

Turning the tide: preparing Atlantic Canada for the challenges ahead

Hon. Scott Brison, M.P.

Speech presented to The Atlantic Institute for Market Studies
15 February 2013



In late November three Conservative senators presented a proposal for a Maritime political union, one who resides in Nova Scotia, one who resides in New Brunswick, and one who may reside in PEI.

They suggested it because they recognize our region is facing severe challenges.

While I agree with the Senators about the severity of our situation, I disagree with what they have proposed.

The controversy created by the Senators' proposal actually distracts us from the important discussion and real potential of deeper economic cooperation between Atlantic provinces.

There are also legitimate reasons why it doesn't make sense for us to reopen the constitution for a discussion that would ultimately reduce our political power within the Canadian federation.

However, economic cooperation could actually increase our economic prosperity, and, in time, our economic power.

But, before we discuss greater cooperation as one solution to our problems, let's begin with a review of three crises facing our people: debt; energy; and demographics — or D-E-D, pronounced 'dead', which is what we will be if we don't take action.

Public Debt: Our Fiscal Situation

Let's start with public debt, or more broadly our fiscal situation.

In a recent radio interview, Premier Dexter said the province is not taking in enough revenue to meet Nova Scotia's challenges.

So what are his options to increase revenues?

Increasing the sales tax?

We already have, along with PEI, the highest combined sales tax rates in Canada at 15%.

New Brunswick and Newfoundland's is 13%.

Increasing corporate taxes?

Overall, Nova Scotia has the highest corporate income tax rates of any province or territory in Canada.

How about increasing income taxes?

Nova Scotia has the second highest provincial income tax rates in Canada after Quebec.

Nova Scotians also pay amongst the highest taxes on alcohol, cigarettes and gas in Canada.

Ask yourself: do you want to pay more tax? Can you afford to?

Keep in mind that Nova Scotia's average household income is not just more than \$10,000 below the Canadian average — it is even below the Atlantic average by \$700. Nova Scotia families are struggling already.

Frankly, we can't raise taxes because higher taxes will simply drive more people away from our province.

Being the highest taxed jurisdiction in Canada is not a competitive advantage.

Then there is our accumulated debt — which exceeds \$12 billion dollars.

In fact, if you combine our share of the federal debt with our provincial debt as a percentage of our GDP, our fiscal situation is about as dire as that of European economies like Portugal, Italy, Greece and Spain just before they hit the tipping point.

Energy

In addition to having the highest tax rates in Canada — which are a job killer — Nova Scotia also has the highest electricity rates in Canada.

A 3% rate increase has already been approved for each of 2013 and 2014 and the CEO of EMERA has said that we should expect increases of 2-3% per year for the remainder of the decade.

Compare that to the United States where gas is increasingly replacing coal for electricity generation.

The Economist Magazine recently said:

"American shale gas has already lowered consumers' energy bills and by displacing coal, carbon emissions. In future, it will give a spur to the domestic manufacture of anything needing large amounts of energy."

In America, natural gas is lowering consumers' energy bills while cutting greenhouse gas emissions.

The electricity and energy cost trends in American states will have an important impact on our economic future because it is with these jurisdictions that we compete for job-creating investment.

In explaining why Nova Scotia power rates are rising, The EMERA president said:

"When demand drops, the cost of capital investment in electrical infrastructure still has to be paid by customers so the price of electricity goes up."

Think about what the EMERA president is saying.

He is describing a downward spiral where companies and jobs are squeezed out of Nova Scotia because the cost of doing business here is too high and then the companies left behind are squeezed even more.

This downward spiral will lead to fewer good jobs and opportunities in Nova Scotia as it becomes more difficult to attract or even retain high value manufacturing jobs in this high-tax — high-priced energy — jurisdiction.

Demographic

Onerous public debt, high taxes, and high energy costs not only reduce standard of living, but kill jobs and growth.

That is one of the reasons why many young people have no choice but to seek employment and opportunity in other places, resulting in an aging and declining population.

Five years ago the median age of the Nova Scotia population was 42 years of age — but now it is almost 44 years of age.

Just five years ago the percentage of the population aged 65 and over was 15.1% — but it has now grown to 16.6%.

3,000 fewer students are starting school each year in Nova Scotia.

These trends should scare the heck out of us.

A larger percentage of retirees and a smaller proportion of productive workers means lower productive output and a higher demand for social services.

And fewer people working equals a declining tax base. Fewer young creative minds also means less innovation, entrepreneurialism, R and D, and commercialization.

The Future

Each of these three challenges — debt, energy and demographics — becomes infinitely more solvable when provincial governments in our

region work together with a strong federal partner.

Solutions for Public Debt: Cutting the Cost of Government While Removing Barriers to Growth

Governments in our region can't make ends meet by raising taxes.

You can't continue to raise taxes on the highest taxed people in Canada.

So what can Atlantic Canadian governments do?

For starters, ask yourself: Why, when we have free trade agreements between Canada and foreign countries, can't we have free trade between our fellow citizens across provincial borders in Atlantic Canada?

