

# The Northeast

BY DENNIS AND SANDI JONES



Photo: © Jeremy Woodhouse/Getty

One of the great advantages of Ontario's business environment is its proximity to the U.S. Northeast. Companies on both sides of the Great Lakes have been trading with each other since Ontario was still Upper Canada, and this close relationship has contributed much to the economic vitality of both nations.

The Northeast includes West Virginia and western Pennsylvania, as well as Upstate New York, which is considered to be the region outside metropolitan New York City.

In Pennsylvania, the chief industries and businesses are in and around Pittsburgh, while West Virginia's major centres are Morgantown and Charleston; in Upstate New York, the commercial hubs are Buffalo, Rochester, Syracuse, Binghamton and Watertown. These metropolitan areas are home to numerous Fortune 500 companies such as Alcoa, U.S. Steel, Corning, Kodak and Xerox, and to several large and important universities that include Carnegie Mellon, Cornell, Vassar and the University of Buffalo.

The region's population of 13 million makes it one of Canada's top U.S. markets. Its economic relationship with Ontario is extremely varied and complex, with a myriad of tightly integrated supply chains linking major economic clusters on both sides of the border. Working within these supply chains makes a great deal of sense for Canadian exporters, since about half of all U.S. manufacturing facilities lie within a one-day trucking radius of upstate New York.

The Buffalo area, moreover, is the Northeast's major distribution and logistics centre, and its proximity to Ontario's Golden Horseshoe means that Canadian businesses can easily reach the multitude of customers just across the border. Conversely, American companies in the Northeast are perfectly aware

that Canada's major industrial hub is invitingly close – closer, in fact, than are many U.S. markets.

The local economy has inevitably suffered from the recent U.S. financial upheavals. Compared to many other regions of the country, though, it's fared remarkably well because of its diverse employment base and a strong concentration of knowledge and health industries. Ironically, its status as a somewhat depressed area has also helped protect it from the sharp economic declines seen in higher-flying regions. As one observer noted, "When you've had to keep your feet on the ground, you don't have so far to fall."

## Home of high technology

For Canadian companies involved in advanced technology – ICT, imaging and robotics, for example – there are numerous large corporations in the Northeast that are very interested in Canadian products, services and technological partnerships. The region's ICT sector is the third largest in the world and employs tens of thousands of people in subsectors that range from consumer electronics manufacturing to photonics. IBM recently invested \$2.5 billion in a chip-fabrication plant in the Hudson Valley Research Park at Fishkill, NY, while Albany, NY, has become the home of the international electronic consortium SEMATECH.

Rochester has a cluster of optics and imaging companies that includes Kodak, Xerox, Bausch and Lomb, and Corning. The photonics side of this cluster has already developed links to several Canadian counterparts such as the Ottawa Photonics Cluster, the Canadian Photonics Consortium and the Ontario Photonics Technology Industry Cluster.

Pittsburgh is a major centre for robotics R&D, supported by institutions like the Robotics Institute at Carnegie

Mellon University and the National Robotics Engineering Consortium. In IT, Carnegie Mellon has the Software Engineering Institute, a premier research facility, while other advanced institutions include the Pittsburgh Supercomputing Center and the Nanotechnology Institute.

Activity in medicine and the life sciences is vigorous and has been expanding rapidly. One major player is the Buffalo Niagara Medical Campus, whose member institutions work in numerous fields of research including cancer, structural biology, visual impairment and bioinformatics.

Rochester is a high-technology centre for medical IT systems and for medical and dental imaging; a major company in this subsector is Carestream Health Inc., a Rochester-based spin-off from Kodak that is owned by Toronto's Onex Corporation and employs several thousand people. As for Pittsburgh, its biomedical cluster comprises about 160 companies, including Bayer and SmithKline Beecham.

