FREELANDT CALDWELL REILLY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Accounting | Assurance | Advisory | Tax

Insights & Resources

As a member of the RSM US Alliance, we would like to share the following with you:

The Real Economy Q1 2021 Volume 9

LOCALLY OWNED. NATIONALLY AFFILIATED. GLOBALLY CONNECTED.

An independently owned member
RSM Canada Alliance

RSM

Freelandt Caldwell Reilly is a proud member of the RSM US Alliance, a premier affiliation of independent accounting and consulting firms in the United States. RSM US Alliance provides our firm with access to resources of RSM US LLP, the leading provider of audit, tax and consulting services focused on the middle market. RSM US LLP is a licensed CPA firm and the U.S. member of RSM International, a global network of independent audit, tax and consulting firms with more than 43,000 people in over 120 countries.

Our membership in RSM US Alliance has elevated our capabilities in the marketplace, helping to differentiate our firm from the competition while allowing us to maintain our independence and entrepreneurial culture. We have access to a valuable peer network of like-sized firms as well as a broad range of tools, expertise and technical resources.

Sudbury
62 Frood Road, Suite 301
Sudbury, ON P3C 4Z3
Tel: (705) 675-2200
Fax: (705) 675-2515

Espanola
30 McCulloch Drive
Espanola, ON P5E 1J1
Tel: (705) 869-3351
Fax: (705) 869-4601

THE REAL ECONOMY

VOLUME 9

CANADA EDITION

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

ABOUT THE **AUTHORS**

Our thought leaders are professionals with years of experience in their fields who strive to help you and your business succeed. Contributors to this issue include:

Joseph Brusuelas
Chief Economist,
RSM US LLP

Bryan Tannenbaum
Partner, R&R – Restructuring & Refinancing
RSM Canada

Alex Kotsopoulos
Partner, Projects and Economics
RSM Canada

Ryan Duquette
Partner, Security Risk & Privacy
RSM Canada

Homan Chung
Senior Manager
RSM Canada

TABLE OF **CONTENTS**

CLOSING THE OUTPUT GAP **WITH A LITTLE HELP FROM OUR FRIENDS**

By Joseph Brusuelas

The developed economies of the world are on the verge of recovery, which will depend on how fast vaccinations are administered, and confidence in personal interaction is restored. The Organisation for Economic Co-operation and Development's (OECD) latest Economic Outlook put it succinctly: While the global recovery is in sight, there is "a long way to go."

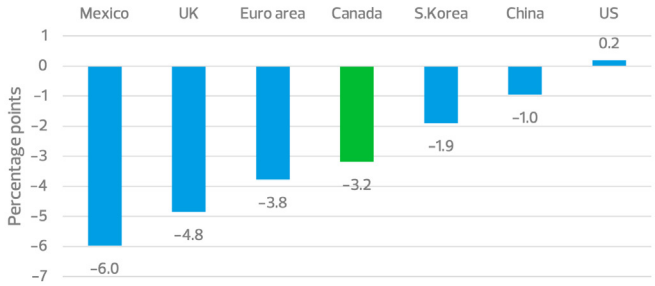
The success of the vaccine rollouts is such that it took the OECD only three months to raise its projection for global growth in gross domestic product by more than one percentage point. After a 3.4 per cent decline in 2020, the industrialized economies of the world are likely to grow by 5.6 per cent from last year's low base.

Although the OECD expects world output to reach pre-pandemic levels by the middle of this year—a forecast that includes the robust growth expected in China and the United States—it added that "much will depend on the race between vaccines and emerging variants of the virus."

There is, of course, a great deal of variation within the OECD's anticipated growth forecasts. While the American economy is expected to exceed its pre-pandemic projection by 0.2 per cent this year, Canada is expected to undershoot by 3.2 per cent, a middle-of-the-pack projection among Canada's trading partners. This is a reminder that we live in a global community, an interdependent web in which it is in every nation's best interest to work for the success and health of all economies.

Shortfall of 2021 growth relative to pre-pandemic projections

PERCENTAGE-POINT CHANGE FROM NOVEMBER 2019 OECD GDP PROJECTIONS AMONG CANADA AND ITS TOP TRADING PARTNERS



Source: OECD Economic Outlook; World's Top Exports; RSM Canada

Canada's output gap

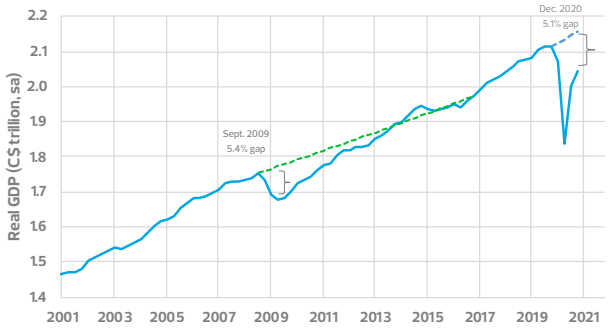
Our estimate of Canada's output gap—which we define as the difference between actual GDP (by expenditure) and the economy's pre-pandemic projected GDP—is a 5.1 per cent deficit as of December 2020. That compares to the 14 per cent gap earlier in 2020 and the 5.4 per cent gap during the worst moments of the 2008-09 Great Recession.

