

Free Markets, Energy and the Environment

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Check Against Delivery

I haven't spoken in Calgary since last fall. There have been a few changes in the meantime.

Then I was a politician. Now I'm a banker.

This is my fourth career. I have been a coal miner, a lawyer, a politician and now a banker.

Several of these are honourable professions.

Seriously ... since this is my first speech in Calgary since leaving public life, I wanted to say that being your Member of Parliament and the senior Alberta Minister was the greatest experience ever. I loved it. I enjoyed working with the Prime Minister and my parliamentary and Cabinet colleagues.

We did a lot of great things for the country and for our province. I know too that we did some great things for Calgary, including:

- North America's newest, biggest Science Centre
- The World's largest and most advanced Olympic Winter Training facility
- Canada's new Sports Hall of Fame
- North America's largest new Music museum
- And new facilities at the University of Calgary, the Banff Centre, the Calgary Stampede, Mount Royal University and elsewhere.

I know that this will be a better City for our children and our grandchildren.

Speaking of grandchildren, my first grandson, I would add, is due today. Like, right now.

I am thrilled to have joined CIBC this year. CIBC is one of Canada's oldest Banks and set up Calgary's first chartered bank branch in 1886. We are the

most Canadian of all Banks and so I have been speaking across Canada, focusing on the engines of growth of the Canadian economy, and more specifically on what we need to do to fine tune it.

My first speech in Toronto focused on the finance sector and on capital markets.

Today I want to deal with free markets and the energy sector. Today, I am going to outline a roadmap for the Canadian energy sector success over the next decade. There are some hazards along the route that we will discuss.

But first I want to take a moment to set the global stage, underscoring the historic opportunities that are right in front of us.

The economic recovery is gaining speed and is fuelling demand for energy – and raising energy prices -- around the world. According to all of the projections, total world consumption of marketed energy will increase by 49 percent by 2035, and the largest projected increase in demand will be from non-OECD economies.<sup>1</sup>

It is worth noting that the U.S. will not be the main driver of growth in demand for Canadian oil going forward. The same US outlook indicates oil imports will represent a declining share of total U.S. energy demand offset by biofuels, higher fuel efficiency standards and suppressed by rising energy prices.

Globally, however, energy demand is on the rise headed towards 89 million barrels of oil per day. The main driver is the growth of the middle class in developing countries. China's middle class is expanding so rapidly that it will soon be larger than the population of the United States. India and Brazil are also experiencing explosive middle class growth. All these new consumers... all this upward mobility... is putting pressure on governments to deliver better jobs and living standards through economic growth – and that takes energy.

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<sup>1</sup> EIA International Energy Outlook 2010 <http://www.eia.doe.gov/oiaf/ieo/world.html>

At the same time, conventional oil is on the wane. Countries that are today undergoing social and political upheaval are the source of much of the world's traditional supply.

But rising demand for heavy crude does not translate into a 'free ride' for Canada's oil industry. Environmental NGOs here, in the U.S. and in Europe continue to mount well-orchestrated anti-oil sands campaigns, and this continues to cast a shadow over the industry's prospects.

On the natural gas front, prices in North America have been at a discount to world prices for several years. Recent shale gas discoveries will likely continue this trend unless and until we open up offshore markets that drive price changes.

The nuclear crisis in Japan has raised fresh concerns over nuclear safety, and will likely result in a slowdown in new builds.

These factors represent risk and opportunity for Canada's energy sector.

So the question arises, how do we tilt the balance towards opportunity?

I note that the Report of my friend and former colleague David Emerson has just been released. It is an excellent piece of work. I commend the Premier for what I think was inspired leadership in appointing this panel and I congratulate David and his team on a job well done.

You will observe a striking consistency between my comments and the first two themes of the Panel's work, namely:

- Realizing the full potential of our energy resources, and
- Broadening our economic base

Both the Emerson panel and I have a similar approach to realizing opportunity. So let me describe what Canada's energy industry could look like a decade from now.

## **In 2021, Canada will be an energy superpower.**

We've seen the term "energy superpower" bandied about quite a bit lately in debates about our energy future. But mere ownership of resources does not make us a superpower.

What does a true energy superpower look like? It has a strong resource base, financial strength, an open-for-business environment, fair and predictable regulations and market-based business principles.

An energy superpower has a robust energy services sector populated with geologists and engineers, equipment manufacturers, pipeline companies, bankers, and all the other service providers that help the industry run smoothly.

Canada has all these assets. We are the world's largest producer of energy in all forms when measured per capita. We have the oil, natural gas, hydro power and uranium. We have the expertise to exploit these resources and the complex web of services that surrounds each one. We have a free market economy balanced by a strong regulatory regime.

