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ABOUT SCOTCANBC

The Scottish Canadian Business Association of British Columbia ('ScotCanBC') is a volunteer-led non-profit organization, founded in 2013, that seeks to stimulate trade & investment between Scotland and Canada. ScotCanBC supports trade missions; assists potential exporters or overseas expanders; and hosts periodic member events. ScotCanBC is sponsored by Scottish Development International (<https://sdi.co.uk>), the trade and inward investment agency of the Scottish government.

Information about ScotCanBC is available at <http://www.scotcanbc.org> or via president@scotcanbc.org.



OVERVIEW

INTRODUCTION

This report seeks to summarise the impact and outlook for sectors that have been identified as high priority sectors in the Scottish Government's Trading Nations publication vis-à-vis Scottish exports to Canada ("Trade") and Canadian inward investment into Scotland ("Investment").

METHODOLOGY

The main sources of the information used to prepare this report were as follows:

- **Sector Market Research** - ScotCanBC has researched information available on the health and outlook of the key sectors, including publicly available reports and news releases issued by relevant BC and Canadian trade associations
- **Sector Knowledge & Expertise** - ScotCanBC consists of volunteers who have direct insight into sectors as a result of their past or present employment in those sectors or in companies servicing those sectors
- **Bespoke survey** - a survey has been prepared and issued to ScotCanBC's database of contacts to help gather information on business sentiment

Given time constraints and the fast-changing nature of the pandemic and economic outlook the findings of this report are expected to evolve over time and as additional information is received (e.g. additional survey results). Accordingly, the results in this report represent the best information available to us currently but are subject to change.

OVERVIEW OF THE B.C. AND CANADIAN ECONOMIES

Canada is a highly developed market G7 economy with 2019 GDP of US\$1.7 trillion and population of approximately 37 million people. It is the 10th largest economy by nominal GDP in the world. Canada is unusual among developed countries in the importance of the primary sector, with the logging and oil industries being two of Canada's most important. Canada also has a sizable manufacturing sector, mostly based in Central Canada, with the automobile industry and aircraft industry being especially important. Canada has the third highest total estimated value of natural resources in the world, valued at US\$33.2 trillion in 2019. It also has the world's third largest proven petroleum reserves and is the fourth largest exporter of both petroleum and natural gas.

At a provincial level, BC is Canada's fourth largest economy, accounting for approximately 13% of Canadian GDP, and has a population of around 5 million people. BC has traditionally been primarily viewed as a resource-driven economy but in recent decades the economy has evolved and is now well diversified compared to other Canadian provinces (e.g. Alberta). It has a thriving technology sector which benefits from being on the same time zone as "Silicon Valley", as well as Canada's more flexible immigration system. This has resulted in the moniker "Silicon Valley North". BC's strong universities have helped contribute towards a strong life and chemical sciences sector amongst others. BC has both strong connections to Scotland (in the 2006 census 20% of the population self-identified as being Scottish-Canadian), to the United States (notably Seattle/Cascadia and Silicon Valley/California), as well as Asia-Pacific. This geographic advantage and other socio-economic factors have contributed to the overall strength of the BC economy which has been growing at a faster pace than the overall Canadian economy.

SUMMARY FINDINGS

COVID-19 IMPACT

Canada's economy has been negatively impacted by the COVID-19 pandemic, as a result of which the economy is expected to shrink by 6.5% in 2020. Approximately 2 million jobs were shed in April, bringing the unemployment rate to 13% (up from 5.6% in February 2020). Notwithstanding these adverse factors, the overall impact on the economy compares favourably to many other developed economies, including the United Kingdom (-8.7%), France (-9.1%) and Italy (-10.8%). Moreover, the Canadian economy is expected to rebound faster than many developed economies with the "shutdown" occurring later than other economies and reopening sooner. This is particularly true of BC which has one of the lowest mortality rates from COVID-19 of any region in North America.

The restart plan for Canada is mainly driven by provincial restart plans and guidelines. BC is currently in phase three of its four phase restart plan¹. This phase, which commenced in June, permits travel within the province together with reopening of restaurants, bars, resorts and campgrounds. Phase 4 includes reopening of international travel, conventions and live sports. At the federal level, Canada has implemented measures in response to the pandemic which include wage subsidies, waiving of tariffs on certain medical goods and financial assistance for exporters, amongst other measures².