That the economy has recovered so quickly from the depths of last year's downturn suggests perhaps a different path than the dragged-out recovery from the Great Recession, which took more than six years.

Whether there is a 3 per cent output gap—as defined by traditional comparisons relative to potential GDP—or the 5 per cent gap in our analysis of what the economy could have produced if not for the shock of the pandemic, economic policy should be large enough to bridge the output gap.

The economies of North America were undergoing structural changes before the pandemic hit, and those issues are not likely to vanish overnight. And because there are risks to any forecast, with the ability of the vaccine to prevent continued spread the most immediate risk, experience has shown that it's better to err on the side of an overdone stimulus package.

RSM estimate of Canada's real GDP output gap



Source: StatCan; RSM Canada calculations

Downturn not felt equally in Canada

The OECD also reports that national economies that are more dependent on tourism are not expected to rebound as quickly as those that can rely on a manufacturing base. We can apply that logic to local Canadian economies. And we can infer some relationship between the speed of the recovery and the degree to which employment is by large corporations as opposed to the small businesses that have been hit so hard.

So it is no surprise that a recent analysis by Statistics Canada found that "the economic impacts of the pandemic were not felt equally across the country."

Specifically, the study found that "Alberta, Saskatchewan and Ontario showed the largest declines in economic activity," with reduced output in Alberta a result of lower energy prices, while the decline in Ontario was because of tighter coronavirus restrictions.

All in all, the OECD anticipates that Canada's real GDP will grow by 4.7 per cent in 2021 and 4 per cent in 2022. The OECD also finds that a large portion of that growth—and more than any other economy—will be attributable to the American Rescue Plan, the $1.9 trillion pandemic relief package signed into law on March 11. This gives reason to think that further integration of the North American economy is both inevitable and beneficial for all parties.

What a difference an election makes

The November election in the United States paved the way for the passage of additional relief programs in December, while changes in the Senate and the executive branch that followed brought about relief packages that now total 13.1 per cent of U.S. GDP. Compare that to additional fiscal spending equal to 6.8 per cent of GDP in the euro area, 4.1 per cent in Japan and 3 per cent to 4 per cent in Canada, according to the OECD and a BBC report.

The rebound in the United States is integral to Canada's recovery, and that should be no surprise. The United States is the recipient of nearly 74 per cent of Canada's exports, according to the World's Top Exports, a website that focuses on trade data.

We could expect Canada's resource extraction and manufacturing to increase as U.S. economic activity increases. And even though net exports account for a small portion of Canada's national accounts—there are roughly equal amounts of imports and exports—they overlook the significance of higher levels of imports and their implication of higher domestic demand and increased domestic activity.

Increased production activity, whether it is from manufacturing or fracking or technology, will end up supporting downstream service-sector activity and household consumption, particularly once the vaccine has been broadly distributed. Still, we expect that portions of the service sector will lag behind the growth of the overall economy. Lost revenue and employment in small businesses will prove to be irrecoverable, and it will take a while for retooling and retraining to have an impact.

Analysis by StatCan points to these lingering problems that have the ability to affect the health of the labour force, the competitiveness of Canadian business within the global economy, and the sustainability of the recovery. These long-haul issues include:

Impact of the pandemic on the labour force

- Forgone medical treatments and testing
- Worsening mental health, particularly among health-care workers
- Greater financial impact on low-wage workers
- Effects of delayed entry of young people into the labour force and their training
- Decline of 60 per cent in immigration during the pandemic

THE U.S. IS THE RECIPIENT OF NEARLY 74% OF CANADA'S EXPORTS, MAKING CANADA HIGHLY DEPENDENT ON THE U.S. ECONOMY.

Competitiveness

- Decline of 13.1 per cent in nonresidential investment at year-end 2020
- The number of unemployed or underemployed workers reaching 1.1 million people as of December 2020
- Business closures, with the greatest impact on small businesses
- Unwillingness of smaller businesses to take on debt

Productivity

For better or worse, the pandemic has most likely hastened the diversification of North American economies toward technology and advanced manufacturing at the same time that those technologies are making possible further integration of industry and the societies of Canada, the United States and Mexico.

