

INVEST NEW BRUNSWICK

IS IT REALLY INVESTING IN A NEW PERSPECTIVE?

Backgrounder prepared by

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1. Introduction

Since the 2008 economic crisis, the economy in the province did not improve. The province lost 7 800 full-time jobs. The unemployment rate is constantly increasing and went from 8.5% to 10% (more than 15% in the north). Our deficit hovers around 183 million dollars while our net debt exceeds 10 billion dollars.

In 2009, the Liberal government of Shawn Graham reduced personal and corporate income tax and, consequently, stripped a part of our public purse of hundreds of millions of dollars. Doing so, it widened the ever-increasing gap between the rich and the poor. The actual Conservative government of David Alward went the same way by cutting into public services and jobs, increasing fees for citizens, and maintaining the income tax cuts.

In terms of economy, the Government of NB is trying, as best as it can, to sell the resources of the province, namely natural gas. It proclaims emphatically that our labour is cheap. It boasts about the low income tax rates for businesses, the lowest among industrialized countries. Finally, it shouts, from the rooftops, that our electricity rates are very advantageous to commercial and industrial clients.

Meanwhile, people living in poverty, namely low-income workers, people depending on social assistance, and seniors receiving the Guaranteed Income Supplement, are paying more and more for food, rent, and many other basic necessities.

As for the 40 000 persons who depend on social assistance to survive, their basic social assistance rates have remained almost the same since October 2008. Moreover, we observed an increase (+ 1 449) in the number of people receiving income aid. Urban areas (Moncton, Saint John and Fredericton) show the most important increase.

2. A change in strategy in order to restart our economy

How many times, in the last few years, have we heard people from the business sector, editorial writers, even politicians, insinuate that the government does not know how to manage the economy. They say politics should be dissociated from economic development. How many times have we heard the same people say that our young entrepreneurs, and not as young company executives, who are competent adding numbers and monitoring the bottom line, can do better than elected officials. Their desperate cries, resembling those of shipwrecked people, made their way to Prime Minister Alward's ears. Being a man of decision, he took action.

3. The launching of Invest NB

On September 20, 2011, in the port city of Saint John, location of the former Irving naval shipyard, David Alward opened a bottle of champagne to celebrate the new Crown Corporation called Invest NB. “ *New Brunswick needs a re-energized approach to economic development and investment attraction,*” Alward said. “ *To that end, Invest NB has a fresh focus on identifying and aggressively pursuing businesses that will succeed in our provinces and create jobs. The business plan framework sets out the path Invest NB is taking.*”

Therefore, Invest NB is another new-Brunswick Government tool to manage the economy of the province. Yet, the tool is different because fully managed by people from the world of business. For the first time, we have a Crown Corporation that puts into the hands of the business sector a budget of 17 million dollars coming from our taxes. Usually, public money is managed by elected officials or provincial officers that is, employees who serve the public. This tidy amount will, from now on, be managed by a new team led by the CEO of Assumption Life and one of Bell Aliant’s vice-president. Eight more persons, from different sectors of the economic world, will sit on the Board of Directors (see Appendix A for list of names). According to Paul Robichaud, Economic Development Minister: “ *We have the right combination of dedication and experience in place at Invest NB. This team will be effective in attracting world-class companies that will create more jobs and prosperity in all regions of our province.*” (see Appendix A for press release).

Will this new Crown Corporation, conceived, built and launched with public money, be able to attract new businesses, create new jobs, and convince business people to invest new money in NB? Or is the launch of Invest NB a gift from the heavens falling into the hands of the business world?

This paper is an analysis of what Invest NB has accomplished after its first year of operation, and will try to answer those two questions.

4. Balance sheet after the first year of Invest NB

After a year of work, the time has come to look at what Invest NB has accomplished. Since millions of dollars from public funds were invested, it is important to know how they were used. Being interested in knowing the details, we looked into it. However, we must admit – as it was demonstrated by the Access to Information Audit 2012, conducted by Newspapers Canada – that it is difficult to obtain detailed information from the NB Government as well as from Invest NB. Table 1 is a summary of the information we were able to gather.

