Is Canada a bigger threat to Australia's economic prosperity than China?

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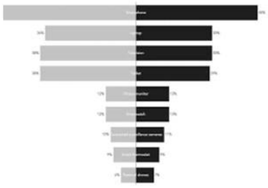

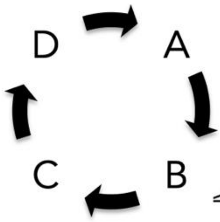

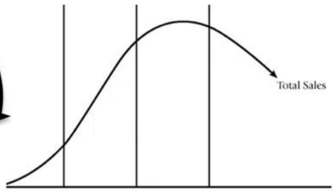

Australia and Canada have a lot in common, not just the obvious being two former British colonies that now share the same language and Head of State. They are among the six largest countries in the world by surface area, are inhabited by a small population (respectively 26 and 38 million). Both enjoy a high standard of living, skilled workforces, dynamic immigration policies and economies which rank within the top group of OECD countries for the ease of doing business and the low level of corruption. Not only this, both countries have large exporting farming sectors, vast mineral resources with a thriving mining industry, which benefits from stock markets where exploration companies can be listed and fund their growth into operation. Furthermore, both Australia and Canada are rich in the critical minerals that are an integral part of the world's energy transition, even if Australia clearly is endowed with larger reserves of lithium, nickel, cobalt and rare earths.

The similarity is striking and in fact positions the two countries as competitors on the world stage, in particular to tap into the huge markets the top 3 economic areas offer: China, the US and the EU. And this is where Canada has an edge over Australia:

- Its economy is well integrated with the US' and hosts a strong industrial manufacturing ecosystem, from automotive to aerospace and energy systems.
- Its trade with the EU is facilitated by a logistic (transatlantic) advantage and by the existence of the EU-Canada CETA trade agreement in force since 2017.
- At the same time, Australia's geographic proximity and economic complementarity with China have become less compelling since tensions have escalated at government level and affected trade relations.

The energy transition involves a de-carbonisation of supply chains, which both countries need to address, as they excessively rely on fossil fuels. However, Canada barely uses coal and 26% of its energy comes from renewables or nuclear, while Australia heavily relies on coal and only generates 8% of its energy from renewable sources.

Fortunately, the needs of the world are such that there is room for both Australia and Canada to be successful commodity suppliers in the long term, so while the term 'competitor' is correct, suggesting a 'threat' is really just a thought-provoking statement.

In the short term though, Australia would improve its prospects by addressing the 3 following areas:

1. Green credentials: aggressive development of GHG-free energy sources is necessary to keep enjoying open access to major trading areas and avoid being subjected to new tariffs. Renewables will be the new competitive edge, watch out for competitors that have a higher sense of urgency.
2. Access to the Chinese market: managing geostrategic interests is absolutely critical, but not necessarily detrimental to trade. It requires a deep, though discreet, engagement with expert diplomacy at work.
3. Adding value to commodities: reducing the reliance on China and on-shoring value addition are now possible thanks to technology, although a better understanding of downstream markets and of the value-in-use concepts is imperative. Sometimes public-private partnerships are more effective than loans or tax incentives.

Although Canada arguably enjoys a head start, Australia is well-positioned to thrive in the new economic environment the energy transition offers for the next 10 years; the opportunity is here but it shouldn't be taken for granted.