StatCan notes increased productivity because of changes in business practices. Productivity "rose in industries that are digital and information and communications technology-intensive, such as wholesale trade; retail trade; finance, insurance and real estate; and other services (including health and education)."

StatCan's analysis states that while "accelerated shift toward digital assets may result in permanent productivity gains," it also points out that "more than one-third of office support workers were at a high risk of job transformation." So there are winners and losers involved in all change, which heightens the need for retraining and increased educational opportunities for all members of the labour force.

Finally, research at StatCan "has found that investments in robotics have not been accompanied by mass layoffs—on the contrary, firms that invest in robots tend to be more productive and hire more workers."

AS THE U.S. ECONOMY GOES, SO GOES CANADA'S

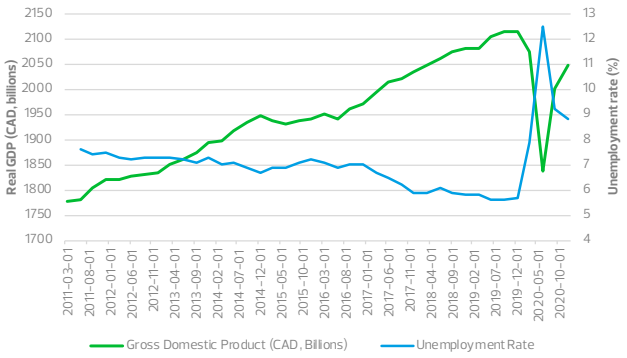
By Alex Kotsopoulos and Joseph Brusuelas

As Canada has grappled with the human and economic toll of the pandemic, perhaps no measure will have a greater impact on the Canadian economy this year than the passage of the Biden administration's $1.9 trillion stimulus and relief package.

That's because Canada's economy is highly dependent on the fortunes of its far larger neighbour to the south. Without a strong American economy, Canada will have a hard time emerging from its economic doldrums.

Buoyed by government spending and aggressive monetary policy, the Canadian economy has recovered nearly 90 per cent of the economic output lost as a result of the pandemic, setting the stage for what is expected to be the fastest rate of growth in a generation.

Canada real GDP (SAAR) and unemployment rate



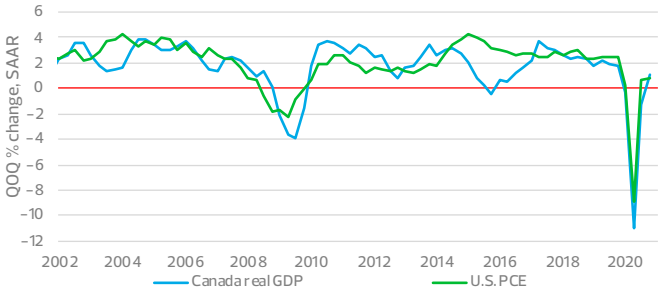
Source: Bloomberg; RSM Canada

Canada unveiled what some have called the largest economic stimulus program since World War II to combat the virus and cushion the blow from locking down the economy last year. The federal government is about to announce a new budget in the coming weeks (the first in a year and a half), and is expected to announce further measures to accelerate the recovery.

But it is the American Rescue Plan that, when combined with Canadian relief efforts, will lift the economy out of its slumber. The payments being sent directly to Americans will unleash consumer spending, which in turn will fuel a robust expansion this year and next. The Canadian economy will benefit as a result. The diagram below shows the strong relationship between consumer spending in the United States and economic growth in Canada.

Growth rate in U.S. real private consumption expenditures and Canada real GDP

SEASONALLY ADJUSTED ANNUALIZED GROWTH RATES, FOUR-QUARTER MOVING AVERAGES



Source: Bloomberg; RSM Canada

Roughly 85 per cent of the $1.9 trillion in the American Rescue Plan is dedicated to addressing the pandemic. As the pandemic goes, so goes the economy. About 75 per cent of the overall package consists of one-time spending and nearly $1.16 trillion of it is designed to be spent this year. Inside that, roughly half of the $680 billion in income transfers this year will be in the form of stimulus checks.

All of this stimulus spending, coupled with an accommodative monetary policy, is why we upgraded our growth forecast for the American economy this year to 7.5 per cent, up from 6.1 per cent, with the real possibility of growth that is faster than that. It will be the fastest economic expansion since the 1980s, and perhaps since World War II.

Canada can expect a similarly strong trajectory. As the American economy improves, U.S. businesses will need to import more energy from Canada to fuel their factories and American businesses and consumers will buy more goods and services from Canada. It is all part of the benefit—and the drawback at times—of being one of America's largest trading partners.