## From autos to the environment

The region's automotive industry has historically been very strong and is likely to remain so despite the current slump in the automobile market. General Motors and Ford are still among the largest employers in the regional manufacturing sector, and have thoroughly integrated their operations in Canada and the U.S. Toyota, for its part, has built a major manufacturing plant in West Virginia to supply engines to its assembly operation in Cambridge, Ontario.

On the transportation side, Canada's Bombardier Inc. has production facilities near Pittsburgh, and in Plattsburgh, NY. The region also supports an important aerospace sector with extensive requirements for advanced systems, components and services. Amherst Systems (a division of Northrop Grumman) and General Dynamics both have aerospace plants in



## West Virginia

Photo: © Richard T. Nowitz/CORBIS



## Upstate New York

Photo: © Panoramic images/Getty

and around Buffalo, and the corporate headquarters of the Moog Aircraft Group is in nearby East Aurora, NY.

Pennsylvania has a strong chemical industry based primarily in Pittsburgh. In West Virginia, chemicals also make an important contributor to the economy; dozens of companies are active in the state, including major corporations such as Dow, DuPont and Union Carbide. Calgary's Nova Chemicals has a large subsidiary operation here.

The region's long industrial history has levied a considerable cost in terms of water, air and soil pollution; not coincidentally, it now supports a strong and growing environmental technology sector. In Upstate New York, Canadian firms will find a range of opportunities in air pollution control, soil and water remediation, alternative fuels, nanotechnology and clean energy technologies.

Pennsylvania is focusing on environmental subsectors that include air pollution, waste management, renewable energy, alternative fuels and green construction. As for West Virginia, its economic dependence on coal means that its industries are looking for advanced technologies related to clean coal, energy efficiency, biomass processing and coal-waste processing.

### The view from Toronto

Smaller Canadian enterprises such as Toronto's Goldrich Printpak Inc. can do well in this very large market. "Goldrich began in the 1950s as a commercial printer," says company president Leslie Goldberg.

"Since then we've evolved into a full-service firm that offers creative and structural design, printing and manufacturing high-quality folding cartons, visual retail packaging including blister and skin cards, product and package assembly, display assembly, shrink wrapping, vacuum forming and a whole lot more. In our business we have to be adaptable and ready to change, so we've worked hard to

make ourselves into a vertically integrated, one-stop shopping centre for all our clients' packaging needs."

Now employing about 78 people, Goldrich began exporting to the U.S. Northeast in the 1980s. The firm first noticed the market's potential when it placed ads for salespeople in the Toronto papers and received several responses from across the border.



Photo: Courtesy of Goldrich Printpak Inc.

▲ Folding carton manufacturer/printer Goldrich sells the bulk of its business in the corridor from Toronto through western Pennsylvania and Upper New York State.

"That told us we might have a market in the Buffalo area," says Goldberg, "so we started going to trade fairs there. Because the visual display card market was a new one in the Northeast at that time, it wasn't long before everybody wanted us to be their supplier. Once we were making things for people, we started asking what other packaging products or services they needed, and those became our second growth level. After that, the more services and kinds of production we integrated into the firm, the more they wanted to buy."

Although Goldrich now sells its products as far away as Florida and New Jersey, the bulk of its business is still in the corridor running from Toronto down through western Pennsylvania and Upper New York State. The company uses direct sales representation rather than agents or distributors to market its products and services, which are provided out of Toronto.

The Northeast remains a lucrative market, says Goldberg, although it's tougher than it used to be. "Over the past decade, our margins have been eroding because the major retailers are driving prices down all along their supply chains, and the high Canadian dollar has also been a problem.

"As a result, we started sourcing a lot of our raw materials from abroad, which has helped us stay competitive. Our U.S. market has been pretty flat for the past two years, but we're now seeing some new life there despite its economic difficulties. That's partly because we've shifted our focus to food, pharmaceuticals, cosmetics and other population-driven needs, which aren't as sensitive to downturns – as the population in our market grows, our sales will grow too."

EDC has been an important partner in developing the company's export trade, adds Goldberg. "We use EDC's Accounts Receivable Insurance so we can be sure we'll get paid. EDC is also good at giving us sales contacts, and they're a big help when we need to find out if we can safely do business with a potential customer."

