“Canada’s Energy Future in the Aftermath of the U.S. Election”

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Check Against Delivery

It’s a pleasure to be with you this morning and I have to say: it’s great to be back in Ottawa. In particular, I’ve enjoyed the opportunity to see a number of old colleagues and friends, including Ambassadors Doer and Jacobson.

The last time I gave a speech in this city, I was a politician. But in November, 2010, after almost 10 years in public life, I made the decision to return to the private sector.

People sometimes ask if I miss being in politics.

No.

I’m pleased to have been asked to address today’s policy forum. I welcome the chance to discuss in some detail the potential for Canada’s energy future, the challenges and pitfalls that may undermine it and the implications of the campaign we just saw unfold and conclude south of the border.

Indeed, we gather here just two weeks after the 2012 U.S. election – or, as they describe it on the American cable networks, just 206 weeks <u>before</u> the 2016 election.

Nov. 6 was a good night for Barack Obama. It may have been an even better night for Nate Silver. I’m sure there are a few of us here who threw a dollar or two into an office pool to forecast the result of the presidential race. But Silver went all-in with his reputation – and nailed it almost perfectly. Although somewhere in America, Karl Rove may still be on Fox TV saying Ohio is too close to call.

It was a fascinating election cycle. But I want to begin today by calling to mind another campaign, a Canadian campaign – one that had a profound impact on shaping our economy and changing the way we see the world.

It's been almost a quarter century since what Canadians recall as the free-trade election – which propelled us down the path toward a closer, more open and more successful relationship with the United States. During the years that have followed, our focus has largely been on strengthening our continental bonds – improving and increasing trade and reducing impediments under the FTA and NAFTA.

But the global chessboard has become more complex and unpredictable over the past 25 years. A lot has changed. There are new pieces in play, new forces at work and new potential and peril to be aware of.

Consider the issue of energy alone. For years now, for decades in fact, we've been going about our business in a certain way: comfortable and content within the North American marketplace. We are, and we have been, a critical supplier of energy to the world's largest economy. We have done very well.

Indeed, there are many who refer to Canada as a global energy superpower. But as I have said before in other venues, mere ownership of resources does not itself make any country a superpower.

Yes, in Canada we have a substantial resource base, financial strength, an open-for-business environment, and other fundamentals.

But there's one critical element we're missing: customers. Of the oil we export, 99 per cent of it goes to the United States. That makes us a price taker, not a price maker. And I'm not sure you fit the definition of a so-called superpower when a single client has a firm grip on the basket where you keep 99 per cent of your eggs.

To be clear: the energy relationship between our two countries – the largest integrated free-market energy system in the world – has over the years been of significant and substantial benefit to both Canada and the United States.

But our dependence on a single customer is more than a curiosity or a nuisance. It means that we are selling to the United States at a discount as high as 35 per cent to world prices.

And there's more to it than price alone. When the U.S. decided to reject the Keystone expansion, there was nothing we could do about it – at least not in the short term. For a country whose economy is disproportionately based on exporting energy, that is more than an inconvenience. It is a major vulnerability.

For too long, it's been too easy for us. I say this not to be critical but to be blunt. We have been favoured by fortune with a wealth of natural resources. We have been favoured by geography with a neighbour that has wanted and needed them.

But this is an industry that is being radically transformed – an industry that in the space of a few years has gone global.

Today, no single nation is truly in charge and no position is secure, no matter how entrenched it may seem. As a result, we will in the years to come be buffeted not only by the policy and business decisions we make among ourselves here at home – but by events beyond our border, and by trends beyond our influence.

The hard reality that we are new to the global energy game – and frankly, we aren't yet playing that game with sufficient skill, foresight or cohesiveness. We are not of one voice on how to move forward.

This confusion persists at a time when challenges are mounting on the energy front – and when events are demonstrating just how dependent Canada is becoming within the new global marketplace.

Over the past couple of weeks, we have witnessed change at the top in China – at least to the extent that we are able to fully witness <u>anything</u> that happens in China.