For this reason, we now expect economic growth this year to be 6.5 per cent in Canada, which is less than that in the United States partly because of Canada's slower vaccination rate. Risks to our outlook include the potential reinstitution of lockdown measures as a result of a third wave of the coronavirus and lagging vaccination rates.

The other risk is related to fiscal policy. Some commentators have suggested that it is time for the federal government to rein in fiscal spending. But given the potential for the reinstitution of lockdown measures, this may not be warranted.

American spending

A big question, though, is to what extent Americans will spend their stimulus checks, as opposed to saving that money or paying down debt (which could foreshadow more spending later).

An initial assessment by the National Bureau of Economic Research found that Americans spent 40 per cent of the one-time $1,200 payments provided under the CARES Act last spring; the rest was saved or used to pay down debt.

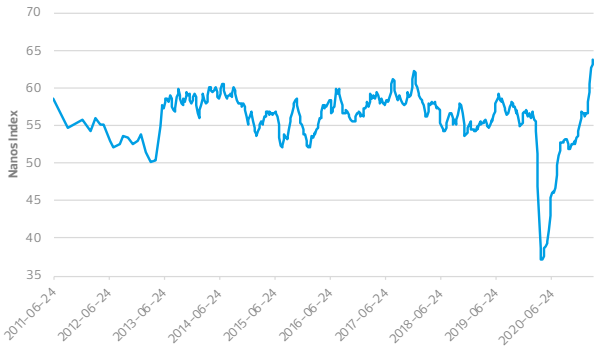
But the savings of American households have since swelled and their balance sheets have improved, leaving them flush with cash just as they are itching to return to a normal life—and spend.

There is also the question of job losses, and to what extent the cash flowing to Americans will be offset by unemployment as the pandemic continues and economic activity is curtailed. As scarred as the labour market is, we project a period of significant hiring in the second half of the year as vaccines are distributed, businesses reopen and consumers open their wallets.

It all goes to the confidence of American consumers, who account for about 70 per cent of American gross domestic product. As the prospect of herd immunity from the coronavirus becomes more real, this confidence is poised to grow.

In Canada, the economic mood as measured in the Nanos Economic Mood Index hit its highest level ever, signifying that Canadian households are optimistic about the state of the economy and the recovery. Household spending, which is yet to fully recover from the pandemic, is poised for significant growth over the next couple of years.

Economic mood



Source: Nanos Research; Bloomberg; RSM Canada

While we do expect inflation in Canada to increase toward 2.75 per cent in the top-line consumer price index in the middle of this year, mostly because of year-ago base effects linked to the recovery in oil and energy prices, we expect that increase will be transitory.

In our view, the top-line inflation number will ease back toward 2 per cent. We do not anticipate a permanent increase in the price level nor a change in inflation expectations that result in higher inflation or any significant risk to the economic outlook linked to pricing.

RSM CANADA FINANCIAL CONDITIONS INDEX:

BANK OF CANADA TO REMAIN ACCOMMODATIVE

By Alex Kotsopoulos

The Bank of Canada is maintaining its overnight target rate of 25 per cent and has stated that it will retain its current policy of accommodation for as long as necessary to ensure its inflation target is sustainably achieved.

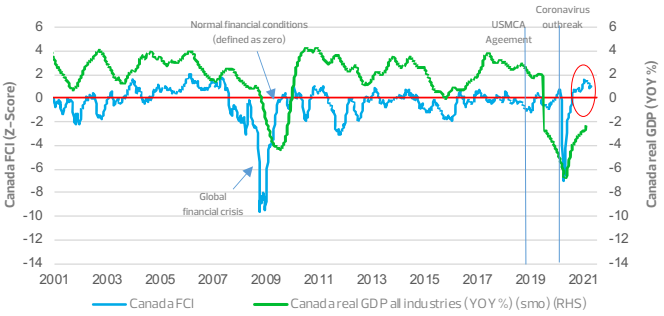
Expectations are that the effects of COVID-19 will have dampened economic growth during the first quarter, even as a successful distribution of vaccines is creating the conditions for a broad-based economic recovery this year.

In addition, an unemployment rate of 7.5 per cent implies a labour market with a long road back to full employment. With an inflation rate near the bottom of the central bank's target range of 1 per cent to 3 per cent, implying a lack of demand, the Bank of Canada is going to be patient on the path of monetary policy as the economy heals.

That said, during March, our RSM Canada Financial Conditions Index reached as high as 1.5 standard deviations above neutral before retreating to 1.0 standard deviation as oil prices came off their highs. That implies that financial conditions are conducive to economic activity and solid recovery this year.

Excluding oil and commodity prices, the index stands just above neutral. For this reason, the Bank of Canada should remain accommodative to ensure that the improvement in the energy-based economy is matched by that in the domestic real economy.