Eliminating the trade, regulatory and economic barriers between our Atlantic provinces would be a good first step to growing our economy by making our region a better place to do business.

While we have talked cooperation for 40 years, through the Council of Maritime Premiers and subsequently the Council of Atlantic Premiers, their achievements have been limited.

Atlantic Canadian governments can achieve much more to cut costs for taxpayers and improve services for citizens by working together.

Atlantic Canadian governments can cut the trade, regulatory and economic barriers between our provinces to create growth and opportunity by making Atlantic Canada a better place to do business.

And a model for such cooperation already exists in Canada.



In 2010 the three western provinces of British Columbia, Alberta and Saskatchewan signed an agreement creating Canada's largest, barrier-free, interprovincial market --- that will be fully implemented by July 1st of this year.

The *New West Partnership Trade Agreement* commits to the full mutual recognition or reconciliation of rules that hinder the free movement of goods, services, investment, and people within that region of Canada.

Consider that these provinces don't even face the same economic challenges we face here, yet they were able to unite in the interest of building a stronger economy.

In fairness, over the years a number of initiatives toward greater economic cooperation have been taken in the Atlantic region.

However, the difference between these initiatives and the New West Agreement is that the latter is a binding agreement that includes specific provisions to achieve a given result and a formal dispute settlement provision to resolve complaints. Non-compliance by a signatory province can be met with a penalty of up to \$5 million.

In other words, the western provinces have structuralized their cooperation while in Atlantic Canada the initiatives for the most part are not binding.

Out West, they're "getting serious" — and Down East, we're still "tinkering".

The New West Partnership harmonizes regulations among the three provinces and stipulates that no new standards or regulations are to be implemented if they do not comply with the agreement.

In contrast, the Atlantic provinces have agreed to harmonize measures in certain specific sectors, mostly through a series of voluntary initiatives.

The New West Partnership includes provisions allowing certified workers to practice their occupation in the three provinces without being subject to additional exams or training requirements.

In contrast, the Atlantic provinces are pursuing non-bonding initiatives such as in education and training where they are endeavouring to implement common curriculum and certification standards.

In procurement, the New West Partnership mandates non-discrimination between and among the three provinces and includes a mechanism to challenge specific procurement processes.

The Atlantic provinces have agreed to similar provisions however there is no provision for monetary penalties if a procurement by a province is found non-conforming.

Atlantic Canada may be on the right path — but we're still taking baby steps.

In addition to these areas, consider the potential for other areas of cooperation like cost-saving and service-improving innovation in healthcare and education.

While federal efforts to establish a federal securities commission are on hold for the foreseeable future, why not lead here with an Atlantic Securities Commission?

Ironically, one of the longest standing models of Atlantic regional cooperation is the Atlantic Lottery Corporation.

One can only wonder if regional cooperation works for one vice, gambling, why not another, booze? Why not an Atlantic Liquor Commission?

The bottom line is: let's copy the New West Partnership and get on with it. Let's cut the cost of government, save tax dollars and reduce job killing barriers to growth.

A New East Partnership and Trade agreement Plus could go a long way to reducing the public debt, high tax burden, and other barriers to growth faced by Atlantic Canadian citizens and businesses.

Now that we have discussed how regional cooperation can reduce the tax and regulatory burden in our region, let's consider how the right kind of energy cooperation can reduce costs for our ratepayers.

Regional Cooperation Energy: Getting it Right

Along with high taxes, high electricity costs kill jobs and investment.

Power costs are a major factor in the decisions businesses make to establish or expand in any area.

If the costs of production become too high here, will a tire maker, food processor, or other manufacturer continue to produce a good here that cannot be priced competitively in our export markets?

Having the highest power rates in Canada is bad for business. At a time when some American states are seeing declining power rates, higher energy costs in Nova Scotia will make it difficult to attract or even retain employers in our province.

So what is the future for electricity in Nova Scotia?

And who is standing up for ratepayers to ensure that the best decisions are made in our future interests?

Steady and reliable hydroelectric power, along with wind and someday tidal, can help green our energy mix.

I agree with the potential benefits of hydroelectric power. But securing the lowest-price source for that hydro power is critically important for Nova Scotia's economic future.

The president of EMERA recently said: *"the Muskrat Falls deal will bring clean power to Nova Scotia and should save electricity customers money."*

Notably, the power president did not say Muskrat WOULD save customers money.

On January 28th EMERA filed its proposal for the Maritime Link subsea cable plan to the Nova Scotia Utility and Review Board.

Under regulations established by the Dexter government, the Board has 180 days — just six months — to review this \$1.5 billion proposal.

The Review Board decision will have a far-reaching and long-lasting impact on this province — for at least a generation.

We cannot afford to get it wrong.

EMERA has told its shareholders that the Muskrat development is a good deal for them.

But is it the best deal, or even a good deal for power consumers?

That question has been left to the Nova Scotia Utility and Review Board to answer.

