THE CANADIAN CHAMBER OF COMMERCE
LA CHAMBRE DE COMMERCE DU CANADA

Winning the LNG future for Canada

Speaking Notes for The Honourable Perrin Beatty
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Every year the Canadian Chamber identifies the “Top Ten Barriers to Competiveness” in consultation with our local Chambers of Commerce and the Canadian business community at large. These are the self-inflicted wounds that hold us back and prevent us from achieving our full potential. For 2013, we have identified the lack of access to international markets for our energy as a key threat to Canada’s overall competitiveness.

Between now and the next Federal election our governments will face a number of key political and regulatory decisions regarding the infrastructure needed to gain access to new markets for Canadian oil and gas. They will include decisions about oil pipelines like Northern Gateway, Line 9B, Trans Mountain, Energy East, and Keystone, as well as LNG export facilities including Douglas Channel LNG, BC LNG, Kitimat LNG, and LNG Canada. Further decisions will be made concerning the transport of energy by rail.

And that's what we are here to discuss today: whether we Canadians, blessed with one of the richest resource endowments on the globe, will secure a better future for our children by responsibly bringing our plentiful oil and gas resources to global markets.

The story is familiar to everyone in the room. The weight of global natural gas demand is shifting to eastern nations like Japan, Korea, Taiwan, China and India. North America’s shale gas revolution is transforming the U.S. from Canada’s only natural gas customer into a competitor for Asian markets.

There are several projects currently in the works to send Canadian liquefied natural gas to the world, but they are inherently risky and the window of opportunity is closing. If Canadian LNG suppliers can’t work fast to secure contracts in Asian markets, they risk getting crowded out of an increasingly competitive market.

Yesterday, the Canadian Chamber of Commerce released a report entitled *$50 Million a Day*. It's available on our Web site, along with an infographic that summarises the issues. They tell a story that you already know, but which needs to be understood by Canadians outside the energy sector.

We are at a decision point. Within the next two years, Canada will choose whether to keep our energy bottled up in North America, with the United States as essentially our only customer, or to serve a diverse and growing market across the world. In more stark terms, we will decide whether to achieve a new level of prosperity or risk slipping backwards.

$50 Million a Day discusses some facts essential to understanding what the debate over oil and gas exports means for everyone.

Canada has lost billions from its lack of energy transportation infrastructure. Worse, we are at risk of much greater losses in the future.

Most people don’t realize that Canadian petroleum sells in the U.S. at a significant discount from the world price. According to CIBC, last winter that discount cost Canadian oil producers as much as fifty million dollars a day, when the spread between the price Canadian oil producers receive and world prices was particularly high. This tremendous loss inspired the name of our report.

Fifty million dollars is a lot of money.

Too often, whether our oil and gas will brought to market is dismissed outside Western Canada as a sectoral issue. Even worse, sometimes it is used to pit region against region: the unlamented National Energy Program and more recent loose talk about "Dutch disease" are two just two examples. The scars from the NEP still run deep.

Almost 150 years after our founding, it is still too easy to divide Canadians and to portray Confederation as a zero-sum game where a region can only get ahead if the others are left behind. The politics of envy drives wedges between us. It is unworthy, but all too often it is also successful.

Standing here in Calgary, situated between the vast prairies and the Rocky Mountains that separated our eastern provinces from the coastal settlements of British Columbia, you understand Canada could never have been founded on a narrow and jealous vision.

Today, just like a century-and-a-half ago, we need visionaries and builders -- whether they're in business, in politics or in our universities -- to offer a more generous and inclusionary view of who we are and who we want to be.

This is where I believe a national organisation like the Canadian Chamber has an obligation. We are strictly non-partisan. Through our network of over 450 Chambers and Boards of Trade, we represent over 200,000 businesses, most of them small- and medium-sized, from every sector and every region. Our mandate is to speak for Canadian business as a whole, and to propose policies that will make our country stronger and more successful.

Let's turn specifically to your sector and take a look at what LNG exports can mean for the competitiveness of the Canadian economy as a whole.

