



“Canada and the Race for Asia”

Address by the Honourable Jim Prentice, P.C., Q.C.

Senior Executive Vice President and Vice Chairman, CIBC

Fuelling the Future: Global Opportunities for LNG in BC

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Check against Delivery

I welcome the opportunity to speak with you today at this very well-timed conference. There's never been more to talk about when it comes to LNG and what it means for the energy industry, for the province of British Columbia and for our country.

So, where are we?

After a lengthy period of modest progress, there is now genuine momentum and a growing sense of inevitability surrounding the construction of LNG export facilities along the B.C. coast. Progress is being made on a number of important fronts. Corporate interest has never been greater or more engaged.

I'm reminded of a famous moment in the career of Hockey Night in Canada broadcaster Bob Cole, who upon being overwhelmed by a sudden flurry of activity on the ice, was reduced to yelling into his microphone: "Everything is happening!"

That's how it must feel right now in northern B.C. and in the boardrooms of the consortia seeking to build LNG facilities along coastal waters: Everything is happening. Progress is being made on essential regulatory issues. Pipeline routes in from the gas fields are taking shape. Competition is mounting. Opportunity is emerging. The race is on.

Within B.C. as a whole, I'm told there's a feeling of optimism that's reminiscent of the early days of the Alberta oil boom. Being a polite and courteous Albertan, I won't spoil the mood by pointing out that our experience with oil hasn't been exactly all boom.

But the anticipation and enthusiasm are understandable. A world-leading LNG export industry would mean jobs and growth. It would mean a stronger

and more competitive energy industry. It would represent a long-term economic advantage for British Columbia and for Canada.

Needless to say, it would also invigorate and forever change the coastal communities that ultimately play host to these LNG facilities. In fact, Kitimat is already experiencing an influx of workers. As a result, the community recently celebrated a deeply symbolic and profoundly Canadian moment: the opening of its first Tim Hortons.

Today, I want to take a step back, put the potential of liquefied natural gas in the broader context of Canada's energy opportunity and environmental obligations, and talk about the way forward – and the urgent need for Canada not only to take the lead, but ultimately to win in LNG.

I've been speaking for a couple years now about the race to Asia – and about the importance of nation-building infrastructure and our bank's role in helping to finance and support it.

I've also been emphasizing that this is a pivotal period for our country – one that has brought with it a number of energy-related challenges and opportunities. Among them:

- Securing west coast access and new international markets for our oil.
- Improving domestic and continental pipeline capacity to better manage the supply of both oil and gas.
- Reducing the environmental impact of the oil sands and further improving the environmental practices of its stewards.
- And developing a new industry to seize the potential of LNG exports to Asia.

There are some who describe 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 true superpower.

The best example of that is in oil, where we are wholly dependent on a single buyer: the United States. This makes us a price taker, not a price maker – and that reality is costing us billions a year in foregone revenues. I'm not sure you fit the definition of a so-called superpower when a single customer holds full control over your fate.

The challenge with gas is similar. There is a growing urgency to tap new markets.

Over the past five years, Canadian gas production has declined more than 15 per cent due to falling prices and the reduced demand for Canadian gas in traditional markets, such as Eastern Canada and the Northeast U.S. Canadian natural gas is, in a sense, at the end of the North American pipe, supplying an oversupplied continental market.

Industry revenues are down sharply. Government revenues have been adversely affected. The impact on Western Canadian producers has been devastating. And with key plays in the U.S. expected to result in even higher production south of the border, the threat to – and impact on – Canadian gas producers is likely to continue.

We've entered a critical period. We face the imperative to match up Canada's resources with the needs of the Asian marketplace. We must access new and growing markets if we want to reinvigorate this important industry.

We therefore need to do the hard work of reorienting ourselves to serve the demand of tomorrow – and we need to get on with it, because there are others who are equally determined to get into those markets.

The good news is that Canada has a number of advantages in LNG, beginning with geography. We benefit from one of the shortest supply routes to the Asian market – competitive with Australia's. We are well-positioned, in a literal sense, to meet the needs of China, Japan, Taiwan, South Korea and beyond.

We also have a substantial resource base, supportive governments at the provincial and federal level, and an open-for business environment. These are all good and important things.

Additionally, the presence in our LNG industry of so many tough and experienced competitors – including some of the biggest names in the global energy business – should help ensure that Canada's export presence is efficient, skilled, globally competitive and driven to achieve.

But Canada's greatest and most important advantage may well be our stability.

