



CANADA - UNITED KINGDOM
Chamber of Commerce
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**“OPPORTUNITIES ABOUND:
BUILDING BUSINESS BETWEEN CANADA AND THE UK”**

Thank you, and good afternoon.

RBC is proud to be a charter member of the Canada-United Kingdom Chamber of Commerce and I very much appreciate this opportunity to join you today.

When Victor Dahdaleh asked if I would speak today, he thought he could persuade me by listing some of the guests the Chamber has hosted in the past, including President Bill Clinton, Prime Minister Chrétien, and even my own predecessor, John Cleghorn. Frankly, I don't know if this was the best tactic, because these are all tough acts to follow.

But nevertheless, I am delighted to take this opportunity to share with you some of my perspectives on Canada and our place in the global economy and would then be happy to entertain any questions you may have.

As Canada's largest company and bank, we do have a good perspective on the mood and momentum of the country and on both those accounts I would have to say it is very positive. While as a banker, I am by nature cautious, I do believe that Canada is currently well positioned as a place to invest and grow.

Whether a result of our improving fiscal situation, a strong commodities sector, the diversity of our business community or our significant trade surplus, Canada finds itself in an enviable position compared to most of the industrialized world.

As you likely know, we have a brand new Conservative minority government. In fact Her Excellency the Governor General will open the first session of the 39th Parliament with a speech from the throne today. None of us knows how long this government

will last. But I think that Canadians are suffering from election fatigue, so the general hope and belief is that this government will be more stable than its predecessor. The Liberal party has found itself in a leadership vacuum at the moment in any case, and it is widely felt that the party needs all the time it can get so that it can rebuild – in fact it won't choose a new leader until December. So, if all goes well, we will not need to suffer through another federal election for at least next 18-24 months.

Given Canada's history and geography Canadians like to believe we inherited the best of British bureaucracy, French culture and American ingenuity. Skeptics might say French bureaucracy, British ingenuity and American culture. But for certain we have inherited the British Parliamentary System which like every system has strengths weaknesses – one of which is the challenge of governing without a majority.

The result is that we have had three years of political inaction and although we still have a minority government, we at least now have a new government which has committed itself to a platform of change. The priorities of our new government have relatively broad support and therefore they do have some political breathing room.

Prime Minister Harper's campaigned on five promises: increasing government accountability, lowering personal taxes, strengthening the justice system, supporting child care, and determining the appropriate waiting times for patients to receive healthcare services. While the government is focused on these priorities, ultimately they will be forced to address broader economic issues particularly around our areas of challenge – such as productivity, competitiveness and

human capital.

This new government is taking over the reins of power at a critical time for Canada. Canada has tremendous potential waiting to be unleashed. This fact has been recognized by a host of experts who are far more objective than I:

- The IMF named Canada the G7 economic growth leader during the period 1998-04 and 05/06 are no exception;
- KPMG named Canada the most cost-effective place to do business in the world;
- Harvard University says Canada is the least costly and easiest place to start a small business;
- The Economic Intelligence Unit says Canada has the second most business-friendly environment in the world;
- The World Bank ranks Canada first among the G7 in terms of ease of business start-ups;
- The IMD called Canada is one of the most wired nations in the world, second only to the United States for IT infrastructure;
- And according to the IMF, Canada has the lowest ratio of net debt-to-GDP among the G7, and the strongest government budget position among large industrial countries—a surplus in fact.

I feel like I'm waving the flag when I read the list of accolades Canada has received, but as Canadians we should be proud of our accomplishments.

I would like to spend a few minutes drilling down on some more specific examples, giving you RBC's outlook for the Canadian economy, and conclude with some comments about the potential for business between Canada and the UK.

Canada is adjusting to some of the same challenges seen elsewhere in the world – how to create and compete in a knowledge-based economy, but we have the added benefit of a strong commodity base and strong fiscal position. We are forecasting that Canada will reclaim the number one spot within the G7 this year in terms of economic growth.

Our foreign debt has dropped sharply over the last decade, from almost 50 per cent of GDP to slightly over 10 per cent today – we continue to have a significant budgetary surplus and growing trade surplus.