In terms of economic impact to BC, the economy here is expected to contract by 7.3% as a result of COVID-19. 77% of businesses surveyed by the Vancouver Economic Foundation³ indicated they were experiencing a negative impact from the pandemic with 73% expecting revenues to drop by more than 50%. Notwithstanding these adverse effects, many sectors are starting to rebound and others (e.g. mining, chemical sciences) have favourable outlooks. In all sectors there are significant challenges that will need to be overcome but there are also some opportunities.

SDI PRIORITY SECTORS IN CANADA

| Sector | Covid Impact | Sector Outlook |
|-----------------------|--------------|----------------|
| Mining | Mixed | Favourable |
| Technology - Services | Adverse | Mixed |
| Technology - Products | Adverse | Mixed |
| Engineering | Adverse | Mixed |
| Chemical Sciences | Mixed | Favourable |
| Food & Drink | Mixed | Favourable |
| Machinery & Equipment | N/A* | N/A* |

N/A* - Machinery & Equipment not assessed due to limited available data and unclear sector definition

BACKGROUND

BC has a global reputation as a leading jurisdiction for mining; copper, coal, zinc, silver, gold, lead and molybdenum are the primary minerals mined in the province.

BC is Canada's largest producer of copper and steelmaking coal, the second largest producers of silver, and the only producer of molybdenum.

In 2017, BC's mining activities generated more than \$11.7 billion in gross mining revenues and companies invested \$1.5 billion in capital expenditures at sites throughout the province.

The mining industry is a capital-intensive industry and BC mining companies work closely with mining supply companies throughout the province.

From heavy equipment and industrial materials to transportation, environmental sciences and more, every job in the BC mining industry, supports two jobs in mining supply and services.

In 2017, the BC mining industry directly employed more than 10,000 British Columbians.

COVID IMPACT & SECTOR OUTLOOK

- **Covid status** - Designated an 'essential service' by B.C. government
- **Favourable impact on producing precious metals** - gold and silver companies benefitting due to increased price in commodities
- **Adverse impact on base metal miners** - copper and diversified miners (e.g. steel-making coal) suffered initially but prices rebounding
- **Adverse initial impact on exploration & development companies** - partially offset by favourable outlook for many mining companies, especially precious metals

CHALLENGES

- **Reduced demand** - for base metals pricing and demand has softened in response to current market condition
- **Supply Chain Interruptions** - obtaining key supplies has been complicated by COVID
- **Remote & Foreign Operations** - mines located in remote areas and foreign jurisdictions and subject to differing health regulations and timing of markets reopening
- **Financing** - market uncertainty and availability of debt and equity financing has resulted in investment delays
- **Travel** - Restrictions on international travel

OPPORTUNITIES

- **Increased demand** - higher demand for precious metals
- **Higher Margins** - higher pricing for precious metals resulting in higher margins
- **M&A** - mergers and acquisitions were already trending upwards prior to COVID (e.g. Goldcorp) have continued even during the pandemic
- **Technology** - challenges presented by COVID may accelerate existing trends towards increased use of technology in mining operations and mine design
- **Environment** - beyond the current COVID-19 headwinds the new green economy will require additional mining materials (e.g. copper for electric cars)



BACKGROUND

The Canadian technology sector was directly responsible for \$117 billion or 7.1 percent of Canada's economic output, greater than that of the finance and insurance industry. 864,000 Canadians were employed in the tech sector, which made up 5.6 percent of Canada's total employment.

In BC, the tech sector employs over 164,000 people, of which 114,000 are directly employed in 10,600 tech firms. The tech sector accounts for approximately \$17 billion and 6% of BC's GDP. Vancouver is ranked 1st in terms of growth of hiring (CBRE), is a top 25 global city for its start-up ecosystem (Genome).

