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THE SHIFTING COMPETITIVE LANDSCAPE FOR OUR NATURAL RESOURCE INDUSTRIES

PRESENTED TO
BC NATURAL RESOURCES FORUM
PRINCE GEORGE, BC

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NAFTA: INITIAL EXPECTATIONS

“We will modernize NAFTA so that it is a win-win for all our trading partners” (VP Mike Pence)

“More than our entire deficit (with Canada) comes from hydrocarbons and electric energy... I don't call that blameful exports” (Commerce Secretary Wilbur Ross)



BUT...

“We can’t let Canada... take advantage and do what they did to our workers and farmers... I want to just mention included in there is lumber, timber and energy”

“We lose with Canada – big-league. *Tremendous, tremendous trade deficits with Canada.*”



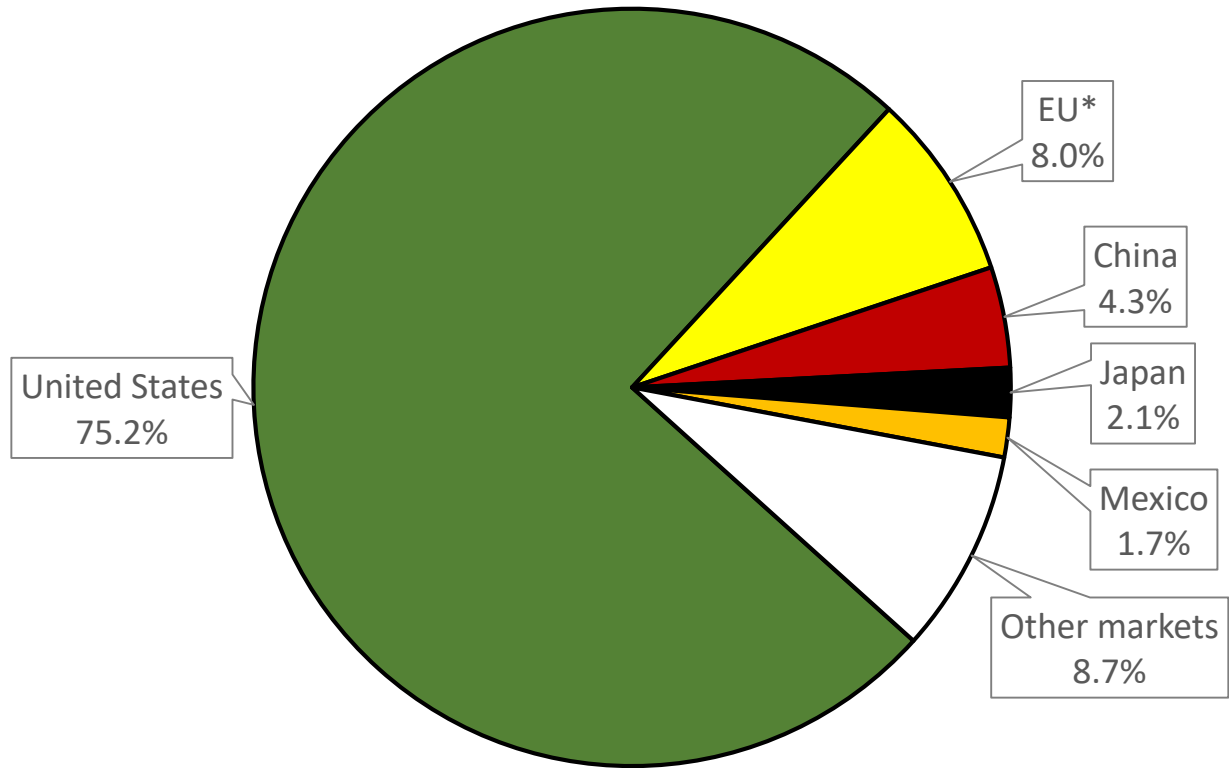
US TRADE BALANCES: THE NON-FAKE NEWS (US\$ BILLIONS)