But we are still missing one vital component: a diversified market.

In a recent speech in Toronto, Enbridge CEO Pat Daniel challenged the myth that we are an energy superpower. He said, "In my view, we could be a global player, but today we're merely a price taker, particularly with regard to oil and gas."

## **In 2021, Canada will have the right energy infrastructure.**

That mean a liquids pipeline system that delivers this product in Canada, into the United States and into Asia.

And it means developing one of the world's largest natural gas resources to the world's highest safety and environmental standards, with LNG facilities on the west coast to augment the North American natural gas distribution system.

It means investments in smart grid technology to upgrade our North American electricity distribution system and it means enhanced transportation capacity to export oil.

**In 2021, Canada will be a CLEAN energy superpower.**

We will be the cleanest producer in the world of all forms of energy, adhering to the highest environmental standards.

In a low-carbon world, energy leadership and environmental leadership are two sides of the same coin. Canada will either be an environmental leader or have other jurisdictions dictate our environmental policies. It should be lost on no one that the President of the United States has spoken twice this spring about Canada's environmental policies. The world is calling upon Canada to improve its environmental performance vis-a-vis the oil sands.

I spoke about this theme about a year ago, and my views were not universally popular. But I stand by them.

Let me be categorical: neither industry nor the governments of Canada or Alberta can defend themselves in the absence of credible, science-based data that substantiates the fact that we are protecting the environment.

As a country we have not had data of that quality. That is why Environment Minister Kent and leaders like Hal Kvisle<sup>2</sup> are advocating more robust monitoring systems. Mr. Kvisle is co-chair of an independent panel of twelve experts advising the Alberta Government on how to create a world-class monitoring system for the oil sands. This will allow the industry to get out in front of its critics by setting tougher targets and benchmarks with respect to impacts on water, air and land and by making the investments to meet those targets and by having the data to prove success.

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<sup>2</sup> See <http://environment.alberta.ca/03289.html>

By 2021, oil sands production should have substantially less environmental impact than it has today. We should be producing in excess of 3 million barrels per day on a sustainable basis.

By 2021, Canada should also have the world's cleanest electricity system. With only 21 remaining coal-fired power plants versus 650 in the US, and with good progress in developing alternative sources of power, we're fairly close on this one. But we can't lose momentum. It is important that we maintain the target adopted in 2010 to ensure that Canada has the world's cleanest electricity system by 2021.

### **In 2021, Canada will have globally diversified energy markets.**

Today, virtually all our energy exports are destined for the United States. We have one customer... and that makes us a price-taker rather than a price-maker.

I recognize that many Canadians – and perhaps some who are in this room today -- have devoted great efforts to forging a closer energy relationship with the United States to provide greater stability for our energy industry. As a former federal Cabinet Minister and as the principal Canada-US interlocutor on energy issues for a number of years, you can count me among them.

But the truth is that we have to move beyond being merely a continental energy supplier.

If you read President Obama's energy speech this spring at Georgetown University it becomes very clear that the Americans are aggressively pursuing their own energy strategy. I have no quarrel with that, and there is much that is commendable in their efforts to advance a clean energy agenda.

However, their objectives and our objectives are not the same.

Certainly this is causing some friction. As Lord Palmerston famously said about diplomacy a century and a half ago, "Nations have no permanent friends or allies, they only have permanent interests."

To be clear the Americans are our best friends and we must work hard to keep it that way. I am not suggesting for a moment that the US will ever be anything less than our main energy customer. We have the resources, they have the demand – a demand for safe, secure and reliable energy. We also have NAFTA and the North American Energy Agreement that preceded it. These agreements ensure a North American free market for energy resources -- and that is something that we need to emphasize more vigorously in our cross-border dealings.

From the American perspective, the agreements guarantee that the Americans need never be concerned about security of supply from Canada. From our perspective, it means our energy products should have unrestricted access to their market.

But gradually, with the best of intentions, restrictions to our continental free market have been creeping forward.

Canada's essential position is a producer of energy in all its forms. Thus we need to do two things:

- First, we need to clear away the impediments that are depriving the Canada–US energy relationship of its natural continental market-based strength.
- Second, we need to diversify our market to the Asia Pacific.

First the impediments.

One. It may be surprising to know that 47 separate US jurisdictions are now developing their own low-carbon fuel standards. Many of these standards would exclude oil sands crude, which is impossible in a practical sense. In effect, these sub-national standards represent an attempt to download American environmental compliance costs onto Canadian producers. Frankly, if we want to have a North American low carbon fuel standard, then we should negotiate one and it should apply to every barrel of oil landed on our continent.