The critical element in the LNG industry is – and always will be – contractual dependability. The world has a lot of natural gas. What it doesn't have is an ample supply of reliable, dependable nation states that are capable of fulfilling their contractual obligations over a 50-year period – without potential interruption due to political, legal or territorial conflict.

Social, legal and political stability are essential preconditions to the investment of the billions of dollars required for an LNG facility – and frankly, Canada has excelled at providing them.

Just look to some of our existing relationships in the Asia Pacific – to Japan, for instance, which for decades has been importing our coal and other commodities without supply disruption. We have a history – a record of service in this regard. And those relationships speak to what we are capable of doing with the countries of Asia – reliably and dependably over the half-century span of an LNG investment.

Taken together, these advantages demonstrate that, despite its status as a newcomer, Canada has a lot going for it in LNG.

But let's be clear: getting into liquefied natural gas represents a big financial bet. The stakes are high and the challenges are formidable. This is no slam dunk. We need to be confident and aggressive – but we must also ensure that we resolve and bring across the finish line a number of key outstanding issues.

First, a royalty regime must be defined – and defined in such a way that it promotes the establishment of an LNG industry in Canada and helps ensure its long-term survival and success. In a highly competitive global industry, it doesn't take much to marginalize returns to the point that other jurisdictions begin to look more attractive.

This month, the B.C. government indicated that it foresees some \$100 billion in tax and royalty revenue coming to it from LNG over the next 30 years. In tough economic times, it's human nature to celebrate potential good news. But the key driver of any project of this scale should be the overall benefits to the local, provincial and national economies – not simply the potential taxation base. The imperative in LNG must be to ensure that the taxes we place on this important burgeoning industry don't have the effect of stymying or undermining its creation and its growth.

Second, we need to make certain we have sufficient skilled labour to build these facilities and pipelines – and to do so under tight timelines. Australia, whose industry is more mature than ours, has already experienced significant delays caused by a shortage of qualified workers.

This problem could be exacerbated in Canada for two reasons:

- One, because other major large-scale projects, in the oil sands and elsewhere, are already stressing the available market of skilled workers. We are a big country with a small population and we are building major infrastructure projects at a pace and scale which is unsurpassed.
- And two, because we may ultimately see the simultaneous construction of at least two LNG facilities, which could result not only

in a shortage of labour but also materials and equipment. This could drive up costs and slow the pace of construction at a moment when time is truly of the essence.

There's no silver bullet to confront this challenge. Rather, there is a responsibility for the federal and provincial governments to work together to confront it. Other provinces have achieved important success with a harmonized, co-operative approach to labour demands.

Third, the federal government needs to adopt a proactive role on coastal management. Ottawa has sole jurisdiction over our territorial waters – so it must take the lead in developing a management regime that will take into account the rewards as well as the environmental risks of increased west coast tanker traffic.

It will be essential – given the importance of these waters to coastal First Nations – for the government to pursue a co-management regime for those waters, together with the province of British Columbia and the coastal First Nations.

Fourth, a decision must be made on how LNG facilities in B.C. are to be powered.

The Premier has described liquefied natural gas as an opportunity not only to build a new industry but also to use its development to spur further growth in clean energy. That's both a noble goal and a worthy priority.

But as one of your newspaper columnists so eloquently put it not long ago: LNG terminals demand "great gobs of power." Any large-scale development of this kind is therefore going to result in complex choices.

What's beyond doubt is that any company or consortium intent on investing the massive amounts of capital required to build an LNG facility is going to insist on a power source that is both adequate and reliable – along with long-term regulatory certainty, especially as it pertains to CO2 emissions. There is work yet to be done on both fronts.

Fifth and finally, we need to better understand and move to address the competitive challenge that may be posed by the United States.

I spoke earlier of the advantage of Canadian stability and predictability. We've got a lot of gas and we're eager to export it. In return, we require a long-term agreement and the price stability it entails.

The Americans represent a different market offering. They are not necessarily committed to a long term future as a natural gas exporter and they are prepared to sell at floating market prices. They've already approved

one export permit for the Cheniere Sabine Pass terminal – and it has sold its full capacity. In the coming few months, the U.S. Department of Energy will decide whether to allow more major-scale natural gas exports.

Yes, there are some who believe, given the prevailing American mood of energy nationalism, that the Department of Energy will proceed with at least some degree of caution in committing gas resources to the export market.

