

# BROTHER

## CAN YOU SPARE SOME TRANSFORMATIONAL CHANGE?

BY: ALEC BRUCE

**THREE YEARS AGO,** New Brunswick's Liberal Premier Shawn Graham was elected on a platform of "self-sufficiency". Unfortunately, the global economic meltdown got in the way. Now, the Province is mired in debt and the wholesale retrenchment of some of its traditional industrial powerhouses. But fear not. The indefatigably optimistic Graham has a plan, and it's...well, transformational.

Premier Shawn Graham  
(Government of New Brunswick)

It is, after all, the least modest of proposals. So when I suggest New Brunswick might find fiscal solace, the curative to all its present woes, in a plan to auction off the world famous Flower Pot Rocks, Premier Shawn Graham roars with laughter. "I must admit," he splutters. "I hadn't heard that one before."

Naturally, I concede with my tongue planted lightly in my cheek, but how much stranger a proposition is it than the one he now brings to the people who elected him three years ago? Did anyone, in their wildest flights of fancy, imagine that this youthful, almost pathologically genial, leader of Canada's second-smallest province would strike a \$4.8-billion deal to sell the major assets of NB Power to Hydro-Quebec? What happened to the rallying cry of 2006: Self-sufficiency or bust? In which universe does this agreement, which must be ratified in March, advance the Liberal government's signature economic development agenda?

These are, at least, some of the questions which critics of the deal (and their ranks are swelling) currently pose. The opposition Tories claim that Graham is handing over the keys to New Brunswick's energy future. Environmental groups worry that the arrangement will curtail alternative energy opportunities for home-grown producers. Others with no particular horse in this race fulminate about sovereignty, eminent domain and regulatory protections.

Still, a suddenly sombre Graham is adamant. "I understand there's passion out there," he says of reaction to the agreement reached last October. "People are wondering how we can source our energy from Quebec. But the fact is today we have a limited number of fossil fuel plants in New Brunswick. When a cap and trade system is implemented – and it will be implemented – it will increase the cost of electricity produced by those plants. At the moment, we source our oil from the Middle East. We source our coal from South America."

Hydro-Quebec, on the other hand, is, as its name implies, a supplier of clean, renewable, endlessly abundant hydroelectricity. This fact alone, Graham insists, guarantees both competitive and stable power rates for all classes of consumers in New Brunswick. (In fact, the deal freezes residential rates at their current level for five years and fixes increases after 2015 to the province's annual consumer price index, which hovers around 1.8 per cent).

Moreover, he says, the initial \$4.8-billion pay-out eliminates 40 per cent of the Province's \$13-billion debt and carves millions off the annual deficit, now

running at about \$749-million: "Last September, our province was hit with the effects of the global economic crisis. It meant that we had to move boldly to cushion ourselves against the downturn. I'm pleased to see that our plan for a stronger economy is, indeed, working."

This is, in fact, the underlying logic of the Hydro-Quebec deal: As odd as it appears to some, as controversial as it becomes to others, it is a piece – albeit a rather large one – of the provincial government's long-term strategy for economic growth. It is less about striking a mutually advantageous arrangement with a neighbouring province than it is about securing New Brunswick's competitive advantage as the seat of new industries, businesses and entrepreneurial start-ups. After all, the more money one has at one's disposal, the more transformational the change one can make.

To be sure, the word "transformational" has resonated in this corner of eastern





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BNB MINISTER VICTOR BOUDREAU

Canada ever since Graham's Grits rose to power with a razor-thin majority on September 18, 2006. Their key challenge has been to translate campaign rhetoric into realistic policy for a province of 747,000 people where many traditional resource-based industries (such as the fishery, forestry and mineral extraction) have endured perennial setbacks. And while these economic engines continue to play an important role, especially in the north (see "Out in the cold", page 59), the focus has shifted to more knowledge-intensive sectors.

