPPE  
CALGARY

A controversial method of drilling for natural gas that has revolutionized the industry is confronting a growing backlash across North America, and the fast-spreading technique faces a legal test in Canada's oil and gas heartland.

In the latest sign that pressure against the practice, known as "fracking," is mounting, a Southern Alberta woman filed a \$33-million lawsuit alleging that nearby drilling by Encana Corp. is responsible for contaminating her water with enough methane that it can be lit on fire.

The allegations have not been proven in court. The case comes just weeks after Quebec put all fracking projects – short for fracturing – on hold while it studies the environmental effects.

Fracturing involves injecting substances below ground to break up rock formations and force up natural gas. Often companies use large volumes of sand, water and chemicals or gases like nitrogen.

Controversy over its effects, including the alleged contamination of groundwater, has raged in the United States.

Last week, Jessica Ernst, 54, a landowner near Rosebud, Alta. – about 120 kilometres northeast of Calgary – filed a lawsuit against EnCana, the province and the province's energy regulator.

Ms. Ernst, who has worked as an environmental consultant to the oil and gas industry, accuses EnCana in her statement of claim of engaging in a "risky and experimental drilling program" to extract shallow coal-bed methane from several wells near her property in the Rosebud area.

The lawsuit, which she launched after waging a local campaign against fracking, also targets the provincial government and the province's Energy Resources Conservation Board.

Fracking, Page 8

## ECONOMY

# In the U.S., 'the mother of all jobless recoveries'

BRIAN MILNER

When U.S. Federal Reserve chairman Ben Bernanke held court during his historic first press conference last week, he mentioned inflation, which is half of the central bank's twin mandate, more than 80 times.

employment – rated only 16 references. That's partly because of the questions that were posed and partly because the central bank simply doesn't have the weapons to tackle stubbornly high unemployment.

It also underscores the remarkable lack of enthusiasm in U.S.

most serious fallout from the housing and credit collapse and subsequent severe recession. Even as millions of Americans run out of extended jobless benefits, politicians at every level are turning their attention to belt-tightening and the Federal Reserve is again expected to

The latest U.S. employment numbers due on Friday are expected to show slightly lower job creation in April than in both March or February and a jobless rate holding steady at 8.8 per cent, which is an improvement over unemployment rates closer

## INSIDE

### Strategic shift

At its biggest annual conference, the BlackBerry maker delivers software that's compatible with its competitors' smart phones in addition to its own.

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FROM PAGE 1

## Fracking: Energy industry argues drilling method is safe

» She accuses the board of failing to police the industry since her water starting irritating her skin in 2004.

"I'm not the only one. There are many others that this has happened to, and my story is not unique," Ms. Ernst said in an interview from New York, where she is taking part in a panel discussion on fracking being held at the United Nations.

The fracturing used to extract coal-bed methane is technically different from methods employed in extraction of shale gas, which has generated major controversy around the globe. But the alleged impacts are largely the same, as are the questions surrounding how industry taps novel energy sources.

Encana spokesman Alan Boras defended the company's natural gas production, saying it is safe and that there are "numerous precautions put in place that ensure that we do not interact or contaminate groundwater."

He said homes around Rosebud regularly encounter natural gas in water wells because they have been driven into shallow coal seams.

A spokeswoman for the Energy Resources Conservation Board declined to comment, saying the matter was before the courts. Alberta Environment also declined to comment on the lawsuit.

One Toronto environmental

lawyer says there are other legal cases like Ms. Ernst's that could surface soon against others in the industry. Dianne Saxe, who is not involved with Ms. Ernst's lawsuit, says she has been approached on a similar case in Alberta, and there are other disputes.

The industry has long argued that fracking is safe – and that the chief problem facing companies is their operations in areas where people are unfamiliar with drilling.