Table 1 – Investments by Invest NB in the first year

Company	Location	Payroll rebates (\$)	Other investments	Jobs created	\$ invested to create one job
FFG Canada (International joint venture)	Bathurst	700 000	Forgivable loan: 300 000 Northern Fund: 500 000	26	26 923
Genesys Laboratories Canada	Saint John	300 000	0	30	10 000
Xplornet ¹	Saint John	485 000	0	55	8 800
Salesforce-Radian6 (International company ²)	Fredericton	3 800 000	0	300*	12 666
Élite (division of Thomson Reuters ³)	Moncton	495 000	0	25	19 800
Thing5 (International company ⁴)	Bathurst	275 000	Northern Fund: 77 000	51	5 392
Superior Tank Ltd.	St Stephen	0	Forgivable loan 100 000	0	
Aditya Birla Minacs (International company ⁵)	Bathurst	1 200 000	Northern Fund: 300 000	200	6 000
Total (payroll rebates+other investments = \$8 531 000)		\$7 254 000	\$1 277 000 (\$877 000-Northern NB Economic Development and Innovation Fund)	687	Average of \$12 797 for each job

* The investment is spread over many years, but we could not get the exact number

5. Analysis of the investments made by Invest NB

Here are a few details about the eight businesses which got funds from Invest NB.

¹ http://www2.gnb.ca/content/gnb/en/news/news_release.2012.07.0633.html

² http://www2.gnb.ca/content/gnb/en/news/news_release.2012.06.0522.html

³ http://www2.gnb.ca/content/gnb/en/departments/premier/news/news_release.2012.06.0493.html

⁴ http://www2.gnb.ca/content/gnb/en/news/news_release.2012.02.0119.html

⁵ http://www2.gnb.ca/content/gnb/en/news/news_release.2011.11.1241.html

- **Aditya Birla Minacs.** This is a major investment of 1.5 million dollars. Most of it (1.2 million dollars) went to payroll rebates in order to create 200 jobs. Also, a subsidy of \$300 000 to cover capital costs was granted by the Northern New Brunswick Economic Development and Innovation Fund in order to set up a centre in Bathurst. After some digging, we found out that Aditya Birla Minacs is presently owned by the Aditya Birla Group, an American company worth 35 billion dollars.⁶
- **Superior Tank Ltd** in St Stephen. The company received a forgivable loan of \$100 000.
- **Thing5.** Thing5 had already received money from the governments of Bernard Lord and Shawn Graham to set up 19 call centres in NB. In 2011, this company merged with VAS Holdings Inc. to become CloudPakTM. Recently, Thing5 closed its call centres in Hillsborough, St-Louis-de-Kent, Néguac, and Rogersville. In spite of that, Thing5 was able to get \$275 000 from Invest NB in payroll rebates, as well as \$77 000 from the Northern New Brunswick Economic Development and Innovation Fund to open a new centre in Bathurst.
- **Elite** is an international company established in Moncton. This company is owned by Thomson Reuters, International Corporation and world leader in the information sector. Elite received \$495 000 in payroll rebates in order to create 25 jobs.
- **Radian6.** In 2011, this NB company was taken over by Salesforce of the United States, a company with an annual income of 2 billion dollars.⁷ The company became Salesforce-Radian6. Invest NB gave \$3 800 000 to Salesforce-Radian6 to create 300 jobs. To our understanding, the amount was spread over many years. Despite our efforts, we could not find out the exact number of years.
- **Xplornet Communications Inc.** On May 26, 2009, the government of Shawn Graham announced a 10-million-dollar loan guarantee to Barrett Xplore Inc. for infrastructure and the creation of 200 jobs.⁸ The company, now called, Xplornet Communications Inc. (formerly Barrett Xplore Inc.), with its head office in Woodstock, received, in 2012, \$484 000 for the creation of 55 jobs at its Fredericton centre.
- **Genesys Laboratories Canada.** The company, which is part of Genesys, another American company, received \$300 000 for the creation of 30 jobs in Saint John.
- **FFG Canada.** Located in Bathurst, this company is the result of a partnership between Industrial Rubber Company Ltd from Bathurst and FFG Flensburger Fahrzeugbau Gesellschaft mbh, a German defense project company. They were granted the tidy amount of \$700 000 to create 26 jobs. FFG Canada also received a forgivable loan of \$300 000 as well as \$500 000 from the Northern New Brunswick Economic Development and Innovation Fund.

⁶ http://minacs.adityabirla.com/Portals/0/Users/PDF/CP001_Minacs_Worldwide_Corporate_Profile_120514_Ver1.10.pdf

⁷ <http://www.salesforce.com/assets/pdf/investors/FY12AnnualReport.pdf>

⁸ http://www2.gnb.ca/content/gnb/en/news/news_release.2009.05.0735.html

6. General observations about Invest NB

1st observation: Eight investments were made by Invest NB between November 15, 2011 and July 18, 2012. Together, they total \$8 531 000. The amount coming exclusively from Invest NB is \$7 654 000. Another amount of \$877 000 comes from the Northern New Brunswick Economic Development and Innovation Fund.

