



## "Canada Must Look Beyond U.S. to Strengthen Access to Global Energy Market"

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Check Against Delivery

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I welcome the opportunity to speak with you today – and to discuss in some detail the potential for Canada's energy future, the challenges and pitfalls that may undermine it and three coming elections that hold the power to influence it.

And you all thought, hoped...that I had given up on worrying about elections.

So in the interest of full disclosure: neither politicians, nor former politicians know everything about elections – especially not about the implications of those elections on a chessboard as complex, multi-faceted and unpredictable as global energy marketplace. But I do know that this is an issue critical to Canada's prosperity. And I believe we should be talking about the shape of our energy future with greater urgency and a focused sense of purpose.

We are today in the midst of a moment of great consequence for our energy industry. 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. Crude oil alone accounts for 15 per cent of our exports. We have done well. In fact, very well.

But there is a seismic shift underway that will demand more of us. There are global forces that will infringe on our comfortable reality, change the way the game is played and compel us to take action to secure what is currently ours and ensure our ability to continue to prosper.

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 in a world more interconnected and globalized than ever, things change fast. No single nation is truly in charge and no position is secure, no matter how entrenched it may seem. In the years to come, we will 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 and truths beyond our influence.

Today, we are a country experienced at developing, producing and selling energy in a large but limited context. We are new to the global energy game – and frankly, we aren't yet playing that game with much skill, foresight or cohesiveness. Despite our natural advantages, we have failed to occupy the strategic high ground. There is confusion amongst us and more than a noticeable degree of disarray here at home. We have been quarrelling amongst ourselves and we are neither of one voice, nor of a single will, on how to move forward.

If you sense a martial tone to my remarks, it may be because I found myself the other day flipping through *The Art of War*. There's a reason that the writings of Sun-Tzu have endured for centuries. His counsel rings true not only in the context of armed conflict – but in any milieu in which the stakes and the scenario demand a thoughtful and strategic response. And that description certainly applies to an industry that is of such importance to the economic well-being of our country.

Today I'd like to use five strategic imperatives from *The Art of War* to illustrate the challenges that lie ahead for Canada on the energy front – and the comprehensive nature of the response that they demand.

The first: *Without knowing the lie of hills and woods, of cliffs and crags... you cannot march.*

Simply put, we need to better understand our changing world and what it means for us.

In geopolitical terms, this is a highly consequential year for Canada. This fall, an election in the United States and an election of sorts in China...and one here at home this spring – will serve to further demonstrate just how dependent Canada is becoming within the new global marketplace.

The Chinese "elections" will be as opaque and confusing to us as they always are, but that doesn't make them any less meaningful. Next month, most of

the current roster of leaders will be stepping down. The so-called Fifth Generation of Chinese leadership will rise. And the world – and Canada – will begin watching to see how this new generation will manage China's growth and conduct its international relationships.

What will become of the so-called strategic partnership with Canada declared by President Hu?

As for the United States: I read a line recently that to me neatly captured the pace of democracy south of the border: "U.S. election campaigns last longer than all pregnancies and most wars." The current one basically started the moment the last one ended. But we are now at last within sight of the finish line. And there will be for Canada the chance to start again no matter who is elected President on Nov. 6.

If it's Mitt Romney, the reset button will be pressed – the Keystone XL pipeline will get approved. The tenor of our energy relationship will change, although fundamental differences of interest will remain.

If it's Barack Obama, then frankly it is not clear if there will be a much-needed energy 'reset'.

In either case, for the next 18 months the President of the United States will be almost exclusively focused on the US economy - taxes, jobs and stimulus. And the Canadian energy relationship will, unfortunately, be of limited relevance...unless it ties into this focus.

Why do I say that? Well, we are talking about knowing the lie of the terrain on which we're standing: And part of that is accepting what we see before us – and not assuming too much of what we can't. There are those who say that if he's re-elected, President Obama will approve Keystone. That's the conventional wisdom – but is it true? If so, will it be a priority for him? We can't build prosperity on an assumption.

And if we're honest about where we stand with the Americans, then we'd acknowledge that there's been a disconnect on the energy file.

Many of us in Canada see the benefit of increased energy-based co-ordination between our two countries. But for the past four years the relationship has seen its share of delays, frustration and uncertainty. We've made some joint progress with the Americans – 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 of the United States has not been shy about questioning the environmental impact of the oil sands, and the environmental practices of its stewards. His interventions have made clear another important evolution in our energy relationships. I said this first in Calgary and I say it again today, in the world of tomorrow, energy leadership and environmental leadership are now two sides of the same coin. Canada will either be an environmental leader or have other jurisdictions attempt to dictate our environmental policies.

The administrations of a President Obama or a President Romney would differ in many ways. But there's more common ground than you may think. That famous line from Kissinger still echoes today: "America has no friends or enemies – America has only interests." And that's as it should be: President Obama believes it's in his nation's interest to build a cleaner, greener, American-based system of energy production. So naturally that's where his priorities have been directed. That is where they will be directed.

Under either administration, I think it's safe to say the Americans will continue to pursue their own interests quite aggressively. And though they are our partners – and, yes, they are in fact our friends – we can't be lulled into believing that their interests and our interests on energy will ever be identical.

I would be remiss at this point if I failed to note that there will also be an election in British Columbia in the not too distant future. Given the debate over the Northern Gateway, it too will be an important campaign. Like many Albertans, I've observed with fascination – but never fully deciphered – B.C.'s political culture. So I'll resist the temptation to forecast the outcome of that one.

The second imperative from *The Art of War*: *Know yourself*.

There are those here at home 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 Canada or any country a superpower. Yes, we have a substantial resource base, financial strength, an open-for-business environment, fair and predictable regulations and market-based business principles. These are all good things.