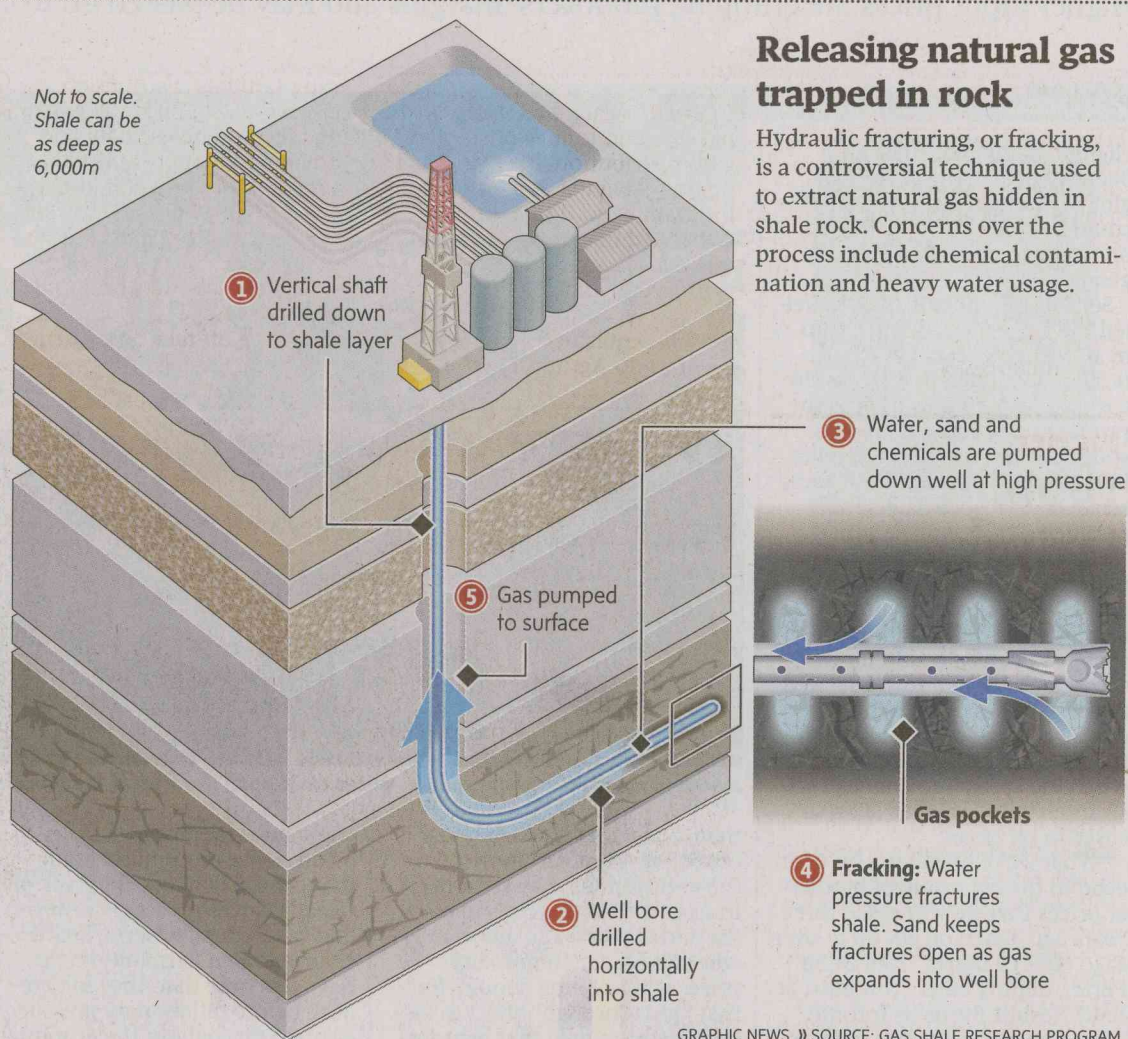
"As a result, there is a public angst about what is actually potentially going to happen when companies go in," said Mike Dawson, the president of the Canadian Society for Unconventional Gas, an industry-supported group.

In northeastern British Columbia, for example, the rise in water-intensive fracking has coincided with a drought period.

Mike Bernier, the mayor of Dawson Creek, B.C., called his town's water supply "very fragile."

"One of the concerns is if the oil and gas industry goes out there and takes too much water before it gets to the city." That has made for difficult choices.

"We've done very well with the oil and gas sector, and we're promoting it," Mr. Bernier said. "If we say, don't use the water, there's no more oil and gas. So it's a circle you have to balance very carefully."



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