The experience of Goldrich Printpak suggests how much opportunity the U.S. Northeast can offer to Canadian exporters. Located within easy reach of Canada's largest industrial area, the region's familiarity with Canadian businesses and its highly developed logistics systems make it a prime market for exporters of all types and sizes. So if you're seeking new customers, be sure to consider the U.S. Northeast – it may be the very place you've been looking for. ■

### FOR MORE INFORMATION

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# Scientific Research and Experimental Development Tax Incentive Program

BY BRUCE GILLESPIE

Thanks to an innovative new use of EDC's Export Guarantee Program, exporters now have the opportunity to receive an advance against their Scientific Research and Experimental Development (SRED) tax credits. Experts say that means exporters will be able to invest more money in critical research and development without sacrificing cash flow, particularly at a time when credit is increasingly hard to obtain.

## What is SRED?

The SRED program is the largest single source of federal support for industrial research and development in the natural sciences, and it is administered by the Canada Revenue Agency (CRA). In 2006, SRED provided more than \$3 billion in tax assistance to businesses of all sizes, operating in all industries, across Canada.

Currently, the largest users of the SRED program are manufacturers of computers and computer products, transportation equipment and chemicals. But while many business owners assume the tax credits are only available to companies in the technology sector, they are actually available to any company engaged in research and development, including manufacturers and exporters.

In the past, many small- and medium-sized businesses were reluctant to apply for SRED tax credits because of the work involved and the time it took to receive the payout. "Companies often incurred a cost related to R&D months before they actually got the refund based on their investment since the waiting period is four to six months after the fiscal year end," explains Vicky Brouillard, EDC Sector

Advisor, Light Manufacturing. "For most Canadian companies, there is a federal rebate of 35 per cent in addition to add-ons that vary by province."

So, four years ago, with that in mind, EDC started to work on a way to help exporters reduce that lag time and encourage investment in R&D. The result is an innovative application of the Export Guarantee Program that sees companies doing eligible work receive an advance against their SRED tax refund in a fraction of the time it normally takes.

Essentially, with a guarantee from EDC that reduces their risk exposure, banks agree to establish R&D operating facilities for companies doing work that is eligible for SRED tax credits. To qualify for an EDC guarantee, Brouillard says an exporter must have been involved with the SRED program for at least two years.

At that point, the company engages the services of an external consultant who provides an expert opinion as to whether their current work would qualify for SRED tax credits and how much of a refund they could expect to receive. Based on those findings, the bank advances the exporter a percentage of the costs that are deemed eligible, usually between 60 and 75 per cent.

"It's a working capital solution that provides a kind of real-time R&D financing," says Brouillard. "It's a type of bridge financing until they receive that cheque from the government in 18 months." She says the shorter wait time makes a big difference to exporters. "I've talked to some companies that say, 'If I'm concerned about payroll, I might retract



on the research I'm doing,' so I think this will encourage companies to invest as they see fit in R&D and not hold back because of working capital restraints."

## How AFORE Solutions used SRED

The first company to pilot this new application of EDC's Export Guarantee Program was AFORE Solutions, a privately owned network equipment and technology provider in Ottawa. The company provides network equipment vendors around the world with custom development solutions, whether it's software or hardware or a combination of the two. "Our primary focus is on exporting Canadian solutions and technology, although we also do some business in Canada as well," explains President and CEO Alex Berlin.

When the company was founded in 2003, it had 10 employees. Today, it has more than 60 full-time staff, and Berlin says AFORE Solutions has seen steady growth on a year-over-year basis. He says R&D plays a critical role in the company's ongoing success, and being able to obtain an advance against its SRED tax credits thanks to a guarantee from EDC has been a big help. "Canada is not a low-cost geography. So, for us to



▲ The SRED program has helped AFORE Solutions maintain a steady cash flow while expanding its offerings.