Many of the world's largest tech companies have a BC presence, including Microsoft, Amazon, Apple, Facebook, Cisco Systems, Samsung, SAP, Intel, Salesforce, Eventbrite, as well as Absolute Software, ACL Service, TELUS, Hootsuite, Dwave, 1Qbit and Slack

COVID IMPACT & SECTOR OUTLOOK

- **Revenues trending negatively** - 80% of B.C. tech companies have seen a negative revenue/order impact with only 20% stable or increasing. 50% of those seeing a negative revenue/order impact are down by 30% or more
- **Cost cutting measures implemented** - 90% of BC tech companies have implemented measures to cut costs to extend the runway of existing capital
- **Hiring freezes** - 50% of tech companies are not hiring – but positively - 50% are still hiring at this time
- **Strategy adjustments & community support** - 60% of tech companies have pivoted their business as a consequence of COVID, many to provide pro bono services and support to others, some to launch new products and services on their platform

CHALLENGES

- **Reduced demand and weak business & consumer confidence** - these trends could result in weaker than anticipated growth
- **Deferral of business investment** - deferral to planned investments could result in less need for technology services. This, in turn, could impact overseas expansion plans
- **Attracting talent** - attracting overseas talent in the current environment of restricted travel becomes more difficult

OPPORTUNITIES

- **Digital supercluster – 1 of 5 tech superclusters in Canada, located in Vancouver.** \$60M fund established in response to COVID-19.
- **Strategic location** - same time zone as Silicon Valley; gateway to Asia Pacific.
- **Subsector strengths** - AR/VR; AI; structured software, clean technology and B.C.'s strength in genomics
- **Life & health sciences** - included within the tech sector is the life sciences sector. This subsector has benefited for additional funding for COVID-19 related research and PPE materials
- **Remote working & remote sales** - the trend towards remote working is accelerating use of certain technology services (e.g. Zoom, Microsoft Teams, Slack). Likewise, social selling takes on increased importance (e.g. Hootsuite)

BACKGROUND

Please see 'Tech - Services' section above.

Comments in this section are based mainly on the manufacture of electronics since meaningful information on computer and optical products is not as readily accessible especially on a BC / Canada basis.

COVID IMPACT & SECTOR OUTLOOK

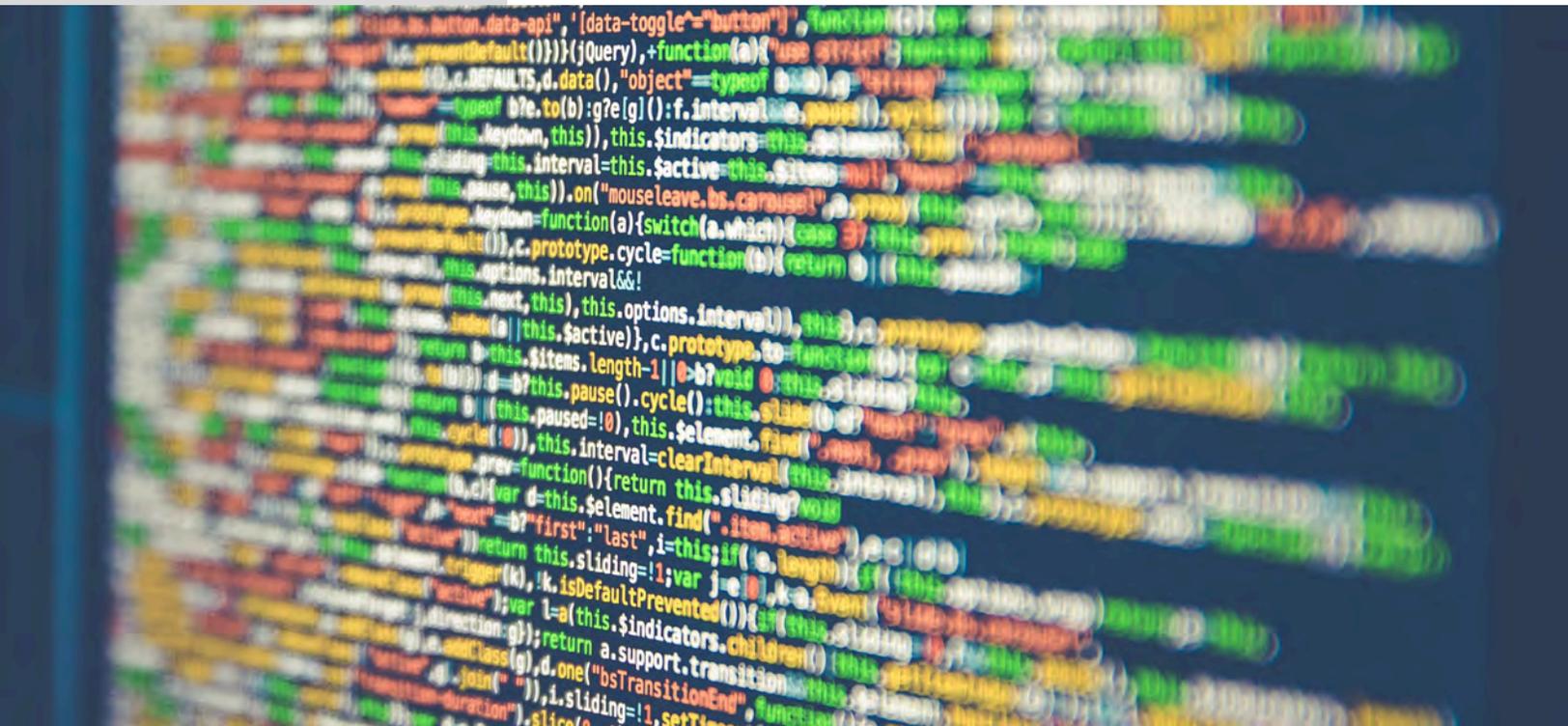
- **Changing consumer habits** - there has been a noticeable change in consumer spending habits away from TV's, smart phones, laptops etc., which has had a negative impact on the sector
- **Outlook mixed and dependent upon consumers financial health** - electronic data tends to fall under or at least mirror the technology sector. Overall, the electronics sector seems to be fairly resilient, rebounding from peak statistical lows in mid-late March 2020