Goods Trade – 12 months to June 2017				
	Exports to	Imports from	Balance	Value of total trade
Canada	272	291	-19	563
Mexico	235	304	-69	539
China	124	480	-356	604

U.S. Services Trade Balance (4-quarter monthly series)	
With Canada	+23
With Mexico	+4

<u>Total</u> U.S. Goods/Services Balance	
With Canada	+4
With Mexico	-65

CANADA'S MERCHANDISE EXPORTS, 2016 BY DESTINATION MARKET



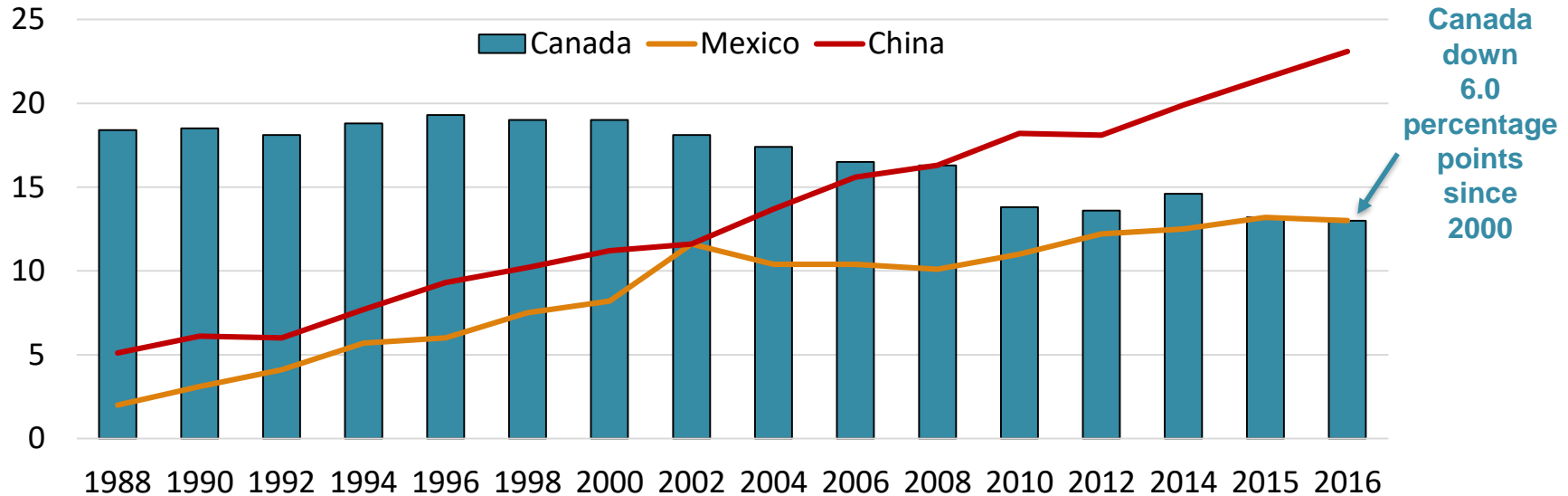
*EU 28, including the UK.

NAFTA END GAME SCENARIOS...