RSM Canada Financial Conditions Index and Canada real GDP growth



Source: StatCan; Bloomberg; RSM Canada

Containment of the pandemic among Canada's major trading partners and rising expectations for global growth and infrastructure investment point to an economic revival in the near term.

Since the pandemic began, the Bank of Canada has worked to maintain liquidity in the money markets necessary for day-to-day commerce, and to incentivize investment by suppressing long-term interest rates, which lowers the cost of capital. This is evident in the normalization of financial conditions that began last summer.

Because central banks have determined that monetary policy is transmitted to the economy via financial conditions, we have created the RSM Canada Financial

ASIDE FROM INCREASES IN COMMODITY PRICES AND CRUDE OIL, FINANCIAL CONDITIONS ARE STUCK IN NEUTRAL, WHICH IS NEITHER CAUSE FOR ALARM OR COMPLACENCY.

Conditions Index to measure the degree of risk and accommodation priced into financial assets.

That index points to improved risk appetite as the economy emerges from its yearlong slumber.

Because of the increase in the price of crude oil over several months, the degree of financial accommodation at one point looked to be approaching levels that might otherwise suggest an asset bubble.

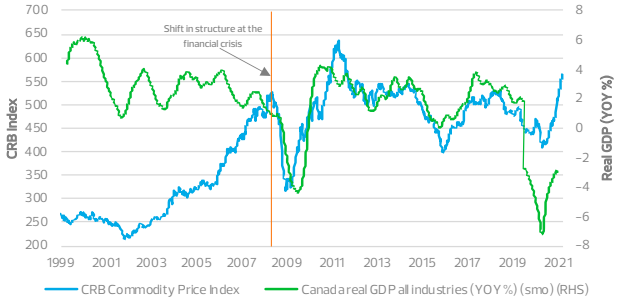
In ordinary times, we might expect the Bank of Canada to begin applying the brakes on an overheating economy and begin raising interest rates. But these are not normal times, and the current conditions do not imply that a financial bubble has formed.

Because of the role of resources in Canada's economy and in the value of the Canadian dollar—similar to Australia and New Zealand—we included commodity prices in our RSM Canada Financial Conditions Index. And though we would expect commodity prices to rise along with the uptrend in demand during an economic recovery, there has been an exogenous factor during this business cycle.

Crude oil production cuts by OPEC were introduced in April 2020 as the demand for energy plummeted during the economic shutdown and then continued as consumers reduced travel and cut down on ordinary driving routines.

More recently, OPEC agreed among itself to continue limiting production until the global economic recovery and increased demand for energy look to be sustainable.

Commodity prices and Canada real GDP growth



Source: StatCan; Bloomberg; RSM Canada

Because of the artificially induced benefits to the nominal value and growth of Canada's gross domestic product caused by the increase in the price of a barrel of crude oil, we expect the Bank of Canada's policy to remain where it is.

It will take more than one quarter and one commodity to return Canadian unemployment and inflation back to normal.

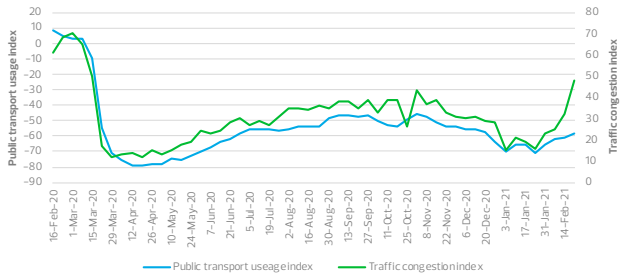
HOW THE PANDEMIC HAS HURT THE FINANCES OF MUNICIPALITIES

By Alex Kotsopoulos

The pandemic has significantly hurt the finances of cities and towns in Canada. Costs have risen to combat the virus and at the same time revenues have plummeted as they struggle to maintain services. User fees, in particular, have plunged from sources like transit, parking and development. The diagram below shows two important indicators: public transport usage and traffic congestion. Both have been significantly affected and have yet to recover to pre-pandemic levels.

Real economy high frequency indicators

PUBLIC TRANSPORT USAGE AND TRAFFIC CONGESTION LEVELS



Source: Bloomberg

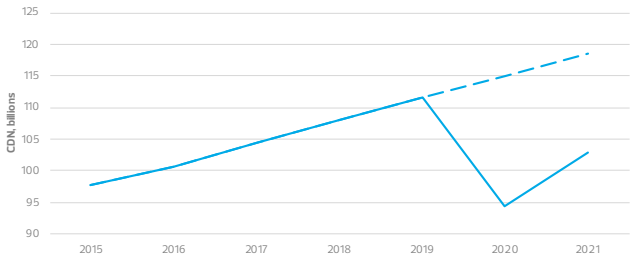
Usage of public transportation has been hit particularly hard, which of course has affected farebox revenues. Last September, the Toronto Transit Commission estimated a net financial impact of nearly a quarter billion dollars as a result of COVID-19. It is likely that public transportation ridership will take time to fully recover. This decline may force municipalities, which often operate transit systems, to make some difficult decisions about cuts to service. Doing so would disproportionately affect lower-income Canadians.

