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Investments to leverage our resource endowment

Speaking Notes for Perrin Beatty

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It's a pleasure to be here addressing you this evening.

When I was asked to make a few opening remarks on the imperative for energy market diversification, I said yes right away. The absence of reliable tidewater access for Canadian energy is among the primary competitiveness barriers facing our economy. Raising awareness of this issue among Canadians is at the forefront of the Canadian Chamber of Commerce priorities in 2013.

Tonight I'm going to share my thoughts on market diversification in Canada, and how and why we should move to address some of its challenges.

It was just over a year ago that the CIBC issued a report quantifying the impact of a lack of energy infrastructure on our economy. When I realized that the double discount to West Texas and then North Sea crude oil was costing the Canadian economy upwards of $50 million every single day, I was dumbfounded.

How could this be possible? And if it was indeed true, how is it that this wasn't a bigger issue on the radar of the Canadian people? I began asking around, and the degree to which smart and informed people were totally unaware of this situation amazed me.

In the past year, media coverage of elements of this issue has picked up considerably. On the face of it, this is a good thing; it's through informed discussion that our politicians make choices that better reflect the will and the needs of Canadians. However, this dialogue is anything but balanced. The casual observer in Canada is overwhelmed by rhetoric and incomplete arguments that are stifling true debate. I hope that workshops like this will raise our collective awareness of the true state of play in the energy sector, because Canadians need to have a national conversation about what it means to be an energy producer in the 21st century.

For a country that prides itself on being an energy-rich nation, the level of energy literacy in Canada is shockingly low. A strong majority of Canadians couldn't tell you how their province generates electricity, and far fewer are truly aware of the oil & gas sector and its importance to the Canadian economy. These issues are important, for they begin to get at how Canada has become a nation that exports 98% of its energy products to a single consumer.

In energy as with many other Canadian commodities in the twentieth century, we focused on being the supplier of choice for the world's largest consumer market. This meant a focus on the development of north-south transportation infrastructure that linked our country to the United States. Times, however, have slowly changed. The International Energy Agency turned heads last fall when it announced its revised projections for U.S. oil production. Horizontal drilling and hydraulic fracturing techniques have moved the U.S. towards greater energy independence at a pace no one could have predicted even five short years ago. This year, domestic crude oil production in the United States should rise by ten percent, and within five years the U.S. is likely to break its record for production.

This shift has profound implications for North American energy dynamics. Because while we as a nation are refocusing west towards Asia, we find ourselves constrained by infrastructure pointing south. And this has significant implications for the Canadian economy.

As you know, the overwhelming majority of Canada's oil reserves lie in Alberta and Saskatchewan. And while our country is crisscrossed by hundreds of thousands of kilometers of energy pipelines, very little of that capacity makes its way to tidewater on the Canadian coast.

This inability to service overseas markets, while steadfastly remaining the primary supplier to the United States, is slowing investment and development in our resource sectors. Global energy demand is set to rise by one third by 2035, with as much as 90% of this new demand being driven by non-OECD nations, particularly in Asia. Even countries with established economies such as Japan have made policy decisions that are driving demand for Canadian natural resource exports. This is not an argument against increasing our energy exports to the United States: it makes eminent sense, both for the United States and for Canada, to have Canadian crude displace US imports from other countries. But, just as the United States would not want to have only one supplier, we need to have more than one international customer.

For the Canadian energy sector, then, it is easy to understand why being a supplier to Asia is a top priority. But there is a window in which this transition can be undertaken, one that is closing quickly. And that is why a fact-based national conversation about energy is so vital in our country at this time.

Now, allow me to take a step back for a moment. I mentioned earlier that the imperative for new energy export markets, alongside the skills crisis, sits atop the Chamber's Top Ten Barriers to Canadian Competitiveness. Canadians are realizing the dangers of only selling to one customer. But is there a collective appreciation for the size and prominence of Canada's natural resource industries?

This may sound rudimentary to this particular audience, but perhaps a quick refresher on the importance of oil & gas is in order.

Oil and gas represent over one-half of global energy supply. They power 100 percent of transportation, within a few significant figures of rounding error. This sector is responsible for nearly a fifth of world GDP – and is prominently involved in every other type of economic activity. Oil and gas are as economically important to the developed world as agriculture, and an essential component to the smooth functioning of the modern economy.

This consideration takes on heightened importance if we examine the world's proven reserves of oil and how they are controlled. Roughly four of every five barrels of oil is under the management of a state-owned enterprise. The largest of these firms, Saudi Aramco, is estimated to be worth four times as much as ExxonMobil and the rest of the top ten publicly-traded energy companies put together.

So, Canada's role as a prominent Western energy exporting nation needs to be considered in that context. That sector is one of the most tightly regulated in the country, and oil and gas companies operating in our country are among the key players that are actively addressing greenhouse gas emissions. For instance, COSIA, the Canadian Oil Sands Industry Alliance, is a world-class example of IP sharing among firms to improve industrial environmental performance. Alberta was the first jurisdiction in North America to pass legislation to deal with carbon emissions, and recent announcements suggest that it is moving to strengthen its leadership position.

Canada's natural-resource-driven market economy understands its obligations as a responsible producer of an utterly vital resource. This is an important consideration. Because there have been a number of prominent stories in the past few months that turned collective attention towards energy in general and energy infrastructure in particular.

