



"Sustaining the Canadian Advantage"
Address to the Oil & Money Conference
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Check against Delivery

Good afternoon. On behalf of my colleagues at CIBC, I welcome the opportunity to speak with you today about the important juncture at which Canada finds itself in the energy business – the forces that are at work, the challenges that have emerged and the opportunities that will ensure the future growth and long-term success of the Canadian oil and gas sector.

Any analysis of Canada's future prospects in energy would acknowledge that it begins from a position of strength. There is, after all, a reason they call this the Oil & Money conference – no one has yet found a substitute for money, and neither have they found one for oil.

Despite advances in alternative sources, hydrocarbons dominate – and will continue to dominate – the energy landscape. Canada has the world's third-largest proved reserves of oil – some 174 billion barrels in all, which represents more half of the world's investible oil reserves.

Canada has another advantage: stability. The world has a lot of natural gas and, with technological advances, a seemingly adequate supply of oil. But a significant portion of that supply lies within the borders of nations that are either actively under embargo or considered by some to be politically or socially unstable.

Canada has an open-for-business environment, fair and predictable regulations and market-based business principles. In fact, its ability to fulfill contractual obligations over a period of 25 years or more – without potential interruption due to political, legal or territorial conflict – stands as one of the main reasons that Canada has the opportunity to get into LNG in a major way.

Having said that, Canada is facing a critical challenge in the energy

space: the challenge of market access. It's a challenge that Canada must confront and overcome if it is to successfully transition from being a continental energy supplier to a legitimate and long-term global player.

That's what I will focus on in my remarks today.

For decades, Canada has sold almost all of its oil, and much of its gas, to a single customer: the United States. It has been – and remains – a mutually beneficial relationship, but one that has taken on new dimensions and nuance as the U.S. has increased domestic oil production, asserted itself as a gas exporter and emerged as a critic of the environmental performance of the oil sands.

Over the next five years or so, even as it continues to serve America as its principal market supplier, Canada faces the imperative to change its thinking, adjust its focus and begin to match up its energy resources with the needs of the growth markets of the Asia-Pacific as a second market.

It must do the hard, urgent work of reorienting itself to serve the demand of tomorrow – and it must do so in a climate in which other countries are equally determined to supply these markets with oil and gas.

To succeed in this task, Canada must have a strategic focus on three imperatives. Canada must:

- become more international in its ambitions, by securing trading relationships with new partners, especially in the Asia-Pacific;
- invest in and develop the infrastructure required to efficiently export oil and gas both on the continent and around the world;
- and ensure an attractive regime for foreign investment in the energy industry, including from State-Owned Enterprises.

Let's begin with trade.

Canada is the world's eighth largest exporter and seventh largest importer. It is a trading nation, and always has been. Trade accounts for almost two thirds of Canada's total economy and exports account for a third of GDP. Canadians know first hand, and from long experience, the importance of engaging in the world. Or at least they

should.

But when it comes to energy, Canada is not being sufficiently attentive to its future interests. Despite what some may think, it's not as simple as getting oil to the Pacific coast and onto a tanker. It's a fiercely competitive world out there. Relationships need to be developed. Negotiations need to be pursued and concluded. An energy trade agenda needs to be advanced.

I will not dwell today on criticism from others that the Canadian government has failed to sign new bilateral trade agreements with the key emerging markets in Asia.

I will simply make the point that trade agreements matter. I know this from the time I've spent in Colombia. Our two countries share a free-trade agreement that has, in a short period of time, translated into an extraordinary commercial opportunity for Canadian oil and energy infrastructure companies. Canada is, in fact, now a significant foreign investor in Colombia. Direct Canadian investment in the country more than doubled between 2009 and 2012.

The point is that even with a commodity as fungible as oil, relationships matter. Trade agreements provide the foundation for those relationships. Trade missions – whether by government or industry or both – also matter because they help to deepen those relationships. In places like Beijing, Kuala Lumpur, Singapore, Bangkok and Tokyo, the efforts and visibility of government and industry matter. They make a difference.

And 'government-to-government' dialogue and commitments – even symbolic commitments – matter as well. This is especially so with the governments of emerging market economies that are more collectivist than our own.

Ministers Fast and Baird of the Canadian government understand this imperative and are moving towards it. But our competitors are not standing still.

Russia and China are perhaps the most obvious example, having concluded specific export commitments relating to both oil and natural gas. The United States is on the move as well. It has entered into the natural gas export business, largely as a consequence of diplomatic pressure and negotiations with Japan.

Around the world, other nations are attending to their trading relationships and interests in the most important geopolitical chess game of all – the future of energy. Canada needs to keep pace because the reality is that virtually all incremental demand for oil after 2020 is going to be outside of North America and outside the European Union.

As it prepares to look beyond its reliance on the U.S., Canada needs to be more global in its thinking and more invested in its relationships. Japan, China and India are the most obvious.

The world is re-balancing towards emerging markets. Canada must re-balance with it. The country's true potential in oil and gas will be unlocked only if it is a full, active and aggressive participant in the most dynamic corners of the global economy.

