



Free Markets, Continental Energy Independence and Keystone

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Check against Delivery

I have been asked to speak this morning about Canada as a leader in the energy sector and to provide my views on the current North American energy supply balance. One cannot do that without commenting on the rapid industrial and technological innovation currently underway in the energy sector.

I will also speak, as you might expect of a former Canadian Minister, on the need for innovation in both Canadian and American public policy related to energy, climate change and the environment.

And since I am in New York City and since the New York Times expressed their opinion, again, on the Keystone Pipeline earlier this week, I will of course express my own opinion on that subject.

Stated simply, I am strongly of the view that President Obama should approve the Keystone XL pipeline on the basis that it is in the 'national interest' of the United States. I say this because North America is accelerating towards a future of energy independence and the Canadian oil sands are an essential part of the North American energy marketplace.

That resource will afford both Canada and the United States security of supply and a consequential global competitive advantage for generations.

That, in my view, is a prize worth seeking.

It is a pivotal and a volatile time for oil and gas producers – as new technology helps generate greater supply, and our continental relationship becomes increasingly exposed to, and influenced by, the global marketplace. We are seeing the benefits of innovation not only in how we extract resources from the earth – but in how we reduce and limit the impact on our environment.

I begin, however, as any discussion about innovation must begin, with the market place itself, because it is free markets that are the cauldron of innovation.

As North Americans, we have been the beneficiaries of the world's largest, most efficient and most prosperous energy marketplace. These markets have driven our prosperity on both sides of the border and perhaps, as of late, we have become complacent about their benefits.

It is a marketplace that is dynamic, quickly paced, innovative and ever responsive to the most subtle 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 changes in the global market place. These markets are out pacing the capacity of even the most sophisticated analysts 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 are poised to push aside heavy oil imports onto the continent from the Middle East, Mexico and Venezuela;
- Canadian and American consumers are more quickly ameliorating consumption of refined hydrocarbons through new vehicle efficiency standards;
- Canada is aggressively pursuing a future as a global supplier of LNG into the Asia Pacific, something unexpected 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, avoiding pipeline bottlenecks; and
- Canada is aggressively pursuing a future as a supplier of crude oil into the Asia Pacific in the time after 2017, something also unimaginable even 4 years ago.

And the pace of political change is also moving quickly.

The ground has shifted rather dramatically in the U.S. over the past several months – with the re-election of President Obama and the signals that he has sent with a number of his appointments, including the positions of Secretary of State, Secretary of Energy and head of the Environmental Protection Agency.

It is clearly the President's intent to relaunch the clean energy agenda with which he began his first term – and to advance that agenda not necessarily through legislation in Congress but by making greater use of the executive levers at his disposal, including regulatory action, rhetorical persuasion and international dealings.

Certainly the early evidence suggests that energy-related decisions by the Obama administration will 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 final 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 that Canada and the United States should strengthen the policy framework of the continental energy marketplace.

The Prime Minister and the President could use the Clean Energy Dialogue as the vehicle for this discussion as it allows for the resolution of emerging energy and environmental irritants.

We must never 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 driven prosperity on both sides of the border.

This is a relationship far too important ever 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.

Canada has made extraordinary progress in phasing out its coal burning electricity plants. The United States is now pursuing a similar policy.

But we have also witnessed the emergence of sub-national standards that threaten the vitality of our continental energy marketplace and which arguably 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, which is a cheap and abundant source of electricity. Absent these restrictions, it is estimated that over the next 25 years, some 25,000 MW of Canadian hydroelectricity could be developed and used – significantly greening our continental electricity system.

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 – which, even with the rise in U.S. oil production, and even with America's variety of suppliers, is highly impractical if not impossible.

Although geography, industrial structure and population compel us to innovate in different ways, Canada and the United States both reap economic benefits when our energy and environmental policies are aligned. If indeed there is a desire among governments for a North American low-carbon fuel standard, then we as countries should negotiate one and ensure that it applies to every barrel of oil landed on our continent.

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 renewables, and not others.