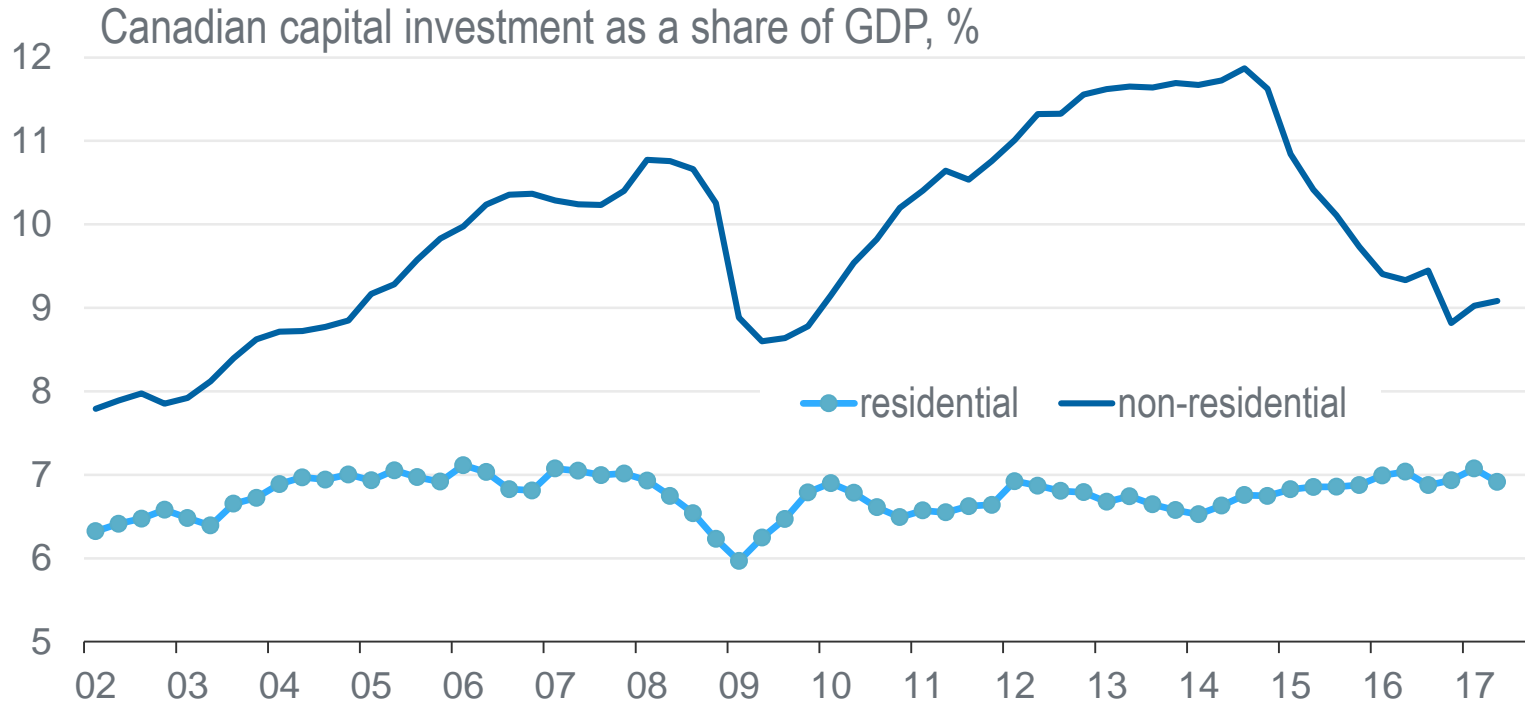
- **Scenario 1:** A renewed agreement is stitched together in 2018
 - this outcome looks increasingly unlikely
- **Scenario 2:** US officially announces NAFTA withdrawal (with six months' notice)
 - negotiating tactic or a real choice?
 - reaction in Congress...can the legislative branch prevent termination?
 - legal action in the courts?
- Under **Scenario 2**, the Canada-US FTA *may* come back to life
 - FTA legislation remains 'on the books' in the US
 - would Trump support this...or try to kill the bilateral FTA as well?
- Implications for Canada if NAFTA unravels...
 - a small hit to GDP and employment (~1% of real GDP)
 - negative impact on the currency and business sentiment
 - the #1 risk: capital investment and management attention shift further toward the US, reinforcing an already well established trend in the energy and manufacturing sectors