Exporting liquefied natural gas means new jobs for Canadians and increased tax revenue for governments, not just in big gas-producing regions like BC and Alberta, but also in provinces with strong manufacturing and service industries.

Exporting LNG means a chance to strengthen the intangible assets and abilities that underpin our advantage in natural resource exploitation, such as financial services, engineering consulting, or science and technology.

Exporting LNG means expanding trade relations with the most dynamic and rapidly-growing region in the world. In building our trade relationship with Asia, Canada can lead with energy.

Canada has many advantages in the race for LNG markets. But our competitors also have their strengths. Canada is currently the world’s third largest producer of natural gas, but the country’s resource endowment only earns us a seat at the table. It doesn’t ensure that we will play our cards strategically, and it doesn’t mean we will win the prize.

This is exactly what I mean when I say we have to fight for our competitiveness.

The stakes if we let this opportunity pass are simply too high, not just for the West, but for all of Canada.

Too often Canadians’ attitude towards the important benefits of natural resource development is “out of province, out of mind.”
But economies don’t end at the border. We seem to understand that all too well when considering developments in our neighbour to the south, and not at all when considering what is

happening in a different part of our own country. We address that in issue our *$50 Million a Day* report. This is about Canada as a whole.

What do LNG developments in remote parts of British Columbia have to do with government services in Montreal, or jobs in Toronto?
As it turns out, quite a lot.

When extracting and exporting natural resources in one part of the economy, companies create demand for materials, machinery and services from businesses across Canada. That could mean steel from Hamilton, financial services from Toronto, or engineering services from Montreal.

The Conference Board of Canada examined the impact $386-billion in expected natural gas investment spread out over the next 23 years would have on economies across Canada. LNG exports were one of the driving forces of this new investment.

New natural gas investment mostly taking place in B.C. and Alberta would mean $6 billion in additional tax revenue for Quebecers over the next 23 years, which works out to around $270 million a year.
To put that in perspective, that equals a full three-quarters of the province's expected annual revenues from mining royalties.

Natural gas investment in the West means greater demand for Ontario exports, amounting to roughly 23,000 jobs. By comparison, there are about 23,500 Canadian Auto Workers members currently working in Ontario's major auto sector.

The impacts in terms of tax revenues and jobs are essential, but I don't want to end the discussion here. Natural resources are key to Canada's competitive advantages in global markets in a less quantifiable, but no less important manner.

Extracting solids, liquids and gases from the earth in a responsible manner and transporting them safely is among the most complex, expensive activities undertaken by humanity. Canada has developed an important competitive advantage based not just on our natural resource endowment, but also on the institutions, human capital and policies to extract them efficiently.

Natural resources are a foundation of our competitiveness in finance: almost 60% of the stocks issued on the Toronto Stock Exchange come from natural resource firms, 12% from the oil and gas sector alone.

We are also the fourth-largest exporter of engineering services, and resource development fuels our competitive advantage in science and technology. The Canadian Council of Academies compiled a report to pinpoint the areas in which Canada's science and technology excels. Each and every one of the top ten areas where Canada had global strength in science and technology was related to natural resource development or environmental protection.

The knowledge economy component of natural resource extraction is no less important than the physical resource. Take China, for example. It has the world's largest shale gas resources - as much as Canada and the U.S. combined - but is struggling to meet current production targets for 2015. It currently doesn't have the right people, institutions or regulations to bring these resources online rapidly.

This is another reason why winning the LNG future matters for all of Canada. Developing new markets for Canadian LNG will build our intangible assets in the natural resource industries:

advantages like people with the right skills, modern technology infrastructure and a financial sector that understands the resource.

These improvements will leave us in a stronger position to win the next opportunity, and the next. That's how competitive advantages are built.

There are scores of Canadian companies in this sector that can explain why improving our environmental performance is good for both the environment and the bottom line. You can see the seeds of a new area of competitive advantage based on some of the environmental technologies being used to extract Canadian natural gas. These technologies, first developed for the energy sector, hold significant potential for other areas as well.