Is six months enough time to consider a project of this size?

Has the Board been mandated to ask the right questions to ensure its answer will be the best value for Nova Scotia ratepayers?

If the Board cannot make that determination within the six month window created by the Dexter government, then the government must grant the board more time to review the project. Our future depends on getting it right.

The Newfoundland Utility Board told their provincial government last winter that it did not have sufficient information to determine if Muskrat was the best power option after the government refused to grant it more time to review the project. That must not happen here.

Our province is already facing tough challenges and we cannot afford anything less than a thorough and transparent review of this project that considers all alternatives including power from Quebec, New Brunswick, and natural gas.

Muskrat Falls and the Maritime Link is one example of regional cooperation. Let's make sure that it's the best possible regional cooperation for Nova Scotia ratepayers.

Questions ratepayers should ask:

- Has Hydro Quebec ever been asked to submit a proposal to sell hydroelectric power to Nova Scotia as an alternative to the Maritime Link?
- What do we really know about Hydro Quebec's available long-term supply options for Nova Scotia? Hydro Quebec

is currently constructing a new hydro project on the Romaine River that is bigger than Muskrat.

- Have we looked at the recent long term supply contracts Hydro-Québec has entered into with Vermont, or the interconnection project they are proposing with New Hampshire? How does this compare to the costs and risks assumed by Nova Scotia ratepayers in the case of Muskrat and the Maritime Link?
- Could upgrading the existing connection between New Brunswick and Nova Scotia cost less than the undersea connection between Nova Scotia and Newfoundland?
- Wouldn't the Nova Scotia — New Brunswick connection have to be upgraded in either the scenario of importing power from Hydro Quebec or exporting power from Newfoundland through Nova Scotia to the US?

With tax rates that are higher than almost every jurisdiction in Canada we simply will not be able to compete if our power rates become permanently higher as well due to the wrong decision.

The right kind of regional energy cooperation should focus on getting the lowest power rates for ratepayers.

Demographics

The third problem is our aging population and the economic catastrophe it represents.



The best way to tackle our demographic time bomb in our region is to attract more new Canadians to Atlantic Canada.

The reason I numbered the demographic challenge as number 3, is that if you don't make the right decisions on things like public debt, taxes and energy policy — no policy to attract new people to our region will succeed.

The Nova Scotia government has recognized our demographic challenge and has announced its intention to do more to attract new Canadians here.

One of the challenges faced by provincial governments is the immigration cap imposed by the federal government. If the four Atlantic provinces worked together on a common immigration strategy they would have more clout in dealing with the Harper government on this issue.

We can learn from Manitoba's successful immigration model. Manitoba and Nova Scotia have similar-sized populations. But in the last 10 years Manitoba's population has grown by almost 9% while we've only grown by a little over 1%. A key difference is immigration.

Last year Nova Scotia took in only 15% of the total number of immigrants recruited by Manitoba — 2,400 here versus 16,000 in Manitoba.

Manitoba has made immigration a priority across every department of the government, and in partnership with businesses, communities, volunteer groups, schools, and health care providers.

As a result of immigration Manitoba's population is growing and it's getting younger. Furthermore,

Manitoba has been successful in attracting immigrants not just to Winnipeg, but also to small towns across the province.

We can learn from or even copy the successful Manitoba program.

Just think, Nova Scotia's higher education institutions are a great source of potential immigrants. There are hundreds of students from dozens of countries around the world studying here in Nova Scotia.

Imagine what it would do if we could encourage these bright minds to live and work here after graduation creating jobs and opportunities.

Our geographic position on the Atlantic Ocean is a natural advantage and we should aim to be world class in all things ocean-related.

Nova Scotia is home to 450 PhDs in ocean-related disciplines, the third highest concentration in the world.

The Bedford Institute of Oceanography has 700 scientists, engineers and technicians.

Approximately 200 ocean technology companies account for a third of our province's R&D.

Think of Acadian Seaplants and Ocean Nutrition as shining examples of success.

We should aim to become a global centre of excellence in sustainable aquaculture, which will be a huge global growth area for the 21st century.

This morning I have laid out three key problem areas and proposed some solutions — ones that do not require adoption of the Senators' plan for political union, but require deeper economic cooperation.

Atlantic Canadians are ready for and deserve to be told the truth about the reality of our region and its challenges.

I believe that once we engage our citizens fully and honestly, our people will not only accept change, they will demand leadership that delivers it.

It's not too late — yet.

We can — and we must — turn our region around.

By working together, tackling our problems together, we can forge a brighter future together.

For far too long, in Atlantic Canada, we've allowed parochialism to be the enemy of progress.

We must come together as a region united by a call to action, and a common purpose, with a profound responsibility to our children to do better.

All it takes is leadership.

Thank you.



Atlantic Institute for Market Studies

Suite 204, Park West Centre
287 Lacewood Drive
Halifax NS B3M 3Y7
phone: (902) 429-1143 fax: (902) 425-1393
E-Mail: aims@aims.ca <http://www.aims.ca>