CANADA CONTINUES TO LOSE MARKET SHARE IN THE US

Country share of total US merchandise imports, per cent

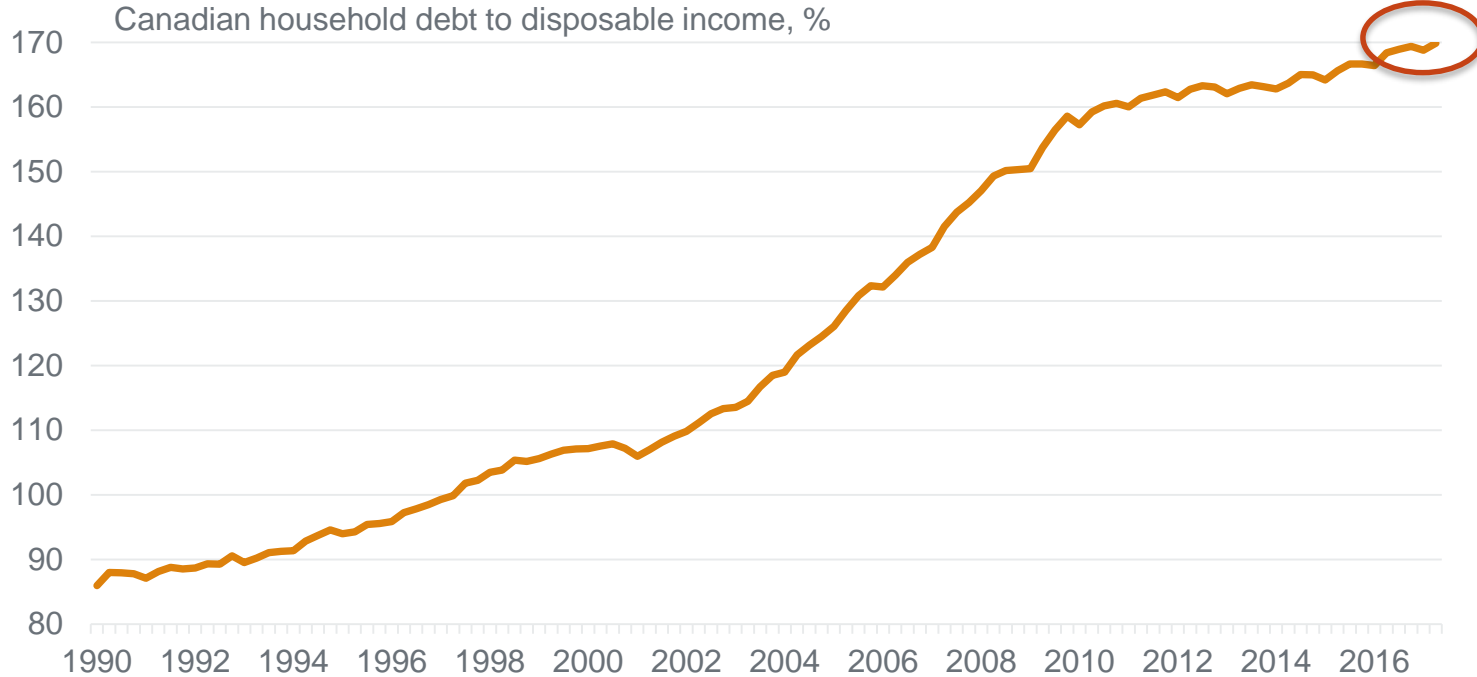


CANADIAN BUSINESS INVESTMENT HAS PLUNGED



Source: Statistics Canada, CANSIM 380-0064. Seasonally adjusted annual rates.