But there's one critical element we're missing: customers. Right now we effectively have only one buyer. 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: our dependence on a single customer isn't just a curiosity or a nuisance. It is affecting the price we get for our oil. And not by an insignificant sum: we're selling to the United States at a doubly discounted price, that has been as high as a 25 per cent discount to world prices.

And there's more to it than price alone. When the Obama administration decided to reject the Keystone XL pipeline expansion, there was nothing we could do about it – nothing in the short term, at least. We couldn't storm off in a huff and sell our product to another customer. We don't have another customer.

For a country whose economy is disproportionately based on exporting energy, that is more than an inconvenience. It is a problem. In fact, it is an enormous vulnerability.

A third imperative: *Supreme skill lies in deriving victory from changing circumstance.*

Let's look at the hard reality. The Americans are pursuing diversity of supply. Period. That means that we as sellers need to focus on diversity of demand. Period.

Even if Keystone is ultimately approved, we can't labour under the illusion that this will solve all our difficulties. Growth in long-term demand for oil is not going to be American. It's not going to be European. It's going to be Asian.

In the face of this changing circumstance, Canada must pivot from its dependency on the American market toward a continent whose emergence will thrust more than three billion people to centre stage of the global economy.

Let's be clear and 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. His Foreign Affairs Minister, John Baird, just this week emphasized in a speech that looking to Asia is "no longer a choice, no longer an option" – and that relations with the continent are now a "top foreign policy priority."

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'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.

A fourth imperative from Sun-Tzu: *Share a single will.*

Simply put, we need to get our house in order. If we want to prosper, we can't be complacent as producers and we can't be divided as Canadians.

I hear people taking issue with environmentalists and with the First Nations for their response to the proposed Northern Gateway – efforts, it is said, to delay and undermine the process. I don't condone some of the excesses we have seen so far in the process. But to be fair, for the most part, First Nations are exercising their right to participate in a regulatory process that is necessary and should be respected in a democratic country.

And in the interest of fairness and context, despite shifting global trends, there was until recently no significant and sustained push for west coast access from Canadian industry, nor from government. There was no diplomatic push abroad.

I was one of the first politicians to speak of the need for a second customer three years ago. I was a lonely voice.

For years, there was essentially one major public figure in Canada – Pat Daniel of Enbridge – who was consistently pushing for an Asian market for Canadian oil and gas.

I don't say this to chide anyone. I raise it as a lesson in the need for shared responsibility and collective effort. In particular, we need to respect the fact that First Nations and many British Columbians won't be rushed and want to ensure that the important environmental issues are considered.

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.

And yet today, as I have observed a number of times this year, the Crown obligation to engage First Nations in a meaningful way has yet to be taken up.

The obligations to consult with and accommodate First Nations – to negotiate non-derogation agreements, to define an ocean co-management regime for terminals and shipping, in effect to achieve not only mere regulatory approval but full "social licence", to proceed with these major undertakings – these are the responsibilities of the federal government.

And take it from me today, as a former Minister and a former co-chair of the Indian Claims Commission of Canada, there will be no way forward on west coast access without the central participation of the First Nations of British Columbia.

And I would offer one other caution. Let's not make the mistake of assuming that other countries don't have options to meet their appetite for energy – they do.

There are those in our country who seem to believe we can do anything, put in place any restrictive policy, turn down any investment, take our time building infrastructure, and Asia will keep beating down our door to invest their capital and ultimately to buy our oil and gas. But the truth is we are not the only game in town. Yes, we offer advantages as a resource producer related to stability and security of investment – but we are also a higher-cost environment. If Asia finds it too cumbersome or bothersome to deal with us, they'll get into business elsewhere.

As for the Americans, they have for decades been heavily dependent on foreign oil. The countries of the Middle East have benefited from this. We've benefited from this.

But a time is coming when the U.S. will greatly reduce or and some say even shed its dependence on imports. For the last few years, the trend line has reversed. Thanks in large part increased exploration and new technologies, more U.S. domestic oil production has come online at a time when consumption is slowing. A lot more.

The one and only customer for our oil isn't going to stop buying from us overnight. But what was once unthinkable is now possible within the next two to three decades. This brings our need to diversify into even sharper focus.

The fifth and final imperative I'd raise today: *Settle on the best plan, follow the advantage and master opportunity.*

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.

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. Market access to Asia generally and China specifically.

We must develop a strong consensus on west coast market access and pursue it with vigor and purpose, engaging the First Nations and working in a spirit of co-operation among levels of government and with the private sector.

And it is also about market access to the United States. And we must reengage the Americans to build a better 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. The time for delay and indifference is over. We need to get to work.

By way of conclusion, I'm reminded of a passage in which Sun-Tzu notes, "To see the sun and the moon is no great perception." In other words, don't



congratulate yourself for noticing and taking advantage of the obvious. 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. Let's build a stronger relationship with our primary energy customer, while at the same time moving to secure access to the growth markets of the 21<sup>st</sup> century.

Global politics and commerce – these are the big leagues. We're talking about engaging with countries that are not democracies, that follow different rules, that respond to different pressures, and that send out into the world companies that don't strictly adhere to our concept of a market philosophy.

In terms of energy, the public policy choices for Canada in the coming years will be as difficult as they are momentous. We are going to be dealing with some of the toughest negotiators in the world on some of the toughest issues on the global agenda. Simplistic answers and approaches won't work. Partisan perspectives are unhelpful on all sides.

Over decades, we forged with the Americans an energy relationship that has helped both our countries achieve among the highest standards of living in the world. We did it by negotiating the access and by investing in the infrastructure required to make that relationship work.

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 been blessed with 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.