The energy relationship we've built over decades serves as the very definition of mutually beneficial. The U.S. gets security of supply from Canada. Canada gets unrestricted access to the U.S. market. We both have stronger economies because of it.

Free markets produce impressive results when they are allowed to work. Americans know this better than anyone. They've seen it time and again over the course of their history.

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. We are at present, allowing non-market intrusions to reduce the efficiency and the effectiveness our energy marketplace at the very moment that changes in technology and innovation compel us to focus on the opportunities for North American energy independence.

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

As I have repeatedly said, in a world focused upon energy issues generally and climate change specifically, energy leadership and environmental leadership are two sides of the same coin. While it can be difficult to make the case amid the rhetorical heat that surrounds projects like Keystone, I would suggest to you once again that Canada and the United States share common objectives, a common resource base and airsheds and watersheds that transcend boundaries.

It behoves us to work together and once again the Clean Energy Dialogue can be a useful vehicle to pursue environmental policies that are in our mutual interest. Again, there is work still to be done, and progress still 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.

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

I mean an oil sands industry that is much less impactful and producing three million barrels per day on a sustainable basis. Progress on emissions reduction has been made in recent years and, frankly, there are some in industry who are ahead of the government in terms of being visionary and moving towards a more sustainable model for oil sands extraction.

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.

For the record, I would note that is no small irritant to some in Canada that our American friends focus on the current and future emissions from the oil sands while, here in the United States, a far greater environmental impact is caused by hundreds of coal-fired plants that remain in operation.

And 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, transporting natural gas to Asia, extends beyond domestic concerns. If our shared

goal is truly to address climate change 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 beyond is a very good place to start.

One need only take a look at the recent images of the sky over Beijing to understand the potential impact that could be made by a reliable supply of natural gas, the cleanest of the fossil fuels.

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 grow Canada's standing as a clean energy power and a good global citizen.

The third point I would make regarding the Canada US relationship is that while our objectives are broadly consistent, they will never be identical. The United States is an importer of hydrocarbons and 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 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 build the pipelines and the infrastructure required to move our oil and gas to the Pacific, and onward to Asia. This must become nothing less than a national priority, because so much of 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 less than our best 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 poised 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.

All of which brings me back to the Keystone pipeline. As I indicated at the outset of this speech, I do hope that President Obama decides to approve the Keystone Pipeline on the basis that it is in America's 'national interest'.

As the President has observed, the energy revolution that is currently underway in the United States is of profound importance.

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

In my view, we are only beginning to appreciate the scope of what is now underway, a future where North America's energy independence and the quality of our environment will be a defining competitive advantage in the global marketplace. But that energy marketplace and the resource base which will afford us this energy freedom is not American, it is North American and we should work together to realize it's promise. Moreover, the industries, the technologies and the innovations that drive the energy marketplace are not just American, they 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 US 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.

Refusal of the Keystone project, as the State Department noted in the draft Supplemental Environmental Impact Statement last week, will neither affect the pace of oil sands development, nor slow US demand for heavy crude.

It will, however, diminish the effectiveness of the North American marketplace, forcing both American and Canadian oil producers to ship their oil through the cumbersome alternative of rail, and providing an artificial competitive advantage for heavier crudes from less democratic, less market oriented countries.

In effect, such a decision moves us further away from North American energy security.

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.

I would observe, however, that prohibiting the construction of a pipeline to carry Canadian oil, forcing the American marketplace to substitute Canadian oil with comparable heavy products from countries that are less democratic and which do not have modern environmental standards and which have no regime whatsoever for GHG emissions, will not advance the cause.

Canada is strong, stable democracy and an ally of the United States. It is the country which the United States has worked alongside to build free markets, economic opportunity and shared environmental responsibility. The oil sands are a resource which strengthens rather than weakens our continental energy hand.

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.

I would note that Canada's Natural Resources minister did just that last week, during speeches in Chicago and Houston. I share his frustration that some policy makers and pundits in the United States

and elsewhere, portray the oil sands as a singular environmental menace in the face of facts to the contrary.

The truth is that the regulatory regime in place in Canada is more comprehensive than anything in place in 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.