While the economy has improved significantly along with the vaccination rate, it is likely that some level of social distancing will prevail, which could continue to impair the fiscal position of municipalities. Indeed, a model we developed suggests that COVID-19 will decrease cities' own source revenue (for example, nongovernment grant revenues) by about 15 per cent, from $112 billion in 2019 to $94 billion in 2020.

We do not anticipate that these source revenues will fully recover in 2021. Our model assumes an impact to both user fees and a small impact on property taxes. We have not fully taken into account the impact, however, of the booming real estate market in certain parts of Canada (namely Toronto) where municipalities earn significant revenues from land transfer taxes. On the flip side, the estimates do not take costs into consideration.

Municipal/local government own source revenues

PROPERTY TAXES, USER FEES AND OTHER NON-GRANT REVENUE SOURCES



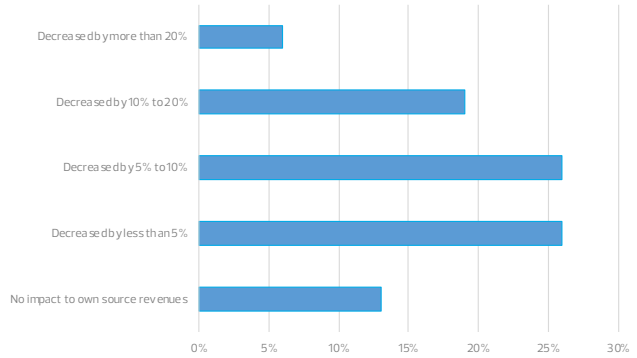
Source: Department of Finance; RSM Canada

So what are municipalities doing to address this gap apart from additional transfers from the federal government and provinces? During a presentation we gave to the Canadian Association of Municipal Administrators (CAMA), in which nearly a hundred or so senior municipal officials attended, we polled the audience to better understand the impact of COVID-19.

When asked about the impact of COVID-19 to municipal finances, the officials gave a variety of responses, which

reflects the fact that every municipality is different. Still, the responses were broadly aligned to our estimates above.

Impact of COVID-19 on municipal own source revenues

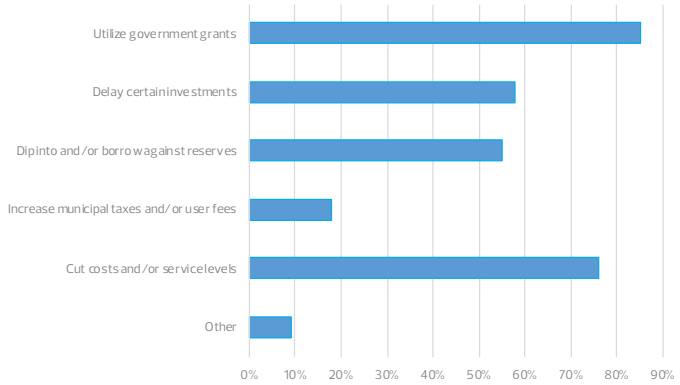


Source: RSM Canada

As illustrated to the right, municipalities have used a range of strategies to address the fiscal gap, including cutting costs or service levels and accessing reserve funds that municipalities set aside for future expenditures like infrastructure maintenance or replacement costs. A number of municipalities also used increased government transfers to address gaps.

Few officials said they were willing to increase municipal taxes or user fees, but this may change, particularly if 2021's own source revenues fall below expectations.

Strategies implemented by municipalities to address fiscal gap from COVID-19



Source: RSM Canada

It is also important to note that using reserves today may mean increased municipal taxes or a widening of Canada's infrastructure deficit in the future. The federal government and provincial governments have instituted a number of programs to support municipalities, but more will be required to support government organizations that are on the front line of the battle against the virus.

Part of the policy prescription could be addressing some of the structural gaps in how municipalities in Canada are funded and providing for increased flexibility.

Doing so would not only help municipalities address adverse economic shocks, but also support municipal modernization efforts, which will be critical to driving efficiencies and improving service levels.