A second imperative is that of infrastructure – pipelines, ports and terminals.

The context here is important. Today, Canada produces in excess of 3 million barrels of oil a day – some 55 per cent of it in the oil sands. Daily production is increasing every year by about 200,000 barrels. Depending on assumptions we are prepared to make about the pace of oil sands expansion, daily domestic production levels could reach six million barrels or more by 2030.

Canada's oil sands projects are quite different from most of the exploration and development we see in the energy world. They are major undertakings that require massive upfront capital investment – but produce dependably for long, long periods. This is part of the reason the business has over time been distilled to some of the world's largest energy companies. It takes years of effort and billions of dollars to get a barrel of oil from the ground. But when these projects come on-stream, they operate like an annuity for 30 to 50 years.

The scope and scale is truly a marvel to behold. The Kearl oil sands project – which is being developed by ExxonMobil and Imperial – will demand a peak workforce of 5,000 people. The first two phases of its development alone will over the next several years cost more than \$20 billion. And it's worth that investment of money and manpower because Kearl is estimated to hold some 4.6 billion barrels of recoverable resource. That makes it, on its own, just one project in the Athabasca North of Alberta, six times the size of the U.S. Strategic Petroleum Reserve.

Not far away, Suncor and its partners are developing the Fort Hills project – estimated to hold more than three billion barrels of bitumen. The upfront capital demands will exceed \$2 billion next year, and the year after, and the year after. But beginning in 2017, Suncor is looking at a resource that will produce \$1 billion a year or more in field cash flow until 2050. This is as close as the oil industry is ever going to get to a resource that produces with the kind of clockwork, consistency and long-term reliability of a manufacturing facility.

In recent years, there has been a rationalization of ownership in the oil sands. And while there are now more properties on the market than we have typically seen, this will sort itself out and prices have begun to adjust to more understandable levels. I believe it's safe to say that some companies got into the oil sands without a full understanding of the intensity of capital investment that would be required.

But construction, investment and production are proceeding apace across the oil sands. The strong players are still strong, and still there. Simple math leads us to the realization that the oil sands will be an increasingly essential part of the market for decades to come.

And therein lies the root of the longer-term challenge. Simply put, Canada lacks the pipeline infrastructure required to handle the overall projected growth in production beyond 2020. Pipelines are required in virtually every direction and, at present, the only alternative available is to transport more oil using rail cars.

That's only one aspect of the infrastructure challenge. I would point to three others:

- One, there are no major LNG terminals under construction in Canada, and every month that remains true we fall further behind the Americans and other competitors.
- Two, discussions with the U.S. on the proposed Keystone XL pipeline continue to drag on, with environmental issues at the core of the impasse. Here we see further evidence of how complicated the energy relationship has become between Canada and an emboldened, increasingly self-sufficient America.
- And three, serious opposition has been mounted against the Northern Gateway – the major proposed pipeline that would carry the bounty of the oil sands to the deep-water ports of

Canada's west coast.

To be fair, few in Canada saw this infrastructure challenge coming even five years ago. As a country, we were comfortable in our established and efficient relationship with the United States. Conventional wisdom held that U.S. energy independence was a pipe dream with U.S. oil production likely to hold steady at best. And even as it's been awakened to the new reality, Canada has made minimal tangible progress toward addressing the infrastructure problem. As a country, and as an industry, we must do better.

In the coming months, our national energy regulator will rule on the application by Enbridge to build its Northern Gateway pipeline to the Pacific. The Gateway would carry more than half a million barrels of oil a day. It would provide Canada the opportunity to forge a beachhead in the markets of the Asia Pacific and allow oil sands companies to increase production without being subjected to pipeline capacity issues.

But the proposed Gateway has attracted opposition from environmentalists, Aboriginal groups and others. Enbridge has so far struggled to secure the social license that would help the project to proceed. The regulator's ruling will set off a period of perhaps six to eight months during which the fate of the project – and the near-term ability of Canada to get its oil to global markets in the Asia Pacific basin – will be determined.

It need be said that no decision on any one project is going to make or break Canada's oil and gas industry. But there's no denying that the infrastructure challenge has cast something of a pall over the sector. Over the long term, west-coast access is essential to the ability of the industry to prosper. And whether it happens in the next few years, or over a longer period of time, I am optimistic that Canada will both confront and overcome its infrastructure challenges.

This brings me to Canada's third and final critical goal for the next five years: the continued encouragement of foreign investment.

The simple facts are these: The oil and gas sector accounts for 6.5 per cent of Canada's GDP, and more than 15 per cent of its exports. Directly and indirectly, it employs more than half a million people. It is critical to Canada's economic well-being and it has been the engine of growth in our capital, financial and labor markets over the past 15 years.

For this industry to continue to thrive, Canada requires continued foreign investment because, simply stated, our ambitions and resources exceed our supply of domestic capital. By and large, the world has been happy to oblige. In total, over the last five years, foreign direct investment has accounted for 26 per cent of the capital injected into Canadian energy projects through M&A activity.

