

Volatile resource sector booming

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British Columbia's booming resource sector delivered the province a healthy \$1.5-billion surplus this year -- but its volatile nature means it's too "risky" for B.C. to expect the money to keep pouring in, Finance Minister Carole Taylor said Tuesday.

Finance ministry figures for the 2006 budget show B.C. taking in a record \$2.25 billion in natural gas royalties this year, with metal and mineral revenues adding a further \$781 million.

B.C.'s biggest industry, forestry, is delivering \$1.2 billion -- although that's down \$43 million from the projection last September.

Taylor said that the gas revenue, in particular, is a windfall that has enabled the province to offer \$1 billion for one-time public sector wage increases, but cautioned against expectations of a similar gush of cash in future.

"The main risks to the fiscal plan lie in the potential for an unexpected slowdown in the U.S. economy; the volatility of commodity prices, in particular natural gas prices; and the Canadian dollar," the province's 2006-2007 budget and fiscal plan warns.

"Oil and natural gas prices are expected to remain high and volatile in the short term." Taylor said that "tremendous volatility" in the North American natural gas market had prices doubling and falling by half at different times in the past year.

Taylor said a \$1-a-gigajoule change in the price results in about a \$300-million revenue change -- with major impacts for good or bad resonating throughout the provincial economy.

"There is a risk to the fiscal plan and one that we have to be thinking about all the time," Taylor said.

For example, B.C. had pegged its budget surplus at \$1.3 billion in September, based on gas royalties, \$1.6 billion in November, and in Tuesday's budget that number dropped to \$1.475 billion.

"It just shows you how these numbers move around," she said.

Annual forestry revenues are expected to drop \$43 million compared to Taylor's forecast last September, due to a strengthening Canadian dollar and weaker activity in the coastal forestry sector.

Coast Forest Products Association CEO Rick Jeffery said his sector was relieved that

the budget includes plans to revise the coastal stumpage policy to "better align stumpage rates to market conditions" -- which are weak for coastal lumber.

BC Timber Sales is planning to reduce the reserve price for old growth auction sales in recognition of weak hemlock log markets.

Jeffery said further changes are needed -- the coastal industry needs \$2.5 billion in new investment and facility upgrades to remain competitive on global markets.

The mining industry was cautiously pleased with the budget.

Mining Association of B.C. president Michael McPhie said the province took several steps to ensure mining's continued strong contribution to the provincial treasury, including an extension to the mining flow-through share tax credit and a commitment to maintain provincial control and ownership of Vancouver Wharves -- helping maintain the stability of port shipping costs.

Mining industry executive Donald McInnes said one of the most important moves in support of mining, a \$500,000 contribution towards electricity transmission infrastructure in northwest B.C., should eventually yield benefits far greater than this initial investment.

McInnes is one of the leaders of a group of mining companies and other northwest supporters for development of a transmission line along the Highway 37 corridor.

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