2nd observation: Six hundredth and eighty seven jobs would have been theoretically created. However, we have no means for verifying those numbers. Invest NB does not venture any numbers, only promises of employment in press releases. Moreover, some of these jobs are spread over more than a year. We should highlight that **85% of all the investments of Invest NB go towards payroll rebates**. How can we justify such a situation? In its 2011 business plan, the objective of Invest NB was to make 10 new investments and create 500 direct jobs. Its objective for 2012 was to make 15 new investments and create 1 150 direct jobs. To date, a total of eight investments were made and a maximum of 687 jobs were created. We do not think that the objective will be reached in December 2012, unless other investments are made at the last minute.

3rd observation: The sums invested to create jobs cannot be compared from one company to the other. In fact, the difference between the money invested to create only one job ranges from \$5 392 for Thing5 to up to \$26 923 for FFG Canada. The latter amount seems outrageous.

4th observation: All eight companies which received money were already in the Province of New Brunswick. There was not any new addition to the *economic fleet* of NB. Moreover, the majority of the companies are not Canadian. Some of them have revenues higher than the whole budget of the NB Government, which is set at 8 billion dollars for 2012-2013.⁹

5th observation: From the total budget allocated to Invest NB, 3 million in 2011-2012 and 14 million for 2012-2013, fifty percent (50%) has been spent but we still have six months before the end of the fiscal year.

7. The mandate of Invest NB: was it fulfilled or not?

Here is the mandate given to Invest NB:

a. Promoting New Brunswick as an attractive location for business investment

⁹ http://www.gnb.ca/0160/budget/buddoc2012/Budget_2012-13_Final-E.pdf

After analyzing the mandate and comparing it to the results of Invest NB after one year of operation, we must express our disappointment with the total of investments made. Let's look first at the slogan: Invest NB. Invest in a new perspective. Looking at all the investments made during the first year of operation of Invest NB, we do not see any new vision of economic development. The investment approaches are not different from the methods implemented during the McKenna period, namely using our tax money to finance companies already in place. Where is the new perspective? It is sad to see Invest NB use the same tools, often used to sell our province and its workers to investors, namely:

- labour costs and legislated benefits which are 22% lower than those in the United States;
- facility leasing costs which are almost 20% lower than those in the United States, and 51% lower than those in the G7 countries recently studied;
- the lowest tax rates in Canada and in the United States. The actual tax rate in New Brunswick is the lowest in Canada and in the United States, according to KPMG and the C.D. Howe Institute;
- affordable energy. NB Power, state-owned company in NB, offers very advantageous and affordable electricity rates to its commercial and industrial clients.

How can we develop the economy in the province and better the life of our citizens if our economic development strategy consists in attracting companies which will pay lower salaries, less income tax, and get a reduction on their electricity bill? Isn't the purpose of attracting investments to find companies which will enrich the public good rather than squander it?

b. Identifying and pursuing opportunities for strategic and commercially viable investment

This presupposes attracting new investments. Well, it's not what Invest NB did. Most investments were made in companies already established in New Brunswick. The only new one established in NB is FFG, a joint venture between a company from Bathurst and one from Germany. When we examine all the investments made by Invest NB, it is difficult to see how we can qualify them as strategic. There is nothing strategic about the investment plan when the investment goes to a company closing its call centres in four regions and setting up in a fifth location. There is nothing strategic about opening another call centre (Aditya Biral Minacs) when this particular sector is declining, when the average salary in NB is lower than in other sectors of the province, and when only 2% of the gross domestic product comes from that sector. Also, we do not see anything strategic in investing in a company making oil tanks. Finally, we do not see anything strategic in subsidizing companies more than once, as they did with Xplornet or Thing5.

c. Negotiating and providing financial assistance when required and as appropriate to secure investments

That should not mean throwing taxpayer money through the window. Yet, that is what they did. How can we justify the fact that 85% of the investments went to payroll rebates? This is an unacceptable economic development strategy. We do not understand how this economic development policy serves the interests of the citizens of the province. Such a policy only means:

- citizens in the province, through their income tax, subsidize other citizens in order for them to have a job;
- companies receive hundreds of thousands of dollars in gifts in order to generously pay their top executives and make profits instead of paying their employees;
- some companies are economically favoured to the detriment of others.

d. Managing portfolios of investments

When analyzing the investments made, and the reasons why they were made, we can only come to the conclusion that Invest NB executives did not manage our public moneys very cautiously.

8- Do the investments respect the plan set out in *Rebuilding New Brunswick*?

In its document *Rebuilding New Brunswick*, the provincial government targets six (6) priority-growth sectors:

- The value-added food sector
- The industrial fabrication sector
- The aerospace and defense sector
- The value-added wood sector
- The information and communications technology sector
- The New Brunswick bioscience sector

When we analyze the eight companies which were granted funds, it is obvious that the people at the head of Invest NB decided not to follow the government's plan.