Canadians need to understand that there is no magic formula that will wean the global economy off of carbon-based resources overnight. This is a transition that will be measured in decades, and needs to be guided by informed discussion. I do not believe that the apocalyptic rhetoric that often dominates the discussion of energy infrastructure in North America is improving the state of this debate.

Most Canadians would be surprised to hear about the 110,000 km of transmission pipeline that CEPA members operates, or its safety record of 99.999%. Most probably don't realize that Line 9 originally ran from west to east, or that we move hundreds of thousands of barrels of oil every day by train.

However, most Canadians do know that it is possible to achieve a balance between prosperity and the environment. An April 2012 poll commissioned by the Chamber found that almost two thirds of Canadians believe that it is possible to increase our production of oil and gas while respecting the environment. The fact is that our firms understand that efficiencies are good for business, and oil and gas operations now emit 26% fewer greenhouse gases than they did in 1990. But they are also held to more rigorous account than publicly-traded firms nearly the world over, a fact that is often overlooked.

Consider that the Canadian Energy Research Institute estimates that we stand to lose as much as $1.3 trillion of GDP and $276 billion in taxes from 2011 to 2035 by stranding our energy assets. That is a real and significant opportunity that should be acted upon by any responsible government.

Getting this information out to Canadians so that they can make informed decisions on these issues is a priority of mine for 2013.

The sector is a major contributor to the country's economy, creating jobs and generating tax revenues that fund social programs. I believe that we have a responsibility to examine each of the market diversification options that support this sector. It is important that we take simultaneous action to advance each on the basis of its merits, with an informed evaluation of their risks.

You are no doubt aware of the options being pursued at this time, pathways that would increase transmission capacity either to the east, west, or south. Tidewater access to Asia, either to the south via the Gulf Coast's idle refinery capacity or to the west via Kitimat or Vancouver, is a priority.

Of equal importance is assuring an environmentally-aware population of the safety provisions for modern-day ships operating on the coast of British Columbia. Most are likely unaware of the fact that all of these ships are double-screwed and double-hulled, making them both easier to handle and more resistant to puncture. All tankers are dual-piloted and guided by local captains when they come into port, and depart only during the daytime under the keen eye of multiple tethered tugboats. This strategy has seen tens of thousands of ships successfully navigate the Second Narrows bridge in Vancouver, a span far narrower than the Douglas Channel.

Gone are the horror stories of twenty-five years ago. Firms operating in Canada have the capacity to respond to sensible safety-based regulation, and exercise that capacity responsibly.

Meanwhile, developing eastern transmission capacity could offset some of the 600,000 barrels imported each day by eastern refineries from countries like Saudi Arabia and Nigeria. In addition to providing access to lower-cost supply, this initiative could potentially lower gasoline prices and heating bills while powering refineries in Montreal and eventually, perhaps, St. John with Canadian fuel.

Fundamentally, any option that can safely move Canadian crude oil past the bottlenecks in the U.S. Midwest should be pursued in accordance with regulatory protocol. What's most important to this process is that Canadians have a better understanding of the true risks at play, and be able to measure them against the benefits to the country of being the world's largest responsible producer of energy.

Now, I spoke earlier of the responsibility for elected officials to make choices that best represent the will and the needs of their electorate. Speaking as a former elected official, this can get sticky, quickly, when assuming that all Canadians want the same thing from their politicians – because this is obviously not the case. But I also spoke of the need to access the best possible information, and to use it to make the most appropriate choices. These choices need to properly consider risk: risk of pipeline rupture, risk of train derailment, risk of maritime accident. And they need to consider the scope of the issue, and Canada's ability to meet rising demand for energy products in Asia. Canadians need to understand that no matter whether another foot of pipeline is laid in Canada, global suppliers will ensure that hydrocarbons are made available to satisfy that demand.

Canada, then, must decide how it is to shepherd its natural resources for the good of its people. We need to engage in an adult conversation that is based on evidence and not on fear. We have levels of democratically elected officials that we entrust with the power to make these choices.

I want Canada to make investments that properly leverage our resource endowment. Earlier this month CIBC issued a report stating that Canada lost $25 billion in 2012 due to oil price differentials. A barrel of oil from western Canada has the same GHG emission profile regardless of the price it can fetch on the global market. In a time when governments at all levels are being asked to do more with less, leaving $25 billion on the table is the height of irresponsibility.

But that responsibility also applies to our status as one of the world's greatest democracies and most livable countries. It becomes easier to act in our own self interest when we can point to the great efforts we are making to being one of the world's most responsible producers of energy. It means taking the high road, and balancing our standard of living with our responsibilities as global citizens. We need to diversify our export markets, and we need effective, enforceable climate policies that deliver real reductions.

Smart climate policy helps our natural resource sectors to thrive. It encourages efficiency, breeds competition, and lends legitimacy to the pursuit of profit. It also expresses the will of the people, and satisfies their need for social license to operate. Our firms have a fiduciary responsibility to maximize profit, and our leaders have an ethical responsibility to future generations. Properly sited infrastructure can address the former, and continuing to raise the bar in addressing climate change can address the latter.

I hope that your discussions here tonight and tomorrow will enable both.