



**“North American Energy Security”**

**Address by the Honourable Jim Prentice, P.C., Q.C.  
Senior Executive Vice President and Vice Chairman,  
CIBC**

**Global Forum, Toronto**

**Thursday, October 31, 2013**

***Check against Delivery***

---

Good morning. I welcome the opportunity to speak with you today, and to share this session with such a well-informed and thought-provoking group.

Over the past couple years, I’ve spoken extensively on our continent’s revolution in energy production – and from a Canadian point of view I’ve examined the forces at work, the opportunities it presents and of course the challenges that have emerged: the need to access overseas markets, to build new energy infrastructure, and to continue to attract foreign investment in the oil sands.

Today, speaking again from a Canadian perspective, I’d like to focus on the current North American energy supply balance, the ingenuity we’re seeing across the energy sector and the need for innovation and renewal in Canadian and American public policy related to energy, climate change and the environment. Underlining my discussion will be an awareness that the energy interests of Canada and the United States – while certainly interrelated and in some cases similar – are far from identical.

It is a pivotal and a volatile time for oil and gas producers – as new technology helps generate greater supply, and as our continental relationship becomes increasingly exposed to, and influenced by, the global marketplace.

As North Americans, we have been the beneficiaries of the world's largest, most efficient and most prosperous energy marketplace. Of late, we have perhaps become somewhat complacent about its benefits.

It is a marketplace that is dynamic and ever responsive to the subtlest of signals from global markets and government policy makers.

These markets move quickly. They respond with breathtaking speed to opportunities afforded by changes in technologies – as well as to changes in supply and demand.

And they respond negatively, with equal speed, to increased risk brought on by political or regulatory uncertainties.

What is most striking to me is the pace at which the North American energy market is responding to global changes. Even the most sophisticated analysts have struggled to predict outcomes.

Let me suggest just a few illustrations:

- Canada and the United States have increased their production of natural gas and now oil, far more quickly than had been forecast;
- Substitution of natural gas for other fuels, especially coal, is taking place in North America at a faster pace;
- Continental oil production has effectively displaced light, sweet crude imports into the United States, particularly those from Africa, again more quickly than had been predicted;
- Western Canadian upgraded syncrude and WCS related bitumen blends, along with other continental supply, are

pushing out heavy oil imports from the Middle East, Mexico and Venezuela;

- Canadian and American consumers are more quickly reducing consumption of refined hydrocarbons through new vehicle efficiency standards;
- Canada and the United States are both aggressively pursuing a future as a global supplier of LNG into the Asia Pacific Basin, something unexpected even a few years ago;
- Continental flows of hydrocarbons responding to market realities are relentless and more oil is now being moved across North America on rail cars to avoid pipeline bottlenecks;
- The U.S., owing to increased continental supply and price advantage, has emerged as one of the world's largest exporters of refined petroleum products; and
- Canada is aggressively pursuing a future as a supplier of crude oil into Asia in the time after 2017, something also unimaginable even four years ago – and something that, for our country, has become an economic necessity.

At the same time, the pace of political change is accelerating. The ground has shifted dramatically in the U.S. over the past several years.

The President has been working to advance his clean energy agenda –not necessarily through legislation in Congress but by making greater use of the executive levers at his disposal, including agency appointments, regulatory action, rhetorical persuasion and international dealings.

Certainly the evidence suggests that energy-related decisions by the Obama administration will henceforth be

made with a greater eye to, and awareness of, their potential impact on climate change and more broadly on the environment.

It is difficult to overstate the importance to Canada of this new reality – not just as it relates to the administration’s ultimate verdict on the Keystone XL pipeline, but to every facet of the energy relationship we share with our most important – and in some cases only – customer.

So where does all this fit into the broader landscape of Canada’s energy potential in the years and decades to come?

In my view, there are three main energy-related goals that Canada and the United States must aspire to achieve over the course of the next several years.

The first goal is for Canada and the United States to strengthen the policy framework of the continental energy marketplace.

We must not lose sight of the fact that our two countries share the largest free-market, free-trading energy system in the world – and that over decades this system has helped to drive prosperity on both sides of the border.

This is a relationship too important to be taken for granted.

In recent years, we’ve made progress on important issues, such as our success in harmonizing car and truck fuel consumption standards, an achievement that’s already reducing greenhouse gas emissions. Using this as a foundation, we can together pursue a full-on harmonization of the transportation grid and bring continental standards to the rail and aviation industries.

But we have also witnessed a trend that threatens to work

against the free-market standards that have helped to make our countries prosperous. I'm talking about the emergence of sub-national standards in various U.S. jurisdictions. This was a frustration while I was serving in the federal cabinet, and it's an issue I continue to see for our clients at the bank. These standards are a real departure from free-market principles. They threaten the vitality of our continental energy marketplace and, arguably, they violate the spirit and letter of NAFTA.

We see it in the renewables sector, where a number of U.S. jurisdictions are setting portfolio standards that shut out Canadian hydro,

We see it as well in the decision by dozens of U.S. jurisdictions to develop their own low-carbon fuel standards. Many of these standards would, if implemented, exclude crude from the oil sands.

If indeed there is a desire for a North American low-carbon fuel standard, then Canada and the United States should sit down and negotiate the details. And the standard should be applied to every barrel of oil, wherever it comes from.

Right now we appear to be heading for the worst of all worlds: a proliferation at the sub-national level of diverse standards that apply to some forms of energy and not others, some kinds of oil and not others, some pipelines and not others, some renewables and not others.

Free markets produce impressive results when they are allowed to work. Americans know this better than anyone.

In my view, Canada and the United States need to return to those very principles of free trade that are enshrined in NAFTA, and we need to address energy matters on a continental basis.