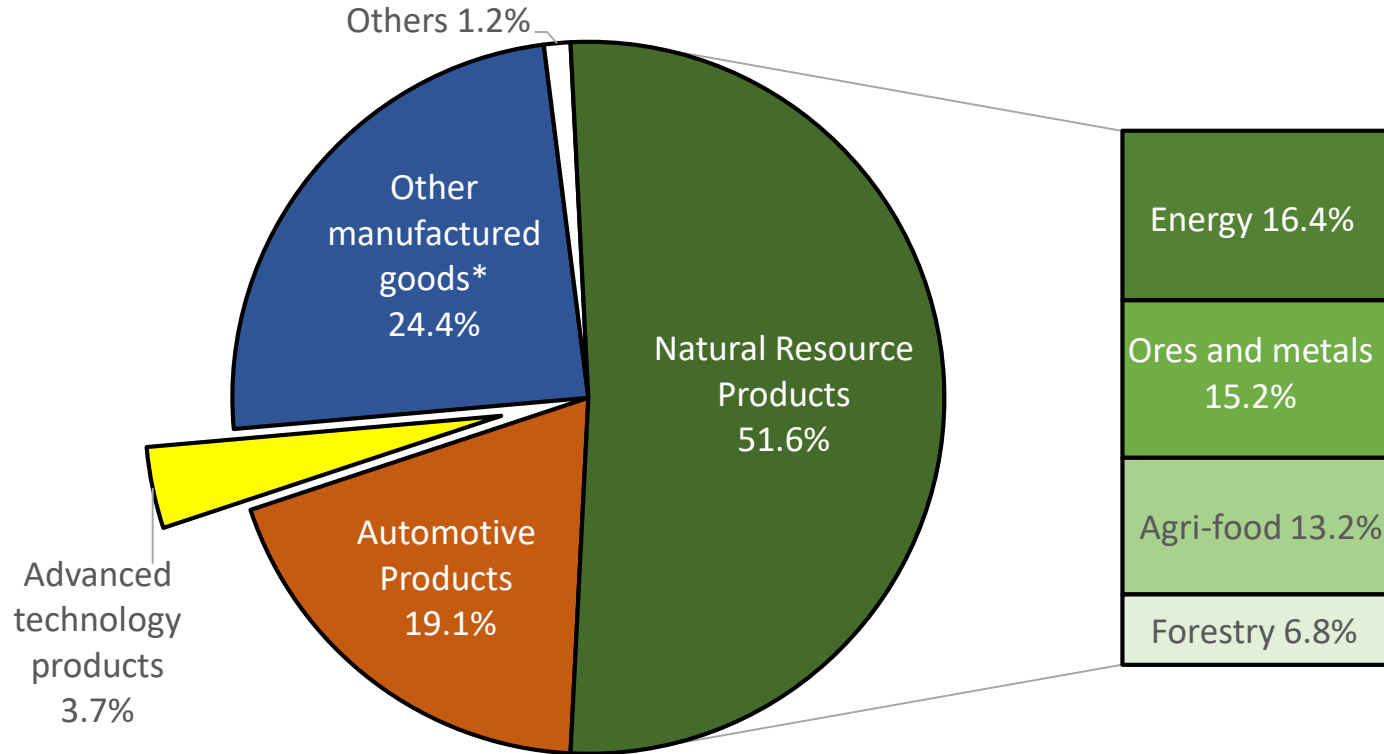
...AT A TIME OF RECORD HOUSEHOLD DEBT ACCUMULATION



REVEALED COMPARATIVE ADVANTAGE (RCA)

- A country is considered to have a revealed comparative advantage in a particular class of traded goods if those goods comprise a larger share of its exports than of total global trade in the same class of goods
- Using this methodology, Canada has a positive RCA across many segments of the main natural resource industries operating in our economy...including:
 - oil and gas;
 - lumber;
 - pulp and paper;
 - metallurgical coal;
 - many base and precious metals;
 - aluminum;
 - fertilizers and some chemical products
- Canada also has a positive RCA in 18 agricultural commodities, including wheat, oats, barely, rye, certain seafood products, soybeans, and pulses