HOW DIGITAL FORENSICS CAN PRESERVE DATA AND ASSIST RECEIVERS AND LENDERS

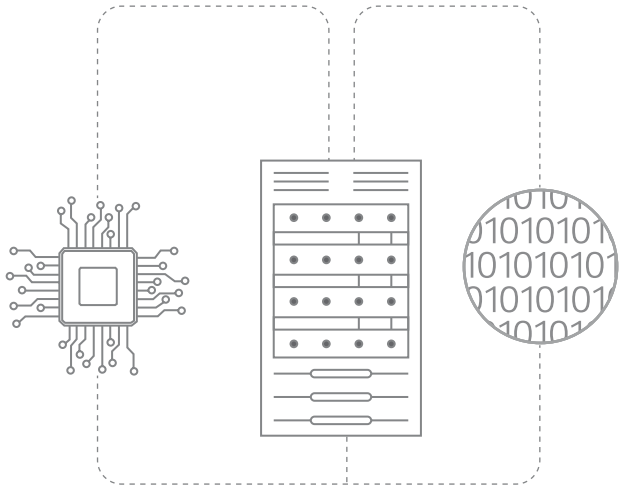
By Bryan Tannenbaum & Ryan Duquette

With Canada still in the grip of the coronavirus pandemic, nearly 18 per cent of the country's 1.1 million businesses are considering declaring bankruptcy or shutting down for good, according to the Canadian Federation of Independent Business.

While most will cooperate with their lenders, there will inevitably be a subset of unscrupulous entrepreneurs and business owners who will try to protect their business, and their assets, at all costs. In recent years, debtors have gone to increasing lengths to frustrate attempts at gaining access to their business data, including making incriminating emails, financial spreadsheets and other key files by causing such files to disappear from their laptops, phones, computer systems and cloud servers.

Bryan Tannenbaum is a partner in the restructuring and recovery practice.

Ryan Duquette is a partner in the security, privacy and risk practice.



To address such issues during insolvencies, it's imperative that banks or the receivers look to digital forensics to gather evidence, build their case and maximize recovery.

When things go missing

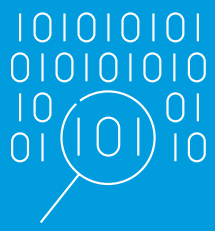
When a business defaults on its loan, and a lender appoints a receiver to take possession of the company's assets, time is of the essence. In what we often describe as a race to the swiftest, the receiver must seize control of the business' operations before important documents are hidden or destroyed so that evidence is preserved. Receivers may also have to seek court orders, such as access orders or document preservation orders, to compel a debtor and its management to cooperate with the receiver by providing the documents.

In some cases, the removal or destruction of documents may only be the entry point to a deception or fraud that has been going on for a period of time. In others, a panicked business owner might delete emails that prove preferential payments were made to reduce personal liabilities. Over the years, we've seen files disappear, passwords withheld, laptops wiped, and hard drives and equipment removed from the debtor's premises entirely.

Scenarios like these necessitate the involvement of an experienced digital forensic team.

Gathering and preserving evidence

Entrusting a nonspecialist information technology person with a USB drive to copy over large amounts of data from a company's servers is akin to allowing a police officer to stomp all over a crime scene before a forensic specialist shows up—there is a good chance the evidence won't be admissible if the matter ever goes to court.



IN SOME CASES, THE REMOVAL OR DESTRUCTION OF DOCUMENTS MAY ONLY BE THE ENTRY POINT TO A DECEPTION OR FRAUD THAT HAS BEEN GOING ON FOR A PERIOD OF TIME.

Upon taking possession of a business, it's vital for the receiver to gather and preserve digital evidence quickly and accurately, in a forensic manner. That way, even if the receiver doesn't plan to analyze the data immediately, you can be confident in knowing you have an accurate and admissible snapshot of the company's malpractices, if the time for litigation comes.

Building your case

It could take a legal team months, or even years, to manually review the many terabytes of data that exists on an average company's servers. However, working closely with digital forensic specialists can greatly speed up the evidence gathering and analyzing process.

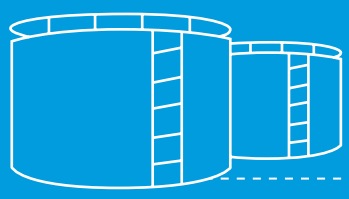
Trained cyber investigators can effectively sort through the volumes of data using the latest artificial intelligence and data analytics tools, and forensically recover deleted information that a nefarious business owner assumed was gone for good. Even in the rare instances when a company manages to successfully wipe everything from its phones, laptops and servers, the act itself is still valuable evidence because it proves the business owner was trying to hide something. In one recent case, our in-house digital forensic team managed to recover emails from a company's cloud server that showed the business' owners had plotted to destroy evidence—and this was helpful to the lender in court.