The rise of manufacturing in China and other

emerging market is a challenge for the Canadian market as it is for markets around the world, but notwithstanding a decline in certain industry sectors, we expect healthy overall economic growth for 2006 to come in at approximately 3 ½ per cent, up from just under 3 per cent in 2005.

The 42 per cent appreciation in the Canadian dollar during the recent period of U.S. dollar weakness has also contributed to a weakening on the external side of the economy but, again, we have been pleasantly surprised at the ability of our export sectors to adjust.

If any of us were asked what the impact of a 42% currency appreciation would have on our manufacturing export sector a few years ago most would have predicated Armageddon but our exporting companies have adjusted.

One reason is that Canada is also a large importing nation—and we import almost 75 per cent of our machinery and equipment from the U.S. Our currency appreciation has caused a lift in investment spending over the short-term. And on the cost side, our industries have been able to adjust to the strength of our currency by enhancing their productivity. The good news continues, with a corporate sector as strong as it has ever been with high liquidity levels, low leverage and interest coverage rates among the best on record.

Much of our growth in the years ahead will depend on activity at home. Our prospects are also solid here, particularly for investment, and we have a bullish view of large investment projects. Unlike the U.S., Canada's saving rates, while historically low, are well within normalized debt service bands. Canada also has a significant infrastructure deficit that will have to be invested in over the next few years and we are starting to see significant dollars committed to infrastructure development projects. Significant investment in the energy and commodities sector should also continue as we expect the continuation of a of a strong commodities cycle.

One fact that many are not aware of is that Alberta holds the largest oil reserves in the western hemisphere, second in the world only to Saudi Arabia.

The Governor of the Bank of England even recently suggested that the Canadian oil sands were a potential source of energy for the UK and Canada is the largest exporter of energy products to the U.S. While there may be

some production challenges ahead, the outlook is positive, with some \$120 billion already committed to developing this area over the next ten years.

Four other Canadian provinces are also energy rich. We are seeing significant oil and gas activity in Saskatchewan, new gas developments in British Columbia and growing offshore activity on the East Coast. The Mackenzie pipeline will likely proceed over the next few years and will ultimately connect northern onshore gas fields with North American markets.

But Canada's investment opportunities aren't limited to just energy.

If you were asked to list the nations that produce diamonds, you might not include Canada as one of them. But diamond mining is literally transforming the economy of Canada's North. The industry is now worth more than \$2.0 billion, and all indicators point to excellent potential for future growth, with three more diamond mines opening up by 2008. This will make Canada the number three diamond producer in the world.

In Saskatchewan, you'll find potash investment keeping pace with global demand and in Newfoundland, nickel production is rising.

In addition, a number of our provinces are carving out their reputations as centres of science and technology.

We are seeing the emergence of nanotechnology in Alberta, fuel cell and biotech in British Columbia, and public health research in Manitoba. Ontario has the continent's third largest information technology and telecom equipment clusters, and is home to Research in Motion, the company you will all know as inventor of the Blackberry.

Ontario also boasts major investments in the automotive sector and Toronto is home to Canada's healthy financial services sector.

All this is to say that we're no longer just "hewers of wood and drawers of water." Our economy is well balanced, our fiscal position is strong and relative to most mature economies, I believe Canada is in an extremely good position.

This is not to say we are not without our challenges. We have failed to keep pace with leading countries, including the U.S., in terms

of productivity. Our regulatory and tax regime are in need of reform and the political and economic imbalances across the country create a strain that makes reforms particularly challenging.

I am on the executive of the Canadian Council of Chief Executives. In February, we released a research paper, called "From Bronze to Gold", a blueprint of recommendations that we believe will help Canada make the most of its formidable strengths and addresses a number of its challenges.

Canada's relationship with the United States has sometimes been described as that of a mouse to an elephant. Certainly, it can be a challenge to step out from under the shadow of an economic behemoth. This is why Canada must offer compelling reasons to attract investors—for both our resource and new industry sectors. Canada's federal and provincial governments must work together to reduce Canada's effective marginal tax rate on business investment.