Shell's Dawson Creek facility treats sewage water for use in its unconventional gas production. Every day the facility diverts the equivalent of 12,000 households' worth of sewage from local creeks and makes the clean water available to the municipality.

Apache and Encana's operation in the Horn River Basin gets 95 percent of its water from a first-of-its-kind water treatment facility that taps a non-potable underground reservoir, avoiding the need to tap into lakes and rivers.

Building global markets for Canadian LNG can also mean building markets for innovative, made-in-Canada solutions to the environmental and social impacts of resource production.

There is also, of course, the strategic importance of the destination for Canadian LNG exports. Asia is the world's fastest growing region. The relationships and agreements Canada develops now around natural gas could stand us in good stead going forward. If today we are sell natural gas to China, Japan, Taiwan and Korea, tomorrow perhaps it will be technologies to clean and reuse water, or else engineering services to help them develop their own natural resources.

I've been talking about some of the reasons why securing new markets for Canada's natural gas is important to the competitiveness of the Canadian economy as a whole.

But these potential benefits will not materialize unless Canadians make them happen.

Australia has already built the infrastructure needed to get LNG to Asia. The Middle East will remain an important supplier, and there is even potential production from East Africa.

That's not even mentioning the new potential export power of the U.S., currently Canada's only foreign natural gas market. The shale gas revolution that will wean the U.S. off of Canadian natural gas imports over the next decade will also set up our southern neighbour as a competitor for Asian natural gas markets.

As fast as Asian demand for LNG is growing, our competitors -- including the ones I've mentioned, as well as others like Russia -- are already knocking on Asian doors, looking for long-term contracts. There is the very real possibility that Canadian natural gas exports could get crowded out.

Canada does have some advantages over other LNG exporters. B.C. is closer to Asia than some U.S., Australian or Middle Eastern hubs, in which case supply lines and transport costs are lower. We have educated and skilled workers, although industry will need thousands more skilled workers to get the job done.

Political and policy stability has been a key Canadian advantage, but it is not one we should take for granted. Canada must maintain a competitive fiscal framework for LNG investment, or we risk losing a key competitive advantage in an increasingly crowded field. Governments should take a cautious approach to placing new burdens on a greenfield industry that has yet to develop a single project.

Preserving political and policy stability also means that governments and industry must ensure that First Nations and local communities are adequately benefitting from resource development opportunities. We need to create an atmosphere of trust for industry to build social license for major projects.

We'll do our part at the Canadian Chamber. Next week I will take the message about the need to reach world markets with our energy to the Vancouver Board of Trade, and then chambers from across Canada will convene in Kelowna where Premier Clark will speak to our annual policy conference. In October, our International Trade Day in Ottawa will focus on what success in global energy markets can mean for every region of Canada. And we will spread the message through the Web, through social media and through local speeches, interviews and meetings across the country.

But we can't do it alone. We need your help, both financially and organizationally. We need your expertise and time to help us talk about the benefits to Canadians and about the industry's efforts to meet the highest possible standards for environmental protection and for benefits to local communities. And we need your outreach to your suppliers and partners in other sectors and other regions to enlist their help in explaining how their regions can benefit.

Before I go, let me quote a Canadian politician.
"There's a commitment to the major new market for LNG of sufficient B.C. gas to ensure that the governments of Canada, Japan, Korea and Alberta recognize that we have a serious commitment to this new market for surplus Canadian gas."

Those words were spoken over thirty years ago by B.C. Energy Minister Robert McClelland, when Grassy Point was the proposed site for a LNG terminal to ship natural gas to Asia. The deal, a partnership between a Canadian energy company and a Japanese trading house, never got off the ground.

Today, Grassy Point is once again being considered as a potential location for an LNG facility.

Then as now, there was an abundance of resources.
Then as now, there was a shining opportunity in Asia.
Then as now, neither of these factors could be enough in themselves, unless Canadians were willing to do what it takes to compete.

As I said at the beginning, we are at a critical point. What's at stake for Canada is hundreds of thousands of jobs, billions in tax revenues and enormous other economic benefits. The cost of inaction is massive and we all need to work together - work together now, quickly and effectively to secure our future.