Intelligence MEMOS

Categories: energy and natural resource, industry regulation, innovation and business growth

Subs: business investment, business subsidies and preferences, fairness, oil and gas, resources taxation and revenues

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To: Canadian Energy Observers

Date: June 12, 2024

Re: **Canada's Resources are a Blessing, not a Curse**

Resources have been a major part of Canada's economic prosperity since its founding. Yet, many Canadians downplay these important assets, viewing resources as a "curse" or "Dutch disease." Instead, we should count ourselves lucky to inherit such abundance.

Going back to British economist David Ricardo, our comparative advantage in trade is to export products that are relatively cheaper to produce domestically while importing products that are relatively more expensive to produce at home. This is the case for Canada: Exports are dominated by the high productivity resource sector. Energy, forestry, fishing, mining and agriculture make up one-third of our export earnings. As for trade balances, the resource sector is entirely responsible for our merchandise surplus. Without resources, Canada would have a trade deficit with a sharp decline in its exchange rate.

The resource industry accounts for 14.9 percent of Canada's GDP. Quite strikingly, resources account for 45 percent of manufacturing output. That is not surprising since food, wood, mining and petroleum manufactured products are competitive. Despite the fall in commodity prices after 2014, the resource industry still accounts for almost 45 percent of business investment, of which almost two-thirds of resource investment is energy-related.

Many believe resources are a drain on productivity with little innovation. Yet, technological change in the resource sector has been critical over the years. The resource sector ranks high in its employment of knowledge workers. New types of agricultural and forest products, pipeline technology, and the development of oilsands technologies have had a dramatic impact on the Canada's growth.

Many factors influence investment, including tax and regulatory policy. Oil and gas investments have become the most heavily taxed, and manufacturing the least. Taxes on capital are rising by a third for all sectors of the economy as accelerated depreciation is being phased out by 2028. This will reduce investment by a projected $17 billion (or 3.5 percent).

The other major factor is regulation. It is hard to get things built in Canada. Regulatory requirements and time delay costs are barriers to new investment in pipelines, electric generation, transmission lines, and oilsands plants. The federal *Impact Assessment Act* has delayed completion of projects by up to eight years, adding 20 percent to the potential tax burden on projects. Given the critical need for major mining developments, our current regulatory system is a major obstacle to development.

The best example of our faltering approach is liquified natural gas (LNG). Several European countries, including Germany, Greece and Poland, would welcome Canadian gas as they rush away from Russian energy. Asian countries such as Japan and Korea would prefer to import Canadian LNG across the Pacific rather than from a volatile Middle East. Yet, unlike Australia and the US, almost all LNG proposals have been withdrawn this past decade, with only one Canadian project approaching completion.

So how can Canada encourage more investment in the resource sector? Here is a five-point plan based on the public policy objectives of improving economic efficiency, simplification, fairness and effectiveness.

First, we need an overhaul of the regulatory system, particularly the *Impact Assessment Act*. We should no longer offer budget-breaking subsidies but instead use smart policies that could attract capital.

Second, Canada should undertake a major investment in approved national corridors that enable transportation and transmission lines to deliver products to foreign jurisdictions, such as wood chips from British Columbia, natural gas and oil from Alberta, or wheat from the Prairies.

Third, the federal and provincial governments should support research in new innovations undertaken by universities and the private sector, whether in resources or manufacturing.

Fourth, we must pursue a big-bang tax reform that shifts away from taxing capital. For example, we would not need to rely on subsidies if we had a business tax structure more like Ireland's or Estonia's.

Fifth, we need to drastically reform our current complex approach to carbon policies. If carbon is properly priced, $160 billion in subsidies are not needed as industry will work to lower greenhouse gas emissions. The carbon revenues should be used to support research in new technologies, provide support for investment and reduce taxes for those less able to cope with energy price increases.

This is a tall order for public policy, but it would support not just manufacturing and other sectors, but also the resource-intensive industries that are our greatest comparative advantage. With the right policy framework in place, our real GDP per capita should grow, and not decline, as we have recently seen.

Jack Mintz is the President's Fellow at the University of Calgary's school of public policy. Phil Cross is a senior fellow of the Macdonald-Laurier Institute. This piece is based on remarks at a C.D. Howe Institute and Macdonald-Laurier Institute energy conference, and a recent paper.

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A version of this Memo first appeared in The Globe and Mail.