The so-called Fifth Generation of Chinese leadership, with Xi Jinping at the helm, has come to power. How will this new generation manage China's growth and conduct its international relationships? The signs from Beijing so far suggest an approach that is weighted more to the status quo than to aggressive reform.

As for the United States: the election and the coming inauguration provide a natural opportunity to reflect on the state of the Canada-

U.S. relationship at the mid-point of Barack Obama's administration.

There is a tradition in American politics of giving second-term presidents about five minutes to enjoy their re-election before affixing them with the dreaded term "lame duck." But in my view, circumstance and opportunity are aligning in such a way that President Obama could well wind up advancing a substantial agenda.

Given the signals he's sent out, it seems logical to assume that for the next 18 months, the President of the United States will be almost exclusively focused on domestic economic issues – on taxes, jobs and on the infamous fiscal cliff.

That benefits Canada to some degree, since the President's goal of increasing American exports gives his administration incentive to further increase trade between our two countries and reduce barriers. However, the Canada-U.S. energy relationship will likely emerge as a priority only to the extent that it ties directly into the President's domestic focus.

Let's be candid: Many of us in Canada see the benefit of increased energy-based coordination between our two countries. But over the past several years there's been something of a disconnect.

Yes, driven by leadership in both countries, we have made some joint progress – such as our success in harmonizing motor vehicle consumption standards, an achievement that's already reducing greenhouse gas emissions.

But we've also watched as low carbon fuel standards have proliferated in the U.S., effectively trying to shut out our oil sands. We've seen the introduction of renewable portfolio standards that discriminate against Canadian hydro. And it should be lost on no one that the President has not been shy about questioning the environmental impact of the oil sands, and the environmental practices of its stewards.

All this has been happening at a time when U.S. energy production is increasing at a pace that few if any saw coming. Thanks to advances in exploration and technology, American crude oil production is at its highest level in 14 years. To give just one example, the amount of oil coming out of the ground in North Dakota has increased by more than 50 per cent on a year-over-year basis. The International Energy Agency now says the U.S. is poised to become the largest oil-producing nation on earth – and is on a path toward energy selfsufficiency.

A lot of assumptions have been built on America’s seemingly insatiable thirst for foreign energy. But the world has a way of reminding us that we can’t build prosperity on an assumption.

There is still much we can and should pursue with the Americans on the continental front – a greater harmonization of transportation standards, for instance, and joint regulations to guide the rebuild of electricity generation that will occur over the coming decades.

But as President Obama’s second term begins, we can’t be lulled into believing that our interests and Americans interests on energy will ever be identical. If the Americans are pursuing diversity of supply – and they are – that means that we as sellers need to focus on diversity of demand. Period.

The subject of market access into the United States is inextricably connected to the decisions that will ultimately be made in the United States relative to the Keystone pipeline. Those decisions reside with the State of Nebraska and at a later time, with the President himself.

The issue for Canada is however, a much larger question than any single pipeline. Virtually all incremental oil demand over the next 50 years is Asian and for Canada, that's where the future must lie. Hopefully, the Keystone pipeline will be approved, but frankly the issues around it have only accelerated and accentuated the inevitable, namely Canada's emergence on the global energy chess board.

Let’s not sugar-coat it: the development of Pacific corridors for oil and liquefied natural gas stands as one of the most important – and certainly one of the most challenging – initiatives that our country has encountered in decades.

I applaud the Prime Minister’s determination to diversify Canada’s energy market. On this issue as much as any other, we need political leadership to deliver what is in the collective interest of current and future Canadians. We need to make it a national priority not only to advance our strategic relationship with China and Asia – and not only to secure market access – but to acquire and exercise the leverage that a Canada-China energy relationship entails.

I would emphasize the importance and delicacy of this interrelationship among Canada, China and the United States.

Canada and the United States – overall, the relationship continues to work well. There are irritants, as there always will be, but both sides seem committed to greater co-operation in matters related to security and prosperity.

Canada's relationship with China has, in fact, never been better.