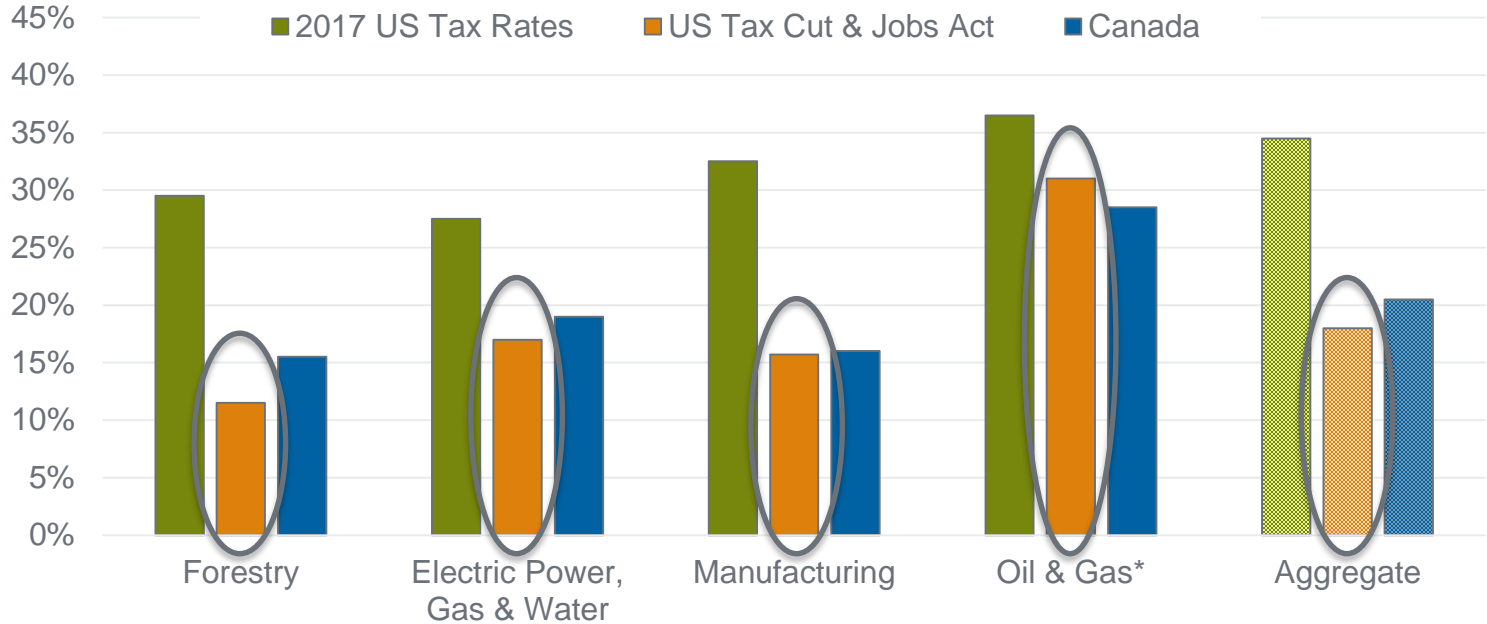
CANADA'S MERCHANDISE EXPORTS, 2016 BY BROAD PRODUCT CATEGORY



*Includes industrial machinery and equipment, aerospace, chemicals, plastics, fertilizers, and consumer goods.

Source: Export Development Canada, [Global Export Forecast](#), Spring 2017.