Three of the six priority sectors identified by our elected officials did not get any funds, namely the value-added food sector, the value-added wood sector and the bioscience sector.

If we stretch the definition of aerospace and defense, we could probably include FFG Canada as an investment in that sector.

Regarding investments in Superior Tank Ltd, it does not correspond to the definition of the industrial fabrication sector. Fabricating oil tanks is not: "...a category of metal

fabrication covering the manufacturing of processing and support equipment for industrial use, particularly in large-scale construction projects.”¹⁰

Six of the other investments could fall into the category of information and communications technology. The government document defines that sector as follows:

“... New Brunswick’s ICT sector consists of companies whose core business falls into one of the categories including information technology (IT) services and products, telecommunications, and interactive digital media such as game development, learning technologies and mobile device applications.”¹¹

We cannot see how call centres like Thing5 and Aditya Birla Minacs can fall into that economic development sector. However, Invest NB thought it would be a good idea to inject hundreds of thousands of dollars in them anyway.

Conclusion

We arrive at the conclusion that the promises made at the launch of the Crown Corporation Invest NB did not come true. It is disappointing to realize that by giving the helm of this new Crown Corporation to an executive group coming from the business sector did not translate into economic gain for the province. Quite the opposite, the situation in the province has deteriorated.

We should be asking the following question: What is the real purpose of Invest NB? Is it economic development for the good of the whole province? Or is it the transfer of public funds into the deepening pockets of the business world?

¹⁰ http://www2.gnb.ca/content/dam/gnb/Corporate/pdf/EcDevEc/Industrial_Fabrication.pdf

¹¹ <http://www2.gnb.ca/content/dam/gnb/Corporate/pdf/EcDevEc/Technology.pdf>

Appendix A

Press release – Invest NB officially launched

Invest NB / Office of the Premier / Economic Development

NB - September 20, 2011

SAINT JOHN, MONCTON, CAMPBELLTON (CNB) – Invest NB's business plan framework and board of directors were announced today by Premier David Alward at the Crown Corporation's official launch.

Alward, Economic Development Minister Paul Robichaud and Invest NB chief executive officer Robert MacLeod together visited the cities of Saint John, Moncton and Campbellton for three distinct launch ceremonies.

"New Brunswick needs a re-energized approach to economic development and investment attraction," Alward said. "To that end, Invest NB has a fresh focus on identifying and aggressively pursuing businesses that will succeed in our province and create jobs. The business plan framework sets out the path Invest NB is taking."

The plan's goal is to increase the province's gross domestic product by \$293 million over the next three years. The business plan framework will include performance measurements that will relate to real economic growth and greater wealth for New Brunswickers.

"To promote our pro-business environment, Invest NB will make informed, strategic decisions to capitalize upon our strengths," said Alward. "The measurements included are representative of Invest NB's focus to invest public money to create high-salary jobs and to develop the economy."

The corporation's efforts will be supported by the expertise of its private-sector led board of directors. Denis Losier will serve as chair and Helena Cain as vice-chair of the Invest NB board.

The board members are:

- Denis Losier, president and chief executive officer, Assumption Life;
- Helena Cain, vice-president, Customer Care, Sales and Strategy, Bell Aliant;
- James M. Baumgartner, president and chief executive officer, Moneris Solutions Corp., pending confirmation from his corporation;
- H. E. A. (Eddy) Campbell, president and vice-chancellor, University of New Brunswick;
- Michael Campbell, vice-president and general counsel, McCain Foods Ltd.;
- René Collette, director of Business Development, TD Bank Financial Group;
- Lily Durepos, business owner and executive, Alliance Assurance;
- Martin LeBlanc, president and chief executive officer, Caprion Proteomics;
- Bill Levesque, deputy minister, Business New Brunswick, ex-officio;
- Denis Mallet, general manager, FPM Peat Moss Company Ltd.; and
- Jeffrey S. Mitchell, senior vice-president and director of research, Strategic Advisors Inc., pending confirmation from his corporation.

"We have the right combination of dedication, drive and experience in place at Invest NB," Robichaud said. "This team will be effective in attracting world-class companies that will create more jobs and prosperity in all regions of our province."

Robichaud noted that New Brunswick is particularly attractive to business because it has the lowest corporate tax rate in North America; tailored, low-risk incentives including loan guarantees and employee training; and a skilled labour force.

Invest NB also unveiled its logo and launched its website. The public may follow the corporation on Twitter at @investNB and @investirNB or on Facebook by searching Invest NB and Investir NB.

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