On the other hand, China's relationship with the United States has deteriorated markedly over the past five years. While the United States has encouraged Canada to pursue diversified markets, we would be naïve to think that a blossoming relationship with China will not have implications on our relationship with the United States.

And still: Asia is where the growth of today is, and where the growth of tomorrow will be. So that's where we need to be.

To achieve that goal, we need to get our house in order. We can't be complacent as producers and we can't be divided as Canadians. We need to get moving.

Despite shifting global trends, there was until recently no significant and sustained push for west coast access from Canadian industry, nor from government.

For years, there was essentially one major public figure in Canada – Pat Daniel, the now-retired CEO of Enbridge – who was consistently pushing for an Asian market for Canadian oil and gas. Three years ago, I became one of the first politicians to speak of the need for a second customer. I was a lonely voice.

I don't say this to chide anyone. I raise it as a lesson in the need for shared responsibility and collective effort.

Let's not underestimate the scope of the challenge: The constitutional and legal issues surrounding west coast energy corridors, terminals and shipping are extraordinarily difficult. As I've said before, the Crown needs to take up its obligation to engage First Nations – not only to negotiate specific agreements and approvals but also to achieve broad "social licence" for major projects to proceed.

Canada also needs to ensure it doesn't make the mistake of assuming that emerging countries don't have options to meet their appetite for energy – they do. We are not the only game in town.

Yes, we offer advantages as a resource producer related to stability and security of investment. And yes, the government should demand that foreign companies be committed to investing in Canada, building here with Canadian participation and playing by market rules.

But we also need to remember that we are a higher cost environment. We are, in fact, the highest cost producer of oil in the world. Our strength isn't that we are 'cheap'. Our strength is that we are dependable, reliable, secure and respectful of the rule of law - no surprising changes to taxes, royalties or foreign investment rules. We shouldn't forget that because everyone in the Asia Pacific has alternatives.

At this point, let me say: Despite the tone of some of my remarks today, I am an optimist. There is a tremendous opportunity before us, if Canada can reorient itself to compete during the coming decades of Asian growth. And certainly no one on the American side would begrudge Canada’s pursuit of a second market.

But now that we see the full scope of what needs to be done, we can’t allow ourselves to get distracted and take our eyes off what really matters. The CNOOC-Nexen deal is big and it’s important – but it’s not the main issue. The main issue is market access to Asia generally and China specifically.

In my new life, I spend a lot of time in China and the other emerging markets of Asia. I have discussed Canada with the leaders of all of the major IOC's and SOE's in the global energy industry. What Canada needs, more than anything else, is to ensure that we can access those markets. The private sector will do the rest. Absent market access, the private sector will be unable to continue to drive our high standard of living. It's about that simple.

At the same time, we must reengage the Americans to build a better, more efficient continental energy market and to pursue progress together on both energy and the environment.

These are the two markets that are central to Canada’s ongoing prosperity. With both countries, we face difficult challenges – made even more complex by the fact we have control over only some of the variables. But this much is clear: the time for delay and indifference is over. We need to get to work.

By way of conclusion, I'd note that an awful lot has changed over 25 years. In 1988, the big and lucrative American market appeared to many Canadian eyes as the "be all and end all." Today, for all the progress we've achieved, we no longer have the luxury of looking to the U.S. relationship and thinking: this is all there is, and all there ever needs to be.

Instead of congratulating ourselves for having done well, let's focus on ensuring we continue to do well. The key is market access: we need to improve access to markets in the United States – while working to achieve access to China and the rest of the growth markets of the 21st century.

Over decades, we have forged with the Americans an energy relationship that has helped both our countries achieve among the highest standards of living in the world.

In a new era, we must look to do the same in new markets. We must secure access with the ascendant countries of Asia – and build the infrastructure required to make these partnerships take root and thrive.

This is where Canada's interest lies. This is the way to achieve a new wave of economic growth fuelled by our energy producers.

We have an abundance of resources – and the opportunity to build from them a strong economy and an enviable way of life. But prosperity is not a birthright. Only with foresight and smart choices will we be able to fully enjoy the benefits of our national bounty.

Thank you.