Two. Growing protectionism in the renewables sector. Some US jurisdictions are trying to nurture their renewable industries by setting renewable portfolio standards that shut out Canadian hydro – the cheapest and most abundant source of renewable electricity. It is estimated that 25,000 MW of Canadian hydroelectricity could be developed in the next 25 years which would significantly green North America's electricity system. These new US renewable portfolio standards therefore run counter to this market-based greening of our continental electricity system.

The next impediment negatively impacts our American partners as much as it does Canada, and it has to do with the optimal flow of oil to Gulf Coast refineries. Essentially, these refineries were designed to process heavy crudes. If they cannot get sufficient volumes of it, they will be forced to refine higher priced crudes from West Africa or the Middle East. Or they will reduce their output.

Simply stated, it is the Keystone XL pipeline will keep US Gulf Coast refineries operating at optimal efficiency.

This brings us to the fourth and most difficult impediment at the moment – getting regulatory approval for the Keystone XL pipeline project.

Keystone XL is now subject to a further environmental assessment that will include upstream production, which happens to be our oil sands. As President Obama said publicly, "These tar sands...there are some environmental questions about how destructive they are...what are the dangers there and we've got to examine all those questions."

This is a significant – and worrying – development for Canada. There are those who argue that extraterritorial application of US regulation may run counter to the provisions of NAFTA and the North American Energy Agreement.

Canada needs to do everything it can to make sure Keystone gets a green light.

Let me now turn to the second imperative of market diversification.

In his Georgetown energy speech, President Obama said that diversity of supply from friendly neighbours is important to US energy security. The logic of his argument is unassailable. By the same token, Canada's energy objectives must reflect our own national interest. We need to have diversified markets to ensure the best marginal price and to reduce our market risk.

And the road to diversified markets runs through our west coast and beyond to the countries of Asia-Pacific.

Opening up Canada's energy trade to the Asia-Pacific involves both LNG and oil.

It is critical that we move forward with investments in the transportation and distribution of LNG from our west coast. In fact, an LNG terminal for Kitimat, BC is already on the drawing board.

Then there's oil. Much has already been said about the importance of Northern Gateway and other projects to opening up Canada's oil sands to an energy-hungry world. Allow me to add my own brief anecdote.

As you may know, I have been involved in the development of Canada's new strategic partnership with China since the time of President Hu's visit and the first government-to-government meeting. Canada is viewed as an important component of China's own long-term energy strategy. As they pursue the same objective of the Americans, namely diversity of supply, Canada's vast reserves, open market, and political and social stability are making us one of the favoured destinations for investment by China's state-owned energy companies. Having recently returned from meetings in China where I continue to develop Canada-China relations in my new role at CIBC, I can confirm that China is now engaged in the execution of this new partnership with Canada.

So ladies and gentlemen, I am fully confident, and more importantly, our bank is fully confident, that we will do all this - we will succeed.

We are a profoundly wealthy nation. Small in population, well educated and possessing a vastly disproportionate share of the world's remaining oil, natural gas and hydro electricity.

We will emerge as an energy superpower as we overcome the challenges of developing the infrastructure and markets which are commensurate to our resource base.

This I know.

I am often asked what my most amazing experience was in my time in public life.

It was last July. One thousand kilometres above the Arctic Circle. Accompanied by a small team of Parks Canada underwater archaeologists, we set out to find the HMS Investigator, the sunken Admiralty ship which had discovered the North West Passage in 1854.

That journey took me to Mercy Bay, on the shores of Banks Island. And on a beautiful Arctic day, clad in a dry suit and snorkel mask, floating in and out of the pack ice, I looked down through 30 feet of pristine Arctic water to see the Investigator, perfectly intact, sitting proudly upright on the floor of Mercy Bay, lost for 155 years ago.

No human being had seen the Investigator since 1855, and as a Canadian who loves the Arctic, I can't even begin to describe what it was like to be one of three human beings to look down and see that ship.

There it was beneath me, perfectly preserved - a reminder of our history, of an earlier age of exploration, a century and a half ago.

They were British sailors, armed with human muscle and sail power, courageous enough to sail to the end of the earth, to the absolute margins of their technological abilities.

Captain McClure and the men of that ship would look at the Canada of today in wonder.

They would see, a confident nation, blessed with resources, capital, infrastructure, education, and technologies that are second to none - confidently astride an immense land that held such terror for them.

Ladies and gentlemen, this is indeed the greatest country.

And we are the right people to build it.