But there are troubling signs. Toward the end of 2012, the Canadian government issued a new policy relating to investment by State-Owned Enterprises in the resource sector. It was both an update and an expansion of a policy that I had introduced several years earlier while serving as Minister of Industry. The goal was to back up Canada's open approach to trade with some policy muscle that could prevent it from being taken advantage of.

Since then, however, the numbers tell us that in-bound foreign investment in Canadian energy has dropped off dramatically. It is down 92 per cent this year at \$2 billion, compared to \$27 billion in the same period in 2012.

Mergers and acquisitions activity in Canadian energy is similarly below historic levels – just \$8 billion in 2013, compared with \$66 billion in 2012, year to date.

Financing of Canadian energy enterprises, other than the major oil sands companies, has fallen markedly as well. There are many Canadian properties on the market and more sellers than buyers. Equity issuance in oil and gas has declined 43 per cent in 2013 compared to the same period a year ago.

Even more troubling is the fact that investment by Chinese SOEs in Canada's oil and gas sector, which between 2005 and 2012 totaled some \$33 billion, has now essentially stopped.

I would emphasize that when it comes to the international and Canadian majors, the companies that excel in the oil sands – for example, CNRL, Cenovus, Imperial Oil, Suncor and Husky – these companies continue to do very well.

But other companies are being affected by this slowdown. To be sure, one factor is the confusion and diffidence surrounding Canada's ability to access international markets from its west coast. Another, however, is an environment of uncertainty regarding whether Canada really wants foreign investment in the energy sector.

A measure of clarity is needed and would be beneficial on two fronts.

First, Canada must make clear to the world that it continues to be open for business. This isn't a criticism of the government's new policy. It is more a question of tone. Not everyone is getting the message that Canada remains open to the world. In fact, some are coming to believe the opposite.

We must therefore reassure SOEs that, barring exceptional circumstances such as majority stakes in oil sands companies, their presence is welcome and indeed valued.

Secondly, I know from my own travels for CIBC that there are large companies from non-market economies that have ambitions to come to Canada to 'platform' their global energy businesses. They want to be headquartered in a stable western democracy. They want to use and benefit from Canadian technology, labour and capital markets. These are giant, world-class opportunities for Canada. And they are part of a transformation in the energy marketplace that is a one-time occurrence.

These companies have their eye on Canada, but they don't want to be rejected. They certainly don't want an embarrassing confrontation with a western government. And I can tell you first hand, because they seek my advice, that right now they are puzzled by Canada.

As a country, Canada should not be intimidated by the presence of large SOEs. They have emerged as a dominant form of international capital, especially in the energy space. Canada needs that capital – on its own terms, to be sure, but it needs it nonetheless. And if these companies don't wind up 'platforming' their operations from Canada, they will do so in London, Houston or another energy or financial capital.

Even a cursory review of Canadian history illustrates that the genius of Canada, as a massive country with a small population, has been our ability to attract foreign capital to help develop the country's resources.

Canadians have done this with an enthusiasm that has allowed us to build one of the world's highest standards of living, outpacing the economic growth rates of virtually all other western democracies over the past several generations. If you listen to the OECD, we have the enviable opportunity to continue to do so for the next 50 years.

This foreign investment has been recruited from every corner of the globe and has taken the form of private capital as well as the capital of both Sovereign Wealth Funds and State-Owned Enterprises, from both democratic and non-democratic countries.

In my view, none of this will change anytime soon, nor should it.

It is important for Canada to demonstrate that its concern is not with the ownership of the foreign capital being invested. Indeed, the guiding principle behind our policy on SOEs must be to ensure that it advances, rather than curtails, the pursuit of trade and open commerce with emerging countries.

By way of summing up, I would note that the energy industry in Canada is at a crossroads. Over the past few years, technology has stood conventional wisdom on its head, resulting in a remarkable rise in U.S. oil and gas production. As a result, the supply-demand balance for North American energy has been changed in a fundamental manner. At the same time, new markets of growing demand are emerging.

If the trio of challenges I've discussed here today can be overcome, if Canada can secure the market access it requires, build out the requisite infrastructure and continue to attract global-scale capital – then Canada stands to benefit enormously and this industry will remain a driving engine of Canadian growth.

Without overseas export capability, Canada as a whole will feel the economic consequences of an oil and gas sector denied its full potential. But with it, Canada will be able to successfully transition from its traditional role as a locked-in continental producer, to a truly global supplier of oil and natural gas.

In essence, Canadians must use the next five years to answer a series of questions:

Do we want to be a continental player in energy, or a global player?

Do we want trade agreements and trading relationships with a handful of nations, or with many?

Do we want a single partner in energy – one that is increasingly becoming a competitor – or do we want several partners?

Do we want to open ourselves to the world's capital, or close ourselves off?

At CIBC, we believe that each of these answers will contribute to shaping Canada's energy future.

In Alberta, home to oil sands, and across the country, Canadians have learned from experience that success in oil and gas is never assured, and prosperity is never a birthright. It requires foresight, smart choices and hard work. And it requires action during times of both challenge and opportunity.

For Canada, that time is now.

Thank you.