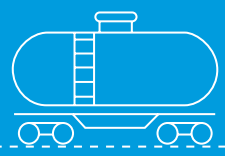
Putting all the pieces together

As the pandemic continues to push Canadian businesses to the brink, this year is likely to see an increase in business failures and bankruptcies if government stimulus programs come to an end. Desperate and out of options, some unethical business owners will do whatever they can to get out of their financial obligations.

But those who are considering, or who have already caused, the destruction of valuable information can be outsmarted. By leveraging leading digital forensic capabilities, receivers, banks and other lenders can better gather and preserve data from defaulted businesses and reconstitute missing data so that all the pieces of the puzzle are put together.

With an airtight case and a complete picture of the inner financial dealings of a business, and a case that is properly built, receivers and the lenders who appoint them can increase the chances of higher realizations during insolvency proceedings.





TRANSPORTING OIL BY RAILCAR TO INCREASE THROUGH 2021

By Homan Chung

Canadian crude-by-rail exports have rebounded after a nearly 40 per cent drop in 2020, according to the Canada Energy Regulator. Monthly rail volumes increased by approximately 10 per cent in December 2020 to 190,454 barrels per day, but remained well short of December 2019, when volumes shipped reached 347,136 barrels per day.

Overall, Canada's crude-by-rail exports averaged 172,013 barrels per day last year compared to 280,272 in 2019, but looking at these two averages alone fails to paint an accurate picture of the state of the industry in 2020.

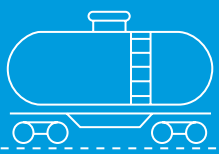
Before the COVID-19 pandemic, export pipeline congestion in Canada had led to steep price discounts for Western Canadian Select crude. As a result, regulators instated curtailments on oil production, with exemptions made for oil that would be exported by rail.

This led to record crude-by-rail export volumes of 411,991 barrels per day in February 2020, according to the CER. That figure then subsequently dropped to an eight-year low of 38,867 barrels per day in July 2020, when production corrections caught up with the demand destruction inflicted by COVID-19 measures.

We expect crude-by-rail exports for 2021 to continue rebounding as crude production increases and export pipeline capacity remains limited. Continued COVID-19 vaccine distribution and signs of a recovering economy have stabilized oil prices, and production has increased. However, recent decisions to rescind TC Energy's Keystone XL pipeline permit and orders to shut down Enbridge's Line 5 pipeline through Michigan's Straits of Mackinac waterways limit the capacity for crude transport by pipeline.

With more than 97 per cent of Canadian crude oil exports going to the United States and U.S. heavy crude refiners on the Gulf Coast currently unable to rely on production from Venezuela and Mexico, we expect crude-by-rail export volumes from Canada to the United States to increase through 2021. Whether this is the most efficient crude transport method, however, remains a subject of debate.

Homan Chung is a senior manager within the indirect tax practice at RSM Canada. He is part of the leadership team with the Canadian National Energy Industry group.



RAIL DEAL IS A SIGN OF INCREASING NORTH AMERICAN ECONOMIC INTEGRATION

By Joseph Brusuelas

Canadian Pacific's $25 billion deal to purchase Kansas City Southern marks a significant move toward easing tensions among North American trading partners this year and fulfilling the vision of an integrated economy on the continent.

By creating the first railroad network covering Canada, Mexico and the United States, the deal promises to connect manufacturing and agricultural nodes from Canada deep into Mexico to support global trade through the Gulf of Mexico.

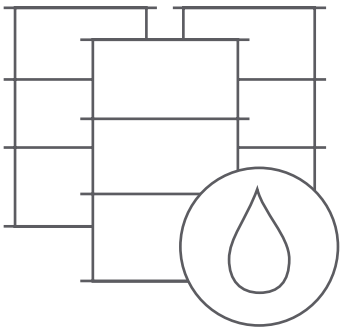
The major winners from this deal will be the North American auto, manufacturing and agriculture ecosystems. At a minimum, this implies a much deeper integration of the continent's global supply chains, which should benefit all of these industries as well as revitalizing North American rail.

The merger should also help reduce environmental challenges by shifting transportation from roads to rails.

Given that two of the Biden administration's major policy goals are rebuilding the nation's infrastructure as well as mending trade relationships, excluding China, policymakers will be looking closely at how they can facilitate the development of single rail lines throughout the three economies.

The takeaway

This deal points to a greater opportunity for Canadian, Mexican and American middle market firms to get their goods to market in a cheaper and more environmentally friendly manner.



For more information on RSM, please visit **rsmcanada.com**.

For more information about *The Real Economy, Canada*, please contact:

Heidi Christensen Brown,
Corporate Communications Director, RSM Canada,
heidi.christensenbrown@rsmcanada.com,
+1 647 730 2662

rsmcanada.com

TRE-CAN-VOL9-0421