CHALLENGES

- **Disruption to production** - due to quarantining of employees
- **Logistical** - challenges in moving goods
- **Supply Chain Interruptions** - difficulty in obtaining some components due to COVID

OPPORTUNITIES

- **Collaborative Innovation** - particularly in medical design space giving rise to M&A opportunities
- **Governmental Support** - evidence of willing support from National Research Council of Canada Industrial Research Assistance Program (NRC IRAP)
- **Flexibility** - ability to pivot from main line of business
- **Online consumer products** - companies such as Shopify have seen an increased in demand for product



BACKGROUND

Engineering is a key support service to many of BC and Canada's primary industry, including construction, civil engineering, mining, oil & gas. The Engineers and Geoscientists of BC ("EGBC") has 37,000 members and is celebrating its centenary in 2020.

BC is expecting many significant infrastructure projects in the coming years including: Trans Mountain and Coastal Gaslink pipelines, BC Hydro Site C, LNG facilities, YVR Vancouver International airport, Broadway subway line and George Massey replacement tunnel. This will be supplemented by mining and oil & gas related activities and projects, as well as civil engineering and construction activities.



COVID IMPACT & SECTOR OUTLOOK

- **Reduced demand** - demand has decreased significantly, and many projects have been halted or terminated
- **Diverse challenges** - include reduced travel and travel restrictions; large backlog of goods at ports and airports; workforce safety; and technological and change management difficulties from management teams being slow to transition to virtual capabilities to facilitate meetings (vs in person meetings)
- **Business uncertainty** - unclear timetable for delivery or return to normal

CHALLENGES

- **Limited travel** - reduced travel & travel restrictions
- **Supply Chain Disruptions** - backlog of goods at airports/ports; new goods not being shipped as regularly because they are just sitting at airports/ports
- **Employee Support & Health** - lack of support for ex-pats who are feeling isolated from families/work colleagues may result in lower productivity. Increase in disability claims related to COVID-19
- **Economic uncertainty** - businesses may be apprehensive to take on risk/ willingness to spend, especially on large-scale engineering projects

OPPORTUNITIES

- **Large scale Government Funded Engineering Project** - these projects are less susceptible to market uncertainty and there are number of large-scale projects either in progress on the horizon in BC (e.g. Site C Dam; Trans- Mountain Pipeline)
- **Positive Outlook in Key Industries** - while outlook in some sectors may be mixed (e.g. private sector construction projects) the outlook for other sectors that require engineering services is more positive (e.g. mining)

BACKGROUND

The chemistry sector generates nearly \$60 billion annually making it the 3rd largest manufacturing sector in Canada.