EFFECTIVE TAX RATES ON NEW INVESTMENT: CURRENT FOR CANADA AND US

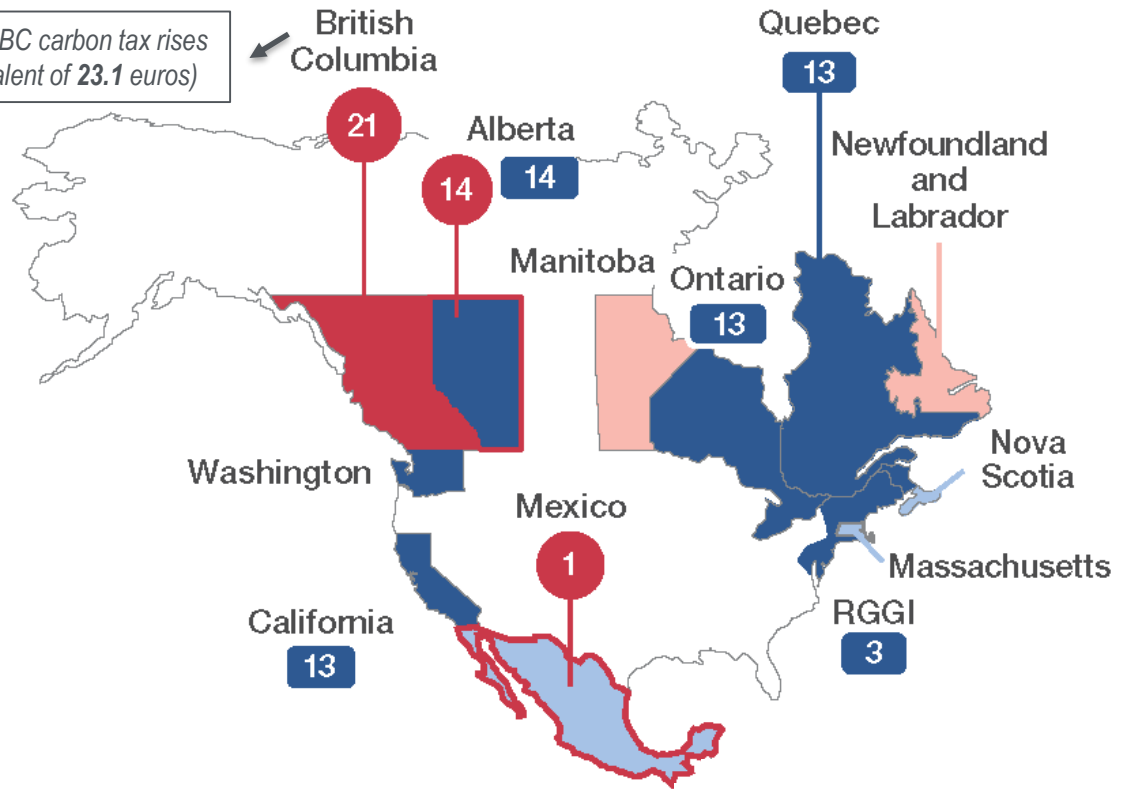


*Oil and gas is not included in aggregate result.

Source: School of Public Policy, University of Calgary.

CARBON PRICES IN NORTH AMERICA, 2017 (IN EUROS)

(In 2018, the BC carbon tax rises to the equivalent of 23.1 euros)



2017 prices given in €/tCO₂e

- Established Emissions Trading Scheme
- Scheduled Emissions Trading Scheme
- Established Carbon Tax
- Scheduled Carbon Tax