Corporate income tax rates in Canada have come down considerably in recent years, but we can and will be doing more.

The federal corporate income tax rate has dropped by 7 percentage points since 2000, and last year, the former Liberal government announced an additional 2-point cut, as well as eliminating the corporate surtax. Since the Conservatives supported these cuts while they were in opposition, we expect to see these measures enacted in our next federal budget.

We continue to recommend further cuts in the corporate income tax rate and the elimination of all remaining federal and provincial taxes on capital. For those provinces that have not yet converted their retail sales taxes to value-added taxes, we encourage them to do so without delay. This would remove a significant tax burden on business inputs and new business investment.

In addition, we have made other recommendations around education, immigration, commercialization and infrastructure to address productivity and structural reform.

I encourage those of you who are interested to read it but for now, I'd like to conclude with some thoughts on some of the current opportunities for business between Canada and the UK, because, clearly, they are plentiful.

While the UK accounts for less than 2 per cent of our exports, and less than 3 per cent of our imports, Canadian exports to the UK have doubled in the past ten years and imports have risen by 75%. Our trade deficit with the UK has improved sharply in recent years, and stands at \$2.2 billion.

The UK has been described as Canada's "launch pad" for Europe, and Canada as the UK's "soft landing" into the North American market.

More than 500 companies are active here, and Canadian businesses continue to choose the UK as their preferred European investment location.

In 2004-2005, only one country was a lead investor in more UK projects than Canada, and that was the United States.

RBC recently added to our own portfolio through the acquisition of Abacus in the Channel Islands, bringing the number of people we employ in the British Isles to more than 2000.

Canadian companies now amount to 13 per cent of companies listed on the London Alternative Investment Market (by market cap.) Canadian companies account for a full 40 per cent of the mining companies on that exchange and one-quarter of the oil and gas sector as well.

I can tell you that AIM is proving to be a very important exchange for Canadian companies to attract investment from UK and European institutions and represents a good source of business for law firms and banks that help Canadian companies get listed on the exchange.

On the other side, there are about 650 British companies operating in Canada, and Britain is a leading source of foreign direct investment, behind the United States and France, with a focus on the finance and insurance sectors.

Outside of the opportunities provided by direct investment, we also see tremendous potential in the transfer of intellectual capital between our two nations.

Take public/private partnerships, for example. The UK has been a global pioneer in this area, with some six hundred deals over the last ten years, resulting in substantial improvements to hospitals, schools, roads and other facilities,

coming in on time and on budget.

By challenging traditional ways of working, public/private partnerships have modernized essential public services, and have allowed government to contain expenditures and taxes, while at the same time providing the public with improved access to essential services.

As I said earlier, Canada faces a significant infrastructure deficit which cannot be addressed with government funding alone and I am keen to see this model exported to Canada, and to build on the management knowledge and financing expertise developed here.

We will have to adapt the model to Canadian culture and politics, but the underlying motive is the same: better value for the tax dollar.

In fact, a few public/private projects in transportation and healthcare are already underway in Canada, using the techniques pioneered here. I hope this process will be accelerated to bridge the infrastructure deficit that we face.

In London, RBC has about fifty people working in the area of public-private partnerships significantly more than we do in North America. There is much opportunity for transatlantic exchange, to the mutual benefit of both countries.

The connections between Canada and the UK will only continue to grow and strengthen. As you may know, until last year, many Canadian investors were severely restricted in their ability to buy bonds issued by US and European investors. Now with the removal of the foreign investment limit on Canadian pension and retirement savings funds, large pools of Canadian funds can look offshore for investment opportunities. We're already seeing signs that, more and more, issuers are looking to Canada to get international bond deals done.

Ladies and gentlemen, Canada has a good story to tell and we have enjoyed that strength.

The hard choices were made in the 1990s have produced real dividends: we have a clear sense of the challenges ahead, and are determined not to rest on our laurels.

We will continue working to become even more competitive and productive, and I hope you will see and capitalize on the great investment opportunities.

Thank you.