Currently over \$7 billion of capital investment in the sector remains under way and is scheduled to come into production in late 2021 and early 2022.

An additional \$11 billion in committed or announced capital that was deferred due to COVID-19 is now materializing..

COVID IMPACT & SECTOR OUTLOOK

- **Mixed impact** - survey results showed COVID-19 had no impact on half of the chemical industry; 30% had decreased production; while 20% reported production increases
- **Selective elevated demand** - Cleaning products and plastics
- **Chemicals sought** - Water treatment and disinfection chemicals have been in high demand
- **Plastics** - Important sanitary role in the food and medical sectors
- **Rapid Response Platform** - the chemistry sector has supported the development of a Rapid Response Platform that matches PPE producers with consumers

CHALLENGES

- **Capital intensity** - these projects can involve thousands of contractor staff and expenditures in the hundreds of millions of dollars
- **Downstream sector challenges** - reduced demand in downstream markets (e.g. auto manufacturers) may result in reduced or delayed in orders of certain product
- **Increase regulations** - government regulations on plastics and other substances
- **Environment** - increased concern on the environmental impact of chemical products may result in lower demand and/or product substitution

OPPORTUNITIES

- **Increased demand** - as noted some segments are showing increased demand in response to COVID-19. Some of these trends may have longer lasting impacts (e.g. cleaning products, increased use of PPE)
- **Sustainable plastics** - greater interest in sustainable plastics in response to environmental concerns

BACKGROUND

As of 2017, the food and drink sector was the second leading import from Scotland to British Columbia. This statistic does not seem to be slowing down.

With an estimated 20% of people in BC having Scottish roots and premium placed on provenance, that whisky and gin rank high on the extensive list of imports from Scotland.

The signing of the CETA trade deal between Europe and the EU has resulted in greater access to the Canadian market for smoked salmon, cheese, meat and other food producers. The lifting of the 50-year haggis ban also received significant media attention which speaks to the BC and Canadian interest in “all things Scottish”.

COVID IMPACT & SECTOR OUTLOOK

- **Covid status** - Designated an ‘essential service’ by B.C. government
- **Home cooking** - with complete and enforced restaurant closure during the “lockdown”, there has been an increase in cooking and eating at home and looking at expanding food options
- **Restart underway but gradual** - although restaurants and bars started reopening under enhanced COVID-19 protocols (including reduced capacity) since June 1, 2020 it is estimated that many aspects of the food business will not fully resume until Oct 2020

CHALLENGES

- **Food safety** - there may be more food safety concerns as we move forward
- **Virtual Sales** - traditionally the food & drink sector has placed a premium on “ambassadors” and in-person sales meetings. As with other industries people are now having to learn how to embrace the business model of virtual meetings and sales
- **Local vs global** - the trend towards local produce and micro-brewery/distillers presents a long-term challenge to global large-scale producers
- **Brexit** - although Canada is seen as a “friendly” market, there is a risk that uncertainty on future trading arrangements could lead to supply-chain disruptions which may undo some of the gains from the recent CETA trade deal

OPPORTUNITIES

- **Increased demand** - there has been an increase in alcoholic beverage sales during the pandemic
- **Provenance & premium goods** - post-COVID-19 consumers may have greater sensitivity towards high quality foods/drink that have transparent provenance through their supply chain
- **Comfort foods/drinks** - to mitigate COVID-19 anxiety, BC consumers may crave comfort foods/drinks from their homeland (20% of BC respondents to 2006 census self-identified as Scottish descent)



APPENDICES

APPENDIX A: TRADE ASSOCIATIONS

| Sector | Association Name | Website |
|-------------------|--|--|
| Mining | Mining Association of B.C. ('MABC') | https://www.mining.bc.ca |
| Technology | B.C. Technology Industry ('BC. Tech') | https://www.wearebctech.com |
| Food & Drink | Scotland Food & Drink Scotch Whisky Association ('SWA') | https://foodanddrink.scot https://www.scotch-whisky.org.uk |
| Engineering | Engineers & Geoscientists of B.C. ('EGBC') | https://www.egbc.ca |
| Chemical Sciences | Chemical Institute for Canada | https://www.cheminst.ca |

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