The second objective that Canada and the United States must share is to establish ourselves as world leaders in both energy production and environmental performance.

In a world focused on environmental issues generally, and climate change specifically, energy leadership and environmental leadership have become two sides of the same coin.

It behoves us to work together to pursue environmental policies that are in our mutual interest – and to our competitive advantage.

What do I mean by that? Well, I just got back from Beijing, where I was again astounded by the pollution that citizens must live with. The smog was so thick that I could barely make out buildings that were only a block away.

It served as a stark reminder of the dramatic environmental advantage we have as North Americans – and the fact that our environmental standards help us stand out in a competitive marketplace for commerce, investment and talent.

There is work still to be done, and progress to be made. But if we look a decade down the road, it is well within North America's capabilities to have the world's best energy infrastructure in terms of production and delivery – and its best environmental performance as well.

What do I mean by "best" in the context of Canada?

By "best," I mean an oil sands industry that is much less impactful and producing three million barrels per day on a sustainable basis

I mean the world's cleanest electricity system – completely free of coal, or close to it, and an important supplier of clean hydro-power to the American northeast.

And finally, by “best” I mean a number of LNG terminals along the coast of British Columbia, from which liquefied natural gas is shipped across the Pacific.

The importance of a thriving Canadian LNG industry extends beyond domestic concerns. If our shared goal is truly to address climate change and environmental quality on a global basis – and to make the biggest possible impact toward that goal – then surely reducing the number of coal-fired plants in China and other Asian countries is a very good place to start.

The oil sands, electricity, LNG – Canada is moving forward with purpose and responsibility on all these fronts. If we as a nation are able to continue to build on this momentum, the resulting industry will not merely enhance our economic success – it will advance Canada's standing as a clean energy power and a good global citizen.

The third point I would make regarding the Canada-U.S. relationship is that while our objectives are still broadly consistent, they will never be identical.

The United States is an importer of hydrocarbons and an exporter of refined products. Its policies will be driven by a commitment to diversity of market supply. Canada is an exporter of hydrocarbons and its policies must therefore be committed to diversity of markets.

I have spoken about this at some length. The incremental demand of tomorrow is going to be Asian, not American, and the fact that Canada has been favoured with an abundance of oil, natural gas and more doesn't mean much if we can't get those resources to the people who want to buy them.

So while I have laid out the joint work our countries must accomplish, Canada must also build the pipelines and the infrastructure required to move our oil and gas to the Pacific coast, and onward to Asia.

A couple years ago, I said this must become a national focus. That may no longer be sufficient. Looking ahead, the supply-demand balance for energy on this continent is such that Canada must make overseas access nothing short of a national imperative. Without it, we are heading towards a reality in which there is no market for increased oil sands production beyond 2020.

That's an alarming forecast when you consider that Canada's prosperity hinges on our ability to make the most of our natural bounty.

To be clear, I am not suggesting for a moment that our best friend will ever be anything other than our most important energy customer.

We have the resources and the proximity, and the United States will continue to have significant demand for a safe, secure and reliable supply of energy. But as a country we are on pace to produce more oil than ever before – and incremental growth lies beyond our continent. That's a reality that Canada simply cannot afford to ignore.

The increase in American supply of natural gas and oil, driven by technological innovation, promises the United States a future that is more secure, more prosperous and, if handled properly, greener than in the past.

In my view, we are only beginning to appreciate the scope of what is now underway, a future in which North American energy security and the quality of our environment will be a



defining competitive advantage in the global marketplace.

But that energy marketplace and the resource base that will afford us this energy freedom is not American, it is North American – and we should work together to realize its promise.

Moreover, the industries, the technologies and the innovations that drive the energy marketplace are not just American, they too are North American.

In the time since the negotiation of the North American Free Trade Agreement a generation ago, Canadians and Americans have developed the most integrated energy marketplace in the world. It is neither desirable, nor practical, to excise the largest component of that resource bounty, the oil sands, from the U.S. marketplace. If the development of that resource raises environmental issues, then we should discuss those issues and address them.

But Canadian oil sands, responsibly developed, are one of the critical assets that will afford both Canadian and Americans the freedom of which I speak.

I have worked with the Obama administration as the principal Canadian intermediary in the Clean Energy Dialogue and I accept, without hesitation, that the President and his advisers are sincere in their desire to green the American energy system.

For our part, Canada's ambition must be to establish itself not merely as a stable and reliable supplier of energy but as a clean energy powerhouse, a world leader in sustainable production – not simply to appease its critics, but so that it is better positioned to reap the full benefit of its natural resources in a more environmentally attuned era.

With that end in mind, I would argue that both industry and government in Canada need to be forceful in promoting what we as a country already do well from an environmental perspective – and the innovation that’s helping to further reduce greenhouse gas emissions from the oil sands.

The truth is that the regulatory regime in place in Canada is more comprehensive than that of virtually any other jurisdiction that produces and exports crude oil. Moreover, it is certainly as rigorous as the regime that applies in the United States to the production of crude oil.

At the same time, we in Canada need to be frank about the progress that still needs to be made. More can – and will – be done. We will need to maintain tough targets and benchmarks with respect to impacts on water, air and land; we will need to make the investments to meet those targets; and we will need credible, science-based data to prove success.

Both the Canadian industry and the Canadian federal and provincial governments have emphasized their commitment to that task.

As a continent, we have been favoured by fortune with a wealth of natural resources. We have been favoured by geography and as neighbours we have built the world’s strongest energy and environmental partnership.

We should continue on that course.

Prosperity is never a birthright. Only with foresight, smart choices and hard work will Canada and the United States be able to fully enjoy the benefits of our partnership. And that obligation applies to all of us – on both sides of the border.

Thank you.