RESOURCE INDUSTRIES IN BRITISH COLUMBIA

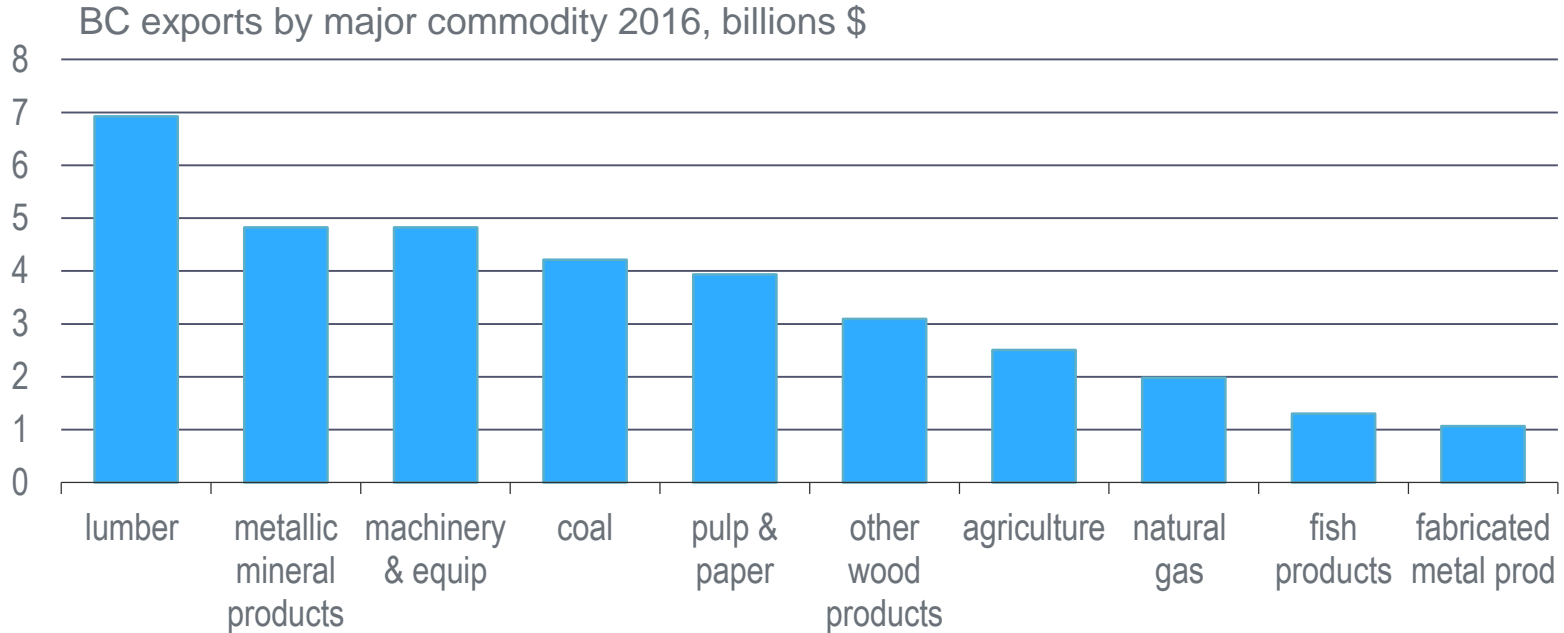
- 12-13% of the province's *real GDP*
- 75-77% of *merchandise exports* (if LNG comes to fruition, the figure will *rise*)
- The management, discovery, extraction, and processing of natural resources provide the *economic foundation for most communities in the north and interior*
- Resource companies and their suppliers represent *a significant part of BC's "corporate economy" concentrated in Metro Vancouver*
- BC has room to leverage the province's *relatively low-carbon energy system* to attract new investment and industrial development, and build a brand as an environmentally responsible supplier of resources and resource-based goods in a carbon-constrained world

RESOURCES DOMINATE BC'S EXPORT BASE



Source: BC Stats.

LUMBER IS OUR LARGEST EXPORT PRODUCT



WHY RESOURCES IN BC CARRY DISPROPORTIONATE WEIGHT

- Strong export-orientation
- High productivity industries
- High wages (mining is #1, followed closely by pulp, oil & gas, forestry, also pay well above average)
- Most business inputs used in resource extraction and processing are sourced domestically (raw materials, energy, labour, transportation, business services)
 - import content of BC resource products is quite low
 - machinery/equipment is the main imported input
- Resource industries important to urban areas
 - several billion dollars annually spent on business inputs purchased from Metro Vancouver suppliers
 - head offices generate economic benefits - of BC's top 100 companies, 23 are resource firms and most are headquartered in Metro Vancouver

PUBLIC POLICY ELEMENTS THAT SHAPE THE COMPETITIVE ENVIRONMENT FOR CANADIAN RESOURCE INDUSTRIES

- Access to resources (mainly found on Crown land in Western provinces)
- Royalties, fees and other non-tax levies
- Taxes on income, property and inputs
- Cost of energy
- Quality/cost of transportation
- Efficiency and predictability of government regulatory regimes affecting resource development and industry operations (project assessment, land use planning, operational and facility permitting, contaminated sites, carbon management obligations, etc.)
- Ability to sell into international end-user markets on favourable terms...via trade agreements

In some of these policy domains, Canada has been losing ground on competitiveness... especially vis-à-vis the United States