Specifically, the Department of Business New Brunswick (BNB), the provincial government's economic development arm, has targeted three technology sectors (advanced learning, bio-science and health) and two industrial sectors (aerospace and defence, and energy) for growth. Within this mix, a special emphasis has been placed on high-value precision manufacturing, particularly for export markets, which account for roughly 50 per cent of the province's \$27-billion annual gross domestic product. Says BNB Minister Victor Boudreau: "We're not

ignoring all the others, but these are the areas where we see some real potential, some real opportunities."

Indeed, the bio-science sector currently hosts 40 companies and research institutions that generate, altogether, annual revenues of \$110-million and employ 2,000 people. Aerospace and defence is a \$130-million-a-year industry. Meanwhile, advanced learning, health and energy are all claiming expanding slices of New Brunswick's economic pie. "What we're trying to promote is a province that is, first of all, a highly competitive location in which to do business," Boudreau says.

The sentiment explains the Province's most radical and aggressive manoeuvre to date – other than the Hydro-Quebec deal – executed early last year. The so-called "Plan for Lower Taxes" dropped the corporate levy from 12 to eight per cent. It also flattened the personal income tax regime by eliminating two brackets and pegging the remaining two at nine and 12 per cent. The change, says Graham, was indisputably transformational: "It gave us one of the lowest tax structures among 30 OECD (Organisation for Economic Cooperation

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and Development) countries and the lowest corporate tax structure in Canada.”

The direct results of these policy shifts are difficult to measure. But there is some evidence that they’ve made an impact. According to BNB’s statistical division, since 2006, New Brunswick employers have created 18,200 jobs, representing a 5.2 per cent increase compared with national employment growth of only 1.6 per cent. In fact, the unemployment rate in the province is now lower than the national average (8.1 per cent, compared with 8.4 per cent in the country overall). Moreover, says a departmental memorandum, “Last year [2008], workers in New Brunswick saw their wages jump at the highest rate in Canada. Statistics Canada showed the average hourly wage in the province rose to \$18.96 from September 2008 to September 2009. The six per cent increase was the biggest jump of any province during that time and made New Brunswick’s average wage the highest in the Maritimes.”

It is, perhaps, for these reasons that some economists predict New Brunswick will enjoy above-average export and GDP growth this year, while some businesses are sufficiently confident in the province’s competitive advantages – hard times notwithstanding – to locate their operations there, including Umoe Solar, a Norwegian firm that manufactures polysilicon photovoltaic solar cells and which will invest \$600-million in new premises in Miramichi and hire upwards of 350 people. The announcement last year prompted the city’s mayor Gerry Cormier to gush: “This is good news in these tough economic circumstances.”

Yet, for Graham, these promising developments represent the beginning, not the end, of a multi-year initiative to render New Brunswick truly competitive and sustainably prosperous. And, he insists, the deal with Hydro-Quebec is a crucial piece of the puzzle, though he acknowledges the validity of many people’s concerns. “I think it’s good to ask what the long-term benefits of this will be,” he says.

“But, I think it’s equally important to wonder what would happen if the rate of inflation rises in New Brunswick without this deal in place. What are our costs going to look like then? What’s going to happen if we have to pay high interest on \$4.8 billion in debt? The fact is, going forward, we have the opportunity to provide one of the most competitive corporate tax rates in North America and one of the most competitive power rate systems in North

America. Now, we have to leverage those opportunities for future economic development benefits.”

It’s only fair to point out that not everyone in New Brunswick despises the thought of Quebec owning NB Power. Former Premier Frank McKenna had this to say late last year: “This is a good deal for New Brunswick. [It] will mean a better future for our children.” On the other hand, McKenna warned of the personal costs. “I’m not sure I would have been this

courageous,” he commented in a news report, almost ruefully.

For now, Graham tries not to think about his rapidly dwindling political capital. “In the next budget,” he says, “we are again going to be looking at reducing government expenditures in some areas to offset the deficit challenges.”

And this, I grin, will not involve the Flower Pot Rocks?

“No,” he laughs. “It most certainly will not.”



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