And yes, it's true that even if the Americans were to go all-in on gas exports tomorrow, a new president or new Congress could, somewhere down the road, stop the flow in a heartbeat. Or raise prices dramatically. Here again, we see the potential Canadian advantage of long-term stability. Canada is clearly committed to natural gas exports and Canadian supply so vastly outsizes domestic demand that there is virtually no scenario that calls into question regulatory certainty surrounding LNG exports.

What's important from the Canadian perspective is that the competition – the Americans, the Australians and others – is moving quickly to seize the Asian opportunity, and we must keep pace. LNG growth is unfolding in real time, all around the world, and the biggest winners are far from being determined. For Canada, nothing is more urgent right now than getting in the game.

If I could make two other observations before I close, I would first encourage Canadians to understand that projects like the proposed terminals along the B.C. coast are important for more than economic reasons.

I have pointed out for many years that in today's world, a world deeply concerned with the environment generally and with climate change specifically...

In such a world, if you are in the energy business, then you are by definition in the environmental business also.

They are opposite sides of the same coin and if you lose sight of that reality, expect your customers and your trading partners to remind you.

In this context, LNG is a great asset for Canada.

Look across our country at the Lower Churchill development in Labrador – and at other proposed and approved hydro projects that dot the map of our country.

Taken together with LNG developments here in B.C., they would represent real and tangible progress in moving Canada toward the goal of becoming a true clean energy powerhouse – an achievement that would bring environment benefits and improve our stature on the global stage.

One need only take a look at the recent images of the sky over Beijing. Natural gas, the cleanest of the fossil fuels, can play an important role in meeting the world's greatest carbon challenge – reducing China's reliance on coal-fired power, and the pollution it creates.

Others in British Columbia have been saying for some time now, including leaders such as the Hon Jay Hill and Chuck Strahl, both of whom are here this evening. We can not afford to lose out on the global LNG race and everyone who is supportive of this new industry must speak out with a consistent message – the federal government, the provincial government, municipal governments, First Nations, industry and trade unionists alike.

That message must be that this country is committed to LNG, that the window of opportunity for all of us is closing and we must apply Canadian common sense to getting on with it.

Finally, I believe it's worth noting that while British Columbians and indeed all Canadians will benefit generally from success in LNG, these facilities – and the associated power facilities and shipping terminals – represent important, transformational opportunities for new economic partnerships with First Nations.

The ongoing jobs at the LNG plants themselves are part of that, but these facilities are capital intensive, not labour intensive. For First Nations – especially coastal First Nations – the greater opportunity in terms of both jobs and investment are the myriad of indirect economic opportunities that surround these projects.

One of the unheralded achievements of the Canadian oil sands has been the extent to which the Aboriginal people of northern Alberta have been included and uplifted. Although challenges remain, I am confident that B.C. First Nations will be able to secure the financial muscle to participate in these projects as true partners – and reap the benefits as they come to fruition over decades to come. They need to be a part of these projects in a material way.

When it comes to exports of both LNG and oil, I recognize the challenges that remain – but I am an optimist. There is a tremendous opportunity for Canada, which has for so long gazed east to the Atlantic and south to America, to take its place as a leading nation of the Pacific.

This is 21st century nation building – investing in the kinds of large-scale projects that will produce long-term dividends; putting a modern stamp on Canadian development, know-how, progress and prosperity.

As a country, we have been favoured by fortune with a wealth of natural resources. Our experience with oil and gas has been, by and large,

continental in nature. But in a world more interconnected and globalized than ever, things change in a hurry.

The hard reality is that we are new to the global energy game – and frankly, despite our natural advantages, we aren't yet playing that game with sufficient skill, foresight or cohesiveness. LNG represents a chance to change all of that.

We must move forward with pace and commitment on LNG – understanding that our potential partners overseas have other options to meet their appetite for energy, and that we are not the only game in town.

We must secure contracts with the ascendant countries of Asia – and build the infrastructure required to make these partnerships take root and thrive. This is where Canada's interests lie. But we need to move with speed and purpose. As they'd say on Hockey Night in Canada: We need to crash the net.

But even as we get in there with our elbows up, we must steel ourselves to the fact that this is an industry still in its infancy; that the global market is going to continue to grow and change, with new competitors emerging, supply levels in constant flux and always with an element of unpredictability. The private sector will manage those risks but governments must dedicate themselves to a public policy regime and a fiscal regime that ensures we realize our potential as a dependable, predictable and reliable supplier.

Because, as we know, this prosperity is not a birthright. Only with foresight, smart choices and hard work will we be able to fully enjoy the benefits of our bounty.

Thank you.